

National Bank of the Kyrgyz Republic

Annual Report

2009

Bishkek 2010

Annual Report of the National Bank of the Kyrgyz Republic for 2009

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In recent years, an economy of the Kyrgyz Republic has been developing under the circumstances of a global financial and economic crisis and growing dependence of the national economy on external factors. In this connection, special attention was paid to the strengthening of coordination of a work of state agencies with a view of developing and implementing a macroeconomic policy. The National Bank acted according to goals and objectives specified by the legislation and the Country Development Strategy.

Measures taken by the National Bank and the Government adequately and in due time allowed to maintain macroeconomic stability in the country. Our republic ranked as one of a few countries, with positive economic growth rates in 2009. Anti-inflationary measures coupled with an improved external price situation led to stabilization of inflationary processes and allowed to maintain a consumer price index at a level of a previous year.

Due to the weakening of inflationary risks, the National Bank undertook a number of steps directed to promote long-term economic growth. The monetary stimulation resulted in a decrease in discount rate, which reached its historically minimum level, and in a reduction in a reserve requirement. The National Bank also established a Specialized Bank Refinancing Fund, whose activity is directed to promote domestic banks in lending to the national economy and to assist in maintaining their liquidity.

We succeeded in maintenance of stability and reliability of a financial sector of the republic. In the context of the global financial and economic crisis, a domestic banking system and non-bank finance and credit institutions displayed a sufficient factor of safety.

A reliable and effective functioning of the national payment system in the accounting year was also conducive to maintenance of financial stability. In this regard, the National Bank continued working on development of the payment system and maintenance of its uninterrupted functioning.

The Annual Report of the National Bank of the Kyrgyz Republic for 2009 was prepared according to the Law “On the National Bank of the Kyrgyz Republic” and includes financial statements, drawn up in accordance with international standards and confirmed by an independent audit. Information on activity of the bank on performance of tasks and functions assigned to the NBKR as to the central bank of the country is also presented.

The Annual Report, traditionally prepared according to principles of transparency and completeness of information, will allow all interested parties to get a view of the work of the National Bank of the Kyrgyz Republic in 2009.

Chairman of the
National Bank

I

ECONOMIC STATUS OF THE KYRGYZ REPUBLIC IN 2009

ECONOMIC DEVELOPMENT OF THE KYRGYZ REPUBLIC IN 2009

Against the background of a deterioration of economic conditions in the neighboring countries that caused the slowdown of the economy, there was a setback in production and a business slowdown in a sphere of services in Kyrgyzstan in 2009. At the same time, the favorable situation, which developed in agriculture, allowed to maintain the positive rates of growth of GDP.

The fiscal policy of the Kyrgyz Republic in 2009 was of a promotional nature. An enactment of a new edition of the Tax Code providing for the reduction in the total of taxes, the decrease in the VAT rate, and growth of a need for additional budget expenditure led to growth of the state budget deficit from 0.1 percent of GDP in 2008 to 1.5 percent of GDP in 2009.

As a result of impact of external factors, the positive balance of payments almost tripled in comparison with the preceding year, meanwhile, the foreign trade turnover decreased by 21.5 percent.

Trends in the financial market of the country developed on impact of the declining rate of inflation and the global economic crisis, as well as the monetary policy conducted by the NBKR under the circumstances. Therefore, a lowering of the level of interest rates was observed in the interbank market, as well as a depreciation of national currency. At the same time, the level of liquidity in the banking system was permanent at the sufficiently high level.

1.1. Real Sector of Economy

As a result of negative consequences of the financial crisis, there was growth retardation in 2009. A decline in economic activity, owing to a diminution in a solvent demand in the region, was also reflected on development of the real sector of the economy of Kyrgyzstan. In particular, the essential reduction in trade and economic operations with the principal trading partner countries was observed, as well as the decline in industrial production and consumption.

According to preliminary data of the National Statistics Committee (NSC), the volume of GDP in 2009 amounted to KGS 196.4 billion, having thus increased in real terms by 2.3 percent in comparison with the volume of GDP of the preceding year (in 2008, growth was 8.4 percent). A primary cause of growth retardation by sectors was that of a drop in industrial production, both in gold mining and in other branches. In this regard, significant agricultural output allowed smoothing the downward growth trends in other branches. Excluding gold mining enterprises of a company “Kumtor”, growth of real GDP was 2.9 percent compared to 6.5 percent in 2008.

The annualized GDP deflator was 2.1 percent, while its 2008 value was 22.2 percent.

Table 1.1.1.

Gross Domestic Product in 2009

	Share, <i>in percent</i>	Growth Rate, <i>in percent</i>	Contribution to Growth Rate, <i>in percentage points</i>
GDP	100.0	2.3	2.3
Agriculture	22.1	7.4	1.7
Mining	0.6	4.7	0.0
Manufacturing	12.5	-7.8	-1.0
Generation and distribution of electricity, gas and water	1.7	-1.3	0.0
Construction	5.7	6.3	0.3
Trade and repairs	16.4	1.8	0.3
Hotels and restaurants	1.4	4.0	0.1
Transport & communications	9.1	5.1	0.4
Financing	0.8	6.3	0.1
Real estate activities	4.1	0.0	0.0
Public administration	6.3	5.0	0.2
Education	4.7	1.1	0.0
Health & social services	1.6	-0.4	0.0
Public utilities	1.8	-3.6	-0.1
Net taxes on products	11.1	2.3	0.3

Source: NSC data

In 2009, a significant part of the country's GDP originated from agriculture. For instance, according to the NSC, gross agricultural output amounted to KGS 110.1 billion, having thus increased by 7.4 percent, by contrast to a similar parameter of 2008, due to a high grain crop yield. On the average for the republic, the crop yield of grain and beans, including corn, was 29.3 quintals from one hectare (the post-processing weight), and it is by 26.3 percent more than in 2008. Nevertheless, the share of this branch in GDP continues to decrease, thereby making 22.1 percent against 23.5 percent in 2008.

*Contribution of
agriculture*

Having decreased by 6.4 percent in physical terms compared to its volume in 2008, industrial output amounted to KGS 97.2 billion in 2009. Excluding the Kumtor gold mining enterprises, industrial output decreased by 6.5 percent.

*Drop in
industrial
production*

With regard to the structure of industry, a significant setback in production was noted in manufacturing, in such branches, as primary metals production (extraction of gold), production of non-metallic mineral products (production of building materials), and textile and garment manufacture. The aggregate share of the above-mentioned branches in the structure of manufacturing was 72.1 percent. In this regard, growth was observed in food production (including drinks and tobacco). As a whole, output in manufacturing amounted to KGS 79.1 billion or was 92.2 percent of its 2008 level in physical terms (in 2008, the increase in production was 123.6 percent).

A loss of production in the branch of electricity, gas, and water generation and distribution was 1.3 percent, being not so deep in comparison with a rundown in the previous year by 7.5 percent.

Having increased by 4.7 percent, output in mining amounted to KGS 2.4 billion in the

accounting year, of which production of coal grew by 22.2 percent, while that of crude oil - by 9.9 percent.

Sphere of services

There was a sag in the sphere of services in 2009. Contrary to 9.6 percent in 2008, the total turnover in such branches, as trade, vehicle maintenance, and articles for personal use, increased by 1.8 percent. The volume of services rendered by hotels and restaurants grew by 4.0 percent against 13.3 percent in 2008. The transport and communication services grew by 5.1 percent in 2009 against 31.1 percent in 2008.

Activization of investment

Positive developments were observed in the sphere of investments and construction, having thus determined appreciable growth of the value added in the economy. Construction activity was substantially connected with public investments in hydropower projects, thereby allowing maintenance of growth in the economy. For instance, having increased by 19.7 percent in comparison with 2008, fixed capital formation was KGS 38.7 billion in 2009. A composition of capital investments shows that 10.7 percent falls on construction - Kambar-Ata HES-2, and 24.4 percent - on housing construction, of which the share of investments in individual construction was 17.9 percent of total investment.

Reduction of income

The preliminary data on consumption and the foreign trade turnover give ground to assume that earnings in the private sector contracted in 2009. The rates of growth of a monthly average wage¹ in the republic in real terms were slowed down and were 8.0 percent against 9.2 percent in 2008.

¹ NSC data excluding small enterprises

1.2. Public Finance Sector

In 2009, the fiscal policy of the Kyrgyz Republic was directed to maintain long-term fiscal sustainability, to enhance efficiency in budget expenditure, and to timely finance social guarantees and obligations. However it was implemented in a severe environment, because the need for additional budget expenditure during the world financial crisis ran into essential restrictions from the point of view of tax revenue as a result of the overall business loss in the country, the reduction in the volume of imports, and amendments made to the tax legislation.

Conditions of fiscal policy implementation

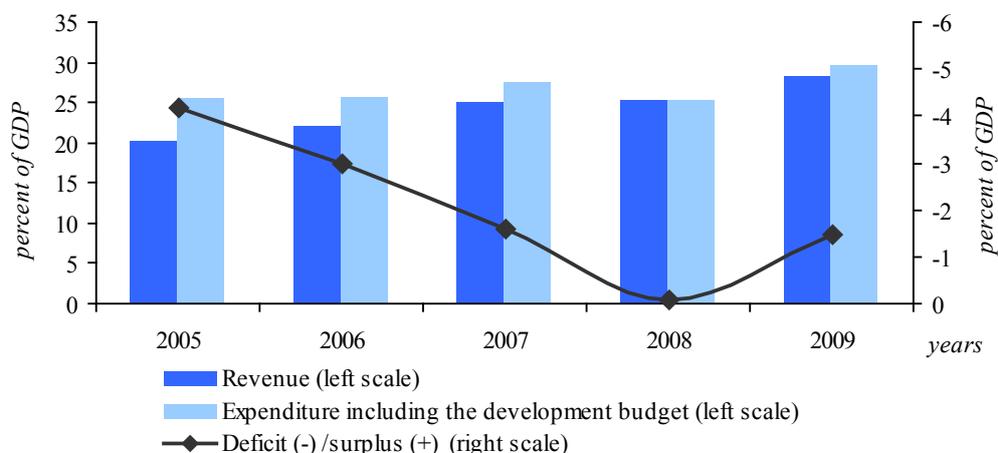
According to the preliminary data of the Ministry of Finance of the Kyrgyz Republic, the state budget deficit was 1.5 percent of GDP in 2009 against 0.1 percent of GDP in 2008. State budget revenue and received official transfers increased by 16.4 percent and were KGS 55.3 billion or 28.2 percent of GDP. However, positive growth rate of government revenue was ensured by, basically, receipts of official transfers from foreign organizations and states equivalent to KGS 10.2 billion, in particular, from the Russian Federation - KGS 6.4 billion.

Growth of budget deficit

Total state budget expenditure was KGS 58.2 billion, being by 22.2 percent more than the value of the corresponding parameter in 2008. Expenditures to GDP ratio increased from 25.4 to 29.7 percent.

Chart 1.2.1.

Key State Budget Parameters

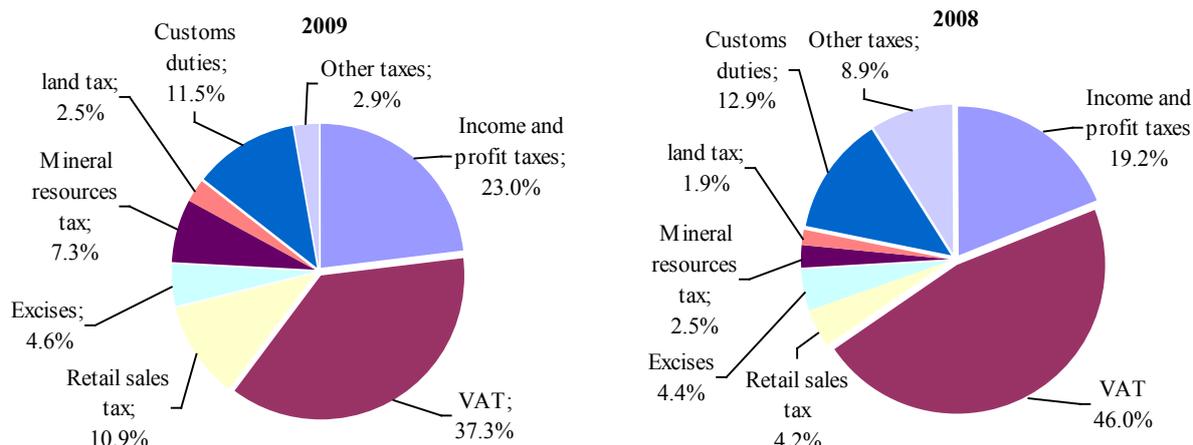


Having increased by 0.5 percent in comparison with the similar parameter of 2008, tax revenue was collected at the rate of KGS 36.1 billion in 2009. The share of tax revenue in total budget revenue was 65.3 percent and it was by 13.7 percentage points below the level of 2008. Customs and tax agencies provided for collection by 39.3 percent and 60.7 percent of total tax revenue, accordingly.

Slowdown of growth of tax revenue

Chart 1.2.2.

State Budget Tax Revenue Structure



Retardation of growth of tax revenue was caused by, first of all, the decrease in the share of VAT in total tax revenue, as a result of both the decrease in its rate, and the decline in import of goods. For instance, revenue from VAT on imported goods contracted by 31.4 percent. Revenue from VAT on goods and service produced in the country increased by 27.5 percent, however, their share in total tax revenue remains low (12.7 percent). As a whole, revenue from VAT decreased by 18.6 percent. Receipts from the retail sales tax contributed most greatly to total growth of tax revenue (by 6.7 percentage points).

Socially oriented public expenditure policy

In the public expenditure policy special attention was paid to the issue of rendering targeted social support to needy categories of the population. The expenditures for the payments of wages and contributions to the Social Fund increased in comparison with the payments of 2008 by 20.7 percent, and the expenditures for social benefits - by 19.9 percent.

As a whole, the state budget operating expenditures were KGS 50.0 billion or 25.5 percent of GDP in 2009.

Growth of debt service expenditure

The public debt service expenditures were KGS 7.1 billion or 3.6 percent of GDP, having thus increased by 1.0 percentage point in comparison with the similar parameter of 2008, of which the interest payments were 0.8 percent of GDP.

An excess of state budget expenditures for a purchase of non-financial assets over their sale were KGS 8.2 billion or 4.2 percent of GDP in 2009 (in 2008 - 3.7 percent of GDP).

1.3. Balance of Payments of the Kyrgyz Republic¹

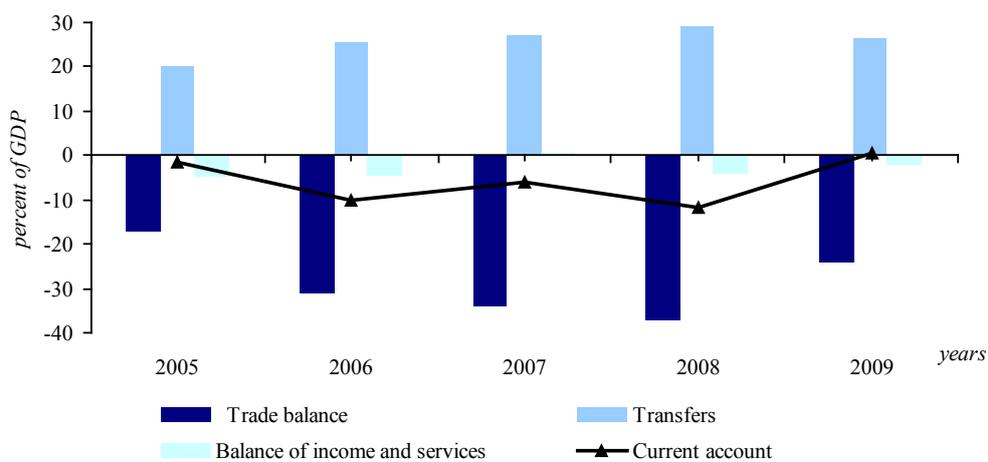
According to performance in 2009, the positive balance of payments tripled and developed at the rate of US\$ 251.7 million.

Current revenue, with receipts from export of goods and services and transfers at their bottom, covered operating expenditure connected with import of goods and services and payments of income to non-residents. As a result, a current account surplus amounted to US\$ 18.3 million, whereas in the previous years the current account developed with the deficit, whose maximal size was noted to be in 2008 at the level of 11.9 percent of GDP.

Current account status

Chart 1.3.1.

Current Account



An economic recession in the basic trading partner countries and the reduction in international prices in the primary markets affected the volume of foreign trade operations of the Kyrgyz Republic in 2009. For instance, the foreign trade turnover of the country decreased by 21.5 percent and amounted to US\$ 4.4 billion. In this regard, the volume of exports decreased by 11.3 percent, while that of imports - by 26.6 percent. As a result, this led to the decrease in the trade deficit by 41.7 percent to US\$ 1.1 billion.

Trade Gap Reduction

The balance of international services formed positive and totaled US\$ 33.8 million against its negative value at the rate of US\$ 97.7 million for 2008. The balance developed positive due to maintenance of the volume of exports of services at the level of 2008, whereas import of services decreased by 12.9 percent and it was caused by, first of all, the decrease in the services received in the sphere of trips and transportation.

An economic downturn in Russia and Kazakhstan, with the basic mass of labor migrants from Kyrgyzstan concentrated there, led to the reduction in the volume of currency receipts from the labor migrants. As a result, the total current transfers decreased by 19.1 percent vis-à-vis this parameter in 2008 and amounted to US\$ 1.2 billion; excluding a grant from the Government of the Russian Federation at the rate of US\$ 150.0 million, the size of current transfers would have been reduced by 29.2 percent.

The negative balance of income increased by 12.0 percent and amounted to US\$ 115.6 million. This growth is caused by larger coverage of information collected, in particular, by accounting of external private debt of non-bank finance and credit institutions non-guaranteed by the state.

¹ Preliminary NSC data including NBKR adjustments

According to performance in 2009, the balance of the capital and financial account developed positive at the rate of US\$ 413.0 million, whereas the 2008 corresponding parameter was negative and equal to US\$ 7.6 million.

The reduction of the volume of an outflow of transfers of migrants in the form of capital goods led to the reduction in the negative capital account balance - to US\$ 28.8 million.

Status of capital account

In 2009, the largest volumes of currency receipts on the financial account fell on the following items: foreign direct investment and other investment. A net inflow of foreign direct investment amounted to US\$ 140.0 million and it is less than the value of this parameter in 2008 by 39.7 percent. Under the item "Other Investment", the net inflow of capital amounted to US\$ 312.8 million, whereas in 2008 its net outflow was observed being US\$ 169.4 million. Both the assets and the liabilities of residents underwent changes under this item.

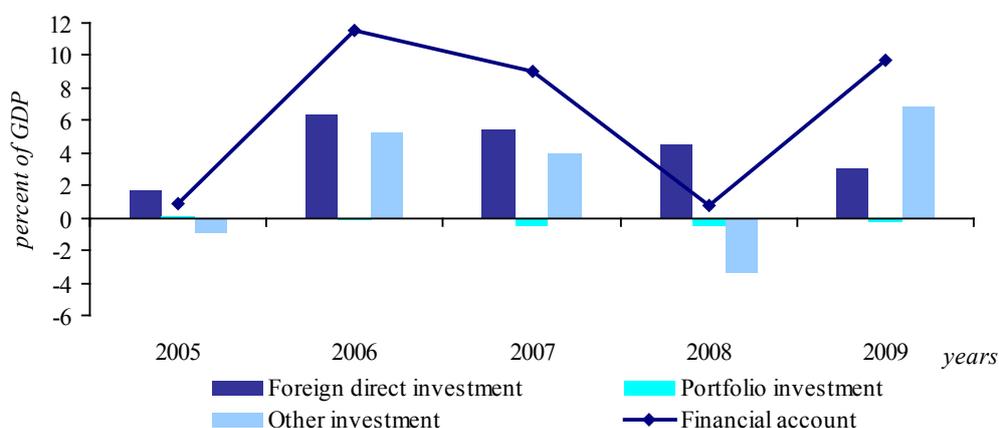
The downward growth trend in the foreign assets of residents was, mainly, determined by the reduction in the accounts receivable by US\$ 7.7 million, whereas in 2008 the accounts receivable grew by US\$ 230.8 million.

Inflow of capital in "Other Investment" item

Significant growth of foreign liabilities of residents (2.7 times) was decisively influenced by the increased volumes of foreign lending, with the rates of growth of accounts payable having essentially decreased. For instance, the volume of credits received from the non-residents increased 3.5 times, amounting to US\$ 417.9 million, of which US\$ 300.0 million is the credit of the Government of the Russian Federation. The total accounts payable increased by US\$ 36.1 million, with this growth being US\$ 119.0 million in 2008.

Chart 1.3.2.

Financial Account



Errors and omissions

According to preliminary results for 2009, the item "Errors and Omissions" developed with the negative value equivalent to US\$ 179.6 million and this fact testifies to statistical under-accounting of import of goods and services or the outflow of capital. With a view of improving quality of the balance of payments statistics of the Kyrgyz Republic, the National Bank, jointly with the NSC and the SCC, continued working to enlarge coverage and improve quality of statistical data.

International reserves

The volume of total international reserves amounted to US\$ 1.6 billion at the end of 2009. The level of reserve assets of the NBKR corresponded to 4.1 months of cover of the future critical volume of imports of goods and services.

1.4. Financial Markets

1.4.1. Foreign Exchange Market

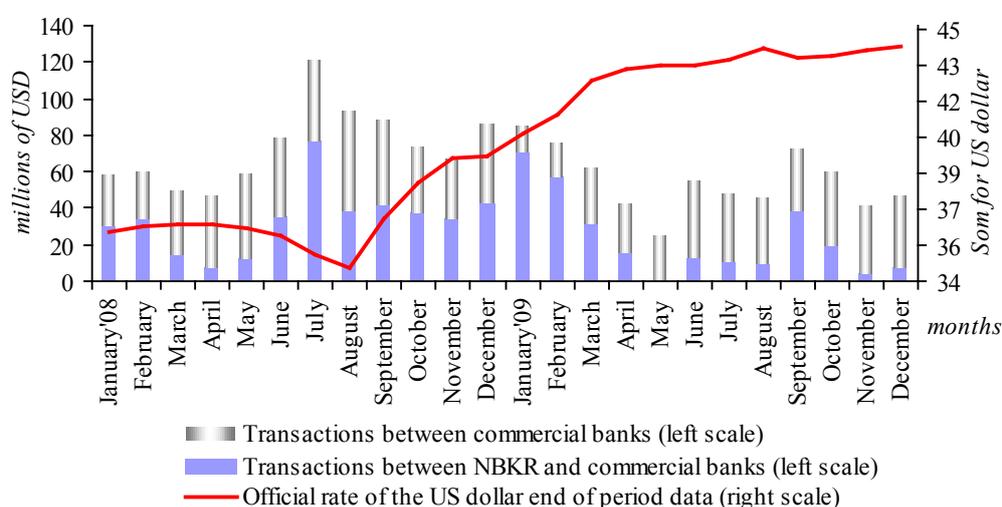
The depreciation tendency of national currency that was first observed in September 2008 lasted in 2009 either. The domestic foreign exchange market conditions developed on impact of the permanent negative external trade balance, despite the fact that its value was noticeably reduced in the accounting year, as well as on impact of the reduction of the inflow of foreign exchange through the systems of remittances. In addition, the developments in the domestic foreign exchange market were influenced by expectations of participants in the market owing to the significant depreciation of national currencies of Russia and Kazakhstan.

Basic foreign exchange market developments

The official US dollar exchange rate grew by 11.9 percent from the beginning of the year to KGS 44.0917 /USD 1.00 at the end of December.

Chart 1.4.1.1.

Exchange Rate Movement and Total Interbank Foreign Exchange Market Transactions



For the first eight months of 2009 the US dollar exchange rate movement showed the upward tendency. In this regard, the rate of exchange in the first quarter grew at the relatively high rates and was connected with the outflow of dollar deposits of clients of banks, as well as with the great demand for currency on the part of commercial banks. The behavior of participants in the foreign exchange market during this period was defined in many respects by their expectations that resulted from the depreciation of national currencies of the key trading partner countries of Kyrgyzstan - Russia and Kazakhstan. For instance, the developments in the domestic foreign exchange market in early-February were significantly influenced by a one-stage devaluation of the Kazakh Tenge by the National Bank of Kazakhstan. This was reflected in the exchange rate movements in the domestic foreign exchange market: the exchange rates of the US dollar and Euro increased, while the rate of the Kazakh Tenge vis-à-vis the Kyrgyz Som decreased. In this context, the NBKR took the measures essential for prevention of sharp exchange rate fluctuations of national currency by conducting the operations on the sale of US dollars and the operations on their conversion into cash, following which the rate was stabilized and its fluctuations were subsequently insignificant.

Exchange rate developments

One of the indicators of exchange rate expectations was that of growth of dollarization of assets in the economy in 2009: the increase in the foreign exchange deposits of both the population and the enterprises, which strove to increase the foreign exchange assets,

as well as growth of assets of commercial banks abroad, mainly in the form of placements on the deposit accounts with the correspondent banks.

Starting from April, the rates of growth of the US dollar exchange rate started to slow down promoted by some reduction in a negative gap between the export and import operations of clients of banks, and by the increase in the inflow of foreign exchange in the form of remittances and dollar deposits from the clients of banks. In September, on the contrary, the tendencies in the US dollar exchange rate movement changed and it was connected with an influence of both external and internal factors: depreciating of the US dollar against major world currencies in the international markets and the increased supply of currency in the domestic market as a result of growth of receipts of funds for repayment of the earlier extended interbank credits (including also the credits to the non-residents), as well as through the money transfer systems. Further, by the end of the year, the developments in the foreign exchange market were characterized by the multi-various trends connected with the fluctuations in the US dollar supply and demand in the domestic market. In this regard, national currency continued to weaken till the end of the year.

*NBKR
interventions*

According to the adopted floating exchange rate regime, the National Bank conducted the US dollar sale and purchase operations in the interbank foreign exchange market directed to smooth the sharp fluctuations of the Kyrgyz Som exchange rate. For instance, under the circumstances of permanent pressure on the rate of the Som, in the first quarter, the NBKR conducted the massive operations to sell the US dollars, whose volume during this period amounted to US\$156.0 million (73.5 percent of total sales of US dollars by the NBKR for the year). Further, in the period till September, NBKR's presence in the market was insignificant, with the National Bank being simultaneously the seller and the buyer of US dollars to smooth the time gaps in the supply and demand for foreign exchange. In September, under the circumstances of growth of the supply of foreign exchange, the NBKR acted as the basic buyer of US dollars in the market, thereby having smoothed the exchange rate fluctuations. Then, during the period till the end of the year, the NBKR conducted both the purchase and sale operations with foreign exchange. In 2009 as a whole, the sales of US dollars by the NBKR amounted to US\$

Table 1.4.1.1

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

	2008*	2009	Rate of Growth, percent
Total volume	167,898	155,733	-7.2
including			
<i>Spot operations with foreign currency in non-cash at foreign exchange auctions</i>	33,812.3	29,888.3	-11.6
operations with the NBKR	14,910.0	11,575.5	-22.4
interbank operations	18,902.3	18,312.8	-3.1
<i>Spot operations with foreign currency in non-cash outside foreign exchange auctions</i>	968.9	1,464.7	51.2
<i>Spot operations with foreign currency in cash</i>	119,622.6	117,201.4	-2.0
operations with the NBKR	11.7	594.5	4,981.2
commercial banks	90,826.5	83,413.7	-8.2
exchange bureaus	28,784.4	33,193.2	15.3
<i>SWAP operations</i>	13,494.6	7,178.5	-46.7
operations with the NBKR	2,513.9	0.0	0.0
commercial banks	10,980.8	7,178.5	-34.5

* due to the change in the recalculation methodology, the volumes of transactions for 2008 differ from the data published in the NBKR's Annual Report for 2008

221.9 million (including US\$ 13.7 million in cash), having thus exceeded the corresponding parameter in 2008 by 26.4 percent. The purchases of US dollars amounted to US\$ 66.8 million, being thus below the same 2008 parameter by 70.8 percent. In addition, in 2009, the NBKR conducted the operations to purchase the Russian rubles in the amount of Ruble 32.0 million.

The contraction of the volume of export and import transactions and the reduction of the inflow of foreign direct investments was reflected in weakening the activity of the foreign exchange market. For instance, the total of operations on the purchase and sale of foreign exchange in the domestic foreign exchange market¹ amounted to KGS 155.7 million in 2009, having thus contracted by 7.2 percent compared to this indicator in 2008. The reduction in the total of transactions was noted with regard to all currencies, except for the Kazakh Tenge and other² currencies. The operations with rubles underwent the most significant reduction being reflected in the change of the structure of the foreign exchange market in 2009: the share of operations with the US dollar was 70.0 percent, having thus increased by 1.2 percentage points, those with the Kazakh Tenge grew from 8.1 percent to 9.1 percent, and the shares of operations with the Euro and Ruble decreased from 6.0 percent to 5.9 percent and from 16.9 percent to 14.7 percent, accordingly. The share of operations with other currencies grew from 0.2 to 0.3 percent.

Foreign exchange market organization by currencies

As before, the basic volume of operations was conducted in a cash segment of the foreign exchange market (78.9 percent of the total of operations on the purchase and sale of foreign exchange). In this regard, the significant volume of transactions on purchases and sales of foreign exchange in cash was closed in the commercial banks. In the non-cash segment of the foreign exchange market, the essential part of operations in US dollars was concluded in the interbank foreign exchange market³, whose volume in soms amounted to KGS 29.9 billion, having thus decreased by 11.6 percent in comparison with 2008. It was connected with the reduction in the operations with involvement of the NBKR, and in the operations between the commercial banks.

Cash and noncash segments of foreign exchange market

The cash US dollar exchange rate developments in exchange bureaus were similar to its developments in the interbank foreign exchange market. According to performance in 2009, the average weighted dollar exchange rate in the exchange bureaus grew by 11.4 percent and was KGS 44.0859/US\$ 1.00 at the end of December. National currency depreciated against also the Euro and the Russian Ruble: the average weighted rate of sale of the Euro in the exchange bureaus for the year grew by 15.9 percent and was KGS 63.9915/Euro 1.00, the rate of the Russian Ruble - by 11.6 percent to KGS 1.4394/Ruble 1.00. As against the Kazakh Tenge, the Kyrgyz Som appreciated by 9.0 percent, and its rate was by KGS 0.2954/Tenge 1.00.

Exchange rate dynamics of basic currencies in exchange bureaus

1.4.2. Interbank Credit Market

In 2009, the interbank credit market was basically influenced by both a volatility of the level of excess liquidity in the commercial banks, and the promotional monetary policy under the circumstances of the low level of rates of inflation. As a whole, despite the impact of the world financial crisis on the domestic financial system, the volume of interbank loans in the market was observed to increase.

In the accounting year, the total volume of operations in national currency in the interbank credit market increased by 9.7 percent and amounted to KGS 11.5 billion against

Operations in national currency

¹ Information is based on the NBKR data and the data of regulatory reports of banks.

² British pound, Swiss franc, Turkish lira, Uzbek Sum and Chinese yuan.

³ The foreign exchange auctions are held at the National Bank through the Trade and Information Electronic System (TIES).

their volume in 2008. As before, the bulk of loans in soms were concentrated in the segment of REPO operations, whose volume increased by 26.9 percent and totaled KGS 8.7 billion, with the share of 75.5 percent, against 65.2 percent in 2008. While in the segment of credit operations in national currency the total of transactions amounted to KGS 2.2 billion, having thus decreased by 7.5 percent in comparison with their volume in 2008, and their share was 19.0 percent as against 22.5 percent in 2008. The overnight credits, extended by the National Bank, were KGS 635.8 million in the accounting year.

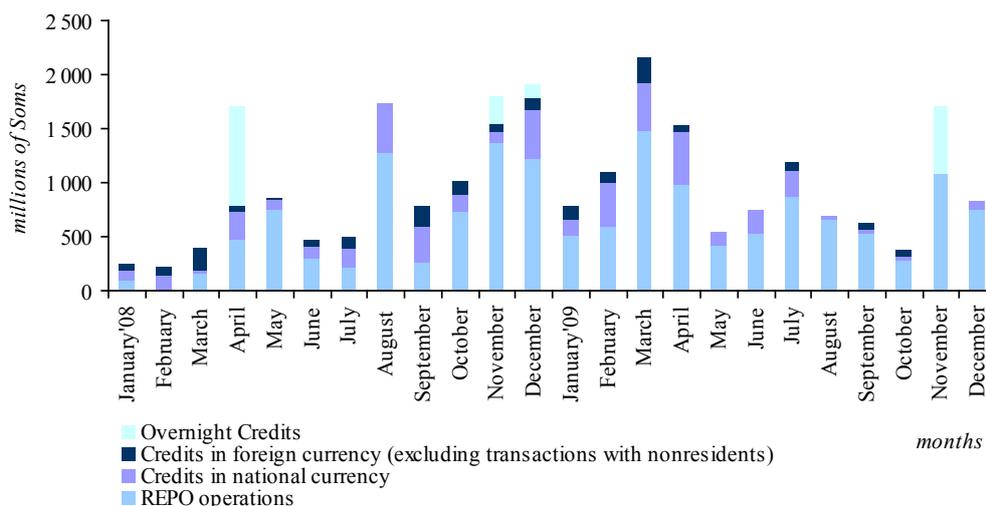
Interest rate developments

During 2009, despite the significant demand for the credits in soms, the interest rates in the interbank credit market continued to steadily decrease, with an insignificant deviation from their growth during some of the periods of time. For instance, having decreased by 0.5 percentage points against its value in 2008, the average interest rate of REPO operations was 8.4 percent. The average level of the rate of simple interbank credits in national currency increased by 0.2 percentage points in the accounting year, thereby making 7.8 percent. The average rate of overnight credits was 8.8 percent, and the reduction was 7.6 percentage points.

Average REPO maturity in 2009 in comparison with 2008 was reduced from 15 to 7 days, that of credits in national currency - from 65 to 16 days.

Chart 1.4.2.1.

Total Domestic Interbank Credit Market Transactions

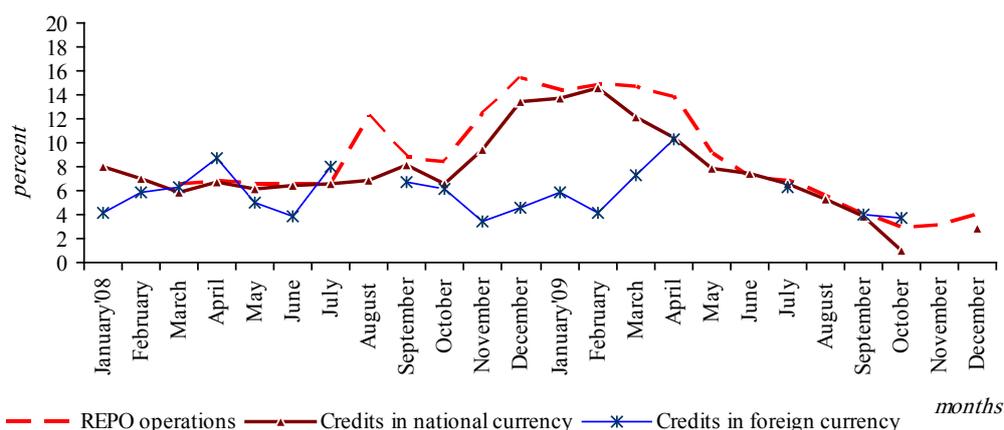


Operations in the domestic market in foreign currency

Having decreased by 34.5 percent in comparison with this parameter in 2008, the total of exchange transactions in the domestic interbank credit market in soms amounted to KGS 711.2 million in the accounting year, and its share in the total volume of interbank loans was reduced from 10.5 to 6.1 percent. The interest rates of interbank credits in foreign currency had been going down in the accounting year, changing within the narrow range. For the year as a whole, the average rate of credits in foreign currency, extended in the domestic interbank market, decreased by 1.0 percentage point as against this parameter in 2008 and was 5.7 percent, with average weighted maturity having increased from 69 to 73 days.

Chart 1.4.2.2.

Domestic Interbank Credit Market Interest Rate Movement

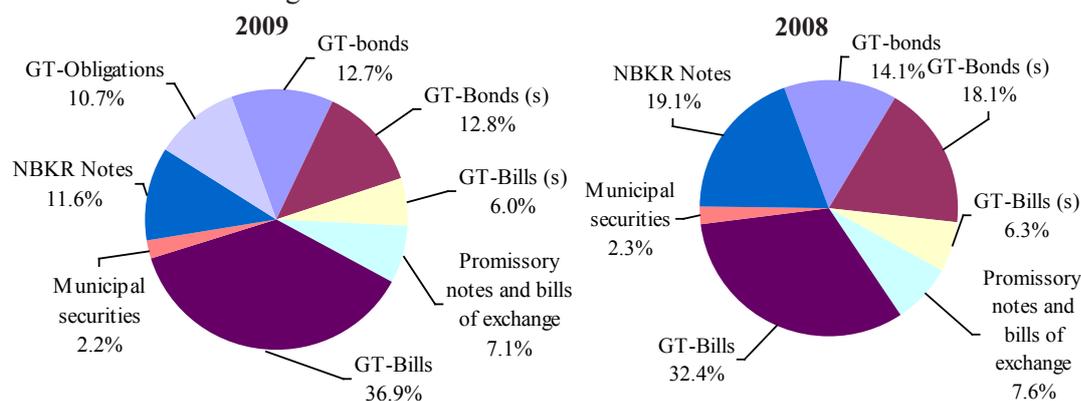
**1.4.3. Securities Market****1.4.3.1. Government Securities Market**

The following government securities (GS) were outstanding in the securities market in 2009: Government Treasury Bills (GT-Bills), NBKR Notes, Government Treasury Bonds (GT-Bonds), and Government Securities for Settlement - GT-Bills(s) and GT-Bonds(s), Promissory Notes, Bills of Exchange, and the municipal securities. The total of outstanding government securities was KGS 9.1 billion at the end of the year; compared to the early year situation, the increase was 5.5 percent. Growth of the volume of outstanding government securities was determined by the increase in issues of GT-Bills and GT-Bonds. The volume of outstanding NBKR Notes decreased at the same time. As a result, their shares in the total volume of government securities were as follows: the GT-Bills – 36.9 percent; the GT-Bonds – 10.7 percent; and the NBKR Notes – 11.6 percent. In 2009, the Ministry of Finance continued to redeem the GT-Bonds and the GT-Bonds(s), issued earlier with the view of restructuring debts of the Government of the Kyrgyz Republic to the commercial banks, the nonbank institutions, and the National Bank, with their shares having decreased eventually. The volume of GT-Bills(s), emitted when settling the debt of the Government to the NBKR, did not change, and their share in the GS structure decreased down to 6.0 percent. The share of outstanding Promissory Notes and Bills of Exchange, issued by the Ministry of Finance when restructuring debts of banks and other financial institutions to depositors was 7.1 percent in the accounting year. In 2009, the Bishkek city administration issued and placed 2 million municipal securities in the amount of KGS 200 million and their share in the total volume of GS was 2.2 percent.

Outstanding government securities

Chart 1.4.3.1.1.

Structure of Outstanding Government Securities

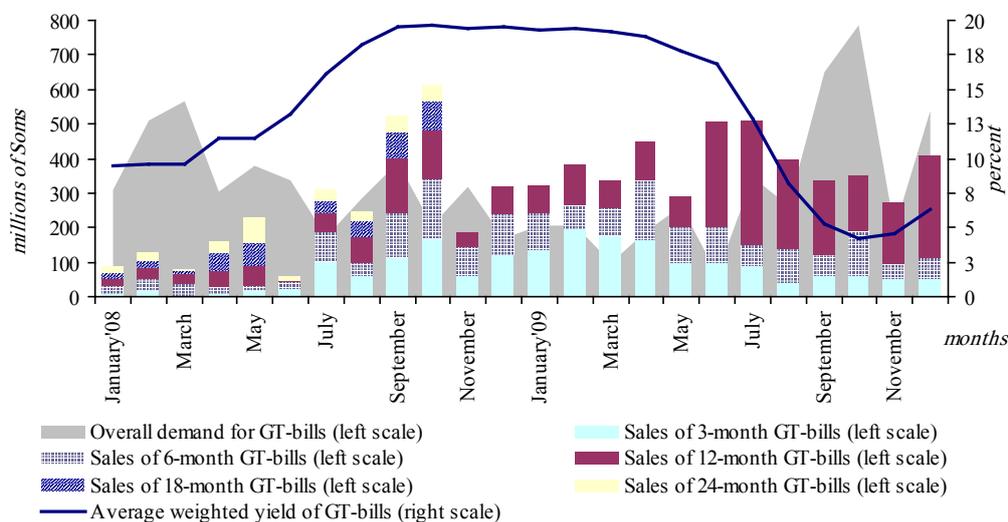


1.4.3.1.1. Government Treasury Bills

In 2009, the situation in the primary market of GT-Bills mainly developed under the conditions of decreasing rates of inflation and concentration of excess liquidity in the commercial banks.

Chart 1.4.3.1.1.1.

Demand and Placement of GT-Bills

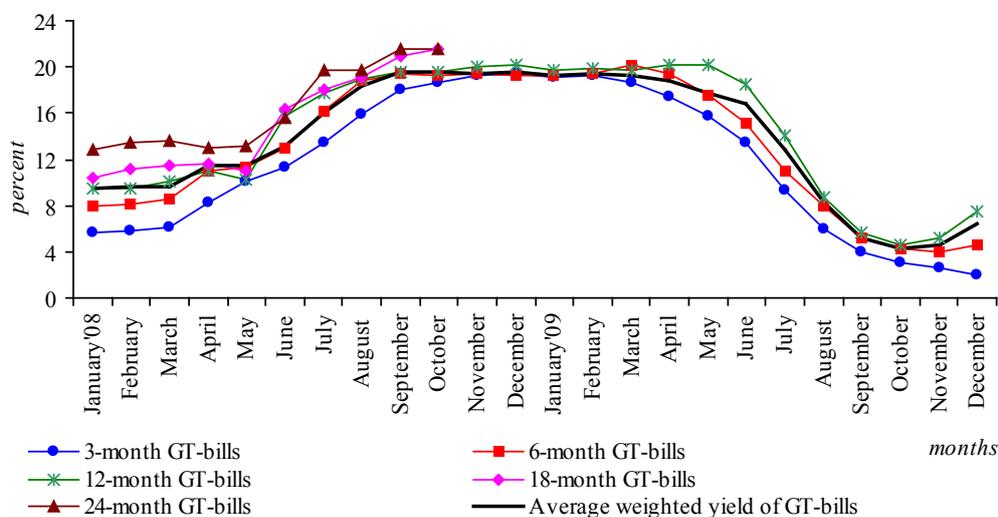


Demand and supply in the GT-Bills market

In 2009, the Ministry of Finance increased, on the whole, the volume of the GT-Bills supply, with the abrupt changes in the volumes of the supply of GT-Bills observed towards both the increase and the decrease. During the whole accounting year, there was that strong demand for the GT-Bills on the part of investors. There was some lessening of demand for these securities in February, due to the significant reduction in liquidity, thereby resulting in growth of yield. Further, till April, the demand was higher than the supply, whereupon, the yield had been gradually doing down. Starting from July, the Ministry of Finance reduced the supply of GT-Bills, while the demand for these securities noticeably grew in the context of growth of excess liquidity in the banks, thereby entailing the reduction in the yield of these securities.

Chart 1.4.3.1.1.2.

Average Weighted Yield by All Types of GT-Bills



Overall, the consolidated sales of Government Treasury Bills totaled KGS 4.6 billion for 2009, having thus increased by 54.2 percent compared to the same indicator in 2008. If to consider the sales of bills by maturity, their increase for 3-month securities was 69.4 percent, 6-month – 44.3 percent, while for the 12-month securities the sales tripled. The auctions to place the 18-month and 24-month GT-Bills were not held in the accounting year. The average weighted yield of Government Treasury Bills grew by 2.1 percentage points and was 12.7 percent for the whole year of 2009.

*Sales and yield
of GT-bills*

Table 1.4.3.1.1.1.

Issue and Average Annual Yield of GT-Bills

	2008			2009		
	Sales, <i>in millions of soms</i>	Share, <i>percent</i>	Yield, <i>percent</i>	Sales, <i>in millions of soms</i>	Share, <i>percent</i>	Yield, <i>percent</i>
Total	2,962.8	100.0	14.8	4,567.8	100.0	12.7
including:						
3 month GT-bills	730.5	24.7	12.7	1,224.1	26.8	10.9
6 month GT-bills	761.8	25.7	14.3	1,088.2	23.8	12.3
12 month GT-bills	744.0	25.1	15.2	2,255.4	49.4	13.6
18 month GT-bills	405.6	13.7	15.2	-	-	-
24 month GT-bills	321.0	10.8	16.4	-	-	-

The total volume of outstanding GT-Bills in 2009 was KGS 3.4 billion, having thus increased by 21.2 percent compared to their volume in 2008, with a net financing of the budget by means of GT-Bills having decreased by KGS 296.7 billion and totaling KGS 578.8 million for the accounting year. Duration of bills, outstanding as of the end of the year, decreased from 223 days down to 175 days. The commercial banks held a portfolio of GT-Bills in the amount of KGS 3.0 billion in the accounting year, with their share being 90.3 percent in the total volume, the institutional investors – KGS 262.4 million or 7.8 percent, resident legal entities – KGS 42.1 million or 1.2 percent, and individuals - residents – KGS 22.9 million or 0.7 percent. With regard to holders of GT-Bills, the share of commercial banks increased by 2.0 percentage points, that of institutional investors - by 2.5 percentage points, while the share of resident legal entities decreased by 3.5 percentage points, and that of individuals - residents - by 1.0 percentage point. The number of banks, holding the GT-Bills, increased from 16 to 19 banks.

*Volume of
outstanding GT-
Bills*

The commercial banks actively used the GT-Bills in the secondary market as collateral when closing the lending operations on REPO terms. As a result, the volume of inter-bank operations on REPO terms increased by 26.9 percent in comparison with 2008. At the same time, the volume of purchase/sale operations with the GT-Bills prior to redemption decreased almost three times in the year of account totaling KGS 192.0 million. The average weighted term to maturity of GT-Bills in these transactions made 120 days, and the average annual rate was 18.0 percent.

*Operations on
the secondary
market of GT-
Bills*

1.4.3.1.2. Government Treasury Bonds

In order to expand a spectrum of tools of financing the budget deficit, in October 2009, the Ministry of Finance started, for the first time, to place the Government Treasury Bonds with maturity of 2 years. Six auctions were held and four additional placements

of these securities were made through the weekly tenders and totaled KGS 974.8 million, with the average weighted yield being 9.1 percent. Among the holders of the Government Treasury Bonds, the significant share of investors was that of institutional investors - 51.4 percent, commercial banks - 48.4 percent, and resident legal entities - 0.2 percent..

Chart 1.4.3.1.2.1.

Demand and Placement of GT-Bonds

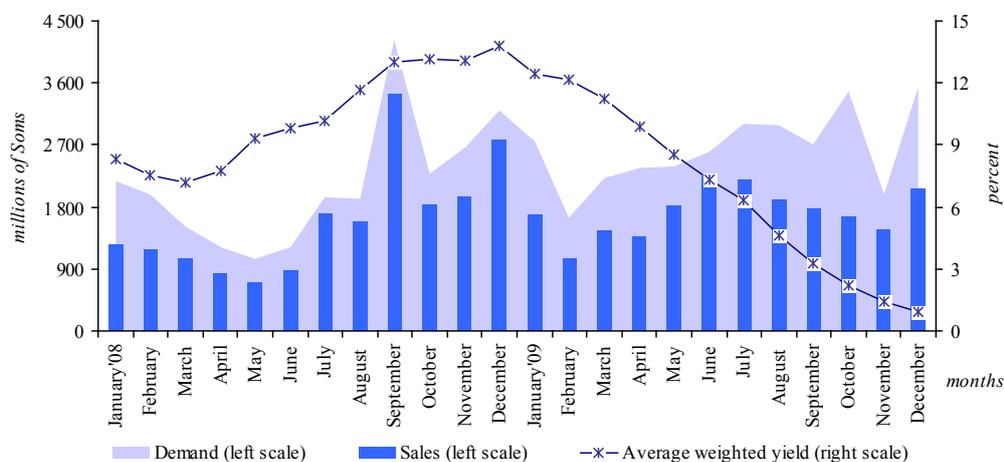


1.4.3.1.3. National Bank Notes

With a view of conducting the monetary policy, the National Bank sold the 7-, 14-, 28-, and 91-day NBKR Notes in the market in 2009.

Chart 1.4.3.1.3.1.

Demand and Placement of NBKR Notes

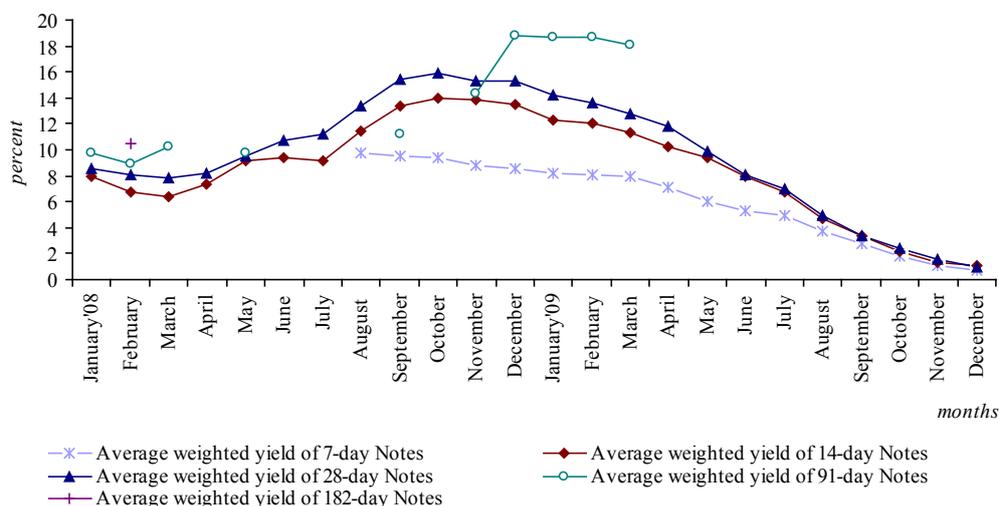


Against the background of the high level of excess reserves of commercial banks, the demand for the notes during the whole accounting year remained at quite the high level. For instance, at the end of the year, compared to the beginning of the year, the overall reduction in the yield by all types of NBKR Notes was 12.7 percentage points, of which the reduction for the 7-day notes was 7.8 percentage points, the 14-day notes - 11.7 percentage points, and for the 28-day notes – 13.8 percentage points. In February to April, the decrease was observed in the supply of notes in view of significant fluctuations of the level of liquidity in the banks during this period. Starting from May, the excess reserves in the commercial banks had been growing. This allowed them to increase their demand for the NBKR Notes till November, when some decrease was noted in the level of liquidity in the banks. The largest volume of issue of notes was noted in

June and July, when the weekly volume of the supply was KGS 670 million, while in August it started going down. At the end of the accounting year, due to seasonal growth of liquidity in the banking system, the NBKR increased the supply of notes against the background of the higher demand.

Chart 1.4.3.1.3.2.

Average Weighted Yield by Types of NBKR Notes



The placements of notes in 2009 by the National Bank totaled KGS 20.7 billion, growth being 8.2 percent in comparison with 2008. The average yield by all types of notes decreased by 3.7 percentage points and was 6.7 percent, of which the average yield in the segment of 7-day notes was 4.8 percent (the reduction by 4.4 percentage points); in the segment of 14-day notes – 6.9 percent (the reduction by 3.3 percentage points); in the segment of 28-day – 7.6 percent (the reduction 4.0 percentage points); and the average yield in the segment of 91-day notes was 18.4 percent as against 11.8 percent in 2008.

Sales and yield of NBKR Notes

The volume of outstanding NBKR Notes was KGS 1.0 billion at the end of 2009, having thus contracted by 36.0 percent compared with their early-year volume. The share of commercial banks in the structure of holders of notes was 94.1 percent, that of institutional investors – 5.9 percent. 10 banks held the NBKR Notes in their portfolio.

Outstanding NBKR Notes

1.4.3.2. Corporate Securities Market

Against the background of the continued global financial crisis, weakening of three stock exchanges at trading posts was observed in 2009. For instance, the annual volume of business at the stock exchanges of the republic amounted to KGS 5.2 billion, having thus decreased by 44.1 percent in comparison with the same parameter in 2008. The reduction of the volume of business was observed with regard to all of the trading posts. The volume of transactions at the trading post of the Closed Joint-Stock Company (CJSC) “Kyrgyz Stock Exchange” was reduced by 29.5 percent or to KGS 3.0 billion, at the CJSC “Central Asian Stock Exchange” - by 61.3 percent to KGS 1.7 billion, and the volume of foreign exchange market at the trading platform of the CJSC “Stock Exchange of Kyrgyzstan – BTS” was reduced by 17.6 percent and amounted to KGS 483.2 million. The bulk of transactions in the composition of auctions fell, as in the past, on the CJSC “KSE” (45.2 percent).

As of January 1st, 2010, five joint stock investment funds and two share investment funds operated in the securities market. The share of these organizations in rendering the financial services is insignificant.

1.4.4. Deposit and Credit Market

Major developments in the deposit and credit market

In 2009, there remained the positive tendency of expansion of the deposit base and of growth of lending to the real sector by the finance and credit institutions. With some deceleration in growth of lending to the economy, which was a consequence of the insignificant reduction in the loan portfolio of commercial banks, lending from the non-bank finance and credit institutions continued to expand, with one of the factors being that of a start-up of specialized FCIs, the Development Fund of the Kyrgyz Republic (KRDF) and the Specialized Bank Refinancing Fund (SBRF). As a result, the share of the NFCI loan portfolio for the accounting year in total lending to the real sector grew from 22.0 to 34.0 percent.

The banks reduced lending against the background of the persistent global financial and economic crisis, which was reflected in growth retardation in the country and certain deterioration of the loan portfolio of the banking system. In addition, increased uncertainty as to the exchange rate could influence the reduction in lending due to the significant devaluation of national currencies of Russia and Kazakhstan at the beginning of the accounting year and, as a consequence, the commercial banks changed their exchange risk appraisals.

At the same time, the opposite tendency, characterized by continued growth of their loan portfolio, was observed in the NFCI market of credits. Dynamic growth of lending in the given segment could be explained by the keen demand for the NFCI services because of the relatively simplified procedure for extension of credits and the more lightened requirements for contingent borrowers.

Deposit base of commercial banks

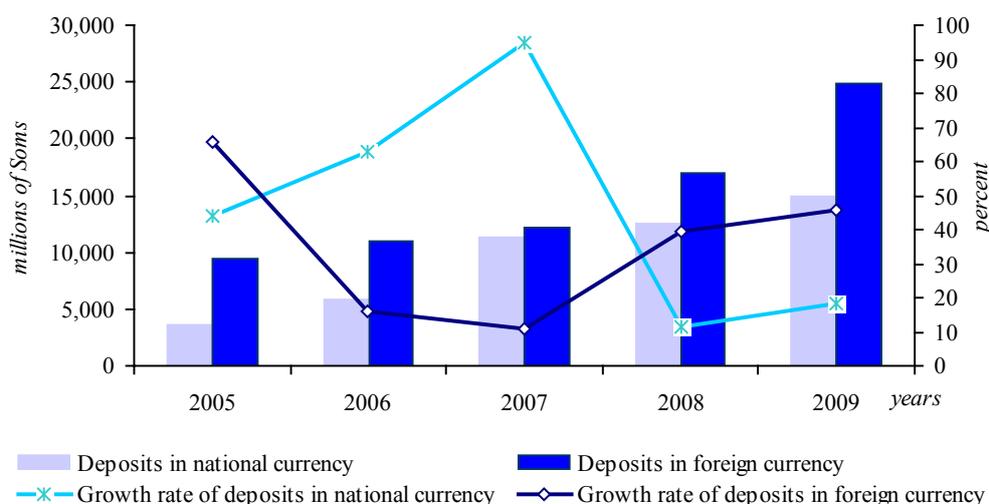
The volume of deposits¹ of commercial banks in the accounting year grew by 34.0 percent and amounted to KGS 39.6 billion. Growth of deposits was, basically, connected with growth of foreign exchange deposits by 45.5 percent to KGS 24.8 billion. Excluding the factor of the change in the US dollar exchange rate (11.9 percent), the deposits in foreign currency grew by 25.9 percent. The rates of growth of deposits in national currency were lower and growth was 18.4 percent, having thus reached KGS 14.8 billion. This led to the increase in dollarization of the deposit base in 2009 by 4.9 percentage points - to 62.6 percent as of the end of December. At the same time, the ratio of deposits in national currency to the volume of cash (M0) - the parameter describing a degree of trust of economic agents to national currency and to the banking system, as a whole, grew by 1.1 percentage points, being 43.8 percent.

The positive influence on maintenance of confidence in the banking system came from the amendments and addenda to the Law of the Kyrgyz Republic "On Protection of Bank Deposits", envisaging the increase in the guaranteed amount of compensation with regard to the deposits from KGS 20 thousand to KGS 100 thousand. This was reflected in maintenance of the upward tendency in the deposit base.

¹ Excluding Government loans and including the deposits of other finance institutions.

Chart 1.4.4.1.

Deposits in Operating Commercial Banks (end-of-period)



As before, the basic share of deposits of commercial banks was that of deposits of legal entities. Growth of deposits in foreign currency by 44.2 percent had the essential impact on the deposits of enterprises, whose volume increased by 27.8 percent in the accounting year. The deposits in national currency grew by 15.5 percent. The share of deposits of legal entities slightly contracted (by 1.0 percentage point) in 2009 as a result of outstripping rates of growth of household deposits, making 75.7 percent, and, accordingly, grew the share of deposits of the population to 24.3 percent. With regard to a currency mix of deposits of individuals, one could note that preferences of the population changed in favor of deposits in foreign currency. Hence, these deposits increased by half, whereas the deposits in soms increased by 27.1 percent.

Structure of the deposit base by depositors

The reduction in maturity of mobilized resources was noted in the time structure of the deposit base in the accounting year as a result of significant growth of demand deposits. In this regard, the reduction in maturities of deposits was observed with regard to both the household deposits and the deposits of organizations. For the accounting year, the share of demand deposits grew by 70.1 percent (+5.4 percentage points) in the total volume of the deposit base. The structure of time deposits showed the reduction in the share of long-term deposits to 4.9 percent, with the share of short-term deposits (from one month to one year) having simultaneously grown and making 25.0 percent. This led to the reduction in duration of the general deposit base from 5.2 to 3.1 months, while that of time deposits - from 14.7 to 10.3 months.

Structure of the deposit base by maturity

Essential growth of deposits in the banks, predominant in the market, led to the increase in the index of concentration of the deposit market from 13 to 22 in 2009. The value of this index indicates high concentration of the market and is equal to presence of four banks with equal shares in the market.

Concentration of the bank deposit market

As a whole for the year, the average weighted interest rate of the deposit base in national currency decreased by 0.7 percentage points, making 5.3 percent, while the rate of deposits balances in foreign currency grew by 0.5 percentage points, to 2.2 percent.

Value of the deposit base

The volume of newly attracted deposits¹ of commercial banks amounted to KGS 83.6 billion, having slightly increased by contrast to 2008 (by 0.6 percent). This growth was

Newly attracted deposits

¹ Receipts of funds on the accounts of legal entities as demand deposits are not accounted as part of newly attracted deposits.

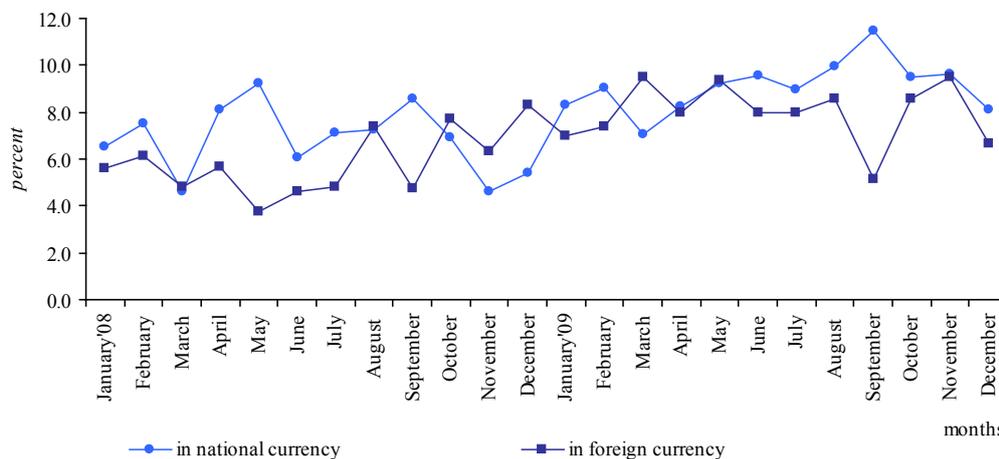
caused by only the Som component of the deposit base, which increased by 7.6 percent to KGS 33.8 billion. The deposits in foreign currency contracted by 3.7 percent on impact of reduced demand deposits and the long-term deposits (more than three years) of residents.

Interest rate of the attracted deposits

In 2009, the average level of interest rates of newly attracted deposits was observed to increase. Compared to its value in 2008, the average weighted interest rate of deposits in national currency grew by 0.4 percentage points, to 2.8 percent, as a result of growth of rates of practically all types of time deposits, except for the one-month deposits. For instance, the value of newly attracted time deposits in national currency increased for the period as a whole by 2.3 percentage points, thereby making 9.1 percent. The average rate of deposits in foreign currency increased either (by 0.8 percentage points) and was 1.7 percent. Due to growth of rates of deposits with maturities of three months to three years, the average weighted interest rate of time deposits in foreign currency grew by 2.1 percentage points, to 8.0 percent, with growth of rates observed with regard to both the deposits of residents, and the deposits of enterprises.

Chart 1.4.4.2.

Interest Rate Developments in Newly Attracted Time Deposits



Major credit market developments

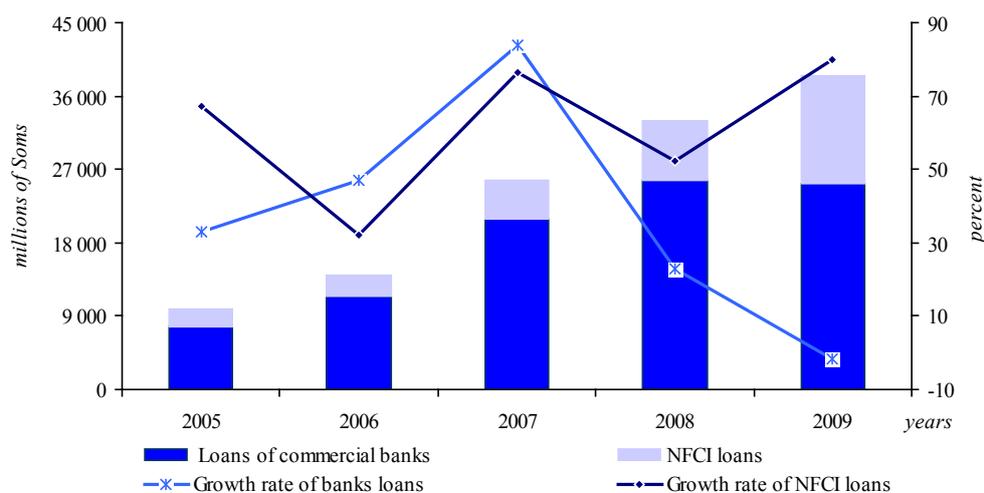
The upward tendency in lending to the economy was persistent in the year of account. This trend was maintained by expansion of NFCI activity, while the commercial banks, under the circumstances of increased risk appraisals and some deterioration of the loan portfolio, conducted the more constrained policy of lending. In addition, the increase was observed in the interest rates of credits extended by the banks and the NFCIs against the background of growth of the credit risk.

Accounts payable

In 2009 as a whole, the total volume of accounts payable in the real sector grew by 16.7 percent (in 2008 growth was by 28.4 percent) and amounted to KGS 38.5 billion at the end of the year. Retardation was due to the reduction in the volumes of credits of the banking system.

Chart 1.4.4.3.

Volume of Credits in the Economy (end-of-period)



In 2009 as a whole, the aggregate loan portfolio¹ of banks decreased by 1.5 percent (in 2008, its growth was 22.8 percent) and amounted to KGS 25.2 billion at the end of the year. The reduction in the loan portfolio was caused by the reduction in lending in foreign currency (by 5.5 percent). At the same time, the credits in national currency grew by 5.8 percent, thereby entailing the reduction in dollarization of the loan portfolio (by 2.6 percentage points), which was 62.1 percent at the end of the year.

Loan portfolio of commercial banks

Prevailing growth of long-term lending was characteristic of the domestic market of bank lending in the recent years. However, the deviation was observed in 2009 in this tendency as a result of some deterioration of assets of commercial banks, the reduction in duration of the resource base, as well as permanent uncertainty in the economy in connection with aggravation of the situation in the world financial system. In this context, the domestic banks tried to reduce the long-term assets. As a result, the time structure of the loan portfolio in the accounting year changed towards the increase in the share of short-term credits (up to one year). For instance, the share of long-term credits decreased from 69.4 percent to 65.8 percent, and the share of short-term credits grew by 1.9 percentage points, to 31.1 percent. This led to the reduction in duration of the loan portfolio from 24.8 to 24.2 months at the end of December.

Time structure of the loan portfolio of commercial banks

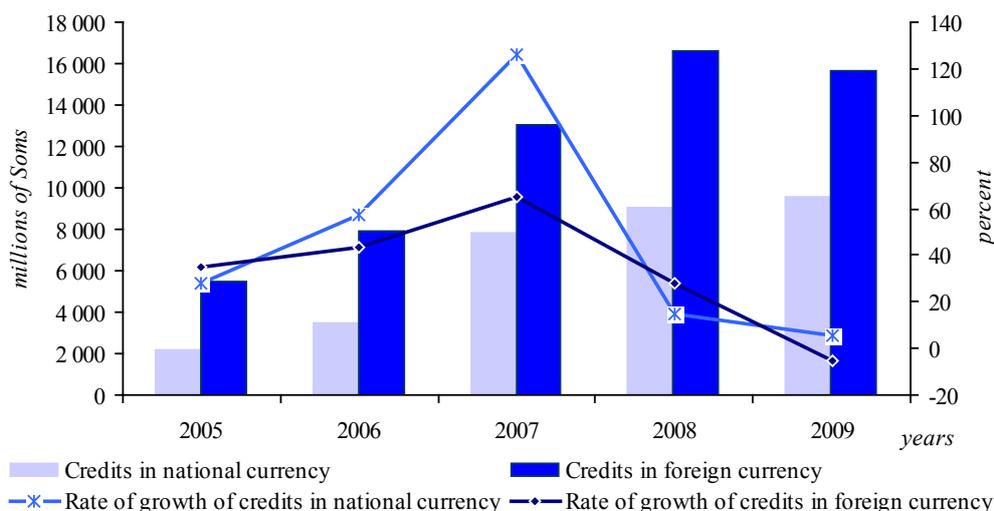
The reduction in lending by the majority of large banks somewhat weakened concentration of the loan portfolio of the banking system. The index of concentration of accounts payable of the system of commercial banks decreased from 0.10 to 0.09, thereby indicating its low concentration equal to the division of the market between 10 banks. However, the level of sectoral concentration of the loan portfolio of banks remained still high, being 0.47, and it is higher by 0.05 than the same parameter at the end of 2008. This value of the index reflects the high level of concentration in the market of lending and is equal to the division of accounts payable of banks between two branches. Concentration of credits within the branches remains also high: in 6 of 11 branches the index was more than 0.18.

Concentration of the bank lending market

¹ Including the formed LLP and the accrued discount.

Chart 1.4.4.4.

Credits in Operating Commercial Banks (end-of-period)

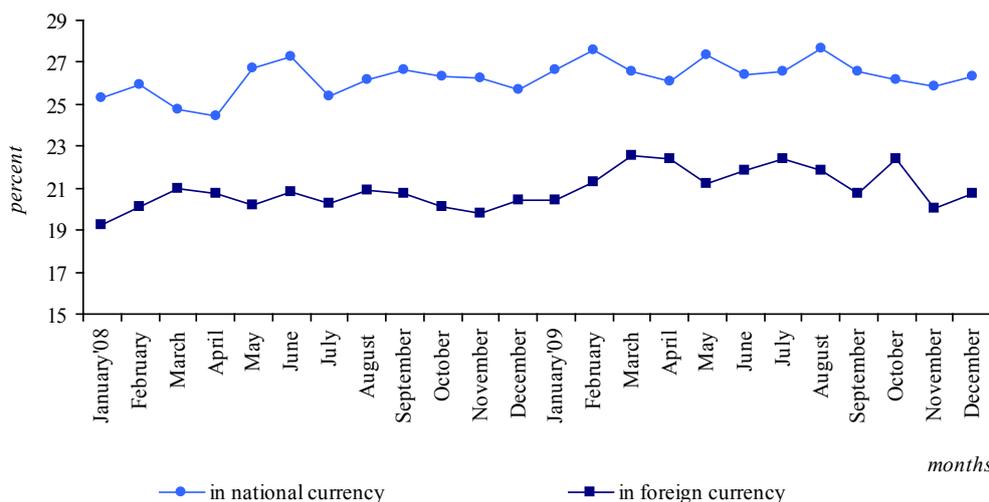


Value of the loan portfolio of commercial banks

The mid-annual level of interest rates of credits forming the portfolio of commercial banks in national currency grew by 1.6 percentage points for the year, to 25.3 percent, while the rates of credits in foreign currency increased by 1.1 percentage points and was 20.6 percent. Outstripping growth was observed in the interest rates of credits compared to the interest rates of deposits that led to further growth of an interest margin of credit and deposit operations of banks. If in 2008 the primary factor of growth of interest rates in the financial market was that of the high rate of inflation, the same factor in the year of account was less significant, because the rates of inflation essentially slowed down, and the mid-annual real interest rate of credits made 16.6 percent, whereas the same parameter was negative (-1.0) in 2008.

Chart 1.4.4.5.

Interest Rate Developments in Newly Extended Credits



Credits newly given by the commercial banks

The volume of credits newly extended by the commercial banks to the economy in the accounting year was below the level of 2008 by 9.7 percent and amounted to KGS 22.0 billion. The reduction in the volume of newly extended credits resulted from the decrease in lending in foreign currency by 21.4 percent, whose total volume was KGS 12.0 billion. The sum part of credits grew by 10.0 percent to KGS 10.0 billion.

In 2009, the commercial banks financed mainly trade and agriculture. Proceeding from the outcome of the year, the share of credits to the trade sector grew by 7.5 percentage points, to 54.8 percent, and to agriculture - by 1.8 percentage points, to 11.2 percent. At the same time, the share of credits to industry was observed to increase, despite the reduction in their volumes from 5.5 to 6.1 percent. Flows of lending to other sectors of the real sector decreased noticeably, as a result of this, the total volume of credits newly extended for the during the year was observed to decrease in their share: the mortgage credits - from 5.3 to 2.6 percent, the consumer loans - from 10.6 to 9.6 percent, and for construction - by 3.8 percentage points, to 3.9 percent. The share of credits for transport, social services, procurement and processing and communication was insignificant, making 1.5 percent. The credits classified as “other” contracted either, with their share having decreased from 11.4 to 10.2 percent.

Sectoral structure of extended credits

The average level of rates of outstanding credits in national currency for the accounting year grew by 0.7 percentage points and was 26.7 percent. Growth of interest rates was noted with regard to all of the branches of the real sector, except for the “other” credits. The most significant increase in the rates was observed with regard to lending to the branches of transport, procurement and processing. Having grown by 1.1 percentage points, the average weighted interest rates of credits newly extended in foreign currency was 21.5 percent for this period. The most expensive credits in national currency were those extended to the sphere of transport, and as consumer credits in foreign currency.

Interest rate of extended credits

The increase in the rates of growth of the loan portfolio was observed in the market of lending by the non-bank finance and credit institutions. For the accounting year the NFCI aggregate loan portfolio grew by 80.1 percent (in 2008 it increased by 52.2 percent) and amounted to KGS 13.3 billion at the end of the year. Excluding the KRDF and the SBRF credits, growth of the NFCI loan portfolio was 20.4 percent.

Lending by NFCI

Growth of interest rates of extended loans was noted in the accounting year with regard to all of the NFCIs, except for the KRDF and the SBRF. This being the case, the highest rates of credits were noted with regard to lending by the microfinance organizations (34.5 percent), and the lowest rates with relation to the KRDF credits (3.5 percent).

Interest rate of NFCI credits

The basic part of NFCI credits was directed to construction; therefore, the share of these credits in the NFCI loan portfolio grew from 2.6 to 34.7 percent. Such essential growth of the share of credits for construction was connected with lending activity of the KRDF, which extended the credits for construction of Kambar-Ata HES-2.

Sectoral structure of NFCI loan portfolio

II

**ACTIVITY OF THE NATIONAL BANK
OF THE KYRGYZ REPUBLIC IN 2009**

MONETARY POLICY

In 2009 under the circumstances of decreasing inflationary pressure and the global economic crisis, the monetary policy of the National Bank was directed to achieve and maintain stability of the general price level, on the one hand, and to create the conditions for stimulation of long-term economic growth and maintenance of stability of the financial and banking system, on the other hand. The coordinated anti-inflationary measures of the National Bank and the Government were conducive to price stabilization.

The monetary policy decisions are taken by the Board of the NBKR and the Monetary Regulation Committee. In 2009, the Board of the NBKR considered the monetary policy report and the monetary program for the forthcoming period on the quarterly basis. The Monetary Regulation Committee held its meetings on the regular weekly basis and additionally as needed to take urgent decisions.

The volume of total international reserves grew to the level of US\$1.6 billion. The international reserves included the currency portfolio, SDR and the assets in gold. The international reserves were used, mainly, with the view of the monetary policy of the National Bank, and to serve the foreign liabilities of the Government and the National Bank.

The reserve assets were placed in the highly reliable and liquid tools of central banks of developed countries, of international financial institutions, and of foreign commercial banks with high credit ratings.

2.1. Monetary Policy Targets and Effects

Monetary policy targets

Control of inflation and maintenance of stability of the general price level, as one of the basic conditions of steady economic growth in the long run, were specified as the primary monetary policy goal in the Main Monetary Policy Guidelines for 2009-2011 and the Statement about the Monetary Policy for 2009. Inflationary pressure in 2009, as a whole, was expected to be lower than in the previous year and it was connected with both the anticipated reduction in the external and domestic demand for the domestic products, and the impact of anti-inflationary measures undertaken by the Government and the National Bank, including a tightening of the monetary policy. Proceeding from these preconditions, a quantitative monetary policy criterion for 2009 was set at the level below 15 percent.

Early-year monetary policy implementation terms

In early-2009, the high rate of inflation was persistent and pressure on the exchange rate increased on impact of the world economic crisis as a result of growth of demand for foreign exchange against the background of the reduction in its inflow to the republic, largely, in the form of remittances from the labor migrants from abroad. In addition, depreciation of foreign currencies of key trading partner countries of the Kyrgyz Republic placed certain pressure on the exchange rate.

Early-year NBKR measures

In this context, early in the year, the National Bank undertook the measures to restrain the monetary component of inflation. For instance, the National Bank regulated liquidity of the banking system by placing the NBKR Notes and conducting the operations with the commercial banks on sale of Government securities on REPO terms. In addition, with a view of smoothing the sharp exchange rate fluctuations, the National Bank

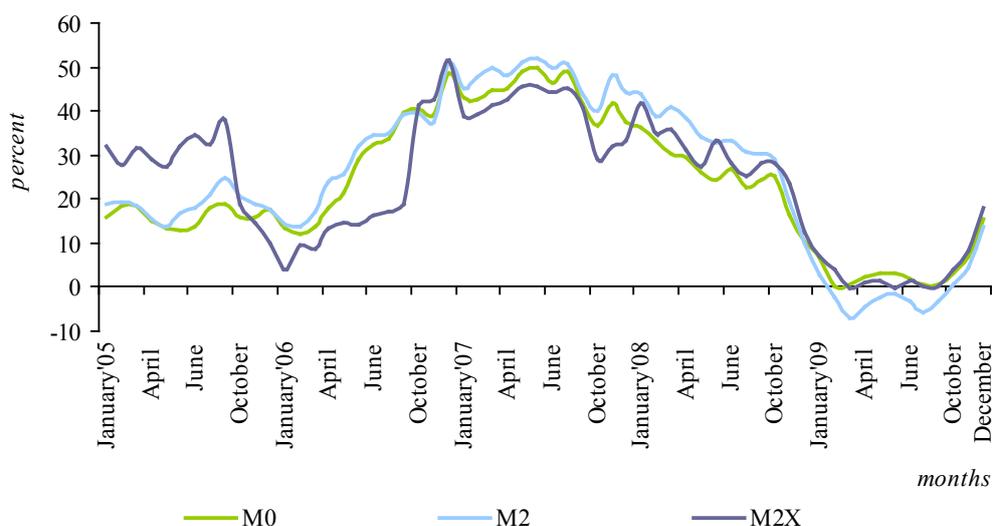
actively intervened in the first quarter of 2009 in the domestic foreign exchange market by selling foreign exchange.

The persistently high rates of inflation, the tendency of the Som depreciation, the slow-down of the economy and the reduction in the volumes of remittances of labor migrants led to the diminution in the demand for national currency in the first quarter of 2009.

The supply of resources in soms during this period had also been decreasing due to, basically, the operations of the National Bank on sale of foreign exchange in the domestic foreign exchange market.

Chart 2.1.1.

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



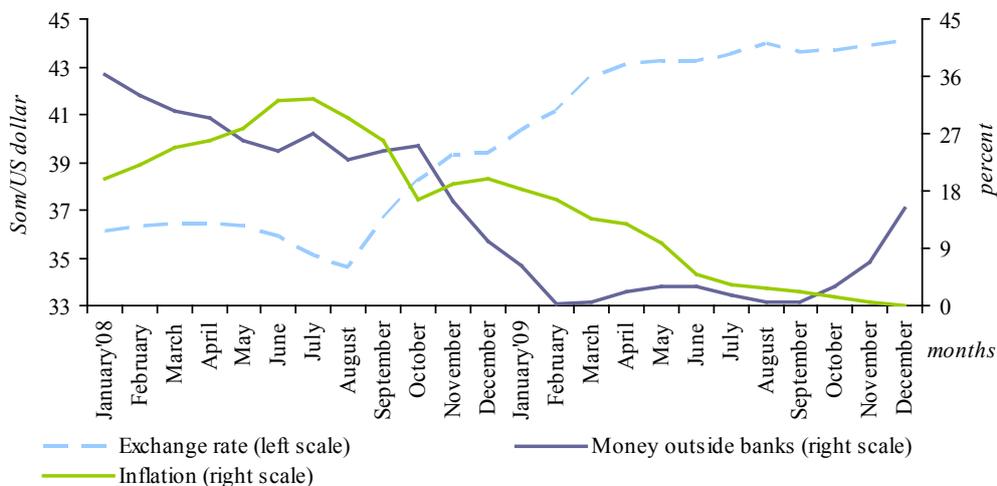
Starting from the second quarter of 2009, the situation in the domestic foreign exchange market stabilized and the diminution in the demand for foreign exchange was observed as promoted by the increase in its inflow to the republic in the form of deposits and remittances. In this connection, the National Bank noticeably reduced its presence in the foreign exchange market, concluding only periodically the transactions on both the purchase and the sale of non-cash US dollars in order to smooth the sharp exchange rate fluctuations and maintain the balance between the supply and the demand of foreign exchange in the market.

Stabilization of the situation

Absence of price shocks in the world markets of food products and energy resources, as well as the anti-inflationary measures, earlier undertaken by the National Bank and the Government, slowed down the inflationary processes in the economy in the second quarter of 2009, thereby creating the favorable conditions for implementation of the stimulating monetary policy.

Chart 2.1.2.

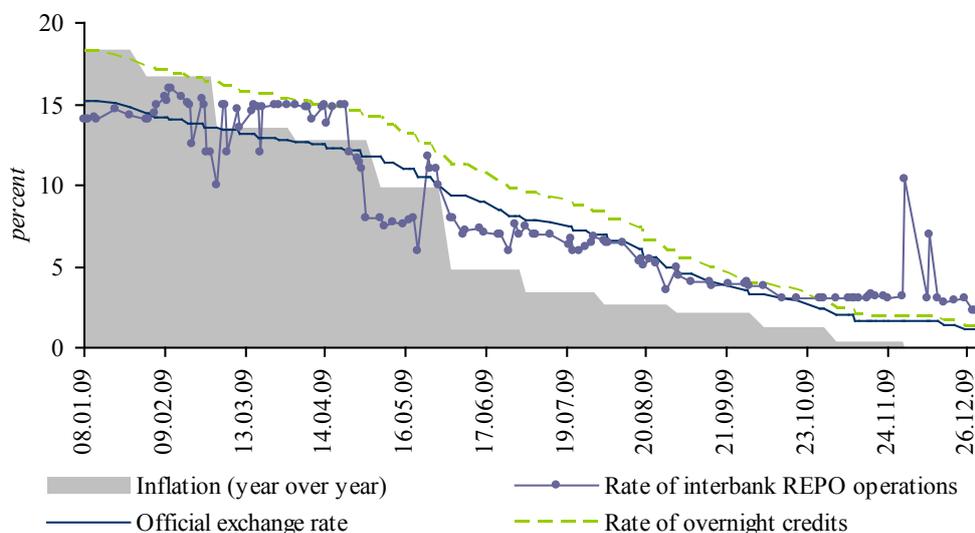
Exchange Rate Developments & Annual Rates of Change in Inflation & Money Outside Banks



Discount rate The discount rate of the NBKR had been gradually decreasing during 2009 and reached the level of 0.9 percent by the end of the year, which is the historically minimal level. The reduction of the discount rate matched the tendency of weakening inflationary pressure.

Chart 2.1.3.

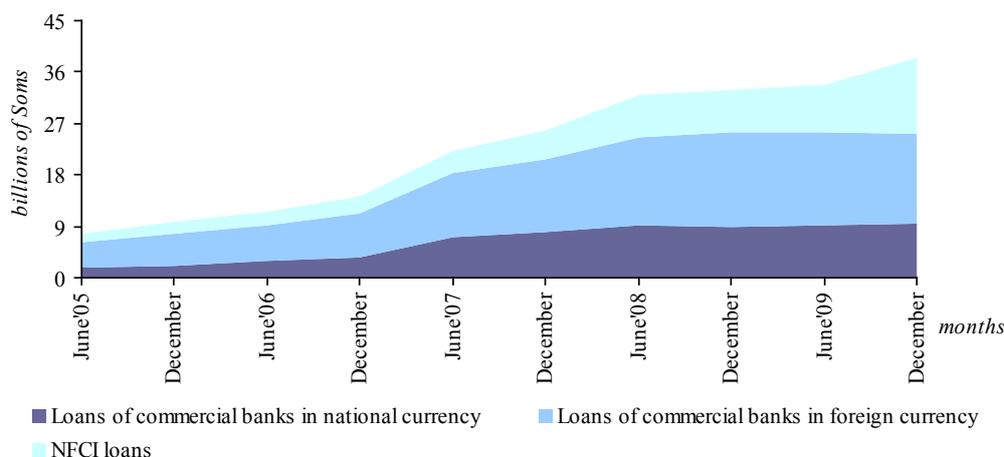
Developments in Inflation, Rates of NBKR & Interbank REPO operations in 2009



Lending to the economy In the context of the adverse impact of the world economic crisis, lending to the real sector of the economy by the commercial banks continued to decrease in 2009. The supply of credits in the banking sector was reduced due to the tightening of their credit policy, the reduction of the long-term resource base, and the persistent devaluation expectations. At the same time, the additional requirements of commercial banks with regard to extension of credits, some increase in the rates of credits, growth retardation, and the increase in the exchange risks predetermined demand reduction on the credits by the part of economic agents. As a result, the loan portfolio of commercial banks decreased by 1.5 percent, with the significant increase in lending to the economy by nonbank FCIs (1.8 times), including the KRDF.

Chart 2.1.4.

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



With a view of building credit capacity of commercial banks, and due to the fact that the commercial banks started making contributions to the Deposit Insurance Fund, the National Bank lowered the reserve requirements from 10 to 9.5 percent in June 2009.

Reduction of reserve requirements

At the same time, in order to maintain stability of the banking system, create an effective mechanism of supporting the commercial banks and the real sector under the circumstances of the adverse impact of the world economic crisis, the National Bank established the Special Fund for Banks Refinancing of the Kyrgyz Republic (SFBR). For 2009 as a whole, the volume of refinancing by the SFBR totaled KGS 1.1 billion.

SFBR

Against the background of decreasing inflationary pressure, in order to create the adequate expectations of the business community and the population that would promote, alongside with the anti-crisis measures of the Government and the National Bank, the pick-up in economic activity, in August 2009, the National Bank took the decision to revise the quantitative monetary policy criterion for 2009 towards its reduction to the level of no more than 7.5 percent.

Reduction of the target

Stabilization of the macroeconomic situation in the middle of 2009 resulted in an upswing of demand for national currency. The supply of money by the end of the year also increased noticeably because of the stimulating fiscal policy implemented by the Government of the Kyrgyz Republic.

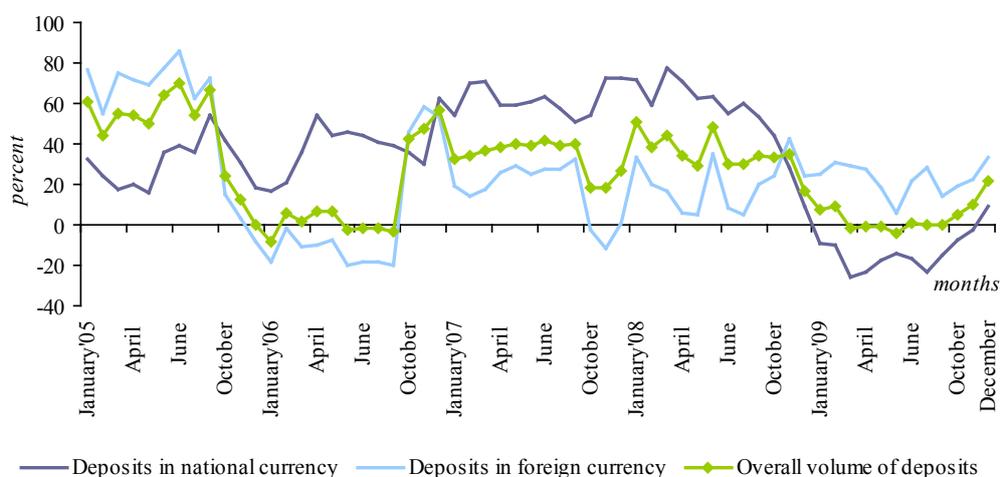
For 2009 as a whole, the monetary aggregate M0¹ increased by 15.3 percent amounting to KGS 33.9 billion by January 1, 2010, (in 2008 – by 10.2 percent to KGS 29.4 billion). The monetary aggregate M1 (M0 + the settlement (current) accounts and the demand deposits in national currency) grew by 17.3 percent and at the end of the year amounted to KGS 40.2 billion. The monetary aggregate M2 (M1 + the time deposits in national currency) increased by 13.8 percent, to 43.5 billion KGS (in 2008 – by 9.9 percent, to 38.2 billion KGS) for the accounting period.

Monetary aggregates

¹ According to the analytical data sheet of the NBKR, the KRDF operations in the statistical data on the monetary aggregates in this section are classified as part of General Government because of the fact that its activity is based on the budget resources.

Chart 2.1.5.

Annual Rates of Change in Deposits (end of period)



With regard to the monetary aggregates, the highest rates of growth were displayed by broad money M2X (M2 + the deposits in foreign currency), its growth was 17.9 percent in the accounting year.

Broad money

At the end of 2009, broad money amounted to KGS 57.1 billion, having thus increased by KGS 8.7 billion, being slightly more than in 2008 (+12.6 percent or by KGS 5.4 billion). Growth of the deposit base¹ contributed to growth of broad money by KGS 4.2 billion or by 8.6 percent, while growth of money outside banks contributed by KGS 4.5 billion or by 9.3 percent, in this regard, the rates of growth of deposits in foreign currency exceeded those of growth of deposits in soms². The share of deposits in foreign currency in the broad money mix increased by 2.8 percentage points in 2009, to 23.9 percent, and in the structure of deposits of the banking system this share grew by 5.0 percentage points, to 58.7 percent.

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

² Excluding the impact of the exchange rate, the deposits in foreign currency increased by 19.0 percent and the total volume of deposits – by 14.2 percent.

Table 2.1.1.Sources of Money Supply M2X (end-of-period, at primary rate)
(In millions of soms)

	2008	2009	Growth, in millions of soms	Growth rates, in percent	Impact on M2X, in percentage points
Net foreign assets	39,807.9	62,407.1	22,599.2	56.8	46.6
Net international reserves	39,770.7	68,136.9	28,366.2	71.3	58.5
Other foreign assets	74.0	170.9	96.9	131.1	0.2
Distribution of SDR		-5,863.2	-5,863.2		-12.1
Settlements with CIS countries	-36.8	-37.6	-0.8	2.1	0.0
Long-term foreign liabilities	-2,099.4	-2,290.7	-191.3	9.1	-0.4
Net domestic assets	10,744.7	-2,990.0	-13,734.7	-127.8	-28.3
Net claims to general Government	-1,613.6	-6,065.7	-4,452.2	275.9	-9.2
Net claims to Government	-1,613.6	-3,420.2	-1,806.7	112.0	-3.7
Net claims to special funds		-2,645.5	-2,645.5		-5.5
Claims to other sectors	26,699.5	25,952.3	-747.2	-2.8	-1.5
Other items	697.0	2,403.2	1,706.2	244.8	3.5
Capital account	-15,038.2	-25,279.7	-10,241.5	68.1	-21.1
Base money	48,453.2	57,126.4	8,673.2	17.9	17.9
Money outside banks	29,385.1	33,882.3	4,497.2	15.3	9.3
Deposits of other deposit corporations	19,068.1	23,244.1	4,176.0	21.9	8.6
Deposits in national currency	8,824.1	9,607.6	783.5	8.9	1.6
Deposits in foreign currency	10,243.9	13,636.5	3,392.5	33.1	7.0

According to the NSC data, growth of the consumer price index characterizing inflation was zero in 2009 (December 2009 to December 2008), while in 2008 year over year inflation was 20.0 percent, with the average annual rate of inflation having decreased to 6.8 percent in 2009 from 24.5 percent in 2008.

Inflation

The official exchange rate of the US dollar vis-à-vis the Som increased by 11.9 percent in 2009, to Som 44.0917/US\$ 1.00. The real effective exchange rate of the Som was 103.0 at the end of the year, having thus decreased by 6.6 percent and promoting price competitiveness of domestic products. Growth of exchange rates of currencies of major trading partner countries and the higher level of inflation in these countries had their impact on the REER reduction.

REER

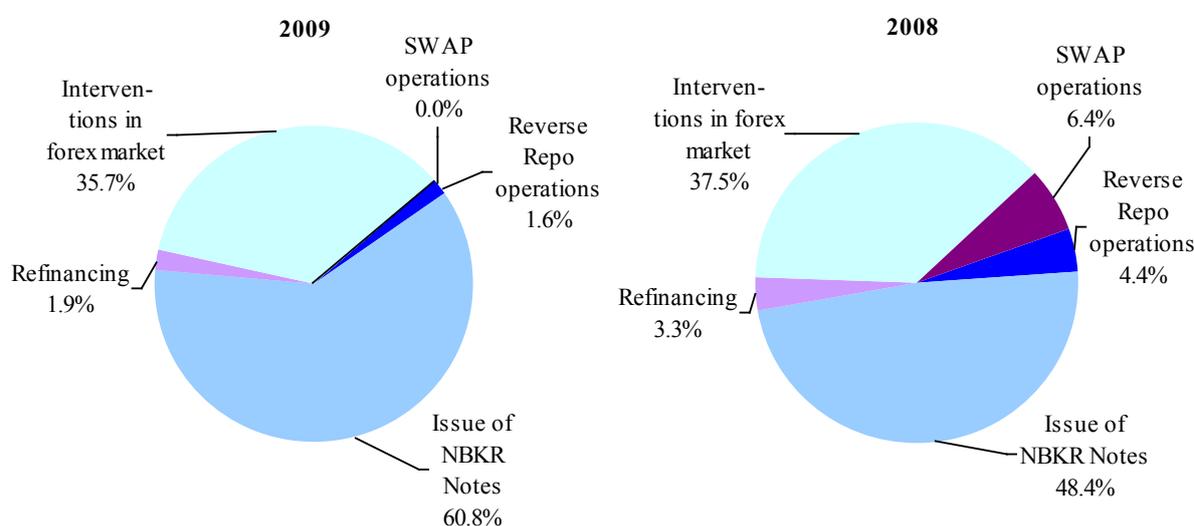
2.2. Monetary Policy Instruments

Liquidity regulation tools

The use by the National Bank of monetary policy tools in 2009 was directed to restrain the impact of monetary factors on inflation by maintenance of the optimal rate of growth of money supply. The NBKR Notes were the basic tool of regulating liquidity in the banking system. Due to the increase in the sales of NBKR Notes, their share in the general structure of operations of the National Bank increased for the whole year to 60.8 percent compared to 48.4 percent in the previous year. In addition to issue of NBKR Notes, the National Bank withdrew excess liquidity by means of reverse REPO operations, whose share was reduced by 1.6 percent in comparison with 2008. Other operations on sterilization of excess liquidity of the banking system, such as the reverse SWAP operations on the sale of US dollars and the operations on attraction of deposits in national currency from the commercial banks, were not conducted by the National Bank in 2009.

Chart 2.2.1.

Structure of NBKR Operations



Currency interventions

As to currency interventions, their share in the total volume of operations was reduced by 35.7 percent, with the nature of interventions having also changed compared to 2008. In the period under review, due to fact that the demand among the participants for foreign exchange prevailed over its supply in the foreign exchange market, the National Bank conducted the operations on mainly sales of foreign exchange.

Under the circumstances of the high level of liquidity in soms in the banks, the demand for the monetary resources of the National Bank was insignificant. As a whole for the year, several overnight credits were extended and the National Bank did not conduct other operations on refinancing (intraday credits, the direct REPO operations and swaps) in the accounting year. As a result, the share of operations on refinancing was 1.9 percent.

The total volume of monetary policy instruments, applied by the National Bank in 2009, amounted to nearly KGS 34.0 billion, and it is by 13.9 percent less in comparison with the similar parameter in 2008 (KGS 39.5 billion).

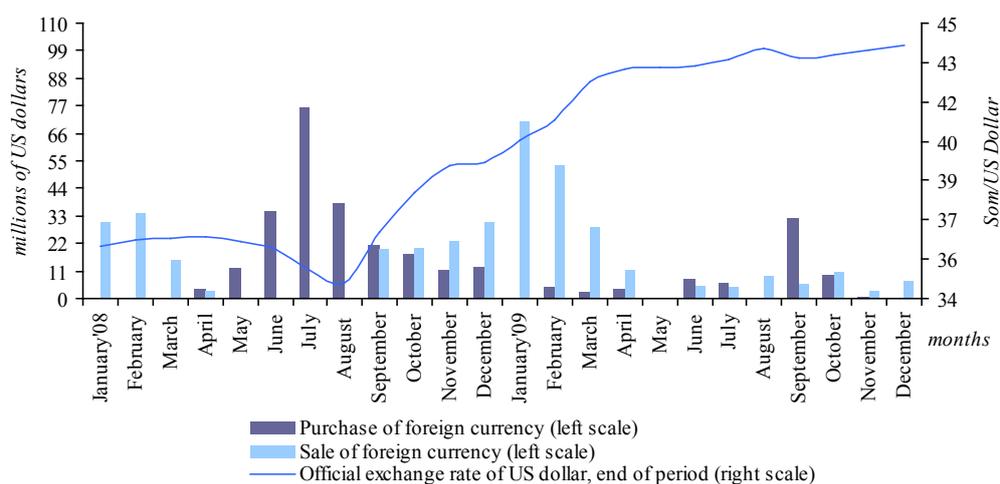
2.2.1. Foreign Exchange Market Operations

In 2009, the National Bank's participation in the interbank foreign exchange market depended on the market conditions and was determined by the need for smoothing the sharp exchange rate fluctuations. The developments of the second half of 2008 were still there in 2009, namely, the reduction in receipts of foreign exchange in the country resulting from the world financial and economic crisis. The smaller amount of foreign exchange in the country, and the former level of demand for foreign exchange in view of seasonal fluctuations determined some imbalance between the US dollar supply and demand in the domestic foreign exchange market. This imbalance was also determined by the one-stage devaluation in February 2009 of the Kazakh Tenge by 25 percent by the National Bank of the Republic of Kazakhstan. In order to prevent sharp growth of the US dollar exchange rate and not to allow any panic and speculative pressure on the exchange rate, the National Bank actively conducted the operations on the sales of both non-cash, and cash US dollars in the interbank foreign exchange market in the first quarter of the accounting year. Based on the results of the first quarter, the exchange rate reached the value of KGS 42.6295/USD1.00, with the rate of growth having reached the level of 8.2 percent since the beginning of 2009.

Foreign exchange market developments

Chart 2.2.1.1.

NBKR Operations at the Interbank Foreign exchange market



The National Bank took the less active part in the interbank foreign exchange market in the second quarter of 2009, though both purchasing and selling the non-cash US dollars. In the third quarter, the inflow of foreign exchanged increased and was connected with growth of remittances from the labor migrants and receipt of public loans and grants assigned for the large public projects that led to excess of the supply over the demand for the US dollars. The National Bank participated in the interbank foreign exchange market buying the US dollars. The net purchase for the third quarter amounted to US\$ 9.8 million in non-cash. The end of 2009 was not characterized by the large volumes of interventions of the National Bank in the interbank foreign exchange market.

The purchases of US dollars by the National Bank in the domestic market in 2009 totaled US\$ 66.8 million, and the sales – US\$ 221.9 million, including US\$13.7 million in cash. The official dollar exchange rate for the accounting period grew by 11.9 percent, having reached the value of KGS 44.0917/US\$1.00 at the end of the accounting year.

Volume of currency interventions

Table 2.2.1.1.

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

	Q1	Q2	Q3	Q4	Total
2008, total	105,548.7	65,818.6	175,928.6	128,248.5	475,544.4
including:					
purchase of US dollars	-	50,600.0	136,300.0	41,600.0	228,500.0
sale of US dollars	79,600.0	3,400.0	19,550.0	73,000.0	175,550.0
purchase of foreign currency (excluding US dollars)	480.7	2.1	78.6	148.5	709.9
sale of foreign currency (ex- cluding US dollars)	1,468.0	316.5	-	-	1,784.5
SWAP operations in foreign currency (sale)	24,000.0	11,500.0	20,000.0	13,500.0	69,000.0
2009, total	163,604.6	28,249.3	67,200.0	30,600.0	289,653.8
including:					
purchase of US dollars	6,950.0	11,550.0	38,500.0	9,800.0	66,800.0
sale of US dollars	156,000.0	16,400.0	28,700.0	20,800.0	221,900.0
purchase of foreign currency (excluding US dollars)	654.6	299.3	-	-	953.8
sale of foreign currency (ex- cluding US dollars)	-	-	-	-	-
SWAP operations in foreign currency (sale)	-	-	-	-	-

2.2.2. Operations with NBKR Notes and NBKR Discount Rate

The NBKR Notes are the government securities with maturity of 7, 14, 28, 91 and 182 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.

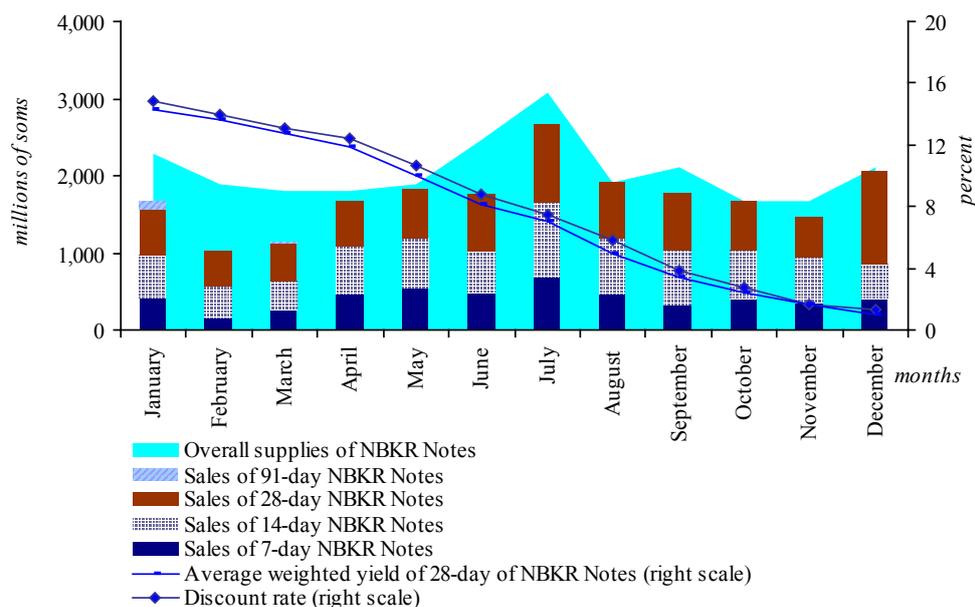
Operations with the NBKR Notes

Under the circumstances of decreasing inflationary pressure, the National Bank reduced the supply of NBKR Notes. For instance, the total supply of NBKR Notes amounted to KGS 24.7 billion in 2009 and by 14.8 percent is less than their supply in 2008. The sales of NBKR Notes totaled KGS 20.7 billion in 2009. The basic volume of sales (75.1 percent) fell on the 14 and 28-day NBKR Notes.

Issue of 182-day NBKR Notes was suspended at the end of 2008, while issue of 91-day NBKR Notes was suspended at the end of the first quarter of 2009.

Chart 2.2.2.1.

Sales of NBKR Notes and NBKR Discount Rate Movement in 2009



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.

Essence of the discount rate

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

The average level of the discount rate in 2009 was 7.9 percent and it is by 2.9 percentage points less than the same indicator of 2008. At the end of December 2009 the NBKR discount rate was 0.9 percent, having thus decreased from the level of 15.2 percent effective as of the beginning of the accounting year.

2.2.3. REPO Operations

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

The operations on the sale of Government securities on REPO terms (reverse REPO) were conducted, to a greater extent, as the supplementary tool in 2009. The need for their use emerged in January 2009 and the National Bank, accordingly, conducted the reverse REPO operations only in the first quarter of the accounting year. The Government Treasury Bills for settlement (GT-Bills(s)) in the NBKR portfolio were a subject of sale. The reverse REPO operations were conducted for the periods of 5, 42 and 63 days.

The total of transactions was KGS 556.8 million in 2009 and in comparison with their volume in 2008 decreased a bit less than three times. The average term of transactions in was 38 days in 2009, with the average yield of REPO operations being 13.3 percent.

Volume of REPO operations

Table 2.2.3.1.NBKR REPO Operations
(In millions of soms)

	Q1	Q2	Q3	Q4	Total
2008, total	520.5	230.9	517.9	482.0	1,751.3
including:					
direct REPO operations	-	-	-	-	-
reverse REPO operations	520.5	230.9	517.9	482.0	1,751.3
2009, total	556.8	-	-	-	556.8
including:					
direct REPO operations	-	-	-	-	-
reverse REPO operations	556.8	-	-	-	556.8

2.2.4. Refinancing of Banks

The National Bank has a package of tools of refinancing the commercial banks at its disposal: the intraday and overnight credits, the credits of last resort.

Changes in the regulatory framework

In 2009 the measures were taken to further improve the mechanism of refinancing of commercial banks. For instance, new versions of Regulations “On Overnight Credit” and “On Intraday Credit of NBKR” came into force. In April 2009, the National Bank put into commercial operation the automated system of extension and repayment of intraday and overnight credits, which is the NBKR’s own development. In addition, with a view of increasing the volume of Government securities as collateral for the intraday and overnight credits, the change was made to the collateral requirement with the Resolution of the Board of the National Bank. For instance, the Government securities of the Kyrgyz Republic are placed as collateral for credits through the NBKR (GT-Bills, GT-Bonds and NBKR Notes), with the date of redemption up to 12 months from the date of extension of credits. Earlier, the Government securities with maturity of about six months were accepted as collateral.

Overnight credits

Having decreased by 7.6 percentage points in comparison with this rate in 2008, the mid-annual rate of overnight credits was 8.8 percent in 2009. The interest rate of intraday credits was equal to zero. Nevertheless, in the context of high excess liquidity, these instruments were not in demand by the commercial banks in the accounting year. The overnight credits were given out to two banks and totaled KGS 635.8 million and it is by 50.5 percent less than the similar parameter in 2008.

Table 2.2.4.1.NBKR Overnight Credits
(In millions of soms)

	Q1	Q2	Q3	Q4	Total
2008	-	914.5	-	370.0	1,284.5
2009	-	5.3	0.5	630.0	635.8

2.2.5. Reserve Requirements

The reserve requirements are the requirements established by the National Bank for the commercial banks to keep the certain part of liquid assets, i.e., the required reserves. The required reserves are one of the instruments of regulating the volume of monetary aggregates and representing the amount of funds, which the commercial banks are bound to hold on the correspondent account with the National Bank.

The new version of the Regulation “On Reserve Requirements” came into force in early-2009. According to this Regulation, other liabilities were removed from the total liabilities and the deposits in foreign currency with maturity of more than 1 year were added to determine the size of reserve requirements. This innovation was directed to improve and enhance efficiency in the tool of reserve requirements.

Changes in the regulatory framework

In June 2009 the reserve requirement for the commercial banks was lowered from 10 to 9.5 percent with a view of credit capacity building of commercial banks, as well as due to the fact that the commercial banks started to make contributions to the Deposit Insurance Fund.

Reduction of reserve requirements

For the year as a whole, the volume of required reserves increased by 36.9 percent and at the end of December amounted to KGS 3.5 billion. Two cases of non-observance of required reserves were registered for the year and the penalty equal to KGS 22.0 thousand was collected from the commercial banks.

Table 2.2.5.1.

Reserves of Commercial Banks in National Currency*
(In millions of soms)

	Q1	Q2	Q3	Q4
2008, total	3,700.1	3,462.4	4,096.5	3,707.2
including:				
required reserves	2,052.2	2,209.9	2,437.9	2,460.5
excess reserves	1,647.9	1,252.6	1,658.6	1,246.7
2009, total	3,727.5	3,888.7	4,329.2	5,041.4
including:				
required reserves	2,581.0	2,682.0	3,039.5	3,317.2
excess reserves	1,146.5	1,206.7	1,289.7	1,724.2

* average values for the period

2.3. International Reserves Management

Regulatory documents

The National Bank managed its international reserves according to 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 2009”, “On the Structure of International Reserves of the National Bank of the Kyrgyz Republic” and “On Limits in Management of Investment Asset of International Reserves”.

Principles of management

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

Authority of agencies in the decision making

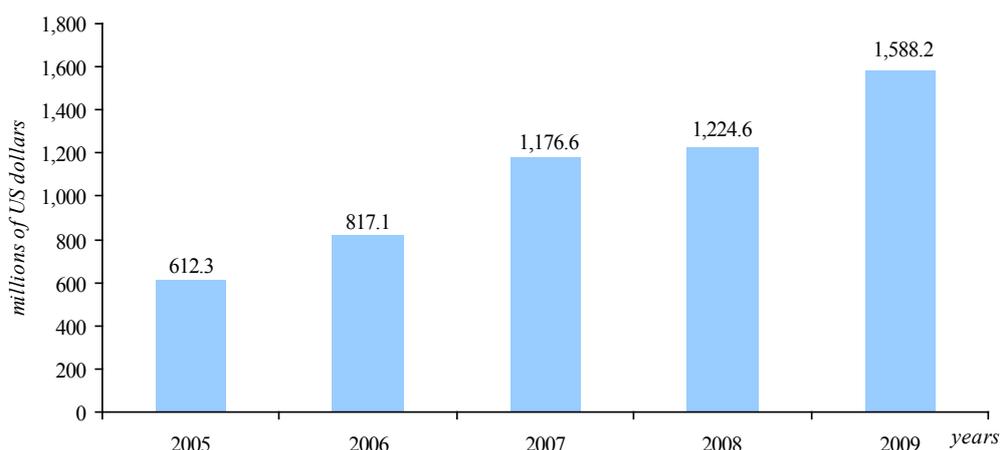
The decision-making in the part of determining the investment strategy of the bank, portfolio structure of international reserves, the ratio of risks and the yield of investment tools, as well as a selection of bank counterparties was realized by the Board and the Investment Committee of the National Bank. The Investment Committee held 22 meetings on issues of managing international reserves in 2009. Criteria, the requirements and restrictions on the counterparties, the types of tools, and the amounts and maturity of investment were established to minimize the risks arising in reserve asset management.

Structure and volume of IR

The structure of international reserves of the National Bank comprises the assets in gold, the Special Drawing Rights (SDR), and the portfolio of foreign currencies. The total of reserves was equivalent to US\$ 1.6 billion at the end of 2009, having thus increased by US\$ 363.6 million or by 29.7 percent for the year under review.

Chart 2.3.1.

Gross International Reserves of NBKR
(In millions of US dollars)



Sources of IR growth

The sources of growth of international reserves in 2009 were those of income from management of international reserves and foreign exchange receipts in favor of the Government and the National Bank from the international financial institutions and the donor countries. In addition, the level of international reserves was influenced by the change in the exchange rates of portfolio currencies and the prices of precious metals.

The volume of gold, as part of international reserves of the National Bank, remained unchanged in 2009. Growth of the share of SDR in the international reserves was determined by receipts as part of the general and special allocation of SDR by the IMF.

Changes in the IR structure

Table 2.3.1.

Pattern of NBKR Reserve Assets (end of period)

(In percent)

	2008	2009
Gold	5.9	5.7
Foreign currency portfolio	89.6	83.8
Special Drawing Rights	4.5	10.4
Total	100.0	100.0

In 2009, the foreign exchange portfolio of international reserves of the National Bank comprised: the US dollars, Euro, the Swiss francs, the British pounds, the Australian and Canadian dollars, as well as the Japanese yens, and the Russian rubles.

Structure of foreign exchange portfolio of IR and its change

The structure of the NBKR's foreign exchange portfolio was reconsidered on the quarterly basis and changed depending on global economic development, the international financial market developments, and was adjusted to the foreign exchange structure of foreign liabilities of the Kyrgyz Republic.

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

IR structure

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.

Placement of IR

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

In 2009, the world economy was still subject to the impact of the world financial crisis coupled with growth retardation. The first signs of stabilization in the economic situation were outlined at the end of the third quarter of 2009; however the agencies of monetary regulation of major developed countries of the world refrained from scaling down the stimulating programs. Alongside with the traditional measures for liberalization of the monetary policy, the central banks of the world used all of the accessible tools of monetary regulation, including the special measures to stabilize the financial markets. The key rates of basic central banks continued decreasing to the new historical minimal levels and were also reflected in the reduction of the yield of the currency portfolio of the National Bank.

Table 2.3.2.Pattern of Placement of NBKR International Reserve Assets (end of period)
(In percent)

	2008	2009
International financial institutions	44.5	46.3
Central banks	32.6	29.0
Commercial banks	22.7	24.1
NBKR	0.2	0.6
Total	100.0	100.0

OVERVIEW AND REGULATION OF ACTIVITY OF FINANCE AND CREDIT INSTITUTIONS

The finance and credit system of Kyrgyzstan, represented by the commercial banks and the non-bank finance and credit institutions, displayed the steady functioning under the circumstances of the unstable situation in the world financial market and in the economic partner countries. Performance of finance and credit institutions of the Kyrgyz Republic in 2009 showed basically the same positive developments.

The National Bank jointly with the Government and the commercial banks continued taking anti-crisis actions directed to further maintenance of stability in the banking system and its resistance to the risks and threats, as well as directed to improvement of assessments of bank exposures and risk management systems in the commercial banks, and to the tightening of capital requirements for the commercial banks. The NBKR continued working on improvement of the supervision methodology and practice, including early prevention of problems in the finance and credit institutions licensed by the NBKR.

In order to maintain the conditions equal for all of the participants in the banking sector, as well as to create the environment conducive to Islamic banking, the amendments and addenda were introduced to the corresponding legislation of the Kyrgyz Republic.

As the measure to maintain stability in the banking system, protect the investors, and decrease the risk of mass withdrawals of deposits, the Law was adopted “On Amendments and Addenda to the Law of the Kyrgyz Republic “On Insurance of Bank Deposits”.

As a whole, the development trends in the banking system and in the sector of non-bank finance and credit institutions (NFCI) remained positive, thereby leading to expansion of the spectrum of services, the increase in a network of branches and savings banks, and promoted larger access for the population to the financial services. In 2009 as a whole, growth was observed in the total number of NFCIs, their borrowers, the volume of assets, and the loan portfolio.

3.1. Banking System Overview

22 commercial banks, including the Bishkek branch of the National Bank of Pakistan, operated in the territory of the Kyrgyz Republic in 2009. The overview of the banking system is based on the annual regulatory reports submitted by the banks: the revised reports for 2008 and the preliminary reports for 2009.

*Number of
commercial
banks*

Jointly with the commercial banks, the National Bank drafted the Banking Sector Development Strategy for the Period till End-2011, which was approved by the Board of the NBKR on January 28, 2009. This Strategy is aimed at further growth of financial intermediation, increase in a role of the banking sector in the economy of the Kyrgyz Republic, and maintenance of efficiency, safety and reliability of banking.

*Banking Sector
Development
Strategy*

As compared to 2008, the slowdown trends in the basic development parameters took shape in the system of commercial banks in the accounting period. Due to the indirect

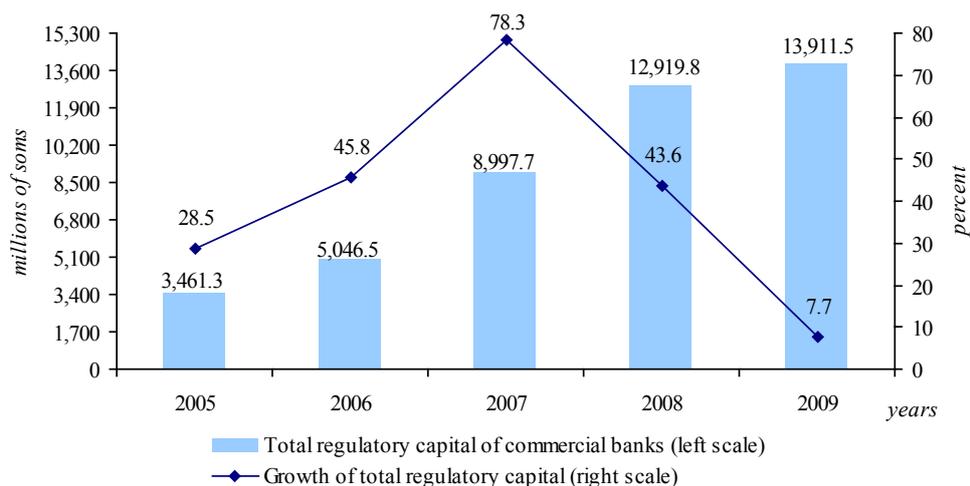
impact of the world financial crisis on the banking system, the major efforts of the National Bank were directed to the bank risk appraisal and implementation of relevant anti-crisis measures, including those taken in concert with the Government and the commercial banks of the Kyrgyz Republic.

Capital of commercial banks

Total regulatory capital¹ of commercial banks grew by KGS 991.7 million or by 7.7 percent and amounted to KGS 13.9 billion as of the end of 2009. In this regard, paid authorized capital² increased by 10.9 percent.

Chart 3.1.1.

Growth of Total Regulatory Capital of Commercial Banks



Total liabilities³ of commercial banks increased by 25.8 percent in 2009 and amounted to KGS 53.1 billion. In this case, the share of liabilities in foreign currency in total liabilities was 65.9 percent (at the end of 2008 – 67.5 percent).

Table 3.1.1.

Pattern of Liabilities of Commercial Banks (end of period)

Category of liabilities	2008		2009	
	<i>in millions of soms</i>	<i>share, percent</i>	<i>in millions of soms</i>	<i>share, percent</i>
Demand deposits of legal entities	14,071.8	33.4	21,147.5	39.9
Deposits of individuals	6,893.6	16.3	9,606.9	18.1
Time deposits of legal entities	2,371.6	5.6	2,413.7	4.5
Liabilities to NBKR	8.2	0.0	4.0	0.0
Correspondent accounts	39.8	0.1	531.7	1.0
Deposits of other banks	4,878.6	11.6	4,539.3	8.6
Short-term placements	142.6	0.3	62.7	0.1
Deposits and credits of public authorities	4,931.1	11.7	6,559.0	12.4
Securities issued under REPO agreements	170.3	0.4	300.1	0.6
Received loans	6,619.3	15.7	4,368.8	8.2
Subordinated debt	127.5	0.3	132.6	0.2
Other liabilities	1,915.5	4.5	3,399.5	6.4
Total	42,170.0	100.0	53,065.8	100.0

¹ 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.

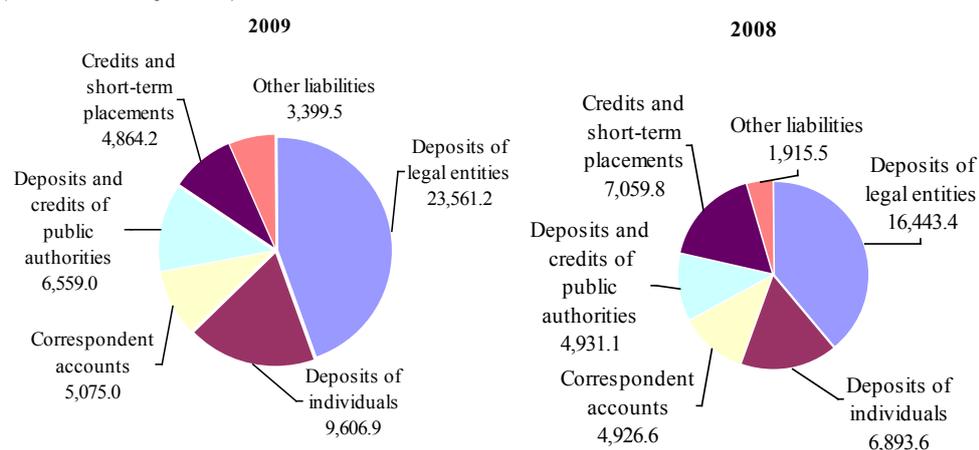
² This category covers ordinary shares and preference shares.

³ Total liabilities comprise all of the funds mobilized by the bank.

The deposit base of commercial banks continued to increase. At the end of 2009 the volume of deposits of commercial banks¹ increased by 42.1 percent and totaled KGS 33.2 billion. The share of legal entities in the structure of deposits increased by 0.5 percentage points and was 71.0 percent, having thus increased by KGS 7.1 billion or by 43.3 percent. The deposits of individuals increased by KGS 2.7 billion or 39.4 percent during the accounting period. Growth of time deposits both in absolute and relative terms was observed in 2009 in the structure of deposits of individuals.

Chart 3.1.2.

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



In 2009, total assets of banks increased by 23.4 percent and amounted to KGS 68.0 billion. In this regard, the assets in foreign currency grew by 25.0 percent, while those in national currency - by 21.5 percent.

Table 3.1.2.

Pattern of Assets of Commercial Banks (end of period)

Category of assets	2008		2009	
	in millions of soms	share, percent	in millions of soms	share, percent
Cash	2,967.2	5.4	3,738.7	5.5
Correspondent accounts with the NBKR	3,835.0	7.0	5,446.1	8.0
Correspondent accounts and deposits with other banks	10,030.2	18.2	18,612.0	27.4
Securities portfolio	5,727.8	10.4	7,662.8	11.3
Short-term placements	793.0	1.4	739.1	1.1
Securities purchased on REPO operations	257.7	0.5	300.1	0.4
Loans to finance and credit institutions	1,770.3	3.2	797.2	1.2
Lending to clientele	25,607.0	46.5	25,120.7	36.9
Special LLP*	-798.2	-1.4	-1,208.6	-1.8
Fixed assets	3,539.6	6.4	3,781.6	5.6
Other assets	1,370.6	2.5	2,997.8	4.4
Total	55,100.1	100.0	67,987.3	100.0

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

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

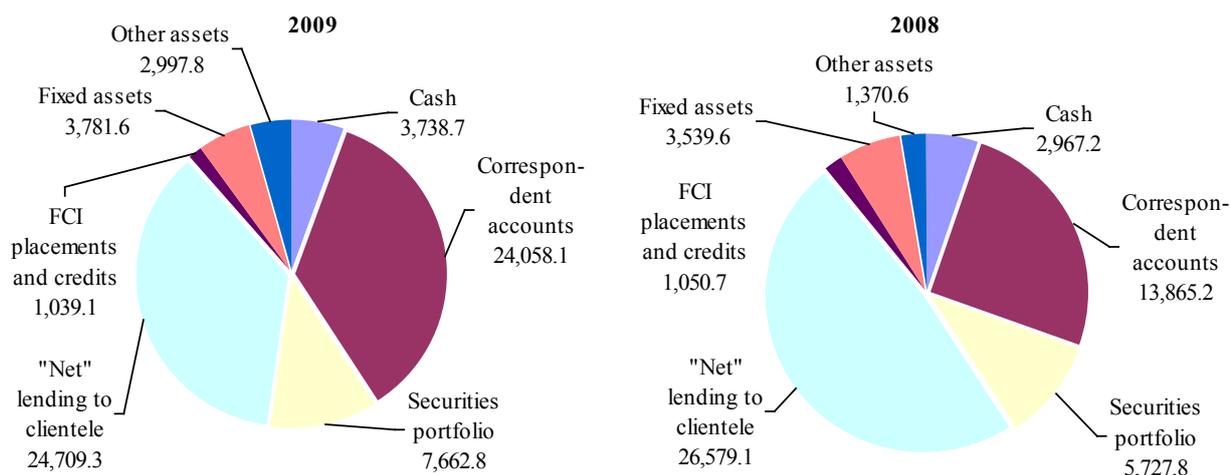
Highly liquid assets

The volume of highly liquid assets placed by the commercial banks as cash assets and short-term placements on the correspondent accounts with other banks and the NBKR, as well as in the form of deposits, increased in the aggregate by 63.2 percent during the accounting period and as of the end of 2009 this category of assets totaled KGS 27.8 billion, with the balances of credits to clients¹ having decreased compared to the same indicator in 2008.

Chart 3.1.3.

Total Assets of Commercial Banks (end of period)

(In millions of soms)

*Net lending*

The volume of total net lending² decreased by 7.0 percent in 2009 and amounted to KGS 24.7 billion at the end of 2009. Its share in total assets of banks decreased by 11.9 percentage points and was 36.3 percent.

According to the data of regulatory reports of banks, the share of unclassified³ assets was 94.7 percent of total assets subject to classification, while the share of classified⁴ assets was 5.3 percent. Quality of the loan portfolio of the banking system deteriorated in 2009 – 8.2 percent was the share of classified credits against 5.7 percent at the end of 2008. Against the background of the reduction in lending in 2009 and the increase in the share of classified credits, the National Bank intensified its efforts in supervision of the credit risks and in order to improve the risk management system in the commercial banks.

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

² 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.

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

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

Table 3.1.3.

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

Category	Assets and off-balance liabilities		Lending to clientele	
	2008	2009	2008	2009
Total unclassified	96.7	94.7	94.3	91.8
<i>including:</i>				
Standard	47.6	46.7	3.8	3.4
Satisfactory	43.3	42.0	79.4	77.5
Under watch	5.9	6.1	11.1	10.8
Total classified	3.3	5.3	5.7	8.2
<i>including:</i>				
Substandard	1.6	2.4	2.8	3.4
Doubtful	0.5	0.9	0.9	1.7
Losses	1.1	1.9	1.9	3.0
Total	100.0	100.0	100.0	100.0
Total, in millions of soms	50,037.5	50,243.0	25,607.0	25,120.7

The fixed assets of commercial banks increased by 6.8 percent and amounted to KGS 3.8 billion at the end of 2009. The work was ongoing in the accounting year to increase the level of capitalization, to improve the risk management system, and to develop the new types of banking services.

Interest income and expenses of commercial banks continued to grow in 2009 (by 9.8 percent and 9.5 percent, accordingly), while non-interest income and expenses decreased (by 4.9 percent and 0.9 percent, accordingly). The indicator of “net operational income” in the system of commercial banks totaled KGS 2.0 billion in 2009, having thus decreased by 1.2 percent as compared with the value of the same parameter in 2008.

Income and expenses

Table 3.1.4.

Composition of Income and Expenses
(In millions of soms)

Category	2008	2009
Total interest income	5,610.8	6,158.8
Total interest expenses	1,959.4	2,145.2
Net interest income	3,651.4	4,013.6
Loan loss provisions (on credits)	433.9	378.2
Net interest income after LLP	3,217.5	3,635.3
Total non-interest income	11,301.4	10,748.8
Total non-interest expenses	12,504.4	12,394.6
Net operating income (loss)	2,014.5	1,989.5
Loan loss provisions (on other assets)	29.8	195.9
Net income (loss) before taxes	1,984.7	1,793.7
Profit tax	195.3	201.6
Net profit (loss)	1,789.4	1,592.0

The banking system closed the year of 2009 with the net profit of KGS 1.6 billion, while the financial outcome of 2008 was KGS 1.8 billion (the reduction by 11.0 percent).

*Banking system
development*

Thus, the impact of the world financial crisis on the banking system was indirect and resulted in some slowdown in the rates of growth of its basic parameters compared to 2008. The following changes were observed in commercial banking:

- Growth of basic commercial banking parameters (the assets increased by 23.4 percent and the liabilities - by 25.8 percent);
- Strengthening of the capital base of commercial banks, as the basis for banking expansion and the factor promoting financial stability of banks and confidence of creditors and depositors in these banks (growth of total regulatory capital - by 7.7 percent);
- Growth of the volume of deposits of enterprises and the population (growth was 42.1 percent);
- Growth of the indicator, characterizing the level of financial intermediation of the commercial banking system, as the ratio of total assets to the annual nominal GDP. This ratio was 34.6 percent at the end of the year of account (29.8 percent – in 2008)
- Growth of the volume and the share of classified credits in the total loan portfolio (from KGS 1.5 billion or by 5.7 percent, and in 2008, accordingly, to KGS 2.1 billion or 8.2 percent, accordingly, based on the outcome for 2009;
- Based on the outcome of 2009, a return on assets (ROA) decreased by 1.2 percentage points and was 2.5 percent, while the return on equity (ROE) decreased by 6.5 percentage points making 13.6 percent.

3.2. Overview of Activity of Nonbank Finance and Credit Institutions

In the financial year, the National Bank continued taking actions on development of the NFCI system, whose primary activity was that of micro-lending.

With a view of the further implementation of the Medium-Term Microfinancing Development Strategy of the Kyrgyz Republic for 2006-2010, adopted with the Resolution of the Government and the NBKR, the measures were implemented to improve the legal framework of credit unions, and, as a result, the Law “On Amendments and Addenda to Some Acts of the Kyrgyz Republic” was adopted in the part pertaining to activities of credits unions. With this Law, the amendments and addenda were introduced to the Laws “On Credit Unions”, “On Cooperatives” and to the Civil Code.

*MTMDS
implementation
measures*

The meetings of the working group on monitoring progress in implementation of the Medium-Term Microfinancing Development Strategy of the Kyrgyz Republic for 2006-2010 were held to review performance under an Action Plan on implementation of this Strategy.

In pursuance of the Decree of the President of the Kyrgyz Republic “On Measures for Maintenance of Stability of the Banking System of the Kyrgyz Republic”, the Board adopted the Resolution No 5/1 of January 30, 2009, «On Start-Up of LLC “Special Fund for Banks Refinancing” under the National Bank of the Kyrgyz Republic, “On the Banks Refinancing Policy of the SFBR LLC”, and the Rules of Regulation of Activity of the SFBR LLC. In July 2009, the amendments were introduced to the Charter and the Rules of Refinancing Policy of the SFBR LLC, according to which the credit resources are extended by also the microfinance organizations in order to maintain liquidity and lending to the economy of the Kyrgyz Republic.

SFBR

To execute the Law of the Kyrgyz Republic “On the Development Fund of the Kyrgyz Republic” No 36/1 of September 2, 2009, the license was issued to the Joint-Stock Company “Development Fund of the Kyrgyz Republic” (KRDF) for the specific banking operations according to the legislation of the Kyrgyz Republic in order to promote development, implement and stimulate the priority sectors of the economy.

*Kyrgyz Republic
Development
Fund*

During 2009, the NBKR continued working on improvement of the regulatory and supervisory framework to regulate activity of nonbank finance and credit institutions that resulted in the following:

- The amendments and addenda were introduced to the regulatory and legal acts of the National Bank aimed at harmonizing them with the Law “On Credit Unions” and regulating activity of credit unions. According to the approved amendments and addenda, the definition of institutional capital and the procedure for liquidation of credit unions were specified;
- The procedure was established for making settlements on the instructions of credit union members (under the supplementary license), for opening the branch by any credit union in the territory of the Kyrgyz Republic, and the requirements were set for the supervisory board of credit unions;
- To execute the Law “On the Development Fund of the Kyrgyz Republic”, the Temporary Regulation “On Regulation of Activity of the Joint-Stock Company “Development Fund of the Kyrgyz Republic” was adopted to set the requirements for the Fund’s adequate risk management system, regulatory and other reports, and the as-

*Improvement of
the regulatory
and legal
framework*

set classification and loan loss provisions, as well as other requirements, mandatory for the JSC “Development Fund of the Kyrgyz Republic”;

- With a view of preventing the risks in NFCI activity due to expansion of types of operations and the need for adequate regulation and supervision, the amendments were introduced to the NFCI forms of periodic regulatory reports; and the Instruction “On the Procedure for Observance of Open Currency Position Limits by Commercial Banks in the Territory of the Kyrgyz Republic” was adopted, as well as the Regulation “On Minimal Requirements for Credit Risk Management at Credit Unions” and “Recommendations on Provision for Safety of Information Systems at Microfinance Organizations of the Kyrgyz Republic”;
- Under the IMF/SECO Project, an information poster was developed for staffs of exchange bureaus with a view of rendering assistance in their performance and observance of requirements of the legislation and the AML/CFT regulatory and legal acts;
- The working group on development of proposals on the amendments and addenda to the legislation and the regulatory and legal acts regulating the foreign exchange operations was established.

Removal of pawnshop licensing

To simplify licensing, according to the Law adopted on July 31, 2009 “On Amendments to the Law “On Licensing”, licensing of pawnshops was cancelled. In pursuance of the above-stated Law, the amendments were introduced to the Regulation “On the Periodic Regulatory Report of the Microcredit Company/Microcredit Agency and the Pawnshop” and to the Resolution “On the Rate of the NBKR License Fee”.

NFCI structure

In 2009, the NFCIs continued to grow in their number, thereby promoting growth of microfinancial services. As of the end of 2009, the system of nonbank institutions subject to licensing and regulation by the NBKR comprised: three specialized finance and credit institutions – FCSDCU, SFBR, and KRDF; 238 credit unions; 359 microfinance organizations (including four microfinance companies, 226 microcredit companies and 129 microcredit agencies); and 372 exchange bureaus.

Growth of the volume of the NFCI assets and loan portfolio was observed in 2009. This speaks for, first of all, the demand for the NFCI services, as well as for the fact that the legislative framework provides for quite the liberal requirements for their start-up and activities.

Table 3.2.1.

Number of NFCI and Exchange Bureaus

Title	2005	2006	2007	2008	2009
FCSDCU	1	1	1	1	1
SBRF	-	-	-	-	1
KRDF	-	-	-	-	1
Microfinance organizations (MFC, MCC & MCA)	136	168	233	291	359
Credit unions	320	305	272	248	238
Lombards	140	148	181	196	231*
Exchange bureaus	260	263	318	353	372

* Licensing suspended on September 8, 2009

The NBKR issued 464 licenses and 98 certificates to the NFCIs (including the specialized FCIs and pawnshops) in 2009, including re-registration at the expiration of the license period of exchange bureaus. For non-observance of requirements of regulatory and legal acts, the NBKR withdrew 38 licenses and 18 certificates, and cancelled 378 licenses and 14 certificates due to the expiration of their validity or termination of their activity.

Licensing

According to the regulatory reports, the NFCI¹ cumulative assets for the year of account increased 2.5 times and totaled KGS 27.1 billion as of December 31, 2009. The size of the NFCI loan portfolio increased by 80.1 percent and totaled KGS 13.3 billion in the year of account.

Assets and loan portfolio

Chart 3.2.1.

NFCI Total Assets and Loan Portfolio Excluding SFBR and FCSDCU

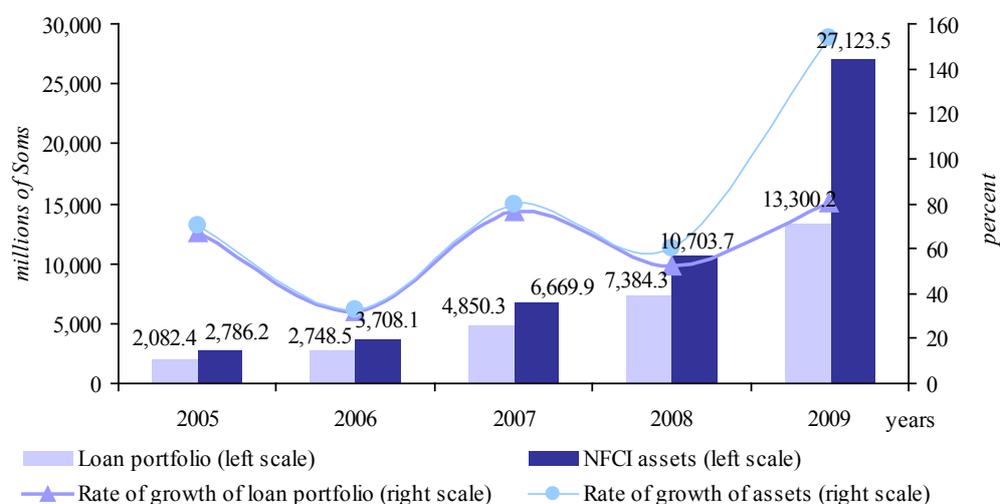


Table 3.2.2.

NFCI Loan Portfolio by Oblasts (end of period)
(In millions of soms)

	2008	2009
Bishkek	1,396.7	1,497.1
Batken oblast	670.6	888.6
Jalalabat oblast	1,101.4	1,462.5
Issyk-Kul oblast	849.9	1,080.7
Naryn oblast	406.5	385.6
Osh oblast	1,787.6	1,904.7
Talas oblast	559.7	739.4
Chui oblast	612.0	932.5

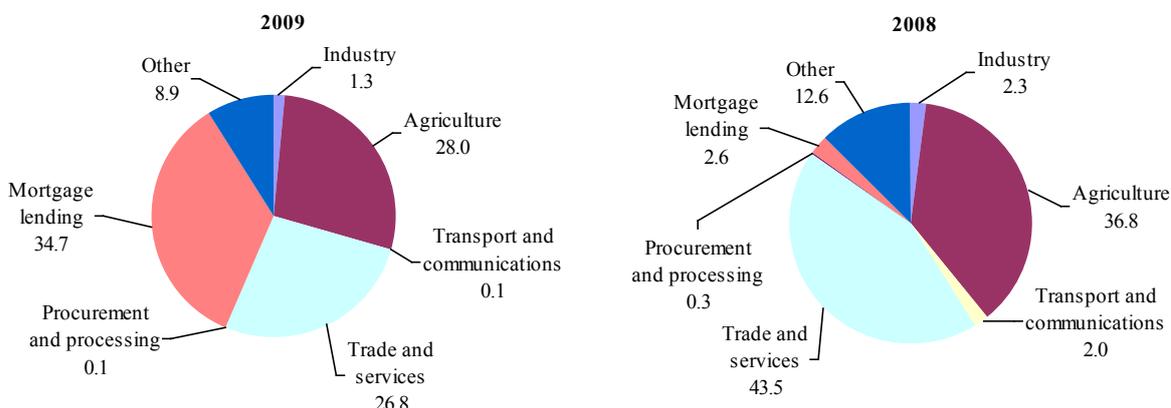
The share of credits for construction increased in the NFCI cumulative loan portfolio - from 2.6 to 34.7 percent in connection with the credit given to the KRDF for construction of the Kamar-Ata HES-2, thereby resulting in the reduction in the share of lending to other sectors of the economy.

NFCI loan portfolio by sectors of economy

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

Chart 3.2.2.

Loan Portfolio by Sectors of Economy Including KRDF (end of period)
(In percent)



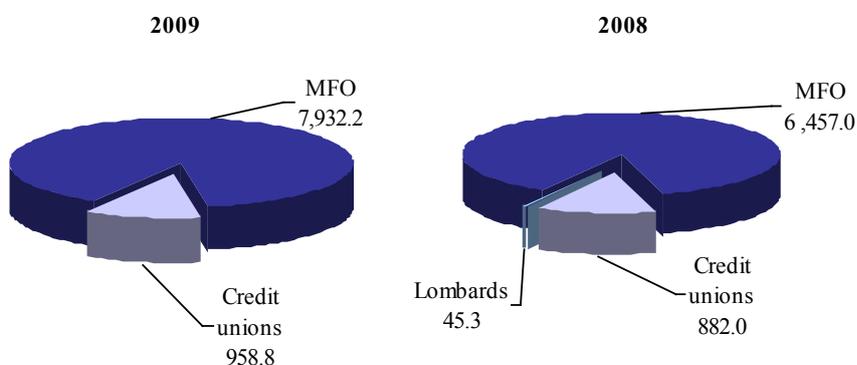
The basic direction of NFCI activity is microlending. In the accounting year, in comparison with 2008, the size of the NFCI loan portfolio¹ increased by 20.4 percent and amounted to KGS 8.9 billion. The number of borrowers increased by 27.0 percent and amounted to 324.7 thousand people.

Loan portfolio by NFCI types

For the accounting period, the share of microfinance organizations increased in the NFCI cumulative loan portfolio from 87.4 percent to 89.2 percent, and the share of credit unions decreased from 11.9 percent to 10.8 percent.

Chart 3.2.3.

Loan Portfolio by NFCI Types Involved in Microlending (end of period)
(In millions of soms)

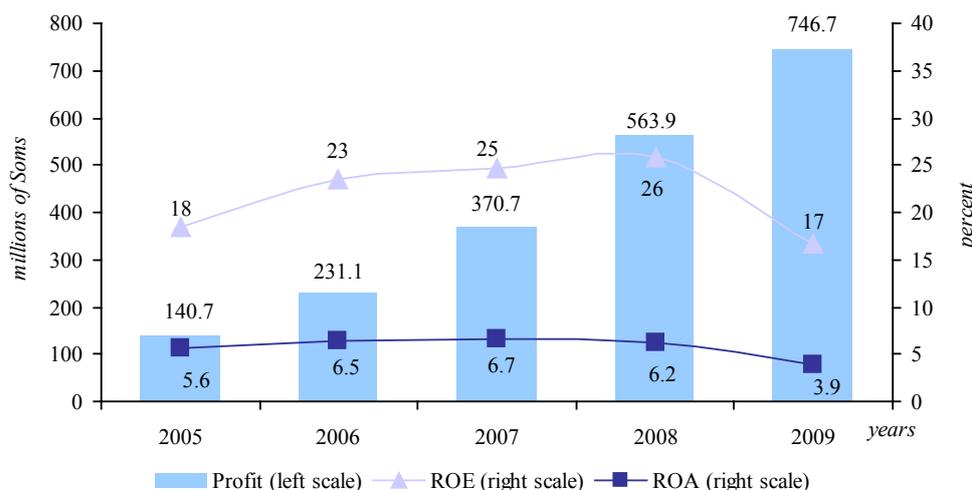


In 2009, the NFCI cumulative net profit increased by 29.4 percent and amounted to KGS 729.7 million (including the KRDF profit of KGS 746.7 million).

¹ The data are given excluding the loan portfolio of the KRDF. The KRDF is established to finance the strategic projects. There is one credit in the amount of KGS 4 409.2 million in the loan portfolio. It does not go under the microcredit category and was extended for construction of the Kambar-Ata HES-2.

Chart 3.2.4.

NFCI Net Profit & ROA & ROE Including KRDF



In the accounting period, the interest rates of extended credits were observed to grow with regard to all types of NFCI, except for the SBRF and KRDF interest rates.

Table 3.2.3

Average Weighted Interest Rates of Credits
(In percent)

	2005	2006	2007	2008	2009
FCSDCU	16.9	15.1	14.3	13.5	14.6
SBRF	-	-	-	-	11.0
KRDF	-	-	-	-	3.5
Microfinance organizations	33.5	33.5	32.9	32.4	34.5
Credit unions	26.8	25.9	25.8	28.0	29.5
Lombards	153.6	149.5	167.9	132.3	-

The most significant rates of growth of the loan portfolio were ensured by activities of such specialized institutions, as the SFBR, the FCSDCU, and the KRDF.

According to the regulatory reports, the total SFBR assets were KGS 2.0 billion as of December 31, 2009. The resources extended by the SFBR totaled KGS 1.1 billion, of which the volume of credits was KGS 67.8 million, the operations under the direct REPO agreements totaled KGS 500.0 million, and the volume of investments in the GT-Bonds in the secondary market amounted to KGS 496.0 million. At the end of 2009, the FCSDCU assets were KGS 471.5 million. The total of outstanding credit amounted to KGS 194.0 million, of which KGS 88.7 million was given in the form of a leasing of agricultural machinery to the credit union members. The Development Fund assets were KGS 13.3 billion. Credits in the amount of KGS 4.4 billion were extended for construction of the Kamar-Ata HES-2.

Specialized FCI

Growth was observed in the MFO loan portfolio. For instance, in the accounting year, the MFO cumulative loan portfolio increased by 22.8 percent and amounted to KGS 7.9 billion by the end of 2009. The number of MFO borrowers increased by 37.8 percent as of the accounting date and totaled 306.4 thousand people. By maturity, the MFO loan portfolio consisted of basically medium- and short-term credits, with maturities of up to 3 years.

MFO

The review of the MFO loan portfolio indicated that trade remains the basic branch of lending, with its share being 40.9 percent (by end-2008 - 45.2 percent) of the cumulative loan portfolio, and agriculture was the second sector - 40.9 percent (as of December 31, 2008 - 35.2 percent). The basic sources of growth of the MFO loan portfolio were those of the funds attracted from the international financial institutions, as well as the increase in MFO capital.

Credit unions

The cumulative loan portfolio of credit unions increased by 8.7 percent in 2009 and at the end of the year amounted to KGS 958.8 million. In the composition of the loan portfolio of credit unions, the basic share of credits fell on agriculture – 50.3 percent and trade – 33.5 percent (in 2008 – 50.6 and 33.4 percent, accordingly). The number of borrowers of credit unions decreased in 2009 by 2.8 percent and totaled 18.3 thousand people as of December 31, 2009. The reduction in the number of credit unions borrowers is due to the reduction in the number of credit unions themselves, with this fact being in turn conditioned by, first of all, the withdrawal of licenses of some of the credit unions for a violation of the legislation and the NBKR’s regulatory requirements, and as a result of self-liquidation of some of the credit unions. Secondly, it was due to the fact that the Asian Development Bank project on development of credit unions in Kyrgyzstan, titled “Rural Financial Institutions” and launched in 1997, was completed in 2006. On completion of this project, the credit unions felt the need for other sources of financing. The foreign loans from other FCIs showed the upward tendency, as well as the deposits attracted from the participants. For instance, for 2009, the volume of deposits attracted from the credit union members increased by 88.7 percent and amounted to KGS 34.4 million, while the liabilities to other FCIs increased by 0.3 percent and totaled KGS 120.6 million.

As of December 31, 2009, 11 credit unions were issued the deposit licenses.

*Inspection
of exchange
bureaus*

In 2009, the NBKR inspected 322 exchange bureaus as part of its work on licensing private entrepreneurs and legal entities conducting the SWAP operations, including the work on re-registration upon the expiration of the license period and start-up of additional exchange bureaus.

In 2009, the NBKR conducted a number of inspections of exchange bureaus for observance of regulatory and legal acts, with the inspections conducted by both the NBKR staff, and jointly with the staff of other departments. Altogether, 158 exchange bureaus were inspected in the accounting period, with 119 cases of violation of the legislation revealed. Based on the results of inspections, 20 warnings were issued, 92 instructions were directed and licenses of 11 exchange bureaus were withdrawn. During the spot inspections to reveal the facts of unlicensed activity, 134 exchange bureaus were inspected and, based on the results of these inspections, 116 cases were submitted for consideration to the Administrative Commission of the National Bank. The administrative disciplinary measures in the form of penalties were applied in the total amount of KGS 173 thousand, of which KGS 169 thousand was paid as of December 31, 2009.

In addition, the NBKR inspectors conducted the integrated inspections of 104 credit unions and it is 43.7 percent of the total of credit unions. With a view of checking for observance of the legislation, the NBKR conducted the specialized inspections of four microfinance companies, including the inspection of one MFC, three microcredit companies and one microcredit agency.

3.3. Supervision and Regulation of Commercial Banks

3.3.1. Licensing

In the context of measures undertaken by the National Bank and the Government of the Kyrgyz Republic for maintenance of reliability and safety of the banking system, steady and effective development of banks, stabilization of social and economic development of the republic, as well as the objectives set by the President of the Kyrgyz Republic at the meeting held with representatives of the banking sector of the republic on December 15, 2008, the Resolution of the Board of the National Bank was issued to establish the prudential norm of minimal capital (capital base) of commercial banks, branches of non-resident banks was set at the level of not less KGS 200.0 million starting from October 1, 2010.

At the end of 2009, total paid-in authorized capital of commercial banks amounted to KGS 8.7 billion, of which the share of foreign capital in authorized capital of the banking system was KGS 4.6 billion or 52.9 percent. In 2009, the size of capital increased by 11.0 percent or by KGS 852.6 million. The increase in the size of paid authorized capital was, basically, due to additional investments in the banking system and owing to part of undistributed profit of banks.

Authorized capital of banks

In 2009, the Board of the National Bank satisfied an application of the OJSC “Ayil Bank” for a removal of some restrictions on licenses for the banking operations in national and foreign currencies with a view of satisfying fully the needs of its clients.

Removal of restrictions on banking license

In the past year, the work continued on rehabilitation of banks undergoing bankruptcy proceedings. Due to completion of rehabilitation proceedings and based on a request and submission of the final report, the Board of the National Bank adopted the Resolution on a renewal of licenses of the OJSICB “AkyI” to conduct the banking operations.

Rehabilitation of bankrupt banks

Table 3.3.1.1.

Multi-Branch & Savings Banking Development

	Number of branches		Number of savings offices	
	2008	2009	2008	2009
Bishkek	49	50	167	193
Batken oblast	13	13	28	30
Jalalabat oblast	39	39	63	74
Issyk-Kul oblast	36	35	22	27
Naryn oblast	17	17	3	4
Osh oblast	38	42	93	105
Talas oblast	9	10	3	5
Chui oblast	32	33	39	43
Total:	233	239	418	481

During 2009, the banks continued to increase the network of branches and savings banks. The number of branches increased by 6 units, the savings banks - by 63 units or 15.1 percent. For the accounting period one resident bank of the Kyrgyz Republic opened its representation abroad. Thus, representations of banks registered by the National Bank totaled eight units at the end of 2009, including four representations of non-resident banks in the Kyrgyz Republic.

Branches & savings offices

3.3.2. Off-Site Supervision

Off-site supervision

Off-site (distance) supervision by the National Bank of activity of commercial banks is done by their monitoring and the analysis of their reports and findings of their audits, thereby providing for early prevention of contingent problems in their activities and allowing maintenance of stability of the banking system.

In addition, in the context of off-site supervision activity, a number of meetings were held in 2009 with the executive and supervisory agencies and external auditors of banks. The basic objective of meetings was that of the discussion with the commercial banks of arrangements for their activity and risk-management, the measures undertaken for prevention of the impact of the world financial crisis, and the discussion of the development strategy for the banks, improvement of corporate management and internal audit quality. In 2009, the National Bank continued working with the commercial banks on the development of their corporate anti-crisis plans.

In 2009, the NBKR continued working on improvement of consolidated supervision of banks with foreign capital.

Off-site supervision of activity of commercial banks was done on the basis of the assessment of risks inherent in banking. The below assessment of major risks is worked out on the basis of adjusted annual regulatory reports of operating commercial banks in 2008 and the preliminary reports for 2009. The practice of questionnaire surveys of commercial banks regarding their credit expectations was introduced in the accounting year.

In 2009, the “net” risk assets¹ increased by KGS 4.9 billion, and “net” total capital² increased by KGS 2.0 billion. The share of risk assets in total assets of the banking system was 66.7 percent at the end of 2009 (at the end of 2008 - 66.7 percent).

Table 3.3.2.1.

Total Capital Adequacy of Commercial Banking System (end of period)

	2008	2009
Net total capital, <i>in millions of soms</i>	11,911.5	13,911.5
Net risk assets, <i>in millions of soms</i>	36,723.4	41,506.5
Total capital adequacy ratio, <i>percent</i>	32.4	33.5
Total capital adequacy requirement (not less), <i>percent</i>	12.0	12.0

Expansion of capital

Expansion of authorized capital, as well as funds listed as additional capital in the commercial banks, led to growth of total capital of the banking system, with outstripping growth registered in net total capital as compared to growth of net risk assets (16.8 percent and 13.0 percent, accordingly). It had its impact on the increase in the total capital adequacy ratio and testifies to some strengthening of financial stability of banks as to their resistance to external shocks. In 2009, growth of capital resulted from the inflow of new investments in authorized capital and from growth of reserves.

Credit risk

The credit risk is estimated based on the classification of assets and off-balance sheet liabilities³. The credit risk, calculated as the ratio of loan loss provisions (LLP) to the

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

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

³ The data are given in section 3.1. “Banking System Overview”, table 3.1.3. “Classification of Assets and Off-Balance Sheet Liabilities”.

total assets bearing the risk of credit losses, increased and made 4.8 percent at the end of 2009 as compared to the end of 2008. By end-2009, the overdue assets totaled KGS 2.0 billion or 7.9 percent of all of the assets bearing the risk of credit losses. At the end of 2008 this parameter was 3.0 percent or KGS 755.6 million.

The exchange risk is considered from the point of view of contingent losses of the bank due to the changes in the value of its assets and liabilities in foreign currency when the exchange rate changed. This risk is assessed proceeding from the ratio of assets and liabilities in foreign currency, as well as their shares in total assets or liabilities of commercial banks. The assets of the banking system in foreign currency were KGS 36.7 billion or 54.0 percent of total assets by end-2009. The liabilities of commercial banks in foreign currency were KGS 35.0 billion or 65.9 percent of total liabilities. In this regard, the cumulative open currency position of the banking system was long at the end of 2009, amounting to KGS 255.7 million or 1.8 percent of net total capital of the banking system. At the end of 2008, the cumulative currency position of the banking system was short, amounting to KGS 381.3 million or 3.2 percent of net total capital of the banking system.

Exchange risk

Table 3.3.2.2.

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

	2008	2009
Assets in foreign currency	29,354.0	36,703.4
Liabilities in foreign currency	28,470.2	34,980.2

Note:

At the NBKR's discount rate as of end-2008 – Som 39.4181 for US\$ 1.00

At the NBKR's discount rate as of end-2007 – Som 35.4988 for US\$ 1.00”

The liquidity risk is considered from the point of view of coverage of liabilities by the assets in each maturity interval that enables to estimate the need for funds in case of a mismatch between the assets and the liabilities in the context of maturity. The 2009 analysis of liquidity risks of commercial banks showed that the negative gap in maturities of assets and liabilities was noted with regard to maturities of up to 90 days, however, this being the case, the positive gap by maturities of more than 90 days shows that the banks have long-term sources of coverage of their liabilities.

Liquidity risk

Table 3.3.2.3.

Assets and Liabilities by Maturities

2008*	Terms in days					Total
	0-30	31-90	91-180	181-365	more than 365	
Financial assets	22,266.0	2,719.3	3,478.7	5,102.6	20,340.3	53,907.0
Financial liabilities	24,544.4	3,380.9	3,500.4	4,488.7	5,080.0	40,994.4
Amount of excess of financial assets over financial liabilities	-2,278.4	-661.6	-21.7	614.0	15,260.4	12,912.6
In percent, total to financial assets	-4.2	-1.2	0.0	1.1	28.3	24.0

* - data as of December 31, 2008, inclusive

2009**	Terms in days					Total
	0-30	31-90	91-180	181-365	more than 365	
Financial assets	32,724.8	3,369.5	5,162.4	7,633.0	20,584.4	69,474.1
Financial liabilities	32,913.0	5,078.0	2,813.2	5,951.3	6,307.5	53,063.1
Amount of excess of financial assets over financial liabilities	-188.3	-1,708.5	2,349.3	1,681.7	14,276.9	16,411.1
In percent, total to financial assets	-0.3	-2.5	3.4	2.4	20.5	23.6

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

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

3.3.3. Inspection

As part of work on regulation and supervision of activity of commercial banks in 2009, the commercial banks were inspected according to a supervisory cycle¹ and these inspections were directed to reveal at as early as possible stages of infringements of the current legislation, and the risks and problems in activity of banks. Attention was paid to also the issues of activity of banks that have numerous branches, especially those, whose significant volume of operations falls on the branches located in the regions.

According to the consolidated plan of integrated and target inspections of commercial banks in 2009, 22 integrated inspections and 23 target inspections were conducted, of which 17 target inspections were conducted as to observance of cash discipline and 6 unscheduled inspections of specific aspects of activity of banks. In this regard, 159 branches in the regions were checked up under the integrated inspections.

Special attention was paid in the inspections to the issues of financial stability of banks, the evaluation of quality of their assets, quality of risk management, the internal audit

¹ One year is established as the supervisory cycle.

arrangements and its efficiency, observance of the legislation in the field of combating the financing of terrorism and anti-money laundering. Based on the results of these inspections, the required actions of supervisory reaction were taken and the meetings were held with managements of commercial banks. According to the legislation, information on observance of requirements concerning anti-money laundering and combating the financing of terrorism by the commercial banks was directed to the Public Financial Intelligence Unit of the Kyrgyz Republic.

The work was done on the continuous basis in the accounting period to improve quality of inspection activity and the methodical framework of inspection activity.

3.3.4. Measures of influence

The decisions on the precautionary measures and sanctions vis-à-vis the commercial banks and the finance and credit institutions, licensed by the NBKR, are directly taken by both the NBKR's Banking Supervision Department and the NBKR's Supervision Committee. In 2009, 20 notes of warning and 2 instructions were delivered to the commercial banks. In addition, proceeding from the inspections, the commercial banks were delivered orders to remove shortcomings in their activities. The issues of operations of commercial banks were considered at the meetings of the Supervision Committee of the NBKR.

*Supervision
Committee*

3.3.5. Development of Regulatory Framework for Bank Regulation and Supervision

In 2009, the National Bank continued working on improvement of the banking supervision and regulatory framework, aimed at enhancing efficiency in the banking supervision system and developing the banking system of the Kyrgyz Republic, implementing the basic banking supervision principles of the Basel Committee on Banking Supervision, and at harmonizing the prudential norms with the banking legislation. The issues of forming the adequate risk management system, increasing transparency of the banking system, and preventing the operations on the financing of terrorism and money laundering were specifically emphasized.

*Basic guidelines
of regulatory
framework
improvement*

To bring into line with the legislation of the Kyrgyz Republic, the amendments and addenda were developed and approved with regard to the Regulation "On Bank Licensing". According to these amendments and addenda, the requirements for start-up of the Islamic bank and the bank with an "Islamic Window" were established, the procedure was developed for the removal of restrictions on the operations under the license of the bank, and the requirements were supplemented with regard to the officials of banks, as well as the requirements were set with regard to the members of the Sheriat Council. In addition, the requirements for submission by the banks of full and timely information on both the officials and the bank shareholders were established to have the timely and effective data exchange when solving the issues of consolidated supervision of banks and non-bank finance and credit institutions regulated by the National Bank.

*Licensing
activities of
banks*

Due to adoption on May 16, 2008, of the Law "On Amendments and Addenda to the Law "On Banks and Banking Activity in the Kyrgyz Republic", the amendments and addenda were approved with regard to the Regulation "On Prudential Norms and Requirements, Mandatory for Commercial Banks and Finance and Credit Institutions Licensed by the NBKR", the Instruction "On Determination of Capital Adequacy Ratios of Commercial Banks of the Kyrgyz Republic", and the Instruction "On Requirements for Operations of Banks with Insiders and Affiliated Persons". According to these adopted documents, the norms of the minimal size of authorized capital and the minimal size of capital (capital base) for all of the banks, the maximal size of any investment, including

*Prudential norms
& requirements*

any financial investment and credits in each nonbank organization underwent changes, while the process to get the preliminary NBKR's sanction in cases when the bank intends to additionally invest the funds in bank premises was removed.

*Supervision
Committee*

To bring in conformity with the regulatory and legal acts of the NBKR, the amendments and addenda were approved with regard to the Regulation "On Supervision Committee of the National Bank". These amendments and addenda concern decision-making powers of the Supervision Committee in approval of candidacies to posts of chairmen of boards of banks, deputy chairmen of boards of banks that supervise lending, as well as heads of services (divisions) of internal audit and chief accountants.

Risk management

With a view of efficient control over the operational risks of banks, the Supervision Committee developed the guidelines to determine the level of capital required to cover the operational risks of banks, which were assigned for use by the banks in their activity and were approved with the corresponding Resolution. This document was developed according to the international standards of the Basle Committee for Banking Supervision and in compliance with the regulatory and legal acts of the NBKR.

*Consolidated
supervision*

The Rules "On Start-up and/or Purchase of Affiliated or Dependent Companies by Commercial Banks of the Kyrgyz Republic" were adopted as part of the work on improvement of consolidated supervision. The document stipulates types of activity the affiliated and dependent companies of the bank could be involved; the criteria applied to the affiliated or dependent companies of the bank; the requirements for the banks entitled to create and/or get the affiliated or dependent company; the procedure for consideration of documents submitted by the bank on start-up and/or purchase of affiliated or dependent companies, and the permission given to the banks; as well as the cases for refusal in approval permission to the banks and cancellation of the permission

To bring into line with the Law "On State Registration of Legal Entities, Branches (Representations)", as well as in pursuance of the Action Plan on Measures Directed to Improvement of International Rating Indicators of the Kyrgyz Republic under the World Bank Report "Doing Business – 2010", the amendments and addenda were approved with regard to the interim instruction on the work with the deposits. According to these amendments, the list of documents required to open the bank accounts of legal entities, as well as the branches and representations registered on the basis of the "uniform window" principle was reduced.

In the interests of promoting activity of banks on the work with precious metals, aimed at developing the market of precious metals, the new version of the Regulation "On Operations of Commercial Banks with Precious Metals" was adopted and the amendments and addenda were introduced to the Instruction on determination of capital adequacy ratios of commercial banks.

AML/CFT

According to the Law "On Conservation, Liquidation, and Bankruptcy of Banks", the new version of the Regulation "On Conservation of Commercial Banks and Microfinance Companies Attracting Deposits" was approved. The Regulation sets the effective period of conservation, the qualifying requirements for a conservator, authority and duties of the conservator when conserving the bank, legal protection of NBKR officials and staff, as well as other persons appointed by the NBKR, and the form of the act on counteraction to conservation.

As part of the efforts to bring into line with the amendments and addenda introduced to the Laws "On the National Bank of the Kyrgyz Republic", "On Anti-Money Launder-

ing and Combating the Financing of Terrorism”, “On Banks and Banking Activity in the Kyrgyz Republic” and “On Foreign Exchange Transactions”, the amendments and addenda were approved with regard to the Regulations “On Minimal Requirements for Internal Audit of Commercial Banks and Other Finance and Credit Institutions Licensed by the NBKR Aimed at Anti-Money Laundering and Combating the Financing of Terrorism”, “On the Procedure for Exchange Transactions with Foreign Currency in Cash in the Kyrgyz Republic”, “On Minimal Requirements for Internal Control of Microfinance Organizations and Credit Unions of the Kyrgyz Republic Aimed at Combating the Financing of Terrorism (Extremism) and Anti-Money Laundering” and the Instruction “On Field Checks”. The amendments and addenda set the requirements with regard to the work with the foreign, politically significant persons, to ensure observance by the affiliated and dependent companies of banks of adequate internal control measures aimed at anti-money laundering and combating the financing of terrorism (AML/CFT), and the AML/CFT requirements for the official.

According to the Law “On Addenda and Amendments to the Law of the Kyrgyz Republic “On Audit Activity”, the amendments were approved with regard to the Regulation “On Minimum Requirements for External Audit of Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic” concerning notification requirements of the bank to the authorized agency to conduct the obligatory audit and to publish the financial statements. The requirements of the Regulation extend to also the Specialized Fund for Banks Refinancing, the Development Fund, and the microfinance companies.

External audit of the banks

In order to maintain a uniform approach of banks when calculating the currency position, revisions were approved with regard to the Instruction “On the Procedure for Observance of Open Currency Position Limits by Commercial Bank in the Territory of the Kyrgyz Republic”. According to these revisions, the calculation of the currency position covers the irrevocable guarantees issued or confirmed by the bank, letters of credit, and the similar financial tools nominated in foreign currency, except for the guarantees, letters of credit, and the similar financial tools secured by the same currency.

Currency position requirements

Under the Memorandum of Understanding between the Kyrgyz Republic, the Islamic Development Bank and the OJSC “Ecobank” with regard to introduction of Islamic banking and financing in the Kyrgyz Republic, as well as according to the Decree of the President of the Kyrgyz Republic “On the Pilot Project on Introduction of Islamic Financing Principles in the Kyrgyz Republic”, the following Laws were adopted in 2009: “On Addenda to the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic”, and “On Addenda to the Law of the Kyrgyz Republic “On Banks and Banking in the Kyrgyz Republic”. 10 regulatory and legal acts were also approved to regulate activity of banks, conducting the operations according to the Islamic principles of banking and financing.

Islamic Financing Principles

In addition, in order to establish in the Kyrgyz Republic the legislative base for the operations by the credit unions and microfinance organizations according to the Islamic principles of banking and financing, the draft Law “On Amendments and Addenda to Some of the Acts of the Kyrgyz Republic” was developed in 2009.

With a view of strengthening interaction between the National Bank and the Deposit Protection Agency, the Memorandum of Understanding was signed on February 17, 2009.

In pursuance of the Decree of the President of the Kyrgyz Republic as of January 8,

Deposit Insurance System 2009, “On Measures for Maintenance of Stability of the Banking System of the Kyrgyz Republic”, the amendments and addenda were introduced to the Law “On Insurance of Bank Deposits”, envisaging the increase in the threshold amount of refunds of deposits from KGS 20 thousand to KGS 100 thousand and the pre-term effectiveness of legal provisions relevant to the guarantee case and its consequences. On the date of effectiveness of the law the operating commercial banks are considered as banks-participants in the deposit insurance system.

The guidelines of handling the database on the liabilities of the bank to the investors were developed as part of the work on further implementation of the deposit insurance system.

PAYMENT SYSTEM

In 2009, the NBKR continued performing the tasks of developing the modern national payment system. Special attention was paid to the issue of expanding the spectrum of retail services. As a result, the use of payment cards became active, and the number of banks, which render the services for making the regular payments, increased. To ensure accessibility of banking services for the population, the commercial banks continued to actively develop an infrastructure of retail payments, including the use of an ATM (Automatic Teller Machine) and terminal network.

Despite this fact, the share of the population not using the banking services is permanently high, and cash remains the basic payment tool to make the retail payments. In 2009, growth of money in circulation was connected with steady growth of the demand for cash from the economic agents and expansion of the market of commodities and services. The NBKR continuously monitored a currency mix and satisfied the need of the economy for the required denominations of banknotes and coins in national currency.

4.1. Payment System Development

4.1.1. Clearing Settlements

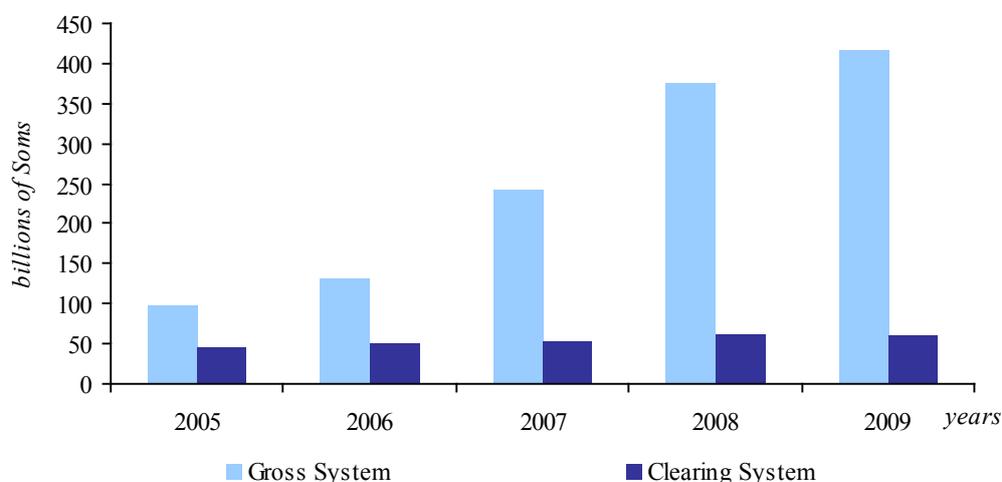
The interbank payment system of the Kyrgyz Republic is represented by the gross settlement system (GSS), the bulk clearing system (BCS), and the system of settlements with the use of payment cards. The NBKR, the commercial banks, including their branches, the Central Treasury of the Ministry of Finance,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

Overall, 3,405,573 payments totaling KGS 478.5 billion were made through interbank payment systems (GSS and BCS) and it is by 9.6 percent or by KGS 41.7 billion more than in 2008.

*Interbank
payment systems*

Chart 4.1.1.1.

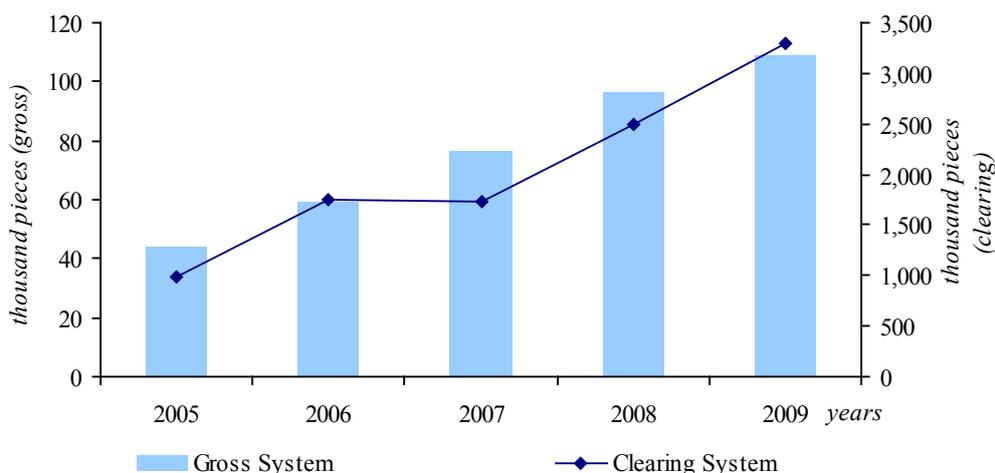
Volume of Payments via Interbank Payment Systems (end of period)



The number of gross payments increased as compared to the same indicator in 2008 by 13.0 percent, and the number of clearing payments - by 32.1 percent.

Chart 4.1.1.2.

Number of Payments via Interbank Payment Systems (end of period)



Bank payment cards

In 2009, the commercial banks actively developed the programs on expansion of services in the area of issuing and servicing the payment cards of local, international systems, and the national Elkart system.

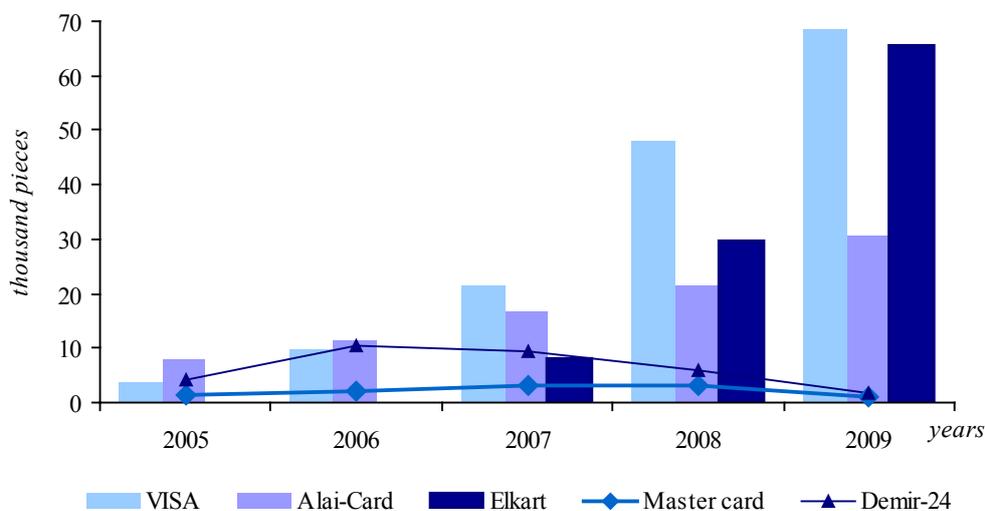
At the end of the accounting year, the services for issuing, acquiring, and the settlement-cash services were rendered to the clients with the use of bank cards by 18 of 22 banks of the republic, of which emitters and acquirers of international cards were 11 banks, 3 banks serviced the cards through the local systems, and 14 banks - via the integrated national system.

Emission of cards

The total number of emitted payment cards made 167,870 pieces, having increased by 39.6 percent. The significant growth rate of the number of emitted bank cards was mainly due to growth of the number of banks cards issued under the salary payment projects. As a result, 83,661 cards were issued, of which 52,055 were the cards of the Elkart national system, having increased by 41.0 percent compared to 2008.

Chart 4.1.1.3

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



The total card-based operations amounted to KGS 10.0 billion and increased by 46.2 percent in comparison with the same indicator in 2008. KGS 5.4 billion was channeled via the international systems and it was by 21.4 percent more than the total of operations conducted in 2008. The total operations conducted through the local systems amounted to KGS 2.3 billion and it was by 32.6 percent more than in 2008. The total operations conducted via the Elkart national system in 2009 were KGS 2.3 billion, having thus grown 3.5 times.

Operations with the use of cards

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

Growth of the ATM network lead to growth of total operations on withdrawal of cash and amounted to KGS 9.6 billion, while the total transactions in the trade and service network with the use of cards were KGS 401.2 million.

Overall, 2,836,233 card-based operations were conducted in 2009 and it was by 78.5 percent more than in 2008. Of these operations, 566,796 operations were conducted through the local systems being by 5.4 percent less than in 2008. The number of operations conducted via the international systems grew by 78.9 percent compared to the same indicator in 2008 and totaled to 1,397,032 operations; 841,209 operations were conducted via the national Elkart system in 2009.

The total number of operating terminals and ATMs by systems was as follows:

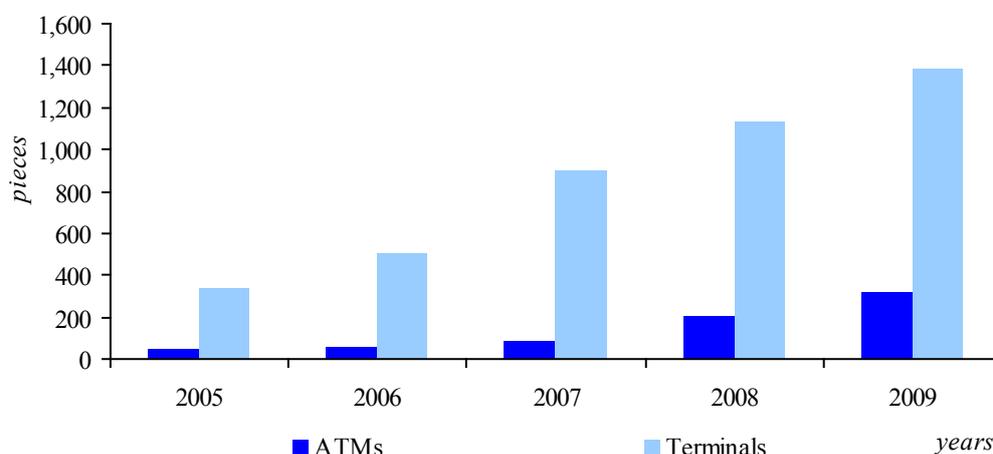
- The Elkart national system - 154 ATMs and 428 terminals. The outcome of integration of settlement systems with the use of payment cards indicated that all of the ATMs of international systems and 44 terminals of the Alai-Card local system accept the national Elkart payment cards for servicing;
- The international systems – 132 ATMs and 712 terminals, of which 39 ATMs accept the local Demir-24 payment cards for servicing;
- The Alai-Card system – 29 ATMs and 225 terminals, of which 72 terminals accept and service the Gold Crown system cards.

Infrastructure to accept and services the cards

Thus, the bank payment cards are accepted for servicing by 315 ATMs and 1,388 terminals installed at the public places throughout the whole territory of the republic.

Chart 4.1.1.4.

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



4.1.2. Supervision of the Payment System of the Kyrgyz Republic

To maintain the stable functioning of the national payment system, in 2009 special attention was paid to the development and improvement of methods of control and supervision of the payment system of the Kyrgyz Republic.

*Supervision
objects in the
payment system*

The following were the objects of supervision:

- *The systemic payment systems:* the real time gross settlement system and the bulk clearing system;
- *The significant payment systems:* systems of settlements by the payment cards (local, international systems and the Elkart national system);
- *The non-systemic payment systems:* the money transfer systems with the opening of accounts and without the opening of accounts (local and international).

The NBKR also exercised control over the system of correspondent relations of participants in the cross-border payments and the SWIFT MAC functioning.

In the context of supervision of the payment system, the comprehensive measures were continuously implemented along the following basic directions:

*Basic guidelines
for supervision
over the payment
system*

1) The evaluation of efficiency in the liquidity management mechanisms, the analysis of qualitative and quantitative indicators by systems, the contingency risk assessment by means of monitoring of the functioning of payment systems;

2) The annual assessment of the functioning of systemic payment systems as to their conformity to the international standards based on the data given by operators and participants in the system in order to improve the operation of systems and reduce the contingent risks;

3) Implementation of supervisory measures and interaction with participants and operators of payment systems.

In 2009, in order to create the uniform payment space in the republic jointly with banking supervision, the measures were taken against five commercial banks to maintain integration of existing international and local payment systems with the Elkart national system.

*Performance
evaluation of the
payment system
in 2009*

The 2009 assessment of the functioning of systemic payment systems in the Kyrgyz Republic indicated that the systemic payment systems conform, in general, to all of the Key Principles set for the systemic payment systems¹.

The tasks of the central bank when applying the key principles to the systemic payment systems are implemented to the full extent.

4.1.3. Implementation of the State Payment System Development Program

In 2009, the NBKR continued working on actualization of guidelines of the State Program of Measures to Introduce the Non-Cash Payment System and on development of the infrastructure that enables to ensure an efficient payment execution in the Kyrgyz Republic.

¹ Core Principles for Systemically Important Payment Systems, the Committee for Payment and Settlement Systems of the Bank of International Settlements (BIS), Basle, Switzerland, January 2001.

In the context of development of the BCS, commercial banks performed the work on completing the measures aimed at introduction of direct debiting. To date, 13 banks are ready to accept the payments for the services of the Severelectro Joint Stock Company, the Bishkekvodokanal Water Supply Company, and the Bishkekteploset Joint Stock Company by direct debiting the client's account. The remaining banks are at various stages of implementation of direct debiting services.

*Bulk clearing
system*

During the year the measures were taken to modernize the Real Time Gross Settlement System (RTGSS) in the part of work safety for its users and interaction between the RTGSS and BCS. The new version of the Instruction "On the Procedure for Passage of Electronic Messages via the RTGSS System" was approved.

RTGSS

In the context of development of the uniform interbank processing center, certification of the CJSC "Interbank Processing Center" for the VISA International System and its integration with the local and international systems operating in the market were completed. As a result of these measures, the national Elkart payment card is accepted for servicing by ATMs and terminals throughout the whole territory of the Kyrgyz Republic.

*Integrated
interbank
processing center*

The transfer of the technique of the uniform interbank processing center from the NBKR to the CJSC "Interbank Processing Center" was completed so that it could perform the functions of the operator of the national Elkart system and interact with the commercial banks.

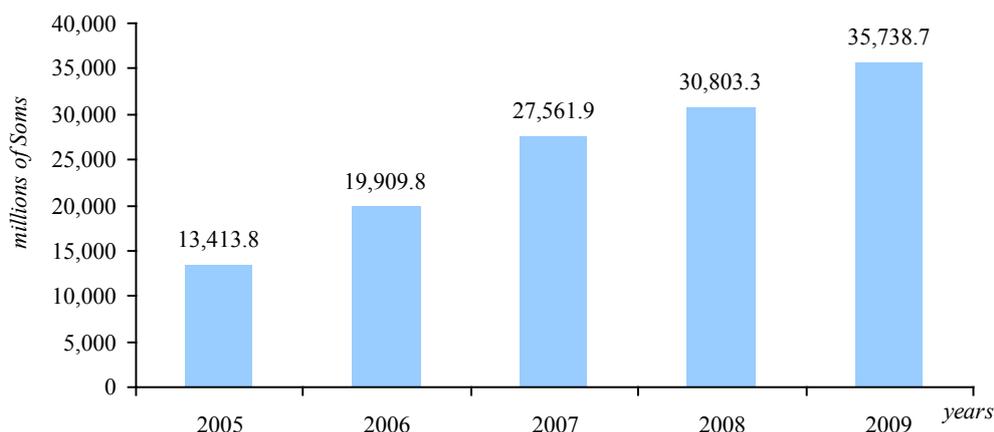
4.2. Cash Turnover

The main goal of activity of the National Bank is to timely satisfy the needs of the economy of the Republic for cash.

For 2009 the total amount of currency in circulation increased by 16.0 percent and amounted to KGS 35.7 billion.

Chart 4.2.1.

Developments in Currency in Circulation (end of period)



Growth of money in circulation is connected with growth in the economy and, accordingly, with the persistent need of economic agents for cash, as well as the increase in the payments under the public social package.

Collectibility of cash in the cash departments of commercial banks was 98.8 percent in 2009 (in 2008 – 99.7 percent).

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

In 2009, receipt of cash in the cash departments of commercial banks remained unchanged and totaled KGS 240.8 billion. Issuance of cash from the cash departments of commercial banks increased by 0.9 percent and amounted to KGS 243.7 billion.

Table 4.2.1.

Cash Flow via Cash Departments of Commercial Banks

	Receipt, <i>millions of Soms</i>		Issue, <i>millions of Soms</i>		Collectibility, <i>percent</i>	
	2008	2009	2008	2009	2008	2009
Total	240,759.4	240,814.7	241,567.2	243,719.9	99.7	98.8
city of Bishkek	158,597.0	149,787.5	149,201.7	139,375.2	106.3	107.5
Batken oblast	2,942.2	3,871.6	6,296.2	6,381.7	46.7	60.7
Jalalabat oblast	16,165.2	20,818.1	22,992.9	26,675.8	70.3	78.0
Issykkul oblast	7,236.9	8,204.9	8,823.6	10,586.8	82.0	77.5
Naryn oblast	2,109.3	2,542.4	3,422.4	4,525.9	61.6	56.2
city of Osh	36,428.3	36,717.9	29,758.4	31,960.8	122.4	114.9
Osh oblast	4,786.3	4,903.3	8,388.9	8,432.6	57.1	58.1
Talas oblast	2,180.7	3,109.1	3,518.0	5,367.6	62.0	57.9
Chui oblast	10,313.5	10,859.9	9,165.1	10,413.5	112.5	104.3

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

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

The circulation coin of the 10-som denominational value replenished a series of coins with the denominational values of 10, 50 tyins, 1, 3, and 5 soms, issued into circulation in 2008 to replace the lower denominational values of banknotes.

Issue of circulation coins

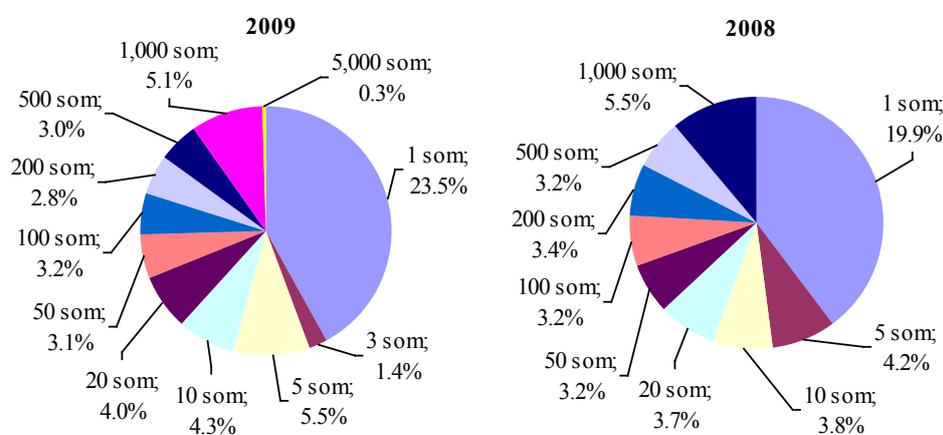
Table 4.2.2.

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	Total
2008	0.7	0.4	0.9	1.9	3.9	8.0	19.1	65.1		100.0
2009	0.7	0.4	0.9	1.7	3.4	6.1	16.4	54.9	15.5	100.0

Chart 4.2.2.

Denominations of Banknotes and Coins in Circulation (end of period)



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

In 2009 the following silver collection coins were issued: “C.Aitmatov”, “Djamilya”, the “First Teacher”, and the “Parent Field”, “Good Bye, Gulsary!”, and the “White Steamship” - series devoted to Chingiz Aitmatov, as well as the “Golden Eagle” and “Mother-Deer” from the series “Fauna of EurAsEC Countries” and “Legends and Fairy Tales of Peoples of EurAsEC Countries”, and the silver and copper and nickel collection coins “Sulaiman-Too” and “Issyk-Kul” of the series “Kyrgyzstan on the Great Silk Road”. In the accounting year, the 20, 50, 100, and 5,000 Som banknotes were issued into circulation, with a new set of improved security features, a new design, and the smaller size.

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

In 2009 the number of identified counterfeit banknotes amounted to 555 pieces (in 2008 - 113 pieces) that totaled KGS 346,995 (0.001 percent of total cash in circulation as of December 31, 2009).

The courts of the Kyrgyz Republic considered 10 criminal cases on the facts of counterfeiting in 2009, with verdicts of guilty made on six criminal cases and with six people condemned.

FOREIGN ECONOMIC RELATIONS

In 2009, activity of the National Bank of the Kyrgyz Republic was directed to further development of foreign economic relations with the central banks and international organizations and was marked by a number of events of international importance. This work resulted in the further strengthening of relations with the central (national) banks of other countries, on both bilateral and multilateral basis, including the relations under the Commonwealth of Independent States, the EuroAsian Economic Community and other integration institutes.

5.1. Cooperation with International Organizations

Cooperation of the National Bank of the Kyrgyz Republic with the international organizations was realized in 2009 as part of joint technical assistance projects, consultative assistance, the data exchange and improvement of the regulatory and legal framework.

In 2009, the National Bank continued working with the International Monetary Fund on the joint program of economic cooperation with the IMF on the financing under the ESF mechanism (Exogenous Shock Facility). Based on the results of the first mission, both parties reached the agreement on the quantitative and structural parameters of the program.

*Cooperation with
the IMF*

In March 2009, jointly with the International Monetary Fund, the NBKR organized an international regional conference on “Impact of the World Financial Crisis in Countries of Southern Caucasus and Central Asia”. Heads of national (central) banks and other public agencies of Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyz Republic and Turkmenistan, the representatives of the Presidential Administration and the Office of the Government of the Kyrgyz Republic, the representatives of international financial organizations and embassies accredited in the Kyrgyz Republic attended this conference. Such issues as the influence and elimination of consequences of global financial shocks for the countries of South Caucasus and Central Asia were discussed at the conference; as well as the financial sector and exchange rate problems, the assessment of the impact of remittances on the level of poverty and the contingent measures for its mitigation, and other pressing issues.

One of the significant events of 2009 was that of the first official visit of the Managing Director of the International Monetary Fund, Mr. Dominick Strauss-Kahn, in the Kyrgyz Republic on June 17, 2009, as part of his trip to the countries of Central Asia.

Mr. D. Strauss-Kahn met with the President of the Kyrgyz Republic, the Prime Minister, the Chairman of the National Bank, and the heads of key departments of the economic block of the Government. The IMF Managing Director paid special attention to the issues of rendering by the international community, including the IMF, the most effective help to Kyrgyzstan in connection with the world financial crisis. The meeting of Mr. D. Strauss-Kahn was also organized at the Kyrgyz National University, where he gave a lecture on the subject of the “World Financial Crisis and Its Impact on Central Asia”. At the end of the visit, the IMF Managing Director noted an intention of the IMF to continue its financial support and technical assistance.

With a view of resolving the pressing issues of introducing the Islamic principles of

banking and financing, as part of IMF technical assistance, the general issues of Islamic principles of financing, including the risks and their management at the Islamic banks, as well as the issues of capital adequacy and supervision were considered during a seminar given on the subject of the “Risk Management at the Islamic Financial Institutions”. Based on the results of the seminar, the regulatory and legal acts were developed to regulate activity of Islamic banks and banks with the “Islamic Window”.

In 2009, the National Bank continued working with the IMF and the Swiss Economic Cooperation Office in the Kyrgyz Republic (SECO) in the field of implementation of the second phase of the project on strengthening the structure of anti-money laundering and combating the financing of terrorism (AML/CFT).

During three missions of an IMF consultant, the training seminars were organized for the staff of the NBKR’s supervisory block on the following subjects: “Risk-Oriented Supervision and AML/CFT Field Checks”, “Supervision of Activity of Exchange Offices and Bureaus for Observance of AML/CFT Requirements”, as well as the latest amendments to the AML/CFT legislation of the Kyrgyz Republic and the draft amendments and addenda to some of the AML/CFT regulatory and legal acts.

Under this project, with a view of learning international experience in the sphere of anti-money laundering and combating the financing of terrorism, the NBKR staff attended the international seminar “Combating the Financing of Terrorism” in December 2009 in Switzerland, as well as the training courses organized by the National Bank of Ukraine to make the staff familiarized with the way the AML/CFT system was organized there, with the amendments introduced to the AML/CFT regulatory framework and the new methods of combating under the AML/CFT program in the banking system.

*Cooperation with
the World Bank*

In 2009, with the help of the IMF TA mission, the NBKR continued to work on the World Bank Project “Modernization of the Banking and Payment System” and on the payment system reform in the Kyrgyz Republic targeted to develop the modern national payment system, which would allow the commercial banks to process the larger volume of operations in the more reliable, safe, and accessible manner and will provide the population with access to the best banking services.

In addition, jointly with the World Bank consultants, the issues on how to increase the clearing settlements and supervise the payment systems, and analyze and assess supervision were considered. In particular, the discussion was held on the issues of introduction of direct debiting in the European Union, development of the recommendations on the marketing plan on introduction of the direct debiting services and on the Insurance Fund aimed at reducing the financial risks and developing the effective liquidity management mechanism in the payment system; and to promote development of retail banking services; as well as other issues. In addition, the draft Law “On Payments and Settlements” and the draft Regulations “On Remittances” and “On Bank Payment Cards” were discussed.

The World Bank held the seminar-teleconference “Migration and Remittances in the Region of Europe and Central Asia. Problems and Opportunities” directed to improvement of the balance of payments statistics and attended by such countries, as Moldova, Tajikistan, Ukraine, Belarus, the Russian Federation, Uzbekistan, Armenia, and Kyrgyzstan.

In 2009 the first stage of field researches under the World Bank Project “Survey of Frontier Trade and Re-export of Goods Non-Covered by Official Statistics” aimed at

improving the balance of payments statistics of the Kyrgyz Republic was completed.

The agreement to continue cooperation in 2010 was reached in December 2009 during the visit of the WB consultant in the NBKR to render technical assistance in capacity building of banking supervision and licensing of banks.

The NBKR continued in 2009 its cooperation with the German Society of Technical Cooperation under the regional program on support of Central Asian microfinance sector. The visit of the GTZ representatives in June was directed to discuss the issues of capacity building of the NBKR in regulation of microfinancing, including the policy issues, the procedure for exercising supervision of microfinance organizations and credit unions, developing human resources and information systems required to enhance efficiency in supervision. The draft agreement between the NBKR and the GTZ was developed in order to implement the “Regional Program on Support of Microfinancing in Central Asia” in the Kyrgyz Republic. Under this program, the representatives of the NBKR attended the VIII Russian National Conference on the “Role of Microfinancing in Overcoming the Financial and Economic Crisis”.

*Cooperation with
the GTZ*

In the accounting year, the National Bank continued its cooperation within the framework of integration institutes. In 2009, the NBKR acted as organizer of the regular 20th session of the EurAsEC Council of Heads of Central (National) Banks, attended by the heads and representatives of central (national) banks of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Russian Federation, the Republic of Tajikistan, as well as the Interstate Bank and Secretariat of the EurAsEC Integration Committee.

*Cooperation with
the EurAsEC*

At the session, the Council considered the pressing issues of activity of central (national) banks, with the relevant Protocol signed. In particular, the Council considered information on the functioning of banking systems of EurAsEC member states in 2008 and an outlook for banking sectors of economies of these states; information on problems and practical experience gained in the area of implementing the deposit insurance system; the draft Agreement on Data Exchange on Loan (Credit) Agreements, as well as the revisions were made in the Program of International Mobile Exhibition of 2007-2012 EurAsEC Operating National Currencies and the Program was approved on activity of the EurAsEC Council of Heads of Central (National) Banks for 2009-2010.

At the 20th session of the EurAsEC Council of Heads of Central (National) Banks the issue prepared by the National Bank on “Data Exchange and Operational Non-Banking Supervision and Licensing Experience of EurAsEC Central (National) Banks” was also considered that resulted in such aspects as requirements for non-bank credit institutions in the field of licensing, anti-money laundering and combating the financing of terrorism, etc.

The representatives of the NBKR attended the 21st session of the EurAsEC Council of Heads of Central (National) Banks held in Moscow in November 2009. An important issue discussed by the participants during the session was that of impact of the world financial crisis and measures undertaken by the states on overcoming of its consequences.

The 25th session of the EurAsEC Interstate Council in December 2009 in Saint-Petersburg resulted in signing of the Agreement on EurAsEC Fundamental Foreign Exchange Policy Principles of Regulation and Control of Capital Transfer Operations

The statistical data exchange proceeded with the Interstate Bank. The representatives of

Interstate Bank

the National Bank took part in the ISB meetings in April and November of the accounting period in Moscow

*Shanghai
Cooperation
Organization*

The meeting of ministers of finance and heads of central (national) banks of the Shanghai Cooperation Organization member states in December 2009 in Almaty presented information and took the decisions on such issues, as social and economic positions of the SCO member states, joint efforts on overcoming consequences of the world financial and economic crisis, and access conditions for the countries with developing markets to the world capital markets. Attention was also paid to the issue of opening the SCO special account and to the possibility of expanding the sphere of using national currencies in settlements between the SCO member states.

5.2. Cooperation with Central (National) Banks

In the context of cooperation of the National Bank with the central (national) banks of other countries, a number of actions of international importance was organized by the NBKR in 2009, and the joint projects of technical and consultative assistance were implemented.

In May 2009, a delegation of the Swiss National Bank led by the President of the Bank was on the official visit at the National Bank. During the official meeting with the Chairman of the National Bank, the parties discussed the issues of cooperation and prospects of its further development, as well as the issue of implementing the ongoing technical cooperation projects. During its visit the SNB delegation also met with the representatives of the Government and the Ministry of Finance.

Cooperation with the SNB

In the context of TA project implementation, the SNB organized the training seminars and consultative assistance in the field of banking, and the NBKR staff was given the opportunity to learn the best practices and to apply them in their work.

The National Bank of Switzerland also rendered technical and methodological assistance to the NBKR in the area of research works to become the basis of joint research works on construction of macroeconomic models in 2010.

The NBKR continued its cooperation with the Deutsche Bundesbank on rendering consultative assistance and arranging the training for the staff of the National Bank, as well as support on the technical issues. For instance, the Deutsche Bundesbank organized the seminar at the NBKR on consolidated supervision in May 2009.

Cooperation with the Deutsche Bundesbank

Participation in the training seminar “Monetary Operations” organized by the Deutsche Bundesbank in October 2009 was a good opportunity to familiarize with the way the monetary policy is implemented at the European Central Bank.

In 2009, in its technical cooperation with the National Bank of Poland, in order to enrich knowledge in financial risk management, the staff of the National Bank passed probation, during which they were presented the analysis of advanced methods of financial and credit risk management and the impact of the current crisis on the international reserves management process.

Cooperation with the National Bank of Poland

The official meeting of the NBKR management with the delegation of the National Bank of China was held in May 2009. During this meeting, the parties exchanged information on a wide range of issues, including the prospects of bilateral cooperation, regional trade, and monetary policies of central banks under the circumstances of the global financial and economic crisis.

Cooperation with the Bank of China

In the accounting year, the National Bank acted for the first time as organizer of the significant event of international importance. In particular, in September 2009, the regular 22nd session of the Club of Governors of Central Banks of Central Asian, Black Sea, and Balkan Countries was held on the subject of the “Monetary Policy under the Circumstances of the Global Financial Crisis”. The interactive exchange of views and experience on the monetary policy and banking issues was arranged at the meeting, with the issues of developing the current mutual relations and further regional cooperation discussed as well. The Chairman of the Central Bank of the Russian Federation and the Member of the Board of the National Bank of Switzerland were principal lecturers at the session. The management of central banks of Albania, Bulgaria, Poland, Mac-

Sessions of the Club of Governors of Central Banks of Central Asian, Black Sea, and Balkan Countries

edonia, Romania, Turkey, Montenegro, Serbia, Armenia, Ukraine, Russia, Azerbaijan, Tajikistan, Kazakhstan, Kyrgyzstan, and Moldova took part in the session.

In addition, the management of the National Bank attended the 21st session of the Club of Governors of Central banks of Central Asian, Black Sea, and Balkan countries, organized by the National Bank of the Republic of Kazakhstan. Based on the results of the session, the Protocol on approval of the National Bank of Poland as the full member of the Club was signed.

*Cooperation with
the Bank of Italy*

Cooperation of the National Bank with the Bank of Italy was devoted in 2009 to the cash turnover issues. In particular, the training business trip to the Bank of Italy allowed the NBKR staff to familiarize with modern techniques of printing and destroying the banknotes, with the ways of arranging and conducting audits of the cash turnover in the Euro system of national central banks, as well as with the rules and procedures of handling the worn and doubtful banknotes.

*Cooperation with
the Negara Bank
of Malaysia*

The study of Islamic financing principles also remains one of the important lines of NBKR activity. This aspect of activity is developed owing to cooperation with the Bank Negara of Malaysia, the Islamic Development Bank, and the Islamic Research Institute. In particular, in 2009, the representatives of the NBKR were trained at the Bank Negara of Malaysia on the subject of “Fundamentals of Islamic Financing Principles” and at the “Courses of Islamic Financing Principles for Financial Regulators”. The fundamentals of Islamic financing, its development, the framework of supervision of Islamic institutes and other issues were considered at these seminars.

*Cooperation
with the Bank of
Russia*

The NBKR staff attended the training seminars held by the Inter-Regional Training Center of the Bank of Russia. The issues of the balance of payments, improvement of the information security management system, and banking supervision were discussed at these seminars. The representative of the National Bank made the report on the “Data Exchange and Interaction of the Central Bank with the Law Enforcement Agencies on the Issues of Combating Counterfeiting” at the seminar “Pressing Issues of Examining Banknotes and Ways of Identifying their Authenticity”. This line of activity of the NBKR was positively assessed by the seminar participants.

Experts of central banks of Belarus, Ukraine, Poland, Armenia, Azerbaijan, Kazakhstan and Kyrgyzstan exchanged their experience on the cash turnover issues at the Saint-Petersburg Banking School of Bank of Russia in June 2009. The experience was studied in the area of conducting the cash operations and forecasting the cash turnover in bank and non-bank institutions in the afore-mentioned countries.

The work with the Bank of Russia on preparation for signing the Agreement on information support of participants in the integrated foreign exchange market of the EurAsEC member states was completed.

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

In 2009, interaction with the National Bank of Belarus became more active and the banks exchanged experience along various directions of banking, in particular, the use of the CAMEL rating system and the functioning of the Bureau of Credit Histories; consolidated supervision of the commercial banks and of banking groups, inspection activity; the work of the banking system on anti-money laundering; the balance of payments statistics; arrangement of the cash turnover, the work in the money vault, and the destruction of worn banknotes.

The NBKR continued cooperating with the central (national) banks under the Vocational Training Program launched for the experts of EurAsEC central (national) banks.

*Cooperation with
EurAsEC central
banks*

In September 2009, the experts of the NBKR and the Bank of Russia exchanged their experience in the area of central bank external and public relations and technical assistance at the National Bank of the Republic of Kazakhstan.

Under the Vocational Training Program, in June 2009 the seminar on “Specificity of Licensing and Regulation of Non-Bank Finance and Credit Institutions” was held for experts of central (national) banks of Russia, Armenia, Belarus, Tajikistan, Poland, Kyrgyzstan and for the representatives of the Financial Intelligence Unit of the Kyrgyz Republic, the Financial Company on Support and Development of Credit Unions, and the JSC MFC “Companion Financial Group”. The seminar participants discussed the regulations on licensing, specificity of licensing of non-bank credit and financial institutions, the off-site supervision procedures, specificity of methodology of developing the regulatory framework that regulates NFCI activity, and specificity of regulating NFCI activity, etc.

In September, the National Bank also arranged the probation courses on “Experience in Preparation by Central (National) Banks of Financial Statements according to IFAS”, attended by the representatives of all the central banks of EurAsEC member states. The subjects of presentations prepared by the NBKR experts covered the issues of basic stages of introduction of international financial accounting standards and the possible ways of their resolution, and specificity of the deviation of the accounting policy of the central bank from the IFAS.

Along with experts of central (national) banks of EurAsEC member countries, the experts of the National Bank of Poland and the National Bank of Switzerland were invited to the seminar on “Continuity in Central Banking”, also held in September.

In addition, during the whole year of 2009, the NBKR staff continued to advance in its skill by active participation in the training seminars organized by the central (national) banks of Tajikistan, Armenia, Austria, Indonesia, Korea, Moldova, Italy, France, Holland, England, Japan and other countries, under the bilateral and multilateral agreements.

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

6.1. Structure of the National Bank of the Kyrgyz Republic

*NBKR
organizational
structure*

As of December 31, 2009, the NBKR's organizational structure comprised 25 central staff departments, 5 regional departments and the NBKR Representative Office in the Batken oblast.

The committees and commissions operate at the National Bank on the ongoing basis. 7 committees, 12 commissions, and 7 editorial boards of the National Bank operated as of the end of 2009, as well as four supervisory boards. The order and the procedures of activity of committees, commissions and editorial boards are regulated by the relevant regulations. Activity of the committees and commissions is conducive to development of corporate culture in the decision-making and to improvement of NBKR activity.

During 2009, the organizational structure of the National Bank underwent the following changes:

- The Scientific-Research Group was established in the Economic Department;
- The Banking Information Systems Implementation Division was spun off the Accounting and Reporting Department into the independent division;
- The Technical Security Division was reorganized into the Security Division of the Security and Information Security Department;
- The Financial Stability Monitoring Group was established within the Financial Statistics and Review Department;
- The Division of Settlements on Financial Market Transactions was closed in the Accounting and Reporting Department and the Division of Settlements on Financial Market Transactions was established within the Banking Settlements Department;
- The Protocol Service was closed and its functions were transferred to the External and Public Relations Division.

In the context of the public administration reform implemented in the country, the organizational structure of the National Bank was optimized. The number of the staff decreased by 7 percent, due to also the closure of several divisions.

*Authorized staff
size*

As of the end of the reporting year, the authorized staff size of the NBKR totaled 558 people, including 486 people employed as the central staff and 72 people working at the regional departments and at the Batken Representative Office. Of this number, the female staff made 285 people as central staff members and 43 people – the staff of regional departments and the Batken Representative Office. The percentage-wise number of women was 60 percent, that of men – 40 percent. The number of specialists totaled

418 people, of which 367 specialists as central staff and 51 people – in regional departments and the Batken Representative Office. Of this number of specialists, 95.9 percent or 401 people are those with higher education and 10 hold the Master's degrees they got in the non-CIS countries, 4 specialists hold the degrees of candidates of sciences.

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

Competitive selection

28 competitions were held in 2009, of which 8 competitions were held in the regional departments. Totally, 260 people participated in the competitions. 16 people were recruited to work at the NBKR based on the results of these competitions.

As part of cooperation with high educational institutions of the country aimed at training the contingent staff, 40 students of higher educational institutions of the Republic practice-worked at the NBKR's departments in the year of account.

Despite the undertaken organizational measures, in the context of the developing financial system of the Republic and strong competition in the labor market in this sphere, the situation remains strained with regard to the outflow of the qualified staff of the National Bank to the commercial financial agencies. The turnover of staff was 22 percent in 2009 (in 2008 – 19 percent). Proceeding from this, the National Bank implements the measures for creation of competitive working conditions for its staff, including those for labor remuneration. The staffing structure by record of work, age, and parameters of the turnover of staff are described in charts 6.1.1, and 6.1.2, correspondingly.

Chart 6.1.1.

Personnel structure by Record of Work

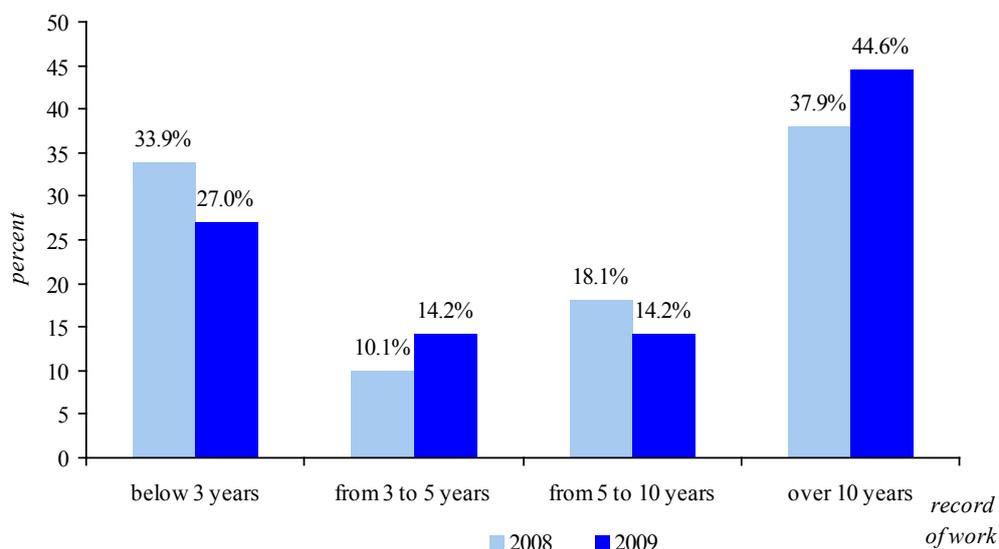
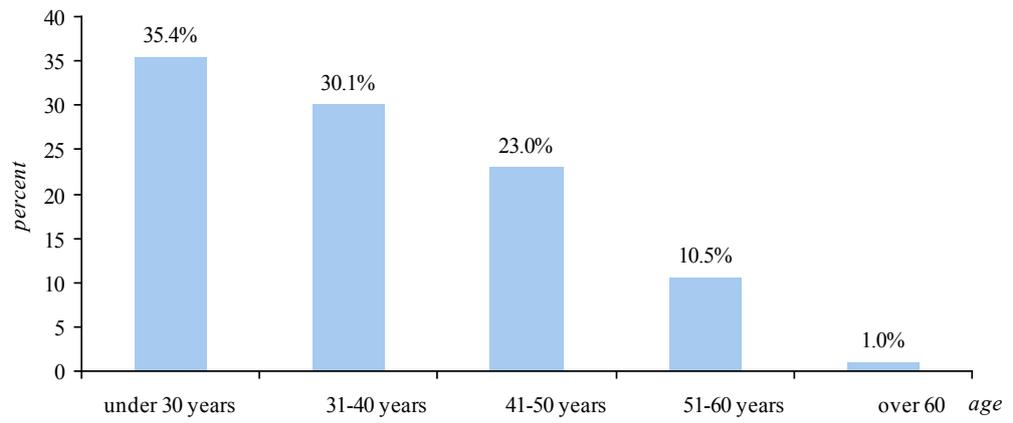


Chart 6.1.2.
Personnel structure by Age

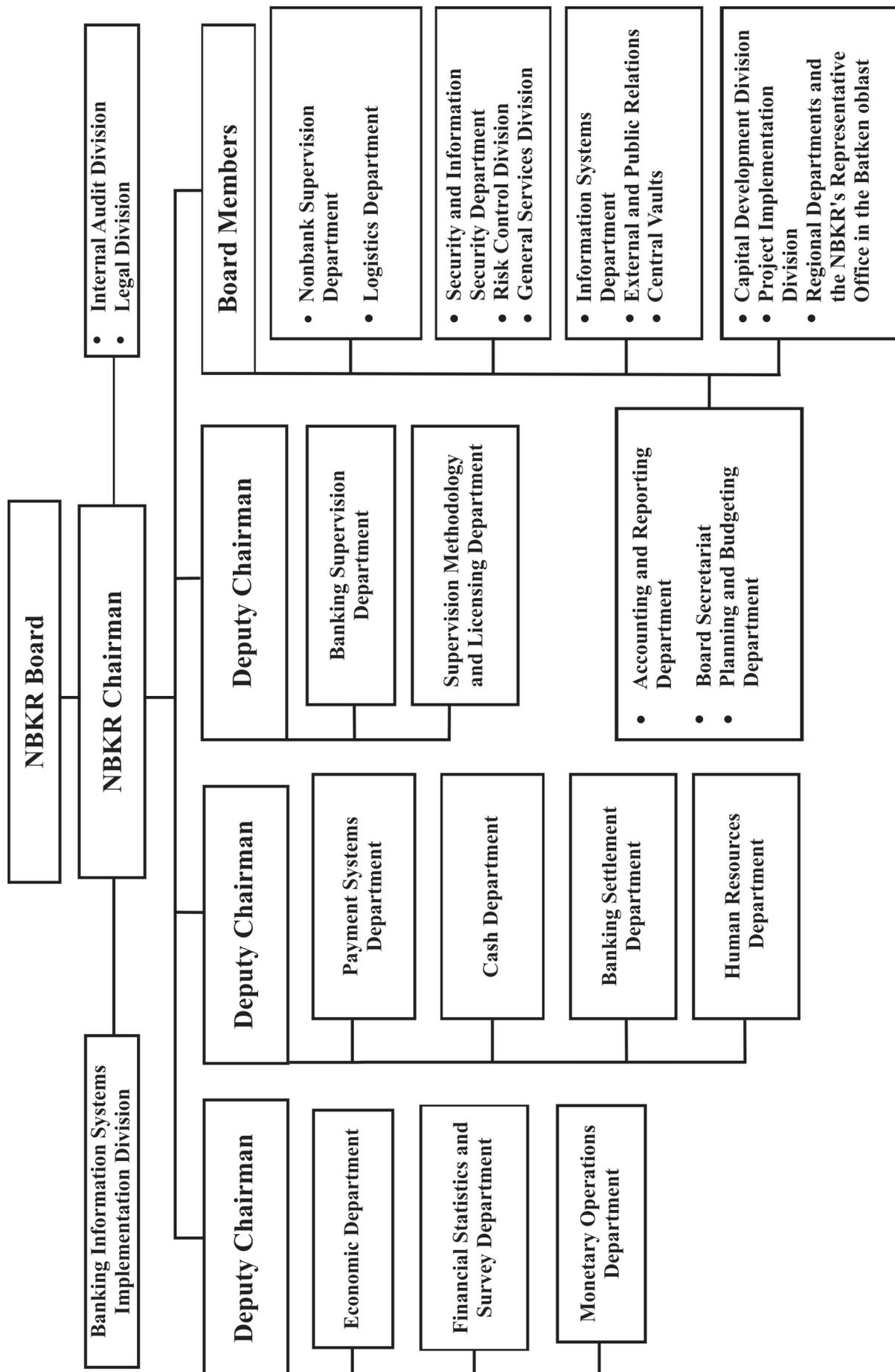


Key Functions of Departments of the National Bank of the Kyrgyz Republic

Economic Department	Develops proposals on monetary policy and on its implementation; analyzes the situation in the real, financial, fiscal, and external sectors of the economy.
Monetary Operations Department	Makes the assessment and performs the analysis, identifies the trends and factors of developments in the financial markets in order to effectively coordinate the open market operations, and conducts the operations on the financial markets.
Financial Statistics and Review Department	Collects monetary and financial market statistics and processes the real sector and public finance statistical data; compiles the balance of payments; and provides expert support on the external debt issues.
Banking Supervision Department	Organizes supervision of banking and finance and credit institutions, licensed and regulated by the NBKR, over observance of prudential norms and requirements, as well as over observance of the banking legislation of the Kyrgyz Republic; and performs the analysis of the banking sector.
Supervision Methodology and Licensing Department	Licenses banks, develops and improves the ways of banking supervision and regulation of commercial banks and other finance and credit institutions, licensed by the NBKR.
Non-banking Supervision Department	Licenses and exercises supervision of activity of microfinance institutions, credit unions, pawn-shops and exchange bureaus and specialized financial credit institutions, licensed and regulated by the NBKR.
Cash Management Department	Satisfies the needs of the economy of the Republic for cash, provides for cash circulation, handles cash and promotes the implementation of anti-counterfeiting measures.
Central Vaults	Provides for safety of banknotes, coins and other values in the vault, transports the values, handles cash and destructs worn currency.
Banking Settlements Department	Provides for the functioning of interbank settlement systems, including the clearing and gross systems of settlements.
Information Systems Department	Develops the basic guidelines, the long-range development plan for the NBKR's information system, and implements this plan in conformity with the NBKR's Development Strategy.
Payment Systems Department	Develops and implements the measures for maintenance of the effective operation of the payment system, its reliability and safety.
Accounting and Reporting Department	Maintains the accounting of operations and values and makes the NBKR's financial statements; develops the documents, regulating the bank accounting.
Human Resources Department	Performs the manpower deployment; organizes the staff training and professional development; works out and implements the tools of staff motivation.
Planning and Budgeting Department	Organizes and enforces the NBKR's planning and budgeting; ensures control over the use of NBKR's financial resources.
General Services Division	Provides for the effectiveness of the NBKR's system of the flow of documents and records management, including the archiving and control over execution.

External and Public Relations Division	Informs the public of goals, objectives, functions, and NBKR performance; cooperates with the foreign organizations on the issues of protocol, administrative and representative events, as well as with the mass media, and provides for visa support of the NBKR's staff, consultants and official invitees.
Internal Audit Division	Inspects and estimates the operating internal control system in the NBKR and works out the recommendations on its improvement.
Capital Development Division	Provides for arrangements for construction and assembly works, including capital repair of the NBKR's buildings and structures.
Risk Control Division	Exercises risk-control over the transactions conducted in the financial markets; and develops the recommendations on their improvement.
Project Implementation Division	Provides for implementation of credit lines as part of cooperation with the international organizations.
Board Secretariat	Provides for organizational support of the work of the Board of the NBKR.
Security and Information Security Department	Provides for safe functioning of the National Bank of the Kyrgyz Republic; and organizes technical protection of the National Bank.
Logistics Department	Provides for the logistics, transportation services and the servicing of buildings and structures.
Legal Division	Provides for comprehensive enforcement of NBKR's activity, the development and promulgation of the banking legislation.
Banking Information Systems Implementation Division	Provides for optimization of business processes of the bank with the use of modern information technologies.
Regional Departments and the NBKR's Representative Office	Provide the commercial banks and their branches with cash; perform some of the functions of supervision of nonbank finance and credit institutions, whose activity is licensed by the NBKR, as well as perform other functions established by their jurisdiction.

Organization Chart of the National Bank of the Kyrgyz Republic



6.2. Activity of the Board of the National Bank of the Kyrgyz Republic in 2009

General information about activity of the Board of the NBKR

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

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

During the accounting period, the Board of the NBKR operated according to the approved annual and quarterly policy plans. In 2009, 51 meetings were held, 444 issues were considered, with the decisions taken on 293 issues.

Consideration of monetary policy issues

Based on the analysis of the current status of the monetary sphere and the forecast of development of real, fiscal and external economic sectors, as well as in view of structural reforms implemented in the country, the Board, as a rule, adopts annually the Statement about the Monetary Policy for the forthcoming year, with the quantitative inflation target set up there. In case of the significant deviation from the actual target, the inflation parameter can be revised. For instance, in August 2009, the Board of the NBKR made the decision to revise downwards the earlier projected inflation target for 2009, and it was caused by the reduction in the inflationary pressure and is directed to formation of adequate expectations of the business community and the population promoting, alongside with the anti-recessionary measures of the Government and the National Bank, the pick-up in economic activity.

In 2009, the Board of the NBKR considered on the quarterly basis the monetary policy report and the monetary program for the forthcoming period. The report contains the monetary policy outcome, the review of economic development, and the recommendations on implementation of the monetary policy, and serves as the target for the Monetary Regulation Committee in the decision-making on the open market operations.

At the end of 2009, the Board approved the Basic Monetary Policy Guidelines for 2010. When developing this document, the trends in the world financial and commodity markets were taken into account, as well as the conditions of implementing the monetary policy at the modern stage, small scales and the high degree of openness of the economy of the Kyrgyz Republic.

With a view of credit capacity building in the commercial banks under the circumstances of credit contraction, as well as in connection with the start of contributions made by the commercial banks to the Deposit Protection Fund the Board adopted the Resolution to lower the reserve requirements for the commercial banks.

To implement the action plan for minimization of risks of impact of the world financial

and economic crisis, the Board considered, on the monthly basis, information on the situation in the world commodity and raw material and financial markets, as well as in the domestic market.

To enhance efficiency in the National Bank's operations on refinancing the commercial banks through the NBKR trading systems, the Board approved the new edition of the Regulations "On Overnight Credit" and "On Intraday Credit".

With a view of promoting an operational and real reflection of the situation in the domestic foreign exchange market and improving the settlement and payment relations of economic agents of the republic in foreign currency, the National Bank of the Kyrgyz Republic passed to the practice of the daily determination of the official US dollar exchange rate against the Kyrgyz Som, the Board changed the Rules of determining the official rates of foreign currencies against the Kyrgyz Som, which came into force on January 1, 2010.

As part of the work on improvement of the regulatory framework in the area of regulating the domestic foreign exchange market, the Board approved the Rules of auctions in the interbank foreign exchange market through the trade and information electronic system of the National Bank of the Kyrgyz Republic. The NBKR also continued to undertake the actions on unification of titles of Government securities, with this work launched in 2008. The Board of the National Bank approved the Draft Resolution of the Government and the National Bank "On Approval of the Regulation "On the Procedure for Assignment of the Registration Number to the Government and Municipal Securities and Keeping the Register of Government and Municipal Securities in the Kyrgyz Republic".

The Board of the National Bank defines the common goals and principles of management of international reserves, the investment strategy, and approves the relevant regulations. According to the Law "On the National Bank of the Kyrgyz Republic", the international reserves are managed in view of maintenance of liquidity and safety of reserve assets.

In the context of enhancement of international reserves management efficiency and minimization of risks, the Board of the NBKR annually considers and approves the benchmark portfolio of investment assets created according to the investment strategy requirements. In addition, with a view of minimizing the exchange risks, the Regulation "On the Structure of International Reserves" is considered and approved on the quarterly basis.

To evaluate international reserves management efficiency, the Board of the NBKR considers and approves the report on management of international reserves on the annual basis.

Altogether, 39 resolutions were developed on the monetary policy issues in 2009.

The Board paid great attention to the issues of maintaining efficiency, safety and reliability of the banking system of the republic, including the issues of supervision and regulation of activity of commercial banks, strengthening confidence in the banks, and monitoring the system risks. During 2009, the Board of the NBKR considered information on the commercial banking system development trends on the quarterly basis.

Consideration of issues of supervision over bank and nonbank institutions

For further growth of the level of financial intermediation, strengthening of the role of

the banking sector in the economy of the Kyrgyz Republic, maintenance of efficiency, safety and reliability of banking, in 2009, the Board approved the Banking Sector Development Strategy till End-2011.

Due to adoption on May 16, 2008, of the Law “On Amendments and Addenda to the Law of the Kyrgyz Republic “On Banks and Banking in the Kyrgyz Republic”, the Board approved the amendments and addenda to the Regulation “On Prudential Norms and Requirements, Mandatory for Commercial Banks and Finance and Credit Institutions Licensed by the NBKR”, the Instruction “On Determination of Capital Adequacy Ratios of Commercial Banks of the Kyrgyz Republic”, and to the Instruction “On Requirements for Operations of Banks with Insiders and Affiliated Persons”.

As part of the work on improvement of consolidated supervision, the Board approved the Rules “On Start-up and/or Purchase of Affiliated or Dependent Companies by Commercial Banks of the Kyrgyz Republic”. In order to ensure reliability and safety of the banking system, maintain the capital base required to cover the bank exposures, the Board adopted the Resolution “On Minimum Capital (Capital Base) of Banks”.

To promote activity of banks in the work with precious metals aimed at development of the market of precious metals of the Kyrgyz Republic the Board approved the amendments to the Regulation “On Operations of Commercial Banks with Precious Metals” and to the Instruction “On Determination of Capital Adequacy Ratios of Commercial Banks of the Kyrgyz Republic”.

According to the Law “On Conservation, Liquidation, and Bankruptcy of Banks” the Board approved the new edition of the Regulation “On Conservation of Commercial Banks and Microfinance Companies Attracting Deposits”.

In connection with the amendments introduced to the legislation on anti-money laundering and combating the financing of terrorism, the amendments and addenda were adopted with regard to a number of regulatory and legal acts of the NBKR on the internal audit of commercial banks and other finance and credit institutions aimed at strengthening the work on anti-money laundering and combating the financing of terrorism.

To execute the Law “On the Development Fund of the Kyrgyz Republic”, the Board adopted the Temporary Regulation “On Regulation of Activity of the Joint-Stock Company “Development Fund of the Kyrgyz Republic”, as well as the amendments and addenda to the Regulation “On Requirements for Financial Statements and Disclosure by Nonbank Institutions Operating on the Basis of the License (Warrant) of the National Bank of the Kyrgyz Republic”.

The Board approved the regulatory and legal acts establishing the requirements for the banks, conducting operations according to the Islamic principles of banking and financing with regard to the capital adequacy ratio, the financial statements, the accounting policy, the classification of assets, and risk management, as well as observance of open currency position limits, and the requirements for the operations with the insiders and affiliated persons. In addition, the Board adopted the statutory acts regulating the Islamic principles of banking. The adopted regulatory and legal acts are directed to expand the sphere of banking products and services.

Due to the amendments introduced to the Law “On Protection of Bank Deposits”, envisaging an inclusion of operating commercial banks in the register of participants in the deposit protection system, the Board approved the Resolution “On Recognition as

Invalid of the Regulation “On the Procedure for Submission and Consideration by the National Bank of the Kyrgyz Republic of the Application of the Bank to Join the Deposit Protection System”.

With a view of executing the Law “On Legalization of Property, Undeclared Tax and Customs Liabilities”, the Board approved the Procedure for Opening, Keeping and Closing the Special Deposit Account Assigned for Legalization of Funds.

The Resolution of the Board was adopted on renewal of the license to conduct banking operations for the OJSICB “Akyl”. In addition, a number of restrictions on activity of the OJSC “Ayil Bank” were removed.

According to the application of the OJSC “AsiaUniversalBank”, the Resolution of the Board was adopted to issue the additional license for the operations with precious metals.

In pursuance of the Decree of the President of the Kyrgyz Republic “On Measures for Maintenance of Stability of the Banking System of the Kyrgyz Republic”, the Board adopted the Resolution «On Start-Up of LLC “Specialized Bank Refinancing Fund”. Furthermore, the Board, governed by Articles 1, 7 and 9 of the Law of the Kyrgyz Republic “On the Development Fund of the Kyrgyz Republic”, adopted the Resolution “On Licensing of the Development Fund of the Kyrgyz Republic”.

As part of the work on improvement of supervision of activity of nonbank finance and credit institutions, the Board introduced the amendments and addenda to the Regulation “On the Periodic Regulatory Report of the Credit Union, Microcredit Company/Microcredit Agency and Microfinance Company», the “Rules of Regulation of Activity of Credit Unions”, the Regulation “On Licensing of Credit Unions”. The Board adopted the Rules of Regulation of Activity of the LLC “Specialized Bank Refinancing Fund”.

To simplify licensing, pursuant to the Law “On Amendments to the Law of the Kyrgyz Republic “On Licensing”, licensing of pawnshops was cancelled, as well as in pursuance of the above-stated Law, the amendments were adopted by the Board with regard to the Regulation “On the Periodic Regulatory Report of the Microcredit Company/Microcredit Agency and the Pawnshop”, “On the Periodic Regulatory Report of the Microfinance Company” and “On the Rate of the NBKR License Fee”.

In pursuance of the Order of the President of the Kyrgyz Republic, by the Board was considered and approved the issue of the contingent transfer of the LLC “Financial Company for Support and Development of Credit Unions”.

As a whole for the reporting year, five Resolutions were adopted with regard to activity of some of commercial banks and other FCIs, licensed by the NBKR, as well as 26 Resolutions on the regulatory framework regulating their activity. These were both the new statutory acts, and the amendments introduced to the earlier adopted statutory acts.

According to Article 3 of the Law “On the National Bank of the Kyrgyz Republic”, the fulfillment of functions in the payment system is directed to maintain the effective and uninterrupted functioning of the payment system. Assuming the supervisory role in the policy-making concerning the general structure and practical activities of the payment system of the Kyrgyz Republic, the Board of the National Bank performed the work on regulation of activity of the payment system of the country. During 2009, a number of

*Consideration
of the payment
system issues*

Resolutions were adopted to further develop the payment system, reduce the risks, and expand the spectrum of payment tools.

In 2009 the Board approved the Draft Law “On the Payment System of the Kyrgyz Republic” and: the Regulation “On Basic Payment System Contingency Functioning Requirements for the Kyrgyz Republic”, Regulation “On the SWIFT MAC”, “On Amendments and Addenda to the State Payment Turnover Classifier”, the Regulation “On Bank Payment Cards in the Kyrgyz Republics”, and the “Rules of Implementing Remittances through Money Transfer Systems in the Kyrgyz Republic”. To implement the action plan of the State Program on the increase in the share of non-cash payments in the economy of the Kyrgyz Republic, the Board of the NBKR approved the Draft Resolution of the Government and the National Bank relating to the revisions made in the State Program of Measures to Introduce the Non-Cash Payment System and Establish the Infrastructure that Could Ensure Efficient Payment Execution in the Kyrgyz Republic.

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

Altogether, 21 Resolutions on the payment system were adopted during the year.

Other issues The Board considered the general issues and the issues of organizing activity of the NBKR. The NBKR adopted 42 Resolutions on the issues of the regulatory framework relevant to financial and economic activity of the NBKR - 136 Resolutions were adopted. 151 issues were considered at the Board meetings as information messages.

6.3. Improvement of Banking Legislation and Performance of Financial Adviser Functions

In 2009 the National Bank continued working on improvement and development of the banking legislation of the Kyrgyz Republic.

In the accounting period a number of essential amendments and addenda were introduced in the banking legislation of the Kyrgyz Republic, in particular:

Adopted amendments

- The amendments were introduced to the Law “On the National Bank of the Kyrgyz Republic” and were directed to optimize the legislative norms of activity of the National Bank, establish its legal status, strengthen the role of the National Bank in economic development of the republic, change the bank management structure, introduce the Islamic principles of financing, increase authorized capital to KGS 1 billion, and to bring the norms of the above-stated Law to conformity with the Constitution of the Kyrgyz Republic;
- The amendments were introduced to the Law “On Banks and Banking in the Kyrgyz Republic” relating to the Islamic principles of financing and combating the financing of terrorism and anti-money laundering, as well as a number of other changes were made;
- The Law “On Protection of Bank Deposits”, whose development and adoption was one of the priority directions in development of the banking system of the republic. The amendments were introduced with a view of executing the Decree of the President of the Kyrgyz Republic as of January 8, 2009, No 5 “On Measures for Maintenance of Stability of the Banking System in the Kyrgyz Republic”, providing for the increase in the size of deposit compensation to KGS 100 thousand paid in the guarantee case.

The National Bank developed the following draft Laws: “On Encashment”, “On the Payment Systems of the Kyrgyz Republic” and “On Amendments and Addenda to Regulatory and Legal Acts of the Kyrgyz Republic”.

Proposed amendments

The National Bank was involved in the work of interdepartmental working groups, in particular:

- On the development of regulatory and legal acts connected with the implementation of Islamic Financing Principles in the Kyrgyz Republic;
- On inventory of regulatory and legal acts of the Kyrgyz Republic, as well as along other directions.

In 2009, the work was ongoing to improve the regulatory framework regulating activity of banks and other finance and credit institutions, licensed and regulated by the National Bank. Thus, the following Resolutions of the Board of the National Bank were adopted:

RLA improvement

- Jointly with the Government of the Kyrgyz Republic “On Amendments to the Resolution of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic of December 30, 2005, No 632/26/7 “On Amendments and Addenda to the Resolution of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic of December 31, 2002, No 916 “On Approval of the State Program of Measures to Introduce the Non-Cash Payment System and Establish the

Infrastructure that Could Ensure Efficient Payment Execution in the Kyrgyz Republic of August 14, 2009, No 527/32/6;

- “On Approval of the Regulation “On Intraday Credit of the National Bank of the Kyrgyz Republic” of February 11, 2009, No 7/11;
- “On Amendments and Addenda to the Resolution of the Board of the National Bank of March 19, 2005, No 6/2 “On Approval of the New Edition of the Regulation “On the Supervision Committee of the National Bank of the Kyrgyz Republic” of February 11, 2009, No 7/3;
- “On Approval of the Regulation “On the SWIFT Multi-Access Center” of February 11, 2009, No 7/4;
- “On Preparation for Introduction by Commercial Banks of the Bank Account Direct Debiting Tool” of March 11, 2009, No 12/2;
- “On Minimum Capital (Capital Base) of Banks” of March 11, 2009, No 12/6;
- “On Collateral for Overnight and Intraday Credit of the National Bank of the Kyrgyz Republic” of March 26, 2009, No 16/1;
- “On Approval of the Instruction “On the Procedure for Observance of Open Currency Position Limits by Commercial Banks in the Territory of the Kyrgyz Republic” of April 15, 2009 No 19/6;
- “On Amendments and Addenda to the Resolution of the Board of the National Bank of November 30, 2008, No 51/4 “On Amendments and Addenda to the State Payment Turnover Classifier” of April 22, 2009, No 21/5;
- “On Approval of Tariffs for Services of the Bulk Clearing System of Retail and Regular Payments and Tariffs for Services of the Real Time Gross System of Settlements “ of April 29, 2009, No 23/4;
- “On Amendments and Addenda to the Resolution of the Board of the National Bank of December 15, 2005, No 37/8 “On Approval of the Regulation “On the Bulk Clearing System Retail and Regular Payments in the Kyrgyz Republic” of April 29, 2009, No 23/5;
- “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic of August 25, 2005, No 26/5 “On Some of the Regulatory and Legal Acts of the National Bank of the Kyrgyz Republic” of May 11, 2009, No 24/1;
- “On Approval of the Instruction “On the Procedure for Passage of Electronic Messages via the RTGSS System” of May 27, 2009, No 25/11;
- “On Approval of the Rules of Regulation of Activity of the LLC “Specialized Bank Refinancing Fund” of May 27, 2009, No 25/8;
- “On Amendments and Addenda to Some acts of the Kyrgyz Republic” of June 10, 2009, No 26/2;

- The Rules “On Start-up and/or Purchase of Affiliated or Dependent Companies by Commercial Banks of the Kyrgyz Republic” of June 10, 2009, No 26/3;
- “On Approval of the “Rules of Implementing Remittances through Money Transfer Systems in the Kyrgyz Republic” of July 15, 2009, No 30/6;
- “On Approval of the “Rules of Determining the Official Rates of Foreign Currencies against the Kyrgyz Som” of July 29, 2009, No 32/2;
- “On Amendments and Addenda to the Resolution of the Board of the NBKR of February 19, 2003, No 4/4 “On the Interim Instruction on the Work with Deposits of July 29, 2009, No 32/4;
- “On Cancellation of the Transitional Provision on Issue of Bank Payment Cards “Elkart” and the Interim Instruction “On the Procedure for Conducting Payments with Bank Payment Cards “Elkart” through the Uniform Interbank Processing Center” of August 12, 2009 No 33/5;
- “On Approval of the Regulation “On Operations of Commercial Banks with Precious Metals” of August 26, 2009, No 35/3;
- “On Amendments and Addenda to the Resolution of the Board of the NBKR of July 21, 2004, No 18/2 “On Approval of the New Edition of the Instruction on Determination of Capital Adequacy Ratios of Commercial Banks of the Kyrgyz Republic” of August 26, 2009, No 35/4;
- “On Approval of the “Procedure for Opening, Keeping and Closing the Special Deposit Account Assigned for Legalization of Funds’ of August 26, 2009, No 35/5;
- “On Approval of the Regulation on Operations Conducted According to Islamic Principles of Banking and Financing” of September 23, 2009, No 38/8;
- “On the Temporary Regulation “On Requirements for Standard Contracts Concluded According to Islamic Principles of Banking and Financing” of September 30, 2009, No 39/4;
- “On Amendments and Addenda to the Resolution of the Board of the National Bank of March 2, 2006, No 5/7 “On Approval of the Regulation “On Licensing of Banks” of September 30, 2009, No 39/6;
- “On Amendments to the Resolution of the Board of the National Bank of August 22, 2008, No 38/11 “On the Instruction on the Procedure for Conducting Payments in the Bulk Clearing System of Retail and Regular Payments in the Kyrgyz Republic” of September 30, 2009, No 39/8;
- “On the Instruction “On the Procedure for Observance of Open Currency Position Limits by Commercial Banks in the Territory of the Kyrgyz Republic” of October 14, 2009, No 41/4;
- “On Approval of the Regulation “On Bank Payment Cards in the Kyrgyz Republic” of October 14, 2009, No 41/7;
- “On Addenda to the Resolution of the Board of the National Bank of July 14, 2005,

No 22/2 “On the Regulation “On Minimal Requirements for External Audit of Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic” of October 28, 2009, No 43/6.

RLA registration The work continued in the year of account with the Ministry of Justice of the Kyrgyz Republic on the issues of registering the NBKR’s regulatory and legal acts, while starting from August 2009 the NBKR has been working on incorporation of regulatory and legal acts of the National Bank into the State Register of Regulatory and Legal Acts of the Kyrgyz Republic.

Examination of draft laws According to the Law “On the National Bank of the Kyrgyz Republic”, the NBKR was also involved in the implementation of specific steps under the lawmaking work plan of the Government and in appraisals of draft regulatory and legal acts, developed by the government agencies and affecting the banking and financial system of the republic.

For instance, the following regulatory and legal acts were reviewed:

- The Law “On Amendments and Addenda to the Law of the Kyrgyz Republic “On State Support to Legal Entities and Individuals, Residents Doing Business in Highland and Remote Area of the Kyrgyz Republic”, adopted by the Jogorku Kenesh on March 19, 2009;
- The Law “On Addenda and Amendments to the Law of the Kyrgyz Republic “On Audit”, adopted by the Jogorku Kenesh on May 22, 2009;
- The Law “On Legalization of Property, Undeclared Tax and Customs Liabilities”;
- The Law “On Amendments and Addenda to the Laws of the Kyrgyz Republic “On Bankruptcy (Insolvency)” and “On Conservation, Liquidation, and Bankruptcy of Banks”;
- The Law “On Amendments and Addenda to the Law of the Kyrgyz Republic “On State Registration of Legal Entities, Branches (Representations)”;
- The Law “On Regulatory and Legal Acts of the Kyrgyz Republic”;
- The Draft Law “On Accession to Agreement on Establishment of the International Islamic Trade and Finance Corporation”;
- The Draft Law “On Addenda to the Tax Code of the Kyrgyz Republic”, and an explanation (comments) of articles of the Tax Code relevant to Leasing Operations”;
- The Draft Law “On Addenda to the Law of the Kyrgyz Republic “On Accounting”;
- The Draft Law “On Addenda to the Law of the Kyrgyz Republic “On Arrangements for Insurance in the Kyrgyz Republic”;
- The Draft Law “On Addenda to the Civil Code of the Kyrgyz Republic”;
- The Draft Law “On the Payment System of the Kyrgyz Republic”;
- The Draft Law “On Addenda to the Law of the Kyrgyz Republic “On Joint-Stock Companies”;

- The Draft Law “On the Funded Pension Fund”;
- The Draft Law “On Amendments to the Law of the Kyrgyz Republic “On Licensing”;
- The Draft Law “On Interpretation of Part 3 of Articles 33 of the Law of the Kyrgyz Republic “On Protection of Bank Deposits”;
- The drafts of acts developed by the Interdepartmental Working Group on Development of Regulatory and Legal Acts on Arrangements for Activity according to Islamic Principles of Banking and Financing.

In 2009 the National Bank examined and made proposals on a number of drafts of Government Resolutions of the Kyrgyz Republic, in particular, on the following drafts:

*Examination of
RLA*

- “On Amendments and Addenda to Temporary Requirements for Mortgage Lending for Agricultural Land Plots” jointly with the National Bank;
- “On Measures for Execution of the Law of the Kyrgyz Republic “On Anti-Money Laundering and Combating the Financing of Terrorism”;
- “On Amendments and Addenda to the Resolution of the Government of the Kyrgyz Republic of August 26, 2008, No 470 “On International Standards of Audit in the Kyrgyz Republic”;
- “On Approval of the Instruction on the Procedure for Election of the Board of Directors of Joint-Stock Company by Cumulative Voting”;
- “On Addenda to the Resolution of the Government of the Kyrgyz Republic “On Licensing of Specific Businesses”;
- “On the Draft Law “On Ratification of the Agreement on Promotion and Mutual Protection of Investments in the Eurasian Economic Community Member States, Signed on December 12, 2008, in Moscow” and the Law “On Ratification of the Agreement on Promotion and Mutual Protection of Investments in the Eurasian Economic Community Member States, Signed on December 12, 2008, in Moscow”;
- “On Further Measures for Introduction of the Funded Pillar of the Pension System of the Kyrgyz Republic”;
- “On Addenda to the Regulation “On the Financial Market Supervision and Regulation Service of the Kyrgyz Republic” Approved with the Resolution of the Government of the Kyrgyz Republic of July 24, 2008, No 288 “On the Financial Market Supervision and Regulation Service of the Kyrgyz Republic”;
- “On Membership of the Financial Intelligence Unit of the Kyrgyz Republic in the International Group “Egmont”;
- “On Amendments and Addenda to the Resolution of the Government of the Kyrgyz Republic of August 26, 2008, No 470 “On International Standards of Audit in the Kyrgyz Republic”;
- “On Addenda to the Resolution of the Government of the Kyrgyz Republic of Febru-

ary 15, 2003, No 65 “On Approval of Rules of Registration of Motor Vehicles and Their Trailers at the State Automobile Inspection of the Ministry of Internal Affairs of the Kyrgyz Republic”;

- “On Addenda to the Resolution of the Government of the Kyrgyz Republic of August 26, 2008, No 470 “On International Standards of Audit in the Kyrgyz Republic”;
- “On Amendments and Addenda to the Resolution of the Government of the Kyrgyz Republic of August 28, 2008, No 479 “On Approval of the Regulation on the Deposit Protection Agency of the Kyrgyz Republic”;
- “On Approval of the Contract on the Commitment of the Participating Bank of the Deposit Protection System to the Government of the Kyrgyz Republic and the Draft Contract on the Commitment of the Participating Bank of the Deposit Protection System to the Government of the Kyrgyz Republic”;
- “On Amendments and Addenda to the Resolution of the Government of the Kyrgyz Republic of February 28, 2008, No 479 “On Approval of the Regulation on the Deposit Protection Agency” and “On Amendments and Addenda to the Resolution of the Government of the Kyrgyz Republic of December 11, 2008, No 687 “On Approval of the Regulation on the Procedure for Payments of Contributions to the Deposit Protection Fund”;
- “On Start-up of State Insurance Company”;
- “On Measures for Execution of the Law of the Kyrgyz Republic “On Anti-Money Laundering and Combating the Financing of Terrorism”;
- “On the Procedure for Keeping the State Register of Regulatory and Legal Acts of the Kyrgyz Republic”;
- “On Approval of the Regulation on the Central Depository of Securities in the Kyrgyz Republic”;
- “On Approval of the Regulations on Capital Base Sufficiency Standards Set for Professional Participants in the Securities Market”.

*Fulfillment of
financial adviser
functions*

In the context of its functions of the financial advisor to the President of the Kyrgyz Republic, the Jogorku Kenesh the Kyrgyz Republic, and the Government of the Kyrgyz Republic, the National Bank performed the following in 2009:

- Regularly informed the President, the Jogorku Kenesh, and the Government on progress in implementation of the monetary policy, on the status of the banking and payment system;
- Consulted the Government in preparation and consideration of the draft republican budget;
- provided analytical information on the situation in the financial market;
- Examined the draft Laws and other regulatory and legal acts and decisions covering the financial and banking issues or the sphere of authority of the National Bank;

- Took part in the process of development and implementation of some of the state programs.

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

Examination of agreements

- The Agreement between the National Bank and the Ministry of Finance on Management of Resource Disbursed by the International Monetary Fund for Budget Support in the Kyrgyz Republic;
- The Agreement between the State Corporation “ Bank of Development and Foreign Trade (Vnesheconombank)” and the National Bank on the Accounting and Settlement Procedure under the Agreement between the Government of the Russian Federation and the Government of the Kyrgyz Republic on Extension of State Credit to the Kyrgyz Republic of February 3, 2009;
- The Supplementary Agreement to the Agreement between the Ministry of Finance and the National Bank on Servicing of the Margin Deposit under the Agreement between the Government of the Russian Federation and the Government of the Kyrgyz Republic on Extension of State Credit to the Kyrgyz Republic of February 3, 2009;
- The draft amendment to the Agreement on Credit for Development Goals under the Project “Modernization of the Payment and Banking System”;
- The draft Agreement between the Azerbaijan Republic, the Republic of Kazakhstan, the Kyrgyz Republic, Turkmenistan, the Turkish Republic and the Republic of Uzbekistan on Establishment of the Council of Turkish Speaking States;
- The draft Agreement on Establishment of the Payment Union of CIS Member States;
- The draft Decision on the General Regulation, on Agencies of Branch Cooperation of the Commonwealth of Independent States (the Council of Heads of CIS States) and a plenty of other work.

As the financial agent of the Government of the Kyrgyz Republic, the National Bank continued servicing the accounts of the Government.

6.4. Internal Audit and Internal Control System

Internal audit system of the NBKR

The arrangements for the system of internal control of the National Bank of the Kyrgyz Republic correspond to the principles of performance evaluation of Internal Control Systems recommended by the Basel Committee on Banking Supervision and represent the continuous process directed to achievement of the goal and to observance of established rules. Internal control is exercised by the bank staff at all levels, starting with minor executives and ending up with the Board of the NBKR. According to the internal audit policy requirements, the holistic performance evaluation of the NBKR's system of internal control is made by its Internal Audit Division, which is the integral part of the internal control system.

Legal framework

Internal audit activity of the NBKR is based on the International Standards of Internal Audit and Standards of Internal Auditing Practice.

Consolidation of activities

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

The Internal Audit Division coordinated interaction with the external auditors of the NBKR, and the Jogorku Kenesh of the Kyrgyz Republic approved the independent auditor according to the results of the tender. In 2009, the independent audit of the National Bank was conducted by the Grant Thornton Amio auditor.

The yearly internal audit findings allow drawing a conclusion that activity of the National Bank in all essential aspects conforms to the regulatory and legal acts of the Kyrgyz Republic, and the system of internal audit was in general adequate to the assumed risks.

Committee on Risks

The work issued well on a compilation of the consolidated map of risks of the National Bank according to the Risk Management Concept. On the basis of the map of risks of departments of the National Bank, the risk minimization measures were developed that pursued the goal of enhancing efficiency in activity of the National Bank in the long run. The Committee on Risks tentatively considered 62 maps on risk-management of departments of the National Bank. Based on their findings, the relevant recommendations were provided on minimization of risks in activity of NBKR departments. In addition, the Committee on Risks considered the results of the review of event accounting maps that display the typical events causing the operational risks, the issues of optimizing the NBKR's labor force, and the draft Strategy of Continuity in Activity of the NBKR. The Committee on Risks held 13 meetings in 2009.

Audit Committee

In 2009, the Audit Committee of the NBKR, whose members are three independent experts, whose activity is not connected with that of the NBKR, and two Board Members of the NBKR, had six meetings to consider the issues and take the decisions on its terms of reference according to the assigned tasks and functions. The Audit Committee reviewed annual performance of the external and internal audit and the system of inter-

nal control of the National Bank and gave the relevant recommendations reflected later in the action plan.

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

The International Monetary Fund conducted the regular safeguard assessment of the National Bank under the safeguard assessment program of central banks (IMF Safeguard Assessment). Based on the results of this assessment, the recommendations were made and according to these recommendations, the plan of measures for improving the control system and reducing the risks was developed and approved by the Board of the National Bank.

6.5. Public Information

The National Bank is governed in its information policy by the principle of openness, timely public information about the measures undertaken by the NBKR aimed at implementation of its primary goals and functions. In this regard, the National Bank pays special attention to the issue of explaining the monetary policy and provided easy access to information related to its activity for all economic agents and the public, in general.

*NBKR's
information &
explanatory work*

The informational and explanatory work of the National Bank was done by means of releases of official publications, as well as the publications of the informative, statistical and analytical nature, placements of data on the web-site of the NBKR, the publications in the mass media, TV broadcasts, briefings and press conferences with the NBKR management, as well as through the information and training programs.

In 2009 the National Bank worked with the mass media on the basis of its plan with the following priority directions:

- The monetary policy explanation and information;
- Information on banking system development and the NBKR measures for maintenance of its stability;
- Coverage of measures under the State Non-Cash Payments Development Program for the Kyrgyz Republic;
- Information on development of microfinancing;
- Information and training on the subject “The Som is the Image of Kyrgyzstan”.

The keen interest of the public in the situation in the financial markets, the monetary policy, the basic macroeconomic parameters, and in the status of gold and foreign exchange reserves was observed during the year.

*Press
conferences &
briefings for the
mass media &
the public*

The press conferences on the monetary policy outcome and the results of activity of bank and payment systems were given at the KABAR News Agency. According to numerous inquiries of the mass-media and the public, information was given on the sources of formation of international reserves, as well as answers to the most frequently asked questions coming within the terms of reference of the National Bank were given in a column titled “The Public Chamber Answers Your Questions” of the Press Release of the NBKR.

In February 2009, due to the devaluation by the National Bank of the Republic of Kazakhstan of national currency, Tenge, the briefing for journalists with the NBKR management was organized to explain the situation in the foreign exchange market. In addition, explanatory information on the situation in the foreign exchange market was placed on the official web-site of the NBKR, in particular, it was noted that in the Kyrgyz Republic the exchange rate of the US dollar against the Kyrgyz Som changed according to the floating exchange rate regime adopted by our country.

*International
conference*

The international regional conference was held in March 2009 in Bishkek “Impact of the World Financial Crisis on the Caucasian and Central Asian Countries”, involving heads of national (central) banks of member countries, the representatives of the Presidential Administration and the Office of the Government, the representatives of international

financial organizations and embassies, accredited in the Kyrgyz Republic, as well as the representatives of the mass media. The press conference with the NBKR management and the IMF representatives was given on the results of this action.

The NBKR continued to inform the public of the progress in implementation of the State Program on Introduction of Non-Cash Payment System in 2009. Separate columns in the television broadcast “Natsbank Soobschayet” and in the radio broadcast “Uluttuk Bank Bildiret” were devoted to this subject and the explanation was provided for the goals and objectives of the State Program and progress was described with regard to implementation of individual components of the Payment System Modernization Project. The progress report on implementation of the State Program was published in the official NBKR’s publications, on the web-site of the NBKR and in the mass-media. The actions taken by the bank were covered in the NBKR’s Press Release.

Measures to expand noncash payment

With the view of informing the public and popularizing the national card “Elkart”, the new section “Integrated Interbank Processing Center” was opened in the section “Payment System” on the web-site of the NBKR to regularly update the list of trading and servicing enterprises serving the Elkart card. Information on the number of servicing outlets is provided on the regular basis in the Press Release of the NBKR, as well as in the television and radio broadcasts.

Elkart

The questions concerning the issue of regulating commercial banking and the lawmaking activity of the NBKR were brought to the notice of the public by means of basically the publications in the Press Release of explanations for the regulatory and legal acts adopted by the NBKR.

Banking system

With a view of informing the public, the press conference was organized and explanations were given about the goals and tasks of the LLC “Specialized Bank Refinancing Fund” established in pursuance of the Decree of the President of the Kyrgyz Republic, No 5 of January 8, 2009 “On Measures for Maintenance of Stability of the Banking System in the Kyrgyz Republic”. In addition, the specific columns in the television broadcast “Natsbank Soobschayet” and in the radio broadcast “Uluttuk Bank Bildiret” were devoted to this subject; the explanation was also given in the printed publications and on tapes of news agencies.

In the accounting period the National Bank carried out the work on the approval of the draft Memorandum of Understanding between the National Bank and the Deposit Protection Agency, which was signed in February 2009. The signing of the Memorandum of Understanding is aimed at strengthening interaction between the National Bank and the Deposit Protection Agency of the Kyrgyz Republic in order to increase the effectiveness of the deposit protection system, as well as to create the organizational framework of effective implementation of cooperation and information interaction on the issues arising in the course of start-up and functioning of the deposit protection system. Upon the signing of the Memorandum of Understanding, explanatory information was given on TV channels of the republic about the objectives of the DPS; the need for enhancement of confidence of the population in the banking system, the increase in the savings, the domestic investment resources, and promotion of stability of the financial system, in general.

Memorandum of Understanding

As in 2008, special attention was paid to information related to the issue of promoting the new banking products, in particular, to the issue of implementing Islamic banking. In January 2009, the management of the National Bank took part in the program one of the local TV channels on the following subject: “Islamic Financing Principles in the

Islamic financing principles

Kyrgyz Republic”. Answers to the questions raised during this TV program were published in the Press Release of the NBKR in the column “Public Chamber of the NBKR Answers Your Questions”. To explain the new banking products introduced in the market of Kyrgyzstan, Islamic banking, in particular. The NBKR experts gave their answers to the numerous questions of the mass-media; the comments were given on the newly adopted regulations in the field of Islamic banking, and the NBKR staff interviews were published.

Microfinancing

The NBKR continued informing in the accounting year of progress in the course of implementing the Medium-Term Microfinancing Development Strategy of the Kyrgyz Republic for 2006-2010. The specific publications were devoted to the 17th expanded session of the working group on monitoring progress in implementation of the Medium-Term Microfinancing Development Strategy of the Kyrgyz Republic for 2006-2010 for the year of 2008, with performance under the medium-term strategy summed up, as well as the actions on its implementation in 2009 specified. The public was also informed of the 18th session of the working group to review performance under the Medium-Term Microfinancing Development Strategy of the Kyrgyz Republic for 2006-2010 for the first half of 2009. All of the actions taken for implementation of the Strategy were described in the Press Release of the NBKR, the telecast “Natsbank Soobshayet” and the broadcast “Uluttuk Bank Bildiret”.

In addition, information posters were published on the procedure for obtaining the certificates by the microcredit companies and microcredit agencies, as well as on the procedure for obtaining the licenses by the credit unions.

With the view of informing of progress in development of credit unions, the articles were published in the mass media on the need for the more active practice of credit unions in attraction of resources of their members and of measures undertaken by the National Bank for stimulation of their activity. Information on registration, revocation and suspension of licenses, as well as other news of nonbank finance and credit institutions were published in press releases on the continuous basis with their subsequent placement on the web-site of the National Bank.

Issue of the fourth series banknotes into circulation

Due to issue of banknotes of 20, 50, 100, 5 000 soms of the fourth series into circulation in February 2009, the National Bank implemented the following: the briefing with its management and an information campaign that resulted in placement of information in the mass media; the large-scale distribution of video clips on the TV channels of the republic; publication of calendars and posters with the image and the description of an original design and improved protective features of banknotes of last generation, and presentations by NBKR experts and its regional managements in the mass-media.

Combating coinage offence

As part of the information campaign on combating coinage offence, a number of actions were taken to inform the population of protective features of banknotes of the fourth series. The certain work was carried out with the mass-media, the reports were given on many republican TV channels with explanations about the protective features of the banknote with the denominational value of 5 000 soms. With a view of increasing literacy of the population regarding the issue of protective elements of this banknote, the articles were published in the republican newspapers in Kyrgyz and Russian and a number of notes on the web-sites of news agencies. In addition, under this campaign, the posters were published with information on the protective features of the banknote with the denominational value of 5 000 soms and disseminated among the population and cashiers of commercial banks.

In April of the accounting year, the National Bank held the briefing on issue and presentation to the mass-media and the public of the series of collection coins devoted to the creative work of the world-famous writer Chingiz Aitmatov: “C. Aitmatov”, “Djamilya”, the “First Teacher”, and the “Parent Field”, “Good Bye, Gulsary!”, and the “White Steamship”.

Numismatic coins

At the briefing in November of the accounting year, the journalists were informed of the 10-som circulation coin and the information campaign was held to result later in placement of corresponding information in the mass media and video clips on TV channels of the republic; the answers to the numerous questions of the mass-media were given on the given subject.

Circulation coin

The NBKR consulted the population on all of the issues appertaining to the National Bank; arranged the meetings of the public with the management and experts of the National Bank on the specifically topical issues of the bank and the financial sphere; and worked with appeals and applications of citizens. Altogether, in 2009, the NBKR received about 3 000 appeals, with 387 appeals in writing. The principal topics of appeals in writing received by the National Bank during 2009, as in the recent years, were the requests for the data on the official exchange rate of foreign currencies vis-à-vis the Kyrgyz Som and the discount refinancing rate, established by the NBKR, on the procedures for opening of nonbank finance and credit institutions and the exchange of worn banknotes; on the cash turnover arrangements; as well as on the procedure for purchasing the GT-Bills.

Work with the appeals of citizens

In addition, the NBKR experts prepared and gave consultations on the procedure for getting the commercial bank credits in the republic for various objectives, including mortgage lending, on the issues of explaining legal bank-client relations, regulating the bank and nonbank institutions, on the procedure for repayment of deposits of bankrupt banks and on indexation of bank savings, on the arrangements for the cash turnover, remittances, as well as on the other issues. In addition, posters, brochures, and guidelines with regard to various lines of activity of the NBKR were disseminated through the NBKR’s Public Chamber.

In 2009, the NBKR continued organizing the traditional fact-finding seminars on the subject of the “Role and Functions of the NBKR as the Central Bank of the Country” for the high school students of the republic to explain the goals and objectives of the central bank of the country in the course of implementing the monetary policy and performing its assigned functions.

Training seminars

The official web-site of the NBKR is the major tool of informing the public, operationally providing equal access to information for all its external users. The updated version of the NBKR’s web-site was launched in September and could be found at the following address in the Internet: www.nbkr.kg. The new web-site is of the modern design and is convenient for navigation. In addition, the new sections and sub items were created and information was expanded in its existing sections. The search system was created on the new web-site of the NBKR and information is classified on the main page. The web-site of the NBKR is maintained, updated, and developed in three languages: Kyrgyz, Russian and English.

NBKR web-site

III

**FINANCIAL STATEMENTS OF THE
NATIONAL BANK OF THE
KYRGYZ REPUBLIC FOR 2009**

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CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

7.1. STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

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

Management of the National Bank is responsible for the preparation of the consolidated financial statements that present fairly the financial position of the National Bank as at 31 December 2009, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with the Accounting Policy of the National Bank based on International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

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

The consolidated financial statements for the year ended 31 December 2009 were authorized for issue on 31 March 2010 by Management Board of National Bank.

Alapaev M.O.
Chairman

31 March 2010
Bishkek
Kyrgyz Republic

Aidarkulov Sh. A.
Chief accountant

31 March 2010
Bishkek
Kyrgyz Republic

7.2. INDEPENDENT AUDITORS' REPORT

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 2009 and the consolidated income statements, the statements of comprehensive income, the statements of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects the financial position of the National Bank as at 31 December 2009, and its financial performance and cash flows for the year then ended in accordance with the basis of preparation as described in Note 3 to the consolidated financial statements.

31 March 2010
Grant Thornton Amyot LLC

7.3. CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2009*(in KGS and in thousands)*

	Notes	31 December 2009	31 December 2008
ASSETS:			
Precious metals	6	4,002,740	2,785,358
Due from banks and other financial institutions	7	44,568,992	22,615,524
Loans extended	8	68,166	2,441
Investments available-for-sale	9	20,800,020	22,249,147
Investments held to maturity	10	3,405,315	3,505,088
Property, plant and equipment	11	485,997	499,170
Intangible assets	12	18,112	63,601
Other assets	13	<u>878,141</u>	<u>740,083</u>
TOTAL ASSETS		<u>74,227,483</u>	<u>52,460,412</u>
LIABILITIES AND EQUITY			
LIABILITIES:			
Banknotes and coins in circulation	14	35,738,688	30,803,279
Due to banks and other financial institutions	15	8,549,438	4,395,994
Accounts of the Government of the Kyrgyz Republic		3,980,348	4,774,147
Debt securities issued	16	1,059,543	1,641,751
Loans received	17	13,457,660	6,762,686
Other liabilities	18	<u>89,778</u>	<u>181,033</u>
TOTAL LIABILITIES		<u>62,875,455</u>	<u>48,558,890</u>
EQUITY:			
Charter capital	19	300,000	300,000
Required reserves		1,614,322	1,282,357
Precious metals and foreign currency revaluation reserve		8,715,341	1,183,329
Investments available-for-sale fair value reserve		1,878	29,286
Retained earnings		<u>720,487</u>	<u>1,106,550</u>
TOTAL EQUITY		<u>11 352 028</u>	<u>3,901,522</u>
TOTAL LIABILITIES AND EQUITY		<u>74 227 483</u>	<u>52,460,412</u>

Alapaev M.O.
Chairman

31 March 2010
Bishkek
Kyrgyz Republic

Aidarkulov Sh. A.
Chief accountant

31 March 2010
Bishkek
Kyrgyz Republic

The notes on pages 9(117)-43(151) form an integral part of these consolidated financial statements.

7.4. CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2009*(in KGS and in thousands)*

	Notes	Year ended 31 December 2009	Year ended 31 December 2008
Interest income	20	811,586	2,110,558
Interest expense	20	(210,847)	(311,379)
NET INTEREST INCOME		<u>600,739</u>	<u>1,799,179</u>
Fee and commission income		12,046	10,379
Fee and commission expense		(1,393)	(1,324)
NET FEE AND COMMISSION INCOME		<u>10,653</u>	<u>9,055</u>
(Provision)/recovery of provision for impairment losses on assets	21	151,293	(318,875)
Net gain on precious metals and foreign exchange operations			
Other income	22	535,726 24,392	86,028 30,362
NET NON-INTEREST INCOME/(EXPENSE)		<u>711,411</u>	<u>(202,485)</u>
OPERATING INCOME		<u>1,322,803</u>	<u>1,605,749</u>
Administrative expenses	23	(403,784)	(354,855)
Expenses related to issuance of banknotes and coins in circulation		(161,483)	(139,510)
Other expenses		(37,049)	(4,834)
OPERATING EXPENSES		<u>(602,316)</u>	<u>(499,199)</u>
PROFIT FOR THE YEAR	24	<u>720,487</u>	<u>1,106,550</u>

Alapaev M.O.
Chairman

31 March 2010
Bishkek
Kyrgyz Republic

Aidarkulov Sh. A.
Chief accountant

31 March 2010
Bishkek
Kyrgyz Republic

The notes on pages 9(117)-43(151) form an integral part of these consolidated financial statements.

**7.5. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED
31 DECEMBER 2009**
(in KGS and in thousands)

Notes	Year ended 31 December 2009	Year ended 31 December 2008
PROFIT FOR THE YEAR	720,487	1,106,550
OTHER COMPREHENSIVE INCOME:		
Net unrealized gain from revaluation of precious metals and foreign currency	7,532,012	1,183,329
Net unrealized gain/(loss) from changes in fair value of investments available-for-sale	(27,408)	26,232
	<hr/>	<hr/>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>8,225,091</u>	<u>2,316,111</u>

Alapaev M.O.
Chairman

31 March 2010
Bishkek
Kyrgyz Republic

Aidarkulov Sh. A.
Chief accountant

31 March 2010
Bishkek
Kyrgyz Republic

The notes on pages 9(117)-43(151) form an integral part of these consolidated financial statements.

7.6. STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2009

(in KGS and in thousands)

	Notes	Charter capital	Required reserves	Precious metals and foreign currency revaluation reserve	Investments available-for-sale fair value reserve	Retained earnings	Total equity
31 December 2007		50,000	1,193,530	-	3,054	1,129,424	2,376,008
Distribution of prior year profit to the Government budget		-	-	-	-	(790,597)	(790,597)
Transfer of prior year profit to reserves		-	338,827	-	-	(338,827)	-
Transfer of reserves to charter capital	19	250,000	(250,000)	-	-	-	-
Total		<u>250,000</u>	<u>88,827</u>	<u>-</u>	<u>-</u>	<u>(1,129,424)</u>	<u>(790,597)</u>
Profit for the year		-	-	-	-	1,106,550	1,106,550
Other comprehensive income:							
Net unrealized gain from revaluation of precious metals and foreign currency		-	-	1,183,329	-	-	1,183,329
Net unrealized gain from changes in fair value of investments available-for-sale		-	-	-	26,232	-	26,232
Total		<u>-</u>	<u>-</u>	<u>1,183,329</u>	<u>26,232</u>	<u>1,106,550</u>	<u>2,316,111</u>
31 December 2008		<u>300,000</u>	<u>1,282,357</u>	<u>1,183,329</u>	<u>29,286</u>	<u>1,106,550</u>	<u>3,901,522</u>
Distribution of prior year profit to the Government budget	19	-	-	-	-	(774,585)	(774,585)
Transfer of prior year profit to reserves		-	331,965	-	-	(331,965)	-
Total		<u>-</u>	<u>331,965</u>	<u>-</u>	<u>-</u>	<u>(1,106,550)</u>	<u>(774,585)</u>
Profit for the year		-	-	-	-	720,487	720,487
Other comprehensive income:							
Net unrealized gain from revaluation of precious metals and foreign currency		-	-	7,532,012	-	-	7,532,012
Net unrealized loss from changes in fair value of investments available-for-sale		-	-	-	(27,408)	-	(27,408)
Total		<u>-</u>	<u>-</u>	<u>7,532,012</u>	<u>(27,408)</u>	<u>720,487</u>	<u>8,225,091</u>
31 December 2009		<u>300,000</u>	<u>1,614,322</u>	<u>8,715,341</u>	<u>1,878</u>	<u>720,487</u>	<u>11,352,028</u>

Alapaev M.O.
Chairman

31 March 2010
Bishkek
Kyrgyz Republic

Aidarkulov Sh. A.
Chief accountant

31 March 2010
Bishkek
Kyrgyz Republic

The notes on pages 9(117)-43(151) form an integral part of these consolidated financial statements.

7.7. CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2009

(in KGS and in thousands)

	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Interest and fee and commission received	567,649	1,356,771
Interest and fee and commission paid	(145,911)	(223,761)
Realized gain on foreign exchange operations	100,955	99,514
Other income	21,096	33,886
Payroll expenses	(210,252)	(164,148)
Administrative expenses	(343,553)	(268,299)
Cash inflow/(outflow) from operating activities before changes in operating assets and liabilities	(10,016)	833,963
Changes in operating assets and liabilities		
<i>(Increase)/decrease in operating assets:</i>		
Due from banks and other financial institutions	(14,925,952)	(3,617,143)
Investments available-for-sale	5,757,637	(8,533,857)
Loans extended	(65,352)	1,093
Other assets	(29,314)	(143)
<i>Increase/(decrease) in operating liabilities:</i>		
Banknotes and coins in circulation	4,935,410	3,241,426
Due to banks and other financial institutions	4,118,610	172,614
Accounts of Government of the Kyrgyz Republic	(1,791,092)	(492,755)
Debt securities issued/(redeemed) in the normal course of business	(582,445)	215,245
Other liabilities	(94,160)	99,204
Net cash outflow from operating activities	(2,686,674)	(8,080,353)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property, equipment and intangible assets	(84,512)	(112,764)
Sale of property, equipment and intangible assets	4,920	-
Proceeds on sale of investments in the organizations' equity	-	13,000
Purchase of investment securities	(496,633)	-
Proceeds on redemption of investments held to maturity	64,352	379,342
Interest received on investments held-to-maturity	97,076	98,049
Dividends received	3,011	2,143
Net cash inflow/(outflow) from investing activities	(411,786)	379,770

7.7. CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2009

(in KGS and in thousands)

	Year ended 31 December 2009	Year ended 31 December 2008
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds on loans received	6,932,133	1,637,592
Repayments on loans received	<u>(1,180,725)</u>	<u>(905,870)</u>
Net cash inflow from financing activities	<u>5,751,408</u>	<u>731,722</u>
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,652,948	(6,968,861)
<i>Effect of changes in foreign exchange rate on cash and cash equivalents</i>	<u>1,802,472</u>	<u>507,153</u>
CASH AND CASH EQUIVALENTS, beginning of year (Note 7)	<u>11,254,155</u>	<u>17,715,863</u>
CASH AND CASH EQUIVALENTS, end of year (Note 7)	<u>15,709,575</u>	<u>11,254,155</u>

Alapaev M.O.
Chairman

31 March 2010
Bishkek
Kyrgyz Republic

Aidarkulov Sh. A.
Chief accountant

31 March 2010
Bishkek
Kyrgyz Republic

The notes on pages 9(117)-43(151) form an integral part of these consolidated financial statements.

7.8. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2009

(in KGS and in thousands)

1. ORGANIZATION

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

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

The basic functions of the Bank include:

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

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

As at 31 December 2009 and 2008 the National Bank has 5 regional departments and a representative office operating in oblasts of the Kyrgyz Republic.

As at 31 December 2009 and 2008 the number of the National Bank employees was 558 and 600, respectively.

The subsidiaries of National Bank are “Financial company for support and development of credit unions” LLC and “Specialized Fund for Banks Refinancing” LLC. The National Bank is the 100% shareholder of both companies. As described in Note 3, the financial statements of “Financial Company for support and development of credit unions” LLC are not consolidated with the financial statements of the National Bank.

“Specialized Fund for Banks Refinancing” LLC was established by the Decree #5 of the President of Kyrgyz Republic dated 8 January 2009. The charter capital of the company comprises KGS 2 000 000 thousand, which was completely paid by the National Bank. The company performs its activities as a specialized fund for refinancing of banks based on the license #3 granted by the National Bank of Kyrgyz Republic on 6 May 2009. The main objective of the company’s activities is to provide financial resources to commercial banks and micro-credit organizations for liquidity purposes and financing the national economy. The financial statements of “Specialized Fund for Banks Refinancing” LLC are

consolidated into these consolidated financial statements. The income and profit of “Specialized Fund for Banks Refinancing” LLC since its establishment date included in these consolidated financial statements comprise KGS 12 533 thousand and KGS 3 811 thousand respectively.

These consolidated financial statements were authorized for issue by the Management Board of the National Bank on 31 March 2010.

2. OPERATING ENVIRONMENT IN THE KYRGYZ REPUBLIC

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

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

3. BASIS OF PREPARATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Accounting basis

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

These consolidated financial statements have been prepared in accordance with the Accounting policy of the National Bank which was approved by the Management of the National Bank on 10 December 2003. The accounting policy of the National Bank is based on IFRS issued by the International Accounting Standards Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) with some modifications described below:

- Precious metals are carried at market value and the total net unrealized gain from the mark to market of precious metals and foreign currency assets and liabilities revaluation is recognized directly in equity before deductions of possible deferred distributions. The total net unrealized loss from the mark to market of gold and silver and foreign currency assets and liabilities revaluation is recognized in the income statement except to the extent that it reverses a previous net unrealized gain, in which case it is recognized directly in equity.
- The financial statement of “Financial Company for support and development of credit unions” LLC is not consolidated into the financial statements of the National Bank. Investment in this company is temporal, presented as asset available-for-sale and carried at cost. Impairment losses and reversals of impairment losses in respect of these investments are recognized in the income statement.

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

Functional currency

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

4. SIGNIFICANT ACCOUNTING POLICIES

Consolidation

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

Recognition and measurement of financial instruments

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

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

Cash and cash equivalents

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

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

Precious metals

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

Due from banks and other financial institutions

In the normal course of business, the National Bank maintains advances and deposits for various periods of time with banks and other financial institutions. Due from banks are initially recognized at

fair value. Due from banks and other financial institutions with a fixed maturity term are subsequently measured at amortized cost using the effective interest method, and are carried net of any allowance for impairment losses. Those that do not have fixed maturities are carried at amortized cost based on expected maturities.

Investments available-for-sale

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

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

Investments held to maturity

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

Allowance for impairment losses

Assets carried at amortized cost

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

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

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

Available-for-sale financial assets

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

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

Derecognition of financial assets and liabilities

Financial assets

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

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

A financial asset is derecognized when it has been transferred and the transfer qualifies for derecognition. A transfer requires that the National Bank either: (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. After a transfer, the National Bank reassesses the extent to which it has retained the risks and rewards of ownership of the transferred asset. If substantially all the risks and rewards have been retained, the asset remains on the balance sheet. If substantially all of the risks and rewards have been transferred, the asset is derecognized. If substantially all the risks and rewards have been neither retained nor transferred, the National Bank assesses whether or not it has retained control of the asset. If it has not retained control, the asset is derecognized. Where the National Bank has retained control of the asset, it continues to recognize the asset to the extent of its continuing involvement.

Financial liabilities

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

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

Property, equipment and intangible assets

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

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

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

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

Taxation

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

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

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

Charter capital and reserves

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

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

Recognition of income and expense

Recognition of interest income and expense

Interest income and expense are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

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

Recognition of fee and commission income and expense

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

Foreign currency translation

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

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

Rates of exchange

The exchange rates used by the National Bank in the preparation of the consolidated financial statements as at 31 December 2009 and 2008 are as follows:

	31 December 2009	31 December 2008
som/US dollar	44.0917	39.4181
som/euro	63.5229	55.4790
som/special drawing rights	69.1644	60.8466
som/Canadian dollar	41.9901	32.4723
som/Australian dollar	39.0167	26.9955
som/Swiss franc	42.5657	36.6799
som/Great Britain pound sterling	70.4012	58.2067

Depository functions

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

Areas of significant management judgment and sources of estimation uncertainty

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

Valuation of Financial Instruments

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

The National Bank considers that the accounting estimate related to valuation of financial instruments where quoted markets prices are not available is a key source of estimation uncertainty because the impact that recognizing a change in the valuations would have on the assets reported on its balance sheet as well as its profit/(loss) could be material.

Had management used different assumptions regarding the interest rates, volatility, exchange rates, the credit rating of the counterparty and valuation adjustments, a larger or smaller change in the valuation of financial instruments where quoted market prices are not available would have resulted that could have had a material impact on the National Bank's reported net income.

Adoption of new and revised standards

In the current year, the National Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods ending on 31 December 2009. The standards and interpretations which have had effect on the consolidated financial statements are presented below:

IAS 1 Presentation of Financial Statements (revised 2007)

The National Bank applies revised IAS 1 Presentation of Financial Statements (2007), which became effective for annual periods beginning on 1 January 2009. This standard affects the presentation of statements of changes in equity and introduces a statement of comprehensive income. The National Bank presents income and expense and components of other comprehensive income separately as income statement and statement of comprehensive income. The revised standard also proposes, but does not require other headings for the main financial reports comprising financial statements. The adoption of the standard does not affect the financial position or profits of the National Bank, but gives rise to additional disclosures.

Comparative information has been re-presented so that it also is in conformity with the revised standard.

IFRS 7 (Amendment) 7 Financial Instruments: Disclosures (effective from January 1, 2009)

The National Bank has implemented the improvements made to IFRS 7 in March 2009. The effective date of the amendments is 1 January 2009. The amendments extend and specify the disclosures for the fair value of financial instruments (see note 28).

Early partial application of IAS 24 *Related Party Disclosures (revised 2009)*

The National Bank chooses to early and partially apply revised IAS 24 Related Party Disclosures which will become effective for annual reporting periods beginning on or after 1 January 2011 and permits its early application. In accordance with the amended IAS 24, the National Bank is exempted from ordinary disclosures for the following operations prescribed by the current IAS 24 with:

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

Disclosure of the information stipulated by the new IAS 24 (revised 2009) is presented in Note 27.

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

At the date of authorization of these consolidated financial statements, certain new Standards, amendments and interpretations to the existing Standards have been published but are not yet effective except for IAS 24 *Related Party Disclosures (revised 2009)* early applied by the National Bank. Management anticipates that all of the new standards and interpretations will be adopted by the National Bank for the first period beginning after their effective date. New Standards, amendments and interpretations to the existing Standards not yet effective but may be applied to the consolidated financial statements of the National Bank in the future are presented below. Certain other new standards, amendments and interpretations have been published, but will not probably be applicable to the consolidated financial statements of the National Bank.

IFRS 3 *Business Combinations (revised 2008)*

This standard is applicable for business combinations occurring in reporting periods beginning on or after July 1, 2009 and will be applied prospectively. The new standard introduces changes to the accounting requirements for business combinations, but still requires the use of the acquisition method.

IAS 27 *Consolidated and Separate Financial Statements (revised 2008)*

The revised standard introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in an entity's interest in subsidiaries. The standard will be applied for annual periods beginning on or after 1 July 2009.

Annual improvements 2009

In April 2009 the IASB has published *Improvements to IFRSs* ('2009 Improvements') which makes minor amendments to a number of International Financial Reporting Standards (IFRSs). This publication completes the IASB's second round of annual improvements. Most of these improvements become effective in annual periods beginning on January 1, 2010.

IAS 7 (Amendment) *Statement of Cash Flows*

Amends IAS 7 to state explicitly that only an expenditure that results in a recognized asset can be classified as cash flows from investing activities. IAS 7 (Amendment) will be applied retrospectively for annual periods beginning on or after 1 January 2010.

IAS 17 (Amendment) *Leases*

Amendment to IAS 17 clarifying that when a lease includes both land and buildings elements, an entity assesses the classification of each element as a finance or an operating lease separately in accordance with the general guidance on lease classification in paragraphs 7-13 of IAS 17. IAS 17 (Amendment) will be applied retrospectively for annual periods beginning on or after 1 January 2010.

5. RECLASSIFICATIONS

Certain reclassifications have been made to the consolidated financial statements as at 31 December 2008 and for the year then ended to conform to the presentation as at 31 December 2009 and for the year then ended as current year presentation provides better view of the financial position of the National Bank.

Nature of reclassifications	Amount	Before reclassification	After reclassification
Loans less allowance for impairment losses	2,441	-	2,441
Other assets	(2,441)	742,524	740,083
Other income	4,834	25,528	30,362
Other expenses	(4,834)	-	(4,834)
Intangible assets (intangible assets for installation)	4,848	58,753	63,601
Fixed assets (equipment for installation and assets under construction)	(4,848)	504,018	499,170

6. PRECIOUS METALS

Precious metals comprise:

	31 December 2009	31 December 2008
Gold in deposits	4,002,460	2,833,091
Silver in deposits	280	155
	<u>4,002,740</u>	<u>2,833,246</u>
Allowance for impairment losses	-	(47,888)
Total precious metals	<u><u>4,002,740</u></u>	<u><u>2,785,358</u></u>

Weight of gold and silver has not changed and as of 31 December 2009 and 2008 are 83,090 ounces and 364 ounces respectively.

Movements in allowance for impairment losses on precious metals for the years ended 31 December 2009 and 2008 are disclosed in Note 21.

7. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks comprise:

	31 December 2009	31 December 2008
Term deposits	29,389,182	11,960,529
Current accounts	15,418,755	10,986,933
Accrued interest	13,306	52,973
	<u>44,821,243</u>	<u>23,000,435</u>
Allowance for impairment losses	<u>(252,251)</u>	<u>(384,911)</u>
Total due from banks and other financial institutions	<u>44,568,992</u>	<u>22,615,524</u>

Movements in allowance for impairment losses on balances due from banks and other financial institutions for the years ended 31 December 2009 and 2008 are disclosed in Note 21.

As at 31 December 2009 and 2008 the National Bank had balances due from 4 and 3 banks, respectively, which individually exceeded 10% of total balance due from banks and other financial institutions.

As at 31 December 2009 and 2008 the maximum credit risk exposure on due from banks and other financial institutions amounted to KGS 44,568,992 thousand and KGS 22,615,524 thousand, respectively.

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

	31 December 2009	31 December 2008
Due from banks	15,418,755	10,986,933
Cash on hand in foreign currency (Note 13)	290,820	267,222
Total cash and cash equivalents	<u>15,709,575</u>	<u>11,254,155</u>

8. LOANS EXTENDED

	31 December 2009	31 December 2008
Provided by "Specialized Fund for Banks Refinancing" LLC	67,285	-
To commercial banks extended within EBRD program for small and medium sized enterprises	401,931	374,096
	<u>469,216</u>	<u>374,096</u>
Allowance for impairment losses	<u>(401,050)</u>	<u>(371,655)</u>
Total loans extended	<u>68,166</u>	<u>2,441</u>

Reconciliation of allowance account for losses on loans for the years ended 31 December 2009 and 2008 is presented in Note 21.

9. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprise:

	31 December 2009		31 December 2008	
	Market interest rate	Amount	Market interest rate	Amount
At fair value:				
Debt instruments – Quoted				
<i>Australian Treasury Bonds</i>	4.04%	7,620,711	4.18%	5,228,239
<i>Swiss Treasury Bonds</i>	0.13%	6,385,867	-	-
<i>Germany Treasury Bonds</i>	0.45%	6,095,641	1.74%	2,850,917
<i>US Treasury Bonds</i>	0.45%	444,573	0.61%	399,328
<i>Debt securities of the International Financial Organizations</i>	0.11%	<u>238,228</u>	0.78%	<u>13,755,663</u>
Total investments available-for-sale at fair value		<u>20,785,020</u>		<u>22,234,147</u>
At cost:				
“Financial Company for support and development of credit unions” LLC	-	15,000	-	15,000
Total investments available-for-sale		<u>20,800,020</u>		<u>22,249,147</u>

10. INVESTMENTS HELD TO MATURITY

	31 December 2009		31 December 2008	
	Effective interest rate	Amount	Effective interest rate	Amount
Unpledged debt securities				
<i>Kyrgyz Republic Treasury Bonds</i>	8.72%	<u>3,405,315</u>	14.89%	<u>3,505,088</u>
Total investments held to maturity		<u>3,405,315</u>		<u>3,505,088</u>

11. PROPERTY, PLANT & EQUIPMENT

	Buildings and constructions	Furniture and equipment	Computers	Vehicles	Equipment for installation and construction in progress	Total
At initial cost						
31 December 2007	155,878	84,279	146,085	17,940	179,806	583,988
Additions	18,733	21,375	5,221	16,525	24,995	86,849
Transfers	1,646	3,635	16,329	-	(21,610)	-
Disposals	(1,331)	(7,310)	(12,662)	(8,191)	(362)	(29,856)
31 December 2008	174,926	101,979	154,973	26,274	182,829	640,981
Additions	15,934	17,842	26,569	-	21,195	81,540
Transfers	757	942	1,657	-	(3,356)	-
Disposals	(851)	(23,861)	(41,121)	(577)	(11)	(66,421)
31 December 2009	190,766	96,902	142,078	25,697	200,657	656,100
Accumulated depreciation and impairment						
31 December 2007	26,065	26,410	48,226	11,072	-	111,773
Charge for the year	5,968	18,620	29,043	5,896	-	59,527
Eliminated on disposals	(1,331)	(7,305)	(12,662)	(8,191)	-	(29,489)
31 December 2008	30,702	37,725	64,607	8,777	-	141,811
Charge for the year	6,382	19,698	28,513	5,188	-	59,781
Eliminated on disposals	(235)	(10,475)	(20,203)	(576)	-	(31,489)
31 December 2009	36,849	46,948	72,917	13,389	-	170,103
Net book value						
As at 31 December 2009	153,917	49,954	69,161	12,308	200,657	485,997
As at 31 December 2008	144,224	64,254	90,366	17,497	182,829	499,170

Assets under construction

In November 2009 the National Bank continued reconstruction of a building on Akiev Street for its new administrative office. The costs to complete the building are estimated to be KGS 589 419 thousand and works are expected to be completed in May 2011.

12. INTANGIBLE ASSETS

	Intangible assets for installation	Software and licenses	Total
At initial cost			
31 December 2007	7,867	86,876	94,743
Additions	4,848	23,148	27,996
Transfers	(7,867)	7,867	-
Disposals	-	(1,471)	(1,471)
31 December 2008	4,848	116,420	121,268
Additions	-	3,778	3,778
Transfers	(4,848)	4,848	-
Disposals	-	(33,648)	(33,648)
31 December 2009	-	91,398	91,398
Accumulated depreciation and impairment			
31 December 2007	-	30,556	30,556
Charge for the year	-	28,582	28,582
Eliminated on disposals	-	(1,471)	(1,471)
31 December 2008	-	57,667	57,667
Charge for the year	-	29,148	29,148
Eliminated on disposals	-	(13,529)	(13,529)
31 December 2009	-	73,286	73,286
Net book value			
As at 31 December 2009	<u>-</u>	<u>18,112</u>	<u>18,112</u>
As at 31 December 2008	<u>4 848</u>	<u>58,753</u>	<u>63,601</u>

13. OTHER ASSETS

Other assets comprise:

	31 December 2009	31 December 2008
Other financial assets:		
Impaired receivables of entities	34,030	34,169
Cash on hand in foreign currency	290,820	267,222
Other assets	109,819	71,501
	<u>434,669</u>	<u>372,892</u>
Allowance for impairment losses	<u>(34,152)</u>	<u>(34,292)</u>
Other financial assets	<u>400,517</u>	<u>338,600</u>
Other non-financial assets:		
Inventory	394,171	320,104
Prepayments	69,523	71,821
Other assets	13,930	9,558
	<u>477,624</u>	<u>401,483</u>
Total other assets	<u>878,141</u>	<u>740,083</u>

Movements in allowance for impairment losses on other assets for the years ended 31 December 2009 and 2008 are disclosed in Note 21.

14. BANKNOTES AND COINS IN CIRCULATION

Banknotes and coins in circulation comprise:

	31 December 2009	31 December 2008
Banknotes and coins in circulation	36,551,121	31,429,550
Banknotes and coins in operating cash	<u>(812,433)</u>	<u>(626,271)</u>
Total banknotes and coins in circulation	<u>35,738,688</u>	<u>30,803,279</u>

15. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise:

	31 December 2009	31 December 2008
Current accounts of commercial banks	5,804,904	3,835,072
Current accounts of other financial institutions	2,700,442	48,487
Term deposits of banks and other financial institutions	<u>44,092</u>	<u>512,435</u>
Total due to banks and other financial institutions	<u>8,549,438</u>	<u>4,395,994</u>

As at 31 December 2009 and 2008 the National Bank had balances due to banks and other financial institutions, which individually exceeded 10% of net assets of the National Bank:

	31 December 2009	31 December 2008
Development Fund of Kyrgyz Republic CJSC	2,645,536	-
AsiaUniversalBank OJSC	1,814,999	957,663
Bank Bakai OJSC	-	622,451
Demir Kyrgyz International Bank CJSC	-	444,142
ATFBank-Kyrgyzstan OJSC	-	390,257
	<u>4,460,535</u>	<u>2,414,513</u>

16. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	31 December 2009	31 December 2008
Debt securities issued	<u>1,059,543</u>	<u>1,641,751</u>
Total debt securities issued	<u>1,059,543</u>	<u>1,641,751</u>

As at 31 December 2009 and 2008 debt securities issued included balances with following counterparties, which individually exceeded 10% of the total balance on debt securities issued:

	31 December 2009	31 December 2008
BTA Bank OJSC	217,469	-
DocCredobank OJSC	179,934	-
Demir Kyrgyz International Bank CJSC	148,904	348,071
Issyk-Kul Investment Bank OJSC	141,587	218,341
AsiaUniversalBank OJSC	<u>125,066</u>	<u>375,587</u>
	<u>812,960</u>	<u>941,999</u>

As at 31 December 2009 and 2008 accrued interest expense included in debt securities issued amounted to KGS 257 thousand and KGS 7,526 thousand, respectively.

17. LOANS RECEIVED

Loans received comprise:

	Currency	Maturity	31 December 2009	31 December 2008
Funding by International Monetary Fund	SDR	2010	13,236,990	6,499,390
Funding by the Ministry of Finance of the Kyrgyz Republic	USD	2016	126,779	138,824
Funding by European Bank for Reconstruction and Development	USD	2012	<u>93,891</u>	<u>124,472</u>
Total loans received			<u>13,457,660</u>	<u>6,762,686</u>

As at 31 December 2009 and 2008 accrued interest expense included in other borrowed funds amounted to KGS 8,845 thousand and KGS 6,544 thousand, respectively.

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

The National Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities during the period (2008: nil).

18. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2009	31 December 2008
Other financial liabilities:		
Accumulated account for forming of charter capital of commercial banks	-	100,000
Amounts due to the central banks of the CIS	55,624	50,449
Accounts payable	24,694	18,918
Other liabilities	153	396
Other financial liabilities	<u>80,471</u>	<u>169,763</u>
Other non-financial liabilities:		
Future periods income	9,302	11,270
Prepayments	5	-
Total other liabilities	<u>89,778</u>	<u>181,033</u>

19. CHARTER CAPITAL

As at 31 December 2009 and 2008 charter capital of the National Bank established by the Law “On the National Bank of the Kyrgyz Republic” amounted to KGS 300,000 thousand.

In accordance with the Law “On amendments and supplements to the Law on the National Bank of the Kyrgyz Republic” dated 28 March 2009 since 1 January 2010 the charter capital of the National Bank shall comprise KGS 1 000 000 thousand. On 17 March 2010 the Government of the Kyrgyz Republic issued treasury bonds in the amount of KGS 619,000 thousand for replenishment of charter capital of the National Bank. The remaining part of charter capital amounting to KGS 81,000 thousand will be replenished during April 2010.

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

On 9 April and 30 June 2009 the net profit distributable to the budget of the Government of the Kyrgyz Republic earned for the year 2008 in the amount of KGS 774,585 thousand was approved.

Non-distributable reserves are represented with required reserves created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. These reserves are created in accordance with the Law “On the National Bank of the Kyrgyz Republic” providing for creation of such reserves for above-mentioned purposes in the amount limited to 10% of the monetary liabilities of the National Bank taking into consideration the

charter capital of the Bank. For these purposes the Bank distributes the profit of the National Bank received in the previous year. The distribution of 30% of National Bank's profit for the year 2008 into the required reserves comprised KGS 331,965 thousand.

20. NET INTEREST INCOME

	Year ended 31 December 2009	Year ended 31 December 2008
Interest income comprises:		
Interest on due from banks and other financial assets	145,980	746,622
Interest on investments available-for-sale	357,926	621,491
Interest on investments held-to-maturity	292,162	721,964
Interest on other financial assets	15,518	20,481
	<u>811,586</u>	<u>2,110,558</u>
Total interest income		
Interest expense comprises:		
Interest on debt securities issued	89,406	122,305
Interest on accounts of Government of the Kyrgyz Republic	60,896	91,036
Interest on loans received	47,049	36,081
Interest on amount payable under sale and repurchase agreements	8,730	16,371
Interest on due to banks and other financial institutions	373	42,768
Interest on other financial liabilities	4,393	2,818
	<u>210,847</u>	<u>311,379</u>
Total interest expense		
Net interest income	<u><u>600,739</u></u>	<u><u>1,799,179</u></u>

21. ALLOWANCE FOR IMPAIRMENT LOSSES ON FINANCIAL ASSETS

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

	Precious metals	Due from banks and other finan- cial institutions	Other financial assets	Loans extended	Total
31 December 2007	-	137,240	34,372	346,760	518,372
Creation/(Recovery) of reserves	47,888	247,671	(1,579)	24,895	318,875
Recoveries of assets previously written off	-	-	1,499	-	1,499
	<u>47,888</u>	<u>384,911</u>	<u>34,292</u>	<u>371,655</u>	<u>838,746</u>
31 December 2008	47,888	384,911	34,292	371,655	838,746
Creation/(Recovery) of reserves	(47,888)	(132,660)	(140)	29,395	(151,293)
	<u>(47,888)</u>	<u>(132,660)</u>	<u>(140)</u>	<u>29,395</u>	<u>(151,293)</u>
31 December 2009	<u><u>-</u></u>	<u><u>252,251</u></u>	<u><u>34,152</u></u>	<u><u>401,050</u></u>	<u><u>687,453</u></u>

22. NET GAIN ON PRECIOUS METALS AND FOREIGN EXCHANGE OPERATIONS

Net gain on precious metals and foreign exchange operations:

	Year ended 31 December 2009	Year ended 31 December 2008
Net realized gain on foreign exchange operations and changes in foreign currency positions	535,726	86,028
Total net gain on precious metals and foreign exchange operations	535,726	86,028

23. ADMINISTRATIVE EXPENSES

Administrative expenses comprise:

	Year ended 31 December 2009	Year ended 31 December 2008
Employee compensations	175,880	137,298
Depreciation and amortization	88,929	88,109
Repair and maintenance	48,310	42,550
Contribution to the Social Fund	34,372	26,850
Communication	10,072	8,867
Staff training	8,172	9,641
Subscription	6,817	8,893
Entertainment expenses	5,897	5,816
Professional services	5,588	7,554
Travel expenses	5,449	5,791
Stationery	3,851	3,840
Other	10,447	9,646
Total administrative expenses	403,784	354,855

24. PROFIT FOR THE YEAR

Consolidated profit of the National Bank for the year 2009 includes profit of the National Bank, subject to distributions, amounting to KGS 716,676 thousand.

25. COMMITMENTS AND CONTINGENCIES

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

As at 31 December 2009 and 2008 the total quantity of customer securities recorded at the National Bank's depository accounts amounted to 43,509,752 and 28,075,218, respectively.

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

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

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

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

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

As at 31 December 2009 the National Bank has financial assets amounting to KGS 73 245 750 thousand (KGS 51 496 158 thousand as at 31 December 2008). The recoverability of these financial assets depends to a large extent on the efficacy of the fiscal measures and other measures and other actions, beyond the National Bank’s control, undertaken within various countries to achieve economic stability and recovery. The recoverability of the National Bank’s financial assets is determined based on conditions prevailing and information available as at balance sheet date. It is the management’s opinion that no additional provision on financial assets is needed at present, based on prevailing conditions and available information.

26. AGENCY FUNCTIONS

Membership quota of the Kyrgyz Republic in the International Monetary Fund

In 1992 the Kyrgyz Republic joined the International Monetary Fund (the “IMF”). A membership quota expressed in Special Drawing Rights (“SDRs”) is assigned to each member of the IMF. The membership quota is the basis for determining access of the country to IMF financing. The quota of the Kyrgyz Republic as at 31 December 2009 and 2008 amounted to SDR 88 800 012.

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

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

	31 December 2009	31 December 2008
IMF membership quota	6,138,065	5,391,457
Securities in favor of the IMF	6,122,374	5,377,675
IMF current accounts	15,691	13,782
	<u>6,138,065</u>	<u>5,391,457</u>

Loan from International Development Association

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

	31 December 2009	31 December 2008
Loans to commercial banks	1,082	3,474
	<u>1,082</u>	<u>3,474</u>

Loan from the Export and Credit Bank of Turkey

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

The outstanding amounts payable by the Government of the Kyrgyz Republic to Eximbank under debt restructuring agreement were KGS 2,196,086 thousand and KGS 1,972,917 thousand as at 31 December 2009 and 2008, respectively.

27. TRANSACTIONS WITH RELATED PARTIES

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

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

In this case the Government of the Kyrgyz Republic on behalf of the Ministry of Finance of the Kyrgyz Republic is a related party with the National Bank. The National Bank is a bank of the Kyrgyz Republic and is under its ownership. The transactions with the Ministry of Finance of the Kyrgyz

Republic comprise investments in debt securities held to maturity (Note 9), and accounts of Ministry of Finance of the Kyrgyz Republic presented in the consolidated statement of financial position and included note 17. Interest income and expenses are disclosed in Note 20.

Details of transactions between the National Bank and other related parties are disclosed below:

	31 December 2009		31 December 2008	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Key management personnel compensation for the year:				
Short-term employee benefits	8,944	175,880	7,556	137,298
Due from key management personnel:				
Loans to employees				
Beginning of the year	5,347	52,794	4,949	51,778
Amounts extended	6,250	33,350	795	10,959
Amounts redeemed	(1,124)	(14,751)	(397)	(9,943)
End of the year	<u>10,473</u>	<u>71,393</u>	<u>5,347</u>	<u>52,794</u>

The remuneration and due from members of the Management Board were as follows: Included in the income statement for the years ended 31 December 2009 and 2008 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2009		Year ended 31 December 2008	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income				
-Loans to employees	544	2,899	352	1,836
Other income				
- subsidiaries	3,011	24,392	2,143	30,362

28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IFRS 7 “Financial Instruments: Disclosure” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for some of the National Bank’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The Management of the National Bank estimates that the carrying value of all assets and liabilities approximates their fair value.

The fair value of investment in subsidiary with a carrying value of KGS 15 000 thousand for the year 2009 and 2008 could not be determined because it is unquoted (Note 9). Accordingly, it is not included in the fair value hierarchy presented below:

Fair Value Hierarchy

Financial assets measured at fair value in the statement of financial position are presented in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset and liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The only financial instrument measured at fair value in the statement of financial position of the National Bank is the investment in debt securities of foreign countries and international financial institutions, which are accounted as securities available for sale and the prices of which are quoted in active markets.

	Level 1	Level 2	Level 3	31 December 2009 Total
FINANCIAL ASSETS				
Debt securities available for sale	20,785,020	-	-	20,785,020
	Level 1	Level 2	Level 3	31 December 2008 Total
FINANCIAL ASSETS				
Debt securities available for sale	22,234,147	-	-	22,234,147

29. RISK MANAGEMENT POLICIES

Management of risk is an essential element of the National Bank's operations. The major risks faced by the National Bank are those related to credit risk and market risk.

To ensure effective and efficient risk management policy the National Bank established basic risk management principles the main purpose of which is to secure the National Bank from existing risks and allow it to reach planned results. The principles are used by the National Bank in managing the following risks:

Credit risk

The National Bank is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

Credit risk management in the National Bank is implemented through continual monitoring, control and observation over the risk sources. For this purpose the National Bank draw up criteria and requirements on counterparties and limitations on financial instruments and amounts of assets as well. To minimize credit risk the National Bank uses risk management policy which establishes limitations on counterparties of the National Bank. In accordance with the policy only central banks, financial institutions and commercial banks with high ratings per Moody's Investors Service classification or

similar ratings per classification of other leading world rating agencies (Standard & Poor's Corporation, Fitch IBCA) may be counterparties of the National Bank.

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Moody's. The highest possible rating is Aaa. Investment grade financial assets have ratings from Aaa to Baa. Financial assets which have ratings lower than Baa are classed as speculative grade.

Taking into consideration the National Bank's status as a central bank the counterparties are divided into 2 categories:

Category A

- central banks of advanced develop industrial countries with stable economical and political situation and sovereign rating not less than Aa3 per Moody's Investors Service classification;
- international financial organizations, institutions and banks;
- foreign commercial banks with rating not less than Aa3 per Moody's Investors Service classification.

Category B

- central banks of countries with sovereign rating less than Aa3 per Moody's Investors Service classification;
- financial institutions indicated in international agreements signed by the Kyrgyz Republic;
- foreign commercial banks with rating less than Aa3 but not less than Baa3 per Moody's Investors Service classification.

Decisions on investment deals with the counterparties of the Category A, i.e. limitations on certain counterparties, investment instruments and amount of deals are established based on power of the Investment Committee of the National Bank. Decisions on investment deals with each counterparty of Category B are approved by the Management Board of the National Bank upon submission by the Investment Committee.

The following table details the credit ratings of financial assets held by the National Bank as at 31 December 2009:

	Aaa	Aa	A	Baa	<Baa	Not rated	Total at 31 December 2009
Precious metals		- 4,002,740	-	-	-	-	4,002,740
Due from banks and other financial institutions	38,356,43	6,181,337	-	18,050	5,298	8,164	44,568,992
Loans extended		-	-	-	-	68,166	68,166
Investments available-for-sale	20,785,020	-	-	-	-	15,000	20,800,020
Investments held-to-maturity		-	-	-	-	3,405,315	3,405,315
Other financial assets		-	-	-	-	400,517	400,517

As at 31 December 2008:

	Aaa	Aa	A	Baa	<Baa	Not rated	Total at 31 December 2008
Precious metals	681,933	2,103,425	-	-	-	-	2,785,358
Due from banks and other financial institutions	17,948,108	4,649,029	-	13,650	4,737	-	22,615,524
Loans extended		-	-	-	-	2,441	2,441
Investments available-for-sale	22,234,147	-	-	-	-	15,000	22,249,147
Investments held-to-maturity		-	-	-	-	3,505,088	3,505,088
Other financial assets		-	-	-	-	338,600	338,600

One of the criteria for control of credit risk is the maximum exposure to credit risk per one counterparty, as well as the geographical segments.

Maximum exposure to credit risk per one counterparty

The National Bank's maximum exposure to credit risk per one counterparty varies significantly and is dependant on both individual risks and general market economy risks.

The following table presents the maximum exposure to credit risk of balance sheet and off balance sheet financial assets:

	31 December 2009		31 December 2008	
	Maximum exposure to credit risk per one counterparty	Total category as per financial statements caption	Maximum exposure to credit risk per one counterparty	Total category as per financial statements caption
Precious metals	4,002,460	4,002,740	1,193,383	2,785,358
Due from banks and other financial institutions	15,027,926	44,568,992	6,236,984	22,615,524
Loans to banks	66,832	68,166	2,441	2,441
Investments available-for-sale	7,620,711	20,800,020	13,755,663	22,249,147
Investments held-to-maturity	3,405,315	3,405,315	3,505,088	3,505,088

Geographical concentration

The Investment Committee of the National Bank exercises permanent control over financial situation of its counterparties for assessment of country risk. This approach allows the National Bank to minimize potential losses from the investment climate fluctuations in the countries where the National Bank's currency reserves are placed.

The geographical concentration of assets and liabilities is set out below:

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2009 Total
FINANCIAL ASSETS					
Precious metals	-	4,002,740	-	-	4,002,740
Due from banks and other financial institutions	8,164	22,357,675	18,050	22,185,103	44,568,992
Loans to banks	68,166	-	-	-	68,166
Investments available-for-sale	15,000	20,546,792	-	238,228	20,800,020
Investments held-to-maturity	3,405,315	-	-	-	3,405,315
Other financial assets	400,517	-	-	-	400,517
TOTAL FINANCIAL ASSETS	3,897,162	46,907,207	18,050	22,423,331	73,245,750
FINANCIAL LIABILITIES					
Banknotes and coins in circulation	35,738,688	-	-	-	35,738,688
Due to banks and other financial institutions	8,539,268	-	-	10,170	8,549,438
Accounts of the Government of the Kyrgyz Republic	3,980,348	-	-	-	3,980,348
Debt securities issued	1,059,543	-	-	-	1,059,543
Loans received	126,779	-	-	13,330,881	13,457,660
Other financial liabilities	24,847	-	55,624	-	80,471
TOTAL FINANCIAL LIABILITIES	49,469,473	-	55,624	13,341,051	62,866,148
NET POSITION	(45,572,311)	46,907,207	(37,574)	9,082,280	
	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2008 Total
FINANCIAL ASSETS					
Precious metals	-	2,785,358	-	-	2,785,358
Due from banks and other financial institutions	-	14,178,891	13,650	8,422,983	22,615,524
Loans to banks	2,441	-	-	-	2,441
Investments available-for-sale	15,000	22,234,147	-	-	22,249,147
Investments held-to-maturity	3,505,088	-	-	-	3,505,088
Other financial assets	338,600	-	-	-	338,600
TOTAL FINANCIAL ASSETS	3,861,129	39,198,396	13,650	8,422,983	51,496,158
FINANCIAL LIABILITIES					
Banknotes and coins in circulation	30,803,279	-	-	-	30,803,279
Due to banks and other financial institutions	4,381,764	-	-	14,230	4,395,994
Accounts of the Government of the Kyrgyz Republic	4,774,147	-	-	-	4,774,147
Debt securities issued	1,641,751	-	-	-	1,641,751
Loans received	138,825	-	-	6,623,861	6,762,686
Other financial liabilities	119,314	-	50,449	-	169,763
TOTAL FINANCIAL LIABILITIES	41,859,080	-	50,449	6,638,091	48,547,620
NET POSITION	(38,012,951)	39,198,396	(36,799)	(1,784,892)	

Liquidity risk

Liquidity risk - is the risk that the National Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Management believes that the National Bank is not exposed to liquidity risk due to the nature of its operations.

An analysis of the liquidity risk is presented in the following table.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 Decem- ber 2009 Total
FINANCIAL ASSETS							
Precious metals	722,832	3,279,908	-	-	-	-	4,002,740
Due from banks and other financial institutions	26,902,808	14,181,171	3 363,498	-	-	-	44,447,477
Loans to banks	657	-	1,319	66,190	-	-	68,166
Investments available-for-sale	4,463,218	9,413,651	6,908,151	-	-	-	20,785,020
Investments held-to-maturity	4,446	500,053	129,388	1,581,889	639,539	550,000	3,405,315
Total interest bearing financial assets	32,093,961	27,374,783	10,402,356	1,648,079	639,539	550,000	72,708,718
Due from banks and other financial institutions	121,515	-	-	-	-	-	121,515
Investments available-for-sale	-	-	-	-	-	15,000	15,000
Other financial assets	298,860	2,337	11,612	46,985	40,723	-	400,517
Total financial assets	32,514,336	27,377,120	10,413,968	1,695,064	680,262	565,000	73,245,750
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	44,470	-	-	-	-	-	44,470
Accounts of the Government of the Kyrgyz Republic	3,459,249	-	-	-	-	-	3,459,249
Debt securities issued	1,059,543	-	-	-	-	-	1,059,543
Loans received	155,202	182,418	724,704	3,834,929	2,699,625	5,860,782	13,457,660
Total interest bearing financial liabilities	4,718,464	182,418	724,704	3,834,929	2,699,625	5,860,782	18,020,922
Banknotes and coins in circulation	-	-	-	-	-	35,738,688	35,738,688
Due to banks and other financial institutions	8,504,968	-	-	-	-	-	8,504,968
Accounts of the Government of the Kyrgyz Republic	521,099	-	-	-	-	-	521,099
Other financial liabilities	19,196	63	3,055	692	-	57,465	80,471
Total financial liabilities	13,763,727	182,481	727,759	3,835,621	2,699,625	41,656,935	62,866,148
Difference between assets and liabilities	18,750,609	27,194,639	9,686,209	(2,140,557)	(2,019,363)		
Difference between interest bearing assets and liabilities	27,375,497	27,192,365	9,677,652	(2,186,850)	(2,060,086)		
Difference between interest bearing assets and liabilities, rising total	27,375,497	54,567,862	64,245,514	62,058,664	59,998,578		
Difference between interest bearing assets and liabilities with cumulative interest of total assets, rising total	37%	74%	88%	85%	82%		

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 Decem- ber 2008 Total
FINANCIAL ASSETS							
Precious metals	1,193,538	340,967	1,250,853	-	-	-	2,785,358
Due from banks and other financial institutions	16,945,874	5,155,904	484,375	-	-	-	22,586,153
Loans to banks	84	-	-	2,357	-	-	2,441
Investments available-for-sale	6,781,947	9,162,977	4,858,007	1,431,216	-	-	22,234,147
Investments held-to-maturity	10,102	452,950	764,109	566,387	1,711,540	-	3,505,088
Total interest bearing financial assets	24,931,545	15,112,798	7,357,344	1,999,960	1,711,540	-	51,113,187
Due from banks and other financial institutions	29,371	-	-	-	-	-	29,371
Investments available-for-sale	-	-	-	-	-	15,000	15,000
Other financial assets	275,460	1,100	6,085	22,612	33,343	-	338,600
Total financial assets	25,236,376	15,113,898	7,363,429	2,022,572	1,744,883	15,000	51,496,158
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	34,257	-	-	-	-	-	34,257
Accounts of the Government of the Kyrgyz Republic	4,374,479	-	-	-	-	-	4,374,479
Debt securities issued	1,421,408	193,500	26,843	-	-	-	1,641,751
Loans received	129,482	277,826	668,324	3,514,283	2,172,771	-	6,762,686
Total interest bearing financial liabilities	5,959,626	471,326	695,167	3,514,283	2,172,771	-	12,813,173
Banknotes and coins in circulation	-	-	-	-	-	30,803,279	30,803,279
Due to banks and other financial institutions	4,361,737	-	-	-	-	-	4,361,737
Accounts of the Government of the Kyrgyz Republic	399,668	-	-	-	-	-	399,668
Other financial liabilities	110,936	-	8,378	-	-	50,449	169,763
Total financial liabilities	10,831,967	471,326	703,545	3,514,283	2,172,771	30,853,728	48,547,620
Difference between assets and liabilities	14,404,409	14,642,572	6,659,884	(1,491,711)	(427,888)		
Difference between interest bearing assets and liabilities	18,971,919	14,641,472	6,662,177	(1,514,323)	(461,231)		
Difference between interest bearing assets and liabilities, rising total	18,971,919	33,613,391	40,275,568	38,761,245	38,300,014		
Difference between interest bearing assets and liabilities with cumulative interest of total assets, rising total	37%	65%	78%	75%	74%		

The table below summarizes the maturity profile of the National Bank's financial liabilities at 31 December 2009 and 2008 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the National Bank expects that many customers will not request repayment on the earliest date the National Bank could be required to pay and the table does not reflect the expected cash flows indicated by the National Bank's deposit retention history.

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 Decem- ber 2009 Total
FINANCIAL LIABILITIES							
Due to banks and other financial institutions Accounts of the Government of the Kyrgyz Republic	44,470	-	-	-	-	-	44,470
Debt securities issued	3,459,249	-	-	-	-	-	3,459,249
Loans received	1,060,000	-	-	-	-	-	1,060,000
	<u>218,737</u>	<u>185,287</u>	<u>742,345</u>	<u>3,867,032</u>	<u>2,744,060</u>	<u>5,866,536</u>	<u>13,623,997</u>
Total interest bearing financial liabilities	4,782,456	185,287	742,345	3,867,032	2,744,060	5,866,536	18,187,716
Banknotes and coins in circulation	-	-	-	-	-	35,738,688	35,738,688
Due to banks and other financial institutions Accounts of the Government of the Kyrgyz Republic	8,504,968	-	-	-	-	-	8,504,968
Other financial liabilities	521,099	-	-	-	-	-	521,099
	<u>19,196</u>	<u>63</u>	<u>3,055</u>	<u>692</u>	<u>-</u>	<u>57,465</u>	<u>80,471</u>
Total financial liabilities	<u>13,827,719</u>	<u>185,350</u>	<u>745,400</u>	<u>3,867,724</u>	<u>2,744,060</u>	<u>41,662,689</u>	<u>63,032,942</u>

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 Decem- ber 2008 Total
FINANCIAL LIABILITIES							
Due to banks and other financial institutions	34,257	-	-	-	-	-	34,257
Accounts of the Government of the Kyrgyz Republic	4,374,479	-	-	-	-	-	4,374,479
Debt securities issued	1,435,191	195,376	27,103	-	-	-	1,657,670
Loans received	153,479	283,945	675,840	3,531,547	2,215,421	-	6,860,232
Total interest bearing financial liabilities	5,997,406	479,321	702,943	3,531,547	2,215,421	-	12,926,638
Banknotes and coins in circulation	-	-	-	-	-	30,803,279	30,803,279
Due to banks and other financial institutions	4,361,737	-	-	-	-	-	4,361,737
Accounts of the Government of the Kyrgyz Republic	399,668	-	-	-	-	-	399,668
Other financial liabilities	110,936	-	8,378	-	-	50,449	169,763
Total financial liabilities	<u>10,869,747</u>	<u>479,321</u>	<u>711,321</u>	<u>3,531,547</u>	<u>2,215,421</u>	<u>30,853,728</u>	<u>48,661,085</u>

Average effective interest rates

The table below displays average effective interest rates on assets and liabilities of the National Bank as at 31 December 2009 and 2008.

	Average effective interest rates 2009	Average effective interest rates 2008
Assets:		
Interest bearing financial assets		
Precious metals	0.01%	0.15%
Due from banks and other financial institutions	0.26%	2.95%
Investments available-for-sale	1.68%	1.71%
Investments held to maturity	8.72%	14.89%
Liabilities:		
Interest bearing financial liabilities		
Due to banks and other financial institutions	-	1.04%
Amounts payable under sale and repurchase agreements	-	10.49%
Debt securities issued	0.82%	11.73%
Accounts of the Government of the Kyrgyz Republic	1.38%	1.92%
Loans received	0.40%	0.63%

Market risk

Market risk covers interest rate risk, currency risk and other pricing risks to which the National Bank is exposed.

Interest rate risk

Interest rate risk is defined as the risk of loss resulted from unfavorable change of interest rates on money market which arises from balance of assets and liabilities with variable interest rates and/or temporary liquidity gap on assets and liabilities with fixed interest rates. For the purpose of minimization of interest risk impact the Management Board of the National Bank establishes limitations on maximum share in the investment portfolio (as a percentage) and the maximum term structure of approved investment instruments.

Currency risk

The National Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency.

The main directions of market risk management of the National Bank are prediction and minimization of losses from changes in interest rates and rates of exchange.

To minimize market risk the Management Board of the National Bank establishes limitations on instruments, duration, and currency of investment assets.

Department concluding a deal performs continuing monitoring and analysis of financial markets and economic policy of the counterparty countries which affects the market. Based on these data and expectations of professional market participants the forecasts on market prices, rates of exchange and interest the forecast on market prices is prepared and the level of National Bank's potential losses is assessed.

The National Bank manages its market risk by setting open position limits in relation to financial instrument, interest rate maturity and currency positions which are monitored on a regular basis and reviewed and approved by the Management Board.

Interest rate sensitivity

The following table presents a sensitivity analysis of interest rate risk, which has been determined based on “reasonably possible changes in the risk variable”. The level of these changes is determined by management and is contained within the risk reports provided to key management personnel of the National Bank.

Impact on profit before tax based on asset values as at 31 December 2009 and 31 December 2008:

	As at 31 December 2009		As at 31 December 2008	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
FINANCIAL ASSETS:				
Due from banks and other financial institutions	152,997	(152,997)	109,619	(109,619)
Investments held-to-maturity	12,681	(12,681)	18,045	(18,045)
FINANCIAL LIABILITIES				
Due to banks and other financial institutions	-	-	(342)	342
Accounts of the Government of the Kyrgyz Republic	(39,803)	39,803	(43,745)	43,745
Loans received	(935)	935	(1,230)	1,230
Net impact on profit	<u>124,940</u>	<u>(124,940)</u>	<u>82,347</u>	<u>82,347</u>
FINANCIAL ASSETS:				
Investments available-for-sale	(49,649)	46,356	(61,349)	61,991
Impact on equity	<u>(49,649)</u>	<u>46,356</u>	<u>(61,349)</u>	<u>61,991</u>

Currency risk

Currency risk is defined as the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The National Bank is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The National Bank's exposure to foreign currency exchange rate risk is presented in the table below:

	USD USD I = KGS	EUR EUR I = KGS	SDR SDR I = KGS	CAD CAD I = KGS	AUD AUD I = KGS	CHF CHF I = KGS	GBP GBP I = KGS 70.4012	Other currency	31 December 2009 Total
FINANCIAL ASSETS									
Precious metals	-	-	-	-	-	-	-	- 4,002,740	4,002,740
Due from banks and other financial institutions	- 13,242,019	12,210,436	7,153,060	5,129,010	649,952	2,767,616	3,299,919	116,980	44,568,992
Loans to banks	66,832	1,334	-	-	-	-	-	-	68,166
Investments available-for-sale	15,000	5,972,259	6,095,641	-	7,620,711	1,096,409	-	-	20,800,020
Investments held-to-maturity	3,405,315	-	-	-	-	-	-	-	3,405,315
Other financial assets	127,359	241,397	-	-	-	-	-	-	400,517
Total financial assets	3,614,506	19,457,009	18,337,838	5,129,010	8,270,663	3,864,025	3,299,919	4,119,720	73,245,750
FINANCIAL LIABILITIES									
Banknotes and coins in circulation	35,738,688	-	-	-	-	-	-	-	35,738,688
Due to banks and other financial institutions	5,376,865	3,172,548	11	-	-	-	14	-	8,549,438
Accounts of the Government of the Kyrgyz Republic	2,081,101	448,364	138,147	1,312,736	-	-	-	-	3,980,348
Debt securities issued	1,059,543	-	-	-	-	-	-	-	1,059,543
Loans received	-	220,670	-	-	-	-	-	-	13,457,660
Other financial liabilities	24,838	9	-	-	-	-	-	55,624	80,471
Total financial liabilities	44,281,035	3,841,591	138,158	1,312,736	-	-	14	55,624	62,866,148
OPEN BALANCE SHEET POSITION	(40,666,529)	15,615,418	18,199,680	3,816,274	8,270,663	3,864,025	3,299,905	4,064,096	

	USD USD 1= KGS	EUR EUR 1= KGS	SDR SDR 1= KGS	CAD CAD 1= =KGS	AUD AUD 1= =KGS	CHF CHF 1= KGS	GBP GBP 1= KGS	Other currency	31 December 2008 Total
FINANCIAL ASSETS									
Precious metals	-	-	-	-	-	-	-	-	2,785,358
Due from banks and other financial institutions	6,697,166	5,922,116	2,186,000	3,461,839	18,630	1,664,227	2,650,965	14,581	22,615,524
Loans to banks	2,441	-	-	-	-	-	-	-	2,441
Investments available-for-sale	15,000	5,316,659	8,353,691	487,183	5,525,225	2,551,389	-	-	22,249,147
Investments held-to-maturity	3,505,088	-	-	-	-	-	-	-	3,505,088
Other financial assets	70,455	240,405	27,740	-	-	-	-	-	338,600
Total financial assets	3,590,543	12,256,671	14,303,547	3,949,022	5,543,855	4,215,616	2,650,965	2,799,939	51,496,158
FINANCIAL LIABILITIES									
Banknotes and coins in circulation	30,803,279	-	-	-	-	-	-	-	30,803,279
Due to banks and financial institutions	3,786,985	609,009	-	-	-	-	-	-	4,395,994
Accounts of the Government of the Kyrgyz Republic	2,905,352	18,228	224,488	1,612,489	-	-	-	13,590	4,774,147
Debt securities issued	1,641,751	-	-	-	-	-	-	-	1,641,751
Loans received	-	263,296	6,499,390	-	-	-	-	-	6,762,686
Other financial liabilities	119,251	63	-	-	-	-	-	50,449	169,763
Total financial liabilities	39,256,618	890,596	224,488	1,612,489	-	-	-	64,039	48,547,620
OPEN BALANCE SHEET POSITION	(35,666,075)	11,366,075	14,079,059	2,336,533	5,543,855	4,215,616	2,650,965	2,735,900	

Currency risk sensitivity

The following table details the National Bank's sensitivity to a 10% increase and decrease in the foreign currency against the KGS. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the possible change in foreign currency exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the period for a 10% change in foreign currency rates.

Impact on net profit and equity of currency risk sensitivity of financial instruments as at 31 December 2009 and 31 December 2008 is presented below:

	As at 31 December 2009		As at 31 December 2008	
	KGS/USD +10%	KGS/USD -10%	KGS/USD +10%	KGS/USD -10%
Impact on profit or loss	1,561,542	(1,561,542)	1,136,608	(1,136,608)
	As at 31 December 2009		As at 31 December 2008	
	KGS/EUR +10%	KGS/EUR -10%	KGS/EUR +10%	KGS/EUR -10%
Impact on profit or loss	1,819,968	(1,819,968)	1,407,906	(1,407,906)
	As at 31 December 2009		As at 31 December 2008	
	KGS/SDR +10%	KGS/SDR -10%	KGS/SDR +10%	KGS/SDR -10%
Impact on profit or loss	(608,393)	608,393	(431,339)	431,339
	As at 31 December 2009		As at 31 December 2008	
	KGS/CAD +10%	KGS/CAD -10%	KGS/CAD +10%	KGS/CAD -10%
Impact on profit or loss	381,627	(381,627)	233,653	(233,653)
	As at 31 December 2009		As at 31 December 2008	
	KGS/AUD +10%	KGS/AUD -10%	KGS/AUD +10%	KGS/AUD -10%
Impact on profit or loss	827,066	(827,066)	554,386	(554,386)
	As at 31 December 2009		As at 31 December 2008	
	KGS/CHF +10%	KGS/CHF -10%	KGS/CHF +10%	KGS/CHF -10%
Impact on profit or loss	386,403	(386,403)	421,562	(421,562)
	As at 31 December 2009		As at 31 December 2008	
	KGS/GBP +10%	KGS/GBP -10%	KGS/GBP +10%	KGS/GBP -10%
Impact on profit or loss	329,991	(329,991)	265,097	(265,097)

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear, and larger or smaller impacts should not be interpolated or extrapolated from these results.

The sensitivity analyses do not take into consideration that the National Bank's assets and liabilities are actively managed. Additionally, the financial position of the National Bank may vary at the time that any actual market movement occurs. For example, the National Bank's financial risk management strategy aims to manage the exposure to market fluctuations. As investment markets move past various trigger levels, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the balance sheet. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in shareholder equity.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the National Bank's view of possible near-term market changes that cannot be predicted with any certainty; and the assumption that all interest rates move in an identical fashion.

IV

APPENDICES

Chronology of Major Events in the Monetary Sphere in 2009

Date	Events
November 28, 2008	The Board of the NBKR considered and approved the paper “On Main Monetary Policy Guidelines for 2009-2011”.
December 17, 2008	The Board of the NBKR approved the “Statement about Monetary Policy for 2009”.
January 8	The Decree was signed by the President of the Kyrgyz Republic “On Measures for Maintenance of Stability of the Banking System in the Kyrgyz Republic”.
January 20	The press conference was held at the KABAR News Agency with the NBKR Chairman on the monetary policy report for 2008.
January 22	The Board of the NBKR adopted the Resolution “On Action Plan of the Government of the Kyrgyz Republic and the NBKR in 2009 on implementation of Economic Program of the Kyrgyz Republic for 2008-2009, supported by the Exogenous Shock Facility (ESF)”.
January 23	The Law was adopted “On Amendments and Addenda to Some of the Acts of the Kyrgyz Republic” pertaining to activity of credit unions. This Law introduced the amendments to the Laws “On Credit Unions”, “On Cooperatives”, and to the Civil Code.
January 28	<p>The Board of the NBKR approved:</p> <ul style="list-style-type: none"> – the Regulation “On Main Payment System Contingency Functioning Requirements for the Kyrgyz Republic”; – the “Banking Sector Development Strategy till End-2011”; – the Regulation “On Research Work in the National Bank of the Kyrgyz Republic”; – the Regulation “On Scientific Expert Council of the National Bank of the Kyrgyz Republic”; – Information System General Policy of the National Bank of the Kyrgyz Republic for 2009-2014.
January 30	In pursuance of the Decree of the President of the Kyrgyz Republic “On Measures for Maintenance of Stability of the Banking System in the Kyrgyz Republic”, the Board of the NBKR adopted the Resolution “On Flotation of the “Special fund for banks refinancing” Ltd.
February 11	<p>The Board of the NBKR adopted the following Resolutions:</p> <ul style="list-style-type: none"> – “On the Joint Statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic on Financial and Socio-economic Policies for 2009”; – “On Amendments and Addenda to the Resolution of the Board of the NBKR “On Approval of the New Edition of the Regulation “On NBKR Supervision Committee”; – “On the Regulation “On SWIFT Multi-Access Center (SWIFT MAC)”.

Date	Events
February 19 and July 28	The 17th and 18th meetings of the working group on monitoring of implementation of the Medium-Term Microfinancing Development Strategy of the Kyrgyz Republic for 2006-2010 were held in the National Bank attended by the representatives of the KR Presidential Administration, the Office of Government, the Ministry of Justice, the KR State Register, associations of microfinance organizations and credit unions, and international donors.
February 20	The Prime Minister of the Kyrgyz Republic held a working meeting in the House of the Government with heads of commercial banks of the country, and the representatives of the National Bank and the Ministry of Finance. The meeting was targeted to discuss the current financial market developments under the circumstances of the world financial crisis.
February 25	<p>The Board of the NBKR adopted the following Resolutions:</p> <ul style="list-style-type: none"> – “On the Monetary Policy Report for 2008 and the Monetary Program for the Forthcoming Period”; – “On Commercial Banking System Development Trends of the Kyrgyz Republic as of December 31, 2008”; – “On Amendments and Addenda to the Regulation “On Statutory Acts of the National Bank of the Kyrgyz Republic, approved with the Resolution of the Board of the NBKR of August 12, 1998”.
February 27	<p>The Board of the NBKR adopted the Resolution on renewal of the license of the OJSC “AkyI”, whose rehabilitation was successful.</p> <p>The management of the National Bank held the round table meeting with the commercial banks and the Union of Banks of Kyrgyzstan. The presentation was made on the “Special fund for banks refinancing” Ltd.</p>
March 2	The banknote at the nominal value of KGS 5 000 was issued into circulation in the whole territory of the Kyrgyz Republic.
March 4	The international regional conference “Impact of the World Financial Crisis on Caucasian and Central Asian Countries” attended by heads of national (central) banks of countries-participants in the conference, the representatives of the Presidential Administration and the Office of the Government, the representatives of international financial organizations and embassies, accredited in the Kyrgyz Republic.
March 5-19	The Kyrgyz Republic received the IMF first review mission under the economic program under the Exogenous Shock Facility (ESF). The mission met with the representatives of the Government of the Kyrgyz Republic, the National Bank, the Ministry of Finance, the Ministry of Economic Development and Trade, as well as other departments.
March 11	The Board of the NBKR adopted the Resolution “On Minimum Capital (Capital Base) of Commercial Banks”.
March 17	<p>The Board of the NBKR adopted the following Resolutions:</p> <ul style="list-style-type: none"> – “On Approval of the Agreement between the State Corporation “Bank of Development and Foreign Trade Activities (Vnesheconombank)” and the National Bank of the Kyrgyz Republic on the Accounting and

Date	Events
	<p>Settlement Procedure under the Agreement between the Government of the Russian Federation and the Government of the Kyrgyz Republic on Extension to the Kyrgyz Republic of the State Credit of February 3, 2009”;</p> <ul style="list-style-type: none"> – “On the Agreement between the State Corporation “Bank of Development and Foreign Trade Activities (Vnesheconombank)” and the National Bank of the Kyrgyz Republic on Servicing the Margin Deposit under the Agreement between the Government of the Russian Federation and the Government of the Kyrgyz Republic on Extension to the Kyrgyz Republic of the state credit from February 3, 2009 and the Agreement between the Ministry of Finance of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic about service of the margin deposit under the Agreement between the Government of the Russian Federation and the Government of the Kyrgyz Republic on Extension to the Kyrgyz Republic of the State Credit of February 3, 2009”.
March 25 - April 4	<p>Under the supervisory component of strengthening the structure of combating the financing of terrorism and anti-money laundering (AML/CFT), being part of IMF TA financially assisted by the Swiss Economic Cooperation Office in the Kyrgyz Republic (SECO), the following actions were undertaken:</p> <ul style="list-style-type: none"> – the meeting with the IMF mission expert to discuss the plan of short- and medium-term joint actions; – the seminar for the staffs of the National Bank and the Financial Intelligence Unit on Risk-Oriented Supervision and Field Checks.
March 26	The Board of the NBKR adopted the Resolution “On the Bank Refinancing Policy of the “Special fund for banks refinancing” Ltd.
March 28	The Law of the Kyrgyz Republic was adopted “On Amendments and Addenda to the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” (on augmentation of authorized capital of the NBKR to KGS 1 billion). In order to maintain the equal conditions for all of the participants in the banking sector and to create the environment conducive to Islamic banking in the Kyrgyz Republic the following Laws of the Kyrgyz Republic were adopted: “On Addenda to the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” and “On Addenda to the Law of the Kyrgyz Republic “On Banks and Banking in the Kyrgyz Republic”.
April 14	The NBKR Supervision Committee approved the Policy Advice on Determination of the Level of Capital Required to Cover Operational Risks of Banks.
April 15	The Resolution of the Board of the NBKR on membership of the National Bank of the Kyrgyz Republic in the Islamic Financial Services Board (IFSB).
April 22	The Board of the NBKR approved the amendments and addenda to the State Payment Turnover Classifier.
April 29	Under the circumstances of crisis phenomena in the world economy as the measure of maintaining stability in the banking system and reducing the risk of the run on the commercial banks by the population, the Law of the Kyrgyz Republic was

Date	Events
	adopted “On Amendments and Addenda to the KR Law “On Protection of Bank Deposits”.
May 11	<p>The Board of the NBKR adopted the following Resolutions:</p> <ul style="list-style-type: none"> – “On Issue to the OJSC “AsiaUniversalBank” of the additional license for operations with precious metals”; – “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic of August 25, 2005, No 26/5 “On Some of the Regulatory and Legal Acts of the National Bank of the Kyrgyz Republic”.
May 22	The NBKR Supervision Committee approved the Guidelines on Handling the Database on Liabilities of the Bank to Depositors.
May 27	<p>The Board of the NBKR adopted the following Resolutions:</p> <ul style="list-style-type: none"> – “On the Monetary Policy Report for Quarter I of 2009 and the Monetary Program for the Forthcoming Period”; – “On the US dollar Exchange Rate Applied to Calculate Reserve Requirements”; – “On Commercial Banking System Development Trends of the Kyrgyz Republic as of March 31, 2009”; – “On Unification (Re-structuring) of Government Securities in the NBKR Portfolio”. <p>The Board of the NBKR also approved the Regulation on the “Special fund for banks refinancing” Ltd.</p>
June 10	<p>The Board of the NBKR approved:</p> <ul style="list-style-type: none"> – rules of opening and/or purchasing the affiliated or dependent companies by the commercial banks of the Kyrgyz Republic; – reserve requirements.
June 17	The Law of the Kyrgyz Republic was adopted “On Amendments to the Law of the Kyrgyz Republic “On Amendments and Addenda to the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” (On Enactment of the KR Law of March 28, 2009, on January 1, 2010).
June 17-25	The National Bank received the regular World Bank technical mission aimed at discussing the issues of implementing the Project “Modernization of Payment and Banking Systems” (MPBS). Based on its findings, the mission drafted the memorandum, expressing satisfaction with the level of implementation of MPBS Project.
July 15	The Board of the NBKR approved the Rules of Implementing Remittances through Money Transfer Systems in the Kyrgyz Republic.
July 29	<p>The Board of the NBKR adopted the following Resolutions:</p> <ul style="list-style-type: none"> – “On Amendments and Addenda to the Resolution of the Board of the NBKR “On the Interim Instruction on the Work with Deposits”; – “On Amendments and Addenda to the Resolution of the Board of the NBKR “On the New Edition of the Regulation “On Licensing Credit Unions”.

Date	Events
August 4	The meeting was held with the IMF mission on the AML/CFT issues under the supervisory component. During the meeting, the amendments to the AML/CFT legislation were discussed, with also the exchange of opinions on the pressing issues of inspection of banks under the AML/CFT.
August 12	The Board of the NBKR adopted the following Resolutions: <ul style="list-style-type: none"> <li data-bbox="523 468 1406 533">– “On the Monetary Policy Report for the 1st Half of 2009 and the Monetary Program for the Forthcoming Period”; <li data-bbox="523 539 1406 674">– “On Cancellation of the Transitional Provision on Issue of Bank Payment Cards «Elkart» and the Interim Instruction “On the Procedure for conducting payments with bank payment cards “Elkart” through the Uniform Interbank Processing Center”.
August 14	The Resolution “On Revision of Quantitative Monetary Policy Criterion for 2009” was adopted with the Resolution of the Board of the NBKR.
August 24	The NBKR Supervision Committee adopted the Resolution “On Recognition as Invalid of the Resolution of the Supervision Committee of the National Bank of the Kyrgyz Republic “On approval of the Procedure for Consideration of the application of the bank to Join the Deposit Protection System”.
August 26	The Board of the NBKR adopted the following Resolutions: <ul style="list-style-type: none"> <li data-bbox="523 1028 1406 1093">– “On Approval of the “Procedure for Opening, Keeping and Closing the Special Deposit Account Assigned for Legalization of Funds”; <li data-bbox="523 1099 1406 1234">– “On Recognition as Invalid of the Resolution of the Board of the NBKR of June 10, 2008, No 24/2 “On the Regulation “On the Procedure for Submission and Consideration by the National Bank of the Application of the Bank to Join the Deposit Protection System”; <li data-bbox="523 1240 1406 1305">– “On Approval of the Regulation “On Operations of Commercial Banks with Precious Metals”; <li data-bbox="523 1312 1406 1447">– “On Amendments and Addenda to the Resolution of the Board of the NBKR “On Approval of the New Edition of the Instruction on Determination of Capital Adequacy Ratios of Commercial Banks of the Kyrgyz Republic”; <li data-bbox="523 1453 1406 1514">– “On Commercial Banking System Development Trends of the Kyrgyz Republic for June 30, 2009”.
September 4-5	In order to discuss the current situation in the banking sector, the Bank held the round table discussions “Issyk-Kul-2009” with the representatives of the NBKR, the members of the Union of Banks of Kyrgyzstan, the heads of commercial banks and microfinance organizations of the Kyrgyz Republic, as well as the representatives of public agencies, departments, and other invitees.
September 10-13	The regular 22nd meeting of the Club of Governors of central banks of Central Asian, Black Sea, and Balkan countries was convened to discuss the “Monetary Policy under the Circumstances of the Global Financial Crisis”, with the Protocol signed based on the results of the meeting.
September 14-28	The Kyrgyz Republic received the IMF mission to discuss the recent macroeconomic developments, as well as to complete the draft Memorandum of Cooperation between the Kyrgyz Republic and the IMF. During their visit in

Date	Events
	the Kyrgyz Republic, the IMF staff had the meetings with the Prime Minister of the Kyrgyz Republic, the management of the National Bank and the heads of key ministries and departments.
September 23	<p>The Board of the NBKR adopted the following Resolutions:</p> <ul style="list-style-type: none"> – “On the US Dollar Exchange Rate Applied to Calculate Reserve Requirements”; – “On Approval of the Regulation On Operations Conducted According to Islamic Principles of Banking and Financing”; – “On Amendments to the Resolution of the Board of the NBKR “On Approval of the Instruction “On the Procedure for Observance of Open Currency Position Limits by Commercial Banks in the Territory of the Kyrgyz Republic”; – “On Approval of the Regulation “On Conservation of Commercial Banks and Microfinance Companies Attracting Deposits”; – “On Amendments to the Resolution of the Board of the NBKR “On Some of the Regulatory and legal acts NBKR”.
September 30	<p>The Board of the NBKR adopted the following statutory acts:</p> <ul style="list-style-type: none"> – the Temporary Regulation “On Requirements to Standard Contracts Concluded According to Islamic Principles of Banking and Financing”; – the Regulation “On Accounting Policy Requirements for Commercial Banks That Conduct Operations According to Islamic Principles of Banking and Financing”; – the Resolution “On Amendments and Addenda to the Resolution of the Board of the NBKR from March 2, 2006 No 5/7” On Approval of the Regulations on licensing of activity of banks”.
October 14	<p>The Board of the NBKR adopted the following Resolutions:</p> <ul style="list-style-type: none"> – “On Approval of the Instruction “On the Procedure for Observance of Open Currency Position Limits by Banks That Conduct Operations According to Islamic Principles of Banking and Financing”; – “On the Draft Law of the Kyrgyz Republic “On the Payment System of the Kyrgyz Republic”; – “On Approval of the Regulation “On Bank Payment Cards in the Kyrgyz Republic”; – “On Amendments to the Regulation “On the Periodic Regulatory Report of the Microcredit Company/Microcredit Agency and the Pawnshop”, “On the Periodic Regulatory Report of the Microfinance Company”, and “On the Rate of Payment for Licenses Issued by the NBKR”, and the effect of the Regulation “On Activity of Pawnshops in the Territory of the Kyrgyz Republic” was cancelled.
October 28	<p>The Board of the NBKR adopted the Resolution “On Addenda to the Regulation “On Minimal Requirements to External Audit of Banks and Other Finance and Credit Institutions Licensed by the NBKR”.</p>
November 18	<p>The Board of the NBKR adopted the following Resolutions:</p> <ul style="list-style-type: none"> – “On the Monetary Policy Report for 9 Months of 2009 and the Monetary Program for the Forthcoming Period”; – “On Reserve Requirements”;

Date	Events
	<ul style="list-style-type: none"> – “On Approval of the Temporary Regulation “On Regulation of Activity of the Closed Joint-Stock Company “Development Fund of the Kyrgyz Republic””; – “On Amendments and Addenda to the Instruction “On Requirements to Operations of Banks with Insiders and Affiliated Persons”; – “On Amendments and Addenda to the Regulation “On Requirements to Financial Statements and Disclosure by Non-bank Institutions Operating on the Basis of the NBKR License (Warrant)”; – “On Removal of Some Restrictions in Activity of the OJSC “Ayil Bank”.
November 25	<p>The Board of the NBKR adopted the following Resolutions:</p> <ul style="list-style-type: none"> – “On Approval of the Regulation “On Requirements to Financial Statements of Commercial Banks that Conduct Operations According to Islamic Principles of Banking and Financing”; – “On Commercial Banking System Development Trends of the Kyrgyz Republic as of September 30, 2009”.
December 16	<p>The Board of the NBKR adopted the following Resolutions:</p> <ul style="list-style-type: none"> – “On the Monetary Program for the Forthcoming Period”; – “On Main Monetary Policy Guidelines of the National Bank of the Kyrgyz Republic for 2010”.
December 23	<p>The Board of the NBKR adopted the following Resolutions:</p> <ul style="list-style-type: none"> – “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of Rules of Regulating Activity of the “Special fund for banks refinancing” Ltd; – “On Amendments and Addenda to the Regulation “On the Periodic Regulatory Report of Credit Union, Microcredit Company/Microcredit Agency and Microfinance Company”.
December 28	<p>The Board of the NBKR approved:</p> <ul style="list-style-type: none"> – the Regulation “On the Analytical Balance Sheet of the National Bank”; – the Instruction “On Determination of Capital Adequacy Ratios of Banks that Conduct Operations According to Islamic Principles of Banking and Financing”; – the Regulation “On Minimal Risk Management Requirements for Banks that Conduct Operations According to Islamic Principles of Banking and Financing”; – the Regulation “On Classification of Assets and Relevant Contributions to Loan Loss Provisions for Operations Conducted According to Islamic Principles of Banking and Financing”; – the Regulation “On Minimal Requirements to Classification of Assets and Relevant Contributions to Loan Loss Provisions for Operations Conducted According to Islamic Financing Principles at the OJSC “Ecobank”.

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Table 1.

Macroeconomic Indicators

	Unit of Measurement	2005	2006	2007	2008	2009
Real sector¹						
Nominal GDP	<i>som million</i>	100,899.2	113,800.1	141,897.7	187,991.9	196,423.1*
Rate of growth of real GDP	<i>in percent</i>	-0.2	3.1	8.5	8.4	2.3*
Rate of growth of industrial output	<i>in percent</i>	-12.1	-10.2	7.3	14.9	-6.4*
Rate of growth of gross agricultural output	<i>in percent</i>	-4.2	1.7	1.5	0.8	7.4*
Retail turnover	<i>som million</i>	57,683.5	70,875.6	85,896.2	123,262.0	129,487.4
Paid services	<i>som million</i>	16,050.1	19,691.8	24,671.0	-	-
Consumer prices (in % to December of the previous year)		4.9	5.1	20.1	20.0	0.0
- food products		9.8	6.7	31.5	20.9	-7.4
- alcoholic beverages and tobacco products		-	2.5	9.1	13.0	5.2
- non-food products		2.0	4.6	9.8	16.0	10.4
- services		3.2	7.5	10.6	34.4	4.4
Producer's price (in % to December of the previous year)		2.8	15.3	11.9	26.4	12.0
Unemployment rate	<i>in percent</i>	3.3	3.5	3.3	2.9	2.6
Average nominal wage	<i>som</i>	2,612.5	3,270.0	3,990.4	5,422.0	6,253.0
Estimated minimal consumer budget	<i>som</i>	1,836.6	2,377.2	2,795.9	3,571.0	3,563.2
Financial sector²						
NBKR discount rate (end of period)	<i>in percent</i>	4.1	3.2	8.8	15.2	0.9
Government Treasury Bills Market (average yield for the period)	<i>in percent</i>					
Maturity Period:						
- 3 months		4.4	4.8	4.8	12.7	10.9
- 6 months		5.2	5.7	5.7	14.3	12.3
- 12 months		6.3	7.0	7.0	15.2	13.6
- 18 months		9.7	9.9	9.6	15.2	-
- 24 months		15.6	13.2	11.4	16.4	-
Interbank Market						
Credits in National Currency:						
- volume (for the period)	<i>som million</i>	1,208.1	3,109.6	1,644.7	2,372.0	2,193.7
- interest rate (average for the period)	<i>in percent</i>	3.2	2.8	3.2	7.6	7.8
Credits in Foreign Currency:						
- volume (for the period)	<i>som million</i>	592.9	862.7	824.4	1,088.7	711.2
- interest rate (average for the period)	<i>in percent</i>	4.3	5.7	6.7	5.7	6.0
REPO Transactions						
- turnover volume	<i>som million</i>	5,035.6	7,465.9	6,988.9	6,864.1	8,713.1
- interest rate (average for the period)	<i>in percent</i>	4.0	3.3	3.9	8.9	8.4
Foreign Exchange Market						
Transactions at Interbank Foreign Exchange Auctions	<i>US\$ thousand</i>	205,339.5	351,060.0	614,645.0	883,183.6	657,140.0
Deposit and Credit Market						
Credits in National Currency:						
- volume (for the period)	<i>som million</i>	3,025.2	4,671.3	8,367.2	9,082.7	9,993.5
- interest rate (average for the period)	<i>in percent</i>	25.4	25.6	23.2	25.9	26.7
Credits in Foreign Currency:						
- volume (for the period)	<i>som million</i>	7,578.2	11,547.2	16,145.2	15,280.9	12,005.4
- interest rate (average for the period)	<i>in percent</i>	16.8	17.3	18.5	20.3	21.5
Deposits in National Currency:						
- volume (for the period)	<i>som million</i>	7,976.2	12,647.1	21,973.3	31,446.2	33,842.4
- interest rate (average for the period)	<i>in percent</i>	2.0	1.9	2.1	2.5	2.8
Deposits in Foreign Currency:						
- volume (for the period)	<i>som million</i>	117,232.9	62,944.7	51,600.9	51,678.1	49,761.5
- interest rate (average for the period)	<i>in percent</i>	0.2	0.5	0.9	0.9	1.7
State Budget³						
Revenues	<i>som million</i>	20,368.1	25,081.3	35,529.6	45,479.5	55,322.1
including taxes	<i>in percent</i>	80.3	79.7	74.7	79.0	65.3
Expenditures	<i>som million</i>	20,143.7	25,297.8	29,480.7	36,944.0	50,034.3
Net purchase nonfinancial assets		-	-	5,918.9	6,970.9	8,211.1
Deficit (-) / Surplus (+)	<i>som million</i>	224.4	-216.5	130.0	1,564.7	-2,923.3
in percent of GDP	<i>in percent of GDP</i>	0.2	-0.2	0.1	0.8	-1.5
External Economic Sector⁴						
Export of Goods and Services	<i>in percent of GDP</i>	38.5	45.1	53.6	54.7	61.4*
Import of Goods and Services	<i>in percent of GDP</i>	56.8	79.1	85.4	93.8	79.6*
Current Account (including transfers)	<i>in percent of GDP</i>	-1.6	-10.1	-6.0	-11.7	0.4*
Reserve Assets	<i>months of imports of goods and services of the following year</i>	3.2	3.0	3.0	4.0	4.1*

* preliminary data.

¹ NSC KR data.² NBKR data.³ CT MoF KR data

Starting from January 2007 the data are given according to the new Budget Classification approved with the MoF KR Order No 254-P of December 27, 2006 and registered with the MoJ KR No 4 of January 11, 2007. Starting from 2009 the data are included PIP.

⁴ NSC KR, SCC KR and NBKR data.

“-” - no transactions.

Table 2.
GDP Structure
(in percent)

	2005	2006	2007	2008	2009*
Agriculture, hunting and forestry	28.5	28.7	26.9	23.5	22.1
Mineral resource industry	0.6	0.4	0.5	0.5	0.6
Processing industry	12.9	11.0	9.9	13.2	12.5
Production and distribution of electricity, gas, and water	3.9	3.5	2.7	1.4	1.7
Construction	2.7	2.7	3.6	5.3	5.7
Trade, repair of motor vehicles, household goods and personal use items	17.8	18.4	17.9	16.3	16.4
Hotels and restaurants	1.3	1.4	1.2	1.3	1.4
Transportation and communication	6.6	6.1	7.4	7.9	9.1
Other	15.0	15.5	16.4	17.4	19.3
Net taxes on products	10.8	12.5	13.5	13.1	11.1
Total	100.0	100.0	100.0	100.0	100.0

NSC KR data.

* preliminary data.

Table 3.
Structure of Capital Investments by Sources of Financing
(in percent)

	2005	2006	2007	2008	2009*
Total	100.0	100.0	100.0	100.0	100.0
Domestic investments	71.6	75.8	78.5	64.0	74.2
including those financed by:					
Republican budget	6.3	5.4	8.8	10.9	12.3
of which funds for emergency relief:	1.9	0.8	-	-	-
Local budget	1.3	1.3	2.4	1.8	1.9
Funds of enterprises and organizations	37.5	47.1	40.8	22.9	23.8
Credit to banks	-	-	0.6	0.8	6.0
Funds of the population and others	26.6	22.0	25.9	27.6	30.2
Charitable aid	-	-	-	-	0.0
Foreign investments	28.4	24.2	21.5	36.0	25.8
including those financed through:					
Foreign loans	11.2	14.6	10.7	12.7	15.3
Foreign direct investments	1.7	8.0	7.0	19.7	7.4
Foreign grants and humanitarian aid	15.6	1.6	3.9	3.6	3.1

NSC KR data

* preliminary data

"-" - no transactions

Table 4.

Monetary Aggregates (end of period)

(in millions of soms)

	2005	2006	2007	2008	2009
Base money	15,465.6	22,798.8	31,575.9	35,150.8	41,587.7
Currency in circulation	13,413.8	19,909.7	27,561.9	30,803.3	35,738.7
Currency outside banks (M0)	13,065.4	19,410.0	26,674.7	29,385.1	33,882.3
Monetary aggregate (M1)	15,014.1	22,690.0	31,555.2	34,270.2	40,269.7
Broad money (M2)	15,959.3	24,108.1	34,766.2	38,209.3	44,007.9
Monetary aggregate (M2X)	21,295.9	32,280.9	43,018.0	48,453.2	58,347.2
Multiplier M1	0.97	1.00	1.00	0.97	0.97
Multiplier M2	1.03	1.06	1.10	1.09	1.06
Multiplier M2X	1.38	1.42	1.36	1.38	1.40
M1 Velocity	7.37	6.37	5.44	5.71	5.82
M2 Velocity	6.93	5.98	4.98	5.04	5.38
M2X Velocity	4.82	4.49	3.95	4.08	4.13
Currency outside banks/Deposits	1.59	1.51	1.63	1.54	1.38
Deposits/Broad money (M2X)	0.39	0.40	0.38	0.39	0.42

Base money = Currency in circulation + Deposit of Financial Institutions in NBKR in national and foreign currencies

Currency in circulation = notes and coins issued by NBKR less held as vault cash in NBKR

Money outside banks (M0) = currency in circulation less vault cash balances of banks

Monetary aggregate (M1) = M0 + settlement (current) accounts and demand deposits of residents in national currency

Money supply (M2) = M1 + time deposits of residents in national currency

Money supply (M2X) = M2 + settlement (current) accounts and deposits of residents in foreign currency

Multiplier = ratio of monetary aggregate to the monetary base

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 soms)

	2005	2006	2007	2008	2009
Net foreign assets	17,849.7	24,736.0	36,452.1	41,737.1	56,601.6
Net international reserves	17,742.1	24,679.4	37,112.4	41,699.9	62,331.4
Claims on nonresidents	25,129.7	31,041.8	42,374.1	48,185.5	69,836.8
Liabilities to nonresidents	-7,387.7	-6,362.4	-5,261.8	-6,485.6	-7,505.3
Other claims on nonresidents	160.9	110.3	-607.8	74.0	170.9
Allocation of SDRs	-	-	-	-	-5,863.2
Settlements with CIS countries	-53.3	-53.6	-52.4	-36.8	-37.6
Long-term foreign liabilities	-2,313.7	-2,179.2	-2,026.1	-2,099.4	-2,290.7
Net domestic assets	-70.3	242.0	-2,850.2	-4,486.9	-12,723.2
Net claims on General Government	-	-	-	-	-1,717.7
Net claims on government	999.4	1,545.0	216.3	354.6	927.8
Claims on government	6,358.2	6,024.8	5,757.8	5,258.1	5,024.0
Securities other than shares	4,447.3	4,179.3	4,007.0	3,285.2	2,827.9
Loans	1,910.9	1,845.5	1,750.8	1,972.9	2,196.1
Liabilities to government	-5,358.8	-4,479.8	-5,541.5	-4,903.5	-4,096.2
Deposits	-5,358.8	-4,479.8	-5,420.3	-4,769.8	-3,975.5
Government loans	-	-	-121.3	-133.7	-120.7
Net claims on special funds	-	-	-	-	-2,645.5
Claims on other depository corporations	297.2	-192.0	98.1	304.6	322.6
Claims on other resident sectors	40.3	46.3	51.8	52.8	71.4
Shares and other equity	-1,462.7	-1,528.5	-2,405.4	-3,892.6	-11,243.2
Other items	55.5	371.2	-810.9	-1,306.3	-156.3
Monetary Base	15,465.6	22,798.8	31,575.9	35,150.8	41,587.7
Currency in circulation	13,413.8	19,909.7	27,561.9	30,803.3	35,738.7
Liabilities to other depository corporations	2,051.8	2,889.1	4,014.0	4,347.5	5,849.0

“-” - no transactions

Table 6.

External Economic Indicators

	Unit of Measurement	2005	2006	2007	2008	2009*
Balance of payments indicators¹						
Total balance	<i>US\$ million</i>	29.1	183.7	307.3	83.8	251.7
	<i>in percent of GDP</i>	1.2	6.4	8.2	1.7	5.5
Current account	<i>US\$ million</i>	-38.4	-287.2	-227.7	-603.4	18.3
	<i>in percent of GDP</i>	-1.6	-10.1	-6.0	-11.7	0.4
Export of goods (FOB)	<i>US\$ million</i>	686.8	906.0	1,337.0	1,874.4	1,661.8
	<i>in percent of GDP</i>	27.9	31.8	35.5	37.0	36.5
Import of goods (FOB)	<i>US\$ million</i>	1,105.5	1,792.4	2,613.6	3,753.5	2,756.4
	<i>in percent of GDP</i>	44.9	62.9	69.3	74.2	60.6
Reserve assets	<i>months of import of goods and services of the following year</i>	3.2	3.0	3.0	4.0	4.1
Public External Debt						
Public External Debt ²	<i>US\$ million</i>	1,859.3	1,977.6	2,068.2	2,127.9	2,475.6
	<i>in percent of GDP</i>	75.6	69.4	54.9	42.0	54.4
	<i>percent of export of goods and services</i>	196.5	153.9	102.3	76.8	96.7
Public external debt servicing (schedule) ³	<i>US\$ million</i>	112.5	69.3	69.9	79.5	76.9
	<i>in percent of GDP</i>	4.6	2.4	1.9	1.6	1.7
	<i>percent of export of goods and services</i>	11.9	5.4	3.5	2.9	3.0
Public external debt servicing (fact)	<i>US\$ million</i>	60.6	62.7	66.3	76.7	73.4
	<i>in percent of GDP</i>	2.5	2.2	1.8	1.5	1.6
	<i>in percent of export of goods and services</i>	6.4	4.9	3.3	2.8	2.9

* preliminary data

¹ - NSC KR, SCC KR and NBKR data² - including IMF loans³ - excluding bilateral debt restructuring by the Paris Club of Creditors in 2002 and 2005

Table 7.
Monetary Policy Instruments

	Unit of Measurement	2005	2006	2007	2008	2009
NBKR Credits (for the period)						
Credits (overnight)	<i>som million.</i>	2,628.5	-	-	1,284.5	635.8
Last resort credits	<i>som million.</i>	-	-	-	-	-
NBKR Discount Rate (end of period)						
	<i>in percent</i>	4.1	3.2	8.8	15.2	0.9
NBKR Notes						
	<i>som million.</i>					
maturity:						
7 days						
sales (for the period)	<i>som million.</i>	-	-	-	2,504.8	4,987.6
yield (average for the period)	<i>in percent</i>	-	-	-	9.2	4.8
14 days						
sales (for the period)	<i>som million.</i>	-	72.0	1,773.7	8,323.5	7,182.0
yield (average for the period)	<i>in percent</i>	-	3.8	5.0	10.2	6.9
28 days						
sales (for the period)	<i>som million.</i>	146.5	100.0	2,417.4	7,794.1	8,346.1
yield (average for the period)	<i>in percent</i>	4.4	3.9	5.8	11.6	7.6
91 days						
sales (for the period)	<i>som million.</i>	-	-	38.1	482.2	156.0
yield (average for the period)	<i>in percent</i>	-	-	9.6	11.8	18.4
182 days						
sales (for the period)	<i>som million.</i>	-	-	-	20.0	-
yield (average for the period)	<i>in percent</i>	-	-	-	10.5	-
Open Market Transactions (for the period)						
Direct REPO	<i>som million.</i>	17.0	-	-	-	-
Reverse REPO	<i>som million.</i>	210.5	1,795.9	3,562.6	1,751.3	556.8
NBKR Deposit Transactions						
volume (for the period)	<i>som million.</i>	-	50.0	1,664.0	-	-
interest rate (average for the period)	<i>in percent</i>	-	2.0	1.9	-	-
NBKR Foreign Exchange Interventions (for the period)						
Purchase	<i>US\$ million</i>	83.2	186.2	282.3	228.5	66.8
Sale		12.0	-	43.0	175.6	221.9
NBKR SWAP Foreign Exchange Transactions (for the period)						
Purchase	<i>US\$ million</i>	1.6	-	-	-	-
Sale		-	8.4	48.9	69.0	-
Reserve Requirements						
Reserve requirement ratio (end of period)	<i>in percent</i>	10.0	10.0	10.0	10.0	9.5
Required reserves (annual average)	<i>som million</i>	869.2	1,366.7	1,779.4	2,290.1	2,904.9
Excess reserves (annual average)	<i>som million</i>	504.1	711.2	961.4	1,449.9	1,341.8

"-" - no transactions

Table 8.Interest Rates of Deposits in National Currency (end of period)
(in percent)

	2005	2006	2007	2008	2009
Deposits of Legal Entities					
<i>demand deposits:</i>	1.43	1.20	1.47	0.35	1.99
<i>time deposits:</i>	9.01	8.86	6.52	10.29	8.52
<i>of which:</i>					
up to 1 month	9.48	7.47	6.55	7.40	4.42
1-3 months	7.04	6.66	6.43	7.00	7.46
3-6 months	10.35	10.09	5.92	8.16	8.89
6-12 months	9.76	10.98	6.80	8.17	8.93
over 1 year	10.03	10.11	6.29	10.00	12.80
Deposits of Individuals					
<i>demand deposits:</i>	2.21	2.15	1.42	1.32	1.49
<i>time deposits:</i>	10.65	10.79	11.10	11.48	12.36
<i>of which:</i>					
up to 1 month	9.59	9.10	9.12	10.18	10.18
1-3 months	8.52	9.18	9.33	10.83	10.53
3-6 months	9.76	10.19	10.55	10.97	11.60
6-12 months	10.98	11.54	12.10	12.39	12.92
over 1 year	14.04	12.67	11.82	11.88	14.16
Average Weighted Rate	4.03	3.64	4.65	6.01	5.29

Table 9.Interest Rates of Deposits in Foreign Currency (end of period)
(in percent)

	2005	2006	2007	2008	2009
Deposits of Legal Entities					
<i>demand deposits:</i>	0.16	0.11	0.17	0.01	0.09
<i>time deposits:</i>	5.80	5.69	6.90	3.58	6.96
<i>of which:</i>					
up to 1 month	4.09	3.93	5.82	3.46	4.73
1-3 months	5.44	6.24	3.49	2.80	4.76
3-6 months	6.87	3.59	6.80	3.09	7.53
6-12 months	9.54	9.19	7.67	6.47	9.82
over 1 year	4.79	6.45	7.15	3.69	11.73
Deposits of Individuals					
<i>demand deposits:</i>	0.17	0.21	0.09	0.13	0.17
<i>time deposits:</i>	8.45	8.27	6.85	8.90	10.07
<i>of which:</i>					
up to 1 month	5.92	6.20	6.31	6.16	7.25
1-3 months	7.20	7.17	7.21	7.45	8.19
3-6 months	8.23	8.80	8.87	9.28	10.01
6-12 months	9.11	9.36	9.98	10.61	11.03
over 1 year	11.53	8.18	4.15	9.07	11.31
Average Weighted Rate	1.64	1.51	2.19	1.64	2.15

Table 10.Interest Rates on Credits of Commercial Banks in National Currency (debt as of end of period)
(in percent)

	2005	2006	2007	2008	2009
Average Weighted Rate	24.9	24.4	21.3	23.7	25.3
Industry	19.4	21.9	20.4	19.8	21.1
Agriculture	26.5	28.0	17.3	22.1	24.4
Transportation and communication	20.9	15.1	17.2	22.9	26.8
Trade	26.7	26.8	25.8	26.2	27.4
Procurement and processing	24.5	23.4	16.4	20.1	22.3
Construction	21.9	18.3	18.8	20.4	21.0
Mortgage	19.9	17.7	17.8	17.9	18.3
To individuals	27.5	25.8	25.7	27.1	27.7
Other	21.6	20.7	18.3	23.2	25.1
of which:					
up to 1 month	24.9	27.8	23.3	25.0	24.9
Industry	31.5	28.5	31.9	27.2	34.8
Agriculture	28.3	27.0	18.8	21.1	22.1
Transportation and communication	18.9	34.5	32.4	28.7	28.2
Trade	24.3	28.9	24.3	25.8	28.4
Procurement and processing	30.2	35.0	14.2	20.0	24.2
Construction	30.6	22.3	20.3	23.3	20.2
Mortgage	20.0	18.1	21.6	21.2	22.5
To individuals	33.0	31.0	27.7	27.6	31.9
Other	21.9	26.4	24.5	26.2	20.3
1-3 months	27.5	27.9	24.9	23.1	25.4
Industry	30.9	25.0	23.1	20.2	28.9
Agriculture	28.5	28.3	19.3	18.6	22.8
Transportation and communication	17.0	26.9	27.7	19.8	21.5
Trade	28.8	29.6	27.3	26.3	27.8
Procurement and processing	28.8	22.5	15.4	17.2	25.8
Construction	25.8	22.7	22.5	21.7	22.6
Mortgage	25.0	20.2	21.3	21.2	16.1
To individuals	28.5	29.3	27.8	28.5	29.4
Other	25.3	24.1	24.3	16.8	24.5
3-6 months	24.1	25.6	24.5	25.7	26.1
Industry	23.6	19.1	23.4	19.8	29.5
Agriculture	27.4	28.8	22.4	24.5	25.6
Transportation and communication	21.5	31.7	31.3	16.3	20.8
Trade	23.7	28.5	27.4	26.9	28.6
Procurement and processing	24.5	30.1	18.8	20.1	23.4
Construction	21.1	22.9	19.5	25.1	13.2
Mortgage	22.1	20.9	20.0	22.9	14.3
To individuals	29.2	28.8	29.2	28.6	30.4
Other	25.2	16.2	15.1	25.5	26.9
6-12 months	27.3	27.8	24.7	26.1	27.4
Industry	19.1	25.4	21.4	24.5	21.2
Agriculture	26.7	29.2	21.8	24.1	25.2
Transportation and communication	32.9	31.8	30.9	29.0	30.5
Trade	28.9	28.3	27.0	27.5	28.8
Procurement and processing	24.9	24.8	18.0	22.5	22.0
Construction	22.5	23.2	23.0	16.7	22.0
Mortgage	18.7	19.3	23.1	20.3	22.8
To individuals	28.4	27.6	30.1	28.5	29.1
Other	24.5	25.2	17.3	25.3	27.0
over 1 year	21.3	19.7	18.7	22.6	24.7
Industry	20.4	19.6	19.1	21.4	21.0
Agriculture	23.3	26.2	15.3	21.6	24.2
Transportation and communication	30.2	13.8	16.2	26.9	29.5
Trade	25.4	22.2	23.6	25.4	26.8
Procurement and processing	20.8	21.2	15.3	19.2	21.9
Construction	21.7	15.5	16.5	21.2	23.7
Mortgage	19.5	17.6	17.7	17.7	18.1
To individuals	23.4	23.1	21.9	24.6	25.8
Other	18.2	18.0	19.6	23.2	25.1

"-" - no transactions

Table 11.Interest Rates on Credits of Commercial Banks in Foreign Currency (debt as of end of period)
(in percent)

	2005	2006	2007	2008	2009
Average Weighted Rate	18.7	18.0	18.1	19.5	20.6
Industry	17.5	15.1	15.2	16.3	16.9
Agriculture	22.2	20.3	19.9	19.8	22.5
Transportation and communication	18.4	20.2	20.1	21.0	20.0
Trade	20.5	19.9	19.7	21.5	22.4
Procurement and processing	19.0	15.1	14.9	15.1	3.7
Construction	15.5	16.6	16.1	18.3	21.4
Mortgage	17.8	16.5	16.5	17.2	17.5
To individuals	21.6	21.2	21.3	22.8	24.8
Other	15.8	16.6	17.5	18.4	18.3
of which:					
up to 1 month	13.3	18.8	18.0	21.6	24.5
Industry	12.9	13.8	15.7	16.1	16.8
Agriculture	21.2	24.8	23.6	30.1	30.7
Transportation and communication	25.8	24.5	22.1	22.9	27.8
Trade	22.0	24.9	19.3	22.5	26.6
Procurement and processing	12.8	-	-	-	-
Construction	7.9	19.1	24.2	18.1	20.0
Mortgage	20.0	20.9	15.0	20.5	21.0
To individuals	24.1	19.4	22.2	25.2	24.8
Other	11.9	27.1	20.0	20.3	16.8
1-3 months	16.7	17.4	18.6	20.9	21.1
Industry	15.5	15.6	14.7	17.2	18.5
Agriculture	23.8	23.6	24.2	23.1	24.5
Transportation and communication	20.6	24.3	22.8	21.1	24.9
Trade	20.3	19.9	18.5	22.3	21.4
Procurement and processing	24.0	22.0	13.3	-	-
Construction	20.7	24.2	18.1	19.7	18.0
Mortgage	19.2	17.4	15.9	21.5	19.0
To individuals	23.4	26.2	24.5	24.5	26.6
Other	10.5	12.6	18.9	18.2	22.4
3-6 months	19.3	18.8	18.9	20.3	19.7
Industry	17.3	15.2	14.6	17.1	16.4
Agriculture	22.0	21.0	18.8	23.7	26.0
Transportation and communication	23.9	17.4	23.0	21.2	22.8
Trade	20.2	19.2	18.7	20.7	19.5
Procurement and processing	22.8	24.9	20.5	14.8	17.2
Construction	18.2	18.0	18.3	19.1	19.9
Mortgage	16.1	18.9	20.0	20.2	19.5
To individuals	23.1	23.3	25.4	22.8	26.3
Other	18.7	22.7	18.9	18.5	18.4
6-12 months	19.0	20.1	19.9	20.5	20.2
Industry	16.1	16.3	15.1	16.7	16.5
Agriculture	24.7	23.8	25.4	17.5	22.2
Transportation and communication	22.8	23.1	20.9	24.5	23.4
Trade	21.0	20.9	21.1	21.7	21.7
Procurement and processing	18.1	14.1	17.0	-	-
Construction	21.0	19.7	18.2	17.9	17.4
Mortgage	19.0	17.9	18.4	17.8	18.7
To individuals	21.9	23.5	23.5	25.1	25.9
Other	13.2	19.8	18.8	19.2	18.4
over 1 year	16.7	17.3	17.6	18.8	19.7
Industry	15.3	14.8	15.6	16.6	17.6
Agriculture	20.7	18.8	18.7	20.6	22.0
Transportation and communication	16.2	19.4	19.9	18.7	19.4
Trade	16.7	19.1	19.5	20.9	21.7
Procurement and processing	18.4	14.9	14.5	14.9	3.1
Construction	15.9	15.8	15.6	16.7	16.7
Mortgage	17.5	16.4	16.5	17.1	17.4
To individuals	19.1	19.7	19.8	22.2	24.3
Other	17.5	17.7	17.3	18.3	18.3

“-” - no transactions

Table 12.Annual Average Interest Rate of Interbank Credits (excluding transactions with non-residents)
(in percent)

	2005	2006	2007	2008	2009
Interbank REPO Transactions	4.0	3.3	3.9	8.9	8.4
up to 1 day	4.0	3.3	4.2	8.8	10.4
2 - 7 days	4.0	3.3	3.8	8.9	8.3
8 - 14 days	4.0	3.5	4.9	9.7	7.8
15 - 30 days	3.9	3.3	4.2	11.7	5.3
31 - 60 days	4.1	4.0	6.8	6.6	-
61 - 90 days	-	-	-	6.3	7.0
91 - 180 days	-	-	-	7.1	-
181 - 360 days	-	-	-	-	-
over 360 days	-	-	9.5	-	-
Interbank Credits in National Currency	3.2	2.8	3.2	7.6	7.8
up to 1 day	4.5	3.0	4.5	8.8	11.6
2 - 7 days	3.0	2.7	3.3	8.1	9.1
8 - 14 days	2.4	2.8	3.5	8.4	7.8
15 - 30 days	3.5	3.6	3.0	6.9	3.9
31 - 60 days	1.0	-	2.4	8.6	13.0
61 - 90 days	7.0	-	2.8	5.7	5.5
91 - 180 days	12.0	-	-	6.8	4.7
181 - 360 days	-	7.0	-	6.1	-
over 360 days	-	-	-	-	-
Interbank Credits in Foreign Currency	4.3	5.7	6.7	5.7	6.0
up to 1 day	-	5.1	7.0	5.8	3.8
2 - 7 days	3.7	4.7	5.5	3.9	6.3
8 - 14 days	3.4	4.7	3.5	6.1	1.8
15 - 30 days	3.6	6.4	5.5	3.9	4.3
31 - 60 days	2.8	6.9	6.1	4.3	-
61 - 90 days	-	5.0	6.8	3.9	-
91 - 180 days	7.1	7.8	8.5	10.2	9.7
181 - 360 days	6.0	7.8	8.2	4.4	-
over 360 days	-	-	-	-	-

“-” - no transactions

Table 13.
Balance of Payments of the Kyrgyz Republic
(in millions of US dollars)

	2005	2006	2007	2008	2009*
Current Account	-38.4	-287.2	-227.7	-603.4	18.3
Goods and services	-450.5	-968.5	-1,195.9	-1,976.9	-1,060.9
Trade balance ¹	-418.7	-886.5	-1,275.8	-1,879.2	-1,094.7
Export (FOB)	686.8	906.0	1,337.8	1,874.4	1,661.8
CIS	305.3	476.1	753.9	1,011.7	757.3
Non-CIS	381.5	429.9	583.9	862.7	904.4
Import (FOB)	1,105.5	1,792.4	2,613.6	3,753.5	2,756.4
CIS	641.0	925.8	1,420.7	2,025.4	1,599.9
Non-CIS	464.5	866.6	1,192.9	1,728.1	1,156.5
Balance of services	-31.8	-82.0	79.9	-97.7	33.8
Transportation services	-64.9	-121.4	-197.8	-342.3	-276.5
Travels	14.6	75.3	233.6	210.1	211.8
Construction	16.8	16.4	5.0	10.4	5.4
Other services	22.6	-31.3	59.4	45.1	113.3
Technical assistance	-21.0	-21.1	-20.4	-20.9	-20.3
Income	-88.2	-48.2	-52.4	-103.2	-115.6
Income from direct investment	-36.0	-39.8	-39.5	-73.9	-57.1
Income from portfolio investment	-	0.1	0.2	0.5	3.8
Income from other investment	-31.8	15.8	7.7	-7.5	-38.3
Interests on credits (schedule)	-36.2	-19.9	-25.7	-30.9	-41.6
Other income from other investment	4.4	35.6	33.4	23.4	3.3
Remuneration of labor	-20.4	-24.2	-20.8	-22.3	-23.9
Current transfers	500.3	729.5	1,020.5	1,476.7	1,194.8
Official transfers	23.0	12.4	30.9	45.9	195.1
Private transfers	477.3	717.1	989.6	1,430.8	999.7
Capital and Financial Account	0.9	285.9	266.4	-7.6	413.0
Capital account	-20.5	-43.9	-74.9	-44.9	-28.8
Capital transfers	-20.5	-43.9	-74.9	-44.9	-28.8
Financial account	21.5	329.7	341.2	37.3	441.8
Direct investment	42.6	182.0	208.1	232.4	140.0
Portfolio investment	2.3	-3.0	-17.7	-25.6	-11.0
Financial derivatives	-	-	-	-	-
Other investment	-23.4	150.7	150.9	-169.4	312.8
Assets (- increase)	-47.5	-24.0	19.5	-369.3	-223.7
Commercial banks	-15.1	-17.0	37.7	-115.9	-246.4
Accounts receivable	-45.1	-13.5	-27.6	-230.8	7.7
Accounts of enterprises abroad	-6.3	5.2	-10.8	-3.3	17.4
Other assets	19.0	1.3	20.3	-19.3	-2.3
Liabilities (+ increase)	24.1	174.7	131.4	199.9	536.5
Commercial banks	-11.9	-26.6	66.6	48.4	70.8
Credits	18.4	68.6	51.4	32.5	297.4
Credits to public sector	17.2	56.5	35.1	4.7	357.0
Credits to private sector	1.2	12.1	16.4	27.8	-59.6
Accounts payable	19.8	132.7	13.3	119.0	36.1
Other liabilities	-2.1	0.0	0.0	0.0	132.2
Errors and omissions	66.6	185.1	268.7	694.8	-179.6
Total Balance	29.1	183.7	307.3	83.8	251.7
Financing	-29.1	-183.7	-307.3	-83.8	-251.7
NBKR reserves (- increase)	-80.5	-169.9	-306.8	-121.3	-273.3
IMF loans	-12.5	-23.5	-20.7	18.7	4.8
Financing gap	0.0	0.0	0.0	0.0	0.0

* preliminary data

¹ - including NBKR estimates

"- " - no transactions

Table 14.

External Debt of the Kyrgyz Republic by Creditors¹
(in millions of US dollars)

	2005	2006	2007	2008	2009*
External Public & Government Guaranteed Debt (1+2+3):	1,859.3	1,977.6	2,068.2	2,127.9	2,475.6
1. Multilateral debt:	1,281.4	1,376.4	1,455.1	1,452.7	1,464.4
World Bank	562.8	612.8	656.5	651.2	656.0
Asian Development Bank	466.8	532.2	583.0	569.4	583.0
IMF	177.9	163.1	149.8	164.6	167.1
Islamic Bank of Reconstruction and Development	28.0	29.4	32.8	38.4	35.1
European Bank of Reconstruction and Development	24.7	16.6	10.4	6.5	2.6
International Fund for Agricultural Development	9.0	10.0	10.3	11.6	10.2
Nordic Development Fund	6.0	6.7	7.4	6.8	6.9
OPEC	6.3	5.6	4.9	4.2	3.5
2. Bilateral debt:	574.8	598.8	611.4	674.2	1,010.9
2.1. CIS countries:	197.1	200.0	200.1	196.4	493.6
Russia	186.0	188.9	191.5	193.6	493.6
Uzbekistan	11.1	11.1	8.6	2.9	-
2.2. other:	377.7	398.8	411.3	477.7	517.3
Japan	225.2	233.8	242.8	303.1	303.5
Germany	40.8	58.8	65.3	74.7	75.3
Turkey	46.3	48.4	49.3	50.1	49.8
Korea	16.7	18.4	18.2	13.6	14.7
Kuwait Fund	15.7	15.7	16.8	16.6	17.5
China	13.6	14.0	8.2	9.1	46.8
France	5.5	5.7	6.5	6.2	6.4
Denmark	3.0	3.0	3.2	3.4	3.3
India	1.0	1.0	1.0	1.0	-
Pakistan	10.0	-	-	-	-
3. Government guaranteed public debt	3.1	2.4	1.7	1.0	0.3

¹ - MOF KR data as of end of period (at the IMF exchange rate)

* - preliminary data

"-" - no transactions

Table 15
Information on Authorized (Shareholders') Capital of Commercial Banks (end of period)
(in millions of soms)

Наименование банков	2005			2006			2007			2008			2009		
	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c
Total	3,050.8	2,959.6	1,963.4	3,962.8	3,598.5	2,336.7	6,105.5	5,805.8	3,566.9	7,850.4	4,540.8	8,903.0	8,666.0	4,588.1	
OJSC "AsiaUniversalBank"	300.0	300.0	236.2	400.0	300.0	218.9	700.0	700.0	700.0	671.1	1,337.5	1,290.5	1,422.4	1,375.8	
OJSC "Ayil Bank"	-	-	-	-	-	-	400.0	300.0	-	480.0	480.0	0.0	560.0	560.0	0.0
OJSC "Ak Bank" ^{1/}	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Investment Joint Stock Commercial bank "AkyI" OJSC ^{2/}	0.0	0.0	0.0	-	-	-	-	-	-	-	-	-	100.0	100.0	100.0
OJSC Russia-Kyrgyz "Amanbank"	63.0	63.0	17.8	263.0	63.0	11.9	263.0	263.0	43.9	300.0	263.0	0.2	300.0	263.0	0.2
OJSC "ATFBank-Kyrgyzstan"	150.0	150.0	110.9	500.0	500.0	470.9	500.0	500.0	470.9	700.0	700.0	670.9	700.0	700.0	680.0
CJSC "Bank of Asia"	63.0	63.0	63.0	79.8	79.8	79.8	79.8	79.8	79.8	-	126.0	126.0	0.0	146.0	108.8
OJSC "BAKAI-BANK"	80.0	80.0	-	100.0	100.0	-	125.0	125.0	-	160.0	160.0	0.0	200.0	200.0	0.0
CJSC "BTA Bank"	480.0	480.0	340.8	480.0	480.0	340.8	800.0	800.0	568.0	1,000.0	1,000.0	710.0	1,000.0	1,000.0	710.0
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"	100.0	77.8	-	130.0	130.0	-	180.0	180.0	-	200.0	200.0	0.0	242.0	242.0	0.0
OJSC Investment Bank "Issyk-Kul"	60.0	35.0	4.9	60.0	60.0	3.7	271.0	71.3	0.3	271.0	271.0	0.3	271.0	271.0	0.1
OJSC "Kazkommertsbank Kyrgyzstan"	100.0	100.0	93.6	100.0	100.0	93.6	100.0	100.0	93.7	120.5	120.5	114.2	120.5	120.5	114.0
CJSC "Kyrgyz Investment Credit Bank"	289.1	289.1	260.2	266.9	266.9	240.2	355.0	355.0	319.5	394.2	394.2	354.8	440.9	440.9	396.8
OJSC "KyrgyzCredit Bank"	100.0	100.0	80.8	110.0	110.0	-	200.0	200.0	0.1	300.0	300.0	0.1	300.0	300.0	0.1
OJSC "Kyrgyzpromstroibank" ^{3/}	100.0	100.0	-	100.0	100.0	-	110.0	110.0	-	-	-	-	-	-	-
OJSC "Commercial Bank KYRGYZSTAN"	138.9	120.9	-	160.9	138.9	-	160.9	160.9	-	160.9	160.9	0.0	160.9	160.9	2.2
CJSC "Manas Bank"	-	-	-	-	-	-	300.0	300.0	300.0	300.0	300.0	300.0	500.0	300.0	300.0
OJSC "SSC Bank" ^{4/}	103.8	103.8	-	108.8	108.8	-	116.2	116.2	-	425.0	425.0	0.0	844.0	844.0	0.0
CJSC JSCB "Tolubai"	48.0	48.0	0.9	63.0	63.0	1.2	88.0	88.0	1.7	105.0	105.0	2.0	125.0	125.0	2.3
OJSC "FinanceCreditBank KAB"	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	300.0	0.0
OJSC "Halyk Bank Kyrgyzstan"	211.0	211.0	211.0	334.2	334.2	334.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2
OJSC "EcoBank"	126.0	100.0	5.4	168.3	126.0	3.7	258.7	258.7	-	372.4	372.4	0.0	372.4	372.4	0.0
Bishkek Branch of the National Bank of Pakistan	105.4	105.4	105.4	105.4	105.4	105.4	131.1	131.1	131.1	131.1	131.1	131.1	131.1	131.1	131.1

Commercial banking data

Note: a - announced paid-in authorized capital, b - paid-in authorized capital, c - including the share of foreign investors

^{1/} Introduction of conservatorship regime on September 28, 2005. On November 1, 2005, the license was revoked.

^{2/} Since May 31, 2009 Investment Joint Stock Commercial bank AkyI OJSC (former Investment Joint Stock Commercial bank AkyI) was included into banking system of the Kyrgyz Republic, the license of which had been restored and given on February 27, 2009 due to rehabilitation.

^{3/} Since November 2008 OJSC "Kyrgyzpromstroibank" was merged with OJSC "AsiaUniversalBank"

^{4/} Since October 3, 2008 "The Settlement and Savings Company" OJSC was renamed as "SSC Bank" OJSC.

Table 16.

Monetary Survey (end of period)
(in millions of soms)

	2005	2006	2007	2008	2009
ASSETS					
Cash assets	1,155.0	2,006.6	2,088.1	2,967.2	3,738.7
Correspondent account with NBKR	2,051.8	2,889.0	4,014.0	3,835.0	5,446.1
Correspondent accounts with other banks	6,961.8	5,638.4	3,694.8	8,280.0	16,777.9
Deposits with other banks	-	884.4	1,374.3	1,655.1	1,834.2
Securities portfolio	1,803.5	1,953.4	4,899.0	5,727.4	7,662.8
Short-term placements	346.5	323.1	149.1	684.2	739.1
Securities purchased on REPO agreements	50.0	505.4	334.2	257.7	300.1
Net credit and financial lease ^{1/}	7,550.4	11,646.9	21,868.6	26,584.8	24,709.3
Credits and financial lease to finance and credit institutions	215.4	718.3	1,515.3	1,770.3	797.2
Credits and financial lease to clients ^{2/}	7,645.3	11,298.7	20,797.6	25,573.6	25,120.7
(minus) Special LLP on credits and financial lease	310.3	370.1	444.2	759.2	1,208.6
Fixed assets	820.8	1,493.1	2,250.1	3,427.6	3,781.6
Borrower's real assets accepted as asset paydown	51.3	30.4	37.2	34.6	188.0
Other borrower's property accepted as asset paydown	3.1	2.2	15.1	46.9	78.0
Investment in nonconsolidated companies	0.2	6.1	1.1	115.0	127.2
Other assets	1,109.4	890.3	1,408.8	1,310.7	2,604.7
TOTAL: ASSETS	21,904.0	28,269.3	42,134.3	54,926.1	67,987.5
LIABILITIES					
Demand deposits of legal entities ^{3/}	7,888.8	9,717.6	10,244.8	13,946.9	21,147.5
Deposits of individuals ^{4/}	2,665.8	4,135.1	6,235.2	6,882.0	9,606.9
Time deposits of legal entities	1,536.2	1,122.9	2,563.4	2,371.6	2,413.7
Liabilities to the NBKR	33.3	20.1	13.3	8.2	4.0
Correspondent accounts	1,478.3	107.3	225.9	39.8	531.7
Deposits of other banks ^{5/}	-	2,293.2	3,619.7	4,878.6	4,539.3
Short-term placements	15.2	0.0	284.0	142.6	62.7
Government deposits and credits	919.9	1,492.6	3,781.6	4,931.1	6,559.0
Securities sold on REPO agreements	0.0	1.2	140.8	170.3	300.1
Received credits	2,279.5	2,673.6	3,756.4	6,619.9	4,368.8
Subordinated bonds	364.2	376.8	324.9	127.5	132.6
Other liabilities	1,261.6	1,282.3	1,946.6	1,985.3	3,399.5
TOTAL: LIABILITIES	18,442.7	23,222.8	33,136.6	42,103.8	53,065.9
CAPITAL					
Stock capital	3,197.6	4,669.4	8,464.3	11,694.0	13,641.3
Common shares	2,655.9	3,594.7	5,801.8	7,809.6	8,663.4
Privileged shares	3.8	3.8	3.8	2.6	2.6
Capital above the par	47.3	4.4	130.1	121.8	173.9
Retained profit, total	490.7	1,066.6	2,528.7	3,760.1	4,801.4
Total reserves	263.7	377.0	533.4	1,128.3	1,280.4
Reserve for revaluation of fixed assets	20.8	101.5	101.2	574.9	713.3
Reserve for revaluation of marketable securities	9.7	1.5	4.6	-5.8	20.5
General LLP on credits and financial lease	232.6	271.9	427.1	557.6	544.0
General LLP on other classified assets	0.5	2.2	0.6	1.7	2.6
Other general reserves	0.0	0.0	0.0	0.0	0.0
TOTAL: CAPITAL	3,461.3	5,046.5	8,997.7	12,822.3	14,921.7
TOTAL: LIABILITIES & CAPITAL	21,904.0	28,269.3	42,134.3	54,926.1	67,987.5

^{1/} Reduced by the amount of the discount and special LLP on credits

^{2/} Includes loans to legal entities and individuals.

^{3/} Includes settlement (current) accounts and demand deposits of legal entities.

^{4/} Includes settlement (current) accounts, demand deposits and time deposits of individuals.

^{5/} Includes settlement (current) accounts, demand deposits and time deposits of banks and other settlement credit institutions.

Table 17.
Information on Head Offices and Branches of Commercial Banks as of end-2009

Bank	Head Office Location	Total branches	Branches							
			Bishkek	Chui Oblast	Issyk-Kul Oblast	Naryn Oblast	Talas Oblast	Jalalabat Oblast	Osh Oblast	Batken Oblast
Total branches		239	50	33	35	17	10	39	42	13
Branches of resident banks										
OJSC "Asia Universal Bank"	Bishkek	36	7	5	5	3	2	7	4	3
OJSC "Ayil Bank"	Bishkek	18	1	2	2	2	1	4	4	2
Investment Joint Stock Commercial bank "AkyI" OJSC	Bishkek	-	-	-	-	-	-	-	-	-
OJSC Russia-Kyrgyz "Amanbank"	Bishkek	7	1	1	2	-	1	1	1	-
OJSC "ATFBank-Kyrgyzstan"	Bishkek	13	5	2	3	-	1	1	1	-
CJSC "Bank of Asia"	Bishkek	4	2	-	1	-	-	-	1	-
OJSC "BAKAI-BANK"	Bishkek	5	-	2	1	-	-	1	1	-
CJSC "BTA Bank"	Bishkek	14	2	2	3	-	-	2	4	1
CJSC "Demir Kyrgyz International Bank"	Bishkek	5	4	-	-	-	-	-	1	-
OJSC "Dos-Credobank"	Bishkek	9	1	2	2	2	-	1	1	-
OJSC Investment Bank "Issyk-Kul"	Bishkek	6	2	-	2	-	-	1	1	-
OJSC "Kazkommertsbank Kyrgyzstan"	Bishkek	2	1	-	-	-	-	-	1	-
CJSC "Kyrgyz Investment Credit Bank"	Bishkek	8	2	-	1	1	-	2	2	-
OJSC "KyrgyzCredit Bank"	Bishkek	3	3	-	-	-	-	-	-	-
OJSC "Commercial Bank KYRGYZSTAN"	Bishkek	30	6	4	3	3	1	6	5	2
CJSC "Manas Bank"	Bishkek	1	-	-	-	-	-	-	1	-
OJSC "SSC Bank"	Bishkek	51	3	8	7	5	4	10	9	5
CJSC JSCB "Tolubai"	Bishkek	2	2	-	-	-	-	-	-	-
OJSC "Finance CreditBank KAB"	Bishkek	8	1	2	1	1	-	1	2	-
OJSC "Halyk Bank Kyrgyzstan"	Bishkek	7	3	1	1	-	-	1	1	-
OJSC "EcoBank"	Bishkek	10	4	2	1	-	-	1	2	-
Nonresident bank branches										
CABCD Bishkek branch ^{1/}	Almaty	-	-	-	-	-	-	-	-	-
Bishkek Branch of the National Bank of Pakistan ^{2/}	Karachi	-	-	-	-	-	-	-	-	-

^{1/} The temporary administration regime was introduced on July 31, 2002. On July 15, 2002, the CABCD banking license was withdrawn in the city of Almaty. The temporary manager (administrator) regime was introduced in the Bishkek branch of the CADCB CJSC on July 30, 2003.

^{2/} The banking license was issued on April 24, 2000.

"-" - no branches.

Table 18.
Movement of Cash in the Commercial Banking System and its Collectibility in 2009
(in millions of soms)

	Receipt			Total	Issue					Excess of issue (receipt) over receipt (9-4) (issue) (+/-)	Collectibility (%) (4/9)
	Taxes, customs duties & fees	Sales of forex	Other		To Treasury for salary payments	For payments of pensions and benefits	For purchases of forex	For other expendi- tures	Total		
	1	2	3	4	5	6	7	8	9	10	11
Total for the republic	14,119.9	39,979.1	186,715.7	240,814.7	15,277.2	10,423.8	46,843.0	171,175.9	243,719.9	2,905.2	98.8
Bishkek	8,254.7	32,088.2	109,444.6	149,787.5	5,473.6	1,450.1	28,484.5	103,967.0	139,375.2	-10412.3	107.5
Batken oblast	292.6	180.1	3,398.9	3,871.6	799.8	676.0	1,347.9	3,558.0	6,381.7	2510.1	60.7
Jalalabat oblast	740.2	1,018.1	19,059.8	20,818.1	2,069.5	1,923.2	5,917.7	16,765.4	26,675.8	5857.7	78.0
Issyk-Kul oblast	412.3	435.6	7,357.0	8,204.9	961.2	1,000.6	785.5	7,839.5	10,586.8	2381.9	77.5
Naryn oblast	87.1	40.0	2,415.3	2,542.4	1,245.4	929.2	114.3	2,237.0	4,525.9	1983.5	56.2
Osh	2,593.0	5,295.6	28,829.3	36,717.9	1,547.3	727.0	6,978.7	22,707.8	31,960.8	-4757.1	114.9
Osh oblast	489.5	412.8	4,001.0	4,903.3	1,146.8	1,621.4	1,643.7	4,020.7	8,432.6	3529.3	58.1
Talas oblast	129.3	53.8	2,926.0	3,109.1	678.1	470.6	563.8	3,655.1	5,367.6	2258.5	57.9
Chui oblast	1,121.2	454.9	9,283.8	10,859.9	1,355.5	1,625.7	1,006.9	6,425.4	10,413.5	-446.4	104.3

NBKR data

Table 19.
Volume & Number of Payments in the Payment System

Таблица 19.1. Pattern of Payments in the Gross System of Settlements

	2005		2006		2007		2008		2009	
	Volume, million soms	Number								
payments below Som 1 thousand	1	2,447	1	3,492	1	3,944	2	7,443	3	9,881
from Som 1 to 100 thousand	433	16,418	628	23,293	722	27,246	1,028	34,995	1,264	43,624
from Som 100 thousand to Som 1 million	4,347	12,868	5,644	17,251	6,493	19,147	9,469	22,232	9,715	23,333
from Som 1 million to Som 10 million	35,172	10,009	41,565	11,708	63,693	20,291	79,867	24,002	80,121	24,545
from Som 10 million to Som 100 million	51,853	2,370	77,300	3,598	146,999	6,002	201,449	7,327	191,641	7,005
payments above Som 100 million	7,144	31	6,062	41	24,487	160	83,717	500	134,887	624
Total	98,951	44,143	131,200	59,383	242,395	76,790	375,532	96,499	417,632	109,012

Table 19.2. Volume & Number of Clearing Transactions by Oblasts

	2005		2006		2007		2008		2009	
	Volume, million soms	Number	Volume, million soms	Number	Volume, million soms	Number	Volume, million soms	Number	Volume, million soms	Number
Bishkek and Chui Oblast	38,659	744,346	40,943	1,012,923	37,486	1,203,584	44,009	1,667,187	42,279	2,095,196
Issyk-Kul Oblast	977	35,296	1,135	94,645	2,321	103,609	2,781	146,442	3,213	192,336
Talas Oblast	432	44,576	745	81,035	797	30,637	913	79,702	893	118,475
Naryn Oblast	595	19,811	2,124	50,454	1,004	37,197	1,116	51,893	1,316	67,195
Jalalabat Oblast	1,912	53,307	1,379	156,219	3,515	205,419	4,510	254,025	4,779	350,287
Osh Oblast and Osh	3,951	73,072	3,856	236,308	4,345	80,454	5,783	170,494	6,130	237,077
Batken Oblast	148	7,548	1,229	118,170	2,050	72,324	2,113	125,602	2,267	235,995
Total	46,675	977,956	51,410	1,749,754	51,518	1,733,224	61,225	2,495,345	60,877	3,296,561

NBKR data

Table 19.3. Transactions with Plastic Cards in Sales Outlets

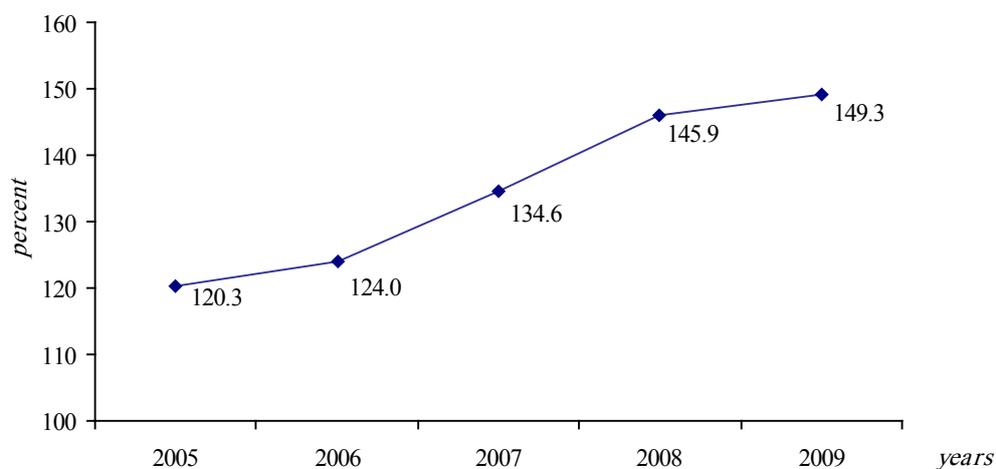
Types of Cards	2005		2006		2007		2008		2009	
	Number of transactions thousand soms	Volume, thousand soms								
Visa	21,062	106,917	33,879	112,871	33,506	134,865	35,495	174,271	48,508	148,033
Europay/Master Card	8,920	46,923	6,238	50,280	13,078	59,185	7,539	59,028	6,813	58,477
Alay-Card	34,348	8,366	37,849	11,539	38,991	17,076	36,205	17,911	38,272	42,164
Demir 24	5,327	1,781	12,413	5,065	17,467	6,866	8,114	4,683	3,442	1,918
Elkart	-	-	10	3	3,152	882	9,423	3,280	17,252	4,232
Union Card	-	-	-	-	-	-	-	-	-	-

Data of commercial banks

"-" - no transactions

Chart 1.

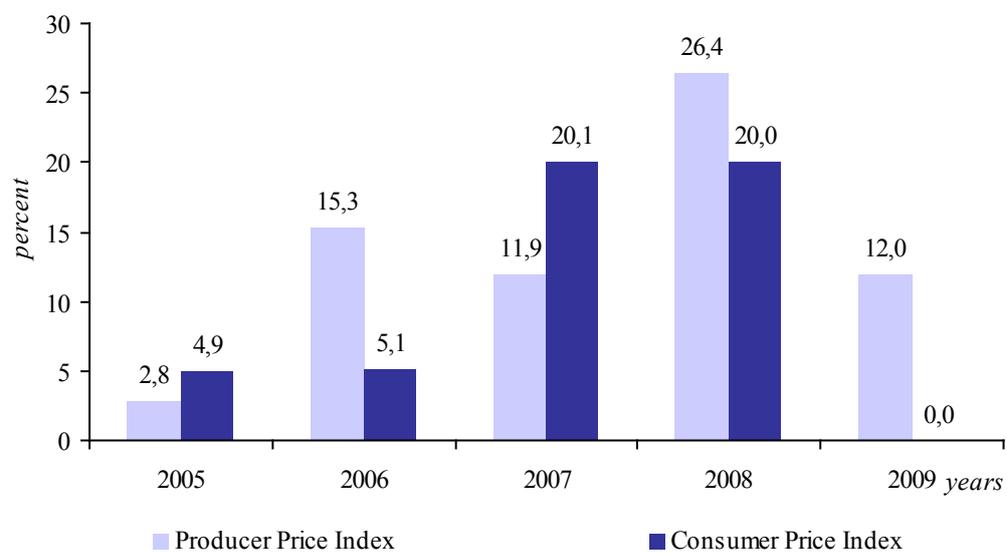
Rates of Growth of Real Gross Domestic Product
(2000 = 100 percent)



NSC KR data

Chart 2.

Rates of Growth of Consumer & Producer Prices



NSC KR data

Chart 3.

Monetary Aggregates

Chart 3.1. Monetary Aggregate M2X Structure

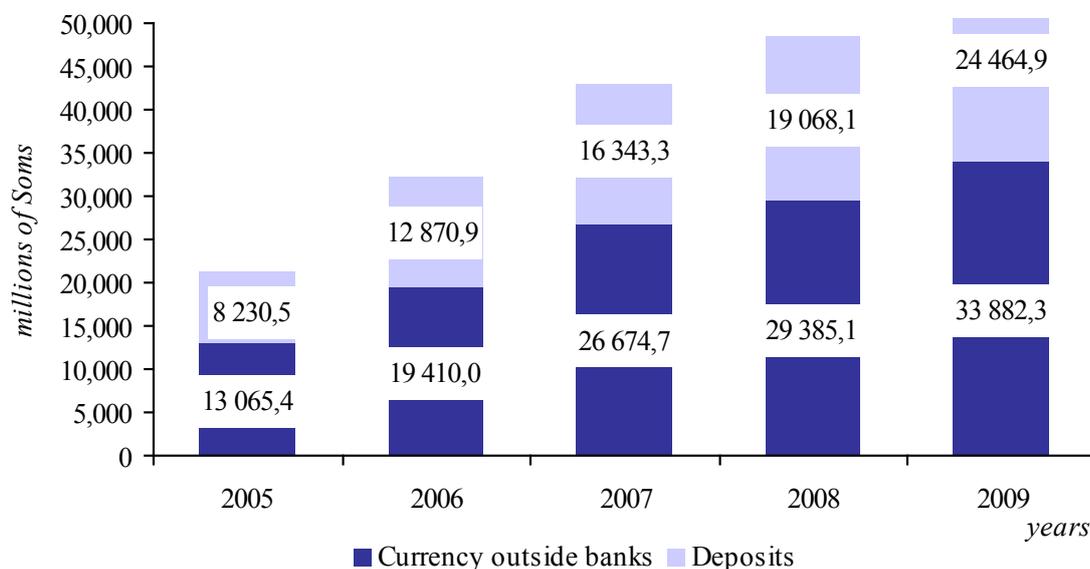
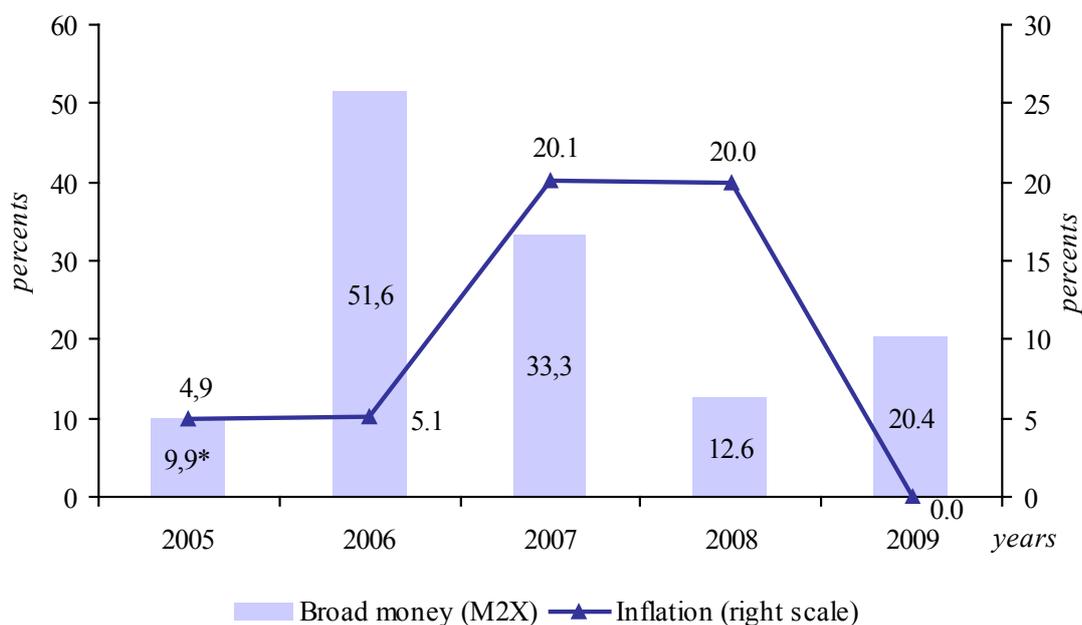


Chart 3.2. Rates of Growth of Money Supply & Inflation



On NSC KR, NBKR and commercial banks data

* Low rates of growth of the estimated value of money supply in 2005 result from methodological changes: since October 1, 2005, the data on deposits and credits have been presented in conformity with the new Chart of Accounts for commercial banks

Chart 4.
Deposits

Chart 4.1. Balances of Deposits with Operating Commercial Banks (end of period)

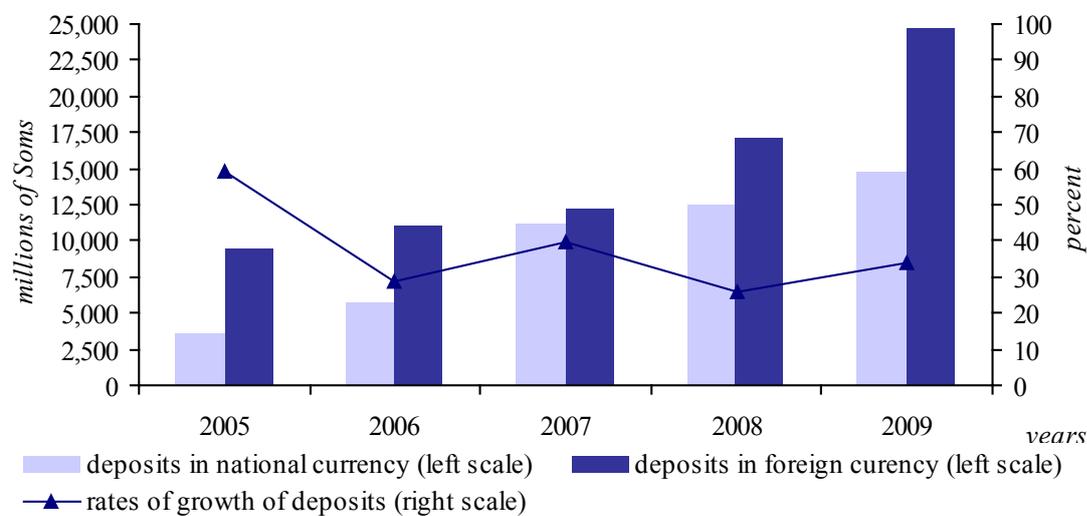
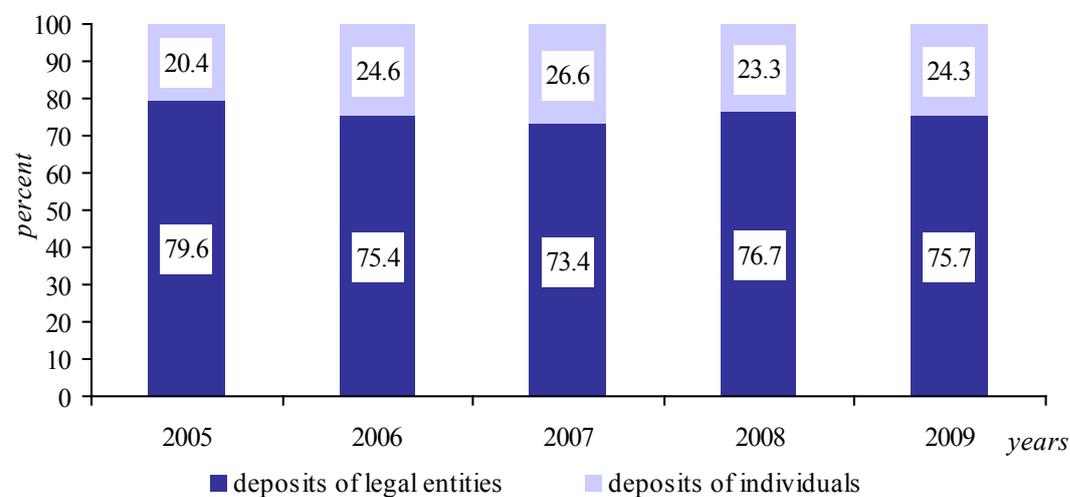
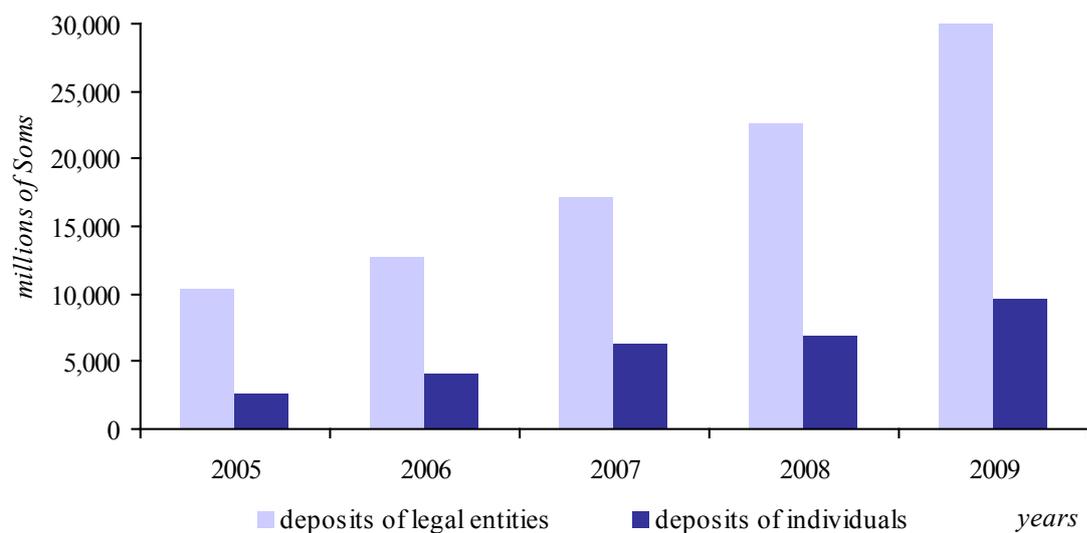


Chart 4.2. Structure of the Deposit Base of operating Commercial Banks (end of period)

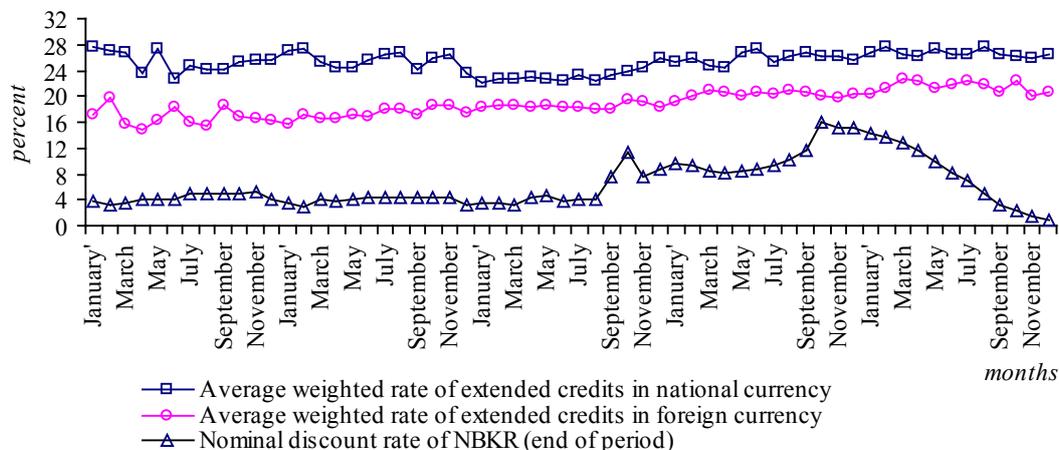


Data from monthly regulatory reporting of commercial banks

Chart 5.

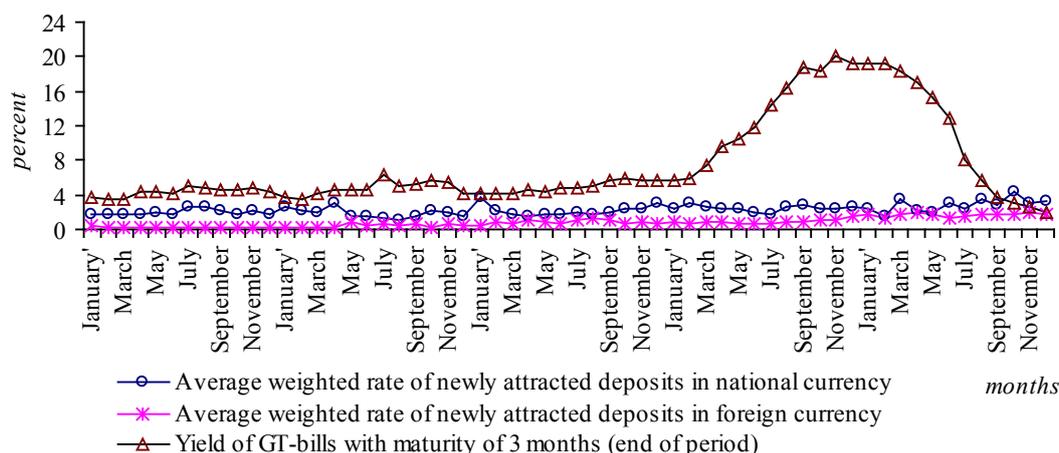
Interest Rates

Chart 5.1. Interest Rates of Credits Extended by Commercial Banks



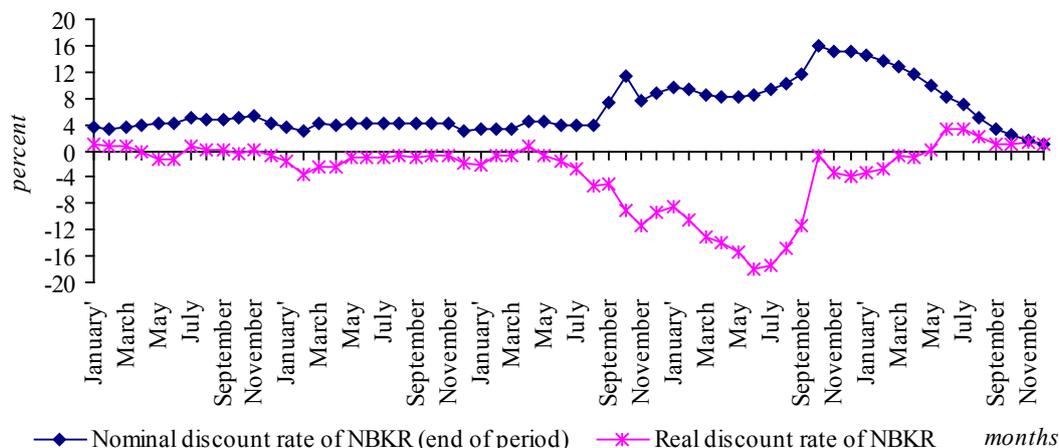
Data from monthly regulatory reporting of commercial banks.

Chart 5.2. Interest rates of Deposits and Yield of GT-bills



NBKR data and monthly regulatory reporting of commercial banks.

Chart 5.3. Nominal and Real Discount Rate Developments



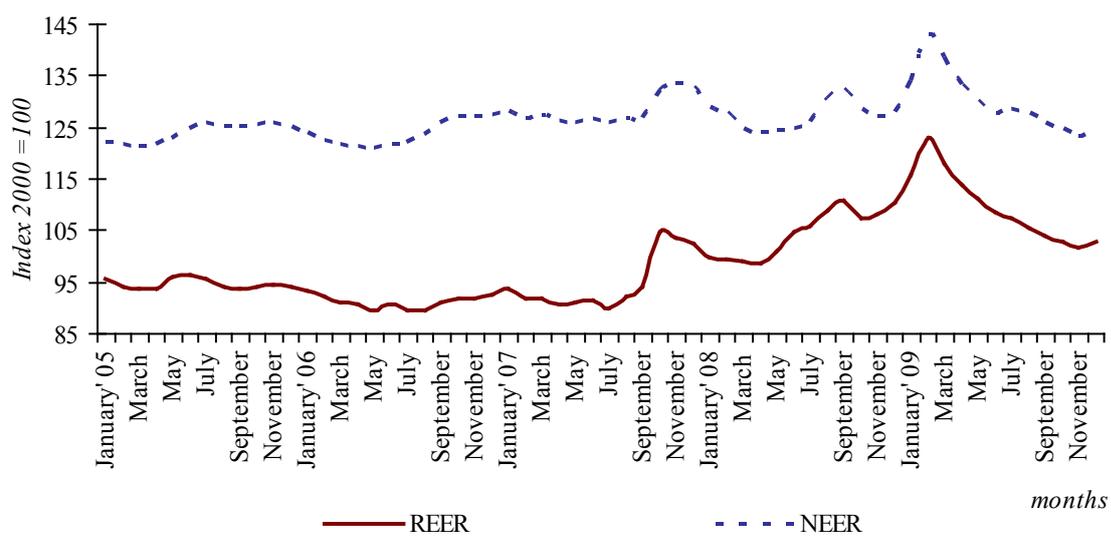
NBKR data

Note: The following formula was applied to calculate the real interest rate.

$$r = (i - p) / (p + 100) * 100, \text{ with } i \text{ being the nominal interest rate, } r - \text{real interest rate, } p - \text{annual rate of inflation.}$$

Chart 6.

Nominal and Real Effective Exchange Rates



NBKR data

NBKR Periodical Publications and Other Information Tools

No	Title	Language of Publication	Periodicity	Contents	Distribution
1	2	3	4	5	6
1.	Bulletin of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian and English	Monthly	Statistical data on basic economic and financial indicators. The data of the National Statistic Committee, Ministry of Finance, commercial banks, Financial Market Supervision & Regulation Service of the Kyrgyz Republic and the NBKR were used to prepare this bulletin.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme and Constitutional Courts of the Kyrgyz Republic, ministries and departments, commercial banks, nonblank finance and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic representations of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
2.	Annual Report of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian and English	Annually	The comprehensive progress report of the National Bank for the reporting year containing the concise description of the outcome of developments in the real sector of the economy and the decisions and actions of the National Bank in the monetary sphere. The Report comprises the data on economic development, the monetary policy, the financial statements and general information about the National Bank, as well as the statistical appendices.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme and Constitutional Courts of the Kyrgyz Republic, ministries and departments, commercial banks, nonblank finance and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic representations of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
3.	Statutory Acts of the NBKR	Kyrgyz and Russian	Monthly	The regulations, instructions and other regulatory acts adopted by the NBKR.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, commercial banks, finance and credit institutions, courts of the Kyrgyz Republic, ministries and departments, higher educational institutions and libraries of the Kyrgyz Republic.

1	2	3	4	5	6
4.	Inflation Report in the Kyrgyz Republic	Kyrgyz, Russian and English	Quarterly	The description of the consumer price behavior in the republic and its regions, and the analysis of basic inflation factors. The publication informs of the NBKR's monetary policy decisions, and presents the inflation forecast for the upcoming period.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme and Constitutional Courts of the Kyrgyz Republic, ministries and departments, commercial banks, nonblank finance and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic representations of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
5.	The Balance of Payments of the Kyrgyz Republic	Kyrgyz, Russian and English	Quarterly	The publication describes the recent external sector development trends and contains the statistical data on the balance of payments, external trade, international reserves, external debt, and the international investment position, as well as the meta-data and the information base used to compile the balance of payments.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme and Constitutional Courts of the Kyrgyz Republic, ministries and departments, commercial banks, nonblank finance and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic representations of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
6.	Press Release of the National Bank of the Kyrgyz Republic	Kyrgyz and Russian	Weekly	On-line information about the official exchange rates set by the National Bank of the Kyrgyz Republic, the results of inter-bank foreign exchange auctions, the situation in the market of GT-bills and NBKR Notes, the discount rate of the National Bank, brief analytical materials on the basic lines of NBKR activity, as well as the chronicle of weekly events in the National Bank.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme and Constitutional Courts of the Kyrgyz Republic, ministries and departments, commercial banks, nonblank finance and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, mass media.

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7.	Banking System Development Trends	Kyrgyz, Russian and English	Semiannually	The banking system development analysis and assessment, as well as the evaluation of stability components in the banking system of Kyrgyzstan.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme and Constitutional Courts of the Kyrgyz Republic, ministries and departments, commercial banks, nonbank finance and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic representations of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
8.	Discount Rates of Foreign Currencies vis-à-vis the Kyrgyz Som, and the NBKR's Discount Rate	Kyrgyz and Russian	Annually	Information on discount exchange rates of foreign currencies vis-à-vis the Som set by the National Bank of the Kyrgyz Republic, and the NBKR's discount rate for the year.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme and Constitutional Courts of the Kyrgyz Republic, ministries, departments and financial organizations, commercial banks.
9.	Information Booklets and Instructions	Kyrgyz and Russian	Updated according to work plans of departments	Information covering the various lines of NBKR activity.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme and Constitutional Courts of the Kyrgyz Republic, ministries and departments, commercial banks and nonbank finance and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic.

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10.	Official NBKR's Web-Site www.nbkr.kg	Kyrgyz, Russian and English	Updated online	Full information on activity of the NBKR, including information on the banking legislation, regulatory and legal acts of the NBKR that regulate its monetary policy, activity of commercial banks and other FCI, arrangement of the payment system and the cash and money turnover, as well as the draft documents for discussion. In addition, the regularly updated list of commercial banks and nonbank institutions, licensed by the National Bank, as well as the data on commercial banking service tariffs. The following data are posted on the web-site: the reviews of the commercial banking system and the nonbanking sector; the monetary survey statistical data, the data on foreign economic indicators, on the balance of payments, international reserves, external debt, and on the international investment position of the country; the data on the history of national currency; as well as information and analysis materials. Internet versions of official publications of the National Bank: NBKR Bulletin, Annual Report, Review of Inflation in the Kyrgyz Republic, The Balance of Payments of the Kyrgyz Republic, Press Release of the NBKR, and Banking System Development Trends in the Kyrgyz Republic are updated according to periodicity of each publication. The forms of documents on employment, the opening of the bank, pawn-shops, exchange bureaus, and microfinance organizations are placed in the special section. Information about the transactions involving the NBKR, the official exchange rates of currencies and the discount rate set by the National Bank, and the chronicle of events taking place in the NBKR.	Free access to information.
11.	Ulutuk Bank Bil-diret Radio Transmiss-ion	Kyrgyz	Weekly	Financial market news: the market situation, the discount rate and discount rates of foreign exchange rates, the chronicle of major events in activities of banks, interviews with NBKR experts on the current monetary policy and banking legislation issues, on the progress in implementing the strategic national programs on development of the banking sector, the payment system, and the microfinance market. Answers to the frequently asked questions of citizens are covered in the column "NBKR Public Chamber Answers Your Questions".	Broadcast on the Kyrgyz Radio.

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12.	Natsbank Soobshayet TV Program (National Bank Information)	Russian	Monthly	Highlights of the basic aspects of NBKR activity and the weekly financial market review; the public is informed about the official exchange rates set by the National Bank of the Kyrgyz Republic and the overall macroeconomic indicators of the Republic; as well as the interviews with the NBKR experts on the current issues of the monetary policy, banking and payment systems, the banking legislation; explanations are given on queries incoming from citizens in the section NBKR Public Chamber Answers Your Questions.	Broadcast on the National Channel "NTRK".

List of Abbreviations

ADB	Asian Development Bank
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ATM	Automatic Teller Machine
AUD	Australian dollar
AUCA	American University of Central Asia
BCS	Bulk Clearing System
CAD	Canadian dollar
CB	Central Banks
CBRF	Central Bank of the Russian Federation
CIS	Commonwealth of Independent States
CHF	Swiss franc
CIF	Price at the Frontier of Country-Importer (cost, insurance, freight)
CJSC	Closed Joint Stock Company
CPI	Consumer Price Index
DPS	Deposit Protection System
EBRD	European Bank for Reconstruction and Development
EurAsEC	Eurasian Economic Community
EUR	Euro
ESF	Exogenous Shock Facility
FCI	Finance and Credit Institutions
FCSDCU	Financial Company for Support and Development of Credit Unions
FOB	Price at the Frontier of Country-Exporter (free on board)
FOREX	Foreign Exchange
FP IR	Forex Portfolio of International Reserves
FRS	Federal Reserve System
GBP	British pound
GDP	Gross Domestic Product
GS	Government Securities
GS (s)	Government Securities for Settlement
GT-Bills	Government Treasury Bills
GT-Bills (s)	Government Treasury Bills for Settlement
GT-Bonds	Government Treasury Bonds
GTBonds (s)	Government Treasury Bonds for Settlement
GTZ	German TA Society
IFC	International Finance Corporation
IFCI	International Financial Institution
IMC	Interstate Monetary Committee
IMF	International Monetary Fund
IR	International Reserves
IsDB	Islamic Development Bank
ISB	Interstate Bank
JSCB	Joint Stock Commercial Bank
KAFC	Kyrgyz Agricultural Finance Corporation
KRSU	Kyrgyz-Russian Slavic University
LLC	Limited Liability Company
LLP	Loan Loss Provisions
MFC	Microfinance Company
MFCI	Microfinance and Credit Institution

MEDT	Ministry of Economic Development and Trade
MFKR	Ministry of Finance of the Kyrgyz Republic
MFO	Microfinance Organizations
MM	Mass Media
MP	Monetary Policy
MTMDS	Mid-Term Microfinancing Development Strategy
NBKR	National Bank of the Kyrgyz Republic
NBRB	National Bank of the Republic of Belarus
NBS	National Bank of Switzerland
NFCI	Nonbank Finance and Credit Institutions
NSC KR	National Statistics Committee of the Kyrgyz Republic
OJSC	Open Joint Stock Company
OECD	Organization for Economic Cooperation and Development
PIP	Public Investment Program
POS	Point of Sale
PRGF	Poverty Reduction and Growth Facility Program
RLA	Regulatory and Legal Framework
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real Time Gross Settlement System
SCC KR	State Customs Committee of the Kyrgyz Republic
SCO	Shanghai Cooperation Organization
SDR	Special Drawing Rights
SIBOS	SWIFT International Banking Forum
SITC	Standard International Trade Classification
SSC	Settlement Savings Company
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TA	Technical Assistance
TIES	Trade and Information Electronic System
UIPC HSC	Integrated Interbank Processing Center Hardware and Software Complex
USAID	United States Agency for International Development
USA	United States of America
USD	US dollar
WB	World Bank