

NATIONAL BANK OF THE KYRGYZ REPUBLIC

# ANNUAL REPORT

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Bishkek 2013

## *Annual Report of the National Bank of the Kyrgyz Republic for 2012*

Annual Report of the National Bank of the Kyrgyz Republic for 2012 was prepared pursuant to Articles 8 and 10 of the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic”.

The Report of the National Bank of the Kyrgyz Republic for 2012 was approved by the Resolution of the Board of the National Bank of the Kyrgyz Republic No 8/1 dated March 20, 2013.

Financial statements for the year ended December 31, 2012 were approved by the Resolution of the Board of the National Bank No 10/2 dated March 28, 2013.

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The Annual Report of the National Bank of the Kyrgyz Republic for 2012 was prepared pursuant to the Law “On the National Bank of the Kyrgyz Republic” and reflects the results of the activities the Bank carried out to achieve and preserve the price stability in the country, develop and strengthen the banking system and improve the payment systems to support long-term economic development of the republic.

The year 2012 was marked by 20<sup>th</sup> Anniversary of the National Bank of the Kyrgyz Republic. Establishment of a central bank of the republic was a major stage in formation of independent Kyrgyzstan. Establishment of a new institution allowed initiating independent monetary and currency policies and measures to develop the banking sector and noncash payments. Significant progress was achieved over this period in strengthening the macroeconomic stability and boosting the trust of the public in the national currency.

The National Bank, together with the Government of the Kyrgyz Republic, pursued macroeconomic policy aimed at containing the inflation under price instability persisting in the global commodity and raw materials markets and ongoing slowdown of the global economy. The adopted monetary policy created conditions for containing the inflation within the declared range, thus contributing to the sustainable economic growth in the medium-term.

The activities of the National Bank were aimed at preserving financial stability in the country, strengthening the trust of the people in the banking system and increasing the level of financial intermediation. The banking system of the country, in general, proved sustainable and demonstrated growth dynamics and its qualitative indicators improved as well. Much attention was devoted to strengthening microfinance organizations whose activities aim to expand access of small and medium businesses to financial resources and increase employment. The National Bank initiated the launch of a large-scale campaign for raising financial literacy of the population.

Reliable and uninterrupted functioning of the national payment system throughout the reporting year contributed to preserving the financial stability. The National Bank continued with development of the payment system and its infrastructure to widen the range of retail financial services and expand the access of the population to payment services.

Considerable attention was devoted to building the capacity of staff. The Bank enhanced its research work and continued with professional development of its employees.

The National Bank traditionally adhered to principles of openness and completeness of information in preparing this publication. Financial statements included in the report were confirmed by an independent audit.

Sincerely Yours,

Governor



Asankojoeva Z. M.



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# I

## **ECONOMIC SITUATION IN THE KYRGYZ REPUBLIC**

## ECONOMIC DEVELOPMENT OF THE KYRGYZ REPUBLIC IN 2012

In nominal terms the volume of GDP increased by KGS 18.4 billion in 2012, however in real terms it decreased, mainly due to fall in production at Kumtor gold mining company. Without considering the gold mining enterprises of Kumtor, growth was observed in all sectors, except for the manufacturing industry.

The situation in the real sector of the economy conditioned the slowdown of state budget revenue growth rates. At the same time, expenditures for social protection and implementation of large-scale projects in power industry and transport were increased. As a result, budget deficit grew up to KGS 20.2 billion or 6.6 percent to the gross domestic product ratio.

Despite the decline in foreign trade, significant inflow of capital and transfers into the country contributed to positive balance of payments up to USD 188.7 million.

The financial market steady development trend remained in 2012. Banks increased the volumes of financial services and loans extended to the economy under lowered interest rates on credits issued in both the national and foreign currencies. The general level of dollarization of the loan portfolio decreased. The deposit base expanded significantly over the reporting period and its structure did not change in general.

Microfunding was the main area of activities of nonbank finance and credit institutions. CJSC MFC “Bai-Tushum and Partners” was transformed into microfinance bank. Without considering this, the loan portfolio of nonbank finance and credit institutions increased by 17.6 percent.

### 1.1. Real Sector of Economy<sup>1</sup>

According to the data of the National Statistics Committee of the Kyrgyz Republic (NSC), in 2012 the volume of GDP in current prices amounted to KGS 304.4 billion, having decreased by 0.9 percent in real terms. The decline was mainly conditioned by falling production at the gold mining enterprise “Kumtor” (the same indicator grew by 6.0 percent in 2011). Ignoring the “Kumtor” gold mining enterprises, the volume of GDP increased by 5.0 percent (it grew by 6.3 percent in 2011). GDP deflator amounted to 7.4 percent against 22.5 percent in 2011.

#### *Agriculture*

Unfavorable weather and climate conditions resulted in slowdown of production growth rates in agriculture to 1.2 percent in real terms. The volume of gross agricultural output amounted to KGS 167.5 billion in 2012. The share of agriculture in GDP structure increased a little and amounted to 17.5 percent against 16.6 percent in 2011. The agriculture contributed to GDP growth by 0.2 percentage points.

Growth in the volume of gross agricultural output was achieved through increased production of cucurbit crops (by 27.5 percent), feed crops (by 5.9 percent) and vegetables (by 5.5 percent). At the same time, production of sugar beets and wheat decreased by 35.8 percent and 32.4 percent accordingly.

#### *Industrial production*

The GDP decreased mostly in 2012 due to falling production in manufacturing industry (by 27.2 percent), mainly conditioned by decline of production by gold mining companies exploiting the Kumtor gold deposit (by 54.1 percent compared to the same indicator for 2011). As a result, the physical volume of industrial output decreased by 20.6 percent and amounted to KGS 203.6 billion. The share of industry in GDP structure amounted to 16.8 percent in 2012.

<sup>1</sup> Preliminary data

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

	2011			2012		
	Share, in percent	Growth rate, in percent	Contribution to growth, percentage points	Share, in percent	Growth rate, in percent	Contribution to growth, percentage points
<b>GDP</b>	<b>100.0</b>	<b>6.0</b>	<b>6.0</b>	<b>100.0</b>	<b>-0.9</b>	<b>-0.9</b>
Agriculture	16.6	1.8	0.3	17.5	1.2	0.2
Mining	0.8	19.5	0.1	1.3	22.5	0.2
Manufacturing	18.3	5.2	0.9	12.5	-27.2	-5.0
Generation and distribution of electricity, gas and water	3.4	21.9	0.7	3.0	5.2	0.2
Construction	4.9	2.5	0.1	5.7	17.3	0.9
Trade, repairs of motor vehicles	15.2	10.2	1.6	16.2	10.5	1.6
Hotels and restaurants	1.5	16.9	0.2	1.5	11.7	0.2
Transport and communications	8.1	9.5	0.8	8.6	8.9	0.7
Financing	0.6	10.9	0.1	0.6	1.0	0.0
Real estate activities	4.3	1.6	0.1	4.1	-1.9	-0.1
Public administration	5.1	5.2	0.3	5.1	1.8	0.1
Education	5.3	1.3	0.1	6.0	5.1	0.3
Health	3.0	0.9	0.0	2.7	2.4	0.1
Public utilities	1.9	1.3	0.0	1.9	-3.3	-0.1
Net taxes on products (net of subsidies)	11.0	6.0	0.6	13.4	-0.9	-0.1

Source: NSC

Excluding the Kumtor gold mining enterprises, the increase of industrial output totaled to 6.1 percent in 2012. The physical production volume index grew in mining industry (22.5 percent), textile and garment manufacture (by 12.5 percent).

Generation and distribution of electricity, gas and water also contributed much to industrial growth. The output of this branch increased by 5.2 percent in 2012 (in 2011 this indicator grew by 21.9 percent).

The services sector contained the fall in GDP, having contributed 2.8 percentage points to GDP growth. Trade transactions grew by 10.5 percent, wholesale trade turnover increased by 24.4 percent and the retail trade grew by 7.9 percent. The growth was achieved by increased turnover of sales in foodstuff (by 15.3 percent) and nonfoods (by 6.3 percent). The volume of services rendered by hotels and restaurants increased by 11.7 percent. Freight transport increased by 4.5 percent over the reporting year. The volume of services rendered by communications enterprises increased by 11.1 percent.

*Trade and services sector*

In 2012, total gross construction output amounted to KGS 54.6 billion, having increased by 17.3 percent in real terms against the growth of the same indicator by 2.5 percent in 2011. The construction sector contributed to GDP formation by 0.9 percentage points. Growth of investments into the fixed capital contributed to the increase in the volume of construction works.

*Construction*

The volume of capital investments amounted to KGS 62.6 billion, having increased by 21.5 percent in real terms (in 2011 the same indicator fell by 3.1 percent). Mining, manufacturing, production and distribution of electricity, gas and water, and trade are the sectors that saw growth in the volume of capital investments.

*Investments*

Investments into fixed capital were made from outside (multiplied by 1.5 times) and domestic (increased by 11.0 percent) sources. Here, the investments made using the funds of the population increased by 16.4 percent, and investments using the funds of enterprises and organizations increased by 20.2 percent. Direct foreign investments multiplied by 1.9 times. Foreign loans increased by 42.0 percent and foreign grants and humanitarian aid increased by 29.2 percent.

**1.2. Public Finance Sector<sup>1</sup>**

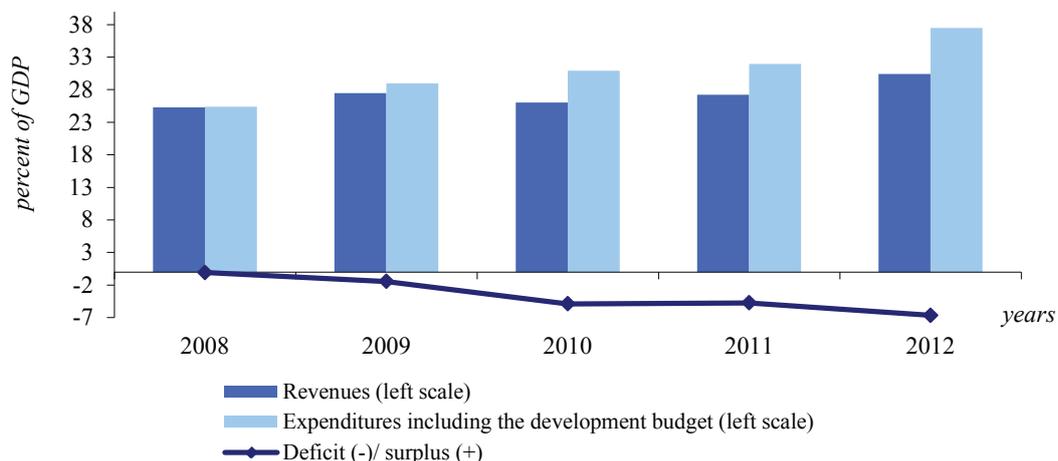
In 2012, the Government continued to finance protected obligations in full. Expenditures for payment of wages, subsidies and social benefits, as well as

*Fiscal policy*<sup>1</sup> Preliminary data

expenditures related to implementation of large-scale projects in power industry and transport increased. At the same time, resource part of the state budget shrank. As a result, following the results of the reporting year, the budget deficit increased and according to the data of the Central Treasury it amounted to KGS 20.2 billion or 6.6 percent of GDP (in 2011 the budget was implemented with a deficit of 4.7 percent of GDP).

### **Chart 1.2.1.**

Key State Budget Parameters



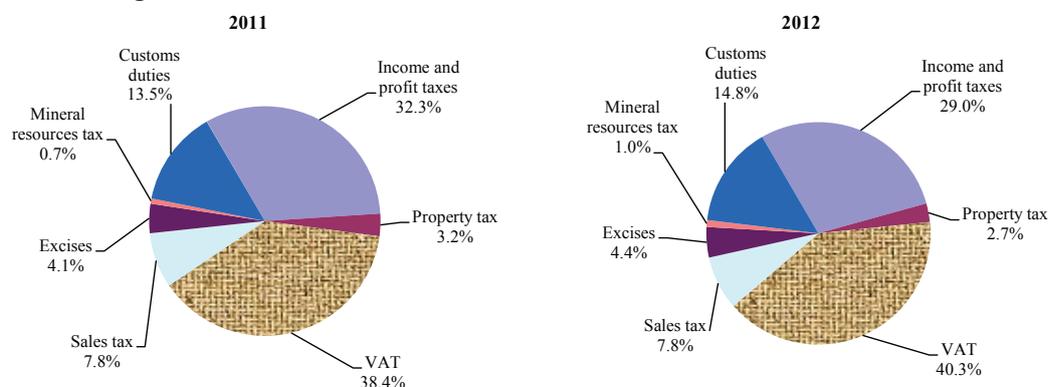
In 2012 state budget revenues from operational activity amounted to KGS 86.8 billion or 28.5 percent of GDP, having thus increased by 12.2 percent compared to the same indicator for 2011 (in 2011 – by 34.8 percent).

Tax revenues, which are the major contributors in the structure of revenues, amounted to KGS 63.9 billion, having thus increased by 20.5 percent as compared to the similar indicator for 2011. Tax revenues were made up of receipts from the State Tax Service by 52.9 percent and from the State Customs Service by 47.1 percent (in 2011 the distribution was 55.3 and 44.7 accordingly).

Pursuant to the Law “On the National Bank of the Kyrgyz Republic” 70 percent of revenues of the National Bank or KGS 1.6 billion were transferred to the state budget in 2012.

### **Chart 1.2.2.**

State Budget Tax Revenue Structure



Total expenditures of the state budget on operational activity amounted to KGS 100.0 billion in 2012, having thus increased by 21.4 percent (in 2011 – by 33.8 percent). Expenditures increased from 28.8 percent to 32.9 percent in percentage of GDP.

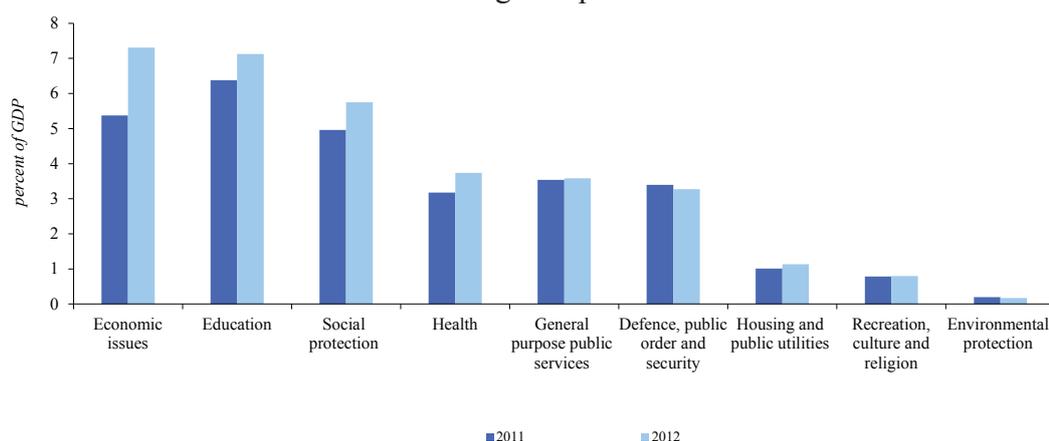
The structure of expenditures did not change much by functional classification. Similar to previous years, the main budget expenditure items corresponded to socially important activities. In 2012, budget expenditures on wages increased by 13.5 percent (in 2011 increase was 40.9 percent) amounting to KGS 30.6 billion or 30.6 percent of the total state budget expenditures on operational activity. Expenditures on social benefits and subsidies increased by 16.9 percent and amounted to KGS 19.0 billion or 19.0 percent of the total state budget expenditures.

In the reporting period, as per the functional classification of budget expenditures, budget expenditures grew on the following categories: economic issues – by 44.6 percent, health care – by 25.2 percent, social protection – by 23.3 percent, housing and public utility services –by 19.0 percent, education – by 18.9 percent, recreation, culture and religion – by 8.8 percent, general purpose public service –by 7.8 percent, and defense, public order and security –by 2.5 percent. State budget expenditures reduced on environment protection by 9.7 percent.

Surplus of state budget expenditures on procurement of nonfinancial assets over their sale in 2012 amounted to KGS 7.0 billion or 2.3 percent in GDP ratio (in 2011 – 3.0 percent of GDP).

### **Chart 1.2.3.**

Functional Classification of State Budget Expenditures



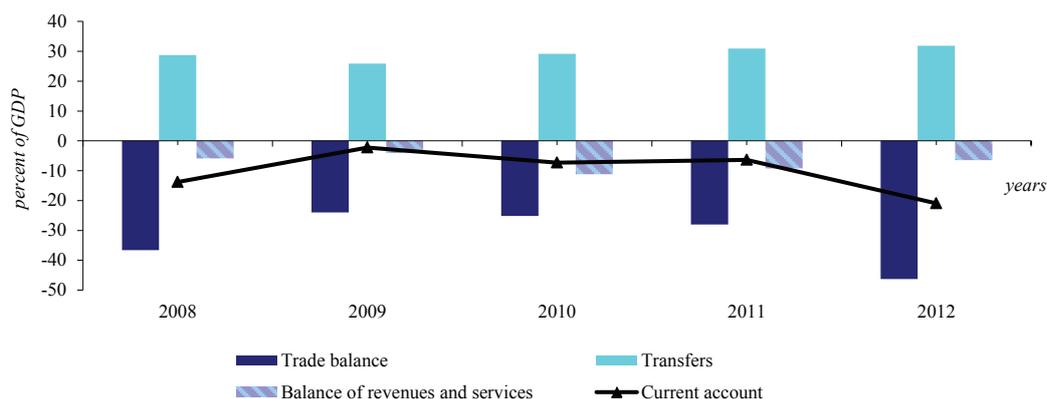
According to the data of the Ministry of Finance of the Kyrgyz Republic as of the end of 2012 the external public debt equaled to USD 3.0 billion (in 2011–USD 2.8 billion), and the domestic debt totaled to KGS 13.0 billion (in 2011 –KGS 12.9 billion). The public debt service expenditures amounted to KGS 11.5 billion or 3.8 percent of GDP, of which interest payments constituted 1.0 percent of GDP.

### **1.3. Balance of Payments<sup>1</sup>**

According to results of 2012 the positive balance of payments amounted to USD 188.7 million, which is an increase by 78.3 percent. Along with this, the goods and services balance deficit grew leading to deterioration of the current account status, which ran a deficit of USD 1.4 billion or 20.9 percent of GDP by the end of 2012, while in 2011 the same indicator amounted to 6.3 percent.

Continued growth of import of goods against decline in exports increased the trade deficit by 79.8 percent.

<sup>1</sup> Preliminary data

**Chart 1.3.1.****Current Account***Foreign trade status*

The export of goods declined by 13.1 percent over the reporting period and approximated to USD 2.0 billion. Gold remains the decisive export item; its cost volume decreased by 44.1 percent following the decline in physical volumes of supply. Without considering gold, the exports grew by 11.5 percent and totaled to USD 1.4 billion. An increase was observed in the export of motor vehicles for transportation of freight and special purpose automobiles<sup>1</sup> (by 3.6 times), ore and concentrate of noble metals (by 3.1 times), fruits and nuts (by 41.5 percent) etc.

Imports over the reporting year approximated to USD 5.0 billion, having increased by 26.2 percent. The key factor contributing to growth of imports was increase in the physical volume of imported oil products, which resulted in the increase of its cost volume by 22.7 percent. There was also an increase in the volume of import of used automobiles (by 42.3 percent), freight transportation vehicles and special purpose automobiles (by 2.0 times), cast iron and steel (by 55.1 percent), medicines (by 16.0 percent) etc.

The increase in import of services by 30.4 percent resulted from the increase on such items as “Travel” and “Transportation Services”, while services rendered by residents of the Kyrgyz Republic (export) increased by 8.1 percent. Consequently the balance of services deficit reached USD 275.8 billion, while in 2011 the balance deficit amounted to USD 20.9 million.

*Remittances*

The net inflow of current transfers approximated USD 2.1 billion, having thus increased by 12.0 percent compared to the same indicator for 2011. Just as before, significant volume of money receipts in the structure of current transfers was provided by remittances. In the end of 2012, net inflow of money transfers exceeded USD 1.9 billion (including USD 1.8 billion net inflow of remittances sent by individuals through money transfer systems), which is by 17.4 percent more than the same indicator for the previous year.

The negative balance of income reduced by 73.1 percent (down to USD 142.6 million), which was mainly caused by the decline of income of foreign direct investors received from the investment activity in the Kyrgyz Republic.

*Capital account status*

According to the results of the year 2012, the capital and financial transactions account was formed positive and totaled to USD 1.1 billion, having exceeded the same indicator for 2011 by 40.5 percent.

Major share of receipts of the financial account was provided by net inflow of capital under the “Other Investments” item, which amounted to USD 678.8 million (multiplied by 4.8 times). Change in the structure of other investments is mainly explained by net inflow of capital totaling to USD 387.5 million in the form

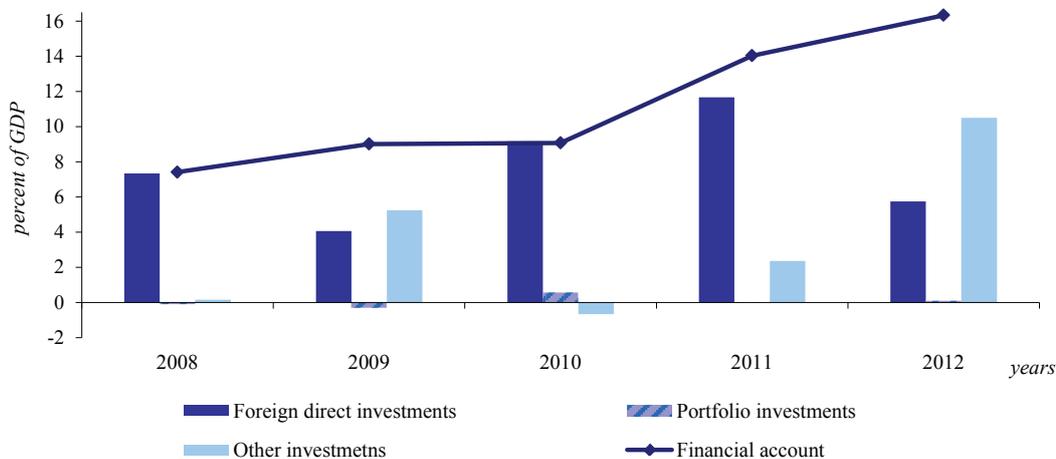
<sup>1</sup> Re-export

of loans obtained by public and private sectors.

Net inflow of direct investments amounted to USD 372.1 million, which is by 46.3 percent lower than the same indicator for 2011. The major volume of direct investments was provided by loans received from foreign co-owners.

**Chart 1.3.2.**

Financial Account



Following the results of 2012, the “Errors and omissions” item balance developed with positive value equivalent to USD 421.8 million, which indicates to incomplete statistical registry of transactions related to inflow of capital into the country.

*Errors and omissions*

The volume of total international reserves as of the end of 2012 amounted to USD 2.07 billion. The level of reserve assets of NBKR corresponded to 3.3 months covering of potential critical volume of imports of goods and services.

*International reserves*

## 1.4. Banking Sector<sup>1</sup>

By the results of 2012 growth was observed in key banking system parameters and financial intermediation indicators.

*Major trends in banking sector*

Considerable liquidity reserve and high level of adequacy of commercial banks’ capital indicate that the banking system is resistant enough to adverse shocks and there is a certain potential for raising the level of financial intermediation and improving the efficiency of the banking system. On the other hand, high liquidity level is indicative of conservative lending policy the bank abide by because of high lending and macroeconomic risks, as well as poor competitive environment in the banking sector and inefficient liquidity management.

Higher demand for credit resources both from the population and corporate sector contributed to higher rates of growth of banks’ loan portfolio. The highest demand for loan proceeds was in such sectors of economy as trade and agriculture.

High concentration of loans in trade continued against the background of increase of lending volumes. This raises dependency of the quality of banks’ lending portfolio on economic activity, price stability and profitability of the trade sector of economy.

In 2012, 23 commercial banks operated in the Kyrgyz Republic, including the Bishkek Branch of the National Bank of Pakistan and CJSC “Microfinance Bank “Bai-Tushum and Partners”, which was reorganized from a microfinance company into a bank.

*Number of commercial banks*

Twelve banks of the operating commercial banks have foreign share in the

<sup>1</sup> Commercial banks’ regular reporting data was used.

capital. The share of foreign capital accounted for 36.1 percent of banks' capital as of the end of 2012 (in 2011 – 39.9 percent). The decrease of foreign capital in the share of banks' capital was conditioned by priority growth rates of domestic investments over foreign ones.

*Assets of  
the banking  
system*

The total assets of the banking system increased by 29.5 percent over the reporting period and amounted to KGS 87.4 billion. Lent loans constituted major share of banks' assets – 45.9 percent.

**Table 1.4.1.**

Structure of Assets of Commercial Banks (end of period)

Category of assets	2011		2012	
	<i>in millions of KGS</i>	Share <i>in percent</i>	<i>in millions of KGS</i>	Share <i>in percent</i>
Cash	6,305.3	9.3	8,114.2	9.3
Correspondent account with the NBKR	5,274.2	7.8	6,650.3	7.6
Correspondent accounts and deposits with other banks	9,635.5	14.3	10,961.1	12.5
Securities portfolio	5,785.5	8.6	8,892.3	10.2
Securities purchased on REPO operations	245.2	0.4	819.3	0.9
Loans to finance and credit institutions	1,596.7	2.4	2,124.9	2.4
Lending and finance lease to clientele	31,217.1	46.2	40,105.4	45.9
Special LLP*	-2,603.9	-3.9	-2,785.5	-3.2
Fixed assets	4,860.0	7.2	5,382.9	6.2
Investments and financial participation	70.4	0.1	88.8	0.1
Other assets	5,151.3	7.6	7,090.9	8.1
<b>Total</b>	<b>67,537.4</b>	<b>100.0</b>	<b>87,444.6</b>	<b>100.0</b>

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

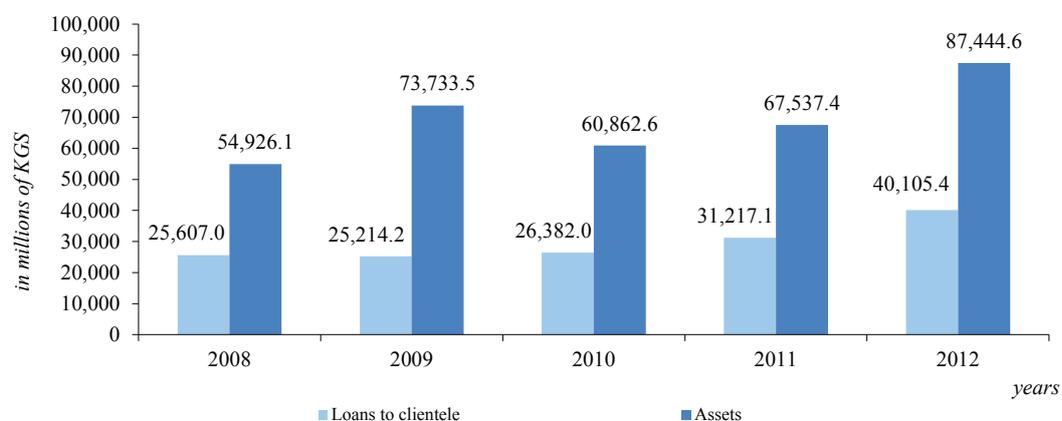
The volume of liquid assets placed by the commercial banks as cash assets, short-term placements and on the correspondent accounts with the NBKR increased, taken together, by 27.5 percent during the reporting period, and as of the end of 2012 this category of assets totaled to KGS 14.8 billion.

*Net lending*

The volume of total net lending<sup>1</sup> increased by 30.6 percent and amounted to KGS 39.4 billion. Its share in total assets of banks practically did not change and constituted 45.1 percent.

**Chart 1.4.1.**

Pattern of Assets and Loan Portfolio of Banks (end of period)



The share of “unclassified”<sup>2</sup> assets made 94.2 percent of total assets subject

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

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

to classification and “classified”<sup>1</sup> assets constituted 5.8 percent. The share of classified loans shrank to 7.2 percent, which points to certain improvement of the quality of loan portfolio of the banking system. Nonetheless, the total volume of extended credits increased by 7.7 percent compared to the same indicator for 2011.

**Table 1.4.2.**

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

Category	Assets and off-balance liabilities		Lending to clientele	
	2011	2012	2011	2012
<b>Total unclassified</b>	<b>92.2</b>	<b>94.2</b>	<b>89.8</b>	<b>92.8</b>
<i>including:</i>				
Standard	41.7	42.0	0.7	0.3
Satisfactory	45.2	48.4	80.1	86.1
Under watch	5.3	3.8	9.1	6.3
<b>Total classified</b>	<b>7.8</b>	<b>5.8</b>	<b>10.2</b>	<b>7.2</b>
<i>including:</i>				
Substandard	3.1	2.0	3.3	1.9
Doubtful	1.7	1.3	3.0	2.2
Losses	3.1	2.6	4.0	3.1
<b>Total classified</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Total (in millions of KGS)</b>	<b>59,813.8</b>	<b>77,122.0</b>	<b>31,217.1</b>	<b>40,105.4</b>

Dollarization of the loan portfolio was at the level of 53.7 percent, having decreased by 1.5 percentage points compared to the level in 2011.

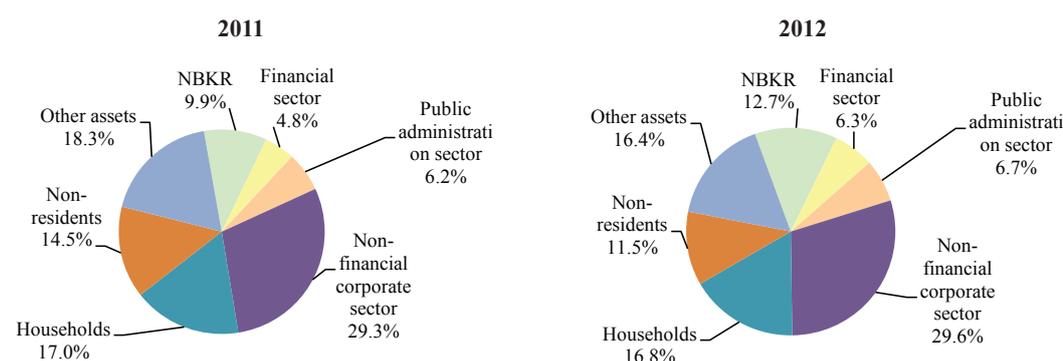
By regional distribution, the major share of loans was lent in Bishkek and Chui Oblast. This region received 63.3 percent of banks’ loan portfolio as of the end of 2012.

The institutional structure of bank assets was rather diversified in the reporting period. The assets of banks in corporate sector comprised 29.6 percent of the total assets of banks, and the share of households sector held 16.8 percent.

*Institutional structure of assets*

**Chart 1.4.2.**

Institutional Structure of Bank Assets



By results of 2012, total liabilities of commercial banks increased by 32.7 percent and amounted to KGS 71.4 billion. The deposit base<sup>2</sup> took up 61.1 percent of total liabilities. Over the reporting period, the deposit base of the banking system grew by 36.0 percent.

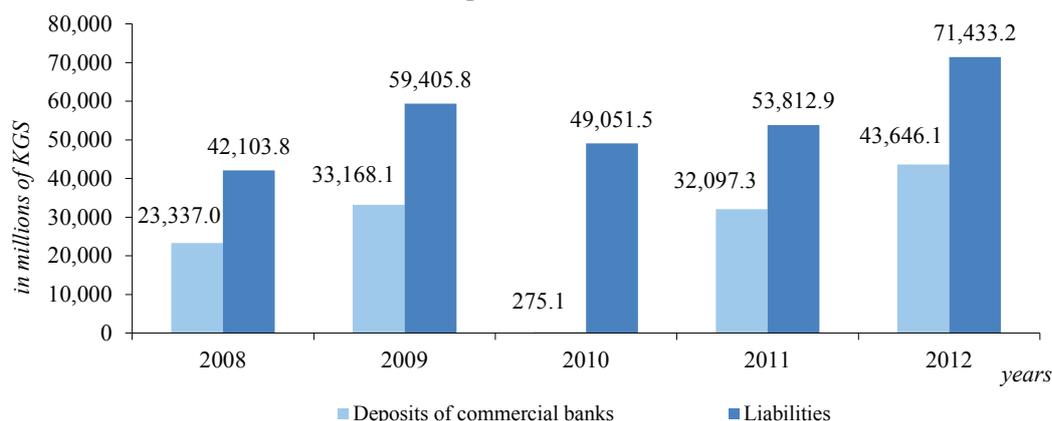
*Liabilities of banking system*

<sup>1</sup> The classified assets (credits) comprise assets (credits) referred to substandard, doubtful assets and losses.

<sup>2</sup> Without accounting deposits and loans of the Government as well as deposits of banks and non-residents.

**Chart 1.4.3.**

## Pattern of Banks' Liabilities and Deposit Base



\* A new method of calculation of deposit base of commercial banks is used since 2009.

Liabilities to non-residents comprised 16.2 percent in the structure of total liabilities of banks. Furthermore, liabilities in foreign currency accounted for 52.9 percent of total liabilities.

**Table 1.4.3.**

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

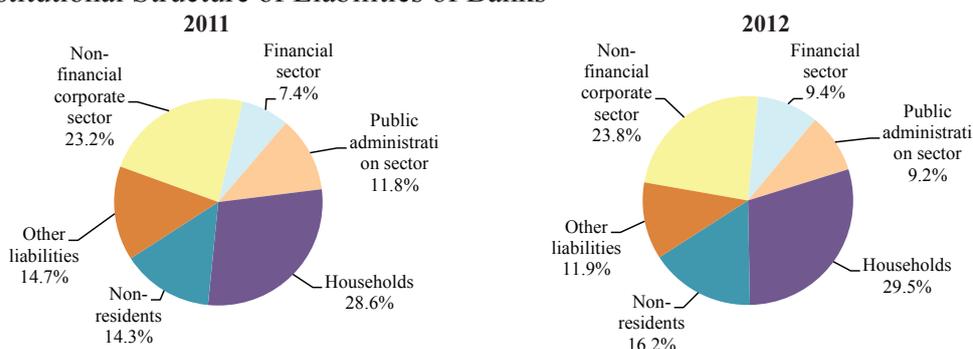
Category of liabilities	2011		2012	
	in millions of KGS	share, in percent	in millions of KGS	share, in percent
Demand deposits	8,225.0	15.3	11,138.2	15.6
Settlement accounts	13,068.5	24.3	18,507.1	25.9
Time deposits	10,803.8	20.1	14,000.8	19.6
Settlement accounts and deposits of banks	1,685.6	3.1	2,743.9	3.8
Liabilities to NBKR	905.2	1.7	739.0	1.0
Deposits of the Government	4,763.6	8.9	4,805.3	6.7
Deposits of non-residents	1,814.4	3.4	2,199.9	3.1
Loans of the Government	1,510.5	2.8	1,631.4	2.3
Securities sold under REPO agreements	82.4	0.2	23.5	0.0
Received loans	4,691.6	8.7	8,403.0	11.8
Other liabilities	6,262.4	11.6	7,241.0	10.1
<b>Total</b>	<b>53,812.9</b>	<b>100.0</b>	<b>71,433.2</b>	<b>100.0</b>

*Institutional structure of liabilities*

Liabilities of banks were concentrated in non-financial corporate sector and households. These sectors held over the half (53.3 percent) of all liabilities of banks.

**Chart 1.4.4.**

## Institutional Structure of Liabilities of Banks



*Deposit base*

The deposit base structure did not change much. As of the end of 2012, settlement accounts and demand deposits constituted 67.9 percent and time deposits comprised 32.1 percent of it. The total volume of deposits of commercial

banks<sup>1</sup> equaled to KGS 43.6 billion. Deposits of legal entities increased by KGS 6.0 billion or 27.7 percent over the reporting period. Deposits of individuals grew by KGS 5.6 billion or 36.7 percent. Dollarization of the deposit base was at the level of 46.8 percent, having thus decreased by 3.3 percentage points over the year.

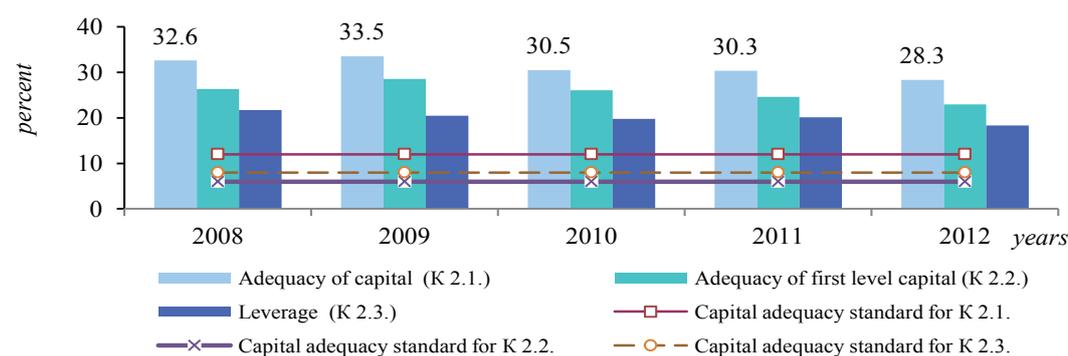
Total regulatory capital<sup>2</sup> of commercial banks increased by 18.3 percent over the year 2012 and amounted to KGS 15.9 billion. Paid authorized capital<sup>3</sup> increased by 17.8 percent and amounted to KGS 9.8 billion.

*Capital of  
commercial banks*

The current level of adequacy of capital in the banking system was indicative of the available potential for further expansion of active banking operations.

### **Chart 1.4.5.**

Pattern of Capital Based Indicators



The banking system achieved net profit of KGS 2.4 billion in 2012, which is by KGS 0.4 billion or 22.1 percent more than in 2011.

*Income and  
Expenses*

### **Table 1.4.4.**

Composition of Income and Expenses

(in millions of KGS)

Category	2011	2012
Total interest income	6,186.6	8,254.6
Total interest expenses	1,883.1	2,798.3
Net interest income	4,303.5	5,456.3
Loan loss provisions (on credits)	-100.6	14.8
Net interest income after LLP	4,404.1	5,441.6
Total non-interest income	18,625.8	27,021.9
Total non-interest expenses	15,565.9	23,413.3
Total other operational and administrative expenses	5,070.8	6,137.1
Net operating income (loss)	2,393.2	2,913.0
Loan loss provisions (on other assets)	168.1	182.8
Net income (loss) before taxes	2,225.1	2,730.2
Profit tax	245.0	312.4
Net profit (loss)	1,980.2	2,417.8

Interest income increased by 33.4 percent and non-interest income grew by 45.1 percent. The ratio of net interest income to total interest income of banks fell from 69.6 percent as of the end of 2011 to 66.1 percent by the end of 2012.

The return on assets (ROA) remained at the level of 3.0 percent as in 2011,

<sup>1</sup> Without accounting of deposits and loans of the Government, and deposits of banks and non-residents.

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

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

while the return on equity (ROE) increased by 0.8 percentage point and reached 18.5 percent in 2012.

With continued improvement of the loan portfolio quality, the volume of loan loss provisions for 2012 totaled to KGS 14.8 million. Thus, the ratio of LLP on credits to net interest income of the banking sector constituted 0.3 percent.

### 1.5. Sector of Nonbank Finance and Credit Institutions

#### *NFCI structure*

As of December 31, 2012 the system of nonbank finance and credit institutions subject to licensing and regulation by NBKR included: a specialized finance and credit institution – Open Joint Stock Company “Financial Company of Credit Unions” (OJSC FCCU), 183 credit unions; 320 microfinance organizations (including four microfinance companies, 242 microcredit companies and 74 microcredit agencies) and 306 exchange bureaus. The total number of NFCI tended to decrease in 2012, largely due to cancellation and withdrawal of licenses of MFO that did not meet the requirements of the current legislation.

In 2012, the National Bank issued 1 license for MFC, 245 licenses for exchange bureaus (including 195 licenses issued due to expiration of the term of previously issued ones), and 56 certificates to MCC/MCA.

**Table 1.5.1.**

**Dynamics of the Number of NFCIs and Exchange Bureaus**

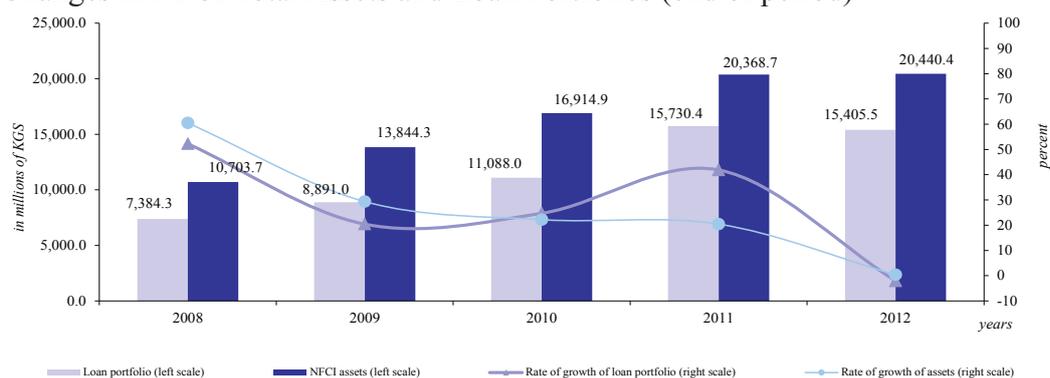
Name	2011	2012
OJSC "FCCU"	1	1
Microfinance organizations (MFC, MCC and MCA)	454	320
Credit unions	197	183
Exchange bureaus	279	306

85 certificates of MCC and 16 certificates of MCA were withdrawn for failure to comply with legal requirements. 14 licenses of credit unions, 69 certificates of MCC and 24 certificates of MCA were cancelled due to their shutdown.

According to the regular reporting, total assets of NFCIs<sup>1</sup> increased over the reporting year by 0.4 percent and amounted to KGS 20.4 billion as of December 31, 2012. Following reorganization of CJSC MFC “Bai-Tushum and Partners” into a bank, the loan portfolio of nonbank finance and credit sector decreased by 2.1 percent. Excluding the CJSC MFC “Bai-Tushum and Partners”, in 2012 the size of the loan portfolio of NFCI increased by 17.6 percent compared to 2011 and amounted to KGS 15.4 billion.

**Chart 1.5.1.**

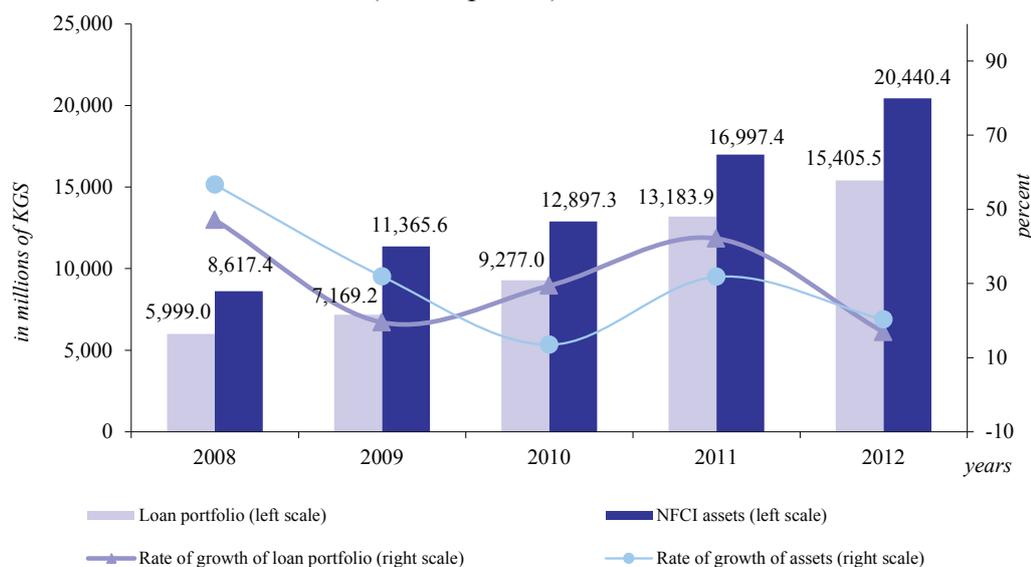
**Changes in NFCI Total Assets and Loan Portfolios (end of period)**



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

**Chart 1.5.2.**

Trends in Total Assets and Loan Portfolios of NFCI, excluding the CJSC MFC "Bai-Tushum and Partners" (end of period)



Distribution of the loan portfolio of NFCI by regions is shown in the table below.

*NFCI loan portfolio by regions and Bishkek city*

**Table 1.5.2.**

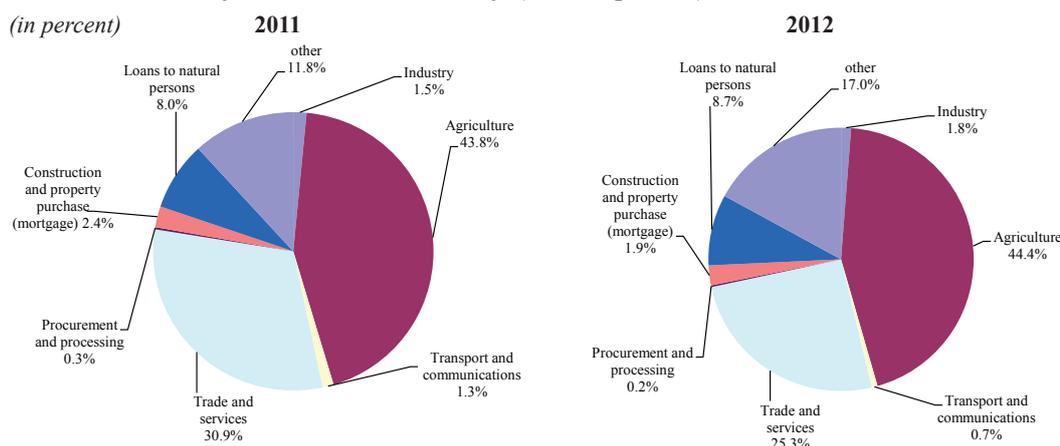
Loan Portfolio by Regions (end of period)  
(in millions of KGS.)

	2011		2012
	Excluding CJSC "Bai-Tushum and Partners"	Including CJSC "Bai-Tushum and Partners"	Excluding CJSC "Bai-Tushum and Partners"
Bishkek city	2,583.8	2,741.7	2,925.1
Batken Oblast	1,011.8	1,264.0	1,460.2
Jalal-Abad Oblast	2,277.6	2,904.4	2,230.8
Yssyk -Kul Oblast	1,330.3	1,581.9	1,544.6
Naryn Oblast	945.9	1,167.3	1,076.8
Osh Oblast	2,203.7	2,718.8	2,245.1
Talas Oblast	926.8	1,240.0	1,064.6
Chuy Oblast	1,751.8	1,960.2	2,714.0
Outside of the Kyrgyz Republic	152.2	152.2	144.3
<b>Total</b>	<b>13,183.9</b>	<b>15,730.4</b>	<b>15,405.5</b>

**Chart 1.5.3.**

Loan Portfolio by Sectors of Economy (end of period)

(in percent)



In 2012, the cumulative net profit generated by NFCI amounted to KGS 669.8 million.

The average weighted interest rates of loans issued by MFO decreased by 3.4 percentage points in 2012. Interest rates of credit unions practically did not change, because of high operational costs and credit risks.

***Table 1.5.3.***

Average Weighted Interest Rates on Loans  
(in percent)

	2011	2012
OJSC "FCCU"	15.8	15.9
Microfinance organizations	38.3	34.9
Credit unions	29.0	29.1

*OJSC "FCCU"*

The OJSC "FCCU" operates to provide loans to sustain the stability of the financial system in rural areas through lending to credit unions. Loan portfolio of OJSC "FCCU" amounted to KGS 409.2 million by the end of the reporting period, which is by 5.9 percent less than in 2011. The decrease in the loan portfolio shrank following payment of liabilities under subsidized loan from ADB.

*Credit unions*

The cumulative loan portfolio of credit unions increased by 9.2 percent in 2012 and amounted to KGS 1.3 billion at the end of the year. In the structure of loan portfolio of credit unions the major share is on agriculture – 46.2 percent and trade – 35.9 percent (in 2011 – 48.4 percent and 34.2 percent respectively). The number of credit unions' borrowers decreased by 3.6 percent in 2012 and amounted to over 16 thousand individuals as of December 31, 2012. The decrease in the number of borrowers of credit unions was conditioned by decrease in the number of credit unions per se.

Twelve credit unions held deposit license as of the end of 2012. The volume of mobilized deposits from credit unions participants increased by 44.8 percent and amounted to KGS 51.3 million, while the liabilities to other FCI increased by 7.0 percent and equaled to KGS 639.9 million.

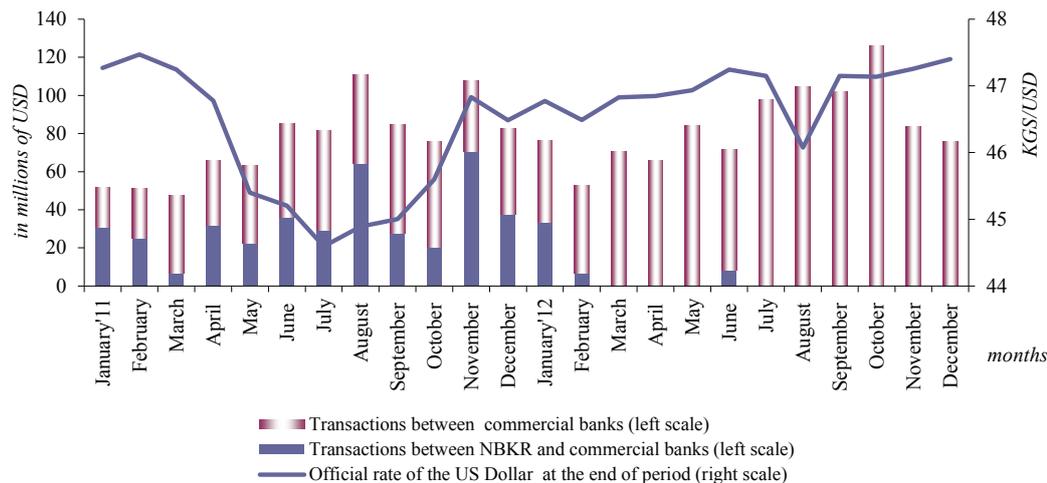
*Microfinance organizations*

In 2012, the cumulative loan portfolio of MFO increased by 17.6 percent, excluding CJSC MFC "Bai-Tushum and Partners", which was reorganized into a bank in the end of the reporting year, and totaled to KGS 14.1 billion by the end of the year. In general the loan portfolio of MFO consists of medium- and short-term loans with maturity term up to three years. The key recipient sector of MFO loans was agriculture, which took up 44.2 percent (43.5 percent as of the end of 2011) of the cumulative loan portfolio, and trade, which took up 24.3 percent (30.6 percent as of the end of 2011). MFO lent from funds mobilized from international finance institutions as well as the capital of MFO. The number of borrowers from MFO exceeded 417.8 thousand individuals.

## 1.6. Financial Markets

### 1.6.1. Foreign Exchange Market

The situation at the domestic foreign exchange market in 2012 remained relatively stable under increased volume of inflow of money transfers that contained the pressure of the growing import on the exchange rate of the national currency. Preservation of stability of the exchange rate allowed minimizing the presence of the National Bank at the foreign exchange market. Following the results of the year the exchange rate of US dollar increased by 2.0 percent: from 46.4847 to 47.4012 KGS per 1 USD.

**Chart 1.6.1.1.****Exchange Rate Movement and Total Interbank Exchange Auction Transaction**

Over the year the development of the exchange rate was multidirectional. In the first six months of 2012 the US dollar exchange rate grew a little supported by steady high demand for the foreign currency in the domestic market. The highest deviation of the exchange rate was noted in March and June, when the US Dollar exchange rate increased by 0.7 percent.

*Development of exchange rate*

The third quarter was marked by the change of the US dollar exchange rate growth vector following a period weakening of the national currency since March of 2012. By the results of the period from July through August of 2012, despite the continued pressure of the demand for foreign currency by importing enterprises on the exchange rate, the Kyrgyz som gained strength by 2.5 percent, and reached 46.0743 KGS per 1 USD, which was the lowest rate for the last 10 months. The change of the exchange rate was conditioned by the change in the market conjuncture, which resulted from increased volumes of currency flowing into the country through money transfer systems as well as seasonal influx of tourists.

Seasonal increase of consumer activity in the last months of the year played as an additional factor for sustaining demand for the foreign currency; therefore, by the end of December the exchange rate reached 47.4012 KGS/USD.

Under the sustained balance between the demand and supply, the National Bank considerably cut the volumes of interventions made to prevent sharp fluctuations of the exchange rate. Major share of NBKR participation in interbank exchange auctions was in the first two months of the reporting year. Later, the NBKR compensated the demand for foreign currency that emerged at the market in the first ten days of June. In all other months the transactions at the foreign exchange market were made between the commercial banks.

*NBKR foreign currency interventions*

As a whole, the volume of the NBKR foreign currency interventions totaled to USD 47.9 million, having decreased by 88.1 percent compared the similar indicator for 2011. Operations on foreign currency sale prevailed as usual; their volume decreased by 84.7 percent and amounted to USD 43.1 million. The volume of foreign currency purchase decreased to USD 4.8 million (-96.0 percent). The net sale volume of US dollar by the National Bank amounted to USD 38.3 million, which is by USD 122.5 million or 76.2 percent less compared to the same indicator for 2011.

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

	2011	2012	Rate of growth, in percent
<b>Total volume</b>	<b>240,047.8</b>	<b>284,076.9</b>	<b>18.3</b>
including:			
<i>Spot operations with foreign currency in non-cash at foreign exchange auctions</i>	43,800.6	49,644.9	13.3
operations with the NBKR	18,474.3	2,261.7	-87.8
interbank operations	25,326.3	47,383.2	87.1
<i>Spot operations with foreign currency in non-cash outside foreign exchange auctions</i>	2,382.0	2,518.9	5.8
<i>Spot operations with foreign currency in cash</i>	190,965.2	229,898.8	20.4
operations with the NBKR	0.0	0.0	-
interbank operations	158,452.0	188,889.9	19.2
exchange bureaus	32,513.1	41,008.9	26.1
<i>SWAP operations</i>	2,900.1	2,014.2	-30.5
operations with the NBKR	0.0	0.0	-
interbank operations	2,900.1	2,014.2	-30.5

*Foreign exchange market organization by currencies*

The volume of foreign currency purchase and sale transactions in the domestic foreign exchange market, excluding SWAP operations, grew by 18.0 percent and amounted to 282.1 billion in the national currency equivalent. Transactions with the US dollar increased by 13.0 percent by the results of the year, however, their share in the total volume of transactions fell to 59.6 percent (-2.6 percentage points) following quicker growth of quantitative indicators of transactions with the Russian ruble and Kazakh tenge. Transactions with euro decreased by 2.7 percent with parallel shrinking of their share to 3.5 percent with the decline of 0.7 percentage points. The share of transactions in Russian rubles increased from 24.5 percent to 27.3 percent due to the noticeable growth of the volume of such deals (by 31.4 percent). Volume of transactions in Kazakh tenge increased by 26.0 percent however, relatively moderate market demand allowed to increase its share in the total volume only by 0.6 percentage points up to 9.6 percent. The volume of transactions with other currencies<sup>1</sup> declined by 14.1 percent and their share reduced to 0.04 percent (-0.01 percentage point).

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

In the non-cash segment of foreign exchange market the essential part of operations in the interbank foreign currency auctions<sup>2</sup> was concluded in the US dollars. In 2012, the volume of non-cash foreign currency exchange transactions amounted to 52.5 billion in the national currency equivalent, having increased by 14.5 percent as compared to the same indicator for 2011 as a result of increased number of operations on purchase/sale of US dollars between commercial banks.

It was the cash segment of the foreign exchange market where the essential part of operations was completed – 81.4 percent of the total volume of operations on purchase and sale of foreign currency, mainly made at commercial banks (67.0 percent), while the share transactions in cash made at exchange bureaus decreased by 0.1 percentage point over the year and amounted to 14.4 percent.

*SWAP operations*

SWAP operations completed both at the domestic market and with non-resident banks totaled to 2.0 billion in the national currency equivalent, which is by 30.5 percent less compared to the same indicator for 2011. The National Bank did not conduct SWAP operations with the commercial bank in the reporting year.

<sup>1</sup> British pound, Swiss franc, Turkish lira, Uzbek sum, Canadian dollar, Chinese yuan and Japanese yen.

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

As per results of 2012, the average weighted US dollar exchange rate in the exchange bureaus rose by 1.3 percent and constituted 47.3781 KGS/USD as of the end of December of 2012. The average weighted exchange rate of euro in exchange bureaus grew by 2.5 percent over the year and reached 61.9483 KGS/Euro; the exchange rate of the Russian ruble grew by 6.0 percent up to 1.5313 KGS/RUB. The exchange rate of the Kazakh tenge, on the contrary, depreciated by 0.3 percent and was 0.3116 KGS/KZT.

*Foreign  
exchange rate  
development  
in exchange  
bureaus*

### 1.6.2. Interbank Credit Market

In 2012, the national currency segment of interbank credit operations continued to grow against the background of relatively steady level of the banking system liquidity in overall. Along with this, the average level of interest rates reduced on all types of credits. Similar to 2011, it was the second and fourth quarters of the year when the level of activity was highest in the domestic market. The banking system was still characterized by uneven distribution of excess reserves: significant share of liquidity was focused in the hands of several principal actors in the market, while the development of this indicator in other FCI was multidirectional.

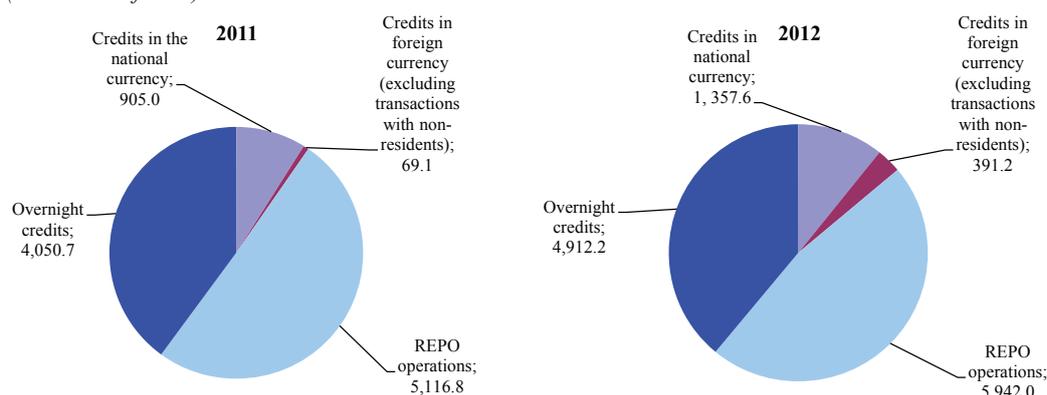
As per the results of the year, the total volume of transactions in the national currency in the interbank credit market amounted to KGS 12.2 billion, having increased by 21.2 percent compared to the same indicator for 2011 (in 2011 – 30.7 percent). Although quantitative indicators of transactions grew in all segments of the market, the essential part of transactions in the national currency fell to overnight credits and REPO operations. According to results of the year, the share of REPO operations reduced by 2.1 percentage points and reached 48.7 percent, while the interbank operations on standard lending conditions grew by a volume equivalent to this reduction. The share of overnight credits remained at the same level as in 2011, i.e. 40.2 percent, which is indicative of sustained market demand for borrowed resources to support the short-term liquidity in the national currency.

*Operations in  
the national  
currency*

Due to relatively high level of excess reserves of banks in the beginning of the year, the cost of borrowed resources reduced gradually and reached the minimum values by April. Nonetheless, starting from May the price of interbank credits started to grow again following decrease in the volume of excess reserves in most banks, including the principal market participants.

In spite of recorded volatility in the interbank credit market, the cost of resources in the national currency in the interbank credit market started to fall gradually and this trend went on through the end of the reporting year. In 2012, in overall, the average rates on interbank loans in the national currency and REPO operations reduced to 7.7 percent, which was a reduction by 1.4 and 1.7 percentage points respectively compared to the same indicators for 2011. Following the trend in development of the discount rate, the average monthly cost of an overnight credit fell from 15.4 percent to 3.2 percent over the year (in annual calculation the rate decreased by 4.7 percentage points down to 8.5 percent), which in turn encouraged higher demand for these credits in the fourth quarter of 2012.

Average REPO maturity reduced from six days to three days, while the maturity of loans in the national currency, on the contrary, grew from seven days to 27 days.

**Chart 1.6.2.1.****Volume of Transactions in the Domestic Interbank Credit Market***(in millions of KGS)*

*Operations in domestic market in foreign currency*

In 2012, the volume of operations in the foreign exchange segment of the domestic interbank credit market multiplied by 5.7 times and equaled to 391.2 million in the national currency equivalent. Development of rates in this segment was influenced by the changes in relevant indicators in other segments of the market. In overall, the average rate on loans in foreign currency provided in the domestic interbank market reduced by 1.9 percentage points compared to its level in 2011 and constituted 1.6 percent, while the average weighted maturity decreased from 58 days to four days.

**Table 1.6.2.1.****Average Weighted Interest Rates in Domestic Interbank Credit Market***(in percent)*

	2011	2012
Rate on credits in the national currency	9.1	7.7
Rate on credits in foreign currency	3.5	1.6
Rate on REPO operations	9.4	7.7
Rate on overnight credits	13.2	8.5

*Operations with non-resident banks*

Apart from extending interbank credits in the domestic market, some banks conducted operations with non-resident banks as well. Total credits issued to non-residents decreased by 83.7 percent in 2012 and constituted 27.9 billion in the national currency equivalent.

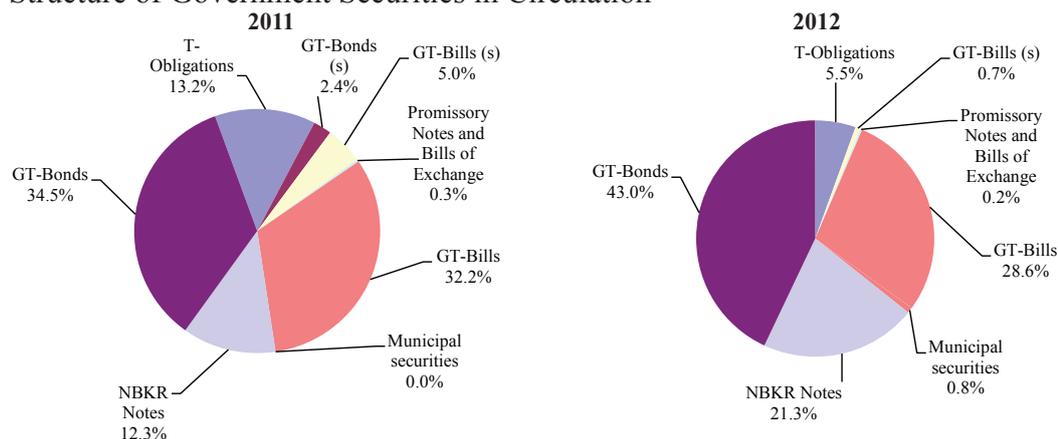
**1.6.3. Securities Market****1.6.3.1. Government Securities Market**

In 2012, the government securities market was represented by the following types of securities:

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

*Outstanding government securities*

As of the end of reporting period, the total value of circulating government securities amounted to KGS 14.4 billion, having thus increased by 29.2 percent over the year. The major contributor for this growth was the increase in the volumes of issue of GT-Bills, GT-Bonds and Notes.

**Chart 1.6.3.1.1.****Structure of Government Securities in Circulation**

The share of Treasury Obligations in the structure of government securities reduced to 5.5 percent (-7.8 percentage points) following redemption of part of liabilities under the obligations issued earlier. As a result, the volume of outstanding T-Obligations shrank by 46.5 percent over the year and amounted to KGS 787.6 million.

In 2012, the volume of outstanding Exchange Bills issued by the Ministry of Finances when reregistering the liabilities of banks and other finance institutions to depositors, did not change and remained at the level of KGS 34.9 million, but their share reduced to 0.2 percent.

The volume of GT-Bills (s) emitted over the recent years when settling the liabilities of the Government to NBKR reduced by 81.8 percent in the reporting year and amounted to KGS 100.0 million, and their share in the structure of government securities shrank from 5.0 percent to 0.7 percent.

By the end of the reporting period the volume of municipal securities placed by the Bishkek municipality amounted to KGS 110.0 million, and they took up 0.8 percent in the structure of government securities.

**1.6.3.1.1. Government Treasury Bills**

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

Availability of excess liquidity in the banking system also contributed to intensification of activities in the debt securities market, including the segment of government treasury bills. Relatively high demand for securities observed in the first three months of 2012 followed a downward tendency up to the third quarter of 2012. Nonetheless, thanks to further stabilization and increase in excess reserves, the demand grew again in the end of the year and reached its maximum level in the reporting year. The average annual volume of announced emission changed insignificantly, and in general, remained at the same level as in 2011.

Unlike the situation in 2011, all auctions announced by the issuer went through without repeated placement. Market conjuncture developed this way supported the tendency for decline in overall level of yield, which started back in May of 2011. With that, the most notable decline was in the yield of 12-month GT-

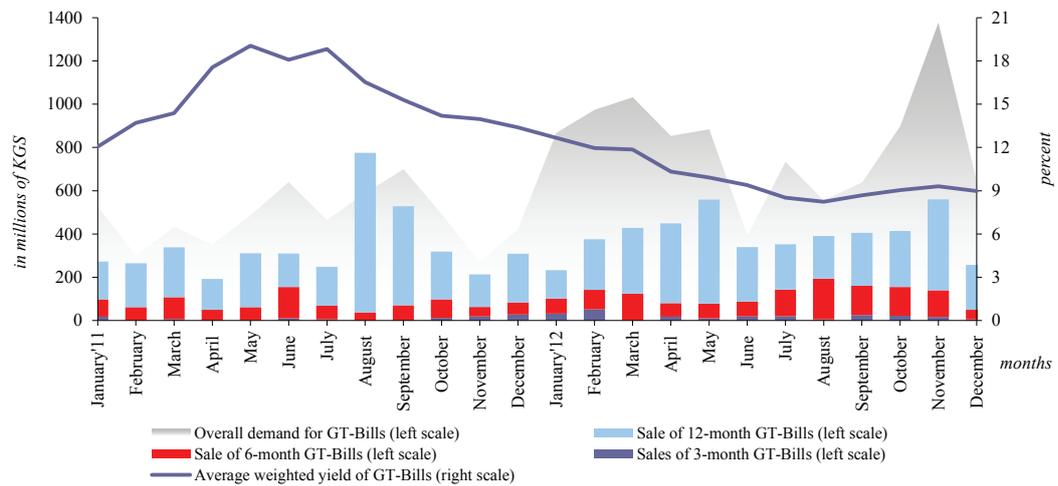
<sup>1</sup> This Annual Report is built on data on government securities placed with NBKR involvement.

Bills, which were in the most demand.

As per the results of 2012, average monthly yield on all types of GT-Bills was 9.9 percent, having decreased by 5.7 percentage points compared to the same indicator for 2011 (or from 13.4 percent in December of 2011 to 9.0 percent in the last month of 2012). With that the average monthly yield of 12-month GT-Bills, which take up the biggest share in the aggregate of GT-Bills, fell to 10.8 percent, having reduced by 6.1 percentage points.

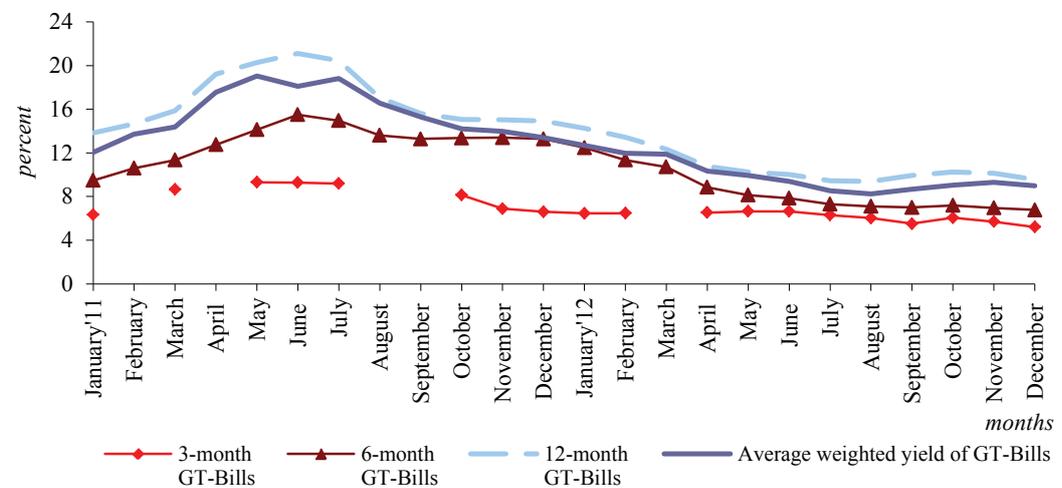
**Chart 1.6.3.1.1.1.**

Demand for and Placement of GT-Bills



**Chart 1.6.3.1.1.2.**

Average Weighted Yield by All Types of GT-Bills



*Volume of GT-Bills emission*

The total value of issued GT-Bills emission was KGS 4.8 billion, which is by 16.7 percent more compared to the volume emitted in 2011. The prevalent dynamic of growth of 3- and 6- month bills led to shrinking of the share of securities with the longest maturity date in the total portfolio of holders; therefore, the duration of GT-Bills portfolio reduced from 186 days as of the beginning of January to 167 days by the end of December.

*Structure of GT-Bills market*

As before, the commercial banks prevailed in the structure of holders of GT-Bills. The volume of bills in their portfolio increased by 20.0 percent and as of the end of 2012 amounted to KGS 3.4 billion or 83.1 percent of the total volume of outstanding GT-Bills (+3.8 percentage points). At the same time, the share of GT-Bills in the assets of commercial banks remained small amounting only to 4.7 percent, which indicates that these securities remain unattractive as a financial instrument for investment.

**Table 1.6.3.1.1.1.**

## Volume of Issue and Annual Yield of GT-Bills

	2011			2012		
	Sales in millions of KGS	Share in percent	Yield in percent	Sales in millions of KGS	Share in percent	Yield in percent
<b>Total</b>	<b>4,081.9</b>	<b>100.0</b>	<b>15.6</b>	<b>4,762.7</b>	<b>100.0</b>	<b>9.9</b>
including						
3-month GT-Bills	99.8	2.4	8.0	225.9	4.7	6.1
6-month GT-Bills	851.7	20.9	13.0	1,226.0	25.7	8.5
12-month GT-Bills	3,130.4	76.7	16.9	3,310.8	69.5	10.8

The number of banks holding GT-Bills increased to 18, while the concentration of the total banking portfolio of these securities reduced from 0.19 percent to 0.15 percent, which is equivalent of the market division among seven banks with equal shares. The expansion of the share of banks was mainly caused by lessened activeness of the institutional investors, whose share in the portfolio decreased by 0.8 percentage points and constituted 15.6 percent. The volume of GT-Bills held by resident individuals and resident legal entities reduced to 1.3 percent (-3.0 percentage points) over the reporting period. In 2012, non-resident individuals joined the list of GT-Bill holders: they held 0.03 percent.

Commercial banks actively used GT-Bills when concluding deals on REPO conditions at the secondary market. Compared to 2011, the volume of such operations increased by 8.7 percent in the reporting year, and amounted to KGS 5.4 billion. At the same time, the volume of interbank operations at the secondary market on purchase/sale of GT-Bills prior to their maturity date (on “outright” conditions) increased by 63.8 percent and amounted to KGS 109.1 million. The average weighted term of maturity of GT-Bills under these transactions made 174 days, and the average weighted rate equaled to 8.5 percent.

*Operations in  
the secondary  
market of  
GT-Bills*

**1.6.3.1.2. Government Treasury Bills**

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

In 2012, the principal participants of the market represented by one of the big commercial banks and an influential institutional investor influenced formation of demand for these securities. In the reporting year 13 auctions were called for placement of GT-Bonds – once in every month, except for August, when two auctions were held. Following effective participation of another institutional investor in the auction held in December the aggregate share of three principal participants of the market corresponded to 97.0 percent of the total volume of GT-Bonds sale, which is indicative of high level of concentration of the market due to low interest of the majority of finance and credit institutions and other participants of the market in GT-Bonds. Low demand from banks, just as before, was conditioned by short-term nature of their resources. Following the higher budget demand for borrowed resources, the issuer increased the overall supply by 61.2 percent, as a result of this the amount of actually mobilized funds increased by 23.8 percent in annual terms.

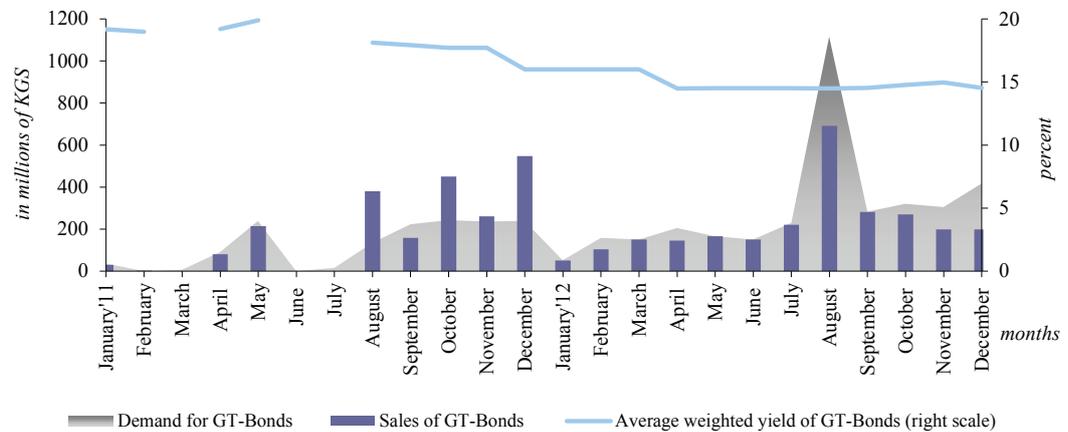
*Demand and  
supply in the  
GT-Bonds  
market*

Influenced by higher demand, the average monthly yield of these securities reduced to 14.9 percent against 18.3 percent in 2011 (or from 16.0 percent in December of 2011 to 14.5 percent in December of 2012).

Thus, annual sales of GT-Bonds amounted to KGS 2.6 billion, and the volume of outstanding GT-Bonds increased by 56.5 percent over the year and totaled to KGS 4.8 billion.

#### **Chart 1.6.3.1.2.1.**

##### Demand for and Placement of GT-Bonds



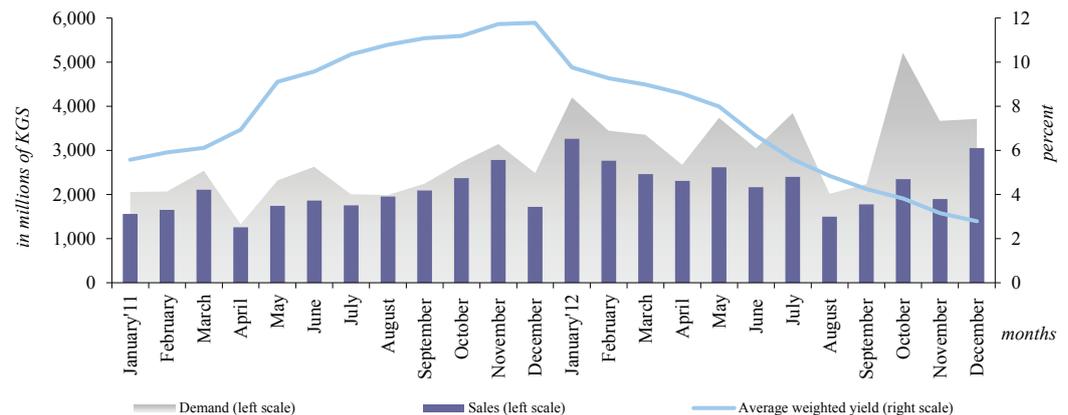
#### **1.6.3.1.3. National Bank Notes**

In 2012, the NBKR placed 7-, 14- and 28-day notes in the market. The NBKR continued to use notes as a tool for removing excess liquidity by regulating the volume of their supply according to the monetary policy objectives and the liquidity level in the banking system.

The NBKR placed notes to the total value of KGS 28.5 billion in 2012, while in 2011 this amount equaled to KGS 22.9 billion.

#### **Chart 1.6.3.1.3.1.**

##### Demand for and Placement of NBKR Notes



*Demand and supply in the NBKR notes market*

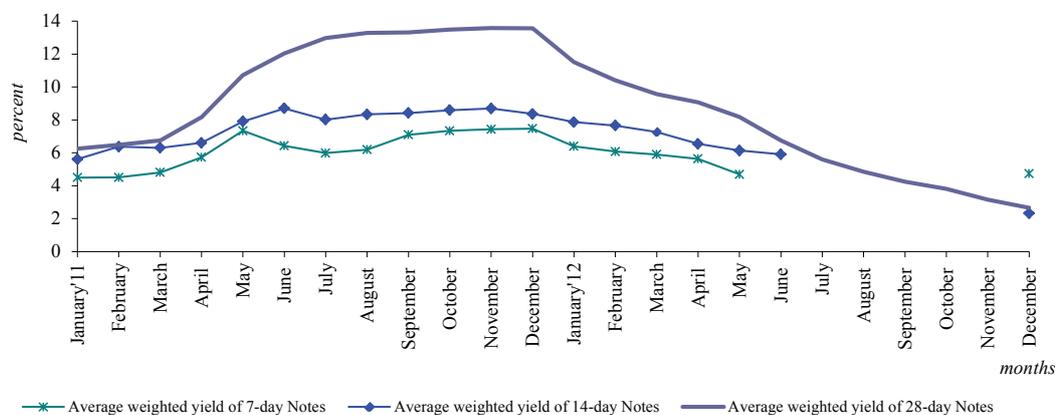
In 2012, pursuing the strategic and tactical objectives of the current monetary policy, the National Bank kept the annual volume of issue at the same level as in the previous year with only 0.3 percent increase, thus the volume of issue totaled to KGS 31.2 billion. With increased interest in government securities the monetary policy measures resulted in the increase in sales of 28-day notes, which allowed increasing the aggregate placement indicator for all types of notes by quarter compared to 2011.

One of the results of the observed higher investment activity was decline in the level of yield of notes. The average yield on all types of notes fell by 2.9

percentage points down to 6.3 percent as compared to the level in 2011. Here, the average annual yield of 7-day notes was 5.6 percent (-0.7 percentage points), 14-day notes – 6.2 percent (-1.4 percentage points) and 28-day notes – 6.7 percent (-4.2 percentage points).

### **Chart 1.6.3.1.3.2.**

Average Weighted Yield by Types of NBKR Notes



The volume of outstanding NBKR notes amounted to KGS 3.1 billion by the end of 2012. In the structure of holders of NBKR notes, the share held by commercial banks expanded up to 98.6 percent, the share of institutional investors was 1.0 percent and that of resident legal entities amounted for 0.4 percent. NBKR Notes were in the portfolio of 14 banks.

### **1.6.3.2. Corporate Securities Market<sup>1</sup>**

As of December 31, 2012 there were 53 legal entities carrying out professional activities in the securities market in the Kyrgyz Republic.

In 2012, 55 issues of securities were registered and the volume of attracted capital equaled to KGS 2.7 billion, which is by 10.8 percent higher of the same indicator for 2011. Key indicators of the corporate securities market speak of its comparatively low level of development.

As of the end of 2012, 18 issuers were listed in Kyrgyz stock exchange. The majority of the listed companies works in services spheres and in finance and credit sphere. The total volume of deals with securities concluded in the securities market amounted to KGS 2.1 billion, out of this, deals for KGS 769.2 million were concluded in over-the-counter market. Despite the growth in the number of deals, the volume of auctions decreased compared to the previous year (by 17.2 percent).

### **1.6.4. Deposit and Credit Market**

As of the end of 2012, the volume of deposit base<sup>2</sup> according to the reports of commercial banks totaled to KGS 50.7 billion, having thus increased by 31.0 percent since the beginning of the year. Deposits in the national currency increased by 39.5 percent and amounted to KGS 26.9 billion. Deposits in foreign currency increased by 22.4 percent and amounted to 23.7 billion in the national currency equivalent. Excluding the factor of the USD exchange rate change, the deposit base increased by 29.8 percent since the beginning of the year.

*Deposit base*

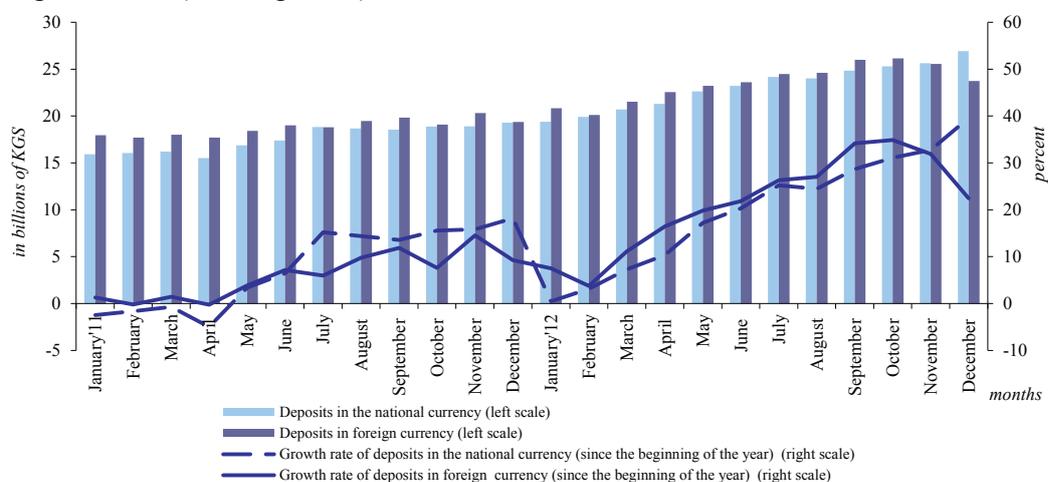
<sup>1</sup> According to date of the State Service for Financial Market Regulation and Supervision under the Government of the Kyrgyz Republic.

<sup>2</sup> Including Government deposits and deposits of other financial institutions. Government loans and loans of local self-government bodies of the Kyrgyz Republic are excluded.

Greater growth of the volume of deposits in the national currency in the reporting period led to decline in dollarization of the deposit base by 3.3 percentage points down to 46.8 percent as of the end of December.

### **Chart 1.6.4.1.**

Deposit Base (end of period)



*Structure of the deposit base by depositors*

The share of deposits of legal entities in the deposit base remained significant – 54.6 percent. Deposits of legal entities in the national currency grew by 39.1 percent, while the volume of deposits of enterprises in foreign currency increased by 14.3 percent. The share of deposits of individuals increased from 39.3 percent to 41.1 percent. In the currency structure of individuals' deposits, there was significant growth of deposits in both the national and foreign currencies: 39.9 percent and 33.8 percent respectively.

The time structure of the deposit base did not change significantly from its original status established at the beginning of 2012. The share of resources on settlement accounts and time deposits changed from 40.0 percent to 40.6 percent and from 35.6 to 34.6 percent accordingly. At the same time, the balance on the clients' demand deposit accounts increased by third, and their share increased from 24.4 percent to 24.8 percent over the year. The share of long-term deposits (for over a year period) in the structure of time deposits shrank by 1.7 percentage points and took up 9.2 percent of the total deposit base (or 26.5 percent in the volume of time deposits). The share of short-term deposits increased by 0.7 percentage points and reached 25.5 percent. Therefore, the duration of time deposits reduced from 15.3 months down to 13.0 months and the duration of the deposit base as a whole shortened by one month down to 4.5 months.

As per the year-end results, the concentration index of the deposit market grew a little up to 0.11, still indicating to a low level of the market concentration.

*Newly attracted deposits*

The volume of deposits newly attracted by the banks<sup>1</sup> in 2012 amounted to KGS 234.9 billion, having increased by 15.6 percent against the same indicator for 2011. Here, the major receipt of deposits was provided by remittances to demand accounts of individuals in both the national and foreign currencies. There was growth in deposits in the national currency – by 26.2 percent amounting to KGS 120.0 billion, but also in deposits in foreign currency – by 6.2 percent up to KGS 114.8 billion.

*Interest rates on deposit base*

At the end of 2012, the average weighted interest rate on deposits in the national currency amounted to 5.2 percent, having reduced by 0.1 percentage point. The rate on the balance of deposits in foreign currency remained unchanged

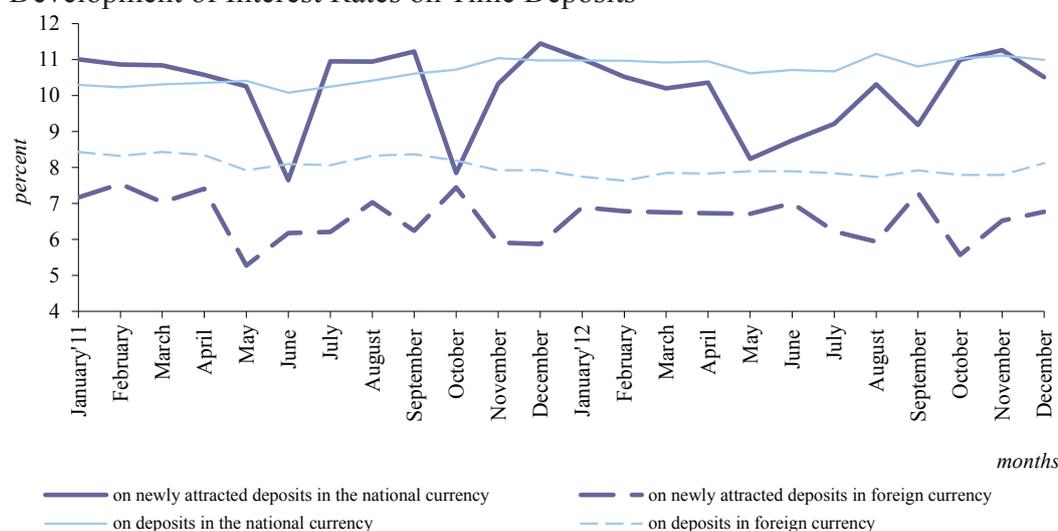
<sup>1</sup> The volume of newly attracted deposits does not account receipts to settlement accounts of legal entities.

at the level of 2.9 percent.

The average weighted interest rate on newly attracted deposits in the national currency increased by 0.1 percentage point compared to the same indicator for 2011 and reached 2.3 percent. At the same time, the cost of newly attracted time deposits in the national currency depreciated by 0.3 percentage point and amounted to 10.0 percent following decline in rates on all types of time deposits, except for deposits with maturity over three years. The average weighted interest rate on deposits in foreign currency did not change and rested at 0.8 percent. The average weighted interest rate on time deposits in foreign currency kept the level of 6.6 percent as in 2011. At the same time, interest rates on individuals' fixed deposits in the national and foreign currencies fell by 0.2 percentage points and constituted 11.3 percent and 7.0 percent respectively.

**Chart 1.6.4.2.**

**Development of Interest Rates on Time Deposits**



months

The upward tendency in lending to the real sector of economy grew stronger in the reporting year. This growth was largely continued by the significant expansion of the national currency share of the total credit portfolio when the CJSC “Microfinance Company “Bai-Tushum and Partners” was issued a bank license in November of 2012. Excluding the indicators of the latter, the highest rates of growth of banks' credit portfolio were in the first two quarters of 2012.

*Major trends in credit market*

Quantitative changes in the market were supported by ongoing improvement of qualitative indicators of the credit portfolio of the banking system, characterized by the share of bad debts and extended credits.

As per the year-end results, rates on loans of banks in the national<sup>1</sup> and foreign currencies declined. Further change in the downward tendency in development of interest rates on loans in the national currency in the last months of the reporting year formed under the influence of indicators of a new bank (CJSC “Microfinance Bank “Bai-Tushum and Partners”), whose credit portfolio at the time of obtaining a bank license consisted exclusively of loans issued in the national currency on higher interest rates characteristic to the microlending market.

By the end of 2012, the total volume of loans issued by banks and NFCI amounted to KGS 55.5 billion, having increased by 18.2 percent over the 12 months (in 2011 it grew by 25.3 percent).

The aggregate loan portfolio of banks<sup>2</sup> increased by 28.5 percent (the growth

*Credit portfolio of banks*

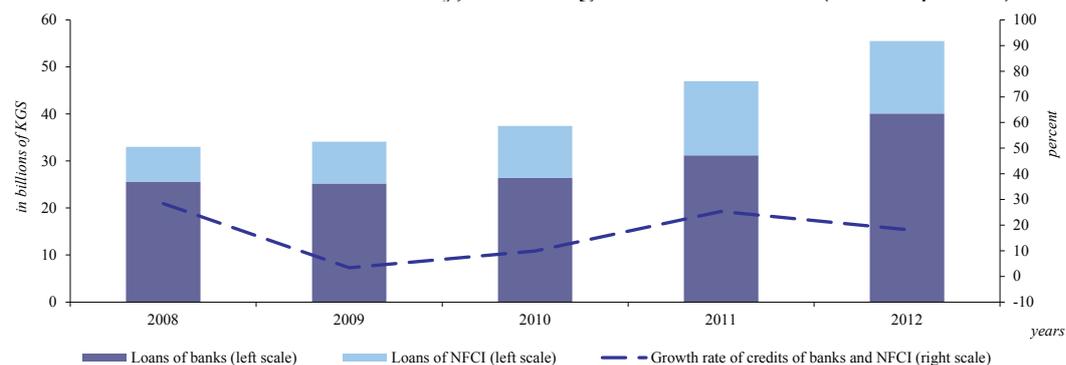
<sup>1</sup> Excluding CJSC “Microfinance Bank “Bai-Tushum and Partners”.

<sup>2</sup> Including created LLPs and accrued discount.

in 2011 was 18.3 percent) and amounted to KGS 40.1 billion at the end of the year. Not accounting the impact of the exchange rate increase (by 2.0 percent), the credit portfolio of banks grew by 27.1 percent. The growth of the credit portfolio was achieved through growth of credits in the national currency by 32.9 percent up to KGS 18.6 billion and in foreign currency by 24.9 percent up to KGS 21.5 billion (apart from the impact of the US dollar exchange rate fluctuation, the growth constituted 22.5 percent). As a result, dollarization of the credit portfolio decreased from 55.3 percent to 53.7 percent.

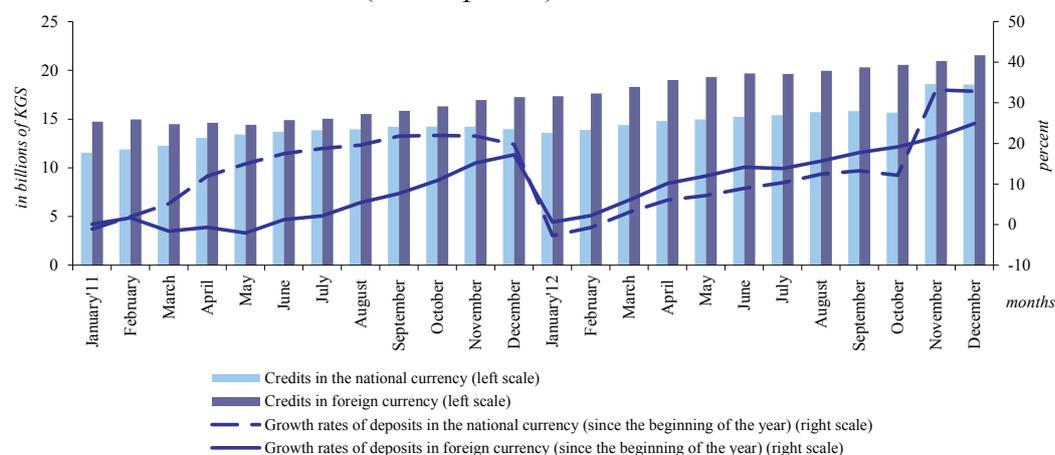
#### **Chart 1.6.4.3.**

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



#### **Chart 1.6.4.4.**

Volume of Loans of Banks (end of period)



*Time structure  
of the credit  
portfolio*

The upward trend in long-term lending continued in 2012; however shrinking of the share of credits with the maturity term over three years led to shortening of the duration of the loan portfolio from 28.3 months to 27.6 months. The share of loans with maturity terms from one to three months and from one to three years expanded in the structure of the credit portfolio of banks.

The concentration of the lending market remained low – 0.09. At the same time, the index reflecting concentration of the loan portfolio of banks in sectors remained high – 0.44, which speaks of distribution of loans of the majority of banks between about two sectors (trade and construction). If we consider concentration of loans separately in each sector, we can notice that the concentration in most of them (7 out of 11 sectors) remains high – over 0.18.

*Newly extended  
credits*

The volume of credits newly extended by commercial banks increased by 19.3 percent compared to the same indicator in 2011 and amounted to KGS 38.1 billion. The increase resulted from 12.5 percent growth of credits in the national currency, which amounted to KGS 17.1 billion as well as 25.4 percent growth of

credits in foreign currency, which amounted to 21.0 billion in the national currency equivalent.

The growth of newly extended credits was observed in most sectors of the economy, except for loans for procurement and processing. At the end of the year, the share of mortgage loans increased by 0.5 percentage points up to 5.1 percent, consumer credits increased by 0.6 percentage points up to 10.9 percent, credits for industry increased from 4.4 percent to 4.7 percent, loans for agriculture increased from 11.8 percent to 12.3 percent, and those for construction grew from 2.1 percent to 3.6 percent. At the same time, credits to trade decreased by 4.6 percentage points down to 49.7 percent. The share of credits for purchase and processing, transport, communications and social services totaled to 3.4 percent. The share of “other” credits reduced by 0.3 percentage points and amounted to 10.3 percent.

*Sectoral structure of extended credits*

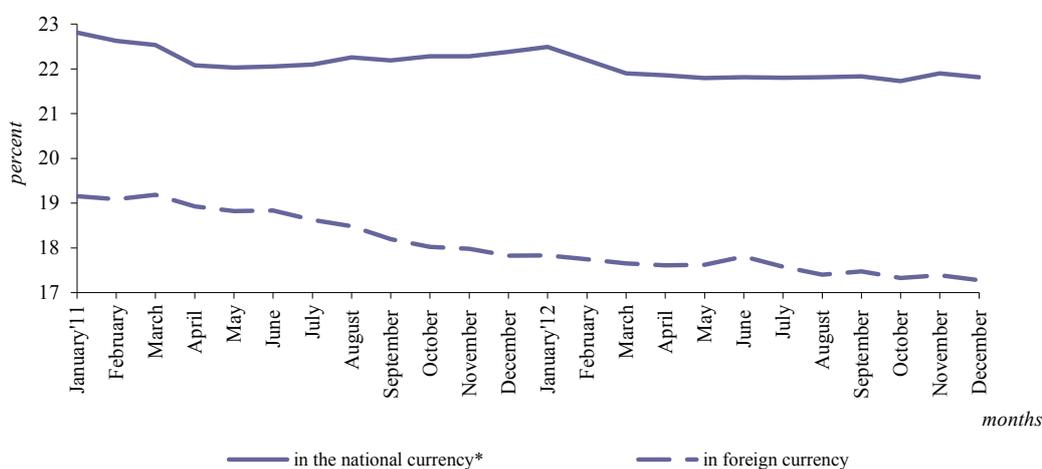
The average weighted rate on newly extended credits in the national currency was 23.0 percent for the year, having reduced by 0.8 percentage points compared to the rate in 2011. Reduction of interest rates was observed in such branches of economy as trade, transport and communications and also on consumer credits. The average weighted interest rate on newly extended loans in foreign currency was 19.1 percent for the year, having thus decreased by 0.5 percentage points. The lowest interest rates on loans in the national currency were fixed on mortgage; the lowest interest rates on loans in foreign currency were set on credits for construction.

*Interest rates on newly extended credits*

In overall, as the short-term lending grew in unit weight in the reporting period, the duration of newly extended loans in annual terms shortened from 25.9 months to 25.4 months.

#### **Chart 1.6.4.5.**

Development of Average Weighted Interest Rates on Credits



\* Excluding CJSC "Microfinance Bank "Bai-Tusum and Partners"

The average weighted interest rate on credits comprising portfolio of operating commercial banks over the year totaled to 21.8 percent on credits in the national currency<sup>1</sup> (-0.6 percentage points) and 17.3 percent on credits in foreign currency (-0.5 percentage points).

*Interest rates on loans*

<sup>1</sup> Excluding CJSC "Microfinance Bank "Bai-Tushum and Partners".



II

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

## MONETARY POLICY

The monetary policy pursued by the National Bank in 2012 was aimed at restraining the monetary constituent of inflation. Monetary factors influenced predominantly through increased money supply from the government sector conditioned by the need to finance high level of the state budget deficit. Inflation processes were formed under the influence of other internal and external factors as well.

Prices grew by 0.9 percent over the first half of 2012. Decrease in prices on the global food markets complemented by monetary policy measures and such domestic factors as heavy crop in our country in 2011 contributed to restraining the inflation to this level. However, in the second half of 2012, with emergence of information about drought in major crop producing regions of the world and negative forecasts on anticipated yield in our country, the prices for crops started to grow in the domestic market, conditioning escalation of the inflation processes. Consequently, according to results of 2012, the inflation constituted 7.5 percent.

Scope of monetary policy tools for banks refinancing was expanded to improve the performance of the interest channel of monetary policy and to encourage banks to increase lending to the real sector.

Gross international reserved increased by 12.7 percent and totaled to USD 2.07 billion. In order to manage gold and forex reserves, the National Bank placed them in highly reliable and liquid instruments of central banks of developed countries, international finance institutions and foreign commercial banks with high credit rating. The National Bank purchased gold for the national currency in the domestic market throughout the year to replenish the volumes of international reserves. The international reserves were mainly used to fulfill the tasks of the monetary policy and to serve the foreign liabilities of the Government and National Bank.

### 2.1. Monetary Policy Development

*Monetary policy objectives*

Pursuant to the Law “On the National Bank of the Kyrgyz Republic” the goal of the National Bank is to achieve and sustain the price stability by pursuing balanced monetary policy developed based on current economic situation and economic development forecasts.

*Quantitative targets of monetary policy*

Main Monetary Policy Guidelines for 2012-2014 set the strategic monetary policy directions. This document set quantitative monetary policy target for medium term to bring average inflation down to 8.0 percent for the period.

The National Bank developed monetary program to pursue the main directions established by the Guidelines and updated it on quarterly basis. Interim monetary policy benchmark is monetary base, quantitative targets of which were defined by the monetary program. Parameters of monetary base were set at such a level so as to contain inflation and ensure necessary supply of money for the economy at the same time.

Operational monetary policy benchmark is the level of excess liquidity in the banking system. The Monetary Policy Committee adopted tactic decisions on operational benchmark on weekly basis. The Monetary Policy Committee also decided upon the monetary policy tools to be used to achieve the established benchmark.

As the fiscal policy is a critical factor of monetary constituent of inflation, under the umbrella of the Interagency Coordination Council the National Bank and the Ministry of Finances of the Kyrgyz Republic held regular meetings for

immediate coordination of monetary and fiscal policy measures.

The first half of 2012 was characterized by low inflation rate: in overall the inflation grew by less than a percent over the course of six months. Slowdown in increase in prices was conditioned by decline in prices on the global food markets complemented by monetary policy measures. In the second half of 2012 the inflation accelerated. Starting from June of 2012 information on unfavorable weather conditions in large crop producing regions of the world and forecasts of poor harvest in these counties as well as forecasts of lower harvest in Kyrgyzstan appeared. These factors influenced growth of prices for a “bread and bakery products” category of commodity. The global price for wheat increased by 18.4 percent (from USD 241 to USD 286 per ton) in 2012, with major growth marked in the second half of the year. In the first half of 2012 the wheat cost in average USD 235 per ton, whereas over the second six months of the year it grew up to USD 317 per ton. Domestic market of Kyrgyzstan responded accordingly - the price for the commodities under the “bread and bakery products” category escalated by 9.3 percent.

*Factors of inflation*

Higher rates of increase of wages had supplementary impact on the inflation from the demand side. Wages in Kyrgyzstan grew by 16.5 percent, and by 17.5 percent in the public sector over 2012.

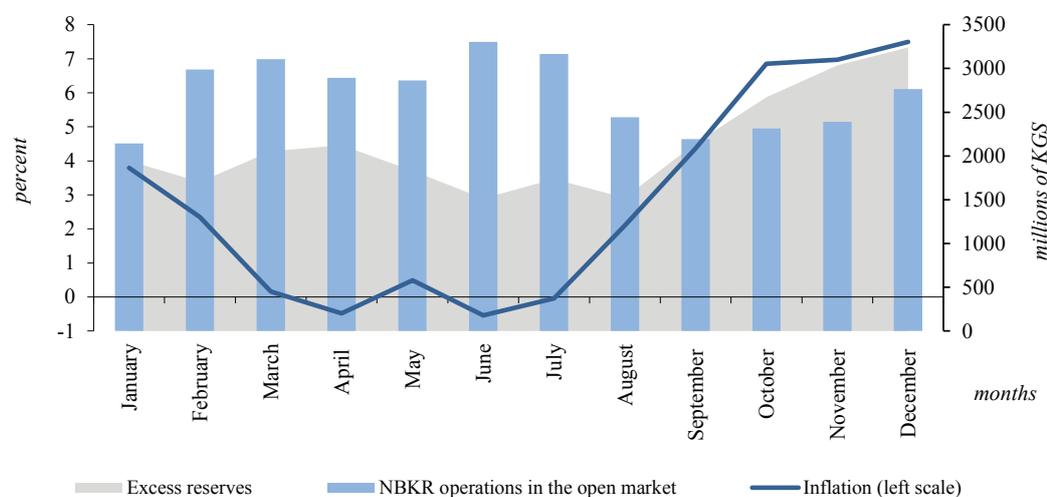
Actual inflation rate as per the results of the year amounted to 7.5, which is compliant with the quantitative benchmark of the monetary policy for medium term.

In view of increased volumes of excess reserves of the banking system in 2012, the National Bank gradually increased the volumes of sterilizing operations both by issue of the NBKR Notes and conducting reverse REPO operations. Average annual volume of circulating Notes increased from KGS 1.2 billion in 2011 to KGS 2.0 billion in 2012, while the volume of government securities sold on REPO terms reached KGS 738.5 million (in 2011 – KGS 214.9 million). Average annual level of excess reserves of the banking system amounted to KGS 2.1 billion in 2012.

*Monetary policy measures*

### **Chart 2.1.1.**

Development of Inflation, Excess Reserves and NBKR Operations in the Open Market in 2012

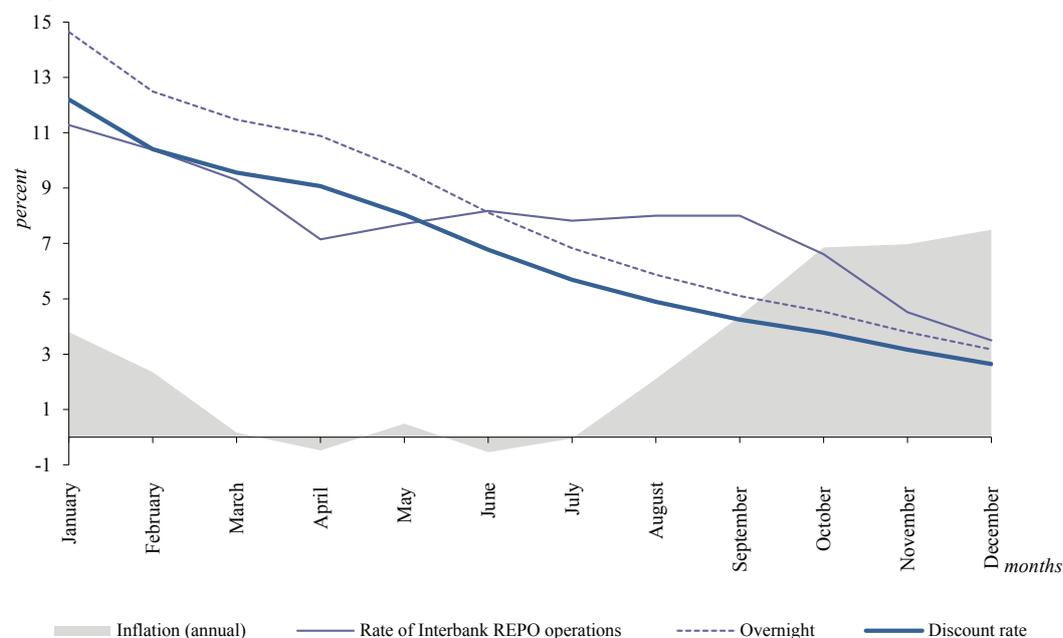


Monetary base increased by 17.7 percent and the volume of broad money M2X increased by 23.8 percent over the course of the reporting year.

In 2012, along with expansion of the volume of operations for sterilization of liquidity, there was a decline in the yield of NBKR Notes conditioned by high demand for securities. Rates of yield declines on all types of NBKR Notes, therefore the discount rate tied to average yield of 28-day NBKR Notes gradually declined over the last four auctions as well.

### **Chart 2.1.2.**

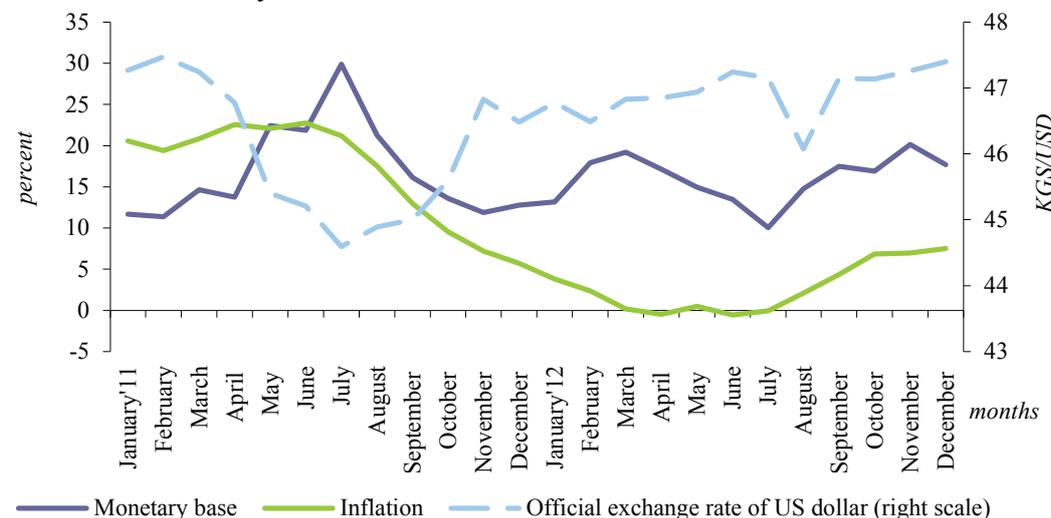
Development of Inflation, Rates of NBKR and Interbank REPO operations (end of period)



In 2012, demand for and supply of foreign currency in the foreign exchange market were practically balanced. Minor imbalance was observed in the market in January-February and June of 2012. The National Bank had to make interventions into the domestic interbank foreign exchange market during these periods. The gross volume of dollar interventions by the NBKR in 2012 amounted to USD 47.9 million (USD 401.6 million in 2011). The US dollar exchange rate in relation to the Kyrgyz som increased by 2.0 percent in 2012 and as of the end of December it was 47.4012 KGS/1 USD.

### **Chart 2.1.3.**

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



## 2.2. Monetary Policy Implementation

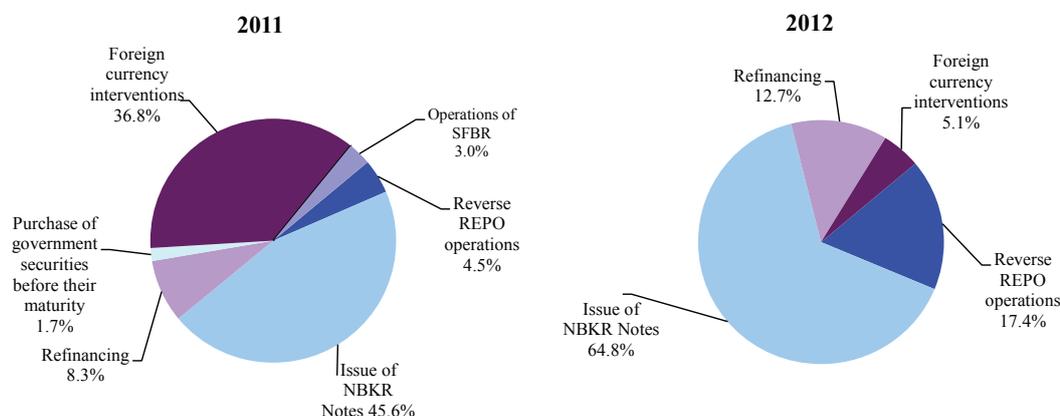
In line with the pursued monetary policy, the National Bank significantly built up the volumes of operations to sterilize excess liquidity of commercial banks. This resulted in increased share of issue of NBKR Notes in the structure of NBKR operations from 45.6 percent in 2011 to 64.8 percent in 2012, whereas the volume of reverse REPO operations increased up to 17.4 percent (4.5 percent in 2011).

*Liquidity regulation tools*

In 2012, the National Bank actively used refinancing instruments (overnight credits, intraday loans) to regulate the national currency liquidity in the banking system. Increased demand for loan resources of the NBKR from certain commercial banks led to growth in refinancing operations. Moreover, in order to reinforce the interest transmission channel of the monetary policy and to encourage the banking system to increase lending to the real sector, the National Bank expanded the monetary policy tools by including credit auctions for refinancing in the range of tools.

### Chart 2.2.1.

Structure of the National Bank Operations



Relative balance in the domestic foreign exchange market allowed abating the presence of the National Bank in the interbank foreign exchange market from 44.2 percent in 2011 to 4.7 percent in 2012. As a result of this, foreign exchange interventions in the structure of NBKR operations decreased by 31.7 percentage points and corresponded to 5.1 percent. In the reporting year, the NBKR predominantly sold foreign currency in foreign exchange auctions and the net sale of foreign currency by the National Bank amounted to USD 38.3 million (USD 160.7 million in 2011).

Significant reduction in foreign exchange interventions led to reduction in the total volume of monetary operations of the National Bank in 2012, which amounted to KGS 44.1 billion, bearing 12.0 percent decline compared to the similar indicator for 2011 (KGS 50.2 billion).

The National Bank also conducted transactions for purchase of gold for the national currency with the total value of KGS 1.1 billion in the domestic market in 2012.

### 2.2.1. Domestic Foreign Exchange Market Operations

The situation in the domestic foreign exchange market was rather steady in 2012. This proves true by relatively narrow range of exchange rate fluctuation with its minimum fixed at 46.0274 for 1 US dollar and the maximum reaching 47.6410. Thus the range of exchange rate fluctuation expressed in percentage was 3.5 percent (against 7.2 percent in 2011).

The volume of operations in the domestic foreign exchange market increased by 11.4 percent compared to the previous period and amounted to USD 1.0 billion.

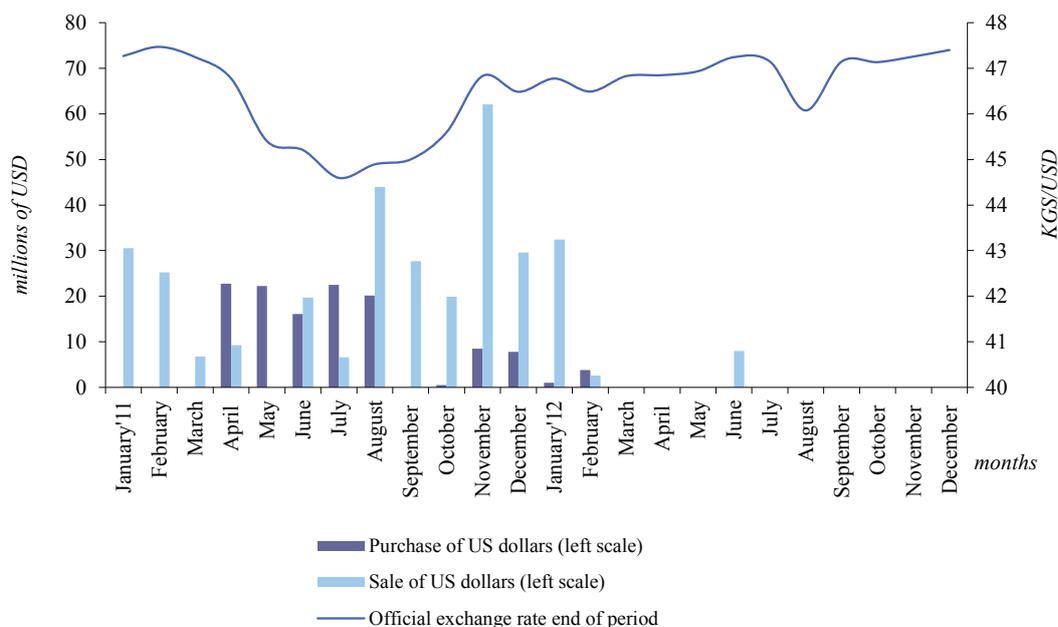
The share of the National Bank in the domestic foreign exchange market shrank following reduction of foreign exchange interventions by the National Bank coupled with increase in the gross volume of operations between commercial banks in the forex market. Thus, the share of operations of the NBKR corresponded to 4.7 percent of the total volume of operations concluded in the foreign exchange market in 2012 (against 44.3 percent in 2011).

Demand for foreign currency in the domestic forex market was conditioned by the need to pay for import, which increased by 11.4 percent and totaled to USD 4.4 billion in 2012 according to preliminary data for the year. Following the established structure of the trade balance, foreign currency was predominantly used to pay for import of fuel and lubricants, automobiles and other transportation equipment, gas, foodstuff and medicines.

The major volume of foreign currency supply in the domestic market was traditionally formed by export receipts and remittances from labor migrants.

### **Chart 2.2.1.1.**

NBKR Operations at the Interbank Foreign Exchange Auctions



The situation in the domestic foreign exchange market by quarters developed as follows:

In the Quarter I, 2012 despite the seasonal factor, the exchange rate of the US dollar demonstrated weak growth dynamics. The exchange rate ranged within 46.4847-46.9312 Kyrgyz soms for 1 US dollar. By the end of the quarter the exchange rate grew by 1.0 percent from 46.4847 to 46.9312. Relative stability in the foreign exchange market in the first quarter was provided by interventions of the National bank, which sold USD 35.1 million and purchased USD 4.8 million. Thus, the net sale of foreign currency by the National Bank amounted to USD 30.3 million in the first quarter of 2012.

In Quarter II relative growth was observed in the exchange rate of US dollar. It grew by 0.9 percent from 46.8275 to 47.2445 Kyrgyz soms per 1 US dollar. The National Bank made a one-time sale of USD 8.0 million.

There was a weak upward trend in development of the US dollar exchange rate in relation to the Kyrgyz som in the beginning of Quarter III as well. However, with the launch of tourist season, the situation in the foreign exchange market changed and the US dollar exchange rate depreciated by 2.6 percent or KGS 1.2. However, by the end of the quarter, the situation in the forex market changed towards significant excess of demand over supply of US dollars by the commercial banks. This is explained by the seasonal factor, i.e. closure of the tourist season and beginning of harvesting works and consequent need to pay for import of fuels and lubricants. During this period the exchange rate reached its maximum level for 2012 and amounted to 47.6410 Kyrgyz soms per 1 US dollar. In overall, the US dollar strengthened by 0.2 percent in relation to the Kyrgyz som.

In Quarter IV, similar to the previous quarter, the National Bank did not make any operations in the domestic foreign currency market. The US dollar exchange rate development was rather steady. By the end of 2012 the exchange rate of US dollar amounted to 47.4012 Kyrgyz soms for 1 US dollar, having increased by 0.5 percent over the course of Quarter IV.

***Table 2.2.1.1.***

**NBKR's Operations with Foreign Currency in the Domestic Foreign Exchange Market**

*(in thousands of US dollars)*

	QI	QII	QIII	QIV	Total
<b>2011, total</b>	<b>62,801.3</b>	<b>90,050.0</b>	<b>120,750.0</b>	<b>128,350.0</b>	<b>401,951.3</b>
<i>including:</i>					
purchase of US dollars	-	61,100.0	42,600.0	16,750.0	120,450.0
sale of US dollars	62,450.0	28,950.0	78,150.0	111,600.0	281,150.0
purchase of foreign currency (excluding US dollars)	351.3	-	-	-	351.3
<b>2012, total</b>	<b>39,850.0</b>	<b>8,000.0</b>	<b>-</b>	<b>-</b>	<b>47,850.0</b>
<i>including:</i>					
purchase of US dollars	4,800.0	-	-	-	4,800.0
sale of US dollars	35,050.0	8,000.0	-	-	43,050.0
purchase of foreign currency (excluding US dollars)	-	-	-	-	-

The National Bank completed no transactions on purchase/sale of other foreign currencies in the domestic foreign exchange market in 2012. No SWAP operations were concluded with commercial banks either.

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

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

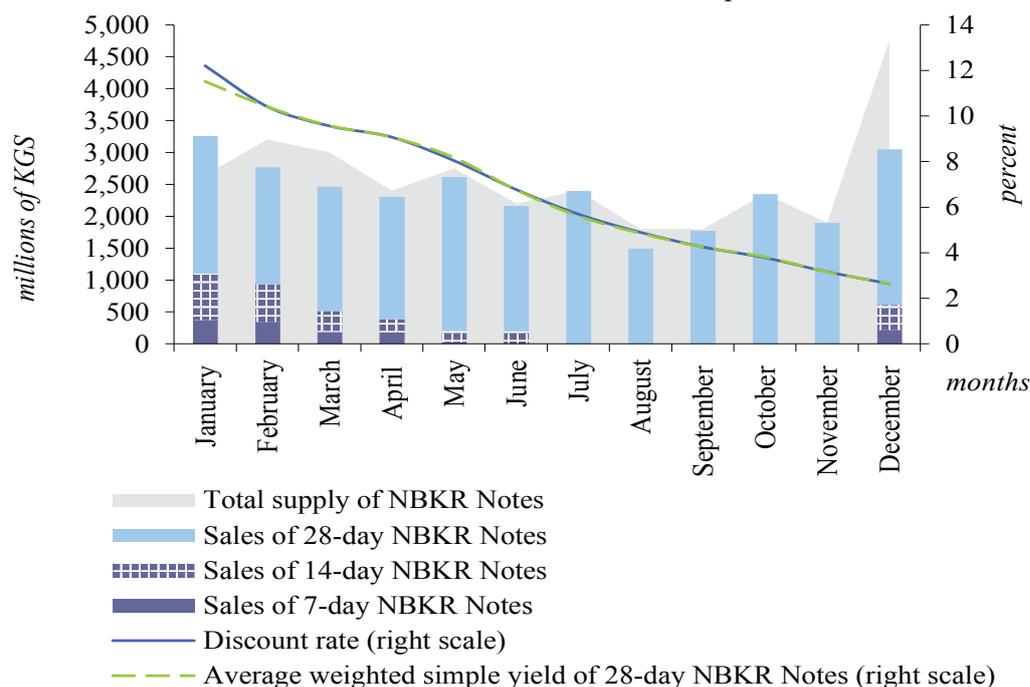
*Operations  
with the NBKR  
Notes*

Proceeding from the monetary policy tasks and considering the level of liquidity in the banking system, the National Bank increased the volume of sale of NBKR Notes from KGS 22.9 billion in 2011 to KGS 28.5 billion in 2012.

In line with the pursued monetary policy, the National Bank changed the structure and volumes of Notes supply. Starting from June 2012 the National Bank placed only 14-day and 28-day notes, and starting from July of 2012 – only 28-day notes. In the end of the Quarter IV, the National Bank supplied Notes of all types of maturity. Notes with maturity of 28 days were sold the most (86.1 percent), followed by Notes with maturity of 7 and 14 days – 4.7 percent and 9.2 percent respectively.

**Chart 2.2.2.1.**

Sales of NBKR Notes and NBKR Discount Rate development in 2012

*Discount rate*

The discount rate was determined based on the yield of 28-day NBKR Notes, which is one of the monetary policy tools. 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 economic entities to calculate fines and penalties for delays in various payments.

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

The average level of the discount rate in 2012 was 7.0 percent, which is by 3.7 percentage points lower than in 2011. At the end of December of 2012, the NBKR discount rate amounted to 2.64 percent, whereas in the beginning of the reporting year it was 13.61 percent.

### 2.2.3. REPO Operations

In view of high level of excess liquidity in the banking system in 2012, the National Bank performed operations to sell government securities on REPO terms (reverse REPO) to sterilize excess liquidity. These transactions were made with Government Treasury Bills for settlement (GT-Bills(s)) and Government Treasury Bonds (GT-Bonds) in the portfolio of the National Bank.

*Volume of REPO operations*

The total volume of sales of government securities on REPO terms increased by more than three times and equaled to KGS 7.7 billion. Average weighted term of reverse REPO operations constituted 36 days, whereas the average weighted yield of these operations reduced from 11.3 percent in 2011 to 7.5 percent in 2012.

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

	QI	QII	QIII	QIV	Total
<b>2011, total</b>	<b>684.5</b>	<b>60.7</b>	<b>858.5</b>	<b>674.8</b>	<b>2,278.5</b>
<i>including:</i>					
direct REPO operations	-	-	-	-	-
reverse REPO operations	684.5	60.7	858.5	674.8	2,278.5
<b>2012, total</b>	<b>1,898.5</b>	<b>2,476.8</b>	<b>1,705.6</b>	<b>1,595.5</b>	<b>7,676.3</b>
<i>including:</i>					
direct REPO operations	-	-	-	-	-
reverse REPO operations	1,898.5	2,476.8	1,705.6	1,595.5	7,676.3

**2.2.4. Refinancing of Banks**

Refinancing of banks is one of the tools to sustain the liquidity of commercial banks, to mitigate current liquidity fluctuations in the banking system and to ensure efficient operation of the payment system.

In 2012, the National Bank used the following traditional tools for refinancing the commercial banks:

- the intraday credits, extended in the national currency, without charging an interest rate, during an operational day for several hours, secured by the collateral, with a view of increasing the functional efficiency of the payment system;
- the overnight credit, provided in the national currency for twenty four hours, with an interest rate of 1.2 of the discount rate, secured by the collateral, to maintain the short-term liquidity of the bank.

The National Bank extended intraday loans in the amount of KGS 680.0 million to commercial banks (in 2011 the volume of intraday credits totaled to KGS 129.0 million). The overnight credits comprised KGS 4.9 billion, which is by 21.3 percent more than in 2011. The average annual rate on overnight loans constituted 8.4 percent in 2012, which is by 4.4 percentage points lower than in 2011.

**Table 2.2.4.1.****Overnight credits***(in millions of KGS)*

	QI	QII	QIII	QIV	Total
2011	290.0	3,423.0	105.0	232.7	<b>4,050.7</b>
2012	173.5	719.0	392.0	3,627.7	<b>4,912.2</b>

**Table 2.2.4.2.****Intraday credits***(in millions of KGS)*

	QI	QII	QIII	QIV	Total
2011	-	60.0	69.0	-	<b>129.0</b>
2012	30.0	60.0	370.0	220.0	<b>680.0</b>

In 2012, the National Bank developed and approved the Regulations “On the Order of Holding Credit Auctions by the National Bank for Purposes of Refinancing” with the view of expanding the scope of monetary policy tools and promoting increased lending to the economy.

*Credit  
auctions for  
refinancing*

The objective of credit auctions is to provide commercial banks provisional resources for lending to economy, to refinance and to sustain the level of liquidity in the national currency. Terms and volumes of loan proceeds are determined by the decision of the Monetary Policy Committee of the National Bank. Commercial Bank pledge government securities as a collateral for repayment of lent resources.

### 2.2.5. Reserve Requirements

*Reserve requirements*

Reserve requirements are requirements set by the National Bank on operating banks to deposit certain amount of funds, i.e. required reserves, on their correspondent account with the National Bank. Reserve requirements are one of the monetary policy tools for regulating the volume of money aggregates, bank loans and demand for liquidity.

The level of reserve requirements remained at prior level fixed in 2011 – at 9.0 percent of the effective base.

Following increase in deposits, the volume of reserve requirements increased by 28.8 percent over the year, and by the end of 2012 it constituted KGS 4.0 billion.

In 2012, one of the commercial banks failed to comply with reserve requirement due to the conservation mode introduced in this bank in 2011.

#### **Table 2.2.5.1.**

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

	QI	QII	QIII	QIV
<b>2011, total</b>	<b>4,263.0</b>	<b>4,013.4</b>	<b>4,933.4</b>	<b>4,259.8</b>
<i>including:</i>				
required reserves	2,515.6	2,758.9	2,995.0	2,938.8
excess reserves	1,747.4	1,254.5	1,938.4	1,321.0
<b>2012, total</b>	<b>4,996.2</b>	<b>5,222.9</b>	<b>5,443.7</b>	<b>6,900.5</b>
<i>including:</i>				
required reserves	3,096.1	3,399.7	3,641.7	3,918.1
excess reserves	1,900.1	1,823.2	1,802.0	2,982.4

\* average values for the period

### 2.3. International Reserves Management

*Principles of management*

Maintenance of liquidity and safety of reserve assets in line with the core principles are the priority tasks of the National Bank in the area of management of international reserves, as stipulated in the Law “On the National Bank of the Kyrgyz Republic”.

*Regulatory Documents*

Management of international reserves is regulated by the Investment Policy, 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 2012”, and “On Limits in Management of Investment Asset of International Reserves”.

The Board and the Investment Committee of the National Bank were in charge of the decision-making in the part of determining the investment strategy of the Bank, portfolio structure of international reserves, the ratio of risks and the yield of investment tools, as well as a selection of bank counterparties. The Investment Committee held 23 meetings on issues of managing international reserves in 2012. Criteria, requirements and restrictions on the counterparties, the types of tools, the amounts and duration of investment were established to

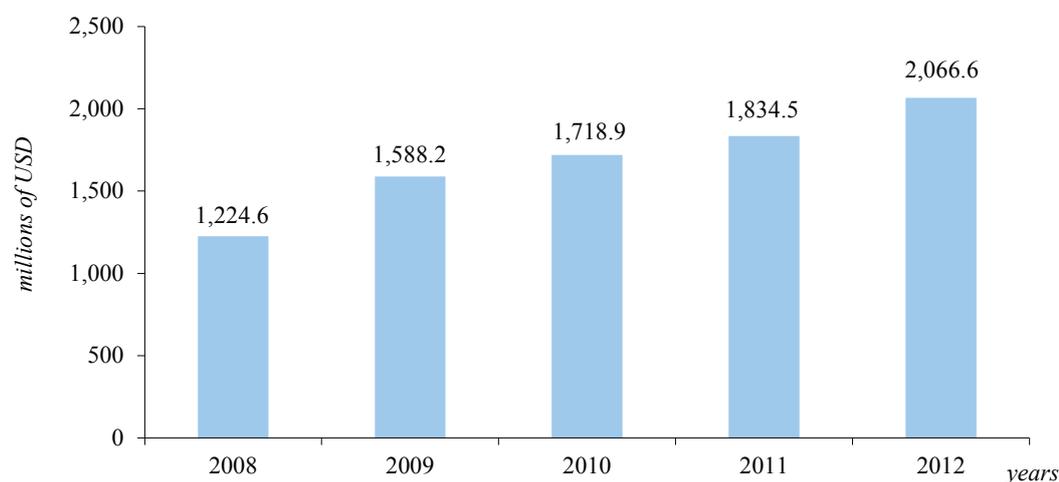
minimize the risks arising in reserve asset management.

The structure of international reserves of the National Bank comprises the assets in gold, the Special Drawing Rights, and the portfolio of foreign currencies. The total of reserves was equivalent to USD 2.1 billion at the end of 2012, having thus increased by USD 232.1 million or by 12.7 percent over the year.

*Structure and volume of IR*

### **Chart 2.3.1.**

Gross International Reserves of NBKR  
(in millions of USD)



The sources of growth of international reserves in 2012 were currency receipts to the accounts of the Government from international financial institutions and donor countries, revenues accrued from international reserves management, and increased volume of gold purchased by the National Bank at the domestic market. In addition, the dollar equivalent of international reserves was influenced by the change in the foreign currency exchange rates and the prices of precious metals.

*Sources of IR growth*

### **Table 2.3.1.**

Structure of NBKR Reserve Assets (end of period)  
(in percent)

	2011	2012
Gold	7.2	7.9
Foreign Currency Portfolio	83.2	83.1
Special Drawing Rights	9.6	9.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

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

*Structure of foreign currency portfolio of IR*

### **Table 2.3.2.**

Structure of allocation of NBKR International Reserves (end of period)  
(in percent)

	2011	2012
International Financial Institutions	26.4	24.4
Central Banks	40.9	38.3
Commercial Banks	32.2	35.8
NBKR	0.4	1.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

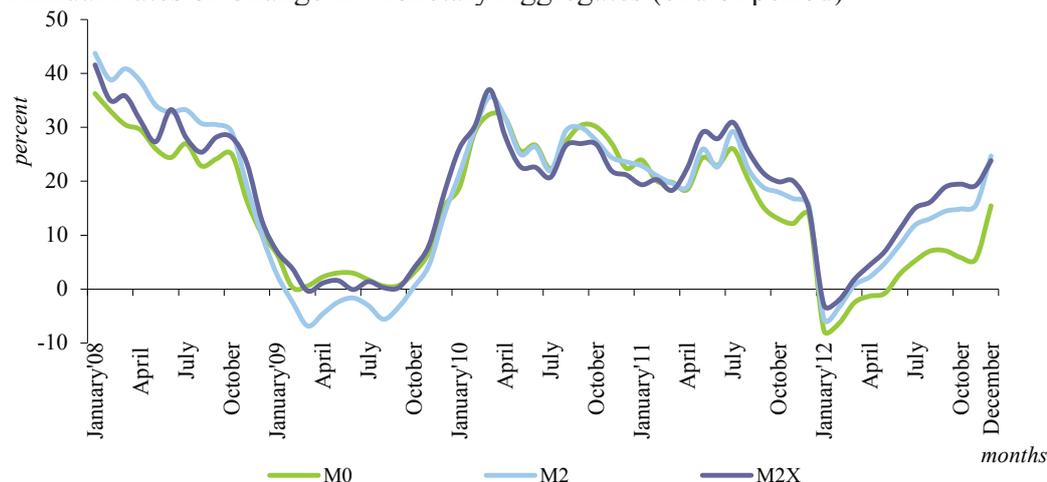
<i>IR structure</i>	In order to maintain the required level of liquidity, as well as to enhance efficiency of international reserves management, the work with the reserve assets was built on the portfolio basis. The division of currency portfolios into working and investment ones provided for maintenance of the optimal yield level of reserves.
<i>Allocation of working capital</i>	The working capital assets were invested into the most liquid instruments and were used for operations in the domestic interbank foreign exchange market and for the payments of the National Bank and the Government in foreign currency (including servicing of the foreign debt).
<i>Management of investment portfolio</i>	<p>The investment portfolio was managed in compliance with the approved benchmark portfolio of international reserves. The National Bank invested the international reserves into the highly reliable and liquid instruments: securities, time deposits, as well as into one-day REPO operations.</p> <p>The portfolio of securities comprised of the government securities of Australia, Great Britain, Germany, Canada, France and Switzerland, as well as the short- and medium-term investment tools of the Bank for International Settlements. Time deposits were placed with the international financial institutions, with the foreign central and commercial banks with high international rating.</p> <p>In 2012, the National Bank implemented the investment policy against the background of instability in global financial and commodity markets caused by pending economic and political problems in the leading countries of the world. Central banks of developed countries carried on with implementing measures to stimulate economic activity in order to reduce the cost of borrowed resources. Monetary regulation bodies of the USA and the Eurozone proceeded to new round of monetary incentives through purchase of different types of bonds. Central banks of the United Kingdom and Japan also expanded their ongoing programs for injecting additional resources through purchase of assets. Whereas key rates of leading central banks remained at their historically minimum levels last year, central banks of Australia and Eurozone continued on the policy of further reduction of costs of borrowings.</p>

## 2.4. Monetary Policy Results

<i>Monetary base</i>	The monetary base grew by KGS 9.7 billion or 17.7 percent in 2012 and totaled to KGS 64.5 billion (monetary base grew by 12.8 percent in 2011). The expansion of the monetary base over the reporting year mainly resulted from increased supply of money by the government finance sector due to high level of state budget deficit. Wherein, the operations of the Government expanded it by KGS 12.3 billion, operations of the National Bank reduced it by KGS 2.6 billion (in 2011 the monetary base increase resulted from the expansion of government operations by KGS 14.6 billion and NBKR operations reduced it by KGS 8.4 billion).
<i>Monetary aggregates</i>	In overall the monetary aggregate M0 (money outside banks) increased by 15.5 percent and totaled to KGS 54.5 billion by the end of 2012 (in 2011 it increased by 13.9 percent up to KGS 47.2 billion). Monetary aggregate M2 (M0+ deposits, including settlement accounts in the national currency) grew by 24.7 percent over the reporting period and equaled to KGS 77.5 billion (in 2011 it increased by 15.6 percent and constituted KGS 62.1 billion), wherein deposits in the national currency increased by 53.9 percent.

**Chart 2.4.1.**

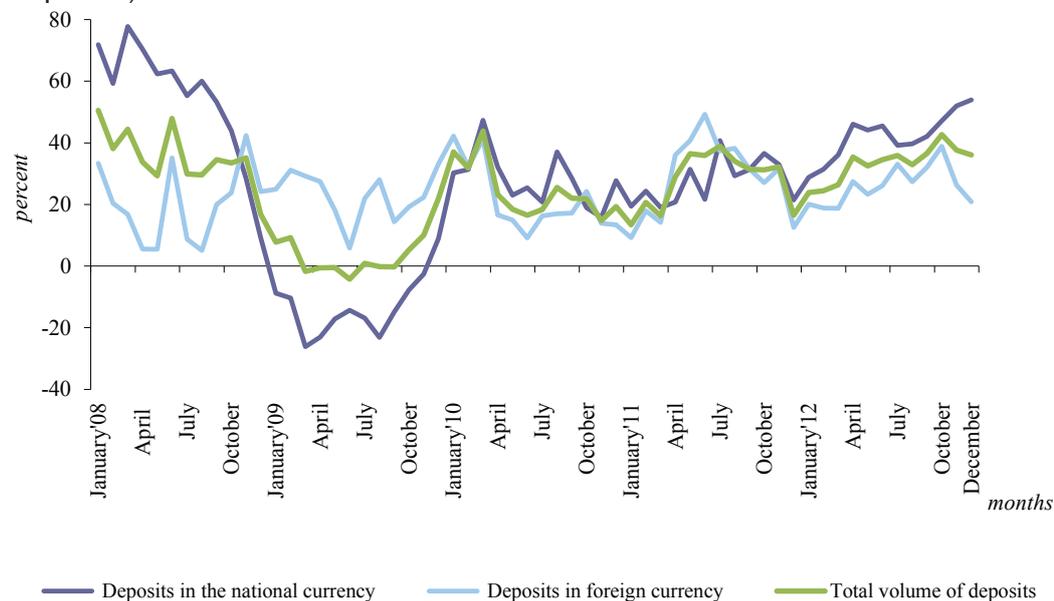
Annual Rates of Change in Monetary Aggregates (end of period)



As of the year-end results, broad money M2X (M2+deposits, including settlement accounts in foreign currency) equaled to KGS 98.5 billion, having increased by 23.8 percent or KGS 19.0 billion over 2012 (in 2011 it increased by 14.9 percent and made KGS 79.5 billion). Major growth in constituents of broad money M2X was observed in deposits<sup>1</sup> of the banking system as their volume expanded by 36.1 percent or KGS 11.6 billion (wherein deposits in foreign currency grew by 20.8 percent).

**Chart 2.4.2.**

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



Net foreign assets of the banking system made the major contribution to growth of broad money M2X (16.1 percent). Net domestic assets contributed to growth of broad money M2X (7.7 percent) due to increased lending to the economy by 26.2 percent.

According to the data of the National Statistics Committee, the index of consumer prices growth, which characterizes the level of inflation for 2012, was 7.5 percent (data for December of 2012 against December of 2011), whereas in 2011 the annual inflation was 5.7 percent. Dynamics of inflation developed under the influence of volatility of prices for foodstuff. Thus, in the first half of 2012, prices

<sup>1</sup> Excluding deposits of the Government of the Kyrgyz Republic and non-residents.

for foodstuff dropped under the influence of heavy yield of major agricultural crops in the previous year. In the second half of 2012, dynamics of prices for foodstuff was influenced by escalation of global prices for wheat following poor harvest of cereals in the current season.

**Table 2.4.1.**

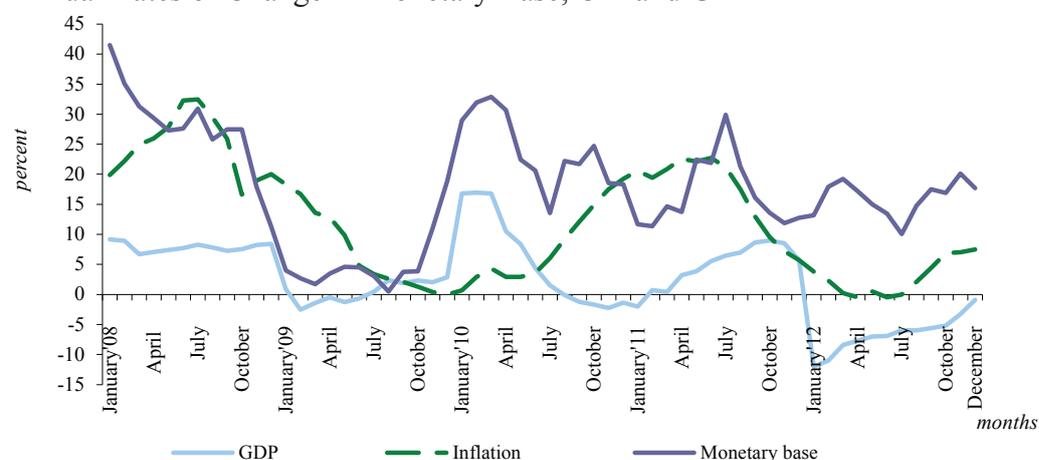
Sources of Broad Money Supply M2X (end of period)

(in millions of KGS)

	2011	2012	Growth	Growth rate, in percent	Impact on M2X, in percent
Net foreign assets	77,213.9	90,023.2	12,809.4	16.6	16.1
Net international reserves	85,423.3	95,910.6	10,487.3	12.3	13.2
Other foreign assets	135.0	305.0	170.0	125.9	0.2
Distribution of SDR	-6,030.1	-6,192.3	-162.3	2.7	-0.2
Long-term foreign liabilities	-2,314.4	0.0	2,314.4	-100.0	2.9
Net domestic assets	2,313.9	8,459.6	6,145.7	265.6	7.7
Net claims to general government	-3,028.7	-3,700.9	-672.1	22.2	-0.8
Net claims to the Government	-1,333.7	-2,020.9	-687.2	51.5	-0.9
Net claims to special funds	-1,695.0	-1,680.0	15.0	-0.9	0.0
Kyrgyz Republic Development Fund	-1,695.0	-1,680.0	15.0	-0.9	0.0
Claims to other sectors	33,321.9	42,036.5	8,714.6	26.2	11.0
Other items	594.8	2,438.2	1,843.4	309.9	2.3
Capital account	-28,574.0	-32,314.1	-3,740.2	13.1	-4.7
<b>Broad money M2X</b>	<b>79,527.8</b>	<b>98,482.9</b>	<b>18,955.1</b>	<b>23.8</b>	<b>23.8</b>
Money outside banks	47,219.6	54,521.2	7,301.6	15.5	9.2
Deposits of other deposit corporations	32,308.2	43,961.7	11,653.5	36.1	14.7
Deposits in the national currency	14,905.8	22,939.4	8,033.6	53.9	10.1
Deposits in foreign currency	17,402.5	21,022.3	3,619.8	20.8	4.6

**Chart 2.4.3.**

Annual Rates of Change in Monetary Base, CPI and GDP



REER and  
NEER

Lower level of inflation in partner-countries conditioned the reduction of the Real Effective Exchange Rate Index (REER), which decreased by 0.2 percent since December of 2011 and by the end of 2012 constituted 112.3. The Nominal Effective Exchange Rate Index (NEER) of the Kyrgyz som fell by 4.8 percent since the beginning of 2012 and made 110.7 by the end of December. Reduction of NEER was conditioned by depreciation<sup>1</sup> of the Kyrgyz som in December of 2012 compared to the average rate for December of 2011 by 6.0 percent in relation to the Turkish lira, 4.1 percent – to the Russian ruble, 3.4 percent – to the Chinese yuan, 1.6 percent – to US dollar, and 0.9 percent – to euro. At the same time, the exchange rate of the Kyrgyz som in relation to the Kazakh tenge strengthened by 0.1 percent.

<sup>1</sup> Data for nominal bilateral exchange rate of Kyrgyz som. Year 2000 is taken as base period for calculation of the index.

## OVERVIEW AND REGULATION OF ACTIVITY OF FINANCE AND CREDIT INSTITUTIONS

The National Bank regulates and supervised activities of banks and nonbank finance and credit institutions through licensing, off-site (distance) and on-site supervision.

Evaluation of the credit risk as the major risk in the activities of finance and credit institutions remained the focus of supervision, along with study of other risks associated with the banking activity. The finance and credit system, as a whole, sustained certain stability and potential for improving the level of intermediation and performance efficiency.

The National Bank carried on with improvement of its regulatory legal acts to reinforce internal control in banks, strengthen systems for banking risks management, consolidated supervision and deposits protection, advance introduction of Islamic principles of finance and to optimize the activities of NFCI.

### 3.1. Banking Supervision

#### 3.1.1. Licensing

As of the end of 2012, there were 23 commercial banks operating in the territory of Kyrgyzstan, including the Bishkek branch of the National Bank of Pakistan. The aggregate amount of paid authorized capital of banks totaled to KGS 9.9 billion: foreign capital constituted 36.1 percent or KGS 3.6 billion of the authorized capital. The total volume of authorized capital of banks increased by KGS 1.5 billion, which corresponds to increase by 17.9 percent.

*Authorized  
capital of banks*

A license for carrying out banking operations was issued to CJSC “Microfinance Bank “Bai-Tushum and Partners”, established as a result of reorganization of CJSC “Microfinance Company “Bai-Tushum and Partners”.

In 2012, key shareholders changed in two commercial banks. The structure of shareholders of other commercial banks did not change much.

The National Bank studied the CVs of newly appointed heads of commercial banks to ascertain that they meeting the established requirements and criteria and looked into other issues related to change of shareholders and heads of banks.

Numbers of branches and savings bank offices grew over the reporting period, thus expanding the access of the population in regions to banking services. Commercial banks opened 23 branch offices, 101 savings banks and 17 field cash offices in different regions of the country.

*Branches and  
savings banks*

***Table 3.1.1.1.***

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

	Number of branches		Number of savings banks		Number of field cash offices	
	2011	2012	2011	2012	2011	2012
Bishkek*	55	58	211	227	15	21
Batken Oblast	15	18	41	53	-	-
Jalal -Abad Oblast	41	42	89	120	-	1
Yssyk-Kul Oblast	36	38	24	30	6	9
Naryn Oblast	17	19	7	14	-	1
Osh Oblast	44	50	112	131	6	9
Talas Oblast	11	15	8	12	-	-
Chui Oblast	36	38	39	45	2	5
<b>Total:</b>	<b>255</b>	<b>278</b>	<b>531</b>	<b>632</b>	<b>29</b>	<b>46</b>

\* Including Bishkek branch of the National Bank of Pakistan

### 3.1.2. Off-Site Supervision

*Off-site supervision*

Emphasis in banking supervision was on development of conceptual approach to assessment of banking risks, ensuring steady nature of actual supervision measures oriented to protection of interests of depositors and borrowers of commercial banks and sustaining the banking sector stability.

The off-site supervision over the activities of commercial banks was built on CAMELS rating indicators and was aimed at early identification of problems of commercial banks at their origination and assessment of the capacity of bank management to resolve them. Key aspects of activities of commercial banks were analyzed and the quality of assets, adequacy of capital, yield factors, liquidity management, risks management and internal control systems were assessed under the off-site supervision. Interrelations between indicators and factors influencing the change in these indicators were studied; stress-testing was performed and its results were compared with average indicators for a group of similar banks.

Supervision strategy for every commercial bank was developed based on findings of monitoring and analysis of call reports, and results of inspections and audit opinions. Special attention was devoted to studying money and assets flow when forming sources of bank equity (capital), identification of concentration of risks in servicing the business of stockholders and affiliated companies and individuals and analysis of economic expediency of operations and transactions made by commercial banks.

Supervisory regulation measures, i.e. introduction of special regimes and limitations of activities of certain commercial banks were applied to protect interests of depositors and borrowers of commercial banks, sustain banking system stability and to mitigate the risk of mass withdrawal of deposits. Limitations imposed earlier on some commercial banks were reconsidered and removed as they succeeded to realize given recommendations.

Appeals of both the customers and participants (stockholders) of the banking system on various issues were considered under the off-site supervision, including legal issues and those related to bank services, credit administration and consumer protection. Consultations were rendered to bank depositors to protect their legitimate rights.

Among major results of banking sector development in the Kyrgyz Republic accomplished through implementation of Guidelines for Banking Sector Development in the Kyrgyz Republic till the end of 2014 are strengthening of the role of this sector in overall economy (financial intermediation indicator reached 29.8 percent) and achievement of financial stability, transparency and sustained investment attractiveness.

*Capital indicators*

In 2012, the “net” total capital<sup>1</sup> of banks increased by KGS 2.5 billion, while the “net” risk assets<sup>2</sup> increased by KGS 11.9 billion.

The total capital adequacy ratio significantly exceeded its required level, which indicates that the banking system has certain potential for expanding the supply of financial services.

<sup>1</sup> Estimate indicator covering the capital of shareholders of the bank, financial result of the activity over the reporting and previous years, created reserves, excluding investments into affiliated organizations and capital of other finance and credit institutions. This estimate indicator is used for calculation of prudential regulations established by the NBKR.

<sup>2</sup> “Risk assets” include credits to clients, leasing, corporate securities, cash assets placed in foreign banks and other assets and off-balance sheet liabilities weighted by the credit risk associated with them.

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

	2011	2012
«Net» total capital, <i>in millions of KGS</i>	13,427.0	15,885.8
«Net» risk assets, <i>in millions of KGS</i>	44,341.3	56,192.7
Total capital adequacy ratio, <i>in percent</i>	30.3	28.3
Total capital adequacy requirement (not less), <i>in percent</i>	12.0	12.0

Credit risk is estimated based on classification of assets and off-balance sheet liabilities<sup>1</sup>. The risk of credit loss, calculated as the ratio of loan loss provisions (LLP) to the total assets bearing the risk of credit losses, decreased at the end of 2012 compared to its size as of the end of 2011 (6.3 percent) and corresponded to 4.7 percent.

*Credit risk*

At the end of 2012, the amount of overdue loans was KGS 2.4 billion, or 6.1 percent of all assets bearing the risk of credit losses. In the end of 2011, the same indicator constituted 7.8 percent.

The exchange risk is considered from the point of contingent losses of the bank due to the changes in the value of its assets and liabilities in foreign currency when the exchange rate changes. This risk is assessed proceeding from the ratio of assets and liabilities in foreign currency, as well as their shares in total assets or liabilities of commercial banks. Following the results of 2012, the foreign currency assets of the banking system in the national currency equivalent totaled to KGS 40.1 billion or 46.2 percent of total assets. Liabilities of commercial banks in foreign currency equaled to 36.9 billion in the national currency equivalent or 52.9 percent of all liabilities. Considering total reserves in foreign currency amounting to KGS 456.0 million, as well as funds equated with liabilities in foreign currency for KGS 2.3 billion, cumulative open currency position of the banking system was long at the end of 2012, amounting to KGS 410.9 million or 2.6 percent of net total capital of the banking system.

*Exchange risk***Table 3.1.2.2.****Assets and Liabilities of Commercial Banks in Foreign Currency\* (end of period)**

	2011	2012
Assets in foreign currency, <i>in millions of KGS</i>	31,665.6	40,086.3
Assets in foreign currency, <i>in percent</i>	47.4	46.2
Liabilities in foreign currency, <i>in millions of KGS</i>	28,769.1	36,941.1
Liabilities in foreign currency, <i>in percent</i>	55.0	52.9

\* On NBKR Exchange Rate as of the end of 2011 and the end of 2012

The liquidity risk is considered from the point of view of coverage of liabilities by the assets in each maturity interval that allows estimating the need for funds in case of a mismatch between the assets and the liabilities in the context of maturity. The analysis of liquidity risks of commercial banks conducted in 2012 showed that the negative gap in maturities of assets and liabilities was noted with regard to maturities of up to 30 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*

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

**Table 3.1.2.3.**

Assets and Liabilities by Maturities (end of period)  
(in millions of KGS)

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

\* Data as of December 31, 2011, inclusive.

2012**	Terms in days					Total
	0-30	31-90	91-180	181-365	over 365	
Financial assets	20,021.4	20,574.3	5,479.0	10,271.1	33,226.6	89,572.5
Financial liabilities	28,934.0	16,651.2	4,800.1	7,596.4	11,856.3	69,838.0
Amount of excess of financial assets over financial liabilities	-8,912.6	3,923.1	678.9	2,674.7	21,370.3	19,734.4
in percent of the total financial assets	-0.1	0.04	0.01	0.03	0.2	0.2

\*\* Data as of December 31, 2012, inclusive.

The analysis of basic risks of the banking system indicated that the actual values of prudential norms limiting the considered risks remained at the level considerably exceeding the standard one and this fact testifies of the presence of the certain margin of safety. At the same time, there are still potential hazards associated with higher credit risk associated with the increased volume of overdue loans and insolvency of bank's clients. The National Bank regularly monitors the development trends in the banking sector to undertake measures for stabilization and development of the banking sector as appropriate.

### 3.1.3. On-Site Inspection

Comprehensive inspections of commercial banks were carried out within the supervision cycle. In 2012, target inspections were also carried out in certain commercial banks to ascertain their compliance with the banking legislation in carrying out lending, foreign exchange and cash operations, fulfillment of requirements on adequate reserves formation on assets, calculation of prudential norms established by the National Bank and abidance by legislation on combating financing of terrorism and money laundering.

In 2012, 15 comprehensive and 20 target inspections were conducted on various aspects of banking activity. Appropriate supervision regulation measures were taken and action plans on elimination of performance deficiencies were developed for management of respective commercial banks based on the findings of these inspections. As stipulated by the legislation, information on compliance of commercial banks with the requirements on combating terrorism and money laundering was submitted to the appropriate authorized body.

Following appeals from citizens and law-enforcement bodies and driven by the need to check commercial banks' abidance by the cash discipline and fulfillment of requirements on technical security of branches and savings banks, the National Bank inspected activities of some regional branches of commercial banks.

### 3.1.4. Enforcement Measures

Enforcement measures on commercial banks undertaken under off-site supervision were chiefly of preventive nature, meant to prevent violations of legislation. Recovery Action Plans were developed for commercial banks put

under special regimes. Upon approval, these Recovery Plans were provided to banks under special regimes for their implementation.

The Supervision Committee of the National Bank decided upon application of preventive measures and sanctions against commercial banks in accordance with the legislation of the Kyrgyz Republic. The committee also considered questions on cancelling the prudential norms on maximum amount of attracted deposits and permitted extending new loans to some banks operating under special regimes.

Direct banking supervision was maintained in two commercial banks for goal-directed and efficient monitoring and control of operations on sites. These banks functioned in normal mode and rendered full range of banking services, except for operations with affiliated persons and/or clients sharing the same interests with one of the banks.

When the stockholders of one of the banks succeeded to implement the conditions of amicable agreement regarding capitalization of the bank, the conservation regime was replaced by direct banking supervision, and once the stockholders raised the capital (equity) of the bank to the required level, direct banking supervision was relieved as well.

Following the Law “On Conservation, Liquidation and Bankruptcy of Banks”, conservation regime was maintained in three banks to ensure security of assets and to protect interests of their depositors and borrowers.

Pursuant to the Law “On Banks and Banking Activity” other measures were also applied to commercial banks, including imposing penalties, following the results of comprehensive inspections to ensure reliability, stability and improved efficiency of their performance.

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

The National Bank regulates activities of nonbank finance and credit institutions, including the specialized finance and credit institution OJSC “Financial Company of Credit Unions” (FCCU), microfinance organizations, credit unions and exchange bureaus. Activities of OJSC “FCCU”, microfinance companies, credit unions and exchange bureaus are carried out upon a license issued by the National Bank, while microcredit companies and microcredit agencies operate on simplified procedure – upon obtaining a registration certificate.

In 2012, the National Bank carried out comprehensive inspection of CJSC MFC “Bai-Tushum and Partners” in connection to its reorganization into a bank. Following the comprehensive inspection of CJSC MFC “Bai-Tushum and Partners” was issued a license for performing banking operations No.23 dated November 13, 2012.

*Inspection of  
NFCI*

In 2012, the National Bank inspected 329 MFOs, 150 credit unions and 383 exchange bureaus to ascertain their compliance by the legislation. Inspections were carried out both by the National Bank inspectors and with involvement of representatives of other agencies. Within the range of inspected nonbank finance and credit institutions violations of legislation were detected in the activities of 217 MFO, 123 credit unions and 130 exchange bureaus and instructions on elimination of violations were sent to them.

Within the framework of the Interagency Action Plan for 2012-2015 on improving the national system of the Kyrgyz Republic for combatting financing of terrorism and money laundering, the National Bank carried out ad-hoc inspections of the activities of 310 MFO, 174 CU and 337 exchange bureaus

to verify their compliance with the requirements on disclosure of information on effective interest rate on banking services. Following the inspections, instructions and recommendations were sent to 207 MFO, 160 CU and 190 exchange bureaus.

In order to assess credit risks in view of overindebtedness in the banking and microfinance sectors, ad-hoc inspections were carried out in five large MFO to check their compliance with the requirements of the Kyrgyz legislation on AML/CFT, the Law “On Microfinance Organizations” and to determine whether there were cases of “parallel” credits during the period from June through August of 2012. Based on findings of the inspections, these MFO were issued appropriate instructions and recommendations for strengthening loan administration, adequate classification of “parallel” loans and enforcement of the legislation on AML/CFT.

Through spot checks done jointly with the State Service for Combating Economic Crimes under the Government of the Kyrgyz Republic 51 cases of unlicensed operation of exchange bureaus were revealed. The violators Administrative responsibilities of these lawbreakers were examined and following the legislation total amount of KGS 76.5 thousand was collected to the state budget as penalty charges.

Microfinance Development Strategy for 2011-2015 was approved by a joint resolution of the Government of the Kyrgyz Republic and the National Bank issued on February 28, 2012. Activities for further development of the sector are the core of the strategy, and include measures for improvement of the regulatory framework, development of the concept of protection of deposits with MFOs, introduction of consumer protection principles, establishment of apex institutions, and development of banking and money transfer operations.

### 3.3. Supervision and Regulation Methodology

In 2012, the National Bank continued working on improvement of the regulatory legal framework governing the activities of banks and nonbank finance and credit institutions to enhance the efficiency of the banking supervision system; develop the banking and microfinance sectors of the Kyrgyz Republic and to harmonize the prudential norms with developments in the banking legislation.

*Licensing of banking activity*

In order to ensure efficient work on licensing of banks, including optimizing the procedures for clearing commercial bank officials, the National Bank adopted amendments and addenda to the Regulations “On Licensing of Banking Activity” pertaining to the minimum qualification requirements to candidates for membership to the Board of Directors of banks. Amendments were also introduced to the order of receipt foreign banks’ funds to build or increase the authorized capital of resident banks in the Kyrgyz Republic.

*Risk management*

To mitigate risks associated with the activities of banks and other finance and credit institutions licensed and governed by the National Bank, amendments and addenda were introduced into some regulatory legal acts. These amendments reinforced requirements for classification of assets of finance and credit institutions to restrain deleterious practice of repaying credits issued by one finance and credit institution by loans obtained from another FCI. Along with that, minimum size of authorized capital was increased for newly established microfinance and microcredit companies and a “ceiling” was set on the size of microcredit to be extended to any particular individual.

*Protection of customers of financial services*

In order to ensure protection of customers of financial services and rule out possibilities for abuse by finance and credit institutions, the National Bank adopted resolutions to set requirements to banks and other finance and credit

institutions licensed and governed by the National Bank on limiting the size of forfeit (penalties, fines) that could be collected from individual borrowers and on disclosure of information about the effective interest rate and full cost of the loan in absolute terms. Moreover, microfinance and credit institutions were required to spell out in the credit agreements that the borrower was entitled for advanced repayment of the loan. In the end, these measures will contribute to lowering credit risks both in the banking and microfinance sectors.

Amendments and addenda were also introduced into regulatory legal acts to reinforce the responsibility of the Board of Directors of banks related to transboundary lending and to set requirements on development of detailed rules for organizing accounting and internal documents of the bank governing the activities of all established committees of the bank. Requirements also covered the responsibility of every member of the committee for the decisions adopted by this collegiate body.

In order to harmonize the regulatory acts of the National Bank with developments in the legislation, Instructions on Dealing with Bank Accounts and Deposit Accounts were approved to reinforce requirements on identification of clients and specifying benefit owner (beneficiary).

In 2012, the National Bank adopted a number of regulatory documents governing specific issues related to activities of banks to improve transparency and security. Thus, instructions for commercial banks on leasing individual bank vaults to clients for storage of their valuables were adopted. This regulatory instrument expanded the list of things prohibited for storage in bank vaults, specified rules for client's access to vaults, and reinforced requirements on change of vault locks. Requirements for carrying out identification/verification of the client, his/her authorized persons and establishing the benefit owner (beneficiary) were amended to reinforce AML/CFT.

An order for handling collateral property by commercial banks and other finance and credit institutions licensed and governed by the National Bank was endorsed to boost credit discipline and ensure collectability of extended loans. The National Bank also approved Regulations "On Some Transactions/Operations of Commercial Banks and Microfinance Companies of the Kyrgyz Republic with Immovable Property" were approved to set requirements on terms of owning other immovable property and to register, evaluation and sale of other immovable property. The National Bank introduced order for arranging video surveillance in commercial banks to reinforce technical safety of banks. The introduced order regulates principles for establishing, upgrading and further development of video surveillance system in banks. Following the legislative provisions, the National Bank approved amendments and addenda to rules for completing money transfers through money transfer systems without opening a bank account.

Amendments and addenda were introduced into the Instructions on carrying out on-spot inspections to determine the order for appealing against instructions, revise terms for carrying out inspections, holding preliminary and final meetings, and for preparation and submission of inspection reports to banks.

In 2012, the National Bank received 645 appeals from borrowers and pledgers of FCI, including 409 appeals from borrowers of commercial banks and 236 borrowers of MFO and CU. All filed appeals were considered and responses were provided to complainants.

The National Bank held meetings with banks and other FCI to address problems raised by the borrowers in their appeals. Restructuring of loans were addressed by finance and credit institutions on case-by-case basis with each

borrower through negotiations and compromise, and in some cases the disputes were considered and resolved through court.

As result of joint efforts taken by the Government, the National Bank and finance and credit institutions, out of 7,847 loans totaling to KGS 1 billion 65 million extended to borrowers affected by June events in 2010, only 5 outstanding loans totaling to KGS 1.1 million remained unresolved as of the end of the reporting year. On all other loans, disputes between the borrower and creditor were resolved through restructuring of loans upon conditions agreed by the parties; however, the risk of repeated appeals from these borrowers with new demands persists.

In line with the resolution of the Jogorku Kenesh of the Kyrgyz Republic, the National Bank submitted suggestions on mechanisms for resolving disputes with borrowers, and reported regularly on results of consideration of borrowers' appeals and on measures taken to improve the legislation regulating relations between the borrower and the creditor.

*Regulation of  
FCCU, MFO*

In view of reorganization of LLC "Finance Company for Support and Development of Credit Unions" into OJSC "Financial Company of Credit Unions", the National Bank approved regulatory legal acts governing the order for its licensing, regulation, reorganization and liquidation.

Instructions "On Requirements on Operations with Insiders and Affiliated persons by Microfinance Companies Attracting Deposits" were adopted to regulate activities of microfinance companies that attract deposits.

Following adoption of the Law "On State Development Bank of the Kyrgyz Republic", the National Bank approved amendments and addenda to some regulatory legal acts to harmonize them with the above captioned law.

*Islamic Principles  
of Finance*

A number of normative and legal acts were adopted for implementation of the Laws "On Introducing Addenda to the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic" and "On Addenda to the Law of the Kyrgyz Republic "On Banks and Banking Activity in the Kyrgyz Republic" adopted to provide equal conditions for all players of banking sector and to create conditions for promotion of Islamic banking in the Kyrgyz Republic. The approved documents relate to issues of mitigating banking risks, corporate management, organization of internal control and internal audit systems of banks operating upon Islamic principles of banking and finance.

## PAYMENT SYSTEM

The payment system of the Kyrgyz Republic functioned steadily and demonstrated progress dynamics in 2012.

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

“Main Directions of Payment System Development in the Kyrgyz Republic in 2012-2014” were approved in the beginning of 2012 setting out the strategic areas for development of the national payment system in the medium term. Pursuant to these guidelines activities were carried out to:

- develop retail payments markets, including expanding functional capabilities of commercial banks and of the operator of the national card payment system Elcard ;
- integrate trade platforms with gross settlement systems;
- strengthen the oversight (supervision) of the payment system.

In order to sustain steady functioning of the national payment system, the National Bank became of the main shareholders of CJSC “Interbank Processing Center” and continued cooperation with the commercial banks aimed at developing the infrastructure for accepting and servicing retail payments, including those made using bank payment cards.

Along with increased share of noncash settlements and payments, and development of a modern national payment system, cash remains the key payment means for retail payments. The growth of money in circulation in 2012 corresponded to actual needs of economy in cash. The National Bank continued to supply cash to meet the existing demand, regulated the structure of circulating money and satisfied the needs of the national economy by necessary denominations of the national currency banknotes and coins.

### 4.1. Payment System Development

#### 4.1.1. Noncash Settlements

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

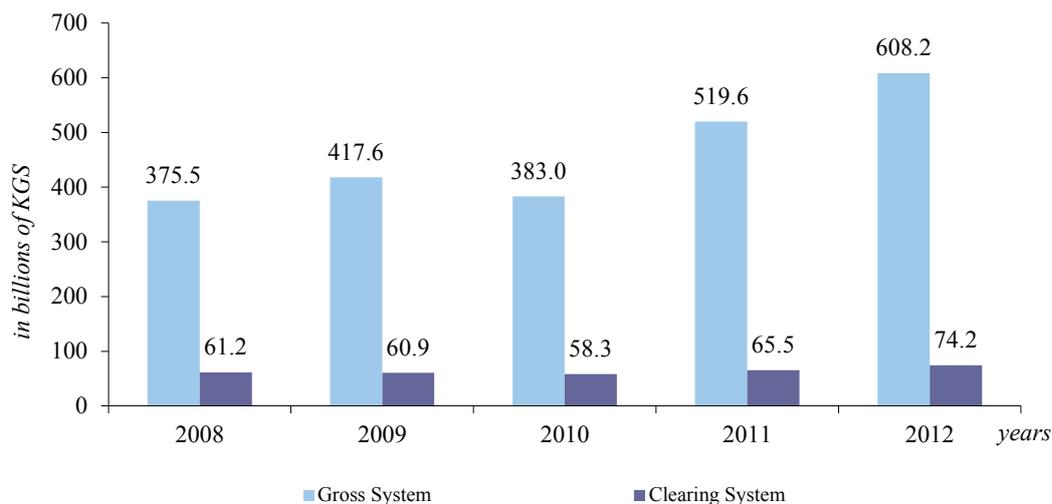
*Payment system*

Development of the national payment system in 2012 showed an upward trend. In total, 2.4 million payments were made through the RTGS and BCS payments systems to the total amount of KGS 682.4 billion KGS, which is by 16.6 percent higher than in 2011.

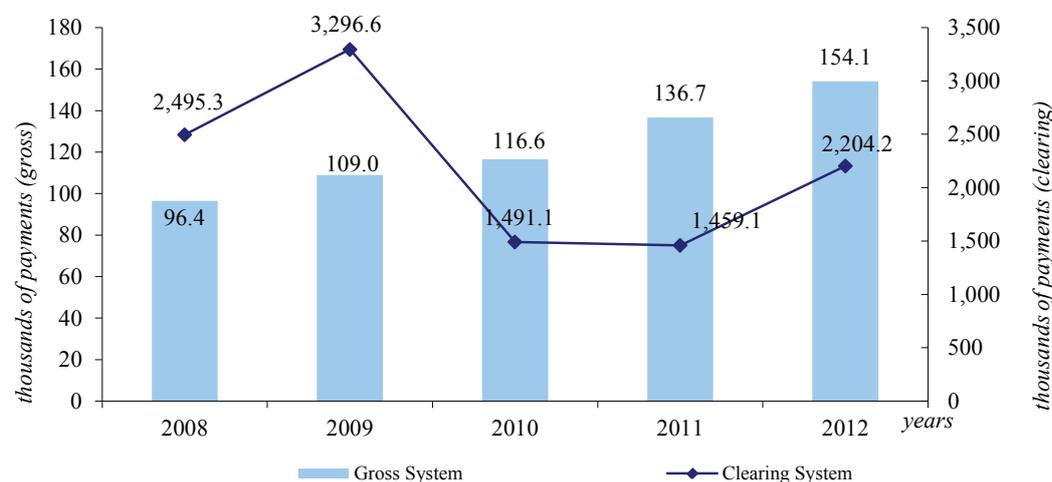
The number of payments through RTGS increased by 12.7 percent, and the number of payments via BCS increased by 51.1 percent compared to the corresponding indicators in 2011. The growth was achieved following the increase in number of budget payments, including tax receipts and payments for utility services by the population.

**Chart 4.1.1.1.**

Value of Payments (RTGS and BCS)

**Chart 4.1.1.2.**

Number of Payments (RTGS and BCS)

*Bank payment cards*

The total number of payment cards issued in 2012 was 408.9 thousand, having thus increased by 50.8 percent over the year. Of the total number of payments cards, 68 thousand were the cards of the national card payment system Elcard. Increased number of bank payment cards issued under the salary projects contributed noticeably to the growth of the total number of issued bank payment cards.

*Card transactions*

In 2012, 7.2 million transactions were made with the use of payment cards, which is by 47.0 percent more than in 2011.

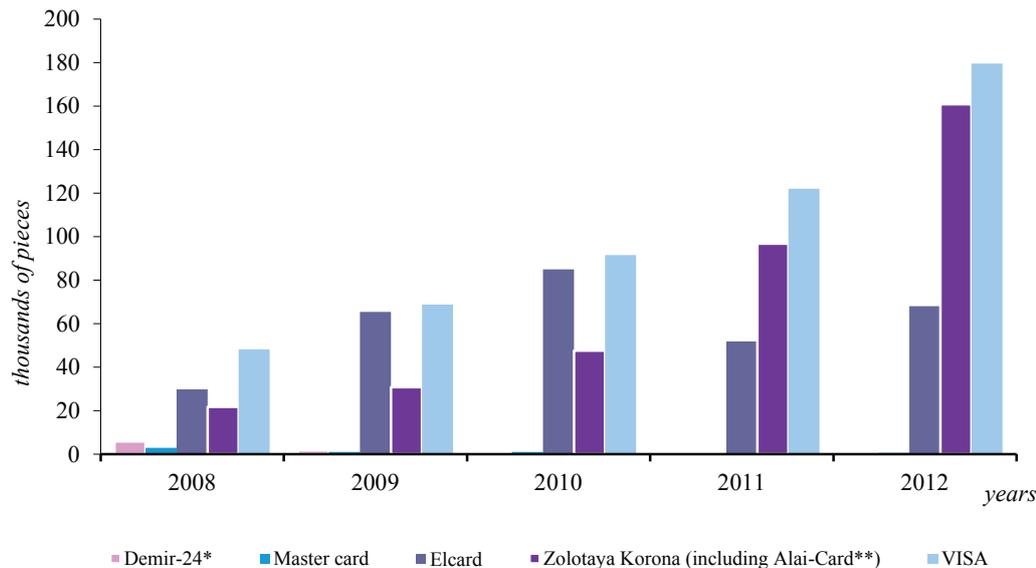
The value of card transactions amounted to KGS 35.3 billion, having increased by 44.6 percent compared to the same indicator for 2011: which is indicative of increased activity of commercial banks in the bank payment cards market under the framework of the State Program to Increase the Share of Non-Cash Payments and Settlements in the Kyrgyz Republic for 2012-2017.

*Infrastructure to accept and service the payment cards*

The value of withdrawal of cash from the ATM network amounted to KGS 33.8 billion (95.7 percent), while the value of transactions in points of sale constituted KGS 1.5 billion (4.3 percent).

**Chart 4.1.1.3.**

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



\* Payment cards “Demir-24” were replaced by VISA cards in 2009.

\*\* “Alai-Card” is a trademark (brand) under which cards of the “Zolotaya Korona” payment system are issued and serviced.

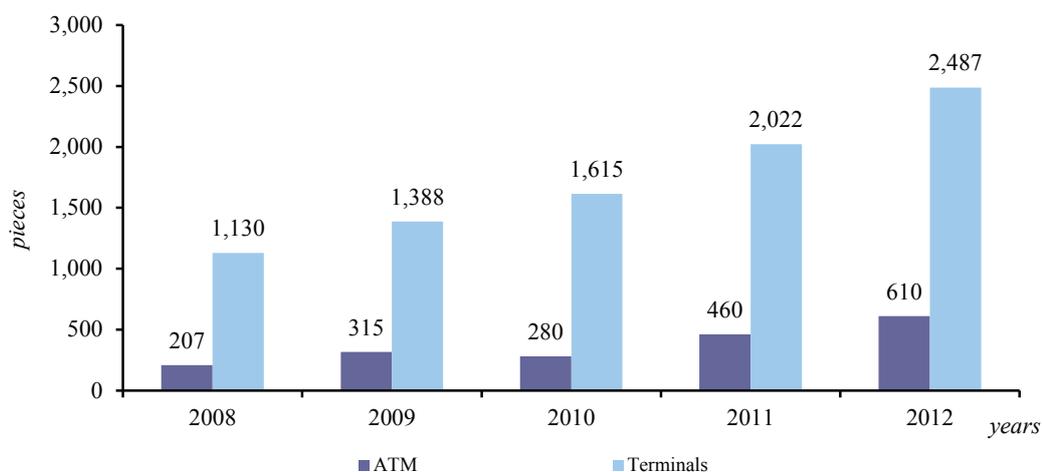
The total number of terminals and ATMs broken down by systems comprises the following:

- the national system “Elcard” - 252 ATMs and 991 terminals; The “Elcard” payment cards are also accepted for serving by 154 ATMs and 662 terminals of international payment systems.
- International System “Zolotaya Korona” – 171 ATMs and 410 terminals;
- International systems “Visa & MasterCard” – 187 ATMs and 1,086 terminals;

As of the end of 2012, the bank payment cards were accepted for servicing by 610 ATMs and 2,487 terminals all over the territory of the Kyrgyz Republic.

**Chart 4.1.1.4.**

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



#### 4.1.2. The Oversight of the Payment System of the Kyrgyz Republic

Since 2008 the National Bank has overseen the payment system to ensure efficient and secure functioning of the payment system. To this end, the NBKR performs a complex of measures, including monitoring, evaluation and taking measures for improving the payment system and ongoing control of operation of

the technical information of the payment system of the Kyrgyz Republic.

*Objects of oversight (supervision) and control*

The objects of oversight (control) in 2012 were systemically important payment systems: Real Time Gross Settlement System (RTGS) and Bulk Clearing System (BCS), the national card payment system “Elcard”. Functioning of the Multiple Access Center of SWIFT (MAC SWIFT) and the Interbank Communication Network was also subject of control.

*Functioning of systemically important payment systems*

Findings of monitoring indicate that the systemically important systems operated in normal mode, the level of accessibility of the system remained high at the level of 99.4 percent. The level of financial risks in the system was minimum (liquidity coefficient amounted to 4.1, and the turnover rate – 0.2) due to sustained high level of liquidity against the turnover in the system.

In overall, all settlement systems based on payment cards (important payment systems) operated steadily. The level of accessibility of the national card payment system “Elcard” was 99.6 percent in average.

During the oversight 42 fraud transactions with the use of 14 payment cards were detected and concerned banks carried out internal investigations. Here, 71 percent of fraud transactions were transactions with international VISA cards. These fraudulent transactions resulted from the failure of cardholders to comply with safety rules in using the payment cards and unauthorized use of obtained data about the cards and their holders via the internet.

*Compliance of payment systems with international standards*

Following the international standards, the National Bank assessed functioning of systemically important payment systems and the national card payment system “Elcard” against the Core Principles for systemically important payment systems (further referred to as Core Principles) and initiated independent assessment thereof by the World Bank. Findings of the assessments show that the systemically important payment systems and the National System “Elcard” broadly observed the Core Principles.

**Table 4.1.2.1.**

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

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

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

#### **4.1.3. Activities to Increase the Share of Non-cash Payments**

The Government of the Kyrgyz Republic and the National Bank adopted a State Program to Increase the Share of Non-Cash Payment and Settlements in the Kyrgyz Republic for 2012-2017 by a joint resolution with the aim to accomplish optimal ratio between the cash and non-cash money circulation and to expand penetration of banking and payment serviced. Pursuant to this program, the National Bank, ministries and agencies, local self-government bodies, commercial banks and utility enterprises are implementing a complex of measures to increase the share of non-cash payments and settlements in the Kyrgyz Republic aimed at developing the retail payments market and expanding the infrastructure for non-cash payments. The National Bank, in the capacity of the Secretariat of the Interagency Commission for increasing the share of non-cash payments and settlements coordinates and monitors implementation of activities foreseen in the State Program.

The Interagency Commission at its regular sessions heard reports of the ministries and agencies on implementation of the action plan of the State Program and discussed issues related to intensification of their work on transferring to salary projects and ensuring acceptance of payments to budget in non-cash form.

Projects on payment of pensions, social benefits, wages and scholarships via bank payment cards were implemented under the framework of the State Program. In mid-May of 2012, banks proceeded to issuing first cards under social projects for payment of pensions and social benefits in non-cash form and 11,945 pension cards and 2,410 social payment cards were issued.

In April of 2012, commercial banks implemented a Plan for accepting payments of customs duties via bank cards through ATMs installed in the customs areas “Manas”, “Severnaya” and the Central Customs. A project on payment of license tax via payment terminals was implemented in “Oberon” market.

Direct debiting of the bank account is one of the convenient ways of non-cash payment for utility services. Commercial banks completed introduction of direct debiting services under the framework of measures for development of this tool. In 2012, the utility enterprises OJSC “Sevelectro”, Production and Maintenance Unit “Bishkekvodokanal” OJSC “Bishkekteploset” conducted payments through direct debiting of the clients’ bank accounts.

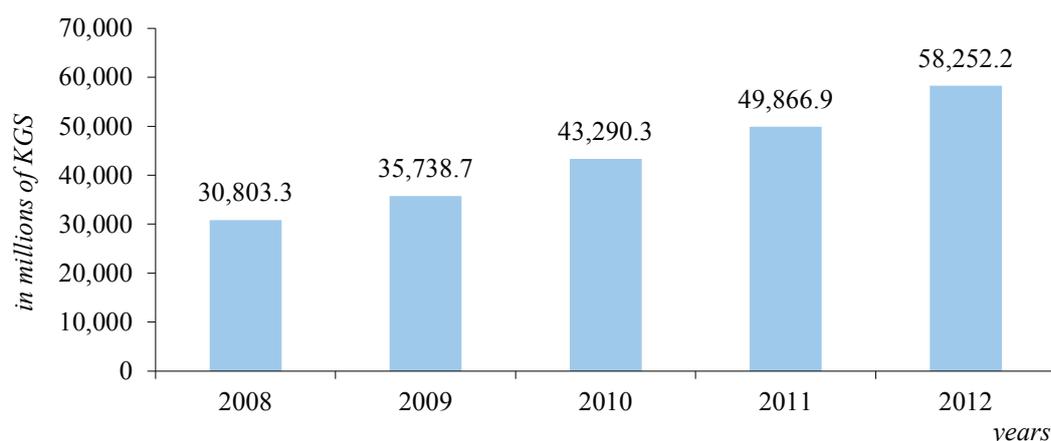
## **4.2. Cash Turnover**

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

In 2012, the total amount of currency in circulation increased by 16.8 percent and amounted to KGS 58.3 billion.

**Chart 4.2.1.**

Developments in Currency in Circulation (end of period)



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

Increased state payments under the social package and sustained demand for cash conditioned by the growth of the economy<sup>1</sup> can be named as factors contributing to growth of money in circulation.

Return of cash to commercial banks' cash departments amounted to 96.8 percent in 2012, having decreased by 1.8 percent compared to the level in 2011 (in 2011 -98.6 percent).

Receipt of cash in the cash departments of commercial banks amounted to KGS 622.3 billion in 2012, having increased by 44.6 percent compared to the volume of receipts in 2011. Issuance of cash from the cash departments of commercial banks increased by 47.3 percent and amounted to KGS 643.0 billion.

**Table 4.2.1.**

Cash Flow via Cash Departments of Commercial Banks

	Receipt in millions of KGS		Issue, in millions of KGS		Collectibility, in percent	
	2011	2012	2011	2012	2011	2012
<b>Total</b>	<b>430,505.7</b>	<b>622,342.7</b>	<b>436,436.9</b>	<b>642,979.1</b>	<b>98.6</b>	<b>96.8</b>
Bishkek	252,839.8	329,264.3	234,149.1	323,725.4	108.0	101.7
Batken Oblast	12,766.0	22,797.4	16,669.5	24,747.5	76.6	92.1
Jalalabat Oblast	39,925.8	60,981.7	48,882.0	70,093.1	81.7	87.0
Yssyk Kul Oblast	15,437.9	26,204.2	19,341.9	30,709.9	79.8	85.3
Naryn Oblast	5,041.6	8,678.1	7,803.9	12,056.0	64.6	72.0
Osh	64,186.7	94,136.7	59,980.7	94,059.3	107.0	100.1
Osh Oblast	12,102.9	27,992.9	19,159.9	31,751.2	63.2	88.2
Talas Oblast	6,851.5	8,516.4	10,161.0	12,294.0	67.4	69.3
Chui Oblast	21,353.5	43,771.0	20,288.9	43,542.7	105.2	100.5

In the reporting year the work on sustaining the optimal stocks of required denominations of banknotes and coins went on, new banknotes and coins were issued into circulation and worn out banknotes were withdrawn from circulation for destruction.

The denomination structure of banknotes in circulation is presented in Table 4.2.2.

<sup>1</sup> Nominal GDP growth constituted 106.4 percent in 2012.

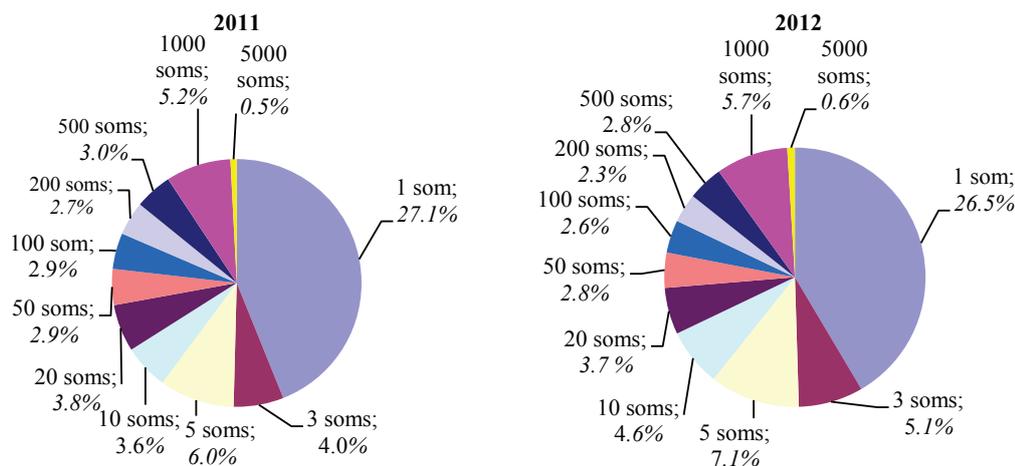
**Table 4.2.2.**

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
2011	0.7	0.3	0.7	1.4	2.8	5.1	14.5	49.7	24.8	100.0
2012	0.8	0.4	0.7	1.2	2.3	4.1	12.5	50.0	28.0	100.0

**Chart 4.2.2.**

Percentage Ratio of Banknotes and Coins in Circulation



In 2012, a golden coin with denomination of 100 soms and a silver coin with denomination of 10 soms were issued to commemorate 200<sup>th</sup> anniversary of Kurmanjan Datka, and a silver coin “Snow Leopard” with denomination of 10 soms was issued under the series of “The Red Book of Kyrgyzstan”. A nickel silver coin “Komuz” with denomination of 5 soms was issued under the “National Musical Instruments” series.

In 2012, the total number of identified counterfeit banknotes amounted to 94 pieces (in 2011 – 609 pieces<sup>1</sup>) to the total value of KGS 109,960 (0.00019 percent of the total money in circulation as of January 1, 2013).

According to the Court Department of the Kyrgyz Republic, three criminal cases of counterfeiting were referred to the court in 2012. Following the trial, three guilty verdicts were issued and five persons were convicted.

<sup>1</sup> In 2012 law enforcement bodies detected several large batches of counterfeit banknotes of the national currency in the territory of the Kyrgyz Republic.

## FOREIGN ECONOMIC RELATIONS

In 2012, the National Bank continued with strengthening foreign economic relations with central banks, international organizations and other financial institutions and establishing new business contacts with foreign organizations.

### 5.1. Cooperation with International Organizations

The cooperation of the National Bank with international organizations was built under the framework of agreements and joint technical assistance projects, rendering consulting services, and upgrading the professional skills and training of staff.

#### *Cooperation with IMF*

The National Bank continued the cooperation with the International Monetary Fund (IMF) on implementation of the Extended Credit Facility. The ECF is aimed at economic recovery as the short-term plan and putting the country on the pathway to more sustainable economic development in the medium-term. In 2012, two Review Missions of the IMF visited the country to assess the progress in implementation of the three-year program supported under the ECF. Findings of both reviews were approved by the IMF's Executive Board and the country was extended subsequent tranches of funding totaling to 19.0 million SDR. Furthermore, representatives of the IMF visited the country in July to discuss the current economic situation.

Besides joint work under the ECF, cooperation with the IMF continued in strengthening the anti-money laundering and combating financing of terrorism (AML/CFT) system. In the second half of 2012, the National Bank participated in the review of the updated AML/CFT standards developed by the Financial Action Task Force (FATF) organized at the State Financial Intelligence Service with the support of the IMF.

In 2012, the IMF rendered consultations to NBKR staff engaged in development of the Bank Code of the Kyrgyz Republic. Two missions of the Legal Department of the IMF visited the NBKR in March and April to review the draft Bank Code and commented on some provisions of the draft document. The IMF assigned a legal consultant to assist the NBKR in development of the Bank Code.

Under the membership of the Kyrgyz Republic to the Swiss constituency in the International Monetary Fund and the World Bank, as part of the government delegation, the management of the National Bank participated in the Annual Meeting of the Constituency and attended the seminar on Long-Term Impacts of Financial Crisis.

In October of 2012 the Annual Meetings of Governors of the International Monetary Fund and the World Bank Group was held in Tokyo and the Governor of the National Bank made a presentation there as the governor representing the Kyrgyz Republic.

#### *Cooperation with the World Bank*

The National Bank continued its cooperation with the World Bank. Under the framework of technical assistance provided by the World Bank, the staff of the NBKR attended a forum on reforming the public administration system, covering also development of fiscal and monetary policies.

The World Bank also assisted in carrying out independent assessment of the payment system performance. An expert of the World Bank visited the National Bank in June for this effect. Results of the visit were reflected in the report on evaluation of compliance of systemically significant payment systems with international standards.

#### *Cooperation with the International Finance Corporation*

The International Finance Corporation (IFC) supported upgrading the qualification of the NBKR's staff in the following subject areas: exchange of

credit information; role and operation mechanisms of credit bureaus and their regulation; protection of rights of consumers of financial services, and on other subjects.

IFC consulted the NBKR on the draft Bank Code of the Kyrgyz Republic, covering, among others, the subject of improving the corporate management in banks.

The National Bank carried on cooperation with the Asian Development Bank under the Investment Climate Improvement Program. Results of the Subprogram 2 were summed up in 2012. Expanded access to financial resources was one of the results of the Subprogram 2 achieved through promotion of alternative financial products and strengthening nonbank sources of funding and other mechanisms.

*Cooperation with  
ADB*

The NBKR staff participated in a number of activities conducted under the auspices of the ADB, including the Second Investment Forum on International Reserves Management, which was focused on international reserves management in the times of financial crises and best practices of external control.

Cooperation with the State Secretariat for Economic Affairs (SECO) focused on advancing financial programming. The staff of the NBKR participated in the seminar “Financial Programming in the Kyrgyz Republic” where issues of macroeconomic analysis and modeling with the use of actual data for Kyrgyzstan were considered.

*Cooperation with  
SECO*

With the support of the German Agency for International Cooperation seminars titled “Basel II: Internal and External Supervision”, and “Risks Management” were organized at the National Bank with participation of specialists from Deutsche Bundesbank in February, and a seminar on new standards of FATF was organized in September.

*Cooperation  
with GIZ*

Within the framework of adoption of risk-oriented supervision, a consultant of GIZ for assessment of the current state of supervision over the NFCI worked at the National Bank in November to analyze supervision over commercial banks and nonbank finance and credit institutions and to develop recommendations on introduction of early warning system and risk-oriented supervision method.

GIZ also rendered consulting services within the framework of the Strategy for Microfinance Development in the Kyrgyz Republic for 2011-2015.

Pursuant to the Memorandum of Understanding signed earlier with the Islamic Research and Training Institute a seminar on Islamic principles of banking and finance was held for the staff of the NBKR.

*Cooperation  
with the Islamic  
Research and  
Training Institute*

Within the framework of the USAID Local Development Program, the representatives of the NBKR participated in training activities organized to study the legislative framework for functioning of Guarantee Funds in Italy and Poland. A seminar was held in October of 2012 in Bishkek to discuss issues in Islamic Finance.

*Cooperation with  
USAID*

Under the support of the Statistical, Economic and Social Research and Training Centre for Islamic Countries (SESRIC) a seminar on reserves management, fixed income strategy, and investment process was organized at the NBKR and an expert of the Central Bank of the Republic of Turkey lectured it.

*Cooperation with  
SESRIC*

Cooperation with the Joint Vienna Institute (JVI) was continued with training and upgrading knowledge of the NBKR’s staff on such issues as macroeconomic management and forecast, fiscal policy, risk-oriented supervision, monetary policy, financial programming and others.

*Cooperation with  
JVI*

Mission of the International Labor Organization visited Kyrgyzstan in April of 2012 to discuss tasks and anticipated outcomes of the Medium-Term

*Cooperation with  
ILO*

Development Program of the Kyrgyz Republic for 2012-2014. During the visit, the ILO mission met with the management of the NBKR. Goals and tasks of the employment policy in the structure of the overall public policy were discussed during the meeting. The staff of the NBKR participated in the seminar titled “Employment Policy”, which covered the following issues: development of employment policy; main challenges for developing countries; gender equality; employment of the youth; eco-friendly employment; employment policy logical framework; problem solution mechanism; monitoring and evaluation and financing.

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

The leadership of the NBKR participated in two sessions of the Club of Governors of Central Banks of Central Asia, Black Sea and Balkan countries. Different issues of monetary policy such as macroprudential regulation of developing markets and the foreign exchange rate mode. Special emphasis was made on attaining financial stability.

*Cooperation in the framework of SCO*

In 2012, the staff of the National Bank participated in activities carried out under the auspices of the Shanghai Cooperation Organization. The second meeting of the Ministers of Finance and Governors of Central (National) Banks of SCO member states was held in May. One of the major topics in the agenda was establishment of a SCO Development Fund and Development Bank. It was decided at the meeting to strengthen the work of experts of SCO member states on these issues.

The need for further elaboration of issues related to establishment of SCO Development Fund and SCO Development Bank was highlighted in the joint communique summarizing the meeting of the Council of Heads of Government of SCO member states held in the end of the reporting year in Bishkek.

*Cooperation in the framework of EurAsEC*

In 2012, the National Bank continued its activities within the Integration Committee of EurAsEC, Executive Committee of CIS, Interstate Bank, Interstate Foreign Exchange Committee and Moscow Interbank Currency Exchange.

Representatives of the National Bank participated in the expert meetings and also in the 26<sup>th</sup> and 27<sup>th</sup> meetings of the Council of Heads of Central (National) Banks of EurAsEC member states. Different issues related to functioning of the banking sector and the foreign exchange market, including the issues on raising the financial literacy of the population and protection of rights of customers of financial services in the EurAsEC member states were discussed during these meetings.

The staff of the NBKR also participated in the activities for exchange of experience of human resources services of EurAsEC member states, and coordination of training of staff between the central banks, where among other issues, the program for professional development of staff of central (national) banks of EurAsEC member states was considered as well.

Within the framework of the above-mentioned program, the staff of the National bank participated in round tables, seminars and held internships on different aspects of banking activity. For instance, a round table titled “Macroeconomic Analysis, Forecast and Modeling in Central (National) Banks” was held at the training center of the Bank of Russia, where the following issues were discussed: forecasting system adopted in some central (national) banks, macroeconomic analysis and calculation of certain indices, DSGE-model of the Bank of Russia.

The National Bank organized on-the-job trainings for staff of central banks of EurAsEC member states on organizing the work with gold ingots and other precious metals at the central bank, organization of interbank settlements, training of staff of central banks, regulation and supervision over nonbank finance and credit institutions.

*Cooperation with the Interstate Bank*

The National Bank carried on cooperation with the Interstate Bank. Representatives of the National Bank participated in sessions of the Interstate

Bank where reorganization of the Interstate Bank was discussed and statistical data was exchanged.

Over the reporting period, the National Bank cooperated with such international organizations as the Islamic Development Bank, Japan International Cooperation Agency, and International Organization for Migration and others.

## 5.2. Cooperation with Central (National) Banks

The National Bank maintained cooperation with central (national) banks of other countries in the field of monetary policy, payment system development, operational risks management, supervision over the activities of banks and other finance and credit institutions as well as in exchange of experience and upgrading the professional skills of the staff.

In September of 2012, in order to further efficient development of the payment system, specialists of the National Bank held internship in the Central Bank of the Republic of Azerbaijan, where they studied the experience of Azerbaijan in payment system development. Following this internship, the experience of Azerbaijan in strengthening measures for installation of POS – terminals in trade and service enterprises was taken as basis for development of regulatory legal acts for regulation of the order of installation of peripheral equipment for accepting and servicing payment cards in trade and service enterprises.

*Cooperation with the Central Bank of the Republic of Azerbaijan*

The National Bank continued on cooperation with the Deutsche Bundesbank in the reporting period. The staff of the National Bank participated in a number of seminars organized by the Deutsche Bundesbank. These seminars covered theoretical and practical aspects of monetary policy and its correlation with the financial system, monetary policy tools, financial crises and financial crisis management, and administration of information technologies.

*Cooperation with Deutsche Bundesbank*

A Memorandum of Cooperation was signed in November of 2012 between the National Bank and the Deutsche Bundesbank's Center for Technical Central Bank Cooperation. The overarching aim of the Memorandum is to equip the staff of the NBKR with the up-to-date knowledge in banking supervision, namely in Basel II-new concept of economic capital, which answers questions on adequate risk-oriented supervision and stabilization of the banking system.

An agreement was reached with the Deutsche Bundesbank on carrying out external assessment of the Internal Audit Service performance against international audit standards. In November of 2012, a specialist of the Deutsche Bundesbank visited the National Bank with the framework of the first, preparation stage of benchmarking of internal audit performance.

Cooperation with the National Bank of the Republic of Kazakhstan continued in the reporting period. In April of 2012 a seminar titled "Islamic Principles of Finance and Sukuk" was organized at the National Bank of the Republic of Kazakhstan with the support of the Islamic Development Bank. The seminar covered international experience in development and improving regulatory framework on Islamic finance. Another seminar on banking services extended by banks operating on Islamic principles of finance was held in October of 2012.

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

Within the framework of cooperation with the Bank of the Republic of Korea, the staff of the NBKR passed an on-the-job training in the Information Systems Department of the Bank of Korea to study the Bank's experience in information systems management.

*Cooperation with the Bank of Korea*

- Cooperation with Negara Bank Malaysia* The national Bank continued on cooperation with the Bank Negara Malaysia. Specialists of the National Bank participated in seminars devoted to Islamic finance under the framework of this cooperation.
- Cooperation with State Bank of Pakistan* In the reporting period, the staff of the NBKR participated in a seminar organized by the State Bank of Pakistan jointly with the National Institute of Banking and Finance, which covered fundamentals of Islamic banking, concept of maximum possession of welfare in line with the principles of Sharia, Islamic principles of economics, the concept of loan, types of Islamic finance, and Islamic finance tools.
- Cooperation with the National Bank of Poland* Under the support of the National Bank of Poland, the staff of the NBKR upgraded their qualification and studied the experience of the National Bank of Poland in risks management, capital flow management for monetary and financial stability. The following issues were also covered in these capacity building activities: major principles of modeling the demand for money; transmission mechanism of monetary policy; improving statistics of the Balance of Payments; cash circulation; issue of banknotes and coins, countermeasures against counterfeiting; correspondent relations, system of bulk and retail payments; stress –testing of the banking system and building dynamic stochastic models of overall balance in central banks.
- During their visits to the NBKR, the experts of the National Bank of Poland consulted on steady operation of the central bank, distribution of responsibilities between the structural subdivisions that have to do with risks of all types, and the information system used at the National Bank of Poland to control financial risks.
- Cooperation with the Bank of Russia* Cooperation between the National Bank and the Central Bank of the Russian Federation continued in the reporting year. The Bank of Russia assisted in advanced training of the NBKR’s staff in banking supervision and anti-money laundering and combating financing of terrorism.
- Within the framework of cooperation with the Bank of Russia, the staff of the NBKR passed training in the Financial University under the Government of the Russian Federation on the supplementary professional education program “Curator of Commercial Banks – Bank Manager”. Following the advanced training the trained specialists were awarded a Diploma on upgrading the professional qualification and a Certificate of the Bank of Russia.
- Cooperation with the Banque de France* Over the course of the reporting year, the staff of the National Bank participated in seminars organized by the Banque de France. These seminars covered issues related to protection of rights of customers of financial services, compiling bank statistics and analysis of trends in banking supervision.
- Cooperation with the Czech National Bank* Specialists of the Czech National Bank visited Bishkek under the framework of mutual cooperation. Specialists of the Czech National Bank shared their experience related to foreign exchange and financial stability, and made recommendations on the publication of the NBKR “Report on Stability of the Financial Sector of the Kyrgyz Republic” during their visit.
- Cooperation with the National Bank of Switzerland* The National Bank of Switzerland rendered consulting assistance in designing and construction of NBKR facilities engaging the experts of the Deutsche Bundesbank in this field. Moreover, a consultant of the National Bank of Switzerland consulted the staff of the NBKR on “Supply and Introduction of Systems for Trading Government Securities and Foreign Currency, Depositary and Monetary Market”, building macroeconomic model of the Kyrgyz Republic and optimizing business processes at the NBKR.
- In 2012, the National Bank of the Kyrgyz Republic continued cooperation with all central (national) banks of EurAsEC and CIS, the De Nederlandsche Bank, the Bank of Japan, the People’s Bank of China and other state bodies of the People’s Republic of China under 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

In 2012, the NBKR's organizational structure comprised 26 central staff departments, five regional departments and a Representative Office in the Batken Oblast.

The committees and commissions operate at the National Bank on the ongoing basis. Six committees, nine commissions, seven editorial boards of NBKR publications, one scientific and expert council, and four supervisory boards operated as of the end of 2012. The order and the procedures of the work of committees, commissions and editorial boards are regulated by relevant regulations. Activities of the committees and commissions contribute to improvement of corporate management in NBKR.

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

<i>Monetary Policy Committee</i>	develops and adopts immediate decisions on current liquidity management. Key tasks include assessment and selection of the line of operations in the open market, analysis of potential consequences of the selected line of actions, decision making on and setting conditions for application of tools.
<i>Investment Committee</i>	develops and adopts decisions on management of international reserves within the defined authorities. Key tasks include review and approval of the investment strategy, monitoring of investment strategy implementation, assessment of investment activity efficiency with consideration of state of affairs in financial markets and development of tactical decisions within the framework of the approved strategy, development of suggestions and recommendations on investment activity issues for the Board.
<i>Supervision Committee</i>	decision-making on regulation of and supervision over activities of commercial banks and other finance and credit institutions licensed by the NBKR within its statutory authorities.
<i>Committee on the Payment System</i>	coordination of the work of structural units to ensure the efficiency, reliability and security of the payment system. Key tasks comprise decision-making, development and submission of recommendations (opinions) on issues related to the payment system.

<b><i>Risk Committee</i></b>	develops recommendations on risks minimization through coordination of the structural units' activities on defining, evaluation and minimizing risks associated with the NBKR activity.
<b><i>Coordination Committee on Information Systems</i></b>	develops decisions on and follows up measures for implementation of the Information System Development Strategy and Long-Term Information Systems Development Plan in line with the goals and objectives of the NBKR.
<b><i>Appraisal Commission</i></b>	defines correspondence of the employee to the position held. The commission's work aims to improve selection and placement of staff, motivate the team for efficient performance, and identify opportunities for application of the capacity of the employee.
<b><i>Disciplinary Commission</i></b>	reviews cases of violation of the labor discipline and supervises compliance of the NBKR staff with the Professional Code of Ethics.
<b><i>Anti-Corruption Commission</i></b>	was created to prevent and fight corruption by implementation and monitoring of anti-corruption measures.
<b><i>Commission on Labor Disputes</i></b>	reviews individual labor disputes within the NBKR following the provisions of the Labor Code of the Kyrgyz Republic.
<b><i>Methodology Commission</i></b>	reviews certain draft normative acts to verify their methodological elaboration. approves terms used in normative acts of the NBKR and their definitions.
<b><i>Central Expert Commission</i></b>	organizes and conducts expert review of the NBKR documents and selects them for archive or disposal.

In 2012 the organizational structure of the National Bank was optimized. Thus, the Supervision block was reorganized to improve the supervision process. Press-Service of the National Bank was established to improve public relations.

*NBKR staff size*

As of the end of the reporting year, the authorized staff size of the NBKR totaled to 577 people, including 503 people employed as the central staff and 74 people working at the regional departments and at the Batken Representative Office. Of the total staff, 262 members of the central staff and 33 members of the staff of regional departments and Batken Representative Office were female employees. In percentage ratio, women held 51 percent and men – 49 percent of staff positions.

*Competitive selection*

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

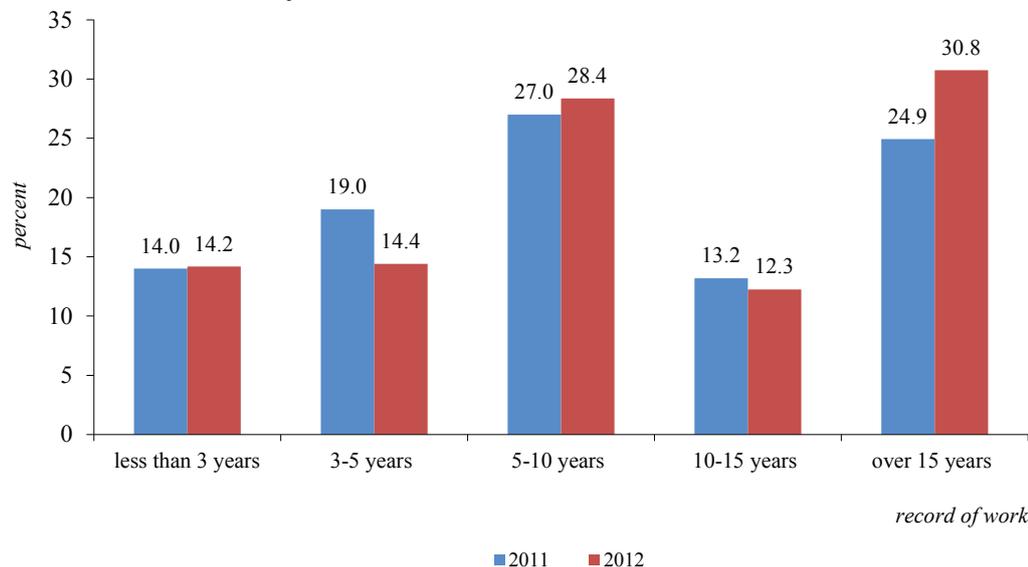
In 2012, 52 competitions were held, including 10 competitions held in the regional departments. In total, 242 people participated in the competitions and 47 of them were hired.

The turnover of staff remained at the same level as in 2011 and was 14.4 percent.

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

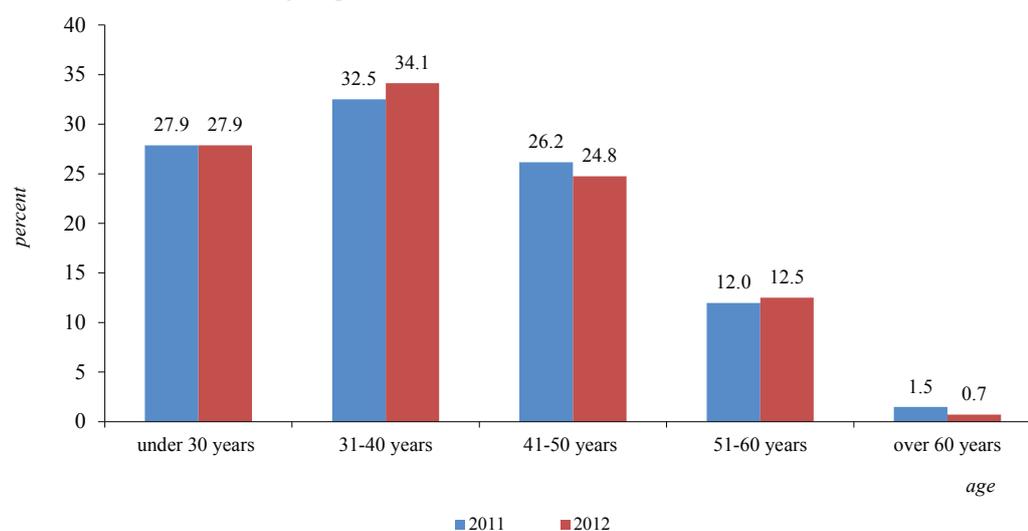
**Chart 6.1.1.**

**Personnel Structure by Record of Work**



**Chart 6.1.2.**

**Personnel Structure by Age**



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

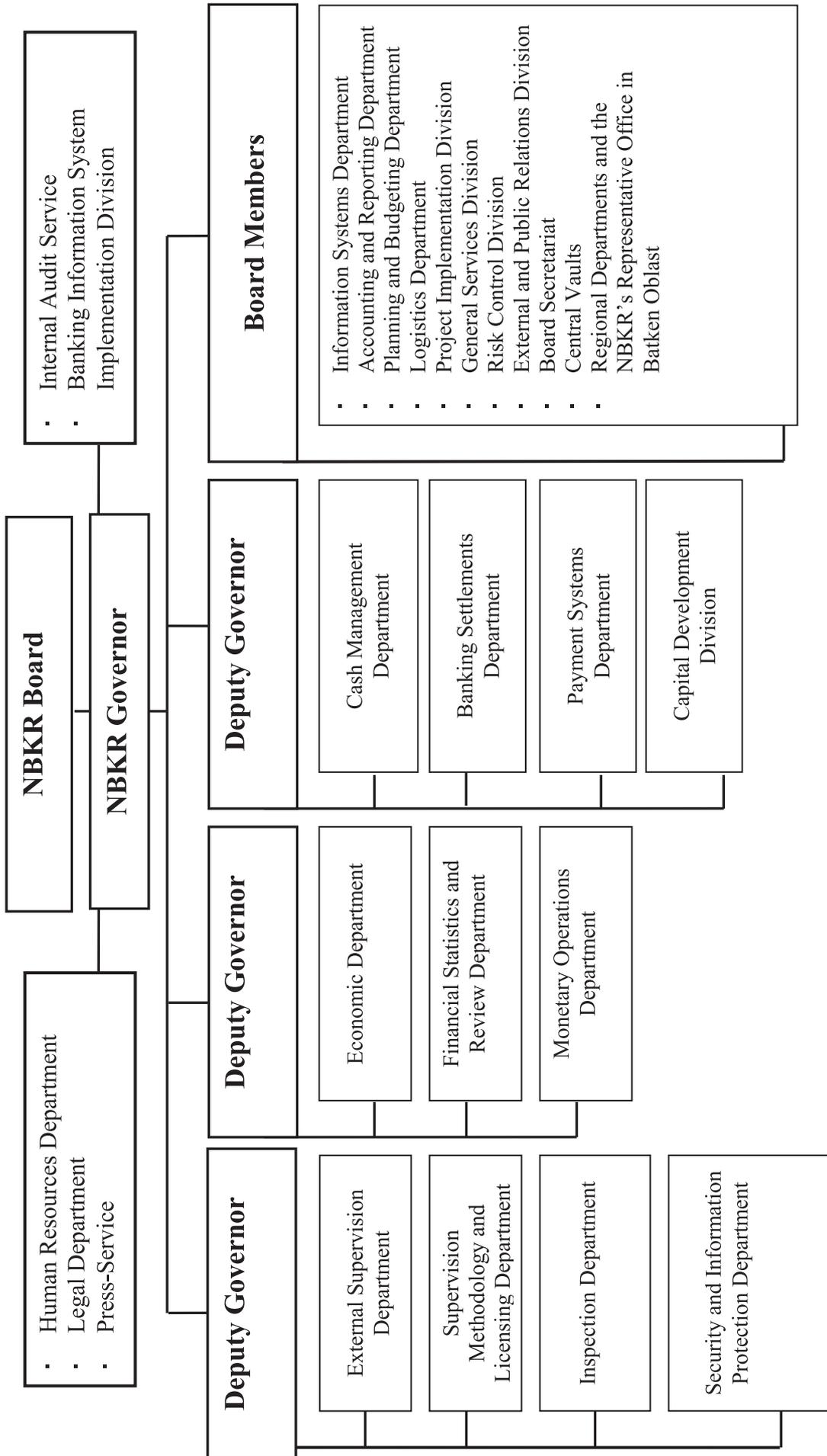
***Economic Department*** develops proposals on monetary policy and on its implementation;  
conducts macroeconomic analysis;  
organizes scientific and research activities of the NBKR.

***Monetary Operations Department*** conducts operations in the financial markets, performs their assessment and analysis; identifies trends and factors of changes in the financial markets for effective coordination of the open market operations.

<b><i>Financial Statistics and Review Department</i></b>	collects monetary statistics and financial market performance indicators; compiles the balance of payments, and provides expert support on the external debt issues; analyzes and evaluates the state of financial stability in the Kyrgyz Republic.
<b><i>External Supervision Department</i></b>	exercises external (remote) supervision over the activities of banks and nonbank finance and credit institutions to secure protection of interests of depositors and other creditors and to ensure fair competition.
<b><i>Supervision Methodology and Licensing Department</i></b>	creates methodological framework for supervision of banks and nonbank finance and credit institutions and performs procedures for licensing their activities.
<b><i>Inspection Department</i></b>	inspects the activity of banks and nonbank finance and credit institutions on sites.
<b><i>Cash Management Department</i></b>	defines the needs of the Republic's economy for cash; provides for cash circulation; promotes the implementation of anti-counterfeiting measures.
<b><i>Central Vaults Banking Settlements Department</i></b>	provides for safety of values and handles cash; provides for the functioning of interbank settlement systems; performs settlements on operations and transactions in the financial markets.
<b><i>Information Systems Department</i></b>	provides automated processing of data on the modern information technologies and ensures technical maintenance thereof.
<b><i>Payments System Department</i></b>	carries out regulation, control and oversight (supervision) to ensure effective operation of the payment system, its reliability and safety, and promotes development of Payment System.
<b><i>Accounting and Reporting Department</i></b>	keeps records of operations and prepares financial statements; develops the regulatory acts governing the accounting in the bank; exercises internal control of operational activity.
<b><i>Human Resources Department</i></b>	performs selection and deployment of staff; organizes the staff training and professional development; works out and implements the tools for motivation of staff.
<b><i>Planning and Budgeting Department</i></b>	organizes the NBKR's planning and budgeting process; ensures control over the proper use of the NBKR's financial resources.
<b><i>Legal Department</i></b>	provides comprehensive legal support of the activity of the NBKR; develops and promotes banking legislation.
<b><i>General Services Division</i></b>	organizes the system of the flow of documents and records management in the state and official language at the NBKR, including control over execution and keeping the archive.

<b><i>External and Public Relations Division</i></b>	works to establish, strengthen and develop relations of the National Bank with external organizations and the public; ensures organization and conduct of protocol, administrative and representative events.
<b><i>Internal Audit Service</i></b>	ensures independent evaluation of adequacy and efficiency of internal control system exercised in the National Bank, and develops measures for its further improvement.
<b><i>Banking Information Systems Implementation Division</i></b>	reviews and analyzes business processes of the Bank to optimize them.
<b><i>Capital Development Division</i></b>	provides for arrangements for construction and assembly works at NBKR facilities and technical supervision over their execution.
<b><i>Risk Control Division</i></b>	manages financial risks in conducting the NBKR transactions at the external markets by introducing quantitative methods of their assessment; develops proposals on the risk management strategy and policy in the Bank; coordinates the work of units on the risk management issues.
<b><i>Project Implementation Division</i></b>	supports implementation of projects of international financial organizations and donor countries implemented by the NBKR or with its participation; organizes a centralized procurement system at NBKR.
<b><i>Board Secretariat</i></b>	provides for organizational support of the work of the Board of the NBKR and follows –up execution of the Board’s rulings.
<b><i>Security and Information Protection Department</i></b>	provides for safe functioning of the National Bank and its information resources.
<b><i>Logistics Department</i></b>	provides for proper functioning of all types of power supply systems, engineering networks, equipment and the transportation means, logistics and maintenance of buildings and structures.
<b><i>Press –Service</i></b>	informs the public of the activities carried out and the policy pursued by the National Bank to perform its functions and tasks.
<b><i>Regional Departments and Representative Offices of the NBKR</i></b>	provides the branches of commercial banks with cash; performs supervisory activities for compliance with the banking legislation by banks and nonbank finance and credit institutions, licensed and regulated by the National Bank.

# Organizational Chart of the National Bank of the Kyrgyz Republic as of December 31, 2012



## 6.2 Activity of the Board of the National Bank of the Kyrgyz Republic in 2012

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

*General information*

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

In 2012, the Board of the NBKR carried out its activities in accordance with the approved annual and quarterly Action Plans. In the reporting year the Board held 52 meetings, reviewed 444 issues and adopted resolutions on 281 of them.

In December of 2012, the Board of the NBKR approved the Main Monetary Policy Guidelines for 2013-2015. This document defined objectives of the Monetary Policy for the medium-term period, and contains analysis of the economic situation for past period and forecast of development of the key economic sectors over the next three years developed in view of global financial and commodity markets, small scales and high degree of openness of the economy of the Kyrgyz Republic and other external and internal factors that influence the economic development in medium-term prospect. When developing options for monetary program and monetary policy implementation principles a scenario approach was adopted based on the economic development.

*Consideration of Monetary Policy issues*

The Statement of the National Bank of the Kyrgyz Republic was built upon the key points of Monetary Policy Guidelines for 2013-2015 and its text was approved and accepted by the Board in the end of 2012. It specified a quantitative benchmark of the Monetary Policy –the rate of inflation and reflects the major activities of the NBKR for the forthcoming period. The document was submitted to the Ministry of Economy for development of the Joint Statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic on economic policy for 2013.

In order to evaluate results of the current monetary policy the Board considered the Monetary Policy Reports on quarterly basis. The Reports reflected outcomes of monetary policy implementation and factors influencing the dynamics of inflation development as well as the analysis and forecast of economic development. Also on quarterly basis the Board considered proposals on monetary program for the forthcoming period and the approved scenario thereof served as guidelines for the Monetary Policy Committee

At information meetings held on monthly basis the Board considered the monitoring and analysis overviews on the current situation in the global and domestic financial and commodity markets as well as current trends in macro-

indicators of key trade partner countries in order to prevent adverse shocks on the economy of Kyrgyzstan and adopted corresponding decisions when necessary.

In 2012, the Board of the National Bank reviewed and made changes and additions to the Regulations of Scientific and Research Activity and the Regulations on the Scientific and Expert Council. These changes regulate the process of systematizing and conducting research work and decision –making by the Scientific and Expert Council.

Reports on the state of financial stability in the Kyrgyz Republic were considered on semi-annual basis. These reports contained analysis of risks, vulnerabilities and challenges in the financial system of the Kyrgyz Republic and their impact on the sustainability of the financial sector in general. Findings of monitoring and analysis of the financial sector were then taken into consideration by the National bank when developing Main Monetary Policy Guidelines.

The Board of the National Bank approved Regulations “On the Order of Holding Credit Auctions for Refinancing Purposes by the National Bank of the Kyrgyz Republic” with the aim to expand the set of monetary policy tools and to encourage growth of lending to the economy.

According to the Law “On the National Bank of the Kyrgyz Republic” the scope of key objectives of the National Bank in international reserves management include principles of liquidity and safety of reserve assets. To accomplish these tasks, the Board of the National Bank reviews and adopts investment policy and benchmark portfolio for the forthcoming period on annual basis. It also considers and approves the International Reserves Management Report on annual basis to evaluate the efficiency of international reserves management.

On annual basis the Board also considers and approves the volume of purchase of monetary gold in the domestic market of the Kyrgyz Republic for the forthcoming year with the aim to expand the volume of international reserves using the internal resources.

In overall 23 Resolutions were adopted on monetary policy issues in 2012.

*Consideration of issues related to oversight of banks and nonbank finance institutions*

The Board regularly considered issues related to ensuring sage, reliable and steady work of the banking system, safety of assets to protect interests of depositors and other creditors of banks and adopted measures to boost the public trust in banks. To this effect, issues related to current activities and financial recovery of commercial banks under special modes was one of the priority tasks. Therefore, on monthly basis the Board considered reports of conservators on activities of banks.

The Board adopted a number of resolutions meant to improve regulatory basis for supervision and regulation of activities of banks and nonbank finance and credit institutions over the reporting period. The approved normative and legal acts pertained to expanding the minimum size of the authorized capital for newly established microfinance and microcredit companies and setting thresholds for maximum size of microcredit extended by microfinance organizations to any one person.

The Board also considered issues pertaining to licensing of banks, strengthening responsibilities of committee members and bank officials for their decision-making; toughening of requirements for classification of assets of finance and credit institutions and accounting policy of commercial banks; group lending; order for operation of commercial banks with bank accounts, deposit accounts and bank vaults, collateral property and other immovable property; organization of video-surveillance at commercial bank facilities and other issues related to activities of finance and credit institutions.

In order to strengthen supervision over the activities of nonbank finance and credit institutions and to ensure financial stability thereof, the Board reconsidered requirements on the minimum size of authorized capital of newly established microfinance and microcredit companies, maximum size of a microcredit for microfinance and microcredit companies. Moreover, some requirements on transactions made with insiders and affiliated persons were set to microfinance companies that attract deposits.

In accordance with the Medium-Term Strategy for Development of Microfinance in the Kyrgyz Republic for 2011-2015, upon the decision of the Board, the LLC “Financial Company for the Support and Development of Credit Unions” was reorganized into a specialized finance and credit institution OJSC “Financial Company of Credit Unions” (FCCU). In view of this reorganization, normative and legal acts were adopted to regulate the order for its licensing, regulation, reorganization and liquidation and economic standards and other requirements stipulated by the rules of its regulation were set.

The Board paid special attention to development of the system for protecting the rights of customers of microfinance services. In order to ensure steady and sustained activities of microfinance organizations and to boost public trust in finance and credit institutions, the Board adopted Resolutions setting requirements for classification of credits and thresholds for fines to be levied on individual borrowers as well as requirements on disclosing and showing information on effective interest rate in bilateral agreements between the bank and its client.

Following the legislation on creation of conditions for promoting Islamic banking in the Kyrgyz Republic, the Board approved regulatory legal acts on banking risks, corporate management and organization of internal control system and internal audit in banks carrying out operations in line with the Islamic principles of banking and finance.

Under the pretrial regulation, the Board of the National Bank considered issued related to measures applied by the Supervision Committee on certain commercial banks.

On quarterly basis the Board considered findings of monitoring of achievement of target indicators in development of the banking system set in the Guidelines for Banking Sector Development until the end of 2014 and reports on commercial banking system development patterns.

The Board approved the draft of Banking Code of the Kyrgyz Republic meant to improve the legal framework and support further development of the banking system. The draft Banking Code was posted on the official webpage of the National Bank of the Kyrgyz Republic for public discussion.

In total, 80 resolutions were made on issues related to activities of separate banks and other finance and credit institutions licensed by the National Bank and 29 resolutions were made on normative framework regulating their activities. These comprise both new normative acts and amendments made to regulatory acts adopted earlier.

According to the Article 3 of the Law “On the National Bank of the Kyrgyz Republic”, implementation of functions of the NBKR in the payment system sphere is aimed at ensuring its effective and uninterrupted functioning.

In 2012, the Board adopted nine resolutions aimed at further development of the payment system, expanding the scope of used payment tools and mitigating risks in the payment system. By a joint resolution, the Government and the Board of the National Bank adopted a State Program to Increase the Share of Non-Cash

*Consideration of issues related to the payment system*

Payments and Settlements in the Kyrgyz Republic for 2012-2017. Main Directions of Payment System Development in 2012-2014 were approved; amendments were introduced into the State Payment Transactions Classifier and the Regulations on Bank Payment Cards. Within the framework of implementation of the State Program to Increase the Share of Non-Cash Payments and Settlements in the Kyrgyz Republic for 2012-2017 and supporting the national payment system operator, participation of the National Bank of the Kyrgyz Republic in the capital of CJSC “Interbank Processing Center” was endorsed.

On quarterly basis, the Board considered reports on the current state of the payment system of the Kyrgyz Republic and results of payment system oversight (supervision).

*Other issues*

The Board also considered issues on organization of activity of the NBKR, and other issues and adopted 130 resolutions on them. The Board considered 163 issues for reference during its sessions.

### **6.3. Improvement of Banking Legislation**

In 2012, the National Bank continued its work on improvement and development of the legislative framework governing the banking activity in the Kyrgyz Republic.

*Improvement of laws*

In order to further improve the banking legislation in the Kyrgyz Republic the following bills developed earlier were further improved:

- On the Payment System of the Kyrgyz Republic. This bill was developed to regulate the operation of the national payment system in line with the state policy on organization of efficient money circulation;
- On Amendments to the Law “On Licensing”. This bill was developed to regulate the activities of legal entities that are not finance and credit institutions but render services on acceptance of payments for the benefit of third parties on the territory of the Kyrgyz Republic and intermediation services for acceptance, processing and supply of information (processing) pertaining to payments and settlements.
- On Amendments and Addenda to Some Legal Acts, including amendments and addenda to the Laws “On Microfinance Organizations in the Kyrgyz Republic”, “On Credit Unions”, “On Transactions in Foreign Currency”. This bill was developed to expand the possibilities of microfinance organizations and credit unions to carry out operations, to protect borrowers’ rights and develop the market competition and to expand the list of people entitled to conduct operations in foreign currency on professional basis.

Representatives of the National bank contributed to the work of 18 interagency working groups and commissions on a range of issues, including the following:

- Coordination of monetary policy and fiscal policy issues;
- Development of State Program “Affordable Housing in the Kyrgyz Republic”;
- Studying and development of proposals on optimization of interest rates in microfinance sector;
- Increasing the share of non-cash payments and settlements in the Kyrgyz Republic;
- Action Plan for joining of the Kyrgyz Republic to the Customs Union;
- Reforming the public finance management system;

- National assessment of risks of financing terrorism (extremism) and money laundering in the Kyrgyz Republic;
- situation with nationalized property under collateral in commercial banks;
- improvement of the Law “On Protection Bank Deposits”;
- development of the concept of protection of deposits, microfinance organizations and credit unions;
- international arbitration;
- development of regulatory acts stipulating binding installation of ATMs in trade and service enterprises for acceptance and servicing of payment cards;
- integration of the Treasury Management Information System with Interbank Payment System of the National Bank of the Kyrgyz Republic when transferring to Treasury Single Account;
- implementation of the government resolution “On Transferring Distribution and Circulation of Government Securities of the Kyrgyz Republic to Trade Platform of Licensed Organizer of Auctions”;
- implementation of pilot projects for transferring the payment of customs duties and taxes and transferring payment of pensions and social benefits to non-cash form; introduction of pilot projects on transferring the payment for medical services and payment of scholarships, wages and transportation fees to non-cash form;
- stocktaking of normative legal acts of the Kyrgyz Republic and others.

Participating in the work of interagency working groups and commissions the National Bank furnished information on issues under its competence, namely, on current monetary policy, macroeconomic stability in the country, progress in implementation of Extended Credit Facility (ECF), and made proposals and comments on development of the State Program “Affordable Housing in the Kyrgyz Republic”, and on revising the Law of the Kyrgyz Republic “On Protection of Bank Deposits”. Within the framework of Interagency Commission for Increasing the Share of Non-cash Payments and Settlements in the Kyrgyz Republic a State Program to Increase the Share of Non-Cash Payments and Settlements in the Kyrgyz Republic for 2012-2017 was developed, agreed and endorsed by joint resolution of the Government and the Board of the National Bank #289/5/1 dated May 14, 2012. Proceeding to implementation of this State Program projects were launched on transferring payment of pensions, scholarships, welfare payments, cash indemnities and other social benefits via accounts with commercial banks through bank payment cards. Pilot projects on payment of taxes and customs duties through ATMs and automated tellers were also launched. Under the framework of Interagency Commission on Stocktaking of Regulatory Legal Acts the NBKR participated in drafting normative and legal acts to eliminate discrepancies and contradictions in regulatory legal acts in the current legislation of the Kyrgyz Republic.

In 2012, the work on improving the regulatory and legal framework governing activities of banks and other finance and credit institutions licensed and supervised by the National Bank was continued. Over 280 resolutions were adopted on these issues, including the following:

- “On Amendments and Addenda to Some Regulatory Legal Acts of the National Bank of the Kyrgyz Republic” (amending “Major Requirements to Audit Committee”, Regulations “On Corporate Management in Commercial Banks of the Kyrgyz Republic”, Regulations “On Minimum Requirements on Credit Risk Management by Commercial Banks and

*Improvement of  
RLA*

Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”, Regulations “On Operations of Banks with Securities”) dated February 15, 2012.

- “On Amendments and Addenda to Some Regulatory Legal Acts of the National Bank of the Kyrgyz Republic (amending the Regulations “On Requirements to Accounting Policy of Commercial Banks and Other Finance and Credit Institutions Licensed by the NBKR”, Regulation “On Requirements to Accounting Policy of Commercial banks Operating on Islamic Principles of Banking and Finance”) dated March 14, 2012.
- “On Amendments and Addenda to Some Regulatory Legal Acts of the National Bank of the Kyrgyz Republic (amending the Regulation “On Minimum Requirements “On Credit Risk Management by Commercial Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”, Regulations “On Economic Standards and Requirements Binding to Commercial Banks of the Kyrgyz Republic”, and “Interim Rules for Application of Special Classifier of Credits Corresponding to Certain Criteria”) dated April 25, 2012.
- “On Requirements on Banks and Other Finance and Credit Institutions Licensed and Regulated by the National Bank of the Kyrgyz Republic in Issuing Credits to Individual Clients”; “On Addenda to Some Regulatory Legal Acts of the National Bank of the Kyrgyz Republic (to “Interim Regulations on General Principles of Classifying Assets and Forming Loan Loss Provisions by Microfinance Organizations in the Kyrgyz Republic With No Rights to Accepting Deposits of Natural and Legal Entities”, Regulations “On Classification of Assets and Corresponding Allocations to Reserve for Loan Loss Provisions”, “Interim Order of Applying Special Classification of Credits Corresponding to Certain Criteria” and the Regulations “On Preventive Measures and Sanctions Applicable to Microfinance Organizations by the National Bank of the Kyrgyz Republic) dated May 18, 2012.
- “On Activity of Microfinance Organizations” dated May 29, 2012.
- “On Approving the “Order of Handling Pledged Assets by Commercial Banks and Other Finance and Credit Institutions Licensed and Regulated by the National Bank of the Kyrgyz Republic”; “On Approval of Instructions “On Requirements to Operations of Microfinance Companies Attracting Deposits with Insiders and Affiliated Persons” dated July 4, 2012.
- “On Amendments and Addenda to Regulations “On Direct Bank Supervision”; “On Amendments and Addenda to Some Regulatory Acts of the National Bank of the Kyrgyz Republic Governing the Activities of Microfinance Organizations” (to Regulations “On Establishing Microfinance Companies and Microcredit Agencies”, Regulations “On Licensing, Reorganization and Liquidation of Microfinance Companies on the Territory of the Kyrgyz Republic”, “Interim Rules of Regulating the Activity of Microfinance Companies on the Territory of the Kyrgyz Republic” dated July 11, 2012.
- “On Regulations “On Licensing, Reorganization and Liquidation of Specialized Finance and Credit Institution OJSC “Financial Company of Credit Unions” dated July 25, 2012.
- “On Amendments and Addenda to Some Regulatory Legal Acts of the National Bank of the Kyrgyz Republic” (to “Rules for Transferring Money through Money Transfer Systems in the Kyrgyz Republic” and

- “Instructions on Handling Deposits”) dated August 17, 2012.
- “On Approval of the Regulations “On Certain Deals/Transactions with Immovable Property by Commercial Banks and Microfinance Companies of the Kyrgyz Republic” dated August 29, 2012.
  - “On Approval of the Rules for Regulating the Activities of the Specialized Finance and Credit Institution OJSC “Financial Company of Credit Unions” dated September 12, 2012.
  - “On Amendments and Addenda to Some Regulatory Legal Acts of the National Bank of the Kyrgyz Republic (to Regulations “On Minimum Requirements on Credit Risk Management by Commercial Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”, Regulations “On Minimum Requirements on Country Risks Management by Commercial Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic and to Regulations “On Classification of Assets and Corresponding Allocations to Reserve for Loan Loss Provisions”) and “On Approval of Instructions “On Thresholds of Financing Extended under Islamic Principles of Banking and Finance” dated October 12, 2012.
  - “On Amendments and Addenda to Some Regulatory Legal Acts”(to Regulations “On Classification of Assets and Corresponding Allocations for Reserve for Loan Loss Provisions”, “Interim Regulations on General Principles of Classification of Assets and Forming Reserves for Loan Loss Provisions by Microfinance Organizations in the Kyrgyz Republic With No Rights to Accept Deposits of Natural and Legal Entities” , “Interim Order of Applying Special Classification of Credits Corresponding to Certain Criteria”, “Regulations “On Minimum Requirements on Credit Risk Management by Commercial Banks and Other Finance and Credit Institutions licensed by the National Bank of the Kyrgyz Republic” and “Interim Rules on Crediting (Overdraft) through Bank Payment Cards) and “On Approval of Instructions for Working with Bank Accounts and Deposit Accounts” dated October 31, 2012.
  - “On Requirements to Microfinance Organizations” dated November 28, 2012.
  - “On Minimum Size of Capital (Own Resources) of Specialized Finance and Credit Institution OJSC “Financial Company of Credit Unions” dated December 12, 2012.
  - “On Amendments and Addenda to Some Regulatory Legal Acts of the National Bank of the Kyrgyz Republic (to Regulations “On Calculation of Effective Interest Rates When Disclosing Information on the Size of Remuneration for Banking Services”, Regulations on “Minimum Requirements on Credit Risk Management by Commercial Banks and Other Finance and Credit Institutions Licensed by the National bank of the Kyrgyz Republic”) and “On Amendments and Addenda to Resolution of the Board of the National Bank of the Kyrgyz Republic #5/7 dated March 2, 2006 “On Approval of the Regulations “On Licensing the Activity of Banks” dated December 27, 2012 and others.

In 2012, the National Bank carried on with development of the draft Bank Code of the Kyrgyz Republic – codified regulatory and legal act. Development of the Bank Code is expected to:

- ensure coherence and agreement of norms governing the banking activity building on the analysis of cumulated regulatory base of banking

- legislation and legislation associated with it;
- consolidate best practices of mature banking system and determine ways for further improvement;
- streamline the hierarchical structure of banking legislation, determine its content and priority sequence;
- clarify the legal status of parties of banking legal relations, define their relationship, and determine basic relationships both within the banking system and beyond it;
- systematize and harmonize all elements of the banking legislation to eliminate divergences, conflicts and contradictions.

#### **6.4. Fulfillment of Financial Advisor Functions**

In 2012, as part of fulfilling the functions of the Financial Advisor of the President of the Kyrgyz Republic, the Jogorku Kenesh of the Kyrgyz Republic and the Government of the Kyrgyz Republic the National Bank carried out the following activities:

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

Analytical information furnished to the President, Jogorku Kenesh and the Government of the Kyrgyz Republic included information on pursued monetary policy, current state of affairs in the global and domestic financial markets, and forecasts on development of key macroeconomic indicators. To be specific, information letters were sent depicting the situation at the global financial market, the state of global economy, foreign loans, conditions of the banking system, dynamics of key indicators of the banking and nonbank finance and credit system and specifying measures adopted by the National Bank to revise the Kyrgyz legislation pertaining to protection of rights of customers of financial services.

As part of rendering consultations and developing recommendations for the President, the Jogorku Kenesh and the Government of the Kyrgyz Republic (including ministries and agencies) on the issues of financial and banking systems, the National Bank provided information on coordination in the sphere of economic policy, trends of in the Kyrgyz Republic, placement of government securities on the trading floor of the stock exchange, and about borrowers affected by April and June events of 2010 and measures adopted to support them. Over the reporting period, the National Bank issued recommendations and proposals on Government projects to finance certain sectors of economy, in particular, regarding financing the agriculture. Upon the request of the government, the National Bank issued opinions and proposals to settle disputes arising between private economic entities of the Kyrgyz Republic and foreign countries that

touched interests of certain banks.

In overall, the National Bank sent over 300 letters on these issues to the government agencies over the reporting period.

The National Bank carried out expert appraisal of over 35 draft laws, including the following:

*Expert review  
of draft laws*

- “On Republican Budget for 2013 and Forecast for 2014-2015”;
- “On State Development Bank of the Kyrgyz Republic”;
- “Draft Budget Code of the Kyrgyz Republic”;
- “On Additional Measures to Support People Affected by April and June Events of 2010 in Bishkek and Osh, Osh Oblast and Jalal Abad Oblast of the Kyrgyz Republic”;
- “On Restraining Usurious Activity in the Kyrgyz Republic (on Usury)”;
- “On Amendments to the Law of the Kyrgyz Republic “On Protection of Bank Deposits”;
- “On Amendments to the Civil Code of the Kyrgyz Republic”;
- “On Licenses and Permits in the Kyrgyz Republic”;
- “On Addenda to the Law of the Kyrgyz Republic “On Banks and Banking Activity in the Kyrgyz Republic”;
- “On Activity of Bookmaker Offices and Sweepstakes in the Kyrgyz Republic”;
- “On Amendments and Addenda to the Law of the Kyrgyz Republic “On Microfinance Organizations in the Kyrgyz Republic”;
- “On Exchange of Credit Information”;
- The new edition of the Law “On Combating Financing of Terrorism and Anti-Money Laundering” and others.

In 2012, the National Bank conducted expert appraisal of and elaborated proposals on over 40 draft resolutions of the Government of the Kyrgyz Republic, including the following:

- “On Joint Statement of the Government and the National Bank on Economic Policy for 2012”;
- “On Forecast of the Social and Economic Development of the Kyrgyz Republic for 2013-2015”;
- “On Amendments to the Resolution of the Government # 540 “On Approval of the Draft Medium-Term Development Program of the Kyrgyz Republic for 2012-2014” dated September 8, 2011”;
- “On Approval of Draft Concept of Long-Term Development of the Kyrgyz Republic till 2031”;
- “On Measures to Support the Republican Budget”;
- “On Approval of the Medium-Term Action Plan for Reforming the System of Public Finance Management in the Kyrgyz Republic for 2012-2015”;
- “On Amendments to the Resolution of the Government #55 “On Approval of the Plan of Activities for 2012 to Implement the State Program “Stability and Decent Life” dated January 25, 2012”;
- “On the Public Debt Management Strategy of the Kyrgyz Republic for 2012-2014”;
- “On Transfer of Government Securities to the Trade Platform”;
- “On Addenda to the Resolution of the Government # 81 “On Criteria for Selection of Commercial Banks to Service Financial Flows of the State Budget of the Kyrgyz Republic, Social Fund of the Kyrgyz Republic and State Enterprises” dated March 1, 2011”;
- “On Measures for Extending Microcredits to Unemployed Citizens Who

*Development and implementation of State Programs*

- Belong to the Category of Low Income Households with Under-Age Children to Create Employment Opportunities for Them”;
- “On Approval of the Standard Regulation of the Order of Lending under Collateral of Agricultural Lands”;
- “On Approval of the Action Plan of the Government on Fighting Corruption”;
- “On Activities to Support Employment of the Population and Poverty Alleviation” and others.

In 2012, the National Bank contributed to development and implementation of State Programs and Plans, including the following:

- The National Strategy for Sustainable Development of the Kyrgyz Republic for 2013-2017, which was presented at the National Council on Sustainable Development;
- Medium-Term Development Program of the Kyrgyz Republic for 2012-2014;
- State Program “Stability and Decent Life”;
- Action Plan of the State Program “Economy and Security”;
- Economic Program of the Kyrgyz Republic for 2011-2014 supported by the Extended Credit Facility (ECF) of IMF;
- State Program to Increase the Share of Non-cash Payments and Settlements in the Kyrgyz Republic for 2012-2017;
- Microfinance Development Strategy for 2011-2015;
- Social Protection Development Strategy;
- Draft Concept of Long-Term Development of the Kyrgyz Republic till 2031;
- Draft State Program “Affordable Housing in the Kyrgyz Republic”;
- Plan of Legislative Activities of the Government for 2012 and others.

*Expert appraisal of International Agreements*

Within the framework of membership of the Kyrgyz Republic in international and intergovernmental organizations, the National Bank conducted expert appraisal of the international treaties and agreements affecting the financial and banking systems of the Kyrgyz Republic, including the following:

- Draft Agreement between the Government of the Kyrgyz Republic and the Russian Federation on Adjustment of Debts;
- Draft Framework Agreement between the Kyrgyz Republic and European Investment Bank “On Activities of the European Bank”;
- Draft Financial Cooperation Agreement between the Government of the Kyrgyz Republic and the Government of Federal Republic of Germany for 2011-2012;
- Draft Concept of Liberalization of Financial Services Market of CIS member states;
- Action Plan on Implementation of the Memorandum on Economic Policy for 2011-2014;
- Draft Decision on Major Macroeconomic Indicators of EurAsEc Member States;
- Plan of Activities on Accession of the Kyrgyz Republic to Customs Union and Common Economic Space;
- Draft Agreement between the Kyrgyz Republic and International Finance Corporation on Establishing IFC Country Office of IFC in the Kyrgyz Republic;
- Draft Agreement between the Government of the Kyrgyz Republic and the Government of Qatar “On Establishment of a Kyrgyz –Qatar Investment

Fund” and others.

Based on the expert review of draft laws, draft government resolutions, international treaties and agreements and other draft regulatory and legal acts, the National Bank issued opinions, comments and proposals on issues within the competence of the National Bank.

As part of fulfilling Financial Advisor responsibilities, the National Bank initiated convening a national conference on reduction of interest rates to expand accessibility of microfinance services under the auspices of the Coordination Council for development of microfinance to coordination activities on implementation of the Microfinance Development Strategy for 2011-2015 and development of proposals on microfinance development in the Kyrgyz Republic. The National Bank also initiated acceptance of budget payments in non-cash form under the framework of activities aimed at increasing the share of non-cash payments and ensuring stability of the payment system in the country.

Acting as the Financial Agent of the Government of the Kyrgyz Republic, the National Bank continued to service the accounts of the Government of the Kyrgyz Republic related to servicing the foreign debt of the Government, payment of share and membership fees to international organizations that Kyrgyz Republic is a member to. As of December 31, 2012 the National Bank serviced 41 accounts of the Central Treasury of the Ministry of Finances, including 26 accounts in the national currency and 15 accounts in foreign currency. Upon written requests of the Central Treasury of the Ministry of Finances, the National Bank carried out procedures for opening and closing of Government accounts. In total, the Government opened 13 accounts in the national currency, along with that, it closed 21 accounts in the national currency and three accounts in foreign currency in 2012.

The National Bank also acted as the agent for distribution and servicing the emission of securities of the Government of the Kyrgyz Republic (GT-Bills and GT-Bonds).

## 6.5. Internal Audit and Internal Control System

In accordance with the Law “On the National Bank of the Kyrgyz Republic” the Internal Audit Service is responsible for ensuring internal audit and it carries out holistic assessment of effectiveness of the internal control system following the requirements of the Internal Control Policy of NBKR.

*Legal Framework*

The activity of the Internal Audit Service is carried out based on the International Standards of Internal Audit and Standards for the Professional Practice of Internal Auditing.

Organization of the internal control system in the NBKR complies with the principles of the Internal Control Systems, recommended by the Basel Committee on Banking Supervision and is a continuous process aimed at achieving the goal of the NBKR and the observance of the established rules.

In 2012, audits were carried out following the Annual Plan of the Internal Audit Service developed based on Long-Term Audit Plan for 2012- 2014. Based on findings of the inspections, the internal auditors issued recommendations for minimizing risks, improvement of the internal control system in the NBKR’s departments. Findings of audits were furnished to NBKR management in the form of objective information that contained assessment of compliance of the unit activities with the tasks and responsibilities entrusted to it, and identification of violations and problem areas.

*Performance of the internal audit*

Findings of the internal audit and overview of the internal control system following the results of the year lead to conclusion that the activities of the National Bank in all major aspects comply with regulatory and legal acts of the Kyrgyz Republic and the internal control system, in general, is adequate to accepted risks.

*Assessment of performance of internal audit*

According to International Standards for the Professional Practice of Internal Auditing, independent assessment of activities of the NBKR Internal Audit Service was started. The assessment is carried out by experts of the Deutsche Bundesbank within the framework of rendered technical assistance. Independent quality assessment of the internal audit activity is carried out once every five years as stipulated by the internal standards of internal auditing. The previous independent review of the NBKR internal audit was conducted by the international audit organization “Deloitte”.

*External audit of NBKR*

The Internal Audit Service coordinated interaction with external auditors of NBKR. The independent audit of the National Bank for 2012 was carried out by audit organization LLC “KPMG-Bishkek”, selected through tender and approved by the Jogorku Kenesh of the Kyrgyz Republic as required by the legislation. Following the external audit, a Plan of Activities was developed to implement audit recommendations by corresponding structural units and approved by the Board of the National Bank.

*Audit Committee*

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

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

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

In 2012, the Audit Committee held 13 meetings to consider and adopt decisions on issued within its competence in accordance with the assigned tasks and functions. The Audit Committee met with the independent external expert for assessment of internal audit activity, heard the report of the Internal Audit Service on the results of 2012, reviewed results of monitoring of implementation of recommendations issued by internal and external audits, considered and approved audit inspections to the Long-Term Audit Plan and the Work Plan for 2013.

The Audit Committee analyzed the work concerning assessment of performance of external and internal audits and internal control system of the National Bank and submitted relevant recommendations to the Board of the National Bank.

*Risk Committee*

In order to minimize risks associated with the activities of the National Bank, the Risk Committee continued its work and held 13 meetings in 2012. In accordance with the objective of the Risk Committee and the Risk Management Strategy and Risk Management Policy, in 2012 special emphasis was made on improving the operational risks management in NBKR. To this effect, the Risk Committee approved regulatory documents on risk management, action plans on minimizing risks revealed following analysis of risk event cards, and discussed Interim Methodological Guidelines for carrying out self-assessment process in the NBKR’s departments.

## 6.6. Informing the public

In 2012, the National Bank continued its activities to inform the public of the work it completed to fulfill the functions and accomplish objectives of the Central Bank. Here, the NBKR used such public information tools as issuing official publications, posting information on the website of NBKR, publication of news, analytical and educational materials in print and electronic means of mass media. Throughout the year, NBKR organized special events for journalists: press-conferences, briefings, interviews and meetings with the leadership and staff of the National Bank.

*Public Information  
Tools*

Within the framework of celebration of 20<sup>th</sup> anniversary of the National Bank, a Collection of Scientific Works of NBKR was published. It comprised scientific works of the National Bank of theoretical, analytical and practical nature on such matters as the monetary and fiscal policy, foreign economic sector, economic growth and demography prepared over the course of research and analytical work. A contest for scientific works was also announced among alumni of higher education institutions and post-graduate students. The competition participants' works focused on such areas of economics as the financial markets, banks and banking activity, economic growth, foreign economic relations, public and private debt, and foreign exchange rate. The winners of the contest were awarded with memorable prizes.

In 2012, the cooperation of the National Bank with mass media traditionally developed in several directions. Under one of the directions, specialists of the National Bank prepared reference reports based on requests of journalists. The National Bank considered requests of mass media, commented on the current situation, provided analysis of trends, furnished statistical data and economic forecasts.

*Cooperation with  
mass media*

Under the second director of cooperation with mass media the National Bank prepared and published information materials on activities of the National Bank, its responsibilities and tasks, the stand of NBKR and the policy it pursued. The National Bank published articles, comments and other posts in the central and regional press. On regular basis, the National Bank issued press-releases on pressing issues that were published on the NBKR webpage and in mass media. The situation in the foreign exchange and financial markets and the state of affairs in the banking system in general and separate commercial banks was also covered.

Besides this, in 2012, the National Bank proceeded to implementation of the program for raising financial literacy of the population. The information campaign included elaboration of articles for press and information agencies, as well as organization of TV and radio programs on such topics as lending, microfinance, non-cash payments, dealing with securities and others. Special emphasis was made on providing coverage of bills "On the Payment System", "On Amendments and Addenda to the Law "On Banks and Banking Activity", and "On Amendments and Addenda to the Law "On Microfinance Organizations".

*Raising financial  
literacy of the  
population*

Besides traditional press-conferences on monetary policy of NBKR held on quarterly basis, representatives of the National Bank, including its leadership, participated in over 10 press-conferences and briefings. During meetings with journalists, clarifications were given on the situation in the microfinance sector in the country, on measures taken by the NBKR to contain the rise of the overall price level and reduce the interest rates on loans, and on ways to addressing the problems of borrowers of NFCIs and banks, etc.

*Press-conferences*

*Programs  
“National bank  
informs”* In 2012, the National Bank continued to regularly produce TV programs “Natsbank Soobshaet...” (The National Bank Informs...) and Radio Program “Uluttuk Bank Bildiret” (The National Bank Informs...). The format of the programs was modified significantly, however their content and objective remained the same - highlighting the major developments in the NBKR and the financial sector of the country. In the reporting period the programs on TV and radio focused on such as “The Problem of Money Laundering and Financing Terrorism”, “International Reserves”, “Government Securities”, “Lending to People”, “Payment System”, “Collection Coins of the NBKR” and etc.

*Information on  
collection coins* Introduction of a silver collection coin “Great Silk Road” into circulation was covered in the press-release of the National Bank and in the TV program “Natsbank Soobshaet”; corresponding information was posted on the NBKR website and sent out all leading mass media means of the country. About 20 means of mass media used the information from the press-release, including the information agencies of Kyrgyzstan, Kazakhstan, Russia and Ukraine. It is noteworthy that the silver collection coin “Great Silk Road” issued by the National Bank in 2011 won in the nomination “Most Historically Significant Coin”. The “Coin of the Year 2013” awards of the publishing house “Krause Publications” (USA) and for central banks and mints is the highest award for design and use of technologies in collection coins.

In August a press-conference was held at the Information Agency “Kabar” with participation of the specialists of NBKR, who presented the journalists four new collection coins (golden coin “200<sup>th</sup> anniversary of Kurmanjan Datka”, silver coin “200<sup>th</sup> anniversary of Kurmanjan Datka”, silver coin “Snow Leopard”, nickel silver coin “Komuz”). Information on issue of new collection coins was published in over 40 means of mass media, including international top ranking agencies.

In 2012, exhibition of collection coins of NBKR was opened. Information of this event was posted on the webpage of NBKR and sent to all mass media in a press-release.

*Public Chamber  
Activity* To realize the principle of openness, the NBKR carried on with sustaining interaction with the population within the framework of the Public Chamber activity. In total the National Bank received over 800 written requests from the citizens (including 200 written requests submitted to regional offices). Major share of written requests submitted to the National Bank over the reporting period were on the exchange rate of foreign currencies to Kyrgyz Som, the refinancing rate set by the NBKR and the inflation index, payment of interests on deposits in commercial banks, loans in problem banks and microcredit organizations and activities of nonbank institutions and etc. All written requests were replied to on timely manner.

*Website of the  
NBKR* As usual, the official website of the NBKR is an integral and the most important tool to inform the public, ensuring equal and timely access to information for all users. The work on updating the content, creating new sections and subsections of the website was continued in 2012. In particular, with the aim to raise financial literacy of population, the NBKR added a new section to the main page of the website containing information for customers of financial services, including interest rates on deposits and loans of commercial banks and NFCI, excerpts from regulatory and legal acts governing the activities of finance and credit institutions in rendering payment services, depositor’s and borrower’s handbook and other useful information.

Throughout 2012 the NBKR carried out explanatory work on problem

loans among borrowers of commercial banks and nonbank finance institutions. Meetings were held with participation of the management of the NBKR with borrowers and issues on restructuring and prolongation of loans were discussed.

In 2012, the National Bank carried on with raising awareness of students of higher education institutions about the activities of the Central Bank. Over the reporting period lectures were delivered to students of the Kyrgyz National University named after J. Balasagyn, Kyrgyz State University named after I. Arabaev, American University in Central Asia and for fellows of Master's Program at OSCE Academy in Bishkek. The lectures were focused on the goals, tasks and functions of NBKR and its current activities.

*Explanatory work  
among students of  
higher education  
institutions*

The regional departments of NBKR and the Representative Office in Batken Oblast continued carrying out activities under the educational campaign devoted to the national currency – Kyrgyz Som. Talas Regional Department held a contest for best essay on the topic “NBKR –the Central Bank of the State”, and organized a seminar on “Increasing the Share of Non-cash Payments and Settlements under the relevant State Program for 2012-2017”. Besides that, the staff of Talas Regional Department contributed to the training for raising the financial awareness of the population about microfinance services.

*Public information  
in regions*

Jalal-Abad Regional Department organized round tables on such topics as “The Role of the National Bank in Development of the Economy of the Kyrgyz Republic over the Last 20 Years”, “On Activity of NFCI”, and “On Cash Circulation in the Oblast”.

Specialists of all regional departments delivered lectures for schoolchildren and students of secondary and higher education institutions on sparing attitude to the national currency, protection features of the national currency, rules for exchange of old bank notes and struggle against counterfeiting.



# III

**FINANCIAL STATEMENTS  
OF THE NATIONAL BANK  
OF THE KYRGYZ REPUBLIC  
FOR 2012**

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## Independent Auditors' Report

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

We have audited the accompanying financial statements of the National Bank of the Kyrgyz Republic (the "National Bank"), which comprise the statement of financial position as at 31 December 2012, the income statement, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the requirements of the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic", and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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



### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the National Bank as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with the basis of preparation described in Note 2, which was established by management in order to satisfy the requirements of the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic”.

**KPMG Bishkek LLC**

28 March 2013

## 7.2. Statement of Financial Position

	Note	2012 KGS'000	2011 KGS'000
<b>ASSETS</b>			
Precious metals	4	7,721,599	6,140,237
Due from banks and other financial institutions	5	57,260,628	57,975,624
Loans extended	6	810,528	1,324,781
Investments available-for-sale	7	32,554,699	20,688,268
Investments held-to-maturity	8	1,379,590	2,913,864
Investments held-to-maturity, pledged under repurchase agreements	8	931,657	207,252
Property and equipment	9	1,002,918	556,268
Intangible assets		3,232	2,552
Other assets	10	1,105,454	1,034,223
<b>Total assets</b>		<b>102,770,305</b>	<b>90,843,069</b>
<b>LIABILITIES</b>			
Banknotes and coins in circulation	11	58,252,168	49,866,936
Due to banks and other financial institutions	12	7,366,739	5,606,284
Due to the Government of the Kyrgyz Republic	13	5,192,410	6,492,329
Amounts payable under agreements of sale and repurchase of securities		796,711	207,410
Debt securities issued	14	3,046,903	1,359,219
Loans received	15	4,752,831	5,590,609
Liabilities to the IMF in respect of SDR allocations	16	6,192,312	6,030,055
Other liabilities		37,512	94,096
<b>Total liabilities</b>		<b>85,637,586</b>	<b>75,246,938</b>
<b>EQUITY</b>			
	17		
Charter capital		1,000,000	1,000,000
Obligatory reserve		2,953,496	2,278,165
Precious metal and foreign currency revaluation reserve		12,380,422	10,009,818
Revaluation reserve for investments available-for-sale		16,478	57,047
Retained earnings		782,323	2,251,101
<b>Total equity</b>		<b>17,132,719</b>	<b>15,596,131</b>
<b>Total liabilities and equity</b>		<b>102,770,305</b>	<b>90,843,069</b>

Asankojoeva Z.M.  
Governor

28 March 2013

Bishkek  
Kyrgyz Republic

Aidarkulov Sh.A.  
Chief Accountant

28 March 2013

Bishkek  
Kyrgyz Republic

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

**7.3. Income Statement**

	Note	2012 KGS'000	2011 KGS'000
Interest income	18	1,161,496	1,371,738
Interest expense	18	(337,351)	(270,268)
<b>Net interest income</b>		<b>824,145</b>	<b>1,101,470</b>
Fee and commission income		20,423	13,168
Fee and commission expense		(1,089)	(1,111)
<b>Net fee and commission income</b>		<b>19,334</b>	<b>12,057</b>
Recoveries of impairment	19	59,189	36,027
Net gain on precious metals and foreign currencies operations	20	532,659	1,650,096
Other income		122,715	89,110
<b>Net non-interest income</b>		<b>714,563</b>	<b>1,775,233</b>
<b>Operating income</b>		<b>1,558,042</b>	<b>2,888,760</b>
Banknotes and coins production expenses		(250,955)	(194,403)
Administrative expenses	21	(513,951)	(459,479)
Other expenses		(10,813)	(23,857)
<b>Operating expenses</b>		<b>(775,719)</b>	<b>(677,739)</b>
<b>Profit for the year</b>		<b>782,323</b>	<b>2,211,021</b>

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

#### 7.4. *Statement of Comprehensive Income*

	2012 KGS'000	2011 KGS'000
<b>Profit for the year</b>	782,323	2,211,021
<b>Other comprehensive income</b>		
Revaluation reserve for foreign currency and precious metals:		
- Net gain/(loss) on foreign currency and precious metals	2,832,735	(675,650)
- Net gain on foreign currency and precious metals transferred to profit or loss	(462,131)	(1,515,084)
Net (loss)/gain on investments available-for-sale	(40,569)	55,924
<b>Other comprehensive income/ (loss) for the year</b>	<b>2,330,035</b>	<b>(2,134,810)</b>
<b>Total comprehensive income for the year</b>	<b>3,112,358</b>	<b>76,211</b>

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

### 7.5. Statement of Cash Flows

	2012 KGS'000	2011 KGS'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest and fee and commission received	886,188	958,650
Interest and fee and commission payments	(215,219)	(178,115)
Realized gain on foreign exchange operations	70,528	135,012
Other income	92,781	20,638
Payroll expenses	(320,841)	(261,483)
Expenses on banknotes and coins, issued into circulation	(319,779)	(210,032)
Administrative expenses	(146,384)	(146,777)
<b>Cash flow from operating activities before changes in operating assets and liabilities</b>	<b>47,274</b>	<b>317,893</b>
<b>(Increase)/decrease in operating assets</b>		
Precious metals	(1,129,253)	(63,663)
Due from banks and other financial institutions	511,913	3,631,723
Loans extended	516,717	(499,493)
Investments available-for-sale	(10,785,039)	(5,605,179)
Amounts receivable from the contracts of purchase and resale of securities	-	200,000
Other assets	(15,130)	(82,432)
<b>Increase/(decrease) in operating liabilities</b>		
Banknotes and coins in circulation	8,385,232	6,576,640
Due to banks and other financial institutions	1,755,085	2,590
Accounts of the Government of the Kyrgyz Republic	(2,186,418)	(955,857)
Debt securities issued	1,690,825	686,237
Amounts payable under agreements of sale and repurchase of securities	588,978	136,046
Other liabilities	(58,375)	(40,451)
<b>Net cash (used in)/provided from operating activities</b>	<b>(678,191)</b>	<b>4,304,054</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, equipment and intangible assets	(402,192)	(39,829)
Proceeds on redemption of investments held-to-maturity	64,352	578,940
Proceeds from disposal of unconsolidated subsidiary	8,984	45,755
Increase of investments into associated companies	(61,000)	-
Purchase of investments held-to-maturity	-	(800,000)
Interest received on investments held-to-maturity	95,320	153,257
Dividends received	25,971	23,026
<b>Cash flows used in investing activities</b>	<b>(268,565)</b>	<b>(38,851)</b>

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

7.5. *Statement of Cash Flows*

	<b>2012</b> <b>KGS'000</b>	<b>2011</b> <b>KGS'000</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from loans	57,705	9,418
Repayment of loans	(1,026,911)	(1,176,809)
<b>Cash flows used in financing activities</b>	<b>(969,206)</b>	<b>(1,167,391)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(1,915,962)</b>	<b>3,097,812</b>
Effect of changes in exchange rates on cash and cash equivalents	553,456	(382,896)
Cash and cash equivalents as at the beginning of the year	28,819,374	26,104,458
<b>Cash and cash equivalents as at the end of the year (Note 5)</b>	<b>27,456,868</b>	<b>28,819,374</b>

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

### 7.6. Statement of Changes in Equity

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

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

## 7.6. Statement of Changes in Equity

	Charter capital	Obligatory reserve	Precious metal and foreign currency revaluation reserve	Revaluation reserve for investments available-for-sale	Retained earnings	Total
<b>KGS'000</b>						
Balance as at 1 January 2012	1,000,000	2,278,165	10,009,818	57,047	2,251,101	15,596,131
<b>Total comprehensive income</b>						
Profit for the year	-	-	-	-	782,323	782,323
<b>Other comprehensive income</b>						
Net loss on investments available-for-sale	-	-	-	(40,569)	-	(40,569)
Net gain on foreign currencies and precious metals	-	-	2,832,735	-	-	2,832,735
Net gain on foreign currencies and precious metals transferred to profit or loss	-	-	(462,131)	-	-	(462,131)
Total other comprehensive (loss)/income	-	-	2,370,604	(40,569)	-	2,330,035
<b>Total comprehensive income for the year</b>	-	-	<b>2,370,604</b>	<b>(40,569)</b>	<b>782,323</b>	<b>3,112,358</b>
<b>Transactions recorded directly in equity</b>						
Distribution of prior year profit to the state budget	-	-	-	-	(1,575,770)	(1,575,770)
Transfer to obligatory reserve	-	675,331	-	-	(675,331)	-
<b>Total</b>	-	<b>675,331</b>	-	-	<b>(2,251,101)</b>	<b>(1,575,770)</b>
<b>Balance as at 31 December 2012</b>	<b>1,000,000</b>	<b>2,953,496</b>	<b>12,380,422</b>	<b>16,478</b>	<b>782,323</b>	<b>17,132,719</b>

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

## 7.7. Notes to the Financial Statements

### 1 Background

#### (a) Organisation and operations

The National Bank of the Kyrgyz Republic (the “NBKR” or the “National Bank”) is a legal successor of the State Bank of the Kyrgyz Republic which was renamed by the Law “On the National Bank of the Kyrgyz Republic” dated 12 December 1992 as the National Bank of the Kyrgyz Republic. On 2 July 1997, the Jogorku Kenesh (Parliament) of the Kyrgyz Republic adopted the new Law “On the National Bank of the Kyrgyz Republic”, which regulates the activities of the National Bank at the current moment, with all amendments and addendums.

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

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

As at 31 December 2012 and 2011 the National Bank has 5 branches and one representative office operating in regions of the Kyrgyz Republic.

As at 31 December 2012 and 2011 the number of the National Bank’s employees is 577 and 565, respectively.

As at 31 December 2012 and 2011 the National Bank controls the Republic Administration of Money Collection State Enterprise. The financial statements of Republic Administration of Money Collection State Enterprise are not consolidated in the financial statements of the National Bank for the years ended 31 December 2012 and 2011 and the impact of this subsidiary is not material.

As at 31 December 2011 100% subsidiary Specialized Fund for Bank Refinancing was liquidated in accordance with the resolution of the Board #33/1 dated 9 June 2011. Operating results of this entity were consolidated in the financial statements of the National Bank as at 31 December 2011.

In accordance with the resolution of the Board #41/4 dated 1 August 2011 on sale of the subsidiary - Financial Company for Support and Development of Credit Unions LLC - to credit unions of the Kyrgyz Republic, 83.54% of the Financial Company for Support and Development of Credit Unions LLC was sold. The remaining share of the investment was sold to credit unions in 2012.

These financial statements were authorised for issue by the Management Board of the NBKR on 28 March 2013.

#### (b) Business environment

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

## **1 Background, continued**

### **(b) Business environment, continued**

These 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 financial statements in the period when or if they become known and estimable.

## **2 Basis of preparation**

### **(a) Statement of compliance**

In accordance with the Law of the Kyrgyz Republic "On National Bank of the Kyrgyz Republic" the National Bank determines policies and methods of accounting for itself based on International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") with the principal modifications as described below.

Precious metals (gold and silver) are revalued based on the market value and the total net unrealised gain from the mark to market of precious metals and foreign currency assets and liabilities revaluation is recognised as other comprehensive income directly in equity. The total net unrealised loss from the mark to market of gold and silver and foreign currency assets and liabilities revaluation is recognised in the income statement except to the extent that it reverses a previous net unrealised gain, in which case it is recognised as other comprehensive income directly in equity. At the time of derecognition of precious metals and foreign currency assets and liabilities, the cumulative gain or loss previously recognised in equity is transferred to the income statement on the basis of the weighted-average cost method.

Distribution of profit for the year is recognised once the independent external audit is completed and the annual report is approved by the Management Board of the National Bank

These financial statements have been designed to present fairly the financial position of the National Bank and the results of its operations and have been prepared in accordance with the accounting policy of the National Bank which was approved by the Management Board of the National Bank on 10 December 2003 with all amendments last of which was made on 4 July 2012 and which the National Bank considers to be appropriate to the nature of central bank activities.

### **(b) Basis of measurement**

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

### **(c) Functional and presentation currency**

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

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

## 2 Basis of preparation, continued

### (d) Use of estimates and judgments

Management makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements. Actual results could differ from those estimates. In the opinion of management there are no critical areas of judgment or estimate in the preparation of these consolidated financial statements.

## 3 Significant accounting policies

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

### (a) Precious metals

Precious metals comprise gold and other precious metals on deposits with foreign banks and gold bullion in the National bank vaults with a good delivery status. Precious metals in the financial statements are measured at market price which is determined by reference to the London Bullion Market Association AM fixings at the day preceding the reporting date. Gains on revaluation of gold are recorded as other comprehensive income in equity. Losses resulting from revaluation are recognised in the income statement in the amount exceeding any previously accumulated gains on accounts of other comprehensive income in equity. Realised gains and losses on gold are recorded in the income statement.

### (b) Foreign currency transactions

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

### *Rates of exchange*

The exchange rates used by the National Bank in the preparation of the financial statements as at 31 December 2012 and 2011 are as follows:

	<u>31 December 2012</u>	<u>31 December 2011</u>
- Som/US Dollar	47.4012	46.4847
- Som/Euro	62.6573	60.0652
- Som/Special drawing rights	73.0685	71.1402
- Som/Canadian Dollar	47.6421	45.5353
- Som/Australian Dollar	49.2241	47.1936
- Som/Swiss Franc	51.8219	49.3678
- Som/Great British Pound Sterling	76.2998	71.6585
- Som/troy ounce of gold	78 567.49	73 190.16

### 3 Significant accounting policies, continued

#### (c) Cash and cash equivalents

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

For the purposes of determining cash flows, cash and cash equivalents include cash on hand in foreign currencies and unrestricted balances (nostro accounts) held with other banks.

#### (d) Financial instruments

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

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

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

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

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

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

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

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

### 3 Significant accounting policies, continued

#### (d) Financial instruments, continued

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

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

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

#### (i) Recognition

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

#### (ii) Measurement

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

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

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

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

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

#### (iii) Fair value measurement principles

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

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

### 3 Significant accounting policies, continued

#### (d) Financial instruments, continued

##### (iii) *Fair value measurement principles, continued*

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

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

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

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

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

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

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

### 3 Significant accounting policies, continued

#### (d) Financial instruments, continued

##### (v) *Derecognition*

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

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

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

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

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

The National Bank writes off assets deemed to be uncollectible.

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

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

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

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

##### (vii) *Derivative financial instruments*

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

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

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

### 3 Significant accounting policies, continued

#### (d) Financial instruments, continued

##### (viii) *Offsetting*

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

#### (e) Property and equipment

##### (i) *Owned assets*

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

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

##### (ii) *Depreciation*

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

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

#### (f) Intangible assets

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

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

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

#### (g) Impairment

##### (i) *Financial assets carried at amortised cost*

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

### 3 Significant accounting policies, continued

#### (g) Impairment, continued

##### (i) *Financial assets carried at amortised cost, continued*

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

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

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

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

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

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

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

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

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

### 3 Significant accounting policies, continued

#### (g) Impairment, continued

##### (iii) *Available-for-sale financial assets*

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

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

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

##### (iv) *Non financial assets*

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

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

#### (h) Banknotes and coins in circulation

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

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

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

#### (i) Charter capital and reserves

The National Bank has a fixed amount of charter capital. Increases and decreases of the amount of charter capital are implemented through amendments to the Law "On the National Bank of the Kyrgyz Republic". Charter capital is recognised at cost.

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

### 3 Significant accounting policies, continued

#### (j) Taxation

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

#### (k) Income and expense recognition

Interest income and expense are recognised in the income statement as they accrue, using the effective interest method. The effective interest method is a method of calculating of the amortised cost of a financial asset or a financial liability and allocating of the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

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

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

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

#### (l) Fiduciary assets

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

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

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2012, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The National Bank plans to adopt these pronouncements when they become effective. The National Bank has not yet analyzed the likely impact of the new standards on its financial position or performance.

- IFRS 9 *Financial Instruments* will be effective for annual periods beginning on or after 1 January 2015. The new standard is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The remaining parts of the standard are expected to be issued during 2013. The National Bank recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on National Bank's financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The National Bank does not intend to adopt this standard early.

### 3 Significant accounting policies, continued

#### (m) New standards and interpretations not yet adopted, continued

- IFRS 13 *Fair Value Measurement* will be effective for annual periods beginning on or after 1 January 2013. The new standard replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It provides a revised definition of fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exceptions to fair value measurement that currently exist in certain standards. The standard is applied prospectively with early adoption permitted. Comparative disclosure information is not required for periods before the date of initial application.
- Amendments to IFRS 7 *Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities* contain new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position or subject to master netting arrangements or similar agreements. The amendments are effective for annual periods beginning on or after 1 January 2013, and are to be applied retrospectively.
- Amendments to IAS 32 *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities* do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application. The Amendments specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Various *Improvements to IFRSs* have been dealt with on a standard-by-standard basis. All amendments, which result in accounting changes for presentation, recognition or measurement purposes, will come into effect not earlier than 1 January 2013.

### 4 Precious metals

	2012 KGS'000	2011 KGS'000
<b>Gold and other precious metals in accounts with foreign banks</b>		
Gold in deposits	6,528,312	6,081,433
Silver in deposits	520	477
	<b>6,528,832</b>	<b>6,081,910</b>
<b>Gold bullion in the National Bank depository</b>	1,192,767	58,327
	<b>7,721,599</b>	<b>6,140,237</b>

Gold bullion in vaults represents gold with good delivery status.

As at 31 December 2012 the weight of gold amounts to 83,091.77 ounces in gold deposits, 15,181.43 ounces in gold bullion at the National Bank depository and the weight of silver amounts to 364.06 ounces in silver deposits (2011: weight of gold and silver amounts to 83,090.86 ounces, 796.91 ounces and 364.06 ounces, respectively).

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

As at 31 December 2012 the National Bank placed all gold deposits with one bank with AA- rating (31 December 2011: one bank with AA- rating).

## 5 Due from banks and other financial institutions

	2012 KGS'000	2011 KGS'000
<b>Placements with foreign banks and other financial institutions</b>		
<b>Nostro accounts with foreign banks</b>		
- rated AAA	17,098,851	17,537,589
- rated from AA- to AA+	1,074,877	540,342
- rated from BB- to BB+	5,696	5,586
- not rated	121,256	8,479
<b>Total nostro accounts with foreign banks</b>	<b>18,300,680</b>	<b>18,091,996</b>
<b>Term deposits with foreign banks</b>		
- rated from AAA	1,612,432	16,062,655
- rated from AA- to AA+	19,223,088	6,299,012
- rated from A- to A+	8,256,910	-
- not rated	183,255	179,712
<b>Total term deposits with foreign banks</b>	<b>29,275,685</b>	<b>22,541,379</b>
Accounts with the Bank for International Settlements (BIS)		
- BIS Nostro	35,065	2,241,438
- BIS Deposit	997,461	7,128,517
Accounts with the International Monetary Fund	8,834,992	8,206,032
<b>Total due from banks and other financial institutions</b>	<b>57,443,883</b>	<b>58,209,362</b>
Impairment allowance	(183,255)	(233,738)
	<b>57,260,628</b>	<b>57,975,624</b>

As at 31 December 2012 and 2011 an impaired overdue term deposit denominated in USD of KGS 183,255 thousand and KGS 179,712 thousand placed with the Central Asian Bank of Cooperation and Development was overdue for more than 360 days, and the National Bank created an impairment reserve for the full outstanding amount in 1999 year.

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

As at 31 December 2012 the National Bank has balances with nine banks and other financial institutions, (2011: eight banks and other financial institutions) rated from AAA to AA- whose amounts exceed 10% of equity: The gross value of these balances as at 31 December 2012 is KGS 52,247,203 thousand (2011: KGS 54,861,536 thousand).

### Cash and cash equivalents

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

	2012 KGS'000	2011 KGS'000
Nostro accounts	18,300,680	18,091,996
Nostro accounts with the Bank for International Settlements	35,065	2,241,438
Accounts with the IMF	8,834,992	8,206,032
Cash on hand in foreign currencies	286,131	279,908
<b>Cash and cash equivalents in the statement of cash flows</b>	<b>27,456,868</b>	<b>28,819,374</b>

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

## 6 Loans extended

	2012 KGS'000	2011 KGS'000
Unimpaired loans to resident commercial banks	815,631	1,334,490
Impaired loans to resident commercial banks	421,013	415,141
	<b>1,236,644</b>	<b>1,749,631</b>
Impairment allowance	(426,116)	(424,850)
<b>Net loans</b>	<b>810,528</b>	<b>1,324,781</b>

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

The objective indicators of loan impairment include the following:

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

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

As at 31 December 2012 and 2011 impaired loans represent loans to resident commercial banks, which are under special administration since 1999 and are all overdue more than 360 days. The National Bank recognised 100% impairment allowance in respect of these loans and as at 31 December 2012 and 2011 the impairment allowance amounted to KGS 421,013 thousand and KGS 415,141 thousand, respectively. Movements in the impairment allowance are disclosed in Note 19.

### Analysis of collateral

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

	2012 KGS'000	% of unimpaired loan portfolio	2011 KGS'000	% of unimpaired loan portfolio
Government securities	520,991	64	733,969	55
Loans to customers	269,523	33	387,002	29
Real estate	25,117	3	146,794	11
Term deposits	-	-	66,725	5
	<b>815,631</b>	<b>100</b>	<b>1,334,490</b>	<b>100</b>

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

### Concentration of loans extended

As at 31 December 2012, the Bank does not have loans to commercial banks, whose balances exceed 10% of equity (2011: none).

## 7 Investments available-for-sale

	2012 KGS'000	2011 KGS'000
<b>Debt instruments</b>		
<b>Government bonds</b>		
Australian Government Treasury bills	14,776,099	12,791,855
Canadian Government Treasury bills	2,376,213	-
British Government Treasury bills	701,768	-
French Government Treasury bills	654,431	649,156
German Government Treasury bills	308,406	1,190,860
Swiss Government Treasury bills	-	1,283,563
<b>Total government bonds</b>	<b>18,816,917</b>	<b>15,915,434</b>
<b>Debt securities of international governmental and non-governmental financial institutions</b>		
- rated AAA	13,737,782	4,763,850
<b>Total debt instruments</b>	<b>32,554,699</b>	<b>20,679,284</b>
<b>Equity investments at cost</b>		
Corporate shares	-	8,984
	<b>32,554,699</b>	<b>20,688,268</b>

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

## 8 Investments held-to-maturity

	2012 KGS'000	2011 KGS'000
<b>Held by the National bank</b>		
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	1,379,590	2,913,864
<b>Pledged under sale and repurchase agreements</b>		
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	931,657	207,252
	<b>2,311,247</b>	<b>3,121,116</b>

As at 31 December 2012 debt securities held to maturity with an amortised cost of KGS 931,657 thousand (2011: KGS 207,252 thousand) were pledged under sale and repurchase agreements with three commercial banks (2011: three commercial banks) for periods not exceeding six months.

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

During the year ended 31 December 2012 redemption of Treasury bills of the Ministry of Finance of the Kyrgyz Republic classified as held-to-maturity investments of KGS 718,100 thousand (2011: KGS 564,352 thousand) were settled through offset against balances due to the Government of the Kyrgyz Republic.

## 9 Property and equipment

KGS'000	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/ equipment not yet installed	Total
<i>Cost</i>						
Balance at 1 January 2012	202,654	123,885	84,846	20,572	295,663	727,620
Additions	295,835	19,172	18,535	12,483	157,645	503,670
Disposals	(251)	(18,035)	(30,526)	(498)	(62)	(49,372)
Transfers	39,219	5,146	453	-	(44,818)	-
<b>Balance at 31 December 2012</b>	<b>537,457</b>	<b>130,168</b>	<b>73,308</b>	<b>32,557</b>	<b>408,428</b>	<b>1,181,918</b>
<i>Depreciation and impairment losses</i>						
Balance at 1 January 2012	(49,715)	(52,436)	(55,182)	(14,019)	-	(171,352)
Depreciation for the year	(9,403)	(24,722)	(15,379)	(6,953)	-	(56,457)
Disposals	208	17,986	30,118	497	-	48,809
<b>Balance at 31 December 2012</b>	<b>(58,910)</b>	<b>(59,172)</b>	<b>(40,443)</b>	<b>(20,475)</b>	<b>-</b>	<b>(179,000)</b>
<i>Carrying amount</i>						
At 31 December 2012	478,547	70,996	32,865	12,082	408,428	1,002,918

## 9 Property and equipment, continued

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

There are no capitalised borrowing costs related to the acquisition or construction of plant and equipment during 2012 (2011: nil).

## 10 Other assets

	<b>2012</b> <b>KGS'000</b>	<b>2011</b> <b>KGS'000</b>
Cash on hand in foreign currencies	286,131	279,908
Other receivables	202,649	195,877
Impairment allowance	(37,819)	(38,318)
<b>Total other financial assets</b>	<b>450,961</b>	<b>437,467</b>
Inventories	517,842	429,345
Investment in associate	61,005	5
Prepayments	50,881	151,025
Other	24,765	16,381
<b>Total other non-financial assets</b>	<b>654,493</b>	<b>596,756</b>
	<b>1,105,454</b>	<b>1,034,223</b>

Investment in associate is comprised of the following:

Name	Country of Incorporation	Main activity	% Controlled		2012	2011
			2012	2011	Carrying value KGS'000	Carrying value KGS'000
Interbank Processing Center LLC	Kyrgyzstan	Operator of national payment system	40	0.01	61,005	5
					<b>61,005</b>	<b>5</b>

Due to the non-material size and activities of the associate listed above, this investment is not accounted for using the equity method of accounting.

Movements in impairment allowance on other assets are disclosed in Note 19.

## 11 Banknotes and coins in circulation

As at 31 December 2012 and 2011 banknotes and coins in circulation comprise:

	<b>2012</b> <b>KGS'000</b>	<b>2011</b> <b>KGS'000</b>
Banknotes and coins in circulation	59,890,751	51,931,005
Less banknotes and coins on hand and in vaults	(1,638,583)	(2,064,069)
	<b>58,252,168</b>	<b>49,866,936</b>

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

## 12 Due to banks and other financial institutions

	<b>2012</b> <b>KGS'000</b>	<b>2011</b> <b>KGS'000</b>
Current accounts of commercial banks	7,364,794	5,432,513
Current accounts of other financial institutions	1,945	173,771
	<b>7,366,739</b>	<b>5,606,284</b>

As at 31 December 2012 the National Bank has no banks (2011: no banks), whose balances exceed 10% of equity.

### 13 Due to the Government of the Kyrgyz Republic

Due to the Government of the Kyrgyz Republic comprise accounts of the Ministry of Finance of the Kyrgyz Republic (the “MFKR”).

	<b>2012</b> <b>KGS'000</b>	<b>2011</b> <b>KGS'000</b>
In national currency	2,360,717	5,384,743
In foreign currency	2,831,693	1,107,586
	<b>5,192,410</b>	<b>6,492,329</b>

### 14 Debt securities issued

As at 31 December 2012 debt securities issued comprise the following issues:

<b>Emissions</b>	<b>Carrying amount</b> <b>KGS'000</b>	<b>Issue date</b>	<b>Maturity date</b>	<b>Effective interest rate</b>
BD004130102	499,925	5-Dec-12	2-Jan-13	2.76%
BD004130109	438,730	12- Dec -12	9- Jan -13	2.52%
BD004130116	699,167	19- Dec -12	16- Jan -13	2.76%
BD004130123	798,618	26- Dec -12	23- Jan -13	2.78%
BD002130109	114,937	26- Dec -12	9- Jan -13	2.23%
BD002130114	275,728	31- Dec -12	14- Jan -13	2.61%
BD001130108	219,798	31- Dec -12	8- Jan -13	4.28%
	<b>3,046,903</b>			

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

<b>Emissions</b>	<b>Carrying amount</b> <b>KGS'000</b>	<b>Issue date</b>	<b>Maturity date</b>	<b>Effective interest rate</b>
BD004120104	216,967	7-Dec-11	4-Jan-12	15.02%
BD004120111	298,738	14-Dec-11	11-Jan-12	15.01%
BD002120104	49,053	21-Dec-11	4-Jan-12	9.17%
BD004120118	297,976	21-Dec-11	18-Jan-12	14.72%
BD002120111	149,634	28-Dec-11	11-Jan-12	8.43%
BD004120125	346,851	28-Dec-11	25-Jan-12	14.11%
	<b>1,359,219</b>			

### 15 Loans received

	<b>2012</b> <b>KGS'000</b>	<b>2011</b> <b>KGS'000</b>
Loans received from the International Monetary Fund (the “IMF”)	4,655,633	5,491,525
Loans received from the MFKR	97,198	72,922
Loans received from EBRD	-	26,162
	<b>4,752,831</b>	<b>5,590,609</b>

## 15 Loans received, continued

As at 31 December 2012 and 2011 terms and conditions of loans received are as follows:

Issuer	CCY	Interest rate	Issue date	Maturity date	2012	2011
					KGS'000	KGS'000
IMF, PRGF	SDR	0%	19-Dec-01	31-May-18	2,222,452	3,122,556
IMF, ESF	SDR	0%	24-Dec-08	7-Jun-19	2,433,181	2,368,969
MFKR	USD	1.50%	19-Oct-04	15-Jul-16	97,198	72,922
EBRD	USD	Libor 6m+1%	30-Aug-95	9-Oct-12	-	26,162
					<b>4,752,831</b>	<b>5,590,609</b>

Borrowings in relation to the Poverty Reduction and Growth Facility (“PRGF”) are denominated in SDR and are part of the IMF poverty reduction program. The aims of the loans are support of fiscal reforms and national currency. PRGF borrowings carry a zero interest rate and have a maturity of 10 years from the beginning of the facility. As at 21 December 2012 IMF prolonged 0% interest rate till 2014 year. Conditions of PRGF credits are standard for all credit receivers. Under the PRGF borrowings, the National Bank has accepted certain obligations and requirements to meet specific performance criteria and to complete structural reforms in fiscal policy.

Borrowing in relation to the Exogenous Shocks Facility (“ESF”) is denominated in SDR and is given to support the Kyrgyzstan authorities in addressing several exogenous shocks. The loan bears 0% interest rate. As at 21 December 2012 IMF prolonged 0% interest rate till 2014 year. This condition was declared for all recipients of ESF credits around the globe. Under the ESF borrowing, the National Bank of the Kyrgyz Republic has accepted certain obligations and requirements to meet specific performance criteria and to complete certain structural reforms.

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

The loan from the European Bank of Reconstruction and Development (“EBRD”) was issued in 1995 to the National Bank under guarantee of Government of the Kyrgyz Republic for lending to commercial banks that relend it to manufacturing businesses.

During the years ended 31 December 2012 and 2011 the National Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities.

## 16 Liabilities to the IMF in respect of SDR allocations

	2012	2011
	KGS'000	KGS'000
Liabilities to the IMF in respect of SDR allocations	6,192,312	6,030,055

Special Drawing Rights (SDR) allocation is a distribution of SDR amounts to IMF members by decision of the IMF. A general SDR allocation became effective 28 August 2009. The allocation is a cooperative monetary response to the global financial crisis by providing of significant unconditional financial resources to liquidity constrained countries, which have to smooth the need for adjustment and add to the scope for expansionary policies, where needed in the face of deflation risks, designed to provide liquidity to the global economic system by supplementing the IMF member countries’ foreign exchange reserves. The general SDR allocations were made to IMF members in proportion to their existing IMF quotas (Note 25). Separately, on 10 August 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one-time allocation of SDRs entered into force to boost global liquidity. According to the amendment, the special allocation was made to IMF members, which includes Kyrgyzstan, on 9 September 2009. Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Kyrgyz Republic received the right to use SDR allocations in the amount of SDR 84,737 thousand. In 2011 and 2012 this right has not yet been utilized. Interest is accrued on the amount that a country uses. The interest rate is determined weekly by the IMF, and is the same for all recipients of SDR allocations in the world.

## 17 Charter capital

### Issued capital

As at 31 December 2012 and 31 December 2011 charter capital of the National Bank in accordance with the Law “On the National Bank of the Kyrgyz Republic” amounts to KGS 1,000,000 thousand.

### Distribution to the state budget and obligatory reserve

In accordance with the Law “On the National Bank of the Kyrgyz Republic” the National Bank’s profit shall be distributable as follows:

- if the amount of the National Bank’s charter capital and obligatory reserve is less than 10% of the monetary liabilities of the National Bank, then 70% of profit shall be distributed to the state budget of the Kyrgyz Republic. The remaining profit, after distributions to the state budget, shall be transferred to the National Bank’s obligatory reserve;
- if the amount of the National Bank’s charter capital and obligatory reserve equals or exceeds 10% of the monetary liabilities of the National Bank, then 100% of profit shall be distributed to the state budget of the Kyrgyz Republic as well as one third of the excess amount, which shall be paid out of the obligatory reserve but within the balance thereof.

In accordance with the Clause 13 of the Law “On the National Bank of the Kyrgyz Republic”, profit shall be distributed upon the financial year end, once the independent external audit is completed and the annual report is approved by the Management Board of the National Bank.

On 11 April 2012 the net profit earned for 2011 and distributable to the state budget of the Kyrgyz Republic was approved in the amount of KGS 1,575,770 thousand (2011: KGS 1,103,993 thousand), and KGS 675,331 thousand (2011: KGS 473,140 thousand) was transferred to the obligatory reserve.

Profit for the year 2012, which will be distributed to the state budget of the Kyrgyz Republic amounts to KGS 547,626 thousand.

### Capital management

The capital of the National Bank comprises the residual value of the National Bank’s assets after deduction of all its liabilities.

The National Bank’s objectives when managing capital are to maintain an appropriate level of capital to ensure economic independence of the National Bank and ability to perform its functions. The National Bank considers total capital under management to be equity shown in the statement of financial position.

No external capital requirements exist for the National Bank, except for the size of the charter capital stipulated by the Law “On the National Bank of the Kyrgyz Republic”, which is KGS 1,000,000 thousand.

## 18 Net interest income

	2012 KGS'000	2011 KGS'000
<b>Interest income</b>		
Investments available-for-sale	543,029	581,488
Investments held-to-maturity	210,815	342,783
Due from banks and other financial institutions	307,376	330,156
Loans extended	84,345	105,584
Other	15,931	11,727
	<b>1,161,496</b>	<b>1,371,738</b>
<b>Interest expense</b>		
Debt securities issued	(138,126)	(126,323)
Due to the Government of the Kyrgyz Republic	(126,873)	(88,510)
Amounts payable under agreement of sale and repurchase of securities	(61,685)	(25,168)
Liabilities to the IMF in respect of SDR allocations	(6,443)	(24,716)
Other	(4,224)	(5,551)
	<b>(337,351)</b>	<b>(270,268)</b>
	<b>824,145</b>	<b>1,101,470</b>

No interest income was accrued on impaired assets (2011: nil).

## 19 Allowances for impairment

	Due from banks and other financial institutions KGS'000	Loans extended KGS'000	Other assets KGS'000	Total KGS'000
<b>31 December 2010</b>	267,133	427,028	38,772	732,933
Net charge/(recovery)	(33,395)	(2,178)	(454)	(36,027)
<b>31 December 2011</b>	233,738	424,850	38,318	696,906
Net charge/(recovery)	(54,027)	(4,663)	(499)	(59,189)
Effect of foreign currency translation	3,544	5,929	-	9,473
<b>31 December 2012</b>	183,255	426,116	37,819	647,190

## 20 Net gain on precious metals and foreign currencies operations

	2012 KGS'000	2011 KGS'000
Realised gain from operations with foreign currencies and precious metals	462,131	1,515,084
Income from spot transactions	70,528	135,012
	<b>532,659</b>	<b>1,650,096</b>

## 21 Administrative expenses

	2012 KGS'000	2011 KGS'000
<b>Personnel expenses</b>		
Employee compensation	273,668	225,709
Payments to the Social fund	46,849	38,628
	<b>320,517</b>	<b>264,337</b>
Depreciation and amortization	57,800	67,719
Repairs and maintenance	43,883	42,477
Security	27,957	26,687
Professional services	9,355	11,391
Communications and information services	9,179	8,457
Staff training	11,230	6,997
Publication and subscription	6,127	6,194
Expenses for social and cultural events	6,127	5,497
Travel expenses	4,606	5,102
Office supplies and stationery	4,522	4,755
Other	12,648	9,866
	<b>513,951</b>	<b>459,479</b>

## 22 Analysis by segment

The National Bank's operations comprise a single operating segment for the purposes of these financial statements. The National Bank is not required to report revenue and expenses by reference to the functions carried out by the National Bank, these activities do not constitute separate operating segments for the purposes of these financial statements.

## 23 Risk management

Risk management is fundamental to the National Bank's activities and is an essential element of the National Bank's operations. The major risks faced by the National Bank are those related to market risk, credit risk and liquidity risk.

### (a) Risk management policies and procedures

The National Bank's risk management policies aim to identify, analyse and manage the risks faced by the National Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The management of the National Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Board, committees, commissions and related working groups review regularly matters related to the monetary, investing and currency policies of the National Bank and set up limits on the scope of transactions, as well as requirements for the assessment of the National Bank's counterparties.

## 23 Risk management, continued

### (a) Risk management policies and procedures, continued

In accordance with Investment Strategy on International Reserve Management of the NBKR (“the Investment Strategy”) approved by the Board on 16 December 2010, the main goals of risk management are safety and liquidity of the NBKR’s assets and profitability growth. Operations are conducted within the limitations imposed by this strategy.

In accordance with these goals gold and foreign currency assets of the NBKR are separated into the following portfolios: working portfolio and investment portfolio. Risk management, continued

### (b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The National Bank manages its market risk mainly by conducting regular assessment of all open positions. In addition, the National Bank continuously monitors open position limits in relation to financial instruments, interest rate, maturity and currency positions and balance of risks and profitability.

### (i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The National Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

## 23 Risk management, continued

### (b) Market risk, continued

#### (i) Interest rate risk

##### Interest rate gap analysis

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major interest bearing financial instruments is as follows:

KGS'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	No interest	Carrying amount
<b>31 December 2012</b>							
<b>ASSETS</b>							
Precious metals	6,528,312	-	-	-	-	520	6,528,832
Due from banks and other financial institutions	40,227,509	13,282,348	-	-	-	3,750,771	57,260,628
Loans extended	91,554	106,357	134,063	473,444	5,110	-	810,528
Investments available-for-sale	14,062,894	6,696,115	3,118,362	8,677,328	-	-	32,554,699
Investments held-to-maturity	338,399	9,150	58,897	722,821	250,323	-	1,379,590
Investments held-to-maturity, pledged under repurchase agreements	304,977	100,812	-	525,868	-	-	931,657
	<b>61,553,645</b>	<b>20,194,782</b>	<b>3,311,322</b>	<b>10,399,461</b>	<b>255,433</b>	<b>3,751,291</b>	<b>99,465,934</b>
<b>LIABILITIES</b>							
Due to Government of the Kyrgyz Republic	5,192,410	-	-	-	-	-	5,192,410
Amounts payable under agreements of sale and repurchase of securities	796,711	-	-	-	-	-	796,711
Debt securities issued	3,046,903	-	-	-	-	-	3,046,903
Loans received	25,930	-	18,106	4,708,795	-	-	4,752,831
Liabilities to the IMF in respect of SDR allocations	6,192,312	-	-	-	-	-	6,192,312
	<b>15,254,266</b>	<b>-</b>	<b>18,106</b>	<b>4,708,795</b>	<b>-</b>	<b>-</b>	<b>19,981,167</b>
	<b>46,299,379</b>	<b>20,194,782</b>	<b>3,293,216</b>	<b>5,690,666</b>	<b>255,433</b>	<b>3,751,291</b>	<b>79,484,767</b>

## 23 Risk management, continued

### (b) Market risk, continued

#### (i) Interest rate risk, continued

Interest rate gap analysis, continued

KGS'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	No interest	Carrying amount
<b>31 December 2011</b>							
<b>ASSETS</b>							
Precious metals	6,081,910	-	-	-	-	-	6,081,910
Due from banks and other financial institutions	32,803,147	-	21,242,706	-	-	3,929,771	57,975,624
Loans extended	125,777	125,777	229,926	837,924	5,377	-	1,324,781
Investments available-for-sale	3,767,474	6,620,258	5,802,823	4,488,729	-	-	20,679,284
Investments held-to-maturity	52,679	409,672	176,274	1,664,633	610,606	-	2,913,864
Investments held-to-maturity, pledged under repurchase agreements	-	207,252	-	-	-	-	207,252
	<b>42,830,987</b>	<b>7,362,959</b>	<b>27,451,729</b>	<b>6,991,286</b>	<b>615,983</b>	<b>3,929,771</b>	<b>89,182,715</b>
<b>LIABILITIES</b>							
Due to Government of the Kyrgyz Republic	6,492,329	-	-	-	-	-	6,492,329
Amounts payable under agreements of sale and repurchase of securities	207,410	-	-	-	-	-	207,410
Debt securities issued	1,359,219	-	-	-	-	-	1,359,219
Loans received	-	13,127	30,791	5,546,691	-	-	5,590,609
Liabilities to the IMF in respect of SDR allocations	6,030,055	-	-	-	-	-	6,030,055
	<b>14,089,013</b>	<b>13,127</b>	<b>30,791</b>	<b>5,546,691</b>	<b>-</b>	<b>-</b>	<b>19,679,622</b>
	<b>28,741,974</b>	<b>7,349,832</b>	<b>27,420,938</b>	<b>1,444,595</b>	<b>615,983</b>	<b>3,929,771</b>	<b>69,503,093</b>

## 23 Risk management, continued

### (b) Market risk, continued

#### (i) Interest rate risk, continued

##### *Average interest rates*

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2012 and 2011. These interest rates are an estimation of the yields to maturity of these assets and liabilities.

	2012	2011
	Weighted average effective interest rate, %	Weighted average effective interest rate, %
<b>Interest bearing assets</b>		
<b>Precious metals</b>		
<i>Gold and other precious metals in accounts with foreign banks</i>	0.01	0.01
<b>Due from banks and other financial institutions</b>		
<i>Nostro accounts</i>		
- USD	0.17	0.01
- SDR	0.03	0.11
- EUR	0.03	0.47
- CAD	0.79	0.65
- AUD	2.25	3.50
- GBP	0.30	0.22
<i>Term deposits</i>		
- USD	0.42	0.35
- EUR	0.16	1.04
- CAD	1.21	1.04
- GBP	0.44	0.54
- AUD	3.25	4.17
- RUB	5.99	5.02
- JPY	0.11	-
- SGD	0.15	-
- CNH	2.92	-
<b>Investments available-for-sale</b>		
- EUR	0.23	0.79
- USD	0.12	0.45
- AUD	2.91	4.22
- CHF	-	0.35
- CAD	0.89	-
- GBP	0.33	-
<b>Loans extended</b>		
- KGS	7.70	7.76
<b>Investments held-to-maturity, including investments held-to-maturity, pledged under repurchase agreements</b>		
- KGS	6.86	11.32
<b>Interest bearing liabilities</b>		
<b>Due to the Government of the Kyrgyz Republic</b>		
- KGS	2.64	2.11
- USD	0.25	0.25
- EUR	0.75	1.25
<b>Amounts payable under agreements of sale and repurchase of securities</b>	2.64	13.08
<b>Debt securities issued</b>		
- KGS	2.81	13.78
<b>Loans received</b>		
- USD	1.50	1.52
<b>Liabilities to the IMF in respect of SDR allocations</b>		
- SDR	0.03	0.11

## 23 Risk management, continued

### (b) Market risk, continued

#### (i) Interest rate risk, continued

##### *Interest rate sensitivity analysis*

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity to changes in interest rate (repricing risk) based on a simplified scenario of a 20 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2012 and 2011 is as follows:

	2012 KGS'000	2011 KGS'000
20 bp parallel fall	(92,937)	(77,884)
20 bp parallel rise	92,937	77,884

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2012 and 2011 and a simplified scenario of a 20 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2012		2011	
	Profit or loss KGS'000	Equity KGS'000	Profit or loss KGS'000	Equity KGS'000
20 bp parallel rise	-	(34,170)	-	(25,908)
20 bp parallel fall	-	34,301	-	25,999

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 analysis does not take into consideration that the National Bank's assets and liabilities are actively managed. Additionally, the financial position of the National Bank may vary at the time that any actual market movement occurs. For example, the National Bank's financial risk management strategy aims to manage the exposure to market fluctuations. In case of sharp negative fluctuations, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

#### (ii) Currency risk

The National Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the National Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

**23 Risk management, continued****(b) Market risk, continued****(ii) Currency risk**

The National Bank's exposure to foreign currency exchange rate risk by currencies and gold price risk as at 31 December 2012 is presented in the table below:

	KGS	Gold	USD	EUR	CAD	AUD	SDR	CHF	GBP	Other	Total
<b>ASSETS</b>											
Precious metals	-	6,528,312	-	-	-	-	-	-	-	520	6,528,832
Due from banks and other financial institutions	-	-	23,120,618	10,148,946	6,031,818	337,557	8,834,992	2,530,884	3,065,036	3,190,777	57,260,628
Loans extended	810,528	-	-	-	-	-	-	-	-	-	810,528
Investments available-for-sale	-	-	4,982,066	3,484,916	5,055,567	16,090,690	-	-	2,941,460	-	32,554,699
Investments held-to-maturity	1,379,590	-	-	-	-	-	-	-	-	-	1,379,590
Investments held-to-maturity, pledged under repurchase agreements	931,657	-	-	-	-	-	-	-	-	-	931,657
Other financial assets	164,830	-	254,802	31,329	-	-	-	-	-	-	450,961
<b>Total assets</b>	<b>3,286,605</b>	<b>6,528,312</b>	<b>28,357,486</b>	<b>13,665,191</b>	<b>11,087,385</b>	<b>16,428,247</b>	<b>8,834,992</b>	<b>2,530,884</b>	<b>6,006,496</b>	<b>3,191,297</b>	<b>99,916,895</b>
<b>LIABILITIES</b>											
Banknotes and coins in circulation	58,252,168	-	-	-	-	-	-	-	-	-	58,252,168
Due to banks and financial institutions	6,238,590	-	1,128,149	-	-	-	-	-	-	-	7,366,739
Due to the Government of the Kyrgyz Republic	2,360,718	-	2,467,892	363,800	-	-	-	-	-	-	5,192,410
Amounts payable under agreements of sale and repurchase of securities	796,711	-	-	-	-	-	-	-	-	-	796,711
Debt securities issued	3,046,903	-	-	-	-	-	-	-	-	-	3,046,903
Loans received	-	-	97,198	-	-	-	4,655,633	-	-	-	4,752,831
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	-	6,192,312	-	-	-	6,192,312
Other financial liabilities	29,939	-	-	-	-	-	-	-	-	-	29,939
<b>Total liabilities</b>	<b>70,725,029</b>	-	<b>3,693,239</b>	<b>363,800</b>	-	-	<b>10,847,945</b>	-	-	-	<b>85,630,013</b>
<b>Net balance sheet and off balance sheet positions</b>	<b>(67,438,424)</b>	<b>6,528,312</b>	<b>24,664,247</b>	<b>13,301,391</b>	<b>11,087,385</b>	<b>16,428,247</b>	<b>(2,012,953)</b>	<b>2,530,884</b>	<b>6,006,496</b>	<b>3,191,297</b>	<b>14,286,882</b>

## 23 Risk management, continued

### (b) Market risk, continued

#### (ii) Currency risk, continued

The following table shows the currency structure of assets and liabilities at 31 December 2011:

KGS'000	KGS	Gold	USD	EUR	CAD	SDR	AUD	CHF	GBP	Other	Total
<b>ASSETS</b>											
Precious metals	-	6,081,433	-	-	-	-	-	-	-	477	6,081,910
Due from banks and other financial institutions	-	-	20,078,501	12,657,897	8,172,139	8,206,032	1,275,376	3,372,093	3,517,319	696,267	57,975,624
Loans extended	1,324,781	-	-	-	-	-	-	-	-	-	1,324,781
Investments available-for-sale	-	-	1,156,656	5,447,198	-	-	12,791,867	1,283,563	-	-	20,679,284
Investments held-to-maturity	2,913,864	-	-	-	-	-	-	-	-	-	2,913,864
Investments held-to-maturity, pledged under repurchase agreements	207,252	-	-	-	-	-	-	-	-	-	207,252
Other financial assets	172,835	-	234,599	30,033	-	-	-	-	-	-	437,467
<b>Total assets</b>	<b>4,618,732</b>	<b>6,081,433</b>	<b>21,469,756</b>	<b>18,135,128</b>	<b>8,172,139</b>	<b>8,206,032</b>	<b>14,067,243</b>	<b>4,655,656</b>	<b>3,517,319</b>	<b>696,744</b>	<b>89,620,182</b>
<b>LIABILITIES</b>											
Banknotes and coins in circulation	49,866,936	-	-	-	-	-	-	-	-	-	49,866,936
Due to banks and financial institutions	5,107,733	-	498,551	-	-	-	-	-	-	-	5,606,284
Due to the Government of the Kyrgyz Republic	5,384,743	-	840,502	267,084	-	-	-	-	-	-	6,492,329
Amounts payable under agreements of sale and repurchase of securities	207,410	-	-	-	-	-	-	-	-	-	207,410
Debt securities issued	1,359,219	-	-	-	-	-	-	-	-	-	1,359,219
Loans received	-	-	99,084	-	-	5,491,525	-	-	-	-	5,590,609
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	6,030,055	-	-	-	-	6,030,055
Other financial liabilities	30,531	-	-	-	-	-	-	-	-	53,597	84,128
<b>Total liabilities</b>	<b>61,956,572</b>	-	<b>1,438,137</b>	<b>267,084</b>	-	<b>11,521,580</b>	-	-	-	<b>53,597</b>	<b>75,236,970</b>
<b>Net balance sheet and off balance sheet positions</b>	<b>(57,337,840)</b>	<b>6,081,433</b>	<b>20,031,619</b>	<b>17,868,044</b>	<b>8,172,139</b>	<b>(3,315,548)</b>	<b>14,067,243</b>	<b>4,655,656</b>	<b>3,517,319</b>	<b>643,147</b>	<b>14,383,212</b>

## 23 Risk management, continued

### (b) Market risk, continued

#### (ii) Currency risk, continued

A weakening of KGS, as indicated in the table below, against following currencies as at 31 December 2012 and 31 December 2011 would have given a rise to the below increase (decrease) of equity and other comprehensive income. The given analysis is based on the change of exchange rates, which, according to the National Bank's opinion, are reasonably possible as at the end of reporting period. The given level of sensitivity is used within the National Bank for preparation of report on currency risk for the key management of the National Bank. The analysis implies that all other variables, especially interest rates, are constant.

	2012		2011	
	Profit or loss KGS'000	Comprehensive income and equity KGS'000	Profit or loss KGS'000	Comprehensive income and equity KGS'000
10% appreciation of USD against KGS	-	2,466,425	-	2,003,162
10% appreciation of EUR against KGS	-	1,330,139	-	1,786,804
10% appreciation of SDR against KGS	-	(201,295)	-	(331,555)
10% appreciation of CAD against KGS	-	1,108,739	-	817,214
10% appreciation of AUD against KGS	-	1,642,825	-	1,406,724
10% appreciation of CHF against KGS	-	253,088	-	465,566
10% appreciation of GBP against KGS	-	600,650	-	316,559

A strengthening of the KGS against the above currencies at 31 December 2012 and 2011 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

#### Limitations of sensitivity analysis

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

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

#### (iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the National Bank takes a long or short position in a financial instrument.

As at 31 December 2012 and 31 December 2011 the National Bank was exposed to price risk of gold and other precious metals in accounts with foreign banks.

An increase or decrease in prices in KGS equivalent of the following precious metals, as indicated below, at 31 December 2012 and 2011 would have increased or decreased equity and other comprehensive income by the amounts shown below. This analysis is based on precious metal pricing movements that the National Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables remain constant.

## 23 Risk management, continued

### (b) Market risk, continued

#### (iii) Other price risk, continued

KGS'000	31 December 2012		31 December 2011	
	Profit or loss	Comprehensive income and equity	Profit or loss	Comprehensive income and equity
10% appreciation of gold prices in KGS equivalent	-	652,831	-	608,143
10% depreciation of gold prices in KGS equivalent	-	(652,831)	-	(608,143)
10% appreciation of silver prices in KGS equivalent	-	2,466	-	2,217
10% depreciation of silver prices in KGS equivalent	-	(2,466)	-	(2,217)

### (c) Credit risk

Credit risk is the risk of financial loss occurring as a result of default by a borrower or counterparty on their obligation to the National Bank. The National Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and establishment of an Investment Committee, which is responsible for monitoring of credit risks on international reserve management.

To minimize credit risk the National Bank uses risk management policy which establishes limitations on counterparties of the National Bank. In accordance with the policy only central banks, financial institutions and commercial banks with high ratings per Moody's Investors Service classification or similar ratings per classification of other leading world rating agencies (Standard&Poor's Corporation, Fitch IBCA) may be counterparties of the National Bank.

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to Baa. Financial assets which have ratings lower than Baa of Moody's Investors Service are classed as speculative grade. Taking into consideration the National Bank's status as a central bank the counterparties are divided into 2 categories:

#### Category A

- central banks of advanced develop industrial countries with stable economical and political situation and sovereign rating not less than Aa3 per Moody's Investors Service classification;
- international financial organizations, institutions and banks, such as IMF, BIS, EBRD, ADB, KfW, etc;
- 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.

## 23 Risk management, continued

### (c) Credit risk, continued

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

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

The National Bank's maximum exposure to credit risk per one counterparty varies significantly and is dependent on both individual risks and general market economy risks. The National Bank's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2012 KGS'000	2011 KGS'000
<b>ASSETS</b>		
Precious metals	6,528,832	6,081,910
Due from banks and other financial institutions	57,260,628	57,975,624
Loans extended	810,528	1,324,781
Investments available-for-sale, except equity investments	32,554,699	20,679,284
Investments held-to-maturity	1,379,590	2,913,864
Investments held-to-maturity, pledged under repurchase agreements	931,657	207,252
Other financial assets	450,961	437,467
<b>Total maximum exposure</b>	<b>99,916,895</b>	<b>89,620,182</b>

## 23 Risk management, continued

### (c) Credit risk, continued

#### Geographical concentrations

The Investment Committee of the National Bank monitors the country risk of its counterparties. This approach allows the National Bank to minimize potential losses from investment climate fluctuations in those countries where the National Bank's currency reserves are placed.

The following table shows the geographical concentration of assets and liabilities at 31 December 2012:

KGS'000	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	
				31 December 2012	Total
<b>ASSETS</b>					
Precious metals	-	6,528,832	-	-	6,528,832
Due from banks and other financial institutions	-	39,895,063	7,498,047	9,867,518	57,260,628
Loans extended	810,528	-	-	-	810,528
Investments available-for-sale	-	18,816,917	-	13,737,782	32,554,699
Investments held-to-maturity	1,379,590	-	-	-	1,379,590
Investments held-to-maturity, pledged under repurchase agreements	931,657	-	-	-	931,657
Other financial assets	450,961	-	-	-	450,961
<b>Total assets</b>	<b>3,572,736</b>	<b>65,240,812</b>	<b>7,498,047</b>	<b>23,605,300</b>	<b>99,916,895</b>
<b>LIABILITIES</b>					
Banknotes and coins in circulation	58,252,168	-	-	-	58,252,168
Due to banks and other financial institutions	7,364,951	-	-	1,788	7,366,739
Due to the Government of the Kyrgyz Republic	5,192,410	-	-	-	5,192,410
Amounts payable under agreements of sale and repurchase of securities	796,711	-	-	-	796,711
Debt securities issued	3,046,903	-	-	-	3,046,903
Loans received	97,198	-	-	4,655,633	4,752,831
Liabilities to the IMF in respect of SDR allocations	-	-	-	6,192,312	6,192,312
Other financial liabilities	29,939	-	-	-	29,939
<b>Total liabilities</b>	<b>74,780,280</b>	-	-	<b>10,849,733</b>	<b>85,630,013</b>
<b>Net balance sheet position</b>	<b>(71,207,544)</b>	<b>65,240,812</b>	<b>7,498,047</b>	<b>12,755,567</b>	<b>14,286,882</b>

## 23 Risk management, continued

### (c) Credit risk, continued

#### Geographical concentration, continued

The following table shows the geographical concentration of assets and liabilities at 31 December 2011:

KGS'000	OECD countries		Non-OECD countries	International financial institutions		31 December 2011 Total
	Kyrgyz Republic	OECD countries		International financial institutions	31 December 2011 Total	
<b>ASSETS</b>						
Precious metals	-	6,081,910	-	-	-	6,081,910
Due from banks and other financial institutions	-	40,385,572	14,065	17,575,987	-	57,975,624
Loans extended	1,324,781	-	-	-	-	1,324,781
Investments available-for-sale	-	15,915,434	-	4,763,850	-	20,679,284
Investments held-to-maturity	2,913,864	-	-	-	-	2,913,864
Investments held-to-maturity, pledged under repurchase agreements	207,252	-	-	-	-	207,252
Other financial assets	437,467	-	-	-	-	437,467
<b>Total assets</b>	<b>4,883,364</b>	<b>62,382,916</b>	<b>14,065</b>	<b>22,339,837</b>	<b>-</b>	<b>89,620,182</b>
<b>LIABILITIES</b>						
Banknotes and coins in circulation	49,866,936	-	-	-	-	49,866,936
Due to banks and other financial institutions	5,603,883	-	74	2,327	-	5,606,284
Due to the Government of the Kyrgyz Republic	6,492,329	-	-	-	-	6,492,329
Amounts payable under agreements of sale and repurchase of securities	207,410	-	-	-	-	207,410
Debt securities issued	1,359,219	-	-	-	-	1,359,219
Loans received	72,922	-	-	5,517,687	-	5,590,609
Liabilities to the IMF in respect of SDR allocations	-	-	-	6,030,055	-	6,030,055
Other financial liabilities	84,128	-	-	-	-	84,128
<b>Total liabilities</b>	<b>63,686,827</b>	<b>-</b>	<b>74</b>	<b>11,550,069</b>	<b>-</b>	<b>75,236,970</b>
<b>Net balance sheet position</b>	<b>(58,803,463)</b>	<b>62,382,916</b>	<b>13,991</b>	<b>10,789,768</b>	<b>-</b>	<b>14,383,212</b>

## 23 Risk management, continued

### (d) Liquidity risk

Liquidity risk is the risk that the National Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of financial institutions, including the National Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types.

The National Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The National Bank's liquidity policy is reviewed and approved by the Board.

The National Bank seeks to actively support a diversified and stable funding base in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Since the National Bank carries out the issue of national currency, the default risk on fulfillment its obligations in national currency is minimal, and liquidity risk is more applicable for obligations denominated in foreign currency.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

The maturity analysis for financial liabilities as at 31 December 2012 is as follows:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
<b>Non-derivative liabilities</b>							
Due to banks and other financial institutions	7,366,739	-	-	-	-	7,366,739	7,366,739
Due to the Government of the Kyrgyz Republic	5,192,410	-	-	-	-	5,192,410	5,192,410
Amounts payable under agreements of sale and repurchase of securities	797,735	-	-	-	-	797,735	796,711
Debt securities issued	3,050,000	-	-	-	-	3,050,000	3,046,903
Loans received	235,560	164,696	46,398	427,986	3,895,925	4,770,565	4,752,831
Liabilities to the IMF in respect of SDR allocations	6,191,605	707	-	-	-	6,192,312	6,192,312
Other financial liabilities	25,712	1,568	2,659	-	-	29,939	29,939
<b>Total liabilities</b>	<b>22,859,761</b>	<b>166,971</b>	<b>49,057</b>	<b>427,986</b>	<b>3,895,925</b>	<b>27,399,700</b>	<b>27,377,845</b>

## 23 Risk management, continued

### (d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2011 is as follows:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
<b>Non-derivative liabilities</b>							
Due to banks and other financial institutions	5,606,284	-	-	-	-	5,606,284	5,606,284
Due to the Government of the Kyrgyz Republic	6,492,329	-	-	-	-	6,492,329	6,492,329
Amounts payable under agreements of sale and repurchase of securities	142,542	64,868	-	-	-	207,410	207,410
Debt securities issued	1,366,400	-	-	-	-	1,366,400	1,359,219
Loans received	312,398	162,850	42,860	518,481	4,610,747	5,647,336	5,590,609
Liabilities to the IMF in respect of SDR allocations	6,028,207	1,848	-	-	-	6,030,055	6,030,055
Other financial liabilities	19,177	98	3,415	-	61,439	84,129	84,128
<b>Total</b>	<b>19,967,337</b>	<b>229,664</b>	<b>46,275</b>	<b>518,481</b>	<b>4,672,186</b>	<b>25,433,943</b>	<b>25,370,034</b>

The tables above show the undiscounted cash flows of non-derivative financial liabilities.

## 23 Risk management, continued

### (d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2012:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
<b>ASSETS</b>							
Precious metals	1,179,032	5,349,800	-	-	-	-	6,528,832
Due from banks and other financial institutions	33,622,356	10,355,924	13,282,348	-	-	-	57,260,628
Loans extended	39,114	52,440	240,420	473,444	5,110	-	810,528
Investments available-for-sale	9,025,017	5,037,877	9,814,477	8,677,328	-	-	32,554,699
Investments held-to-maturity	12,002	326,397	68,047	722,821	250,323	-	1,379,590
Investments held-to-maturity, pledged under repurchase agreements	-	304,977	100,812	525,868	-	-	931,657
Other financial assets	289,481	2,388	9,491	50,171	99,430	-	450,961
	<b>44,167,002</b>	<b>21,429,803</b>	<b>23,515,595</b>	<b>10,449,632</b>	<b>354,863</b>	-	<b>99,916,895</b>
<b>LIABILITIES</b>							
Banknotes and coins in circulation	-	-	-	-	-	58,252,168	58,252,168
Due to banks and other financial institutions	7,366,739	-	-	-	-	-	7,366,739
Due to the Government of the Kyrgyz Republic	5,192,410	-	-	-	-	-	5,192,410
Amounts payable under agreements of sale and repurchase of securities	796,711	-	-	-	-	-	796,711
Debt securities issued	3,046,903	-	-	-	-	-	3,046,903
Loans received	235,491	164,696	473,688	3,196,496	682,460	-	4,752,831
Liabilities to the IMF in respect of SDR allocations	6,191,605	707	-	-	-	-	6,192,312
Other financial liabilities	25,712	1,568	2,659	-	-	-	29,939
	<b>22,855,571</b>	<b>166,971</b>	<b>476,347</b>	<b>3,196,496</b>	<b>682,460</b>	<b>58,252,168</b>	<b>85,630,013</b>
<b>Net position</b>	<b>21,311,431</b>	<b>21,262,832</b>	<b>23,039,248</b>	<b>7,253,136</b>	<b>(327,597)</b>	<b>(58,252,168)</b>	<b>14,286,882</b>

## 23 Risk management, continued

### (d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2011:

KGS'000	Demand and less than 1 month					Total
	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	
<b>ASSETS</b>						
Precious metals	1,156,667	-	-	-	-	6,140,237
Due from banks and other financial institutions	4,983,570	21,242,706	-	-	-	57,975,624
Loans extended	4,355,278	355,703	837,924	5,377	-	1,324,781
Investments available-for-sale	83,851	12,423,081	4,488,729	-	-	20,679,284
Investments held-to-maturity	427,977	585,946	1,664,633	610,606	-	2,913,864
Investments held-to-maturity, pledged under repurchase agreements	52,679	-	-	-	-	207,252
Other financial assets	-	207,252	-	-	-	437,467
	283,147	11,047	61,185	77,438	-	
	<b>37,198,877</b>	<b>9,908,005</b>	<b>7,052,471</b>	<b>693,421</b>	-	<b>89,678,509</b>
<b>LIABILITIES</b>						
Banknotes and coins in circulation	-	-	-	-	49,866,936	49,866,936
Due to banks and other financial institutions	5,606,284	-	-	-	-	5,606,284
Due to the Government of Kyrgyz Republic	6,492,329	-	-	-	-	6,492,329
Amounts payable under agreements of sale and repurchase of securities	142,542	-	-	-	-	207,410
Debt securities issued	1,359,219	-	-	-	-	1,359,219
Loans received	312,358	554,918	3,253,222	1,307,913	-	5,590,609
Liabilities to the IMF in respect of SDR allocations	6,028,207	-	-	-	-	6,030,055
Other financial liabilities	27,018	3,415	-	-	53,597	84,128
	<b>19,967,957</b>	<b>229,012</b>	<b>3,253,222</b>	<b>1,307,913</b>	<b>49,920,533</b>	<b>75,236,970</b>
<b>Net position</b>	<b>17,230,920</b>	<b>9,678,993</b>	<b>3,799,249</b>	<b>(614,492)</b>	<b>(49,920,533)</b>	<b>14,441,539</b>

## 24 Commitments

### (a) Insurance

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

### (b) Litigation

In the ordinary course of business, the National Bank is subject to legal actions and 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.

### (c) Taxation contingencies

The taxation system in the Kyrgyz Republic is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open for six calendar years.

These circumstances may create tax risks in the Kyrgyz Republic. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Kyrgyz tax legislation, official pronouncements and court decisions. Taking into consideration that the National Bank has exemption from income tax and several other taxes, tax liabilities origination is not obvious and their influence on the financial statements of the National Bank is not significant.

## 25 Agency functions

### Membership quota of the Kyrgyz Republic in the International Monetary Fund (the “IMF”)

In 1992 the Kyrgyz Republic joined the IMF. A membership quota expressed in Special Drawing Rights (“SDRs”) is assigned to each member of the IMF. The membership quota is the basis for determining access of the country to the IMF financing. As at 31 December 2012 and 2011 the quota of the Kyrgyz Republic amounted to SDR 88,800 thousand.

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

The National Bank was designated as a depository for these securities and funds and as a financial agency authorised to carry out transactions with the IMF on behalf of the Government of the Kyrgyz Republic.

## 25 Agency functions, continued

### Membership quota of the Kyrgyz Republic in the International Monetary Fund (the “IMF”), continued

The following assets and liabilities are not assets and liabilities of the National Bank and were not included in the National Bank’s financial statements:

	2012 KGS’000	2011 KGS’000
<b>IMF membership quota</b>	<b>6,469,286</b>	<b>6,309,910</b>
Securities in favour of the IMF	6,452,749	6,293,780
IMF current accounts	16,537	16,130
	<b>6,469,286</b>	<b>6,309,910</b>

### IMF loans issued to the Ministry of Finance of the Kyrgyz Republic

On 28 June and 19 December 2011 the IMF provided loans to the Ministry of Finance of the Kyrgyz Republic amounting to SDR 19,028 thousand for supporting the state budget. On 9 May and 11 December 2012 IMF provided loans to the Ministry of Finance of the Kyrgyz Republic amounting to SDR 19,028 for the same aims. These loans are not accounted in the statement of financial position of the National Bank as a liability to the IMF as there is an agreement between the Ministry of Finance of the Kyrgyz Republic and the National Bank dated 2 September 2010 under which the Ministry of Finance of the Kyrgyz Republic is liable for rendering obligations under this loan agreement. As at 31 December 2012 the outstanding balance of this loan amounted to KGS 4,402,816 thousand (2011: KGS 2,932,968 thousand).

### Loan from the Export and Credit Bank of Turkey (the “Eximbank”)

Eximbank of Turkey granted a loan to the Government of the Kyrgyz Republic. According to the agreement # D-3-2-5/409 dated 25 March 2003 signed by the National Bank and the Ministry of Finance of the Kyrgyz Republic, the National Bank acts as a depository agent on this loan.

As at 31 December 2012 the outstanding amounts payable by the Government of the Kyrgyz Republic to Eximbank of Turkey was written off as at 4 October 2012 under a debt restructuring agreement between Government of the Kyrgyz Republic and the Government of the Turkey dated 1 December 2011 (2011: KGS 2,288,250 thousand).

## 26 Related party transactions

### (a) Control relationships

In accordance with the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” the Bank is the central bank of the Kyrgyz Republic and is owned by the Kyrgyz Republic. The Bank independently manages its activities within the limits of authority determined by the Law.

### (b) Transactions with the members of the Management Board

The remuneration to the members of the National Bank’s Management Board for the years ended 31 December 2012 and 2011 comprised KGS 10,576 thousand and KGS 6,486 thousand, respectively. The remuneration consists of salary and other payments. The outstanding balances of loans issued to the members of the Management Board as at 31 December 2012 and 2011 comprised KGS 7,425 thousand and KGS 7,853 thousand, respectively. The loans are in KGS and repayable by 2024 and 2026. Interest income from loans to the Management Board for the years ended 31 December 2012 and 2011 comprised KGS 383 thousand and KGS 383 thousand respectively.

## 26 Related party transactions, continued

### (c) Transactions with other related parties

The outstanding balances and the related average interest rates as at 31 December 2012 and related income statement amounts of transactions for the year ended 31 December 2012 with the Ministry of Finance and other related parties are as follows:

	The Ministry of Finance of the Kyrgyz Republic		Financial institutions owned by the Government of the Kyrgyz Republic		Total KGS'000
	KGS'000	Average interest rate, %	KGS'000	Average interest rate, %	
<b>Statement of Financial Position</b>					
<b>ASSETS</b>					
Investments held-to-maturity	2,311,247	6.86	-	-	2,311,247
Loans extended	-	-	620,600	7.6	620,600
<b>LIABILITIES</b>					
Due to banks and other financial institutions	-	-	1,186,114	-	1,186,114
Due to the Government of the Kyrgyz Republic	5,192,410	1.37	-	-	5,192,410
Loans received	97,198	1.50	-	-	97,198
<b>Income Statement</b>					
Interest income	210,815		57,440		268,255
Interest expense	128,498		55,686		184,184

## 26 Related party transactions, continued

### (c) Transactions with other related parties, continued

The outstanding balances and the related average interest rates as at 31 December 2011 and related income statement amounts of transactions for the year ended 31 December 2011 with the Ministry of Finance and other related parties are as follows:

	The Ministry of Finance of the Kyrgyz Republic		Financial institutions owned by the Government of the Kyrgyz Republic		Unconsolidated subsidiaries		Total KGS'000
	KGS'000	Average interest rate, %	KGS'000	Average interest rate, %	KGS'000	Average interest rate, %	
<b>Statement of Financial Position</b>							
<b>ASSETS</b>							
Investments held-to-maturity	3,121,116	9.7	-	-	-	-	3,121,116
Investments available-for-sale	-	-	-	-	8,984	-	8,984
Loans extended	-	-	904,640	7.47	-	-	904,640
<b>LIABILITIES</b>							
Due to banks and other financial institutions	-	-	1,336,995	-	-	-	1,336,995
Due to the Government of the Kyrgyz Republic	6,492,329	1.83	-	-	-	-	6,492,329
Loans received	72,922	1.50	-	-	-	-	72,922
<b>Income Statement</b>							
Interest income	342,783		71,389		-		414,172
Interest expense	90,140		49,846		-		139,986

## 27 Financial assets and liabilities: fair values and accounting classifications

### (a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2012:

KGS'000	Held-to- maturity	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
Due from banks and other financial institutions	-	57,260,628	-	-	57,260,628	57,260,628
Loans extended	-	810,528	-	-	810,528	810,528
Investments available-for-sale	-	-	32,554,699	-	32,554,699	32,554,699
Investments held-to-maturity	1,379,590	-	-	-	1,379,590	1,333,229
Investments held-to-maturity, pledged under repurchase agreements	931,657	-	-	-	931,657	931,657
Other financial assets	-	450,961	-	-	450,961	450,961
	<b>2,311,247</b>	<b>58,522,117</b>	<b>32,554,699</b>	<b>-</b>	<b>93,388,063</b>	<b>93,341,702</b>
Banknotes and coins in circulation	-	-	-	58,252,168	58,252,168	58,252,168
Due to banks and other financial institutions	-	-	-	7,366,739	7,366,739	7,366,739
Due to the Government of the Kyrgyz Republic	-	-	-	5,192,410	5,192,410	5,192,410
Amounts payable under agreements of sale and repurchase of securities	-	-	-	796,711	796,711	796,711
Debt securities issued	-	-	-	3,046,903	3,046,903	3,053,969
Loans received	-	-	-	4,752,831	4,752,831	4,752,831
Liabilities to the IMF in respect of SDR allocations	-	-	-	6,192,312	6,192,312	6,192,312
Other financial liabilities	-	-	-	29,939	29,939	29,939
	<b>-</b>	<b>-</b>	<b>-</b>	<b>85,630,013</b>	<b>85,630,013</b>	<b>85,637,079</b>

## 27 Financial assets and liabilities: fair values and accounting classifications, continued

### (a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2011:

KGS'000	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Due from banks and other financial institutions	-	57,975,624	-	-	57,975,624	57,975,624
Loans extended	-	1,324,781	-	-	1,324,781	1,324,781
Investments available-for-sale	-	-	20,679,284	-	20,679,284	20,679,284
Investments held-to-maturity	2,913,864	-	-	-	2,913,864	2,797,214
Investments held-to-maturity, pledged under repurchase agreements	207,252	-	-	-	207,252	197,497
Other financial assets	-	437,467	-	-	437,467	437,467
	<b>3,121,116</b>	<b>59,737,872</b>	<b>20,679,284</b>	<b>-</b>	<b>83,538,272</b>	<b>83,411,867</b>
Banknotes and coins in circulation	-	-	-	49,866,936	49,866,936	49,866,936
Due to banks and other financial institutions	-	-	-	5,606,284	5,606,284	5,606,284
Due to the Government of the Kyrgyz Republic	-	-	-	6,492,329	6,492,329	6,492,329
Amounts payable under agreements of sale and repurchase of securities	-	-	-	207,410	207,410	207,410
Debt securities issued	-	-	-	1,359,219	1,359,219	1,373,462
Loans received	-	-	-	5,590,609	5,590,609	5,590,609
Liabilities to the IMF in respect of SDR allocations	-	-	-	6,030,055	6,030,055	6,030,055
Other financial liabilities	-	-	-	84,128	84,128	84,128
	<b>-</b>	<b>-</b>	<b>-</b>	<b>75,236,970</b>	<b>75,236,970</b>	<b>75,251,213</b>

## 27 Financial assets and liabilities: fair values and accounting classifications, continued

### (a) Accounting classifications and fair values, continued

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or settlement of liabilities.

### (b) Fair value hierarchy

The National Bank measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2012, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KGS'000	Level 1	Level 2	Total
Available-for-sale financial assets			
- Debt and other fixed income instruments	32,554,699	-	32,554,699
	<b>32,554,699</b>	<b>-</b>	<b>32,554,699</b>

The table below analyses financial instruments measured at fair value at 31 December 2011, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KGS'000	Level 1	Level 2	Total
Available-for-sale financial assets			
- Debt and other fixed income instruments	20,679,284	-	20,679,284
	<b>20,679,284</b>	<b>-</b>	<b>20,679,284</b>



# IV

## ATTACHMENTS

**Chronology of Major Events in the Monetary Sphere in 2012**

Date	Event
December 14, 2011	The Board of the NBKR considered and adopted the following resolutions: <ul style="list-style-type: none"> <li>– “On Main Monetary Policy Guidelines for 2012-2014”;</li> <li>– “On the Statement of the National Bank of the Kyrgyz Republic on the Monetary Policy for 2012”.</li> </ul>
January 18	The Board of the NBKR adopted a resolution “On Minimum Size of the Capital (Equity) of LLC “FCSDCU”
January 21	Session of the Interagency Commission for increasing the share of non-cash payments and settlements in the Kyrgyz Republic was held. State Program to Increase the Share of Non-Cash Payments and Settlements in the Kyrgyz Republic for 2012-2017 was reviewed and approved.
January 25	The Board of the NBKR approved the Joint Statement of the Government and the National Bank of the Kyrgyz Republic on Economic Policy for 2012.
February 6	The Board of the NBKR held a field session with participation of credit unions.
February 15	<ul style="list-style-type: none"> <li>• The Board of the NBKR adopted the following resolutions: <ul style="list-style-type: none"> <li>– “On Amendments and Addenda to Some Regulatory Legal Acts of the National Bank of the Kyrgyz Republic”, which introduced amendments and addenda to “Major Requirements to the Audit Committee”, Regulations “On Corporate Management in Commercial Banks of the Kyrgyz Republic”, Regulations “On Minimum Requirements on Credit Risk Management by Commercial Banks and Other Finance and Credit Institutions Licenses by the National Bank” and Regulations “On Banks’ Operations with Securities”.</li> <li>– “On Key Areas of Payment System Development in the Kyrgyz Republic in 2012-2014”.</li> </ul> </li> <li>• Press-conference on monetary policy results for 2011, status of the banking sector and other issues held with participation of the NBKR Governor.</li> </ul>
February 16	Scientific Expert Council of the National Bank held a session to review issues related to forecasting inflation in the country. It adopted a decision on organizing an expert site on the NBKR platform, where independent experts would discuss economic situation in the country and develop recommendations on the line of monetary policy.
February 27	The Board of the NBKR adopted resolutions on: <ul style="list-style-type: none"> <li>– the monetary policy implementation report for 2011;</li> <li>– the report on the status of the payment system of the Kyrgyz Republic for Quarter IV, 2011.</li> </ul>

February 28	Strategy for Microfinance Development for 2011-2015 was endorsed by a resolution of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic.
February 29 – March 14	The IMF Mission visited the Kyrgyz Republic to carry out the Second Review of the progress in implementation of the economic program supported by the IMF under the Extended Credit Facility (ECF).
March 14	The Board of the NBKR adopted a resolution “On Amendments and Addenda to Some Regulatory Legal Acts of the National Bank of the Kyrgyz Republic”, which endorsed amendments and addenda to the Regulations “On Requirements to the Accounting Policy of Commercial Banks and Other Finance and Credit Institutions Licensed by the NBKR”, Regulations “On Requirements to the Accounting Policy of Commercial Bank Working under the Islamic Principles of Banking and Finance”.
March 15	Expert Forum held a session to discuss ways to reforming the monetary policy of the Kyrgyz Republic.
March 19	Interagency Commission for increasing the share of non-cash payments and settlements in the Kyrgyz Republic held a meeting. Reports on the progress in implementation of the State Program to Increase the Share of Non-Cash Payments and Settlements in the Kyrgyz Republic were heard at the meeting.
March 28	Press-conference on monetary policy results for Quarter I, 2012 held with participation of the Deputy Governor of the NBKR.
March 30	The Board of the NBKR adopted a resolution “On Trends in the Banking System Development According to the Results of 2011”.
April 11	The Action Plan for Implementation of the Microfinance Development Strategy for 2011-2015 was endorsed by an Order.
April 13	Interbank Council on the Payment System held a session with participation of representatives of commercial banks, ministries and agencies of the Kyrgyz Republic, Union of Legal Entities “Union of Bank of Kyrgyzstan” and CJSC “Interbank Processing Center”. Issues related to ensuring secure functioning and development of the payment system of the Kyrgyz Republic were discussed at the meeting.
April 19	A press-conference devoted to borrowers affected by April and June events of 2010 was held at the Kyrgyz National Information Agency “Kabar” with participation of the Deputy Governor of the NBKR, Chairperson of the Union of Banks of Kyrgyzstan and representatives of the Association of Microfinance Organizations.
April 25	The Board of the NBKR adopted resolutions “On Amendments and Addenda to Some Regulatory Legal Acts of the National Bank of the Kyrgyz Republic”, which endorsed amendments and addenda to the Regulations “On Minimum Requirements on Credit Risk Management By Commercial Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”, Regulations “On Economic Standards and Requirements Binding to Commercial Banks of the Kyrgyz Republic” and “Interim order of Applying Special Classification of Credits Corresponding to Certain Criteria”.

- April 30
- Draft Law of the Kyrgyz Republic “On Amendments and Addenda to Some Legislative Acts of the Kyrgyz Republic” endorsed by a Government resolution. The approved law stipulates introduction of amendments and addenda to the Laws “On Microfinance Organizations”, “On Credit Unions”, and “On Transactions in Foreign Currency”.
  - Expert Forum held a session to discuss with independent experts the preliminary results of the monetary policy accomplished in the Quarter I, 2012. The results of the discussion were taken into consideration when developing the monetary program for the upcoming period.
- May 11-13
- Management of the NBKR participated in the 27<sup>th</sup> session of the Club of Governors of Central Banks, which unites the banks of Central Asia, Black Sea and Balkan Countries. The session was held in Baku, Azerbaijan.
- May 14
- State Program to Increase the Share of Non-Cash Payments and Settlements in the Kyrgyz Republic for 2012-2017 was endorsed by a joint resolution of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic.
- May 18
- The Board of the NBKR adopted the following resolutions:
    - “On Amendments and Addenda to Some Regulatory Legal Acts of the National Bank”, which endorsed addenda to the Interim Regulations “On General Principles of Classification of Assets and Formation of Loan Loss Provisions by Microfinance Organizations in the Kyrgyz Republic With No Rights to Accept Deposits from Natural and Legal Entities”, Regulations “On Classification of Credits in Credit Unions”, Regulations “On Classification of Assets and Corresponding Allocations to Reserve for Loan Loss Provisions”, Interim Order of Applying Special Classification of Credits Corresponding to Certain Criteria, and Regulations “On Preventive Measures and Sanctions to be Applied by the National Bank of the Kyrgyz Republic to Microfinance Organizations”;
    - “On Requirements to Banks and Finance and Credit Institutions Licensed and Governed by the National Bank Concerning Expending Credits to Individual Clients.
  - Press-conference on the situation in microfinance sector and the activities of the National Bank regarding the problem borrowers was held with participation of the Governor of the NBKR and staff of the supervision block of the National Bank.
- May 24
- The Management of the National Bank met with the joint mission of EBRD and the US Treasury. The mission objective was to monitor the Program of Financing in the National Currency.
  - The President of the Kyrgyz Republic met with representatives of the banking and microfinance sectors and the Governor of the NBKR joined the meeting. Reduction of interest rates used by finance and credit institutions, banking legislation and problems of borrowers of finance and credit institutions who were affected by the particular events of 2010 were discussed during the meeting.

- May 29 The Board of the NBKR adopted the following resolutions:
- “On Amendments and Addenda to the Resolution of the Board of the National Bank “On Approval of Regulations “On Licensing the Activities of Banks””;
  - “On Activity of Microfinance Organizations”;
  - “On the Payment System Status Report for the Quarter I, 2012”;
  - “On Monetary Policy Report for Quarter I, 2012”.
- May 29-30 The Management of the NBKR participated in the regular 26<sup>th</sup> session of the Council of the Heads of Central (National) Banks of EurAsEC member states held in Suzdal, Russia.
- May 31 Interagency Commission for increasing the share of non-cash payments and settlements in the Kyrgyz Republic held a session to discuss issues related to expanding the share of non-cash payments and settlements in the Kyrgyz Republic.
- June 5 A meeting of representatives of the Government, business associations and the financial sector organized by the German Agency for International Cooperation under the Program for Promotion of Microfinance in Central Asia was held on a topic “Strategy for Microfinance Development in Kyrgyzstan for 2011-2015”. The Deputy Governor of the NBKR participated in the meeting.
- June 13 The Board of the NBKR adopted a resolution “On Trends in Banking System Development According to the Results of the Quarter I, 2012”.
- June 18-26 An Expert of the World Bank carried out independent assessment of performance of payment systems of the Kyrgyz Republic of systemic significance to ascertain their compliance with international standards.
- June 19 A press-conference was held at the Kyrgyz National Information Agency “Kabar” with participation of staff of the NBKR to introduce draft law “On the Payment System of the Kyrgyz Republic” to journalists.
- June 25 The Board of the NBKR approved the Report on Fulfillment of Supervision Responsibilities for the first six months of 2012.
- July 4 The Board of the NBKR adopted the following resolutions:
- “On Approval of the Instructions “On Requirements to Operations of Microfinance Companies Attracting Deposits with Insiders and Affiliated Persons””;
  - “On Amendments and Addenda to Major Requirements to the Audit Committee”;
  - “On Approval of the Order of Handling Collateral Property by the Commercial Banks and Other Finance and Credit Institutions Licensed and Governed by the National Bank of the Kyrgyz Republic”;

- “On Addenda to Some Regulatory Legal Acts of the National Bank of the Kyrgyz Republic”, which endorsed addenda to the Regulations “On Conservation of Commercial Banks and Microfinance Companies Accepting Deposits”, Regulations “On Interim Management for Bank Administration”, Instructions “On Inspection Reviews of Activities of Credit Unions”, Regulations “On the Order of Conducting Exchange Transactions with Foreign Currency in Cash in the Kyrgyz Republic”;
  - “On Approval of the Order of Arranging Video Surveillance in Commercial Banks”.
- July 6 Interagency Commission for increasing the share of non-cash payments and settlements held a session to discuss issues related to the subject.
- July 11 The Board of the NBKR adopted the following resolutions:
- “On Amendments and Addenda to Some Regulatory Acts of the National Bank of the Kyrgyz Republic Governing the Activities of Microfinance Organizations”. This resolution endorsed amendments and addenda to the Regulations “On Establishment of Microcredit Companies and Microcredit Agencies”, Regulations “On Licensing, Reorganization and Liquidation of Microfinance Companies on the Territory of the Kyrgyz Republic” and “Interim Rules for Regulating Activities of Microfinance Companies on the Territory of the Kyrgyz Republic”;
  - “On Amendments and Addenda to the Regulations “On Direct Banking Supervision”;
  - “On Share of the NBKR in the Capital of CJSC “Interbank Processing Center” within the Framework of the “State Program to Increase the Share of Non-Cash Payments and Settlements in the Kyrgyz Republic for 2012-2017”.
- July 16 – 21 The IMF representatives visited to prepare information for the Third Review of the progress in implementation of the economic program under the Extended Credit Facility (ECF).
- July 24 The Management of the NBKR met with the Executive Director of the World Bank for Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan and Uzbekistan. Projects implemented by the World Bank in the Kyrgyz Republic were discussed at the meeting.
- July 25
- The Board of the NBKR approved the resolution “On Approval of the Regulations “On Licensing, Reorganization and Liquidation of the Specialized Finance and Credit Institution OJSC “Financial Company of Credit Unions”.
  - Coordination Council for microfinance development held a meeting to review the semi-annual results of implementation of activities under the “Microfinance Development Strategy for 2011-2015”.
- August 2 Interbank Council for Payment System held a session with participation of representatives of commercial banks, ministries and agencies of the Kyrgyz Republic, Union of Legal Entities “Union of Banks of Kyrgyzstan” and CJSC “Interbank Processing Center” to discuss issues related to ensuring secure functioning and development of the national payment system.

- August 7 Expert Forum held a meeting with independent experts to discuss the preliminary results of the monetary policy accomplished in the first six months of 2012. Results of the discussion were taken into consideration when developing the monetary program for the upcoming period.
- August 17 The Board of the NBKR adopted the following resolutions:
- “On Addenda to the Regulations “On Requirements to the Chart of Accounts under Accounting in Commercial Banks and Other Finance and Credit Institutions of the Kyrgyz Republic”;
  - “On Amendments and Addenda to Some Regulatory Legal Acts of the National Bank of the Kyrgyz Republic”, which sanctioned amendments and addenda to the “Rules for Completing Money Transfers through the Money Transfer Systems in the Kyrgyz Republic” and “Instructions on Working with Deposits”;
  - “On Amendments to the Guidelines for Banking Sector Development in the Kyrgyz Republic till the end of 2014” approved by the resolution of the Board of the NBKR, specifying activities to protect the rights of customers of financial services.
- August 22 Staff of the NBKR organized the press-conference at the Kyrgyz National Information Agency “Kabar” to present new collection coins of the National Bank.
- August 27 The Board of the NBKR adopted the following resolutions:
- “On Monetary Policy Report for the First Six Months of 2012”;
  - “On Payment System Status Report for Quarter II, 2012”.
- August 29 The Board of the NBKR adopted the following resolutions:
- “On Approval of the Regulations “On Specific Deals/Transactions with Immovable Property by Commercial Banks and Microfinance Companies of the Kyrgyz Republic”;
  - “On Trends of the Banking System Development According to the Results of the Quarter II, 2012”.
- September 7-8 The management of the NBKR participated in the meeting of Swiss Constituency Group in the IMF and the World Bank Group held in Montreux, Switzerland.
- September 10-11 International Conference on “Remittances of Migrants: Accuracy and Benefits” organized by the World Bank and the Bank of Russia was held in Cholpon-Ata. General principles of operation of international money transfer systems and collation of mirror statistics on remittances reflected in the balance of payments were discussed at the conference.
- September 12 The Board of the NBKR adopted the following resolutions:
- “On Approval of the Rules for Regulating the Activities of the Specialized Finance and Credit Institution OJSC “Financial Company of Credit Unions”;
  - “On Approval of the Instructions on Provision of Individual Bank Vaults by Commercial Banks to Clientele for Storage of Valuables”.

September 26 - October 10	The IMF mission held the Third Review of the progress in implementation of the economic program in the Kyrgyz Republic supported by the Extended Credit Facility (ECF) of the IMF.
September 27	A press-conference on the draft law “On the Payment system of the Kyrgyz Republic” was held at the Kyrgyz National Information Agency “Kabar” with participation of representatives of the NBKR.
October 3-4	The management of the NBKR participated in the regular 27 <sup>th</sup> session of the Council of the Heads of Central (National) Banks of EurAsEC member states held in Dushanbe, Tajikistan.
October 5	A press-conference on microlending and problem borrowers organized by the management of big MFO was held at the Press-Center of the Public Television and Radio Company with participation of representatives of the NBKR.
October 8-12	The World Bank Mission worked in the Kyrgyz Republic to carry out assessment of the performance of interbank payment systems of the NBKR under the framework of Treasury Management Information System Project.
October 9	A round table was organized by the National Bank with the support of the Economic and Fiscal Policy Committee of Jogorku Kenesh of the Kyrgyz Republic to discuss the draft law “On the Payment System of the Kyrgyz Republic”.
October 12	The Board of the NBKR adopted the following resolutions: <ul style="list-style-type: none"> <li>– “On Amendments and Addenda to Some Regulatory Legal Acts of the National Bank of the Kyrgyz Republic”, which endorsed amendments and addenda to the Regulations “On Minimum Requirements on Credit Risk Management by Commercial Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”, Regulations “On Minimum Requirements on Country Risk Management by Commercial Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic” and Regulations “On Classification of Assets and Corresponding Allocations to Reserve for Loan Loss Provisions”;</li> <li>– “On Approval of the Instructions “On Thresholds of Financing Provided under the Islamic Principles of Banking and Finance”.</li> </ul>
October 12-14	Governor of the National Bank of the Kyrgyz Republic participate the Annual Meetings of the International Monetary Fund and the World Bank Group held in Tokyo, Japan.
October 18	Joint draft Law of the Kyrgyz Republic “On Amendments and Addenda to Some Legislative Acts of the Kyrgyz Republic”, which stipulated introduction of amendments and addenda to the Laws of the Kyrgyz Republic “On Microfinance Organizations in the Kyrgyz Republic”, “On Credit Unions” and “On Transactions in Foreign Currency” was considered by the Jogorku Kenesh of the Kyrgyz Republic and approved at the first reading.
October 19	A press-conference on results of activities of the National Bank for the nine months of 2012 was held with participation of the Governor of the NBKR.

- October 19-20 The management of the NBKR participated in the 28<sup>th</sup> session of the Club of Governors of Central Banks, which unites the banks of Central Asia, Black Sea and Balkan Countries. The session was held in Warsaw, Poland.
- October 24 The Governor of the NBKR met with journalists of “The European Times” and discussed the current status of the banking sector of Kyrgyzstan and the activities of the National Bank.
- October 25 Scientific Expert Council of the NBKR held a session to discuss the following studies prepared by the staff of the NBKR:
- Analysis of Interdependence Between the Inflation Dynamics and the Economic Growth Rate in Kyrgyzstan;
  - Possibilities for Applying the Keynesian Stimulating Economic Policy in Kyrgyzstan;
  - Modeling Inflation Processes in Kyrgyzstan.
- October 31
- The Board of the NBKR adopted the following resolutions:
    - “On Amendments to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Requirements to Banks and Other Finance and Credit Institutions Licensed and Governed by the National Bank of the Kyrgyz Republic Concerning Extending Credits to Individual Clients”;
    - “On Amendments and Addenda to Some Regulatory Legal Acts of the National Bank of the Kyrgyz Republic”, which endorsed amendments and addenda to the Regulations “On Classification of Assets and Corresponding Allocations to Reserve for Loan Loss Provisions”, “Interim Regulations on General Principles of Classification of Assets and Forming Reserves for Loan Loss Provisions by Microfinance Organizations in the Kyrgyz Republic With No Rights to Accept Deposits of Natural and Legal Entities”, “Interim Order of Applying the Special Classification of Credits Corresponding to Certain Criteria”, Regulations “On Classification of Loans in Credit Unions”, Regulations “On Minimum Requirements for Credit Risk Management by Commercial Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”, and “Interim Rules on Lending (Overdraft) through Bank Payment Cards”;
    - “On Amendments and Addenda to Instruction on Carrying Out On-Site Inspection Checks”;
    - “On Approval of the Instructions on Management of Bank Accounts and Deposit Accounts”.
  - EBRD held a presentation on “Financial Integration and Access to Financial Services”, where project outcomes in training the public in family budgeting and promoting the initiatives on allocation of a share of incoming remittances for savings were presented.
- November 1 A press-conference on the monetary policy results accomplished in the Quarter III, 2012 was held at the Kyrgyz National Information Agency “Kabar” with participation of the Deputy Governor of the NBKR.

- November 2 Expert Forum held a meeting with independent experts the preliminary results of the monetary policy accomplished over the past nine months of 2012. The results of discussion were taken into consideration when developing the monetary policy program for the upcoming period.
- November 13
- License for carrying out banking operations was issued to CJSC MFB “Bai-Tushum and Partners”.
  - Interagency Commission for increasing the share on non-cash payments and settlements in the Kyrgyz Republic held a session to hear reports on the progress in implementation of activities of the corresponding State Program.
- November 14 The Board of the NBKR adopted a resolution on the new edition of the Regulations “On the Monetary Regulation Committee of the National Bank”.
- November 28 The Board of the NBKR adopted the following resolutions:
- “On Requirements to Microfinance Organizations”;
  - “On Amendments to the State Payment Transactions Classifier”.
- November 29 The Board of the NBKR adopted the following resolutions:
- “On the Monetary Policy Report for January-September of 2012”;
  - “On Trends in Banking System Development According to the Results of the Quarter III, 2012”;
  - “On the Payment System Status Report for Quarter III, 2012”.
- December 12 The Board of the NBKR considered and adopted the following resolutions:
- “On Minimum Size of the Capital (Equity) of the Specialized Finance and Credit Institution OJSC “Financial Company of Credit Unions”;
  - “On Main Monetary Policy Guidelines for 2013-2015”;
  - “On the Statement of the National Bank on Monetary Policy for 2013”.
- December 14
- Interagency Commission for increasing the share on non-cash payments and settlements in the Kyrgyz Republic held a session to hear reports on the progress in implementation of activities of the corresponding State Program.
  - A subsection “Information for Customers of Financial Services” was added under the section “Information and Analytical Materials” of the official website of the NBKR. Stickers with information on average weighted interest rates of loans extended by commercial banks over the last reporting month and NFCI over the last reporting quarter were posted on the main page of the NBKR website.
- December 20 Interagency Commission for increasing the share of non-cash payments and settlements in the Kyrgyz Republic held a session where the participation of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic as the issuer of bank payment cards of the “Elcard” national payment system was approved.

- December 21 The Board of the NBKR adopted a resolution “On Amendments and Addenda to Some Regulatory Legal Acts of the National Bank of the Kyrgyz Republic”, which introduced amendments and addenda to the “Rules for Regulating the Activities of Credit Unions” and amendments to the Regulations “On Licensing, Reorganization and Liquidation of the Specialized Finance and Credit Institution OJSC “Financial Company of Credit Unions”.
- December 26 A press-conference on legislation of the Kyrgyz Republic on microfinance was held at the press-center of the Development Policy Institute with participation of representatives of the National Bank.
- December 27 The Board of the NBKR adopted the following resolutions:
- “On Amendments to the resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of Instruction on Managing Bank Accounts and Deposit Accounts”;
  - “On Amendments and Addenda to Some Regulatory Legal Acts of the National Bank”, which introduced amendments and addenda to the Regulations “On Calculation of Effective Interest Rate when Distributing Information on the Amount of the Banking Service Fees” and Regulations “On Minimum Requirements on Credit Risk Management by Commercial Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”;
  - “On Amendments and Addenda to the resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of Regulations “On Licensing Activities of Banks”.
- December 29 The Board of the NBKR approved the Joint Statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic on Economic Policy for 2013”.

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**Table 1.****Macroeconomic Indicators**

	Unit of Measurement	2008	2009	2010	2011	2012
<b>Real Sector<sup>1</sup></b>						
Nominal GDP	<i>in millions of KGS</i>	187,991.9	201,222.9	220,369.3	285,989.1	304,350.1*
Rate of Growth of Real GDP	<i>percent</i>	8.4	2.9	-0.5	6.0	-0.9*
Rate of Growth of Industrial Output	<i>percent</i>	14.9	-6.4	9.8	11.9	-20.2*
Rate of Growth of Gross Agricultural Output	<i>percent</i>	0.8	7.0	-2.6	2.0	1.2*
Retail Turnover	<i>in millions of KGS</i>	123,262.0	129,487.4	135,815.6	172,110.4	202,207.4
Rendered Market Services	<i>in millions of KGS</i>	248,432.9	258,156.8	267,633.0	335,393.0	386,400.1
Consumer Prices (in % to the previous period)		20.0	0.0	19.2	5.7	7.5
- food products		20.9	-7.4	27.0	3.5	4.5
- alcoholic beverages and tobacco products		13.0	5.2	12.9	9.8	10.2
- non-food products		16.0	10.4	14.2	9.2	9.8
- services		34.4	4.4	11.9	11.1	9.8
Producer' Prices (in % to the previous period)		26.4	12.0	22.9	21.8	5.2
Unemployment Rate	<i>percent</i>	2.9	2.6	2.6	2.5	2.4
Average Nominal Wage	<i>KGS</i>	5,422.0	6,253.0	7,142.0	9,352.0	10,891.0
Estimated Minimal Consumer Budget	<i>KGS</i>	3,571.0	3,263.2	3,502.7	4,390.0	4,341.2
<b>Financial Sector<sup>2</sup></b>						
NBKR Discount Rate (end of period)	<i>percent</i>	15.2	0.9	5.5	13.6	2.6
Government Treasury Bills Market (average yield for the period)	<i>percent</i>					
Maturity Period:						
- 3 months		12.7	10.9	4.6	8.0	6.1
- 6 months		14.3	12.3	7.4	13.0	8.5
- 12 months		15.2	13.6	12.1	16.9	10.8
- 18 months		15.2	-	-	-	-
- 24 months		16.4	-	-	-	-
<b>Interbank Market</b>						
Credits in National Currency:						
- volume (for the period)	<i>in millions of KGS</i>	2,372.0	2,193.7	451.1	905.0	1,357.6
- interest rate (average for the period)	<i>percent</i>	7.6	7.8	4.5	9.1	7.7
Credits in Foreign Currency:						
- volume (for the period)	<i>in millions of KGS</i>	1,088.7	711.1	131.3	69.1	391.2
- interest rate (average for the period)	<i>percent</i>	5.7	6.0	2.9	3.5	1.6
REPO Transactions						
- turnover volume	<i>in millions of KGS</i>	6,864.1	8,613.1	4,597.9	5,116.8	5,942.0
- interest rate (average for the period)	<i>percent</i>	8.9	8.3	3.7	9.4	7.7
<b>Foreign Exchange Market</b>						
Transactions at Interbank Foreign Exchange Auctions	<i>US\$ thousand</i>	883,183.6	657,140.0	647,840.0	907,600.0	1,011,150.0
<b>Deposit and credit Market</b>						
Credits in National Currency:						
- volume (for the period)	<i>in millions of KGS</i>	9,082.7	9,993.5	11,947.3	15,162.3	17,051.1
- interest rate (average for the period)	<i>percent</i>	25.9	26.7	23.7	23.8	23.0
- interest rate (end of period)	<i>percent</i>	23.7	25.3	22.9	22.4	22.9
Credits in Foreign Currency:						
- volume (for the period)	<i>in millions of KGS</i>	15,280.9	12,005.4	10,872.1	16,742.4	21,000.1
- interest rate (average for the period)	<i>percent</i>	20.3	21.5	19.8	19.6	19.1
- interest rate (end of period)	<i>percent</i>	19.5	20.6	19.3	17.8	17.3
Deposits in National Currency:						
- volume (for the period)	<i>in millions of KGS</i>	31,446.2	33,842.4	56,034.1	95,086.1	120,031.0
- interest rate (average for the period)	<i>percent</i>	2.5	2.8	2.0	2.2	2.3
- interest rate (end of period)	<i>percent</i>	6.0	5.3	4.6	5.3	5.2
Deposits in Foreign Currency:						
- volume (for the period)	<i>in millions of KGS</i>	51,678.1	49,761.5	73,429.2	108,083.6	114,824.2
- interest rate (average for the period)	<i>percent</i>	0.9	1.7	1.1	0.8	0.8
- interest rate (end of period)	<i>percent</i>	1.6	2.1	2.9	2.8	2.9
<b>State Budget<sup>3</sup></b>						
Revenues	<i>in millions of KGS</i>	45,479.5	55,322.1	57,384.5	77,344.4	86,768.4
including taxes	<i>percent</i>	79.0	65.3	63.4	68.5	73.7
Expenditures	<i>in millions of KGS</i>	36,944.0	50,034.3	61,583.2	82,393.8	100,019.0
Net purchase of nonfinancial assets	<i>in millions of KGS</i>	6,970.9	8,211.1	6,569.2	8,488.4	6,981.4
Deficit (-) / Surplus (+)	<i>in millions of KGS</i>	1,564.7	-2,923.3	-10,767.9	-13,537.8	-20,232.1
in percent of GDP	<i>percent of GDP</i>	0.8	-1.5	-4.9	-4.7	-6.6
<b>External Economic Sector</b>						
Export of Goods and Services	<i>percent of GDP</i>	53.9	54.8	51.7	57.0	49.2*
Import of Goods and Services	<i>percent of GDP</i>	92.4	79.0	81.7	85.4	99.7*
Current Account Balance <sup>4</sup> (including transfers)	<i>percent of GDP</i>	-13.8	-2.2	-7.3	-6.3	-20.9*
Reserve Assets	<i>months of imports of goods and services</i>	4.0	4.9	4.1	3.4	3.3*

\* preliminary data

<sup>1</sup>NSC KR data<sup>2</sup>NBKR data<sup>3</sup>CT MF KR data<sup>4</sup>Positive balance – "+"; Negative balance – "-"

"- no transactions

**Table 2.**

## GDP Structure

(in percent)

	2008	2009	2010	2011	2012*
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Agriculture, Hunting, and Forestry	23.5	18.8	17.4	16.6	17.5
Mineral resource industry	0.5	0.5	0.6	0.8	1.3
Processing industry	13.2	14.2	17.0	18.3	12.5
Production and distribution of electricity, gas, and water	1.4	2.2	3.1	3.4	3.0
Construction	5.3	6.7	5.5	4.9	5.7
Trade, repair of motor vehicles, household goods, and personal use items	16.3	16.8	16.0	15.2	16.2
Hotels and restaurants	1.3	1.3	1.3	1.5	1.5
Transportation and communication	7.9	8.8	8.6	8.1	8.6
Other	17.4	19.7	20.3	20.2	20.4
Net taxes on products	13.1	11.0	10.2	11.0	13.4

NSC KR data

\* preliminary data

**Table 3.**

## Structure of Capital Investments by Sources of Financing

(in percent)

	2008	2009	2010	2011	2012*
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Domestic investments</b>	<b>64.0</b>	<b>70.6</b>	<b>76.6</b>	<b>71.3</b>	<b>67.4</b>
including those financed by:					
Republican budget	10.9	13.1	7.3	9.5	5.8
Local budget	1.8	2.1	1.5	1.3	1.0
Funds of enterprises and organizations	22.9	18.7	36.3	34.9	37.0
Credit to Banks	0.8	5.9	7.0	0.6	0.5
Funds of the population, including charitable aid of residents of the Kyrgyz Republic	27.6	30.8	24.5	25.0	23.1
<b>Foreign investments</b>	<b>36.0</b>	<b>29.4</b>	<b>23.4</b>	<b>28.7</b>	<b>32.6</b>
including those financed by:					
Foreign credits	12.7	17.5	12.6	18.5	19.8
Foreign direct investments	19.7	9.3	7.3	6.8	9.0
Foreign grants and humanitarian aid	3.6	2.6	3.5	3.4	3.8

NSC KR data

\* preliminary data

**Table 4.****Monetary Base and Monetary Aggregates (end of period)***(in millions of KGS)*

	2008	2009	2010	2011	2012
Base money	35,150.8	41,587.7	48,597.3	54,803.2	64,488.8
Currency in circulation	30,803.3	35,738.7	43,290.3	49,866.9	58,252.2
Currency outside Banks (M0)	29,385.1	33,882.3	41,471.2	47,219.6	54,521.2
Monetary aggregate (M1)	34,270.2	40,181.7	50,092.8	56,946.3	70,220.7
Broad money (M2)	38,209.3	43,490.0	53,745.4	62,125.3	77,460.6
Monetary aggregate (M2X)	48,453.2	57,126.4	69,207.7	79,527.8	98,482.9
Multiplier M1	0.97	0.97	1.03	1.04	1.09
Multiplier M2	1.09	1.05	1.11	1.13	1.20
Multiplier M2X	1.38	1.37	1.42	1.45	1.53
M1 Velocity	5.80	5.97	5.13	5.55	5.00
M2 Velocity	5.13	5.52	4.75	5.11	4.52
M2X Velocity	4.14	4.27	3.71	3.95	3.45
Currency outside Banks/Deposits	1.54	1.46	1.50	1.46	1.24
Deposits/Broad money (M2X)	0.39	0.41	0.40	0.41	0.45

*Prior to January 1st, 2010 Base Money = Currency in circulation + Reserves and Deposits of other depository corporations in NBKR in national and foreign currencies + deposits of financial institutions in NBKR in national and foreign currencies;*

*Starting from January 1st, 2010 Base Money = Currency in circulation + Reserves of other depository corporations in NBKR in national currency;*

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

*Money outside Banks (M0) = Currency in circulation less notes and coins in vaults in commercial banks in national currency;*

*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 base money;*

*Velocity = ratio of nominal GDP to the volume of monetary aggregate.*

**Table 5.**

## Analytic Balance Sheet of the National Bank of the Kyrgyz Republic (as of the end of period)

(in millions of KGS)

	2008	2009	2010	2011	2012
<b>Net foreign assets</b>	39,675.7	54,308.5	65,126.7	71,419.5	87,158.7
Net international reserves	41,660.6	62,329.4	73,474.9	79,629.0	93,046.0
Gold	2,837.4	4,002.5	5,500.4	6,139.8	7,721.1
Foreign currency (assets)	45,322.6	65,847.9	75,315.7	78,980.7	89,980.5
Foreign currency (liabilities)	-6,499.4	-7,521.0	-7,341.3	-5,491.5	-4,655.6
Other external assets	116.0	133.3	134.3	135.0	305.0
Allocation of SDRs	0.0	-5,863.2	-6,096.4	-6,030.1	-6,192.3
Long-term external liabilities	-2,100.9	-2,291.1	-2,386.1	-2,314.4	0.0
<b>Net domestic assets</b>	-5,133.9	-13,247.8	-16,529.4	-16,616.3	-22,669.9
<i>Net domestic credit</i>	-1,410.9	-4,383.8	-2,489.2	-1,712.7	-6,789.7
Net claims on General Government	569.4	-1,644.2	-2,052.6	-1,158.3	-2,968.0
Net claims on Government	569.4	1,001.3	-1,982.5	-1,143.3	-2,968.0
Securities	3,505.1	2,907.5	3,026.8	3,121.1	2,311.2
Credit in foreign currency to the Government	1,972.9	2,196.1	2,333.1	2,288.2	0.0
Deposits	-4,769.8	-3,975.5	-7,242.5	-6,479.7	-5,182.0
Budgetary accounts	-2,488.6	-1,583.1	-2,725.4	-5,082.8	-1,948.5
Counterpart funds	0.0	0.0	0.0	0.0	-141.2
Other Government accounts	-412.4	-493.2	-493.8	-289.4	-260.7
Government deposits in foreign currency	-1,868.8	-1,899.2	-4,023.3	-1,107.6	-2,831.7
Government credit	-138.8	-126.8	-99.8	-72.9	-97.2
Net claims on special funds	0.0	-2,645.5	-70.2	-15.0	0.0
Net claims on other depository corporations	-1,946.1	-1,264.0	86.8	-398.0	-3,821.6
Loans	304.7	322.6	342.7	1,664.8	1,150.2
including: overnight loans	0.0	0.0	0.0	0.0	0.0
loans in foreign currency	190.4	208.3	228.4	216.1	220.3
Securities	-1,641.8	-1,059.5	-738.7	-1,566.6	-3,843.6
including: notes issued by NBKR	-1,641.8	-1,059.5	-667.9	-1,359.2	-3,046.9
Securities on REPO agreements	0.0	0.0	-70.8	-207.4	-796.7
Deposits	-609.0	-527.0	-207.2	-496.2	-1,128.1
including: deposits in foreign currency	-609.0	-527.0	-207.2	-496.2	-1,128.1
Derivatives	0.0	0.0	690.0	0.0	0.0
Net claims on other financial institutions	-34.3	-1,475.5	-523.3	-156.3	-0.2
Capital accounts	-3,892.6	-11,243.2	-16,582.8	-15,595.7	-17,133.1
Other items	169.6	2,379.1	2,542.5	692.1	1,253.0
<b>Monetary Base</b>	34,541.8	41,060.7	48,597.3	54,803.2	64,488.8
Currency in circulation	30,803.3	35,738.7	43,290.3	49,866.9	58,252.2
Reserves of other depository corporations in national currency	3,738.5	5,322.0	5,307.0	4,936.3	6,236.6
<i>For reference only:</i>					
<b>Monetary base - broad definition</b>	35,150.8	41,587.7	48,804.5	55,299.5	65,617.0
Currency in circulation	30,803.3	35,738.7	43,290.3	49,866.9	58,252.2
Reserves of other depository corporations	3,835.1	5,446.7	5,514.2	5,275.6	6,653.8
Reserves of other depository corporations in national currency	3,738.5	5,322.0	5,307.0	4,936.3	6,236.6
Reserves of other depository corporations in foreign currency	96.6	124.8	207.2	339.3	417.1
Deposits in foreign currency	512.4	402.3	0.0	156.9	711.0

Source: NBKR general ledger

Note: 1. Methodology of the analytic balance sheet preparation complies with the concept and principles of the IMF Monetary and Financial Statistics Manual 2000.

2. Starting January 1st, 2010, the changes were made to the structure and methodology of calculating some indicators due to the approval of the new Regulation "On the Analytic Balance Sheet of the NBKR".

3. Data for 2008-2009 are given according to the new structure of the Analytic Balance Sheet of the NBKR.

**Table 6.**

## External Economic Indicators

	Unit of Measurement	2008	2009	2010	2011	2012*
<b>Balance of Payments Indicators</b>						
Total balance	<i>US\$ million</i>	93.6	240.3	65.5	105.9	188.7
	<i>in percent of GDP</i>	1.8	5.2	1.4	1.8	2.9
Current account balance <sup>1</sup>	<i>US\$ million</i>	-706.7	-103.3	-347.3	-377.3	-1,352.1
	<i>in percent of GDP</i>	-13.8	-2.2	-7.3	-6.3	-20.9
Export of goods (FOB)	<i>US\$ million</i>	1,874.4	1,693.8	1,778.7	2,271.2	1,973.3
	<i>in percent of GDP</i>	36.5	36.3	37.2	38.2	30.5
Import of goods (FOB)	<i>US\$ million</i>	3,753.5	2,813.6	2,980.9	3,935.9	4,966.5
	<i>in percent of GDP</i>	73.1	60.3	62.4	66.2	76.8
Reserve assets	<i>months of import of goods and services of the following year</i>	4.0	4.9	4.1	3.4	3.3
<b>Public External Debt</b>						
Public external debt <sup>2</sup>	<i>US\$ million</i>	2,083.8	2,502.9	2,646.0	2,825.9	3,100.0
	<i>in percent of GDP</i>	40.6	53.7	55.4	47.5	47.9
	<i>in percent of export of goods and services</i>	75.2	98.0	107.0	83.4	98.8
Public external debt servicing (schedule) <sup>3</sup>	<i>US\$ million</i>	80.2	85.4	92.0	97.9	97.9
	<i>in percent of GDP</i>	1.6	1.8	1.9	1.6	1.5
	<i>in percent of export of goods and services</i>	2.9	3.3	3.7	2.9	3.1
Public external debt servicing (actual)	<i>US\$ million</i>	76.8	83.1	91.1	96.5	94.9
	<i>in percent of GDP</i>	1.5	1.8	1.9	1.6	1.5
	<i>in percent of export of goods and services</i>	2.8	3.3	3.7	2.8	3.0

\* - preliminary data

<sup>1</sup> - positive balance – “+” ; negative balance – “-”<sup>2</sup> - including IMF loans<sup>3</sup> - excluding bilateral debt restructuring

**Table 7.**

## Monetary Policy Instruments (for the period, unless otherwise stated)

	Unit of Measurement	2008	2009	2010	2011	2012
<b>NBKR Credits</b>						
Credits (overnight)	<i>in millions of KGS</i>	1,284.5	635.8	2,656.0	4,050.7	4,912.2
Intraday credits	<i>in millions of KGS</i>	-	-	-	129.0	680.0
<b>NBKR Discount Rate (end of period)</b>	<i>in percent</i>	15.2	0.9	5.5	13.6	2.6
<b>NBKR Notes</b>						
maturity:						
7 days						
sales volume	<i>in millions of KGS</i>	2,504.8	4,987.6	1,772.5	3,998.4	1,347.8
average yield	<i>in percent</i>	9.2	4.8	1.9	6.2	5.6
14 days						
sales volume	<i>in millions of KGS</i>	8,323.5	7,182.0	1,871.7	6,974.2	2,608.8
average yield	<i>in percent</i>	10.2	6.9	2.3	7.7	6.2
28 days						
sales volume	<i>in millions of KGS</i>	7,794.1	8,346.1	5,279.8	11,889.2	24,591.1
average yield	<i>in percent</i>	11.6	7.6	2.8	10.9	6.7
91 days						
sales volume	<i>in millions of KGS</i>	482.2	156.0	-	-	-
average yield	<i>in percent</i>	11.8	18.4	-	-	-
182 days						
sales volume	<i>in millions of KGS</i>	20.0	-	-	-	-
average yield	<i>in percent</i>	10.5	-	-	-	-
<b>Open Market Transactions</b>						
Direct REPO	<i>in millions of KGS</i>	-	-	-	-	-
Reverse REPO	<i>in millions of KGS</i>	1,751.3	556.8	70.8	2,278.5	7,676.3
<b>NBKR Deposit Transactions in Foreign Currency</b>						
volume	<i>in millions of US\$</i>	13.0	21.5	11.0	32.5	1,066.1
<b>NBKR Foreign Exchange Interventions</b>						
Purchase	<i>in millions of US\$</i>	228.5	66.8	28.9	120.5	4.8
Sale		175.6	221.9	263.7	281.2	43.1
<b>NBKR SWAP Foreign Exchange Transactions</b>						
Purchase	<i>in millions of US\$</i>	-	-	14.7	-	-
Sale		69.0	-	-	-	-
<b>Reserve Requirements</b>						
Reserve requirement ratio (end of period)	<i>in percent</i>	10.0	9.5	8.0	9.0	9.0
Required reserves (annual average)	<i>in millions of KGS</i>	2,290.1	2,904.9	2,744.7	2,802.1	3,513.9
Excess reserves (annual average)	<i>in millions of KGS</i>	1,449.9	1,341.8	1,720.0	1,565.4	2,126.9

"- " - no transactions

**Table 8.**Interest Rates of Deposits in the National Currency (for the period)  
(in percent)

	2008	2009	2010	2011	2012
<b>Deposits of Legal Entities</b>					
<i>demand deposits</i> <sup>1</sup>			<b>0.9</b>	<b>1.5</b>	<b>1.3</b>
<i>time deposits</i>	<b>5.0</b>	<b>7.7</b>	<b>8.8</b>	<b>8.7</b>	<b>8.5</b>
<i>of which:</i>					
up to 1 month	3.3	1.8	4.3	5.9	5.8
1-3 months	5.2	4.9	4.6	5.9	5.5
3-6 months	7.7	8.0	8.4	9.5	6.9
6-12 months	7.6	10.2	10.9	11.7	11.5
over 1 year	8.1	10.2	13.6	11.3	12.5
<b>Deposits of Individuals</b>					
<i>demand deposits</i>	<b>0.5</b>	<b>0.4</b>	<b>0.8</b>	<b>1.0</b>	<b>1.4</b>
<i>time deposits:</i>	<b>10.3</b>	<b>11.2</b>	<b>11.1</b>	<b>11.5</b>	<b>11.3</b>
<i>of which:</i>					
up to 1 month	3.2	4.2	4.8	4.6	4.1
1-3 months	5.9	6.4	5.7	6.3	6.3
3-6 months	8.8	9.5	9.5	9.5	9.7
6-12 months	11.1	12.4	12.3	12.5	12.5
over 1 year	12.6	14.0	14.0	14.3	14.3
<b>Deposits of Non-Residents<sup>2</sup></b>					
<i>demand deposits</i>			<b>0.0</b>	<b>0.0</b>	<b>0.1</b>
<i>time deposits:</i>			<b>10.6</b>	<b>10.6</b>	<b>10.4</b>
<i>of which:</i>					
up to 1 month			6.1	6.8	5.4
1-3 months			6.2	6.5	6.7
3-6 months			9.0	9.3	9.3
6-12 months			11.7	11.3	12.1
over 1 year			13.9	14.3	14.1
<b>Average Weighted Rate</b>	<b>2.5</b>	<b>2.8</b>	<b>2.0</b>	<b>2.2</b>	<b>2.3</b>

<sup>1</sup> Starting January 1st, 2010, demand deposits are shown as a separate category of the deposits of legal entities.<sup>2</sup> Starting January 1st, 2010, deposits of non-residents are shown as a separate item of the deposits of legal entities and individuals.**Table 9.**Interest Rates of Deposits in Foreign Currency (for the period)  
(in percent)

	2008	2009	2010	2011	2012
<b>Deposits of Legal Entities</b>					
<i>demand deposits</i> <sup>1</sup>			<b>0.3</b>	<b>0.7</b>	<b>0.3</b>
<i>time deposits</i>	<b>3.6</b>	<b>6.2</b>	<b>4.8</b>	<b>4.4</b>	<b>4.9</b>
<i>of which:</i>					
up to 1 month	2.4	1.4	3.2	0.9	2.9
1-3 months	3.8	3.7	3.0	2.8	4.5
3-6 months	3.8	6.3	4.5	5.9	3.3
6-12 months	5.4	9.6	6.7	7.4	7.6
over 1 year	5.2	9.9	8.3	7.6	6.4
<b>Deposits of Individuals</b>					
<i>demand deposits</i>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>
<i>time deposits</i>	<b>8.3</b>	<b>9.4</b>	<b>8.1</b>	<b>7.2</b>	<b>7.0</b>
<i>of which:</i>					
up to 1 month	1.6	2.2	2.0	2.0	1.7
1-3 months	4.4	5.1	4.3	4.0	4.0
3-6 months	7.2	8.6	7.0	6.3	6.4
6-12 months	9.5	11.1	9.9	8.9	8.7
over 1 year	10.9	12.6	11.2	10.5	10.2
<b>Deposits of Non-Residents<sup>2</sup></b>					
<i>demand deposits</i>			<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<i>time deposits</i>			<b>8.6</b>	<b>8.1</b>	<b>6.9</b>
<i>of which:</i>					
up to 1 month			2.1	3.7	2.0
1-3 months			4.5	5.1	4.4
3-6 months			6.9	6.6	6.4
6-12 months			9.8	8.4	7.9
over 1 year			11.3	10.2	9.0
<b>Average Weighted Rate</b>	<b>0.9</b>	<b>1.7</b>	<b>1.1</b>	<b>0.8</b>	<b>0.8</b>

<sup>1</sup> Starting January 1st, 2010, demand deposits are shown as a separate category of the deposits of legal entities.<sup>2</sup> Starting January 1st, 2010, deposits of non-residents are shown as a separate item of the deposits of legal entities and individuals.

**Table 10.**

## Interest Rates on Credits of Commercial Banks in the National Currency (for the period)

(in percent)

	2008	2009	2010	2011	2012
<b>Average Weighted Rate</b>	<b>25.9</b>	<b>26.7</b>	<b>23.7</b>	<b>23.8</b>	<b>23.0</b>
Industry	24.8	25.4	24.8	22.0	22.8
Agriculture	25.4	26.8	23.0	20.2	21.6
Transportation and communication	25.3	27.8	26.0	24.2	23.6
Trade	26.6	27.8	23.9	24.2	23.2
Procurement and processing	23.0	27.0	21.3	20.6	22.4
Construction	22.2	22.5	22.9	21.7	22.7
Mortgage	19.2	20.5	20.7	20.1	21.4
Consumer credits	28.9	29.3	26.8	29.9	27.0
Other	25.6	24.0	23.7	21.7	20.2
including:					
<b>up to 1 month</b>	<b>27.5</b>	<b>27.5</b>	<b>29.1</b>	<b>31.1</b>	<b>31.1</b>
Industry	22.0	19.6	-	18.3	25.0
Agriculture	26.0	26.3	-	26.0	27.9
Transportation and communication	-	29.4	-	-	-
Trade	25.7	30.7	32.0	34.2	33.5
Procurement and processing	-	27.0	-	-	-
Construction	13.0	22.8	32.5	-	20.0
Mortgage	-	-	-	-	-
Consumer credits	32.7	31.9	30.5	31.7	31.1
Other	29.6	25.2	26.6	26.9	22.3
<b>1-3 months</b>	<b>23.3</b>	<b>21.7</b>	<b>29.4</b>	<b>33.9</b>	<b>28.4</b>
Industry	21.9	17.6	27.7	29.7	28.0
Agriculture	33.5	31.0	31.5	28.3	28.9
Transportation and communication	32.0	31.5	30.5	-	42.0
Trade	24.9	25.9	29.4	33.1	25.8
Procurement and processing	20.0	-	-	-	-
Construction	27.6	17.0	25.0	23.3	35.0
Mortgage	25.0	-	-	-	25.0
Consumer credits	26.0	31.9	33.7	40.9	36.0
Other	30.5	29.9	26.1	23.6	23.2
<b>3-6 months</b>	<b>24.1</b>	<b>26.0</b>	<b>31.2</b>	<b>37.0</b>	<b>26.9</b>
Industry	24.9	28.4	28.5	25.7	29.4
Agriculture	32.9	31.7	31.3	30.5	27.6
Transportation and communication	26.6	25.9	31.4	30.7	29.8
Trade	24.6	26.5	30.5	33.3	28.2
Procurement and processing	23.0	27.0	30.2	20.0	35.0
Construction	24.0	19.9	28.9	29.9	22.5
Mortgage	-	32.3	28.0	-	34.0
To individuals	35.5	38.4	40.5	45.9	36.8
Other	31.7	25.5	25.5	26.3	21.9
<b>6-12 months</b>	<b>28.8</b>	<b>28.8</b>	<b>27.5</b>	<b>28.1</b>	<b>26.3</b>
Industry	27.2	31.1	27.2	26.8	27.7
Agriculture	30.2	31.8	29.4	24.7	26.5
Transportation and communication	30.3	30.1	30.5	27.5	28.1
Trade	28.7	29.7	27.4	29.1	26.7
Procurement and processing	20.8	26.9	23.6	20.0	25.5
Construction	24.4	24.4	27.4	25.5	25.6
Mortgage	23.8	25.4	24.0	24.1	28.9
Consumer credits	31.1	30.2	29.6	34.1	29.9
Other	27.8	26.7	24.6	22.7	21.5
<b>over 1 year</b>	<b>24.4</b>	<b>26.2</b>	<b>22.4</b>	<b>21.9</b>	<b>21.7</b>
Industry	26.1	28.8	24.6	21.3	21.8
Agriculture	23.7	25.8	21.6	20.0	20.1
Transportation and communication	26.9	30.1	24.8	24.2	23.4
Trade	25.6	27.3	22.6	22.1	22.4
Procurement and processing	23.1	26.9	21.1	20.8	21.9
Construction	21.1	25.0	22.5	21.5	22.5
Mortgage	19.1	20.3	20.7	20.0	21.3
Consumer credits	26.2	28.2	24.2	25.9	23.6
Other	25.0	25.1	23.9	21.6	21.4

"- " - no transactions

**Table 11.**

## Interest Rates on Credits of Commercial Banks in Foreign Currency (for the period)

(in percent)

	2008	2009	2010	2011	2012
<b>Average Weighted Rate</b>	<b>20.3</b>	<b>21.5</b>	<b>19.8</b>	<b>19.6</b>	<b>19.1</b>
Industry	18.5	19.1	18.1	16.5	16.0
Agriculture	21.7	26.5	21.9	21.6	19.9
Transportation and communication	21.8	24.5	21.6	22.1	21.5
Trade	20.9	21.6	20.0	20.8	20.6
Procurement and processing	18.0	18.0	21.4	17.2	20.8
Construction	17.8	18.2	19.1	18.2	13.9
Mortgage	18.2	20.1	19.9	18.1	17.9
Consumer credits	25.5	28.0	25.5	22.0	20.0
Other	19.6	20.2	18.4	16.5	16.2
including:					
<b>up to 1 month</b>	<b>25.1</b>	<b>26.5</b>	<b>29.9</b>	<b>30.5</b>	<b>26.6</b>
Industry	19.1	20.0	14.3	18.0	-
Agriculture	-	-	-	-	-
Transportation and communication	-	-	-	-	-
Trade	22.1	22.6	27.5	29.7	26.5
Procurement and processing	-	-	-	-	-
Construction	20.0	-	-	-	-
Mortgage	-	-	-	17.0	-
Consumer credits	31.5	34.0	33.4	32.1	23.4
Other	18.5	18.6	22.2	25.4	21.4
<b>1-3 months</b>	<b>21.0</b>	<b>21.7</b>	<b>21.9</b>	<b>26.0</b>	<b>20.6</b>
Industry	20.8	19.3	21.6	19.3	18.0
Agriculture	16.0	31.5	31.8	27.0	27.7
Transportation and communication	-	-	-	25.0	-
Trade	20.9	21.4	24.1	26.2	20.7
Procurement and processing	-	-	-	-	-
Construction	19.0	-	14.0	17.0	11.9
Mortgage	18.0	-	17.3	18.0	17.1
Consumer credits	21.8	20.0	32.3	27.6	26.9
Other	21.0	37.7	26.2	22.7	14.7
<b>3-6 months</b>	<b>18.8</b>	<b>18.2</b>	<b>19.4</b>	<b>19.4</b>	<b>16.2</b>
Industry	18.6	16.7	21.3	26.4	18.1
Agriculture	26.2	29.9	26.5	22.4	25.7
Transportation and communication	-	30.2	22.0	31.0	26.3
Trade	18.9	18.0	19.1	18.2	15.2
Procurement and processing	0.0	-	30.2	25.2	-
Construction	17.6	20.0	14.0	22.8	13.5
Mortgage	26.0	-	-	-	19.5
Consumer credits	21.3	22.6	28.1	31.0	19.6
Other	21.6	24.6	23.3	19.1	17.5
<b>6-12 months</b>	<b>20.8</b>	<b>21.9</b>	<b>19.4</b>	<b>18.3</b>	<b>16.1</b>
Industry	17.8	19.3	18.0	17.6	18.7
Agriculture	23.2	29.2	26.8	25.7	22.1
Transportation and communication	26.7	28.6	26.1	24.9	23.0
Trade	21.3	21.8	20.1	18.2	16.4
Procurement and processing	-	18.0	-	22.0	24.6
Construction	19.7	22.9	24.3	24.1	13.5
Mortgage	21.7	24.5	20.6	18.2	17.5
Consumer credits	27.1	28.3	23.5	21.1	21.7
Other	20.4	20.8	18.9	19.0	15.7
<b>over 1 year</b>	<b>20.2</b>	<b>22.0</b>	<b>19.8</b>	<b>17.9</b>	<b>17.4</b>
Industry	18.5	19.1	19.1	16.5	15.9
Agriculture	23.0	25.2	20.8	20.7	19.1
Transportation and communication	21.6	23.8	20.9	21.9	21.4
Trade	21.6	22.6	20.1	18.4	17.6
Procurement and processing	18.0	18.0	19.7	16.5	20.7
Construction	17.6	18.1	19.4	17.6	16.3
Mortgage	18.1	19.8	20.0	18.2	17.8
Consumer credits	23.1	26.1	23.4	20.6	19.6
Other	19.4	20.2	18.6	16.1	16.4

"- " - no transactions

**Table 12.****Interest Rates on Credits of Nonbank Finance and Credit Institutions (end of period)***(in percent)*

	2008	2009	2010	2011	2012
<b>Microfinance Organizations</b>	<b>32.5</b>	<b>34.5</b>	<b>38.8</b>	<b>38.3</b>	<b>34.9</b>
<i>lent to :</i>					
Industry	29.5	32.4	38.8	36.4	32.5
Agriculture	32.9	38.4	39.6	41.5	36.5
Transportation	29.7	39.6	29.3	28.3	26.8
Communications	22.8	26.2	39.5	32.1	30.0
Trade and commerce	34.7	39.6	40.6	37.2	35.7
Procurement and processing	23.3	25.0	27.0	26.4	12.3
Construction and mortgage	23.3	22.2	24.1	27.9	29.9
Services	34.8	40.3	-	41.0	39.2
Consumer credits	37.8	45.5	43.5	41.6	41.7
Credits to finance and credit institutions	-	-	21.4	18.9	17.5
Other	19.6	20.2	37.2	37.5	31.5
<b>Credit Unions</b>	<b>28.0</b>	<b>29.6</b>	<b>30.7</b>	<b>29.0</b>	<b>29.1</b>
<i>lent to:</i>					
Industry	25.9	30.3	30.4	31.2	31.1
Agriculture	27.7	28.5	28.4	27.7	28.3
Transportation and communications	26.8	27.0	25.2	27.0	26.8
Trade and commerce	27.7	29.9	31.7	29.5	28.6
Procurement and processing	27.2	28.4	26.0	23.5	28.7
Construction and mortgage	24.5	28.4	27.8	25.2	26.0
Services	28.1	31.6	32.0	28.2	29.6
Other	32.5	33.9	35.9	34.4	33.7
<b>Pawnshops<sup>1</sup></b>	<b>129.2</b>	-	-	-	-
<b>FCSDCU</b>	-	<b>14.6</b>	<b>15.5</b>	<b>15.8</b>	-
<b>SFBR<sup>2</sup></b>	-	<b>11.2</b>	<b>6.7</b>	-	-
<i>lent to:</i>					
Industry	-	-	7.0	-	-
Agriculture	-	-	-	-	-
Transportation and communications	-	9.6	8.4	-	-
Trade and Commerce	-	-	7.0	-	-
Construction and mortgage	-	-	7.0	-	-
Other	-	12.0	6.6	-	-
<b>Fund for Development of the KR<sup>3</sup></b>	-	<b>3.5</b>	-	-	-

Source: Call Reports of nonbank finance and credit institutions.

<sup>1</sup> Following the Law of the KR "On Amendments to the Law of the KR "On Licensing" adopted on July 31, 2009, the pawnshops no longer report to the NBKR since November 1, 2009.

<sup>2</sup> License withdrawn by the resolution of the Board of the NBKR #40/5 adopted on July 27, 2011.

<sup>3</sup> Being liquidated following the Decree of the Provisional Government of the Kyrgyz Republic #31 issued on April 30, 2010.

**Table 13.**

Annual Average Interest Rate on Interbank Credits  
(excluding transactions with non-residents)

(in percent)

	2008	2009	2010	2011	2012
<b>Interbank REPO Transactions</b>	<b>8.9</b>	<b>8.3</b>	<b>3.7</b>	<b>9.4</b>	<b>7.7</b>
up to 1 day	8.8	10.4	3.9	9.0	8.1
2 - 7 days	8.9	8.3	3.7	9.4	7.7
8 - 14 days	9.7	7.8	3.7	9.5	7.5
15 - 30 days	11.7	4.8	-	12.0	-
31 - 60 days	6.6	-	-	-	-
61 - 90 days	6.3	7.0	-	-	-
91 - 180 days	7.1	-	-	-	-
181 - 360 days	-	-	-	-	-
over 360 days	-	-	-	-	-
<b>Interbank Credits in National Currency</b>	<b>7.6</b>	<b>7.8</b>	<b>4.5</b>	<b>9.1</b>	<b>7.7</b>
up to 1 day	8.8	11.6	-	10.3	5.0
2 - 7 days	8.1	9.1	4.8	9.5	7.3
8 - 14 days	8.4	7.8	4.2	9.8	8.3
15 - 30 days	6.9	3.9	5.0	7.0	9.0
31 - 60 days	8.6	13.0	-	10.0	10.1
61 - 90 days	5.7	5.5	-	-	-
91 - 180 days	6.8	4.7	-	-	9.6
181 - 360 days	6.1	-	-	-	6.5
over 360 days	-	-	-	-	6.5
<b>Interbank Credits in Foreign Currency</b>	<b>5.7</b>	<b>6.0</b>	<b>2.9</b>	<b>3.5</b>	<b>1.6</b>
up to 1 day	5.8	3.8	-	3.0	3.0
2 - 7 days	3.9	6.3	2.9	1.0	1.2
8 - 14 days	6.1	1.8	-	-	0.0
15 - 30 days	3.9	4.3	-	-	0.0
31 - 60 days	4.3	-	3.5	5.0	-
61 - 90 days	3.9	-	-	-	-
91 - 180 days	10.2	9.7	-	5.0	-
181 - 360 days	4.4	-	-	-	-
over 360 days	-	-	-	-	-

"-" - no transactions

**Table 14.**

## Balance of Payments of the Kyrgyz Republic

(in millions of US Dollars)

	2008	2009	2010	2011	2012*
<b>Current Account</b>	<b>-706.7</b>	<b>-103.3</b>	<b>-347.3</b>	<b>-377.3</b>	<b>-1,352.1</b>
Goods and services	-1,975.9	-1,128.8	-1,433.3	-1,685.6	-3,269.1
Trade balance <sup>1</sup>	-1,879.2	-1,119.8	-1,202.2	-1,664.7	-2,993.3
Export (FOB)	1,874.4	1,693.8	1,778.7	2,271.2	1,973.3
CIS	1,011.7	752.8	784.2	1,023.9	1,145.0
Non-CIS	862.7	941.0	994.5	1,247.4	828.3
Import (FOB)	3,753.5	2,813.6	2,980.9	3,935.9	4,966.5
CIS	2,025.4	1,593.7	1,590.2	2,018.3	2,486.5
Non-CIS	1,728.1	1,219.9	1,390.6	1,917.7	2,480.0
Balance of services	-96.8	-9.1	-231.1	-20.9	-275.8
Transportation services	-338.8	-276.1	-266.6	-332.1	-462.0
Travels	210.1	191.9	12.5	219.6	139.2
Other services	94.7	105.9	43.7	113.5	69.2
Technical assistance	-20.0	-20.5	-20.7	-21.9	-22.2
Income	-206.8	-181.5	-305.3	-530.3	-142.6
Income from direct investments	-177.9	-118.5	-247.9	-485.5	-85.6
Income from portfolio investments	0.5	4.2	0.2	0.1	0.0
Income from other investments	-5.1	-41.5	-25.2	-14.2	-28.1
Interests on credits	-28.5	-44.7	-35.8	-30.7	-37.1
Other income from other investments	23.4	3.2	10.5	16.5	9.0
Remuneration of labour	-24.3	-25.8	-32.3	-30.8	-28.9
Current transfers	1,476.0	1,207.1	1,391.3	1,838.7	2,059.5
Official transfers	45.9	194.9	78.2	83.3	61.2
Private transfers	1,430.1	1,012.1	1,313.1	1,755.4	1,998.3
<b>Capital and Financial Account</b>	<b>335.7</b>	<b>406.4</b>	<b>371.3</b>	<b>796.5</b>	<b>1,119.1</b>
Capital account	-44.9	-14.0	-62.1	-37.5	62.9
Capital transfers	-44.9	-14.0	-62.1	-37.5	62.9
Financial account	380.6	420.4	433.4	833.9	1,056.2
Direct investments <sup>1</sup>	377.1	189.6	437.6	693.6	372.1
Portfolio investments	-4.5	-13.9	27.1	-0.3	5.6
Financial derivatives	0.0	0.0	0.0	0.0	-0.4
Other investments	8.1	244.7	-31.3	140.7	678.8
Assets ("-" increase)	-362.7	-217.2	127.3	-227.4	40.9
Commercial banks	-115.9	-157.9	203.2	-19.0	-9.1
Accounts receivable	-224.0	-7.5	-65.1	-44.5	-131.3
Accounts of enterprises abroad	-3.4	-49.5	-10.8	-163.9	181.3
Other assets	-19.3	-2.3	0.0	0.0	0.0
Liabilities ("+" increase)	370.7	461.8	-158.6	368.0	638.0
Commercial banks	48.4	50.4	-225.6	7.3	8.6
Credits	200.8	320.3	51.2	360.6	387.5
Credits to public sector	12.9	332.9	110.8	171.2	255.5
Credits to private sector	188.0	-12.6	-59.6	189.4	131.9
Accounts payable	121.6	-41.0	15.9	0.2	241.9
Other liabilities	0.0	132.2	0.0	0.0	0.0
Errors and Omissions	464.5	-62.8	41.4	-313.3	421.8
<b>Total Balance</b>	<b>93.6</b>	<b>240.3</b>	<b>65.5</b>	<b>105.9</b>	<b>188.7</b>
<b>Financing</b>	<b>-93.6</b>	<b>-240.3</b>	<b>-65.5</b>	<b>-105.9</b>	<b>-188.7</b>

\* - preliminary data

<sup>1</sup> - including NBKR estimates

**Table 15.**

## Structure of External Public and Government Guaranteed Debt of the Kyrgyz Republic by Creditors

*(in millions of US Dollars)*

	2008	2009	2010	2011	2012*
<b>External Public and Government Guaranteed Debt (1+2+3):</b>	<b>2,083.8</b>	<b>2,502.9</b>	<b>2,646.0</b>	<b>2,825.9</b>	<b>3,100.0</b>
<b>1. Multilateral debt:</b>	<b>1,462.1</b>	<b>1,490.8</b>	<b>1,486.9</b>	<b>1,545.0</b>	<b>1,598.9</b>
World Bank	648.2	656.0	649.2	660.4	677.3
Asian Development Bank	586.7	610.1	590.7	609.7	623.2
International Monetary Fund	164.5	167.1	176.2	181.8	190.5
Islamic Bank of Reconstruction and Development	35.2	34.9	46.6	59.9	62.1
European Bank for Reconstruction and Development	6.0	2.1	5.3	16.0	29.6
International Fund for Agricultural Development	10.3	10.1	9.6	9.2	8.9
Nordic Development Fund	6.8	6.9	6.6	5.9	5.8
OPEC	4.2	3.5	2.7	2.0	1.3
Saudi Development Fund	-	-	-	-	0.2
<b>2. Bilateral debt</b>	<b>620.7</b>	<b>1,011.8</b>	<b>1,159.1</b>	<b>1,280.9</b>	<b>1,501.2</b>
<b>2.1. CIS countries:</b>	<b>196.4</b>	<b>493.6</b>	<b>505.1</b>	<b>490.5</b>	<b>489.0</b>
Russia	193.6	493.6	505.1	490.3	488.9
Uzbekistan	2.9	-	-	-	-
Belarus	-	-	-	0.1	0.1
<b>2.2. Other:</b>	<b>424.3</b>	<b>518.2</b>	<b>654.0</b>	<b>790.4</b>	<b>1,012.2</b>
China	9.1	46.8	150.8	272.6	527.4
Japan	251.2	302.5	344.8	361.0	361.2
Germany	74.3	76.8	68.6	70.6	78.8
Korea	13.6	14.6	15.0	14.8	15.3
Kuwait Fund	16.6	17.9	16.1	13.3	10.6
Turkey	50.1	49.8	49.5	49.2	10.0
France	6.2	6.4	5.9	5.6	5.6
Denmark	3.3	3.4	3.3	3.3	3.3
<b>3. Government guaranteed external debt</b>	<b>1.0</b>	<b>0.3</b>	<b>-</b>	<b>-</b>	<b>-</b>

Source: Ministry of Finance of KR, NBKR.

\* - preliminary data

"- " - no transactions

**Table 16.**

## Information on Authorized (Shareholders') Capital of Commercial Banks (as of the end of period)

Bank	2008			2009			2010			2011			2012		
	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c
<b>Total</b>	<b>7,850.4</b>	<b>7,813.4</b>	<b>4,540.8</b>	<b>8,903.0</b>	<b>8,666.0</b>	<b>4,588.1</b>	<b>7,774.7</b>	<b>7,518.6</b>	<b>2,634.3</b>	<b>8,799.4</b>	<b>8,362.4</b>	<b>3,340.3</b>	<b>9,847.9</b>	<b>9,847.9</b>	<b>3,556.9</b>
OJSC "Aiy Bank"	480.0	480.0	0.0	560.0	560.0	0.0	560.0	560.0	0.0	600.0	600.0	0.0	600.0	600.0	0.0
OJSC "AkyInvestbank" <sup>1/1</sup>	-	-	-	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	255.0	255.0	255.0
OJSC Russia-Kyrgyz "AMANBANK"	300.0	263.0	0.2	300.0	263.0	0.2	300.0	300.0	0.2	300.0	300.0	0.2	372.0	372.0	0.1
CJSC "Bank of Asia"	126.0	126.0	0.0	146.0	146.0	108.8	202.1	146.0	108.8	202.1	201.6	150.2	230.4	230.4	179.0
OJSC "BAKAI BANK"	160.0	160.0	0.0	200.0	200.0	0.0	216.0	216.0	0.0	265.2	265.2	0.0	326.5	326.5	0.0
CJSC "BTA Bank"	1,000.0	1,000.0	710.0	1,000.0	1,000.0	710.0	1,000.0	1,000.0	0.0	1,000.0	1,000.0	0.0	1,000.0	1,000.0	0.0
CJSC "Demir Kyrgyz International Bank"	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5
OJSC "Dos-Credobank"	200.0	200.0	0.0	242.0	242.0	0.0	270.7	270.7	0.0	270.7	270.7	0.0	270.7	270.7	0.0
OJSC "Zalkar Bank"	-	-	-	-	-	-	40.9	40.9	0.0	40.9	40.9	0.0	40.9	40.9	0.0
OJSC Investment Bank "Issyk-Kul"	271.0	271.0	0.3	271.0	271.0	0.1	271.0	271.0	0.3	271.0	271.0	0.3	271.0	271.0	0.3
OJSC "Kazkommertsbank Kyrgyzstan"	120.5	120.5	114.2	120.5	120.5	114.0	153.5	153.5	147.0	153.5	153.5	147.0	153.5	153.5	147.0
CJSC "Kyrgyz Investment Credit Bank"	394.2	394.2	354.8	440.9	440.9	396.8	471.0	471.0	423.9	813.5	813.5	732.1	829.5	829.5	746.6
OJSC "KyrgyzCreditBank"	300.0	300.0	0.1	300.0	300.0	0.1	300.0	300.0	0.1	300.0	300.0	0.1	300.0	300.0	0.1
OJSC "Commercial Bank KYRGYZSTAN"	160.9	160.9	0.0	160.9	160.9	2.2	160.9	160.9	3.3	420.2	420.2	0.0	521.1	521.1	0.0
CJSC "Manas Bank"	300.0	300.0	300.0	500.0	300.0	300.0	500.0	300.0	300.0	377.7	377.7	377.7	377.7	377.7	377.7
CJSC "Microfinance Bank "Bai-Tushum and Partners"	-	-	-	-	-	-	-	-	-	-	-	-	615.0	615.0	245.1
OJSC "RSK Bank" <sup>1/2</sup>	425.0	425.0	0.0	844.0	844.0	0.0	844.0	844.0	0.0	1,244.0	844.0	0.0	1,244.0	1,244.0	0.0
CJSC JSCB "Tolubai"	105.0	105.0	2.0	125.0	125.0	2.3	144.0	144.0	2.5	200.0	163.5	2.9	200.0	200.0	3.4
OJSC "FinanceCreditBank KAB"	300.0	300.0	300.0	300.0	300.0	0.0	300.0	300.0	0.0	300.0	300.0	281.7	300.0	300.0	54.5
OJSC "Halyk Bank Kyrgyzstan"	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2
OJSC "Ecobank"	372.4	372.4	0.0	372.4	372.4	0.0	372.4	372.4	0.0	372.4	372.4	0.0	372.4	372.4	0.0
OJSC "UniCredit Bank"	700.0	700.0	670.9	700.0	700.0	680.0	700.0	700.0	680.0	700.0	700.0	680.0	700.0	700.0	680.0
Bishkek Branch of the National Bank of Pakistan	131.1	131.1	131.1	131.1	131.1	131.1	201.5	201.5	201.5	201.5	201.5	201.5	201.5	201.5	201.5
OJSC "AsiaUniversalBank"	1,337.5	1,337.5	1,290.5	1,422.4	1,422.4	1,375.8	-	-	-	-	-	-	-	-	-

Data of Commercial Banks

Note: a - announced paid-in authorized capital; b - paid-in authorized capital; c - including the share of foreign investors

<sup>1/1</sup> Since May 31, 2009, OJSC Investment Joint Stock Commercial Bank "Aky" was included in the banking system of the Kyrgyz Republic (former Investment Joint Stock Bank "Aky"), the Licence for which was restored and reissued on February 27, 2009, due to its rehabilitation.<sup>1/2</sup> Since October 3, 2008, OJSC "The Settlement and Savings Company" was renamed as OJSC "RSK Bank".

**Table 17.**

## Consolidated Regulative Report of Commercial Banks of the KR

*(in millions of KGS)*

	2009	2010	2011	2012
<b>ASSETS</b>				
Cash assets	3,738.7	3,870.5	6,305.3	8,114.2
Correspondent account in NBKR	5,446.1	5,513.7	5,274.2	6,650.3
Correspondent accounts in other banks	16,790.9	7,437.9	7,905.6	7,687.2
Deposits in other banks	2,128.0	4,024.9	1,729.9	3,273.9
Securities portfolio	7,668.2	4,267.6	5,785.5	8,892.3
Securities purchased on REPO agreements	300.1	101.8	245.2	819.3
Net credit and financial lease	24,253.6	23,871.6	30,209.9	39,444.8
Credits and financial lease to finance and credit institutions <sup>1/</sup>	796.2	1,064.5	1,596.7	2,124.9
Credits and financial lease to clients <sup>2/</sup>	25,214.2	26,382.0	31,217.1	40,105.4
(less) Special LLP on credits and financial lease	-1,756.9	-3,574.9	-2,603.9	-2,785.5
Fixed assets	4,109.5	4,482.9	4,860.0	5,382.9
Investments and financial share	127.2	77.2	70.4	88.8
Other assets	9,171.2	7,214.7	5,151.3	7,090.9
<b>TOTAL: ASSETS</b>	<b>73,733.5</b>	<b>60,862.6</b>	<b>67,537.4</b>	<b>87,444.6</b>
<b>LIABILITIES</b>				
Liabilities to the NBKR	2.8	31.0	905.2	739.0
Settlement accounts and deposits of banks	3,830.7	2,068.8	1,685.6	2,743.9
Resident banks	457.6	22.8	20.4	980.1
Non-resident banks	3,373.0	2,046.0	1,665.2	1,763.8
Settlement accounts	11,677.1	13,482.9	13,068.5	18,507.1
Settlement accounts of finance and credit institutions	13.8	282.7	463.7	988.3
Settlement accounts of clients <sup>3/</sup>	11,663.2	13,200.3	12,604.8	17,518.8
Demand deposits	3,802.3	5,417.9	8,225.0	11,138.2
Demand deposits of finance and credit institutions	320.4	708.2	1,028.5	1,164.0
Demand deposits of clients <sup>3/</sup>	3,482.0	4,709.8	7,196.5	9,974.2
Time deposits	7,592.6	8,664.5	10,803.8	14,000.8
Time deposits of finance and credit institutions	431.6	493.7	302.7	412.7
Time deposits of clients <sup>3/</sup>	7,161.0	8,170.8	10,501.1	13,588.1
Deposits of non-residents <sup>4/</sup>	10,258.3	1,804.0	1,814.4	2,199.9
Deposits of the Government	6,274.1	4,695.7	4,763.6	4,805.3
Credits of the Government	1,425.8	1,234.7	1,510.5	1,631.4
Securities sold on REPO agreements	300.1	199.7	82.4	23.5
Received loans	4,368.8	3,690.1	4,691.6	8,403.0
Other liabilities	9,873.2	7,762.2	6,262.4	7,241.0
<b>TOTAL: LIABILITIES</b>	<b>59,405.8</b>	<b>49,051.5</b>	<b>53,812.9</b>	<b>71,433.2</b>
<b>CAPITAL</b>				
Stock capital	8,710.7	7,792.1	8,680.2	9,756.7
Reserves for future needs of the bank	584.5	509.3	644.6	746.7
Undistributed revenues of past years	4,004.7	2,667.1	3,173.4	4,125.0
Revenues/Losses of the current year	291.2	143.5	559.8	830.4
Revaluation account	736.5	699.1	666.4	552.6
<b>TOTAL: CAPITAL</b>	<b>14,327.7</b>	<b>11,811.2</b>	<b>13,724.4</b>	<b>16,011.4</b>
<b>TOTAL: LIABILITIES and CAPITAL</b>	<b>73,733.5</b>	<b>60,862.6</b>	<b>67,537.4</b>	<b>87,444.6</b>

Note: New report structure adopted since 2009.

<sup>1/</sup> includes loans to banks and other finance and credit institutions, resident and non-resident.

<sup>2/</sup> includes loans to legal entities and individuals, resident and non-resident.

<sup>3/</sup> includes accounts of legal entities and individuals.

<sup>4/</sup> includes accounts of finance and credit institutions, legal entities and individuals.

**Table 18.**

Information on Head Offices and Branches of Commercial Banks as of the end - 2012

Bank	Head Office Location	Total Branches	Bishkek	Batken Oblast	Jalal-Abad Oblast	Issyk-Kul Oblast	Naryn Oblast	Osh Oblast	Talas Oblast	Chui Oblast	38
<b>Total branches</b>		<b>278</b>	<b>58</b>	<b>18</b>	<b>42</b>	<b>38</b>	<b>19</b>	<b>50</b>	<b>15</b>		<b>38</b>
<b>Branches of resident banks</b>											
OJSC "Aiyyl Bank"	Bishkek	29	2	4	5	3	2	6	2		5
OJSC "Akylinvestbank"	Bishkek	-	-	-	-	-	-	-	-		-
OJSC Russia-Kyrgyz "AMANBANK"	Bishkek	16	2	1	1	3	-	5	1		3
CJSC "Bank of Asia"	Bishkek	6	3	-	1	1	-	1	-		-
OJSC "BAKAI BANK"	Bishkek	7	-	-	1	1	1	1	1		2
CJSC "BTA Bank"	Bishkek	14	2	1	2	3	-	4	-		2
CJSC "Demir Kyrgyz International Bank"	Bishkek	5	4	-	-	-	-	1	-		-
OJSC "Dos-Credobank"	Bishkek	10	1	-	1	2	2	1	1		2
OJSC "Zalkar Bank"	Bishkek	36	7	3	7	5	3	4	2		5
OJSC Investment Bank "Issyk-Kul"	Bishkek	6	2	-	1	2	-	1	-		-
OJSC "Kazkommertsbank Kyrgyzstan"	Bishkek	3	2	-	-	-	-	1	-		-
CJSC "Kyrgyz Investment Credit Bank"	Bishkek	9	2	-	2	1	1	2	-		1
OJSC "KyrgyzCreditBank"	Bishkek	3	3	-	-	-	-	-	-		-
OJSC "Commercial Bank KYRGYZSTAN"	Bishkek	30	6	2	6	3	3	5	1		4
CJSC "Manas Bank"	Bishkek	1	-	-	-	-	-	1	-		-
CSJC "Microfinance bank "Bai-Tushum and Partners"	Bishkek	7	1	1	1	1	1	1	1		-
OJSC "RSK Bank"	Bishkek	51	3	5	10	7	5	9	4		8
OJSC JSCB "Tolubai"	Bishkek	2	2	-	-	-	-	-	-		-
OJSC "FinanceCreditBank KAB"	Bishkek	7	1	-	1	1	1	2	-		1
OJSC "Halyk Bank Kyrgyzstan"	Bishkek	9	4	-	1	1	-	2	-		1
OJSC "Ecobank"	Bishkek	12	4	1	1	1	-	2	1		2
OJSC "UniCredit Bank"	Bishkek	14	6	-	1	3	-	1	1		2
<b>Non-resident bank branches</b>											
Bishkek branch of the National Bank of Pakistan <sup>1/</sup>	Karachi	1	1	-	-	-	-	-	-		-

<sup>1/</sup>The branch of non-resident bank was included in the Register of Issued Banking Licences on April 24, 2000, authorizing to perform banking operations

"- " - no branches

**Table 19.**  
Cash Turnover in Commercial Banks and its Collectability in 2012  
(in millions of KGS)

	Receipt				Issue				Excess of Issue (receipt) over Receipt (9-4) (issue) (+/-)	Collectability (%) (4/9)	
	Taxes, customs duties and fees	Sales of forex	Other	Total	To Treasury for salary payments	For payments of pensions and benefits	For purchases of forex	For other expenditures			Total
	1	2	3	4	5	6	7	8	9	10	11
<b>Total for the Republic</b>	<b>24,443.9</b>	<b>72,953.6</b>	<b>524,945.2</b>	<b>622,342.7</b>	<b>28,594.2</b>	<b>22,775.7</b>	<b>117,756.3</b>	<b>473,852.9</b>	<b>642,979.1</b>	<b>20,636.4</b>	<b>96.8</b>
Bishkek City	9,832.9	52,906.1	266,525.3	329,264.3	7,681.9	621.1	58,579.1	256,843.3	323,725.4	-5,538.9	101.7
Batken Oblast	413.8	639.5	21,744.1	22,797.4	2,102.1	2,165.6	5,773.8	14,706.0	24,747.5	1,950.1	92.1
Jalal-Abad Oblast	565.8	2,568.4	57,847.5	60,981.7	4,405.6	4,315.0	16,454.2	44,918.3	70,093.1	9,111.4	87.0
Issyk-Kul Oblast	361.8	785.6	25,056.8	26,204.2	1,996.7	2,359.5	2,784.1	23,569.6	30,709.9	4,505.7	85.3
Naryn Oblast	144.9	133.9	8,399.3	8,678.1	1,813.2	2,433.3	392.7	7,416.8	12,056.0	3,377.9	72.0
Osh City	4,126.9	6,531.4	83,478.4	94,136.7	2,348.1	1,215.3	15,837.0	74,658.9	94,059.3	-77.4	100.1
Osh Oblast	436.5	912.9	26,643.5	27,992.9	3,325.7	4,297.4	7,498.6	16,629.5	31,751.2	3,758.3	88.2
Talas Oblast	150.0	243.7	8,122.7	8,516.4	991.5	945.2	1,040.1	9,317.2	12,294.0	3,777.6	69.3
Chui Oblast	8,411.3	8,232.1	27,127.6	43,771.0	3,929.4	4,423.3	9,396.7	25,793.3	43,542.7	-228.3	100.5

NBKR data

**Table 20.** Pattern of Payments in the Gross System of Settlements

	2008			2009			2010			2011			2012		
	Volume, in mln of KGS	Number	Volume, in mln of KGS	Number	Volume, in mln of KGS	Number	Volume, in mln of KGS	Number	Volume, in mln of KGS	Number	Volume, in mln of KGS	Number	Volume, in mln of KGS	Number	
payments below KGS 1 thousand	2	7,443	3	9,881	3	9,780	4	10,588	4	10,589	4	10,589	4	10,589	
from KGS 1 to 100 thousand	1,028	34,995	1,264	43,624	1,333	47,662	1,419	52,575	1,607	60,838	1,607	60,838	1,607	60,838	
from KGS 100 thousand to KGS 1 million	9,469	22,232	9,715	23,333	11,143	26,467	14,070	32,877	15,343	35,383	15,343	35,383	15,343	35,383	
from KGS 1 million to KGS 10 million	79,867	24,002	80,121	24,545	84,306	25,878	103,549	32,045	119,019	37,599	119,019	37,599	119,019	37,599	
from KGS 10 million to KGS 100 million	201,449	7,327	191,641	7,005	170,059	6,250	225,349	7,896	258,968	8,680	258,968	8,680	258,968	8,680	
payments above KGS 100 million	83,717	500	134,887	624	116,140	576	175,236	760	213,231	970	213,231	970	213,231	970	
<b>Total</b>	<b>375,532</b>	<b>96,499</b>	<b>417,632</b>	<b>109,012</b>	<b>382,985</b>	<b>116,613</b>	<b>519,628</b>	<b>136,741</b>	<b>608,171</b>	<b>154,059</b>	<b>608,171</b>	<b>154,059</b>	<b>608,171</b>	<b>154,059</b>	

**Table 21.** Volume and Number of Clearing Transactions by Oblasts

	2008			2009			2010			2011			2012		
	Volume, in mln of KGS	Number of payments	Volume, in mln of KGS	Number of payments	Volume, in mln of KGS	Number of payments	Volume, in mln of KGS	Number of payments	Volume, in mln of KGS	Number of payments	Volume, in mln of KGS	Number of payments	Volume, in mln of KGS	Number of payments	
Bishkek and Chui Oblast	44,009	1,667,187	42,279	2,095,196	40,712	1,028,101	44,244	1,053,947	50,725	1,680,954	44,244	1,053,947	50,725	1,680,954	
Batken Oblast	2,113	125,602	2,267	235,995	2,490	59,164	2,762	43,100	2,921	58,765	2,762	43,100	2,921	58,765	
Jalal-Abad Oblast	4,510	254,025	4,779	350,287	4,976	122,639	5,682	96,941	5,817	122,063	5,682	96,941	5,817	122,063	
Issyk-Kul Oblast	2,781	146,442	3,213	192,336	2,957	79,917	3,828	75,469	4,406	105,556	3,828	75,469	4,406	105,556	
Naryn Oblast	1,116	51,893	1,316	67,195	1,356	37,379	1,636	46,321	2,096	51,572	1,636	46,321	2,096	51,572	
Osh Oblast and Osh City	5,783	170,494	6,130	237,077	4,864	125,901	6,180	118,889	6,982	160,910	6,180	118,889	6,982	160,910	
Talas Oblast	913	79,702	893	118,475	987	37,977	1,153	24,393	1,266	24,365	1,153	24,393	1,266	24,365	
<b>Total</b>	<b>61,225</b>	<b>2,495,345</b>	<b>60,877</b>	<b>3,296,561</b>	<b>58,341</b>	<b>1,491,078</b>	<b>65,484</b>	<b>1,459,060</b>	<b>74,213</b>	<b>2,204,185</b>	<b>65,484</b>	<b>1,459,060</b>	<b>74,213</b>	<b>2,204,185</b>	

**Table 22.** Information on Transactions with Payment Cards in POS (Point Of Sale)

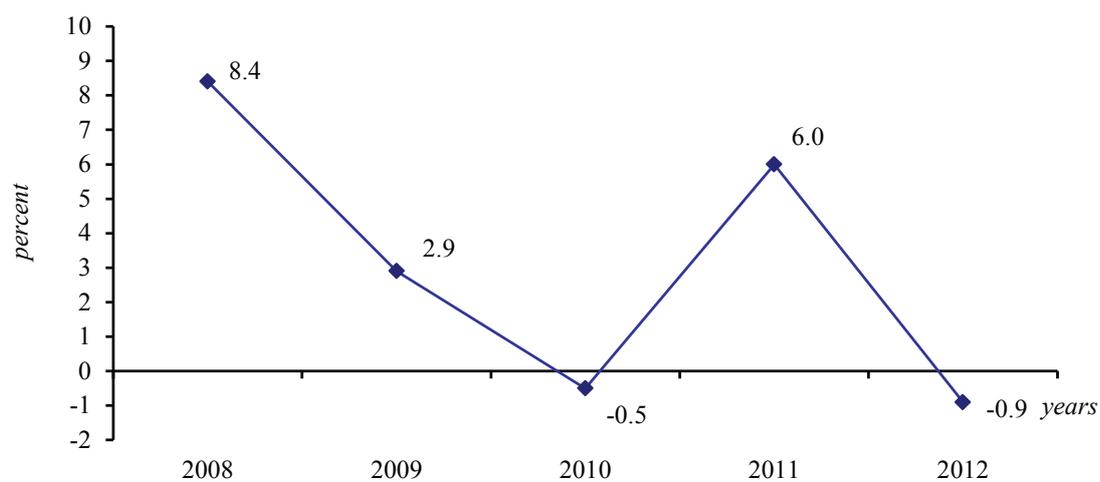
Card type	2008			2009			2010			2011			2012		
	Number of transactions	Volume, in thous. of KGS	Number of transactions	Volume, in thous. of KGS	Number of transactions	Volume, in thous. of KGS	Number of transactions	Volume, in thous. of KGS	Number of transactions	Volume, in thous. of KGS	Number of transactions	Volume, in thous. of KGS	Number of transactions	Volume, in thous. of KGS	
Eicard	9,423	3,280	17,252	4,232	1,918	4,067	5,776	4,067	15,540	9,134	5,776	4,067	15,540	9,134	
Zolotaya Korona (Alai-Card)	36,205	17,911	38,272	42,164	15,009	21,634	40,821	21,634	99,879	40,455	40,821	21,634	99,879	40,455	
Demir 24	8,114	4,683	3,442	1,918	-	-	-	-	-	-	-	-	-	-	
Visa	35,495	174,271	48,508	148,033	345,435	884,107	242,881	884,107	393,377	1,228,982	242,881	884,107	393,377	1,228,982	
Master Card	7,539	59,028	6,813	58,477	110,162	187,243	10,000	187,243	9,995	185,732	10,000	187,243	9,995	185,732	
American Express	-	-	-	-	-	30,139	1,002	30,139	2,436	72,203	1,002	30,139	2,436	72,203	

Data of commercial banks

"-": no transactions

**Chart 1.**

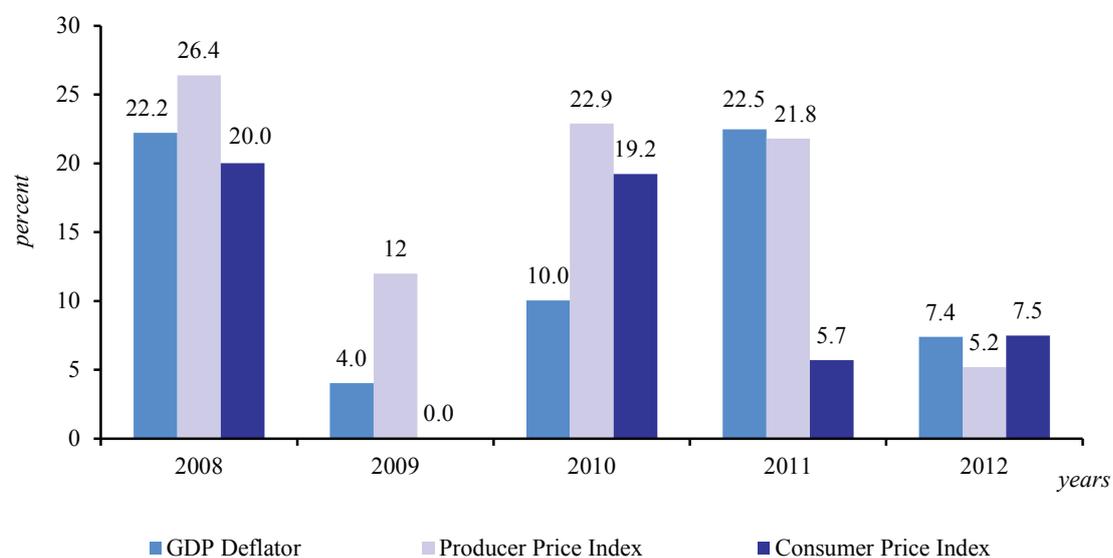
Rates of Growth of Real Gross Domestic Product



NSC KR data

**Chart 2.**

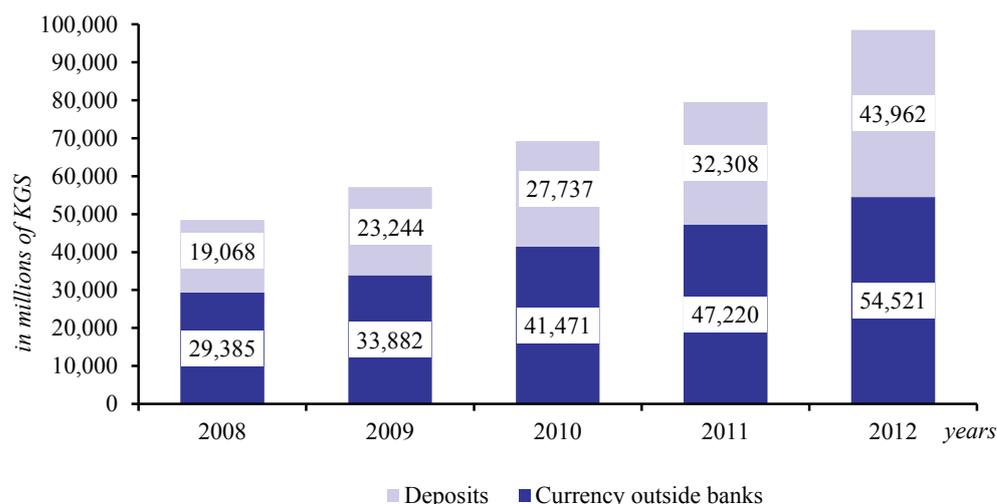
Rates of Growth of Consumer and Producer Prices



NSC KR data

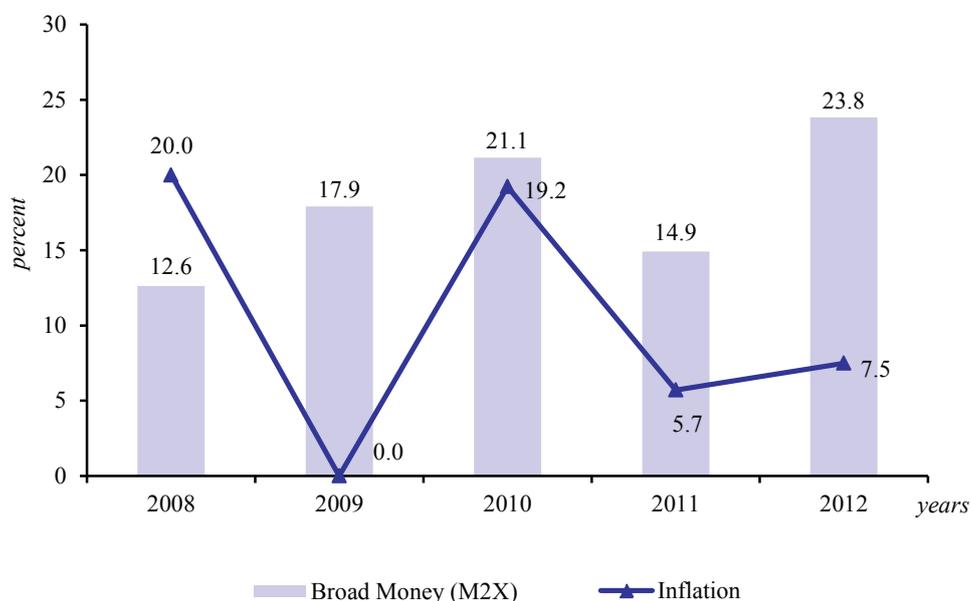
**Chart 3.**

Monetary Aggregates M2X Structure



**Chart 4.**

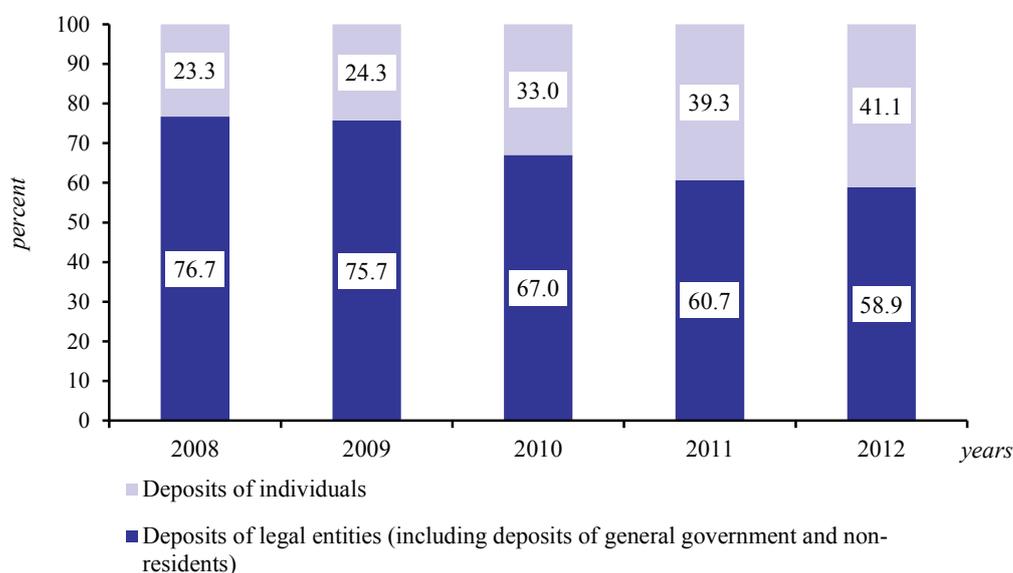
Rates of Growth of Money Supply and Inflation



According to data of NSC and NBKR

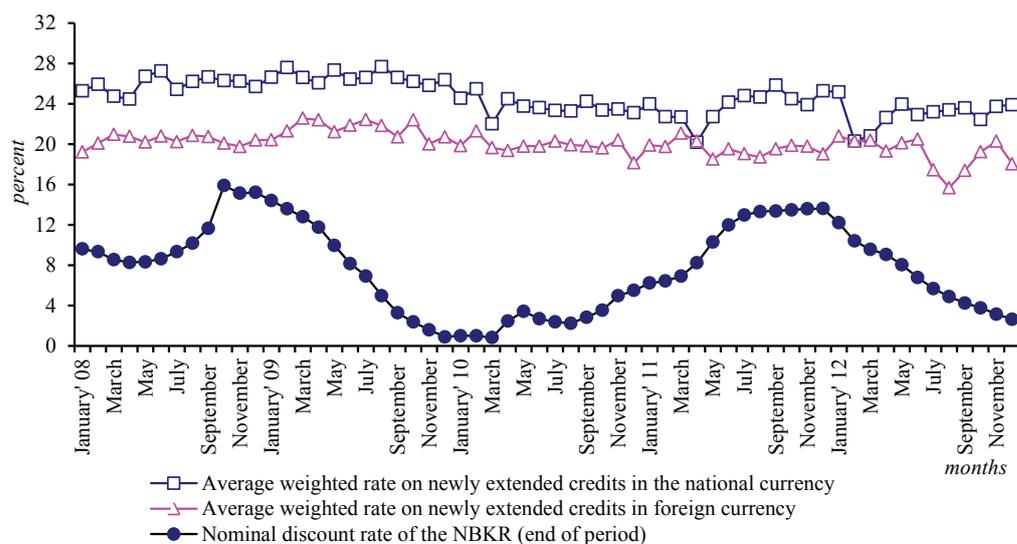
**Chart 5.**

Structure of Deposit Base in Commercial Banks (end of period)



**Chart 6.**

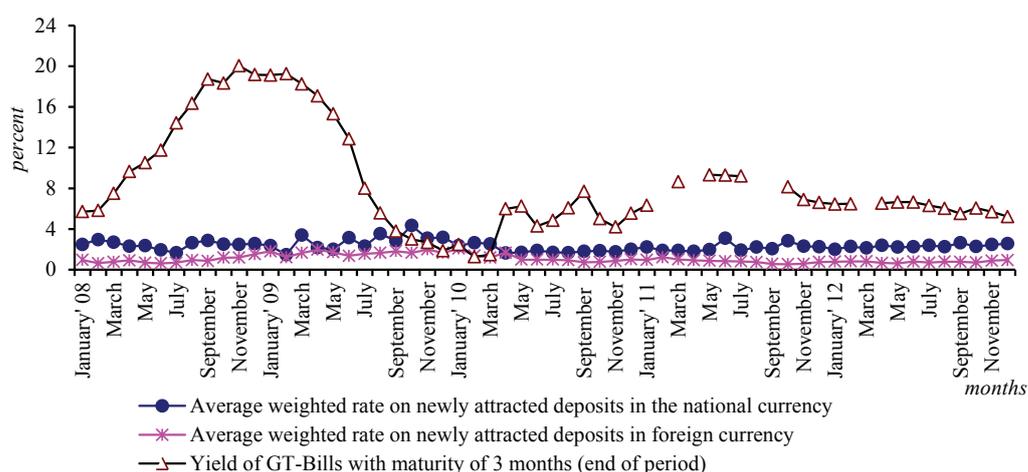
Interest Rates of Credits Extended by Commercial Banks and Discount Rate of the NBKR



NBKR data and monthly regulatory reporting of commercial banks

**Chart 7.**

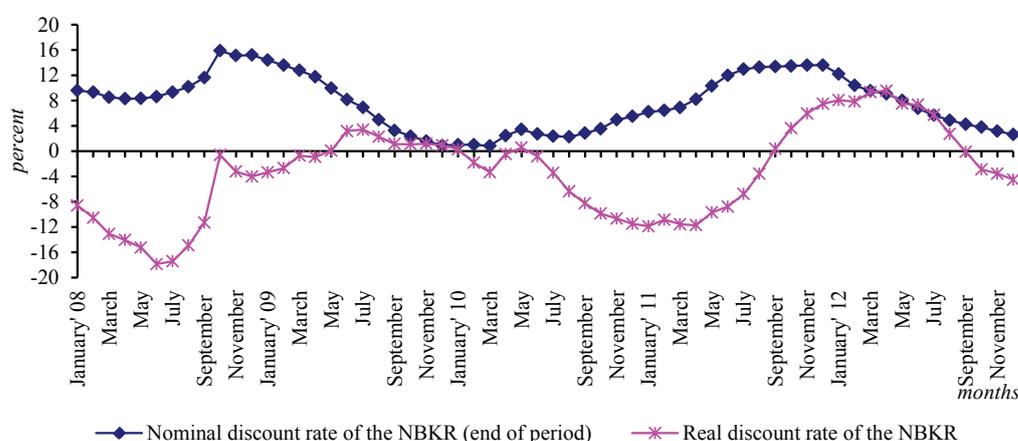
Interest Rates of Deposits and Yield of GT-Bills



NBKR data and monthly regulatory reporting of commercial banks

**Chart 8.**

Nominal and Real Discount Rate Developments



NBKR data

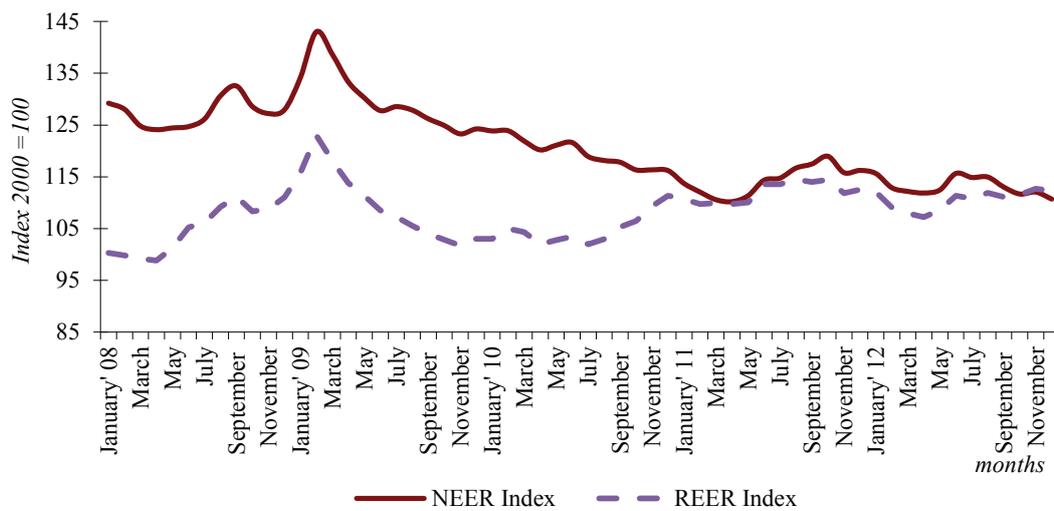
Note: the following formula was applied to calculate the real interest rate:

$$r = (i - p) / (p + 100) * 100$$
, where the "i"- is the nominal interest rate

r - real interest rate; p - annual rate of inflation

**Chart 9**

## Indices of Nominal and Real Effective Exchange Rates



\* NBKR data

**Appendix 3**  
to the NBKR Annual Report 2012

**NBKR Periodical Publications and Other Information Tools**

No	Title <sup>1</sup>	Language of Publication	Frequency	Contents	Distribution
1.	Bulletin of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian, and English	Monthly	Statistical data on major economic and financial indicators. For preparation of the bulletin the materials of the National Statistical Committee, Ministry of Finance, commercial banks, Financial Market Supervision and Regulation Service of the Kyrgyz Republic, and NBKR data are used.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and agencies, commercial banks, non-bank financial and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic Missions of the Kyrgyz Republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
2.	Annual Report of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian, and English	Annually	The comprehensive progress report of the National Bank for the reporting year, containing the concise description of the outcome of developments in the real sector of the economy, the description of the decisions and actions of the National Bank in the monetary sphere. Includes information on economic development, monetary policy, financial statements and general information on the National Bank, as well as statistical appendices.	The Jogorku Kenesh of the Kyrgyz Republic, The Administration of the President of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and agencies, commercial banks, non-bank financial and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic Missions of the Kyrgyz Republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
3.	Statutory Acts of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian	Monthly	Regulations, instructions and other regulatory acts adopted by the NBKR.	The Jogorku Kenesh of the Kyrgyz Republic, The Administration of the President of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, commercial banks, financial and credit institutions, the Courts of the Kyrgyz Republic ministries and agencies, higher educational institutions and libraries of the Kyrgyz Republic.

<sup>1</sup> – the titles of publications are given in an alphabetical order in Russian.

1	2	3	4	5	6
4.	Review of the Inflation in the Kyrgyz Republic	Kyrgyz, Russian, and English	Quarterly	The description of the dynamics of consumer prices in the country and its regions, the analysis of the basic inflation factors. The publication provides information on the decisions of the NBKR in the area of monetary policy and inflation forecast for the upcoming period	The Jogorku Kenesh of the Kyrgyz Republic, The Administration of the President of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, ministries and agencies, commercial banks, non-bank financial and credit institutions, higher educational institutions, and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic Missions of the Kyrgyz Republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
5.	The Balance of Payments of the Kyrgyz Republic	Kyrgyz, Russian, and English	Quarterly	The publication reflects the recent external sector development trends and contains statistical data on the balance of payments, foreign trade, international reserves, external debt and international investment position, as well as meta data and information base used to compile the balance of payments.	The Jogorku Kenesh of the Kyrgyz Republic, The Administration of the President of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, ministries and agencies, commercial banks, non-bank financial and credit institutions, higher educational institutions, and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic Missions of the Kyrgyz Republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
6.	Press Release of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian	Weekly	On-line information on official exchange rates set by the National Bank of the Kyrgyz Republic, the results of inter-bank currency auctions, the situation on market of GT-Bills and NBKR Notes, the discount rate of the National Bank, brief analytical materials on basic directions of the NBKR activities, as well as the chronicle of events in the National Bank.	The Jogorku Kenesh of the Kyrgyz Republic, The Administration of the President of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and agencies, commercial banks, non-bank financial and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, Mass Media.
7.	Report on Stability of the Financial Sector of the Kyrgyz Republic	Kyrgyz, Russian, and English	Semiannually	The main objective of the publication is to inform the public about the risks, threats and imbalances in the economy that might have an adverse impact on the financial intermediation system as a whole. The report reflects the NBKR's evaluation of foreign and domestic economic factors influencing the financial stability, the conditions of banks and other financial intermediator institutions, as well as the analysis of the current state of affairs in the financial markets and the stability of financial sector of Kyrgyzstan.	The Jogorku Kenesh of the Kyrgyz Republic, The Administration of the President of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, ministries and agencies, commercial banks, non-bank financial and credit institutions, higher educational institutions, and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic Missions of the Kyrgyz Republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.

8.	Collection of Scientific Works	Kyrgyz, Russian, and English	As completed	The Collection comprises studies of theoretic, analytical and practical nature on such topics monetary and fiscal policy, foreign economy sector, economic growth and demography prepared over the course of research and analytical works carried out by the National Bank.	The Jogorku Kenesh of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and agencies, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic Missions of the Kyrgyz Republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
9.	Information Booklets and Instructions	Kyrgyz, Russian	Updated according to work plans of Structural Subdivisions	Informational brochures and methodological manuals are published on the various lines of the NBKR activities.	The Jogorku Kenesh of the Kyrgyz Republic, The Administration of the President of the Kyrgyz Republic, the Government Office of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and agencies, commercial banks, non-bank financial and credit institutions, higher educational institutions and libraries of the Kyrgyz Republic.
10.	Official Web-site of the NBKR www.nbkr.kg	Kyrgyz, Russian, and English	Updated in real-time mode	Information on the activities of the NBKR, including: information on banking legislation, regulatory legal acts of the NBKR governing monetary policy, the activities of commercial banks and other FCIs, on the organization of payment system and cash turnover, and draft documents are brought to discussion, regularly updated list of commercial banks and non-bank FCIs, licensed by the National Bank, as well as information on tariffs for services provided by commercial banks. The site also hosts: review materials on the system of commercial banks and non-bank financial sector; statistics on the monetary survey, external economic indicators, balance of payments, international reserves, external debt and international investment position of the country; information on the history of the national currency; information and analytical materials and the Internet versions of the official publications of the National Bank: "Bulletin of the National Bank", "Annual Report", "Review of the Inflation in the Kyrgyz Republic", "Balance of Payments of the Kyrgyz Republic", "Press Release of the NBKR", "Banking System Development Trends in the Kyrgyz Republic", "Report on Stability of the Financial Sector of the Kyrgyz Republic" - updated according to the frequency of each publication.	Open (public) access to information

				<p>On the special section the forms of the documents are posted: on recruitment, on the opening of bank, exchange offices, and microfinance institutions. The information on transactions involving the NBKR, the official exchange rate and the discount rate set by the National Bank, and the chronicle of events in the NBKR are updated in real-time mode. In line with the Action Plan for improving the antimonopoly regulation and protection of rights of customers of financial services (1) a new section "Information for Customers of Financial Services was added and (2) stickers with data on the average weighted interest rates on loans extended by (a) commercial banks over the last reporting month and (b) NFCI over the last reporting quarter were posted on the main page of the NBKR official website.</p>	
11.	Radio Program "Uluttuk Bank Bildiret" (The National Bank Information)	Kyrgyz	Twice a week	<p>Interviews with the NBKR Experts on current issues of the monetary policy and banking legislation, on implementation of the strategic government programs for the development of banking sector, payment systems, micro-financing market.</p> <p>Answers to common questions of the citizens are covered under the heading "The NBKR Public Chamber Answers Your Questions".</p>	Broadcast on Radio "Kyrgyzstan Obondoru"
12.	TV Program "Natsbank Soobshaet" (The National Bank Information)	Russian	Monthly	<p>Coverage of major events in the NBKR activities. Interview with the NBKR Experts on the current issues of the monetary policy, banking and payment system, banking legislation.</p>	Broadcast on the Republican TV Channel "Public TV and Radio Broadcasting Corporation"

**Appendix 4**  
to the NBKR Report for 2012

## List of Abbreviations

ADB	Asian Development Bank
BCS	Bulk Clearing System
CAMELS	Commercial Banks Rating System
CB	Central Bank
CFT/AML	Combating the Financing of Terrorism and Anti-Money Laundering
CIFRS	Committee for International Financial Reporting Standards
CIIFRS	Committee for Interpretation of International Financial Reporting Standards
CIS	Commonwealth of Independent States
CJSC	Closed Joint Stock Company
CMR	Committee for Monetary Regulation
CPI	Consumer Price Index
CT MoF	Central Treasury of the Ministry of Finance
CU	Credit Union
DSGE	Dynamic Stochastic General Equilibrium Model
EBRD	European Bank for Reconstruction and Development
ECDO	Economic Cooperation and Development Organization
ECF	Extended Credit Facility of the IMF
EGPAP	Economic Growth and Poverty Alleviation Program
ESF	Exogenous Shock Facility
EurAsEC	Eurasian Economic Community
FCCU	Financial Company of Credit Unions
FCI	Finance and Credit Institution
FCSDCU	Financial Company for Support and Development of Credit Unions (later reorganized into OJSC "FCCU")
FL	Fuels and Lubricants
FOB	Price at the Frontier of Country-Exporter (free on board)
FRG	Federal Republic of Germany
GDP	Gross Domestic Product
GIZ	German Agency for International Cooperation
GS	Government Securities
GT-Bill	Government Treasury Bill
GT-Bill(s)	Government Treasury Bill for Settlement
GT-Bond	Government Treasury Bond

GTO(s)	Government Treasury Obligation for Settlement
HEI	Higher Educational Institution
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
ILO	International Labor Organization
IMF	International Monetary Fund
Intergovernmental Organization for ISAMLCFT	Intergovernmental Organization (Group) for Development and Introduction of International Standards of Anti-Money Laundering and Combating the Financing of Terrorism
IR	International Reserves
ISB	Interstate Bank
ISB	International Settlements Bank
JVI	Joined Vienna Institute
KfW	German Development Bank
KR	Kyrgyz Republic
LLC	Limited Liability Company
LLP	Loan Loss Provisions
MAC	Multi-Access Center
MCA	Microcredit Agency
MCC	Microcredit Company
MFC	Microfinance Company
MoF KR	Ministry of Finance of the Kyrgyz Republic
MFO	Microfinance Organization
MM	Mass Media
MP	Monetary Policy
MRR	Mandatory Reserve Requirement
NBKR	National Bank of the Kyrgyz Republic
NBP	National Bank of Poland
NEER	Nominal Effective Exchange Rate
NFCI	Nonbank Finance and Credit Institution
NSC	National Statistical Committee
OJSC	Open Joint Stock Company
OPEC	Organization of Petroleum Exporting Countries
OSCE	Organization for Security and Cooperation in Europe
PS	Payment System
REER	Real Effective Exchange Rate
RLA	Regulatory Legal Act

ROA	Return on Assets
ROE	Return on Equity
RTGSS	Real Time Gross Settlement System
SBRF	Special Banks Refinancing Fund
SDR	Special Drawing Rights
SE	State Enterprise
SECO	Swiss Cooperation Office in the Kyrgyz Republic
SESRIC	Statistical, Economic and Social Research and Training Center for Islamic Countries
SWIFT	Society for Worldwide Interbank Financial Telecommunications
TO	Treasury Obligations
ULE	Union of Legal Entities
USA	United States of America
USAID	United States Agency for International Development
VAT	Value Added Tax

(Footnotes)

<sup>1</sup> – the titles of publications are given in an alphabetical order.

