

NATIONAL BANK OF THE KYRGYZ REPUBLIC

# ANNUAL REPORT

---

2006

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## DEAR READERS!

An overall picture of improvement in economic and investment activity was characteristic for the economy of the Kyrgyz Republic in 2006. Under these conditions the monetary policy pursued by the National Bank permitted to ensure the low rate of inflation and avoid drastic fluctuation of the exchange rate.

In the reporting year there was an increase in demand for the national currency, at the same time, there was a significant increase in supply of US dollars at the domestic foreign exchange market. NBKR continued to pursue the policy of the floating exchange rate of Som that was adopted in the country. The National Bank continued to improve and develop the monetary policy instruments under conditions of excessive liquidity in the banking system.

The forecast financial intermediation indicators were achieved, the banking system capitalization continued to increase, high growth rates of deposits and lending were kept.

In 2006, the activity was continued on implementing Core Principles of the Basel Committee for Banking Supervision, which were aimed at improving supervision efficiency, developing corporate governance in banks, improving transparency of the banking system, preventing operations on legalization (money laundering) of proceeds from crime.

The considerable attention was paid to institutional aspects of the financial sector development. Within the framework of implementing the State Program of Activities on Modernization of the Payment System of the Kyrgyz Republic activities were executed on creating a technical infrastructure of the payment system of the Kyrgyz Republic and implementing two retail payment systems in the reporting year: the Bulk Clearing System and the Card Processing System.

Implementation of the Medium Term Strategy for Microfinance Development in the Kyrgyz Republic for 2006-2010 was a priority direction in the work of the National Bank that facilitated further increase in the number of non-bank finance and credit institutions.

As a whole, the activity of the National Bank in 2006 was aimed at improving efficiency of the monetary policy and achieving a sustainable economic growth in the republic.

In this report the National Bank presents its performance for 2006 including financial statements confirmed by the auditor's report in accordance with internationally accepted audit standards.

Best regards,

Marat O. Alapaev  
Chairman of the Board

# I

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

## CHAPTER 1. ECONOMIC DEVELOPMENT OF THE KYRGYZ REPUBLIC IN 2006

### 1.1. Real Sector of Economy

In the reporting year an overall picture of improvement in economic and investment activity was observed in the country. According to the data<sup>1</sup> of the National Statistics Committee of the Kyrgyz Republic, the Gross Domestic Product (GDP) amounted to Som 113.2 billion in 2006, and increased by 2.7 percent in real terms. Without consideration of Kumtor gold deposit mining related enterprises, the increase in GDP was 5.1 percent. Such types of activities as agriculture, construction, trade, services of hotels and restaurants, transportation and communication had a positive contribution to the GDP growth.

**Table 1.1.1.**  
**Gross Domestic Product Structure in 2006**

	Share, <i>percent</i>	Growth Rate, <i>percent</i>	Contribution to the Growth Rate, <i>percentage points</i>
Agriculture, hunting and forestry	29,0	1,5	0,4
Mining industry	0,5	-4,8	0,0
Processing industry	11,3	-12,8	-1,6
Generation and distribution of electric power, gas and water	3,1	-0,7	0,0
Construction	2,7	8,5	0,2
Trade, repair of cars and items of personal use	19,3	14,4	2,6
Hotels and restaurants	1,5	19,8	0,3
Transport and communication	6,2	3,8	0,2
Other sectors	26,4	2,4	0,6
GDP	100,0	2,7	2,7

Source: NSC KR data

At the end of 2006 there were 563.8 thousand business entities in the country that exceeded their number at the beginning of the year by 4.7 percent. In this case, there was a great increase in the number of individual entrepreneurs (by 9.5 percent) and of small enterprises (by 8.7 percent). As in prior years, peasant (farm) enterprises (53.2 percent) and individual entrepreneurs (33.5 percent) predominated in the structure of business entities. The number of operating business entities was 385.4 thousand of the total number of business entities, which was greater by 5.8 percent than at the beginning of 2006. Such growth was ensured by the increase (almost by 29 percent) in the number of individual entrepreneurs, mainly, in agriculture, trade and repairs area, transportation and communication. Despite this increase, it should be noted that the growth was observed in the number of newly registered enterprises that did not start their operations in trade and services areas. In industry, the number of fully idle enterprises reduced from 34 to 22 enterprises, and accounted for 3.7 percent of their total number.

In comparison with the decrease in 2005 (by 4.2 percent), the gross agricultural output increased by 1.5 percent, and totaled Som 72.2 billion in the reporting year. Meat production increased by 0.7 percent in livestock, production of milk and eggs grew by 1.2 percent and 3.5 percent, respectively. However, production of wool reduced by 0.2 percent in 2006. In the sector of crop production, sugar beet output decreased by 21.8 percent, the yield of collected grain reduced by 6.3 percent, including wheat by 11.6 percent.

<sup>1</sup> Preliminary data.

In 2006, the volume of industrial output decreased by 10.2 percent. Without considering Kumtor gold deposit mining related enterprises, the production volume in industry increased by 4.2 percent.

The decline by 12.8 percent was noted in the processing industry that was, primarily, caused by the technical accident at Kumtor deposit. The greatest decline among processing industry sectors was observed in metallurgical production (by 35.8 percent), and in production of transportation facilities and equipment (by 45.6 percent). A considerable growth was in production of leather and footwear (by 2.5 times). Wood processing and wood-work production rose by 46.7 percent, textile and garment manufacture increased by 19.1 percent. The largest growth was noted in the mineral resource industry in the sector of minerals extraction (by 57.9 percent).

Total volume<sup>1</sup> of turnover in trade, car repair, household goods and goods of personal use increased by 14.0 percent. The volume of services rendered by hotels and restaurants grew by 19.7 percent. In 2006, the demand for hotel services significantly increased (by 20.4 percent) that was connected with a favorable holiday season. In the reporting year, the volume of traffic transferred by all types of transport increased by 2.8 percent and was 29.2 million tons. Communication services grew by 5.5 percent.

In 2006, the volume of investments in fixed capital increased by 18.2 percent in real terms. Equity funds of enterprises accounting for 36.9 percent to the total volume (37.5 percent in 2005) still had the largest share among funding sources. At the same time, the share of investments using public funds significantly increased, and accounted for 35.4 percent at the end of the reporting year (26.6 percent at the end of 2005). The share of external investments reduced from 28.4 percent in 2005 to 19.5 percent in 2006.

Enterprises and organizations of the Kyrgyz Republic (without enterprises engaged in crop production and livestock) made a balance sheet profit amounting to Som 6.9 billion in 2006<sup>2</sup>, which was greater by 31.2 percent than in the corresponding period of 2005. However, losses were noted in the mineral resource industry. Balance sheet losses of enterprises on generation and distribution of electric power, gas and water reduced by 60.4 percent, and construction organizations turned from unprofitable into profitable entities. As compared to the corresponding period in 2005, the share of unprofitable enterprises reduced by 2.4 percent, although the amount of incurred losses increased by 41.3 percent.

The nominal average monthly salary per employee in the country<sup>3</sup> amounted to Som 3059.0, and increased by 19.0 percent as compared with a similar period in 2005, and its real growth was 12.7 percent. The increase in real income of the population contributed to the consumer market growth. Thus, the volume of retail trade turnover, including public catering increased by 15.6 percent, and the volume of paid services provided to the population grew by 13.1 percent.

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<sup>1</sup> Physical quantity

<sup>2</sup> NSC KR data for January-September 2006

<sup>3</sup> NSC KR data without small enterprises

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

In 2006, the fiscal policy was aimed at stimulating entrepreneurial activity and reducing tax burden for business entities. Thus, within the framework of the Medium-term Strategy for Improving the Tax Policy in the Kyrgyz Republic for 2006-2008<sup>2</sup>, a number of measures were implemented, in particular:

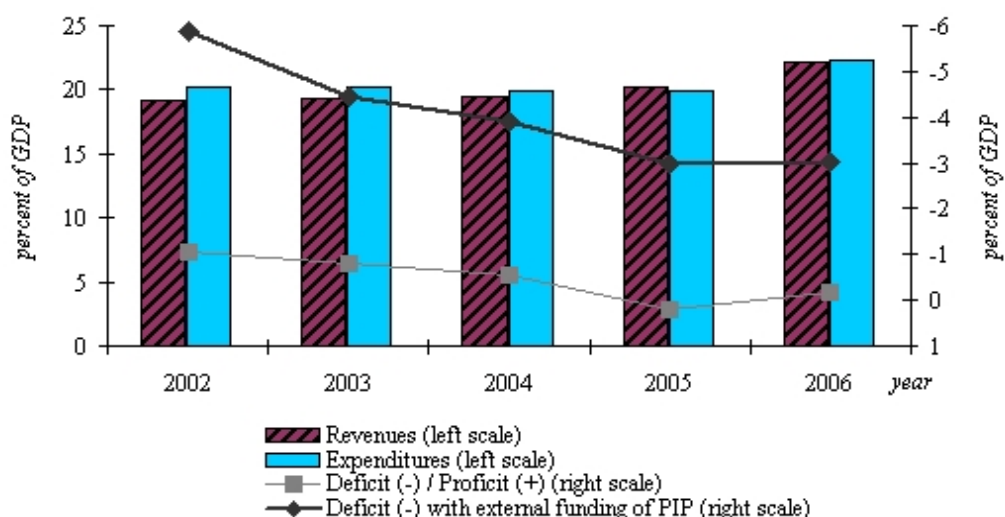
- A profit tax rate was reduced from 20 to 10 percent;
- A flat rate of income tax was set at 10 percent;
- Fixed assets imported for domestic production and/or use were exempt of VAT;
- VAT registration threshold was increased from Som 500 thousand to Som 2.5 million;
- Certain inefficient local taxes and fees were cancelled (their number reduced from 16 to 8);
- A threefold increase in the tax for owners of vehicles was introduced.

Furthermore, during the reporting year the development of the new version of the Tax Code continued, adoption of which was called to spur economic activity in the country, and eliminate existing contradictions and deficiencies in the modern tax system. In the reporting year, revenues of the state budget were executed by 99.6 percent of the planned indicator.

The policy of public expenditures was oriented at full and timely financing of social guarantees and liabilities of the state to the population.

In 2006, the state budget of the Kyrgyz Republic was executed with the deficit amounting to Som 216.5 million or 0.2 percent to GDP (by taking into account the external funding of the Public Investment Program (PIP) the deficit totaled Som 3410.7 million or 3.0 percent to GDP). Primary budget surplus<sup>3</sup> amounted to Som 713.3 million. State budget revenues, including transfers from abroad totaled Som 25081.3 million, and expenditures amounted to Som 25297.8 million.

**Chart 1.2.1.**  
**Main Characteristics of the State Budget**



<sup>1</sup> According to the data from the Central Treasury of the Ministry of Finance of the Kyrgyz Republic

<sup>2</sup> by the Decree of the President of the Kyrgyz Republic N172 of 13 April 2006

<sup>3</sup> Indicator describing stability of the budget to debt servicing. It is calculated as a difference between total revenues, including transfers from abroad and total expenditures net of interest payments.

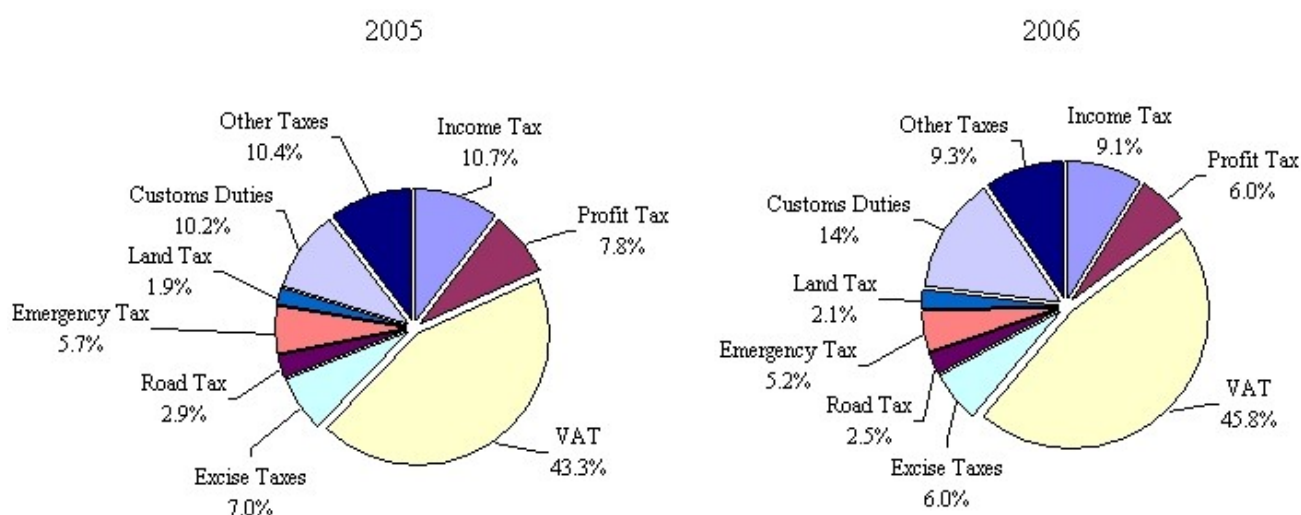
### 1.2.1. State Budget Revenues

Total revenues and received official transfers of the state budget in 2006 amounted to Som 25081.3 million, which was higher by 23.1 percent of the applicable indicator in 2005. State budget revenues to GDP increased from 20.2 percent to 22.2 percent.

Taxes formed the largest share of the budget's revenues, namely, Som 19981.2 million or 79.7 percent of total revenues (Som 16361.4 million or 80.3 percent in 2005).

In the reporting year, tax revenues increased by 15.6 percent in real terms<sup>1</sup> (by 12.2 percent in 2005) that was, primarily due to the increase in the volume of import operations. Thus, the main increase was ensured by revenues from VAT on imports, excise duties on imported products and customs payments. In the context of overall increase in tax revenues, indicators of profit tax and income tax decreased, which was projected in view of changes in rates on these types of taxes.

**Chart 1.2.1.1.**  
**Tax Revenues Structure in the State Budget**



As compared with 2005, non-tax revenues in the state budget increased by 31.6 percent, and amounted to Som 4696.0 million in 2006.

Based on the results of 2006, total of Som 266.1 million was received in the form of official foreign grants into the state budget (Som 392.6 million in 2005).

### 1.2.2. State Budget Expenditures

State budget expenditures increased by 25.6 percent and amounted to Som 25297.8 million or 22.4 percent to GDP in the reporting year. Budget revenues permitted to execute its expenditures by 98.8 percent.

The expenditure structure did not change in accordance with the functional classification. As in prior years, social services (60.1 percent of total expenditures), including education (25.0 percent), social insurance and social security (14.3 percent), and health (12.1 percent) were main expenditure items in the budget. Overall public and economic services accounted for 27.5 percent and 9.3 percent of total expenditures, respectively. As compared with 2005, expenditures of the stage budget for payment of salaries increased by 6.2 percent or by 0.5 percent in real terms<sup>1</sup> for the reporting year. Subventions

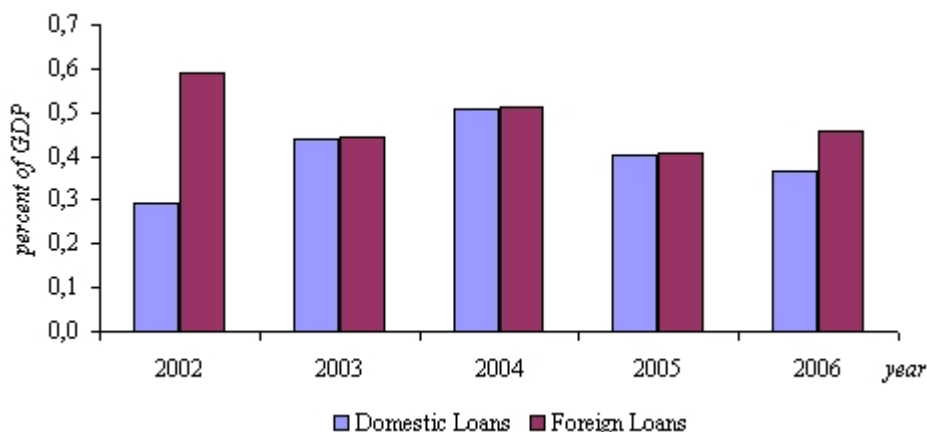
<sup>1</sup> Adjusted to the CPI



from the republican budget to the Social Fund reduced by 38.1 percent, and amounted to Som 47.1 million.

In 2006, expenditures for servicing public debt totaled Som 3024.3 million (12.0 percent to total expenditures that was lower by 3.0 percentage points than the applicable indicator in 2005), out of which Som 1014.8 million, and Som 2009.4 million were channeled to repay external and domestic debt, respectively. Actual expenses for servicing external liabilities of the Kyrgyz Republic reduced by Som 2144.0 million, as a result of the agreement on external debt restructuring within the framework of the Paris Club Protocol of 11 March 2005.

**Chart 1.2.2.1.**  
**Interest Payments on Public Debt**



Under Capital Investments item Som 1287.4 million was spent from the state budget, which was greater by 34.1 percent than in 2005.

Total expenditures for implementing projects carried out by the Government within the framework of the PIP amounted to Som 4129.7 million or 3.6 percent to GDP in 2006 (Som 4137.8 million or 4.1 percent to GDP in 2005). External financing of investment projects was executed by 92.6 percent, and amounted to Som 3815.8 million, including Som 621.6 million by using grants. Domestic co-financing of investment projects totaled Som 313.9 million.

### **1.2.3. Financing State Budget Deficit**

State budget deficit, including the PIP, was financed from domestic and external sources in the reporting year.

Financing of the state budget deficit from domestic sources amounted to Som 420.8 million (or 12.3 percent of total deficit).

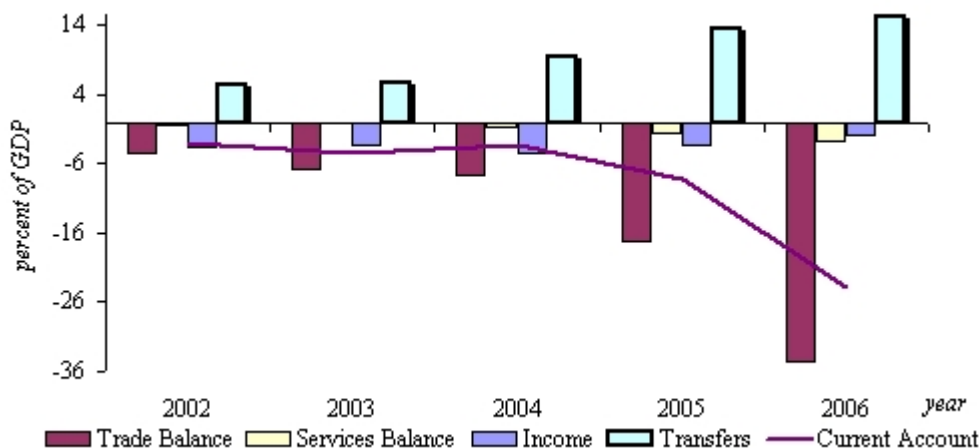
Receipts of credits from international economic development organizations (Som 3488.4 million) exceeded the costs for their repayment (Som 498.5 million), as a result of which, external financing of the state budget deficit had a positive value amounting to Som 2989.9 million.

Receipts from privatization totaled Som 825.9 million.

### 1.3. Balance of Payments of the Kyrgyz Republic

According to the preliminary data the positive balance of payments amounted to US\$ 127.4 million in 2006. The current account had a negative balance that accounted for 24.9 percent to GDP. This was conditioned by 2.3 times increase in the deficit of the balance on goods and services with a simultaneous decrease in the negative balance of income, and an increase in the positive balance of transfers by 30.4 percent.

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



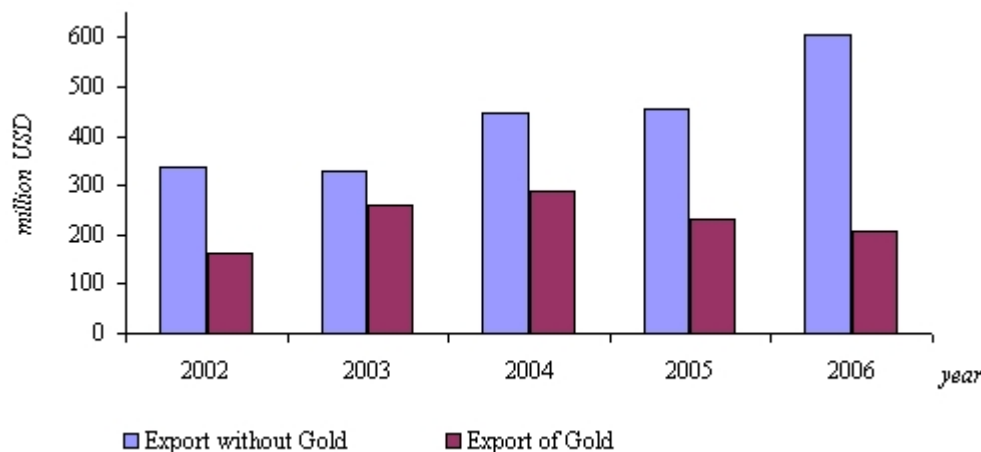
According to the data of the National Statistics Committee of the Kyrgyz Republic and enterprises of the country, and also according to the NBKR estimates, the negative trade balance of the Kyrgyz Republic amounted to US\$ 988.3 million in 2006 against US\$ 418.7 million in 2005.

Foreign trade turnover in FOB prices in 2006 totaled US\$ 2610.0 million, having increased by 45.6 percent in comparison with a similar indicator in 2005. Commodity turnover with non-CIS countries increased by 52.3 percent, and by 39.6 percent with CIS countries. Commodity turnover grew because of the increase in both exports, and imports of goods.

According to the NBKR estimates, exports of goods in FOB prices amounted to US\$ 810.8 million in 2006, having increased by 18.1 percent as compared with results of 2005. The growth in exports was supported by the increase in deliveries of goods to CIS countries by 24.9 percent and to non-CIS countries by 12.6 percent. At the same time, the reduction was noted in exports of gold by 10.7 percent in value terms, and by 34.5 percent in physical terms as compared with 2005. Exports without gold increased by 32.6 percent.

In the functional structure of exports<sup>1</sup> the growth was observed in export deliveries of energy products (by 88.8 percent), investment goods (by 82.7 percent) and consumer goods (by 30.0 percent) in the reporting period. Furthermore, the reduction trend in exports of intermediate goods (by 7.8 percent in 2005) and of raw materials (by 4.0 percent) remained in the reporting period. Main items of raw products affecting reduction in exports were wastes, scrap iron (reduced by 20.6 percent), cotton (by 12.1 percent) and leather (by 4.6 percent).

**Chart 1.3.2.**  
**Export of Goods**



In the geographical structure of exports<sup>1</sup>, shares of non-CIS countries and of CIS countries in 2006 accounted for 52.3 and 47.7 percent, respectively.

Export deliveries<sup>1</sup> to non-CIS countries in 2006 increased by 12.6 percent, and amounted to US\$ 415.1 million in comparison with 2005. There was a significant rise in deliveries to Afghanistan and Switzerland. Exports to Afghanistan, mainly, increased due to deliveries of ferrous metals, and re-export of oil products, and to Switzerland due to exports of gold.

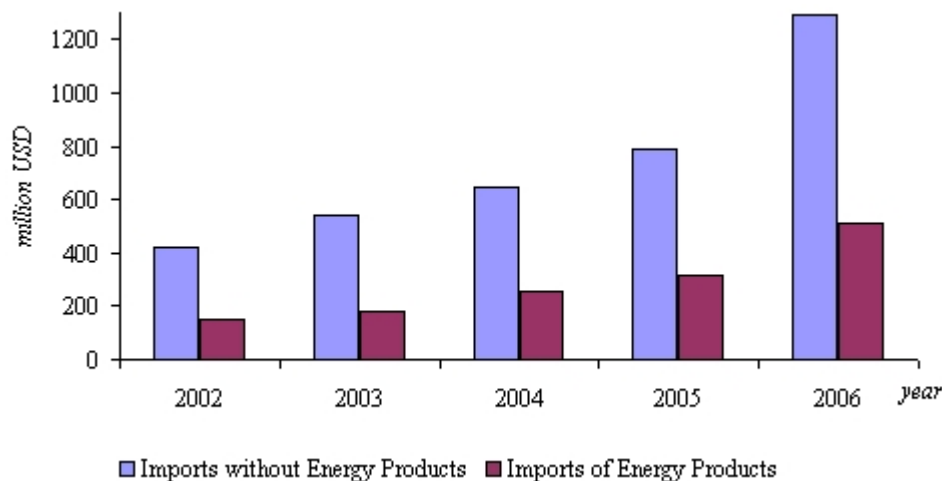
Exports to CIS countries<sup>1</sup> in 2006 grew by 25.0 percent, and amounted to US\$ 379.0 million. Export deliveries notably increased to Uzbekistan (by 64.0 percent), Kazakhstan (by 40.0 percent) and Russia (by 14.4 percent) due to the rise in deliveries of garments, cement, equipment and spare parts to them. At the same time, there was a reduction in export deliveries to the Republic of Belarus, Ukraine and Turkmenistan due to the decrease in exports of tobacco, slate and cotton.

According to the preliminary data, imports of goods (in FOB prices) in 2006 amounted to US \$1799.1 million, which was higher by 62.7 percent of the indicator in 2005<sup>2</sup>. The increase by 85.0 percent was observed in imports from non-CIS countries, and by 46.6 percent from the CIS countries.

<sup>1</sup> According to the NSC KR data without taking into consideration the NBKR estimates.

<sup>2</sup> Import at c.i.f. prices by taking into account the trading volume by shuttle traders and additional estimates amounted to US\$ 1935.9 million, the trade balance deficit totaled US\$ 1125.1 million.

**Chart 1.3.3.**  
**Imports of Goods**



A significant growth was noted on all items in the functional structure of imports (at c.i.f. prices). In 2006, a rapid growth was observed in imports of investment goods (by more than two times) due to a substantial increase in deliveries of trucks, communication equipment, agricultural machinery and other equipment. Supplies of energy products rose by 61.6 percent, mainly, due to the increase in prices and in the volume of oil products deliveries.

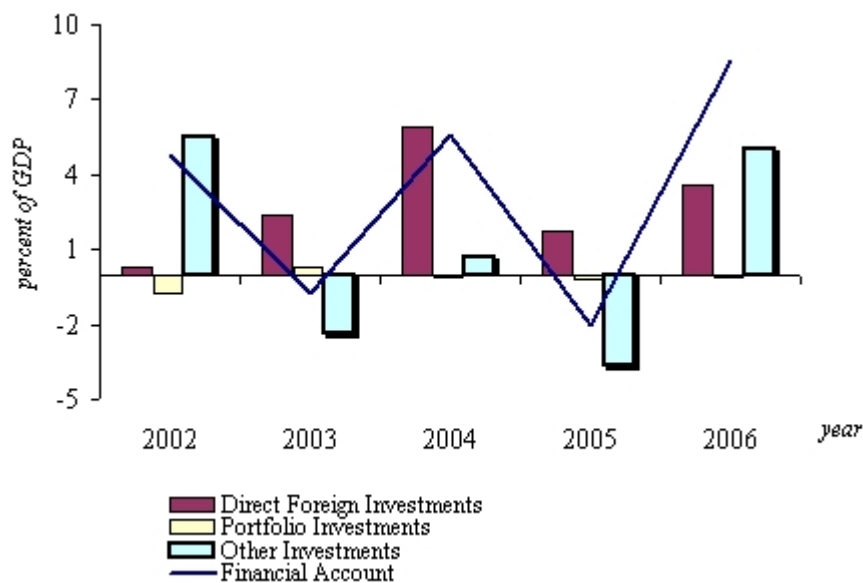
In the geographical structure of imports (at c.i.f. prices), the share of CIS countries accounted for 57.8 percent and the share of non-CIS countries was 42.2 percent for the reporting period. A substantial growth was observed in imports from the Republic of Belarus (by 2.6 times) among CIS countries, and from Russia (by 72.1 percent). Imports from the Republic of Belarus increased due to supplies of consumer and investment goods. Imports by 59.6 percent from Russia were ensured by deliveries of energy products, the volume of which grew by more than 2 times in comparison with the applicable period of last year. The growth in imports by more than two times from such countries as China, UAE and Canada was observed among non-CIS countries. China and USA were main suppliers of goods, the share of which accounted for 33.9 and 13.4 percent in the total volume of imports from non-CIS countries, respectively.

As compared with 2005, a negative balance of international services increased by more than two times and amounted to US\$ 76.5 million in 2006. A negative balance of services was conditioned by a more dynamic growth in imports of services (45.4 percent) against exports, mainly, due to the increase in imports of transportation services (by 27.2 percent). At the same time, a significant growth was noted in such export item as travels that increased by 2.3 times in comparison with 2005.

Following the results of 2006 a negative balance of income amounted to US\$ 53.4 million, having reduced by 34.0 percent in comparison with 2005. In this case, the decrease was observed in the negative balance of income on direct and other investments. Direct investment income accounted for about 57.3 percent of total balance of income, and as compared with 2005, the negative balance of direct investment income reduced by 10.3 percent, which is explained by the decrease in the outflow of reinvested income. The increase in income from other investments by 3.8 times resulted in a significant reduction of the negative balance on other investments (by 7.7 times).

A positive balance of current transfers retained its tendency for growth, having exceeded the indicator for 2005 by 30.3 percent in 2006. The growth was, mainly, due to private transfers, which increased by 36.3 percent that was, primarily, connected with the increase in inflow of funds from labor migrants.

**Chart 1.3.4.**  
**Capital and Financial Transactions Account**



In 2006, capital and financial transactions account was formed with a positive balance in the amount of US\$ 197.1 million against its negative value in 2005. At the same time, a substantial increase was noted in the positive balance of the financial account.

Deficit of the capital transactions account amounted to US\$ 46.9 million that is two times greater than the negative balance in 2005.

Balance of the financial account was positive amounting to US\$ 244.0 million against its negative value in 2005. Positive financial account balance is explained by 2.5 time increase in net inflow of direct foreign investments. Positive balance of other investments substantially increased from the negative balance in the amount of US\$ 88.3 million in 2005 to the positive balance of US\$ 143.9 million. Its value formed, as a result of decrease in external assets of residents of the Kyrgyz Republic, given a significant increase of their external liabilities. Thus, external assets of commercial banks reduced by 52.6 percent with a simultaneous increase of their external liabilities by 3.9 times. Moreover, loans to the public sector increased by 42.9 percent and amounted to US\$ 23.3 million.

Following the results of 2006, the volume of gross international reserves increased by 33.4 percent, and totaled US\$ 817.1 million at the end of 2006. The level of the NBKR reserve assets corresponded to 3.7 months in months of import of goods and services.

## 1.4. Financial Markets

### 1.4.1. Foreign Exchange Market

In 2006, the situation at the foreign exchange market was developing under the influence of a significant inflow of foreign currency into the country, both as investments into the banking and real sectors, and as deposits and money transfers from abroad, and also under the influence of seasonal receipts from exports of goods and services. A drop in the US dollar rate at the world markets, and also the growth in domestic demand for the national currency might be distinguished among other factors that determined the development of the situation at the foreign exchange market. As a result, the trend of strengthening the national currency rate vis-à-vis the US dollar dominated at the foreign exchange market, at the same time, a significant increase was observed in all types of transactions. Thus, the total volume of operations on buying and selling foreign currency<sup>1</sup> at the domestic foreign exchange market in 2006 increased by 85.4 percent, and amounted to Som 87.6 billion in comparison with 2005.

**Table 1.4.1.1.**  
**Foreign Currency Purchase/Sale Transactions**  
(som million)

	2005	2006	Growth Rate, percent
<b>Total volume</b>	47,239	87,588	85,4
including:			
<i>Spot transactions with non-cash currency at foreign exchange auctions</i>	8,426	13,919	65,2
interbank transactions	4,517	6,571	45,5
transactions with the NBKR	3,909	7,348	88,0
<i>Spot transactions with non-cash currency out of foreign exchange auctions</i>	1,559	2,248	44,2
<i>Spot transactions with currency in cash</i>	37,159	71,031	91,2
commercial banks	15,615	47,435	203,8
foreign exchange offices	21,543	23,597	9,5
<i>Swap transactions</i>	95	389	310,9
including with the NBKR	66	338	415,2

The most substantial growth in the volume of purchase/sale operations was noted in the cash segment of the foreign exchange market, the share of which accounted for 81.1 percent of operations. The main volume of operations was conducted among commercial banks, where the volume of transactions on buying foreign currency exceeded the volume of operations on its selling. The largest volume of operations was conducted with US dollars, however, their share reduced by 6.4 percentage points to 65.2 percent in comparison with 2005. There was a reduction in the share of transactions with Euro (to 6.6 percent), Russian Rubles (to 11.3 percent) and with other currencies<sup>2</sup> (to 0.3 percent). At the same time, the growth was noted in the share of transactions on purchase/sale of the Kazakh tenge from 6.6 percent in 2005 to 16.6 percent.

In the non-cash segment of the foreign exchange market, practically all operations were concluded in US dollars at the interbank foreign exchange auctions<sup>3</sup>. The volume of these operations, as compared with 2005, increased by 65.2 percent and amounted to Som 13.9 billion, or 15.9 percent of the total volume of the foreign exchange market.

During the first quarter of 2006 a stable situation was observed at the interbank foreign exchange auctions, where the exchange rate of the US dollar changed in the range of Som 41.1-41.6 per US dollar. Starting from the second quarter of 2006, under the influence of the foreign currency

<sup>1</sup> Information from reports on foreign exchange operations of resident banks

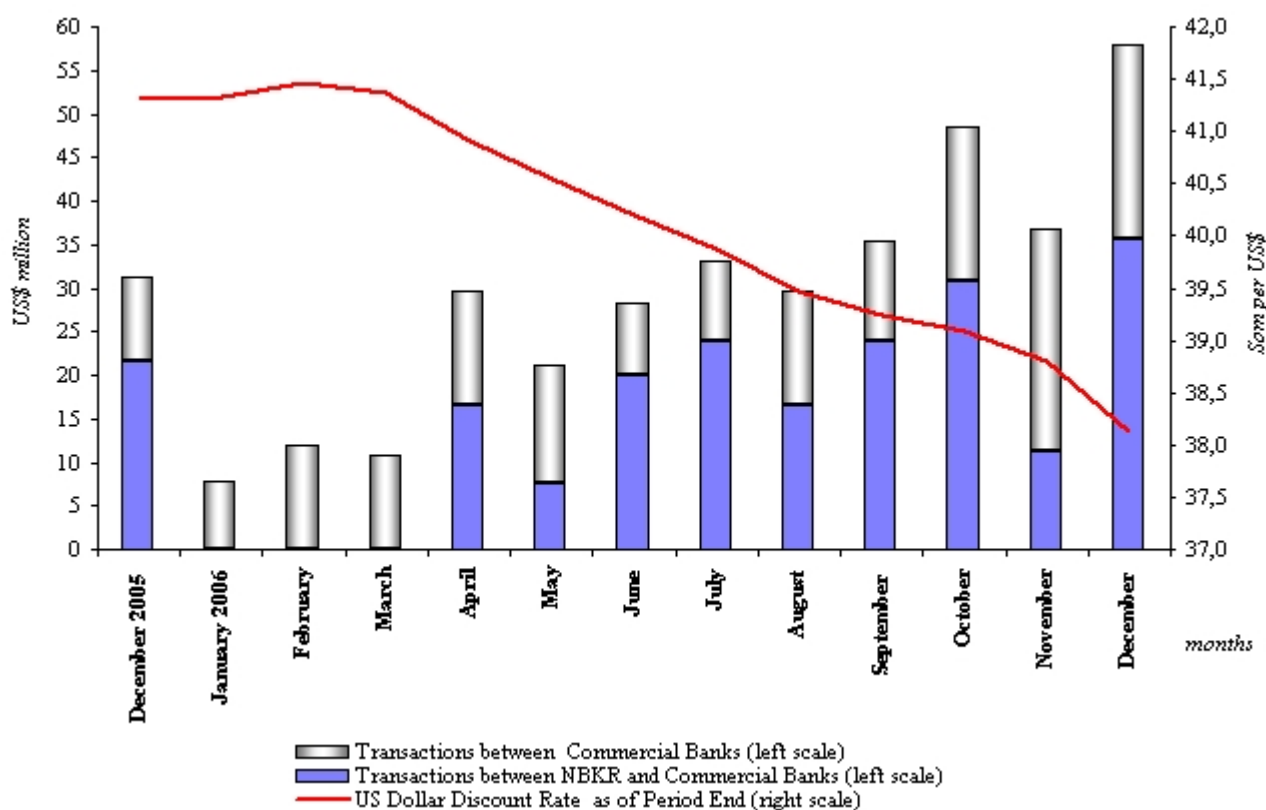
<sup>2</sup> Chinese yuan, English pound and Uzbek sum

<sup>3</sup> Auctions are conducted by the National Bank through the trading and information electronic system (TIES)

oversupply, a downward trend developed in the US dollar rate and remained until the end of the year at the domestic foreign exchange market. A drop in the rate of the American currency vis-à-vis major world currencies put a certain pressure on the exchange rate that was observed at the external markets in spring and autumn. As a result, in 2006 the average weighted US dollar rate at the interbank foreign exchange auctions reduced by 7.9 percent, and was Som 38.0452 per US dollar as of end of 2006. At the same time, the US dollar official exchange rate reduced by 7.7 percent to Som 38.1238 per US dollar.

For purposes of smoothing market conditions, starting from April the National Bank conducted transactions on buying US dollars, the volume of which increased by 2.2 times per year and totaled US\$ 186.2 million, or 53.0 percent of the total volume of auctions. The volume of interbank operations at the foreign exchange auctions increased from US\$ 110.2 to 164.9 million, and their share reduced from 53.6 to 47.0 percent in the total volume.

**Chart 1.4.1.1.**  
**Transactions at the Interbank Foreign Exchange Auctions in 2006**



The change of the US dollar rate in exchange offices in 2006 was similar to the change in the rate at the interbank foreign exchange auctions. At the same time, the selling rate of US dollars in exchange offices was lower than the rate at the interbank foreign exchange auctions, on the average, by Som 0.06. For the reporting year, the selling rate of the US dollar dropped by 8.5 percent in exchange offices, and totaled Som 37.69 per US dollar at the end of 2006. At the same time, the selling rate of Euro increased by 2.5 percent to Som 49.86 per Euro. The rate of the Russian Ruble, despite sizeable fluctuations, practically did not change during the year and amounted to Som 1.42 per Ruble by the end of the year. In the first half of the year the selling rate of the Kazakh Tenge in exchange offices increased by 10.8 percent, and then began rapidly dropping and weakened vis-à-vis Som by 3.1 percent during the year, having amounted to Som 0.296 per Tenge by the end of December.

As compared to 2005, the volume of SWAP operations increased by 4.1 times and totaled US\$ 388.8 million. However, the share of these operations in the structure of the foreign exchange market

remained insignificant and accounted for 0.4 percent. The National Bank performed the main volume of SWAP operations with the objective to withdraw excessive som liquidity from the banking system.

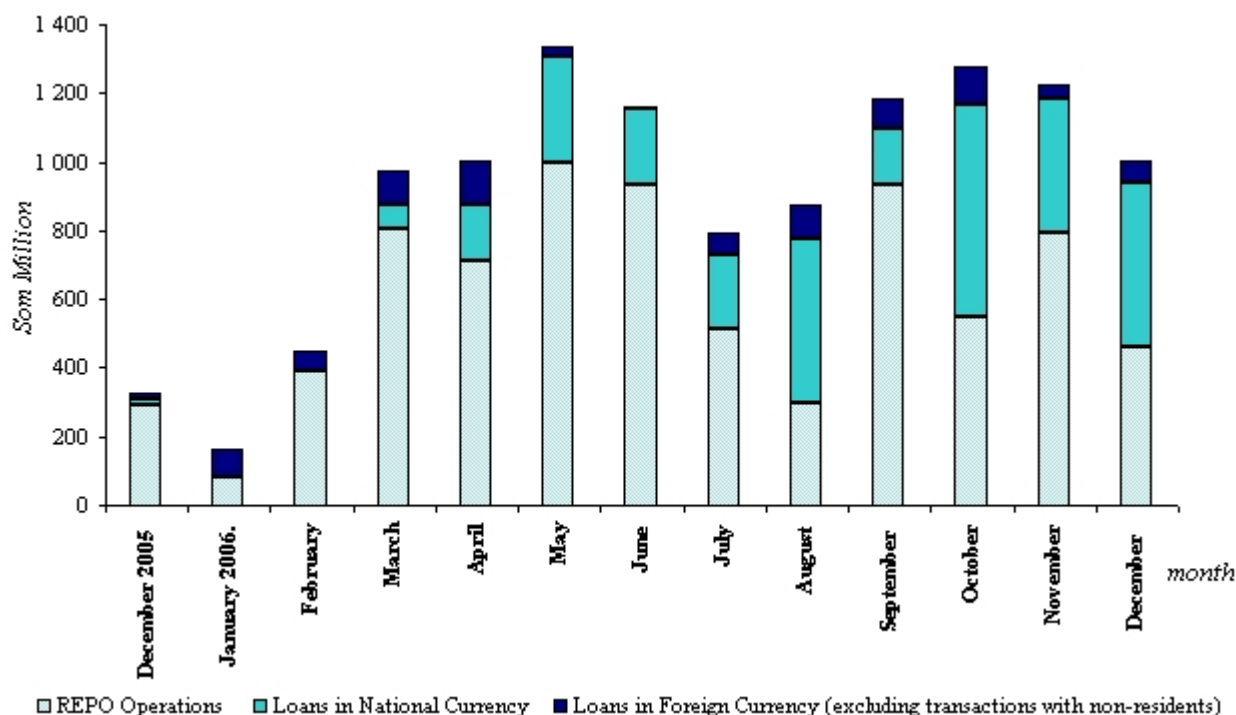
### 1.4.2. Interbank Credit Market

In 2006, the market of interbank loans continued to develop dynamically with the increase in the average volume of operations, decrease in the level and volatility of rates, expansion in the range of transactions terms, reduction of concentration, also due to the increase in the number of market participants.

Total volume of transactions in national currency at the interbank credit market amounted to Som 10.6 billion, having increased by 69.4 percent as compared with 2005. The main portion of loans in Som was still concentrated in the segment of REPO transactions, however, their share reduced from 80.7 percent in 2005 to 70.6 percent. During the reporting period, the rate on REPO transactions fluctuated in a rather narrow band and averaged 3.3 percent per year, having reduced by 0.7 percentage points as compared with 2005. At the same time, the annual average rate of interbank loans in domestic currency reduced by 0.4 percentage points and accounted for 2.8 percent. The lower rate of interbank loans, as compared to the rate in the REPO segment, was conditioned by collateral liquidity: non-cash US dollars often served as collateral under interbank credit operations, also these loans were interest free. The average term of REPO transactions in 2006 reduced from 6.7 to 4.7 days, and the term of loans in national currency decreased from 8.9 in 2005 to 4.1 days.

Chart 1.4.2.1.

Transactions at the Domestic Interbank Credit Market in 2006



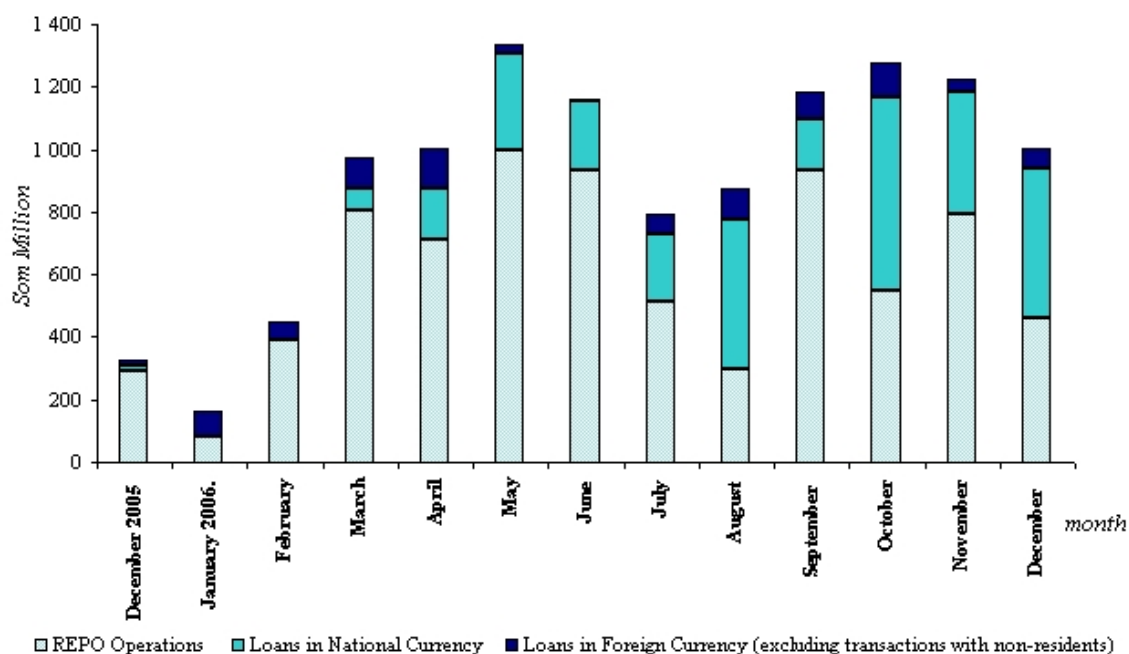
In the foreign exchange segment of the domestic interbank credit market, the volume of operations increased by 1.5 times, and amounted to Som 862.7 million in 2006. The share of this segment in the total volume of interbank borrowings decreased from 8.7 percent in 2005 to 7.5 percent. In the first half of the year the growth trend prevailed in interest rates on interbank foreign exchange loans due to the gradual increase in the rate of the Federal Reserve System of the USA. In the second half of the year, when uncertainty grew about further change in the US dollar rate and the term structure of operations was drastically changing, the cost of loans in foreign currency was subject to sizeable fluctuations. Overall for the year, the average rate of loans in foreign currency issued at the domestic



interbank market, in comparison with 2005, increased by 1.4 percentage points and accounted for 5.7 percent, and the average weighted term increased by 2 days to 71 days.

**Chart 1.4.2.2.**

**Change in Interest Rates at the Domestic Interbank Credit Market in 2006**



Apart from extending interbank loans at the domestic market, some commercial banks in 2006 performed operations with foreign banks, mainly, acting as net creditors. In the context of substantial foreign exchange inflows in the country, the total volume of loans issued to non-resident banks increased by almost 2 times and totaled Som 230.5 billion in 2006. At the same time, the volume of loans in foreign currency received from non-resident banks reduced by 67.1 percent and amounted to Som 1.3 billion. The annual average interest rate in transactions with non-residents increased by 1.2 percentage points, up to 3.7 percent as compared to 2005.

**1.4.3. Government Securities Market**

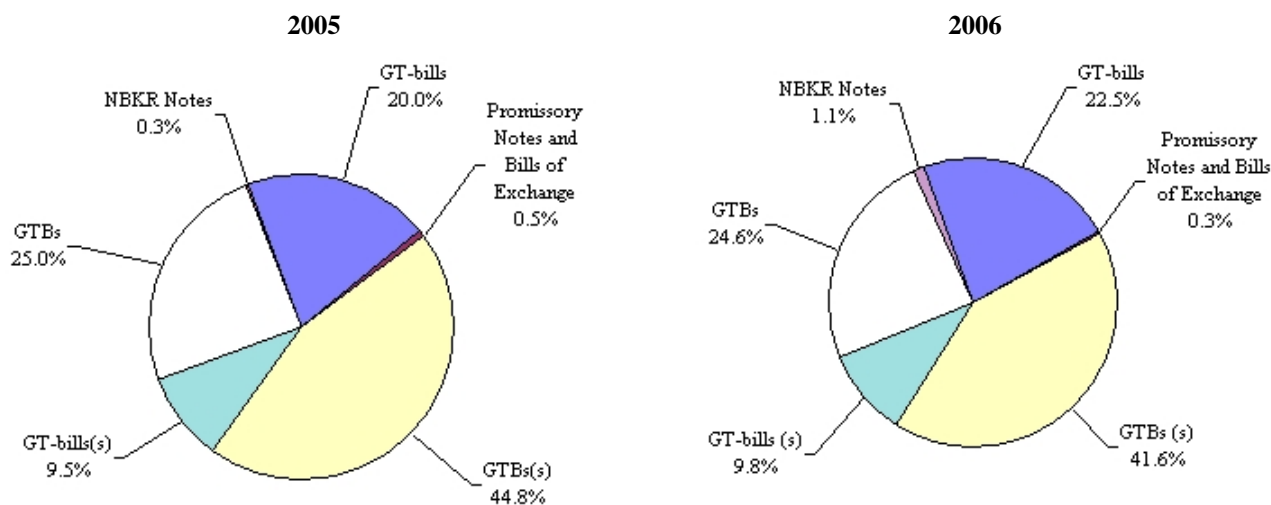
In 2006 the government securities market was represented by the following types of securities:

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

Total volume of outstanding government securities for 2006 reduced by 3.3 percent and amounted to Som 5605.5 million at the end of the year. This reduction was, mainly, connected with redemption of Government Treasury Bonds and Government Treasury Bonds (for settlement) issued earlier for purposes of restructuring debt of the Government of the Kyrgyz Republic to commercial banks, non-bank institutions and the National Bank. The share of these securities in the total volume of government securities reduced to 24.6 and 41.6 percent, respectively. Furthermore, there was a decrease in the volume of promissory notes and bills of exchange issued by the Ministry of Economy and Finance of the Kyrgyz Republic in the process of restructuring debt of banks and other financial institutions to depositors. As of year end, their share was 0.3 percent in the total volume of government

securities. At the same time, the volume of outstanding Government Treasury Bills and NBKR notes increased, and the shares of these securities by the end of the year increased to 22.5 and 1.1 percent, correspondingly.

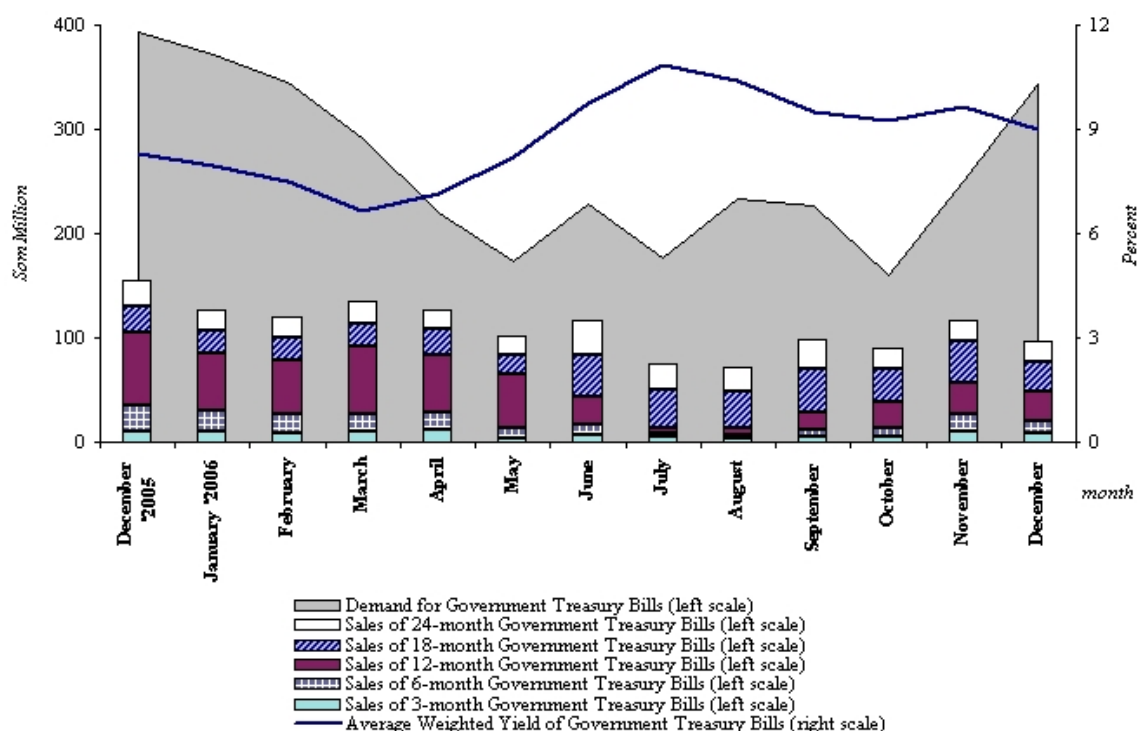
**Chart 1.4.3.1.**  
**Structure of Outstanding Government Securities**



### 1.4.3.1. Government Treasury Bills

In 2006, the Ministry of Economy and Finance of the Kyrgyz Republic issued government treasury bills with the objective to finance the state budget deficit. Auctions on the primary placement of government treasury bills (GT-bills) were conducted weekly at the National Bank. The volume of the GT-bills issue was set by the Ministry of Economy and Finance of the Kyrgyz Republic based on needs in monetary resources and demand for bills. At the same time, depending on the market conditions, the Ministry of Economy and Finance of the Kyrgyz Republic periodically adjusted the structure of the issue volumes.

**Chart 1.4.3.1.1.**  
**Demand and Placement of Government Treasury Bills (GT-bills) in 2006**



During the first quarter of 2006 under conditions of quite high liquidity in the banking system, the increase in demand, improvement of competition and reduction of yield for all types of GT-bills were observed at the primary market of Government Treasury Bills. As a result, the average weighted yield of GT-bills in March was 6.6 percent, having reduced from 8.3 percent that was set in December 2005. In the second quarter, under the influence of reduction in excess reserves in the banking system, the market of government treasury bills (GT-bills) deteriorated, as a result of which, the increase was observed in the overall yield of GT-bills. This was supported by the change made by the Ministry of Economy and Finance of the Kyrgyz Republic in the sales structure in favor of longer term 18-month and 24-month GT-bills that was related to the growth in demand for these types of bills. As a result, the average yield of GT-bills in July grew up to 10.8 percent, which was the highest indicator since 2004.

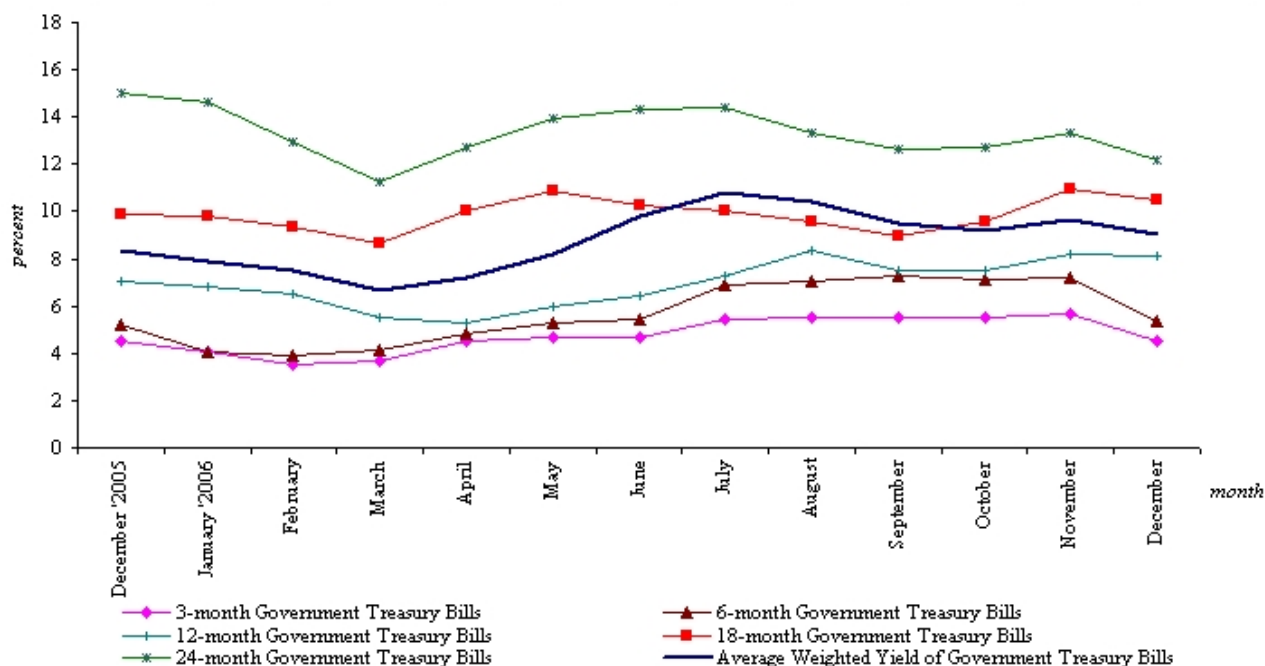
**Table 1.4.3.1.1.**  
**Sales and Annual Average Yield of GT-Bills**

	2005		2006	
	Sales <i>som</i> <i>million</i>	Yield <i>percent</i>	Sales <i>som</i> <i>million</i>	Yield <i>percent</i>
<b>Total</b>	<b>1,395.1</b>	<b>6.3</b>	<b>1,274.7</b>	<b>8.8</b>
including:				
3-month GT-bills	78.8	4.4	87.6	4.8
6-month GT-bills	324.9	5.2	139.5	5.7
12-month GT-bills	849.4	6.3	417.8	7.0
18-month GT-bills	99.0	9.7	364.2	9.9
24-month GT-bills	43.0	15.6	265.7	13.2

In August, in the context of liquidity growth in certain banks, the market of GT-bills started improving and impacted reduction in the total yield. Considering the favorable situation, beginning from September the Ministry of Economy and Finance of the Kyrgyz Republic started gradually building up sales by issuing short-term and annual bills. The change in the sales structure towards short-term GT-bills also positively affected the overall average weighted yield of treasury bills, the level of which reduced to 9.0 percent by the end of the year.

The annual average yield of Government Treasury Bills was 8.8 percent and increased by 2.5 percentage points as compared to 2005. The increase in yield was noted in all types of GT-bills, other than 24-month bills. The annual sales of GT-bills amounted to Som 1274.7 million that was lower by 8.6 percent than in 2005. Long-term GT-bills (18-month and 24-month bills), the share of which increased from 10.2 percent in 2005 to 49.4 percent, accounted for about half of total sales.

**Chart 1.4.3.1.2.**  
**Average Weighted Yield in All Types of GT-bills in 2006**



A significant growth in the share of long-term bills resulted in the increase of duration for the entire portfolio of GT-bills, the value of which increased from 199 days at the beginning of the reporting period to 294 days by the end of the year. At the same time, total volume of outstanding GT-bills increased by 8.8 percent per year and amounted to Som 1259.8 million as of end of December, and the volume of net budget financing using Government Treasury Bills totaled Som 25.2 million in 2006.

Commercial banks still prevailed in the structure of holders of Government Treasury Bills. Their portfolio of bills increased by 9.0 percent during the year and amounted to Som 1230.4 million, or 97.7 percent of the total volume of outstanding GT-bills as of end of 2006. The number of banks holding GT-bills increased to 20, where the portfolio of GT-bills increased in majority of banks. However, the concentration of the total banking portfolio remained high: a concentration index at the end of the year was equal to 0.20, which was equivalent to the division of the market among 5 participants with equal shares. The volume of GT-bills held by resident natural persons also increased in the reporting year, however, their share did not change in the structure of holders and accounted for 1.2 percent. At the same time, the volume of GT-bills in the portfolio of resident legal entities reduced, and their share decreased to 1.1 percent. Non-resident natural persons holding 0.1 percent of outstanding GT-bills at the beginning of the year left the market in the reporting year.

At the secondary market, the government treasury bills were, chiefly, used for conducting credit transactions under REPO conditions. In comparison with 2005 the volume of interbank REPO transactions increased by 1.5 times, and amounted to Som 7465.9 million. The average weighted term of these transactions was 5 days, and the annual average rate was 3.3 percent. The volume of operations on purchase/sale of GT-bills to maturity increased by 3.8 times and totaled Som 40.1 million in the reporting year. At the same time, the average weighted term to maturity of Government Treasury Bills in these transactions was 178 days, and the annual average rate was 7.3 percent.

### 1.4.3.2. National Bank Notes

The NBKR notes represent short-term securities with the maturity of 7, 14 and 28 days, the primary placement of which takes place at the weekly auctions in the National Bank. The NBKR notes serve as a monetary policy instrument and are used by the National Bank with the objective to regulate the liquidity of commercial banks, and also to determine the discount rate of the NBKR, the value of

which is tied to the yield of the 28-day notes of the NBKR. The issue volume of these securities is determined by the National Bank depending on the tactical objectives of the monetary policy, liquidity in commercial banks and situation at the financial market.

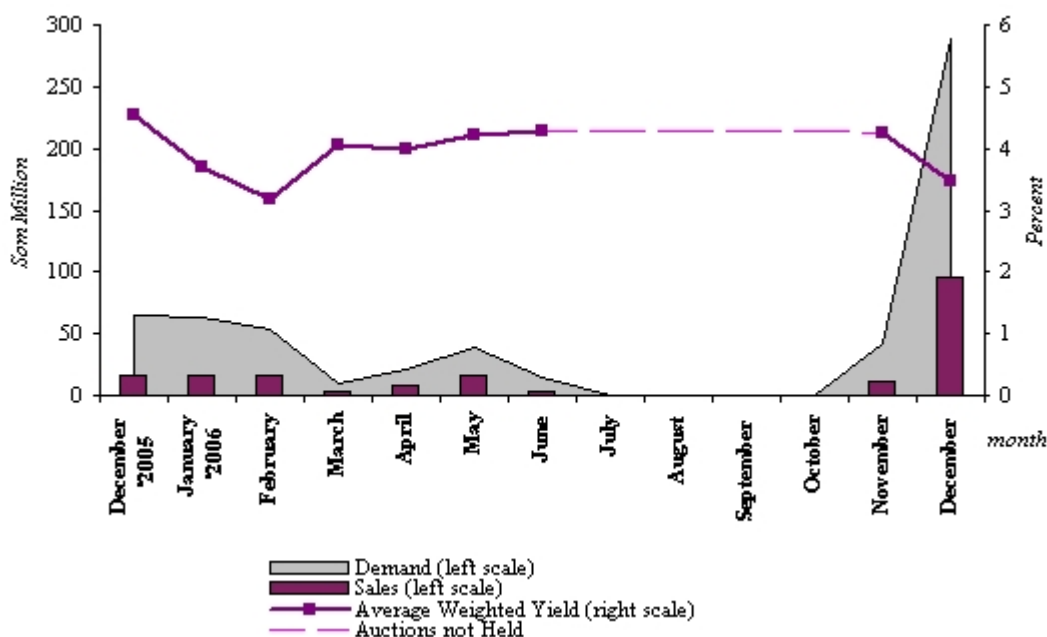
During the first three quarters of 2006 the National Bank offered for sale the 28-day NBKR notes with the objective to determine the discount rate, where the weekly volume of the NBKR notes offered for sale totaled Som 4.0 million. During this period the demand for notes was unstable and, in this connection, the yield of this instrument was subject to significant fluctuations. Thus, at the beginning of the year, in the context of high liquidity in the banking system, the demand for notes increased and their yield decreased. As a result, by the middle of February their value reduced from 4.1 percent at the beginning of the year to 3.0 percent. Further, the situation deteriorated at the notes market due to liquidity reduction in the banking system, and shift in the banks' demand to other segments of the securities market (GT-bills). The yield of the 28-day NBKR notes increased to 4.0-4.3 percent, and the volume of sales decreased since most of auctions were canceled.

Beginning from the second half of October, with the objective of additional withdrawal of excess liquidity from the banking system, the National Bank renewed auctions on the placement of the 14-day NBKR notes by announcing the issue of these securities in the amount of Som 8.0 million weekly. However, during the month none of announced auctions were held due to the insufficient number of participants. Only at the end of November, under the influence of a notable increase in liquidity, banks again showed interest in the NBKR notes. In December, the growth in demand for the NBKR notes continued, and the National Bank increased the weekly issue from Som 12 million to Som 24 million. At the same time, the yield of the National Bank securities was gradually decreasing during December, and accounted for 2.9 percent on the 14-day notes, and 3.2 percent on the 28-day notes at the end of the year.

Thus, the annual average yield of notes in 2006 was 3.9 percent, having reduced by 0.5 percentage points as compared with 2005. Total auction sales increased by 17.4 percent and amounted to Som 172.0 million. At the same time, 31 auctions out of 52 announced auctions in 2006 were not held due to the insufficient number of participants.

As of end of 2006, the volume of outstanding NBKR notes totaled Som 64 million. The entire volume of notes was held in the portfolio of commercial banks.

**Chart 1.4.3.2.1.**  
**Demand and Placement of the NBKR Notes in 2006**



### 1.4.3.3. Other government securities

Other outstanding government securities refer to government treasury bonds (GTBs), government securities (for settlement) (GSs (s)), promissory notes and bills of exchange. The Ministry of Economy and Finance of the Kyrgyz Republic is the issuer of these securities.

Government Treasury Bonds (GTBs) were issued by the Ministry of Economy and Finance of the Kyrgyz Republic to restructure the Government debt to commercial banks, non-bank institutions and the National Bank for the term of 5 to 25 years. In 2006, the Ministry of Economy and Finance of the Kyrgyz Republic did not have additional issues of Government Treasury Bonds (GTBs), having repaid debt on previously issued treasury bonds in the amount of Som 68.2 million. As a result, the volume of outstanding Government Treasury Bonds reduced by 4.7 percent and totaled Som 1380.6 million at the end of the year. Practically, the entire volume of these securities was held in the portfolio of the National Bank.

Government securities (for settlement) were issued in December 2002, as a result of debt restructuring of the Kyrgyz Republic Government to the National Bank. The package of these securities includes government treasury bills (for settlement) and government treasury bonds (for settlement). Government treasury bills (for settlement) have the maturity of 3, 6 and 12 months, and are considered to be renewable securities i.e. when the maturity is due the new emission is issued for the same amount. These securities are used by the National Bank for performing reverse REPO transactions. During 2006 the volume of government treasury bills (for settlement) did not change and amounted to Som 550.0 million. Government treasury bonds (for settlement) have the maturity of 1 to 5 years. Some of these securities are also renewable. In 2006, a portion of government treasury bonds (for settlement) was redeemed, as a result of which their volume reduced by 10.1 percent to Som 2333.1 million. Thus, the total remaining debt of the Ministry of Economy and Finance on government securities (for settlement) reduced by 8.4 percent, and amounted to Som 2883.1 million in 2006.

The Ministry of Economy and Finance of the Kyrgyz Republic issued such types of securities as promissory notes and bills of exchange for purposes of attracting additional funds to finance the budget deficit, and also to restructure debt of bankrupt financial institutions to depositors. At the beginning of the year, the volume of outstanding promissory notes and bills of exchange amounted to

Som 29.5 million, and their maturity was equal to 7 years. The entire volume of these securities was redeemed before their maturity in 2006. At the same time, the Ministry of Economy and Finance of the Kyrgyz Republic additionally issued the new package of bills totaling Som 117.1 million, partially redeemed it during the year, and before their maturity. As a result, as of end of 2006 the debt of the Ministry of Economy and Finance of the Kyrgyz Republic on promissory notes and bills of exchange amounted to Som 18.0 million.

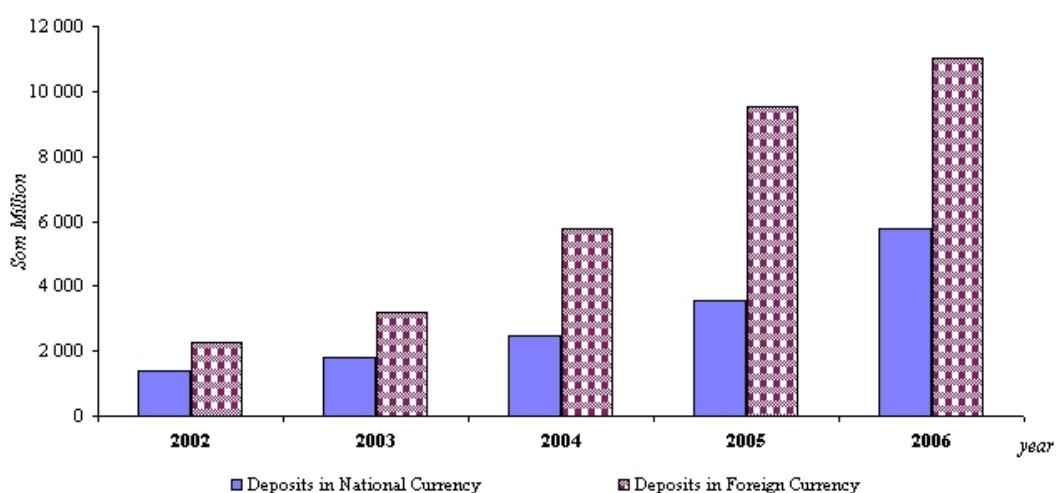
#### 1.4.4. Deposit and Credit Market

In 2006, the growth continued in deposits and credits in the banking system<sup>1</sup>. At the end of 2006 the deposit base<sup>2</sup> of the banking system totaled Som 17.0 billion, having increased by 28.1 percent during the year, and the loan portfolio<sup>3</sup> grew by 42.5 percent to Som 12.0 billion. As a result, the ratio of credits to deposits in 2006 increased from 63.6 percent to 70.7 percent that indicated improved efficiency in financial intermediation of the banking system.

Deposits and credits of problem banks i.e. those whose license was revoked, have an insignificant share in the total deposit base and credit portfolio of the banking system, where it is constantly reducing with the repayment, write off and restructuring of the debt portion in government securities. Thus, at the end of the year, the share of these banks in the total deposit base accounted for 1.2 percent, and 5.7 percent in the credit portfolio.

During the year the deposit base in operating commercial banks increased by 28.8 percent, and amounted to Som 16.8 billion at the end of December. At the same time, the growth rate of deposits in national currency significantly increased as compared with 2005, having notably surpassed a similar indicator for deposits in foreign currency. As a result, during the year the share of deposits in Som increased by 7.2 percentage points to 34.3 percent in the total deposit base. The ratio of deposits in national currency to cash (M0) increased by 2.6 percentage points and accounted for 29.7 percent at the end of the year.

**Chart 1.4.4.1.**  
**Deposits in Operating Commercial Banks (end of period)**



Significant changes were observed in the structure of depositors: the share of deposits of individuals, as compared with the beginning of 2006, increased by 4.2 percentage points and accounted for 24.6

<sup>1</sup> According to the regulatory reporting data of commercial banks

<sup>2</sup> By taking into account deposits of the Government and financial institutions

<sup>3</sup> Including the discount



percent, and the share of deposits of legal entities decreased from 79.6 percent to 75.4 percent, respectively. The change in the deposit structure occurred due to the accelerated growth in deposits of individuals, the growth rates of which as compared with 2005 increased by two times, and accounted for 55.4 percent. As a result, their volume was Som 4.1 billion at the end of the year. In 2006, the deposits of legal entities increased by 22.0 percent to Som 12.7 billion.

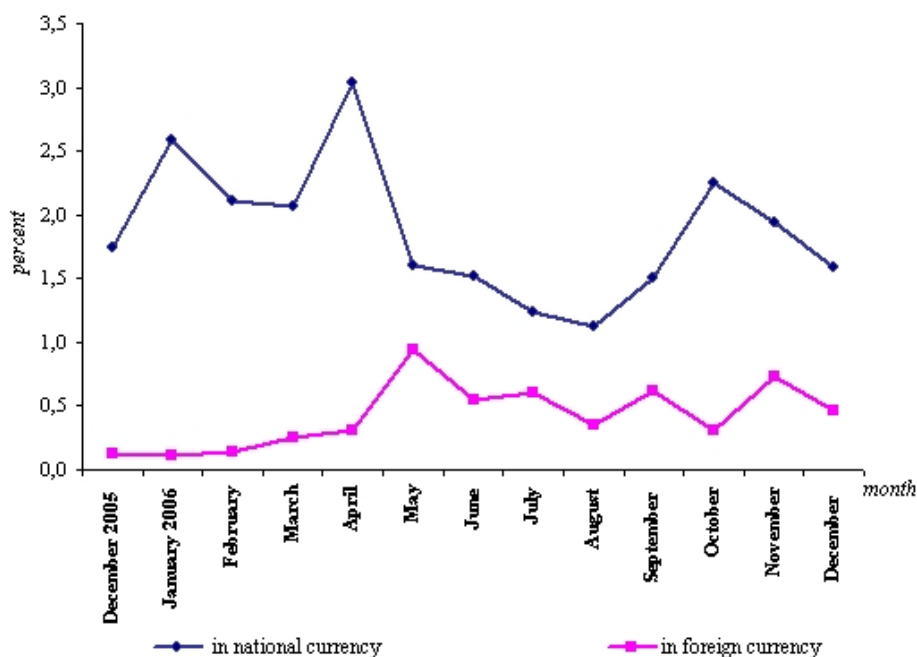
In the term structure of the deposit base the growth was noted in the share of demand deposits and short-term deposits. At the same time, the share of long-term (over one year) reduced. These changes determined the decrease in the duration of deposits from 3.0 to 2.5 months, including time deposits from 12.7 to 11.4 months.

As to the deposit market concentration, it somewhat reduced in 2006: at the end of December the concentration index was 0.11, which was equivalent to the division of the market among 9 banks with equal shares and indicated a moderate concentration.

In 2006, the decrease was noted in the cost of deposits: by 0.4 percentage points to 3.6 percent in national currency, and by 0.1 percentage points to 1.5 percent in foreign currency.

The volume of newly accepted deposits<sup>1</sup> by operating commercial banks in comparison with the prior year reduced by 39.6 percent to Som 75.6 billion that was related with the decline in activities of one of commercial banks, which, mainly, served non-resident clients. Excluding deposits of this bank, the volume of newly attracted deposits to the banking system increased by 65.5 percent, and totaled Som 55.8 billion.

**Chart 1.4.4.2.**  
**Change in Interest Rates on Newly Accepted Deposits in 2006**

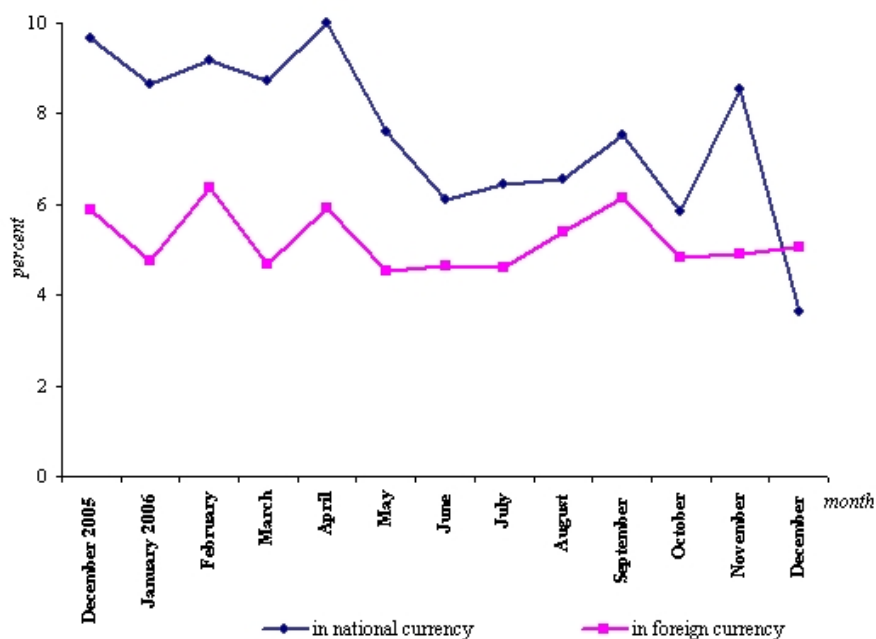


The interest rate on new deposits in national currency slightly reduced as compared with 2005 to 1.9 percent, chiefly, due to the decrease in the cost of time deposits from 8.2 percent to 7.4 percent. In turn, this reduction was caused by structural changes in the deposit flow. The annual average interest rate on newly accepted deposits in foreign currency, as compared to 2005, increased by 0.3 percentage points to 0.5 percent due to the reduction in the share of demand deposits that formed the basis of these deposits. The annual average rate did not practically change on time deposits in foreign currency, and accounted for 5.1 percent.

<sup>1</sup> Receipt of funds on demand accounts of legal entities is not included in the volume of newly attracted deposits.

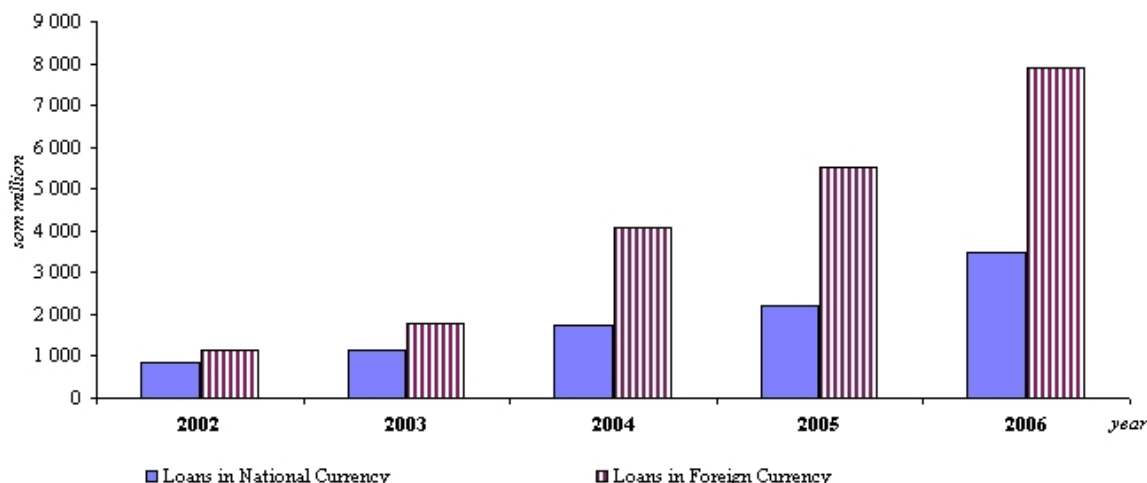


**Chart 1.4.4.3.**  
**Change in Interest Rates on Newly Accepted Time Deposits in 2006**



In the context of the deposit base growth, and also under conditions of increase of foreign capital inflow into the banking system and growth of demand for credit resources, commercial banks continued lending more actively to the real sector of economy in the reporting period. During 2006 the loan portfolio of operating commercial banks increased by 47.2 percent and amounted to Som 11.4 billion at the end of 2006. Loans in national currency grew by 57.2 percent to Som 3.5 billion, and loans in foreign currency increased by 43.2 percent to Som 7.9 billion. As a result of the advance growth rate of loans in national currency, their share in the loan portfolio increased by 2.0 percentage points and accounted for 30.6 percent as of year end.

**Chart 1.4.4.4.**  
**Loans in Operating Commercial Banks (end of period)**



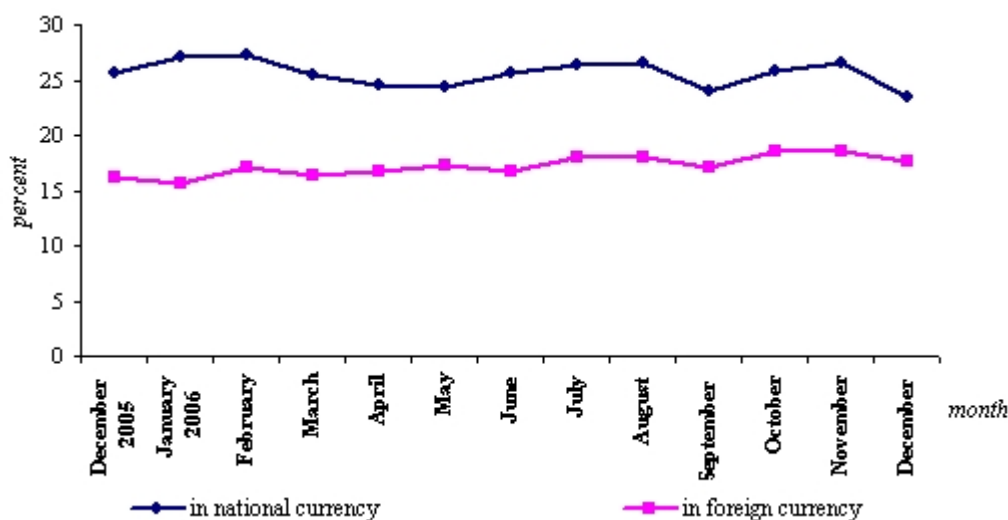
The increase in lending to the real sector of economy was accompanied by maintaining positive growth trend in long-term (for the term of more than one year) loans, the share of which in the total loan portfolio increased by 17.7 percentage points and accounted for 52.6 percent at the end of the year. At the same time, the duration<sup>1</sup> of the loan portfolio increased from 16.3 months at the beginning of the year to 21.6 months. Furthermore, the improvement was noted in the loan portfolio quality: the

<sup>1</sup> Average weighted period to maturity

share of past due and prolonged loans in the aggregate loan portfolio reduced to 2.9 and 5.8 percent, which was the lowest indicator for the entire period of review (since 1996), respectively.

In the reporting year, the loan portfolio growth was observed in all operating commercial banks without exception. At the same time, the loan portfolio concentration index for the reporting period reduced from 0.10 to 0.09 that was equivalent to the division of the market among 11 banks and indicated its low concentration. Reduction in credit concentration was also noted in most of sectors; however, the concentration level in 8 out of 11 sectors still remained higher than the general level, and was from 0.19 to 0.87 that pointed to high concentration. In addition, the sectoral concentration also remained high in the loan portfolio of certain banks: their indebtedness was distributed approximately between two sectors.

**Chart 1.4.4.5.**  
**Change in Interest Rates of Newly Disbursed Loans in 2006**



As compared to 2005, the newly disbursed loans in 2006 increased by 53.0 percent and amounted to Som 16.2 billion. It included new loans in national currency that grew by 14.6 percent to Som 4.7 billion, and the flow of loans in foreign currency increased by 15.4 percent and amounted to Som 11.5 billion. The increase in the inflow of newly disbursed loans was noted in all sectors, other than industry and social services. The largest volume of loans was channeled to the trade sector, at the same time, the share of these loans in the total flow of loans, as compared with 2005, did not practically change, and accounted for 43.8 percent. Further, there were mortgage loans in the sectoral structure of new loans, the share of which accounted for 10.2 percent, loans to households (9.2 percent), to construction (8.5 percent), industry (7.6 percent), and agriculture (2.8 percent). The share of loans for development of transportation, communication, social services, procurement and processing was quite insignificant and accounted for one percent and less. The share of other loans was 14.5 percent in the reporting year.

For the reporting year, the average interest rates of newly disbursed loans in national currency increased by 0.2 percentage points to 25.8 percent, and average interest rates of newly disbursed loans in foreign currency grew by 0.5 percentage points to 17.3 percent. Interest rates increased, as a result of structural changes in the credit flow. Furthermore, the rise in rates was noted under the influence of increased demand for credit resources on certain categories of loans. During 2006, the average rates of loans in the portfolio of operating commercial banks reduced by 0.5 percentage points to 24.4 percent in national currency, and by 0.7 percentage points to 18.0 percent in foreign currency.

Apart from commercial banks, non-bank finance and credit institutions issued loans to the real sector. During the year the aggregate loan portfolio of these organizations increased by 21.0 percent and

amounted to Som 4.7 billion at the end of 2006. At the same time, the average interest rates of new loans issued by the largest non-bank specialized finance and credit institutions (Kyrgyz Agricultural Financial Corporation and Financial Company for Support and Development of Credit Unions) decreased by 2.1 percentage points to 14.1 percent as compared with 2005, and the cost of their loan portfolio reduced from 15.9 percent to 14.4 percent during the year.

**II**

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

## **CHAPTER 2. MONETARY POLICY**

### **2.1 Goals and Outcomes of Monetary Policy**

According to the Law of the Kyrgyz Republic On the National Bank of the Kyrgyz Republic, the objective of the activity of the National Bank is to achieve and maintain price stability by implementing an appropriate monetary policy.

In the reporting year the monetary policy of the National Bank was aimed at achieving goal and objectives specified in Main Directions of the Monetary Policy for 2006 and in the Joint Statement of the Government of the Kyrgyz Republic and of the National Bank of the Kyrgyz Republic on Main Directions of the Economic Policy for 2006. Maintaining price stability when fulfilling a target inflation indicator for 2006 at the level not higher than 5.7 percent (December 2006 to December 2005) and ensuring growth rate in money supply at the level relevant for the need of the economy were main efficiency criteria for pursued monetary policy.

The monetary policy benchmark for 2006 was established on the basis of analyzing the status of the economy in 2005 and projecting development of major economic sectors in view of the continued remonetization process, changes in the fiscal area, and structural reforms in the republic.

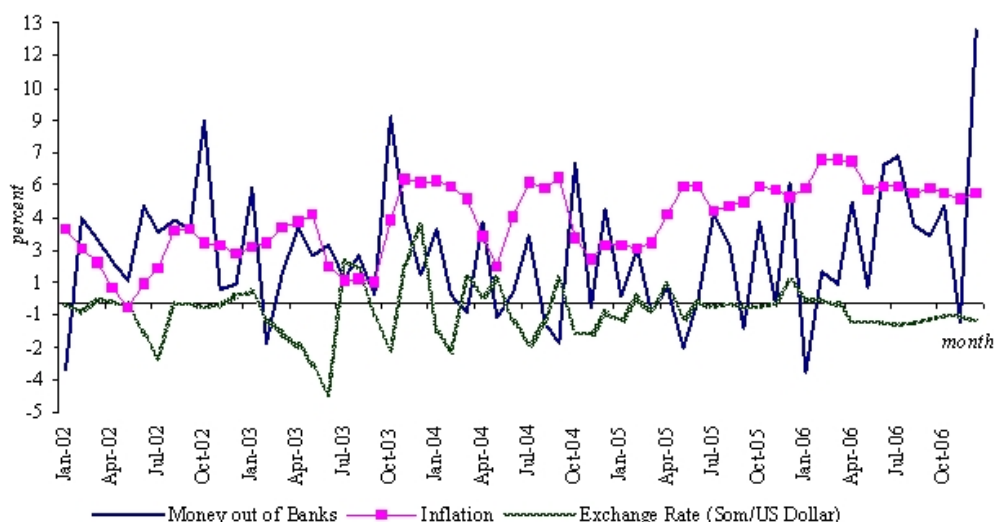
A considerable, as compared to prior years, excess in supply of the US dollars over demand at the domestic market might be qualified as a distinction of 2006 that was caused by weakening of the American currency vis-à-vis other world currencies, increase in direct foreign investments into the country, active tourist season, and also by increase in money transfers of labor migrants from abroad. This, together with improved economic activity, and as a consequence, increased demand for national currency resulted in higher than initially expected growth rate in money supply (following the results of the reporting year, the monetary aggregate M2 increased by more than 50 percent). However, inflation during 2006 remained at a low level that was connected with a significant growth in economic segments generating demand for money, such as capital investments, construction and retail trade. Furthermore, an actively developing non-bank financial sector of the republic made a considerable contribution to the increase in demand for cash (the main volume of non-bank finance and credit institutions was concentrated in the regions of the country, where the turnover was, mainly, in the cash form).

According to the data of the National Statistics Committee of the Kyrgyz Republic, following the results of 2006 the inflation rate was 5.1 percent (December 2006 to December 2005), which was lower of the declared inflation benchmark.

Non-monetary factors, the share of which was 79.3 percent, had a major contribution to the growth in the overall price level, while the effect of monetary factors, including inflationary expectations, was 20.7 per cent. It should be noted that one of the important factors contributing to the increase of domestic prices was the growing demand for Kyrgyz agricultural products on the part of neighboring countries, where prices for these goods considerably exceeded domestic prices.

**Chart 2.1.1.**

**Growth Rate of Money out of Banks, Exchange Rate and Consumer Price Index (CPI)**



In 2006, an increase in monetary aggregates notably exceeded similar indicators for 2005. Among monetary aggregates, the broad money indicator, which included deposits in foreign currency (M2X), was increasing at the highest rates: in the reporting year its growth was 51.6 percent and broad money M2 increased by 51.1 per cent. Cash out of banks (M0) increased by 48.6 percent in 2006.

Following the results of the reporting year, the monetary base increased by 47.4 percent and amounted to Som 22798.8 million. Interventions of the National Bank at the interbank foreign exchange market because of increased inflow of foreign currency into the country were the main source of the monetary base growth. For purposes of smoothing drastic fluctuations of Som exchange rate at the foreign exchange market, the National Bank conducted transactions on withdrawing excess foreign currency from circulation, and the net purchase for 2006 amounted to US\$ 186.2 million. It should be noted that money transfers of Kyrgyz labor migrants from abroad were one of main sources of foreign currency inflow into the country in the reporting year.

**Table 2.1.1.**

**Sources of Monetary Base (end of period)**

*(som million, at the current exchange rate)*

	2005	2006	Change, som million	Effect on monetary base, percentage points
Net foreign assets	17,849.7	24,736.0	6,886.4	44.5
Net international reserves	17,742.1	24,679.4	6,937.3	44.9
Other external assets	160.9	110.3	-50.6	-0.3
Settlements with CIS countries	-53.3	-53.6	-0.4	0.0
Long-term external liabilities	-2,313.7	-2,179.2	134.5	0.9
Net domestic assets	-70.3	242.0	312.4	2.0
Net domestic credit	1,296.6	1,353.0	56.5	0.4
Claims to the KR Government	999.4	1,545.0	545.7	3.5
REPO	-50.0	-504.2	-454.2	-2.9
Liabilities of Banks	347.2	312.2	-35.0	-0.2
Other items	-1,366.9	-1,111.0	255.9	1.7
<b>Monetary base</b>	<b>15,465.6</b>	<b>22,798.8</b>	<b>7,333.2</b>	<b>47.4</b>
Cash out of banks	13,065.4	19,410.0	6,344.6	41.0
Reserves of commercial banks	2,051.8	2,889.1	837.3	5.4

Broad money, including deposits in foreign currency (M2X), totaled Som 32280.9 million at the end of 2006, having increased by 51.6 percent, or by almost Som 11 billion as compared with the beginning of the year. Contribution of growth in money out of banks to the increase of broad money (by Som 6.3 billion) exceeded the contribution of the deposit base growth (by Som 4.6 billion), where the growth rates of deposits in Som exceeded the growth rates of deposits in foreign currency that showed the trend of improved confidence in the national currency.

**Table 2.1.2.**  
**Sources of Broad Money M2X (end of period)**  
*(som million, at the current exchange rate)*

	2005	2006	Change, som million	Effect on M2X, percentage points
Net foreign assets	19,788.2	27,416.7	7638.5	35.9
Net international reserves	19,680.6	27,370.0	7689.4	36.1
Other external assets	160.9	110.3	-50.6	-0.2
Settlements with CIS countries	-53.3	-53.6	-0.4	0.0
Long-term external liabilities	-2,313.7	-2,179.2	134.5	0.6
Net domestic assets	3,821.5	7,033.4	3212.0	15.1
Net claims to the Government	1,221.0	1,192.7	-28.2	-0.1
Claims to other sectors	7,912.3	11,760.2	3847.9	18.1
Other items	56.2	891.1	834.9	3.9
<b>Broad money M2X</b>	<b>21,295.9</b>	<b>32,280.9</b>	<b>10984.9</b>	<b>51.6</b>
Money out of banks	13,065.4	19,410.0	6344.6	29.8
Deposits <sup>1</sup>	8,230.5	12,870.9	4640.4	21.8
Deposits in national currency	2,893.9	4,698.1	1804.2	8.5
Deposits in foreign currency	5,336.6	8,172.8	2836.2	13.3

<sup>1</sup> deposits of legal entities and individuals, including NFCIs that are residents of the Kyrgyz Republic in all commercial banks, including problem banks

Based on the results of 2006, the following changes were noted in the structure of broad money (M2X):

- the share of money out of banks was 60.1 percent (61.4 per cent at the end of 2005);
- the share of deposits in national currency was 14.6 percent (13.6 percent at the end of 2005);
- the share of deposits in foreign currency was 25.3 percent (25.1 percent at the end of 2005).

The National Bank used all available monetary policy instruments in order to regulate banking liquidity, in this case the main volume of operations on withdrawing liquidity was in reverse REPO transactions with the use of Government Treasury Bills (for settlement), the volume of which in 2006 increased by more than Som 450 million. For purposes of improving opportunities on effective liquidity regulation in the banking system, the National Bank conducted an activity on introducing new monetary policy instruments during the reporting year. Thus, by the end of 2006 the legal framework was developed and conditions were prepared to introduce a new instrument (time deposit accounts for commercial banks with the National Bank).

## **2.2. Monetary Policy Instruments**

Peculiarities of the reporting period connected with the increase of foreign currency inflow predetermined the nature and the structure of monetary policy instruments used by the National Bank for attaining its goals and objectives. The National Bank performed the main volume of transactions at the foreign exchange market by purchasing foreign currency due to its excess supply. The share of these transactions in total operations of the National Bank increased from 56.0 to 75.7 percent as compared with 2005.

All other operations of the National Bank were aimed at withdrawing excess liquidity in national currency from the banking system, the level of which increased as compared with 2005, also due to the foreign exchange interventions conducted by the National Bank. The National Bank performed sterilization of excess liquidity, primarily, with the help of reverse REPO transactions on the sale of government securities. The share of these transactions increased from 3.0 in 2005 to 18.5 percent. Furthermore, beginning from April with the objective to withdraw excess liquidity, the National Bank started conducting SWAP foreign exchange operations on selling foreign currency, and attracting time deposits from commercial banks at the end of the year. The share of these operations, which were not previously used in the practice of the National Bank, was 3.5 and 0.5 percent, respectively. For the same purpose at the end of the reporting year the National Bank began conducting auctions on the placement of the 14-day NBKR notes, in this case having increased the volume of the weekly issue of the 28-day NBKR notes. The aggregate share of these operations in total operations of the NBKR was 1.8 percent.

Total operations of the National Bank in 2006 amounted to about Som 9.7 billion and increased by 39.1 percent as compared with 2005.

The National Bank did not conduct operations on refinancing commercial banks through issuance of overnight loans, direct REPO and SWAP operations since they were not demanded by banks due to the high level of excess reserves.

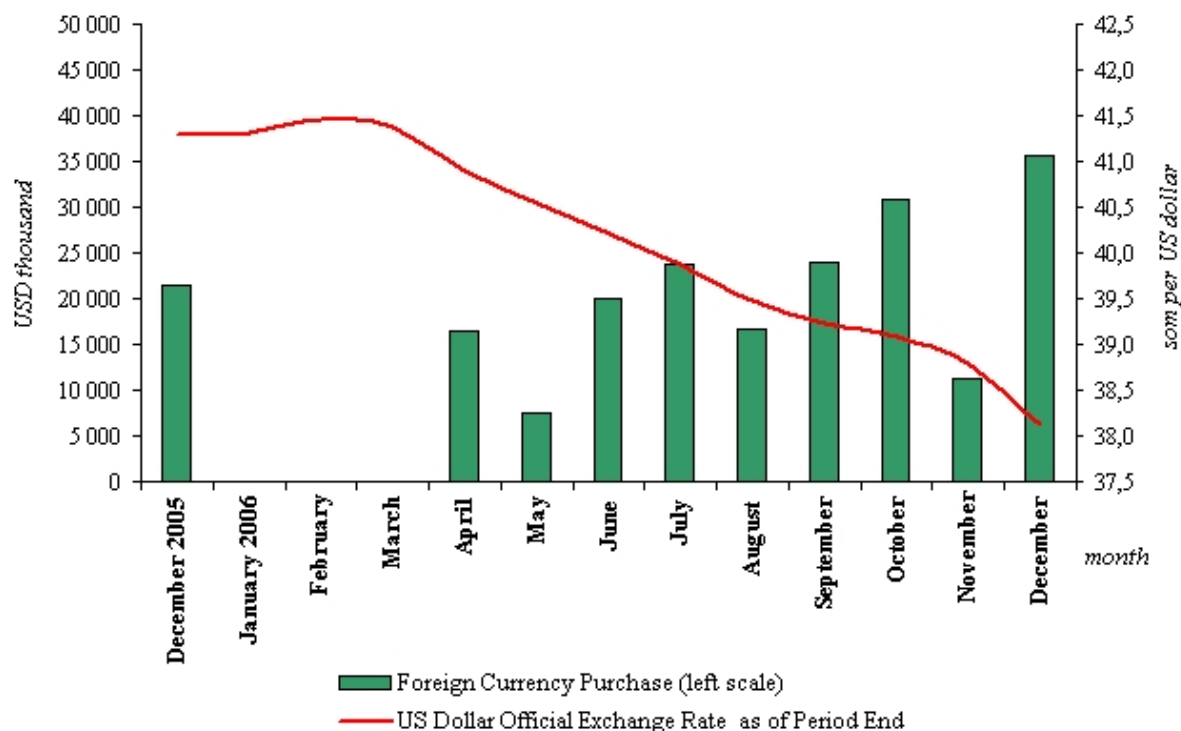
### **2.2.1 Foreign Exchange Market Transactions**

The degree of the National Bank participation at the foreign exchange market during 2006 depended on the nature of the market situation and was determined by the need to smooth drastic fluctuations of the exchange rate. In the first quarter, when a relative balance was observed in demand and supply of foreign currency, and the dollar exchange rate remained stable enough, the National Bank did not intervene into the development of the situation at the market. Beginning from the second quarter, when the supply of non-cash US dollars considerably increased at the domestic foreign exchange market and, as a result, the downward trend developed in the dollar exchange rate, the National Bank started performing foreign exchange interventions by purchasing excess foreign currency.

In the third and fourth quarters, the inflow of foreign currency to the domestic market increased even greater, in this connection the National Bank increased operations on buying US dollars. At the same time, the downward trend in the dollar exchange rate remained until the end of the year.



**Chart 2.2.1.1.**  
**Foreign Exchange Transactions of the NBKR in 2006**



In 2006, the volume of transactions of the National Bank on purchasing US dollars at interbank foreign exchange auctions amounted to US\$ 186.2 million, having exceeded a similar indicator for the prior year by 2.2 times. From the beginning of the year the US dollar official exchange rate reduced by 7.69 percent to the value of Som 38.1238 per US dollar.

SWAP operations on selling US dollars conducted for purposes of a mid-term sterilization of liquidity in Som were another type of foreign exchange transactions of the National Bank in the reporting period. In 2006, the total volume of these transactions amounted to US\$ 8.4 million, or Som 337.7 million in Som equivalent, where the average weighted term of operations was 83 days.

**Table 2.2.1.1.**  
**Foreign Exchange Transactions of the NBKR**  
*(USD thousand)*

	1 Quarter	2 Quarter	3 Quarter	4 Quarter	Total
<b>2005, total</b>	<b>8,680.0</b>	<b>17,590.0</b>	<b>26,175.0</b>	<b>44,340.0</b>	<b>96,785.0</b>
<i>including:</i>					
purchase of foreign currency	1,260.0	11,460.0	26,175.0	44,340.0	83,235.0
sale of foreign currency	6,810.0	5,145.0	-	-	11,955.0
Swap FX transactions (purchase)	610.0	985.0	-	-	1,595.0
<b>2006, total</b>	<b>-</b>	<b>49,100.0</b>	<b>66,320.0</b>	<b>79,150.0</b>	<b>194,570.0</b>
<i>including:</i>					
purchase of foreign currency	-	44,100.0	64,420.0	77,650.0	186,170.0
sale of foreign currency	-	-	-	-	-
Swap FX transactions (sale)	-	5,000.0	1,900.0	1,500.0	8,400.0

## 2.2.2. Open Market Transactions

Transactions of the National Bank at the open market are the main instrument of regulating liquidity in the banking system, and are used to achieve monetary policy goals, and to ensure stability at the

financial market. Transactions at the open market represent the purchase/sale of government securities under REPO conditions. In 2006, the National Bank improved this instrument by introducing an auction mechanism of conducting REPO transactions. Thus, transparency of conducted transactions was achieved, and the market mechanism was established for the cost of funds.

In 2006 under conditions of increased excess liquidity in the banking system, the National Bank conducted transactions on selling government securities under REPO conditions (reverse REPO) with the objective to withdraw short-term and medium-term liquidity. Government Treasury Bills (for settlement) were used in these transactions. The National Bank conducted the main volume of reverse REPO transactions in the second half of the year, during the period when the swift growth was observed in the monetary base, and a stronger effect of the monetary factor on the inflation. As compared with 2005, the volume of reverse REPO transactions increased by 8.5 times, and amounted to Som 1.8 billion. The average weighted maturity of reverse REPO transactions increased from 49 to 88 days, and the average weighted yield of these operations increased by 1.0 percentage point and was 4.5 percent.

**Table 2.2.2.1.**  
**NBKR Transactions with Government Securities**  
*(som thousand)*

	1 Quarter	2 Quarter	3 Quarter	4 Quarter	Total
<b>2005, total</b>	<b>117,000.4</b>	-	-	<b>110,500.9</b>	<b>227,501.3</b>
<i>including:</i>					
direct REPO transactions	17,000.1	-	-	-	17,000.1
reverse REPO transactions	100,000.4	-	-	110,500.9	210,501.2
<b>2006, total</b>	<b>85,000.8</b>	<b>112,500.5</b>	<b>525,000.9</b>	<b>1,073,350.7</b>	<b>1,795,852.9</b>
<i>including:</i>					
direct REPO transactions	-	-	-	-	-
reverse REPO transactions	85,000.8	112,500.5	525,000.9	1,073,350.7	1,795,852.9

### 2.2.3. Deposit Transactions

Together with reverse REPO and SWAP transactions aimed at the sterilization of excess liquidity, in 2006 the National Bank started additionally applying a new instrument that was deposit transactions, and conducted one transaction for the amount of Som 50.0 million for one month term at the rate of 2.0 percent in December 2006.

### 2.2.4. Discount Rate

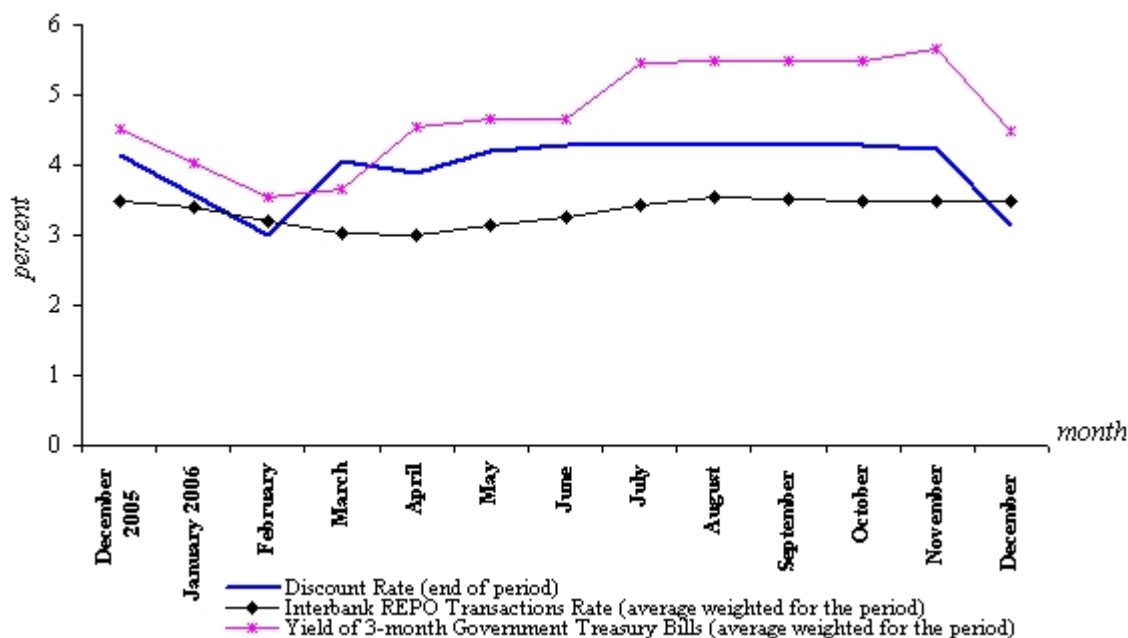
A discount rate is a monetary policy instrument with the help of which the National Bank sets the benchmark for the cost of short-term funds. An interest rate with a ratio of 1.5 on overnight loans provided by the National Bank in order to refinance commercial banks is tied to the discount rate. The discount rate is taken into account when the National Bank creates conditions for performing transactions at the open market. Furthermore, the discount rate of the NBKR is used in a fiscal area, and for calculating some administrative penalties (fines, surcharges and so forth).

The discount rate value equals to the yield of the 28-day notes of the NBKR that is defined at the weekly auctions for their primary placement. Thus, the discount rate was changing subject to the factors affecting the market of the NBKR notes (the issue volume, the demand for the NBKR notes, the number of participants, the level of rates in other segments of the monetary market and so forth). Thus, at the beginning of the year, under conditions of high level of excess reserves in commercial banks, the growth was noted in demand for the NBKR notes and, as a result, the decrease in the

discount rate. By the middle of February its value reduced from 4.1 percent as of beginning of the year to 3.0 percent. Further, banks' activities in this market segment contracted due to reduction of liquidity in the banking system, and to the shift in demand in favor of longer-term investments in Government Treasury Bills. At the same time, the increase was noted in the level and volatility of the discount rate: during the spring period the range of its fluctuations was between 3.7 and 4.5 percent. Starting from June through November inclusive, practically all notes auctions were not held due to the insufficient number of participants that determined the stable nature of the discount rate at that period: its value remained at 4.3 percent. At the end of the year, due to the growth of liquidity in the banking system the demand increased for the NBKR notes, as a result of which the discount rate began decreasing. By the end of December its value was 3.1 percent, which was lower by 1.0 percentage point as compared with this indicator at the beginning of the year.

For the reporting period the average discount rate was 3.8 percent that was lower by 0.5 percentage points of the rate for 2005.

**Chart 2.2.4.1.**  
**Change in the NBKR Discount Rate in 2006**



### 2.2.5. Mandatory reserves

Mandatory reserve requirements are designed to regulate the volume of money supply with the objective to create favorable conditions for economic development. The National Bank impacts capabilities of commercial banks to participate in the process of money supply formation with the help of this instrument. In addition, in the context of the developing banking system, mandatory reserves serve as a certain guarantee of solvency and sustainability of the banking system in the event of emergence of a critical situation.

The standard for mandatory reserve requirements in 2006 remained unchangeable, and was 10 percent of the average daily deposit base of commercial banks for a week prior to the settlement. The composition of the deposit base for computing reserve requirements in 2006 also did not change, and included all deposits of individuals and legal entities, other than deposits in foreign currency with the maturity of more than one year. The fixed rate of the US dollar, set by the NBKR Board twice a year, was applied for calculating mandatory reserves within the deposit base in order to record remaining deposits in foreign currency. Due to strengthening of the national currency rate, the National Bank

decreased the fixed rate of the US dollar twice: in June from Som 41 to 40.5 Som per US dollar, and in September to Som 39.3 per US dollar.

Funds on correspondent accounts of commercial banks with the NBKR were used as a reserve asset. Results of fulfilling mandatory reserve requirements were summarized on the basis of a two-week period. Compensation in the amount of a single average weighted rate on deposits of commercial banks was paid to commercial banks for complying with the mandatory reserve standard. In the event of failure to meet reserve requirements it was envisaged to collect a fee in the amount of the three-fold discount rate of the NBKR of the average daily inadequate volume of the mandatory reserve.

During 2006 with the deposit base growth in commercial banks, mandatory reserves were gradually increasing, and by the end of the year amounted to Som 1452.6 million, having exceeded by 29.0 percent the level as of beginning of the year. Not a single fact was recorded on non-compliance with reserve requirements during the year. At the same time, the amount of compensations paid to commercial banks for complying with mandatory reserve requirements increased by 65.1 percent, and totaled Som 21.2 million as compared with 2005.

**Table 2.2.5.1.**  
**Average Daily Level of Reserves in Commercial Banks in National Currency**  
*(som million)*

	1 Quarter	2 Quarter	3 Quarter	4 Quarter
<b>2005, total</b>	<b>1,291.5</b>	<b>1,191.0</b>	<b>1,348.3</b>	<b>1,667.0</b>
<i>including:</i>				
mandatory reserves	721.7	761.9	922.9	1,070.3
excess reserves	569.8	429.1	425.4	596.8
<b>2006, total</b>	<b>2,169.7</b>	<b>1,764.9</b>	<b>1,992.1</b>	<b>2,389.3</b>
<i>including:</i>				
mandatory reserves	1,145.7	1,324.1	1,422.5	1,575.4
excess reserves	1,023.9	440.9	569.6	813.9

### 2.3. International Reserve Management

International reserve management is regulated by the Risk Management Policy for International Reserve Management, by regulations On International Reserve Benchmark Portfolio of the National Bank of the Kyrgyz Republic for 2006, On International Reserve Structure of the National Bank of the Kyrgyz Republic and On Limits in Managing the International Reserve Investment Asset.

Priority objectives of the National Bank are to maintain liquidity and ensure safety of international reserves. The principle of maximizing income in managing international reserves is executed in strict compliance with principles on ensuring liquidity and security of assets.

The Board and the Investment Committee of the National Bank determined the investment strategy of the bank, the structure of international reserves, the ratio of risks and returns of investment instruments, and also bank's counteragents. Criteria, requirements and limitations were set for counteragents, also types of instruments, amounts and maturities of investments were established for purposes of minimizing risks emerging in managing reserve assets.

International reserves of the National Bank comprise of assets in gold, Special Drawing Rights (SDR) and of the foreign exchange portfolio. At the end of 2006, gross reserves amounted to US\$ 817.1 million, having increased by US\$ 204.8 million, or by 33.4 percent during the year.

Foreign exchange transactions of the NBKR conducted at the domestic market, revenues of the National Bank from managing international reserves, and changes in exchange rates of portfolios were main sources of growth in international reserves in 2006. Credit receipts in favor of the Government of the Kyrgyz Republic and National Bank from the Asian Development Bank, International Bank for Reconstruction and Development, International Development Association, International Monetary Fund (IMF), and other receipts in foreign currency in favor of the Government of the Kyrgyz Republic served as other sources of growth in assets. Moreover, growth of prices for precious metals was an additional source of growth in assets.

In 2006 the physical volume of gold within international reserves of the National Bank remained unchangeable. The decrease in the share of gold in the structure of international reserves was the result of the overall increase in international reserves. Acquired SDR for US dollars in the reporting year within the framework of the payment schedule for 2007 (the NBKR liabilities to IMF), and also weakening of the US dollar rate vis-à-vis major world currencies at the external market determined the growth in the share of SDR, and the decrease in the share of the foreign exchange portfolio in the structure of international reserves, respectively.

**Table 2.3.1.**  
**Structure of the NBKR Reserve Assets**  
(percent)

	2005	2006
Gold	6.9	6.5
Foreign Exchange Portfolio	92.2	89.5
Special Drawing Rights	0.9	4.1
Total	100.0	100.0

In 2006, the foreign exchange portfolio of international reserves of the National Bank consisted of US dollars, Euro, Swiss francs, English pounds, Australian and Canadian dollars, and also of Japanese yens and Russian rubles.

For purposes of reducing foreign exchange risk in the context of weakening of the US dollar rate vis-à-vis other world currencies at the external market, and also improving return on assets, when complying with such principles of international reserve management as liquidity and security, the NKBR reduced shares of Canadian dollars and US dollars. At the same time, it increased the volume of assets in euro, Swiss francs, Australian dollars, and pounds.

The structure of the NBKR foreign exchange portfolio was reviewed on a quarterly basis and changed subject to the development of the world economy, situation at the international financial markets, and also in view of the foreign exchange structure of external liabilities of the Kyrgyz Republic.

**Table 2.3.2.**  
**Foreign Exchange Portfolio Structure for Reserve Assets**  
(percent)

	2005	2006
US dollars	48.3	33.8
Euro	16.5	28.7
Swiss francs	3.7	4.5
Pounds	3.3	8.9
Australian dollars	7.9	10.7
Canadian dollars	20.3	13.4
Other*	0.0	0.0
Foreign exchange portfolio, total	100.0	100.0

\*include Japanese yens and Russian rubles, the share of which in 2006 was 0.0004 percent (0.00003 percent in 2005).

In 2006, international reserves were, mainly, used to perform transactions at the domestic foreign exchange market, to service external public debt of the Kyrgyz Republic and to pay membership fees, and matching contributions of the Government of the Kyrgyz Republic in international organizations, and integration institutions.

For purposes of improving the efficiency of international reserve management and maintaining a required liquidity level, the activity with reserve assets was built on a portfolio basis. Division of the foreign exchange portfolio into working and investment portfolios ensured the required return on reserves. Assets of the working capital were placed in the most liquid instruments, and used for payments of the National Bank and of the Government of the Kyrgyz Republic in foreign currency, and for transactions at the domestic foreign exchange market. The investment portfolio was managed in accordance with the approved benchmark portfolio of international reserves.

In 2006, reserve assets were placed with central banks of developed countries, international financial institutions, and foreign commercial banks with a high credit rating assigned by leading world rating agencies. The analysis of the status and monitoring of performance indicators in counteragent banks was carried out on an ongoing basis.

Reserve assets were invested in highly reliable and liquid international market instruments: securities, time deposits, and also in one-day REPO transactions. The securities portfolio of the National Bank included government securities of the USA, Germany, Australia, short-term investment instruments of the Bank for International Settlements. Time deposits were placed with international financial institutions, foreign central, and commercial banks.

**Table 2.3.3.**  
**Placement Structure of the NBKR Reserve Assets**  
*(percent)*

	2005	2006
International Financial Institutions	31.0	28.0
Central Banks	33.9	32.5
Commercial Banks	34.5	39.0
NBKR	0.6	0.5
Total	100.0	100.0

Low liquidity assets consisted of deposits of the National Bank with CJSC Central Asian Bank for Cooperation and Development, and of participation in the capital of the Interstate Bank (ISB).

**Chart 2.3.2.**  
**Change in Low Liquidity Assets**



The share of low liquidity assets within gross international reserves reduced from 0.64 percent as of beginning of the year to 0.48 percent as of end of 2006.

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

In 2006, the National Bank continued its work on improving sustainability of the finance and credit system, on early prevention of problems in operating finance and credit institutions licensed by the NBKR, and improving supervision methodology and practice.

In the reporting period positive trends continued in the development of the system of commercial banks that evolved during the past three-four years. Due to high growth rates of the banking sector, including of the credit portfolio of banks, main efforts of the National Bank were targeted at further development of the banking sector regulation, and also at timely detection of weaknesses, and potential problems related to credit risks of banks.

### 3.1. Banking System Overview

20 commercial banks<sup>1</sup>, including Open end Joint Stock Company Settlement and Savings Company (SSC) and a branch of one foreign bank were operating in the republic in 2006. The overview of activities of these institutions was prepared on the basis of adjusted annual regulatory reporting of operating commercial banks for the period of 2005 and 2006.

In 2006, the regulatory total capital<sup>2</sup> of banks increased by Som 1 622 million or by 46.9 percent, and amounted to Som 5.1 billion as of end of 2006. At the same time, the authorized capital<sup>3</sup> increased by 33.1 percent.

**Table 3.1.1.**  
**Structure of Liabilities of Commercial Banks (as of period end)**

Liability Category	2005		2006	
	som million	share, (percent)	som million	share, (percent)
Demand deposits of legal entities	7 888,8	42,7	9 717,2	41,8
Deposits of individuals	2 665,8	14,5	4 135,1	17,8
Time deposits of legal entities	1 536,2	8,3	1 123,4	4,8
Liabilities to the NBKR	33,3	0,2	20,1	0,1
Correspondent accounts	1 478,3	8,0	2 400,6	10,3
Short-term placements	15,2	0,1	0,0	0,0
Deposits and credits of authorities	919,9	5,0	1 492,6	6,4
Securities sold under REPO agreements	0,0	0,0	1,2	0,0
Credits received	2 279,4	12,4	2 673,6	11,5
Subordinated debt	364,2	2,0	376,8	1,6
Other liabilities	1 261,6	6,8	1 293,3	5,6
Total	18 442,7	100,0	23 233,9	100,0

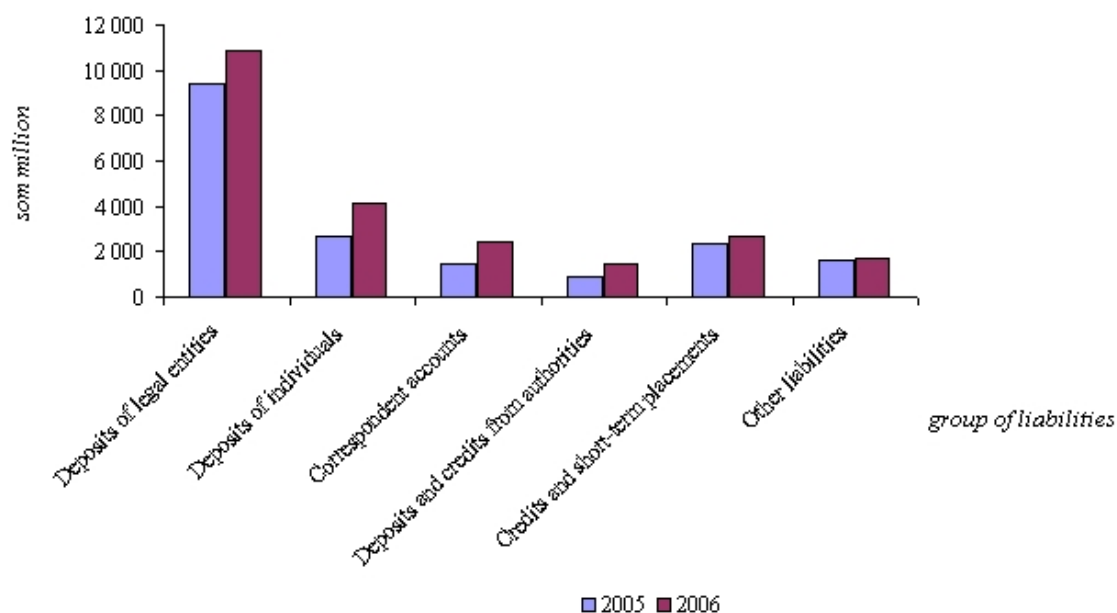
<sup>1</sup> Since 1 September 2004 a conservation regime was instituted in OJSC Ak-Bank, a license was revoked authorizing to conduct banking operations. Since 19 May 2005 the license was returned, since 27 September 2005 according to the resolution of the Supreme Court of the Kyrgyz Republic the conservation regime was suspended, since 28 September 2005 the conservation regime was newly instituted, since 1 November 2005 the license was revoked.

<sup>2</sup> For purposes of regulation, the regulatory total capital of the bank includes the authorized capital, reserves, retained earnings (losses) of past years, gain (losses) of the reporting year and general reserves for non-classified assets established in the bank.

<sup>3</sup> Apart from common and preferred shares, this category also includes additional capital contributed by shareholders but without an appropriate registration as of reporting date.



**Chart 3.1.1.**  
**Liabilities of Commercial Banks (as of period end)**



Total liabilities of banks<sup>1</sup> increased by 26.0 percent and amounted to Som 23.2 billion in 2006. At the same time, the share of liabilities in foreign currency in total liabilities was 71.7 percent (77.8 percent as of end of 2005).

Funds attracted by banks from other commercial banks increased by 35.1 percent, and amounted to Som 5.1 billion in the reporting period. Interbank market of the CIS countries was the main source of attracting funds in 2006.

The deposit base of commercial banks<sup>2</sup> continued to grow. At the end of 2006, deposits of operating commercial banks increased by 23.9 percent, and totaled Som 15.0 billion. In the deposit structure the share of legal entities reduced by 5.6 percentage points and was 72.4 percent of the deposit portfolio of the banking system. At the same time, an absolute growth in deposits of legal entities amounted to Som 1.4 billion. Deposits of individuals increased by Som 1.5 billion, or by 55.1 percent for the reporting period. As in 2005, a predominant growth of demand deposits has been observed in the deposit structure of individuals.

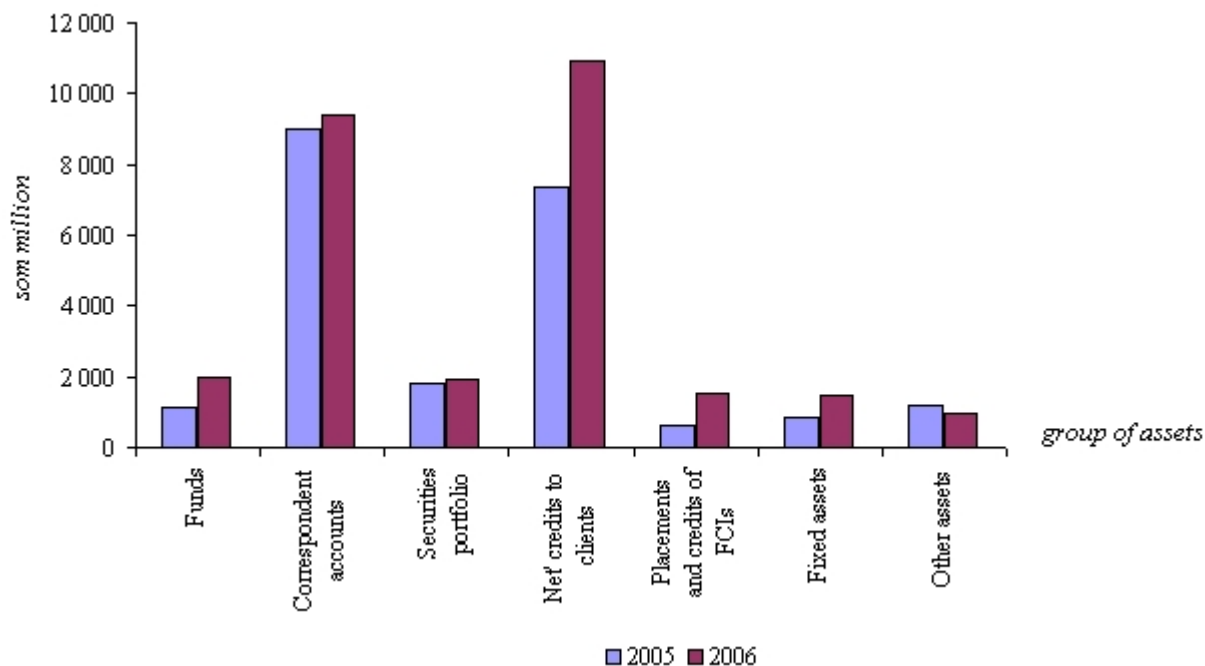
**Table 3.1.2.**  
**Asset Structure in Commercial Banks (as of period end)**

Asset Category	2005		2006	
	in som million	share, (percent)	in som million.	share, (percent)
Funds	1 155,0	5,3	1 998,4	7,1
Correspondent account with the NBKR	2 051,9	9,4	2 889,0	10,2
Correspondent accounts and deposits with other banks	6 961,9	31,8	6 525,8	23,0
Securities portfolio	1 803,5	8,2	1 952,4	6,9
Short-term placements	346,5	1,6	323,1	1,1
Securities purchased under REPO	50,0	0,2	505,4	1,8
Credits of finance and credit institutions	215,4	1,0	718,3	2,5
Credits to clients	7 645,3	34,9	11 300,2	39,9
(less) Special ALL	-310,3	-1,4	-348,9	-1,2
Fixed assets	820,8	3,7	1 493,1	5,3
Other assets	1 164,0	5,3	961,3	3,4
Total	21 904,0	100,0	28 318,1	100,0

<sup>1</sup> liabilities include funds attracted by the bank as deposits, credits and so forth.

<sup>2</sup> Without deposits of the Government and deposits of financial institutions

**Chart 3.1.2.**  
**Assets of Commercial Banks (as of period end)**



Total assets of banks increased by 29.3 percent, and amounted to Som 28.3 billion in 2006. At the same time, assets in national currency increased by 55.2 percent, and assets in foreign currency grew by 17.3 percent, which was connected with strengthening of the national currency, and deposit base growth, including deposits in national currency.

In the reporting year the growth trend of liquid assets was preserved in the asset structure of commercial banks, which was connected with expansion of services on clients' payments, development of the network of automated teller machines and branch network of banks. The volume of highly liquid funds placed by commercial banks on correspondent accounts with other banks (including the NBKR), as well as deposits, increased by 12.2 percent. As of end of 2006, this category of assets amounted to Som 11.4 billion. Also, the growth was observed in loans extended to clients in the reporting year (the increase by 47.8 percent).

Total net credits to clients<sup>1</sup> increased by 49.3 percent in 2006, and totaled Som 10.9 billion as of end of 2006. Its share in total assets of banks increased by 5.2 percentage points, and was 38.7 percent as compared with the end of 2005. According to the data of the regulatory reports of banks, unclassified<sup>2</sup> assets accounted for 96.5 percent of assets subject to classification, and classified assets were 3.5 percent. Certain improvement in asset quality (and in the loan portfolio, respectively) was connected with a significant growth in the loan portfolio of banks, at the same time, the growth was, to a lesser degree, in classified loans. Due to the high growth rates in the loan portfolio observed in the reporting period, the National Bank performed its activity on timely detection of potential problems connected with credit risks of banks.

<sup>1</sup> Net credits mean credits and leases to clients less formed reserves for covering potential losses, and also accrued discount.

<sup>2</sup> Unclassified assets (loans) include assets (loans) referred to the category of normal, satisfactory and under watch.

**Table 3.1.3.**  
**Classification of Assets and Off-Balance Sheet Liabilities**  
*(percent, unless specified otherwise)*

Category	2005	2006
Normal	58,4	51,5
Satisfactory	31,8	41,2
Under watch	6,0	3,8
Total unclassified	96,2	96,5
Substandard	2,3	1,8
Doubtful	0,5	0,5
Losses	1,0	1,2
Total classified	3,8	3,5
Total	100,0	100,0
Total, (som million)	19 485,9	23 681,7

**Table 3.1.3.**  
**Classification of Credits to Clients**  
*(percent, unless specified otherwise)*

Category	2005	2006
Normal	2,4	4,2
Satisfactory	74,3	81,9
Under watch	15,1	7,8
Total unclassified	91,8	93,9
Substandard	4,9	3,4
Doubtful	1,1	0,8
Losses	2,2	1,9
Total classified	8,2	6,1
Total	100,0	100,0
Total, (som million)	7 645,3	11 300,2

There was an increase in the resource base of commercial banks (fixed assets), which amounted to Som 1 493.1 million at the end of 2006 (an increase of 81.9 percent).

In the reporting year, there was continued increase in capitalization, further improvement in credit activity and in development of new types of services to the population. As a result, there was an increase in indicators describing the financial status of banks.

**Table 3.1.4.**  
**Income and Expense Structure**  
*(som million)*

Category	2005	2006
Interest income	1 497,4	2 173,7
Interest expenses	402,8	571,7
Net interest income	1 094,6	1 602,0
Non-interest income	1 114,3	1 965,9
Non-interest expenses	1 471,1	2 479,8
Net operating income (loss)	737,8	1 088,1
Allowance for Loan Losses	213,0	214,5
Net income (loss) before taxes	524,8	873,6
Profit tax	95,0	82,5
Net profit (loss)	429,8	791,1

Income and expenses of commercial banks, both interest-bearing (45.2 percent and 41.9 percent, respectively), and non-interest bearing (76.4 percent and 56.1 percent, accordingly) continued to increase in 2006. Net operating income of banks for 2006 totaled Som 1088.1 million, having increased by 47.5 percent as compared with 2005.

Allocations of banks to allowances for loan losses amounted to Som 214.5 million, which was higher by 0.7 percent than in 2005. Banks' deductions of the profit tax to the budget decreased by 13.2 percent (Som 82.5 million following the results of 2006) due to the reduction in the profit tax rate by two times.

The banking system ended the year 2006 with the net profit amounting to Som 791.1 million, while following the results of 2006, the financial result totaled Som 429.8 million (growth by 84.1 percent).

The status of the banking system in the reporting year indicated a stable situation at the banking services market. The following positive changes were observed in activities of commercial banks:

- strengthening of the banks' capital as a framework for expanding the scale of banking activities, and as a factor contributing to improvement of confidence in banks on the part of creditors and depositors (growth by 46.9 percent);
- growth in main indicators for the system of commercial banks (assets increased by 29.3 percent, and liabilities by 26.0 percent);
- growth in indicators describing financial intermediation in the system of commercial banks: the ratio of deposits from enterprises and population to GDP, and the ratio of clients' credit portfolio to GDP. At the end of the reporting year, these ratios were 14.5 percent and 10.0 percent, respectively (at the end of 2005, 13.0 percent and 7.6 percent, correspondingly). The ratio of the banking system assets to GDP was 25.0 percent, and increased by 3.1 percentage points as compared with the beginning of the year.
- growth in deposits attracted from the population (increase by 55.1 percent);
- growth in attractions and placements of banks in national currency;
- increase in return on assets (ROA) by 1.0 percentage points (3.3 percent following the results of 2006) and in return on equity (ROE) by 4.8 percentage points (22.4 percent following the results of 2006).

### 3.2. Overview of Activities in Non-Bank Finance and Credit Institutions

In the reporting year the National Bank of the Kyrgyz Republic implemented a wide range of activities on developing the system of non-bank finance and credit institutions, in which micro crediting was the principal area of activities.

For purposes of comprehensive implementation of the Medium Term Microfinance Development Strategy in the Kyrgyz Republic for 2006-2010, approved by the Resolution of the Government of the Kyrgyz Republic and NBKR N637/37/7 of 30 December 2005, a working group was established to monitor implementation of the strategy that included representatives of public authorities (Administration of the President of the Kyrgyz Republic, NBKR, Ministry of Justice, State Register), representatives of donors and microfinance sector (Association of Banks, Association of Microfinance Organizations, Alliance of National Associations of Credit Unions and Cooperatives). 12 meetings of the working group were held during 2006, at which execution of the strategy has been considered in accordance with the approved plan of activities.

Within the framework of implementing the Medium Term Microfinance Development Strategy in the Kyrgyz Republic for 2006-2010, the National Bank carried out the following activities on improving the legal framework regulating activities of microfinance organizations and credit unions:

- approved changes to the Regulation On Licensing Credit Unions that provided for the following: elimination of the requirement on compliance with economic standards within a 12-month retrospective from the list of minimum requirements for obtaining a deposit license; introduced a 2-year ‘grace period’ for complying with the NBKR software requirements. These changes were adopted, in the first place, with the objective to develop deposit transactions in credit unions, and thus, improve mobilization of resources from their participants, increase lending and reduce donor dependence;
- approved changes to the Rules for Regulating Activities of Credit Unions aimed at simplifying regulatory frameworks for credit unions, which did not have debts to the Financial Company for Support and Development of Credit Unions in the Kyrgyz Republic LLC (i.e. under the concessionary donor funding line) and did not attract deposits, and in this connection did not bear increased risks on repayment of attracted resources.

Within the framework of implementing the Medium Term Microfinance Development Strategy, the Ministry of Justice of the Kyrgyz Republic, and the State Agency on Registration of Title to Immovable Property of the Kyrgyz Republic carried out activities related to simplification of collateral registration and seizure procedures, including agricultural lands, developed schedules for receiving citizens by notaries with on-site visits to aiyl okmoty (village councils).

Microfinance institutions presented their proposals on introducing changes to the new draft Tax Code on streamlining taxation of credit and leasing transactions, interest income in activities of microfinance institutions.

In accordance with the terms of the credit agreement of 1997 between the Kyrgyz Republic and the Asian Development Bank under the credit union development project, the National Bank carried out activities on preparing the Financial Company for Support and Development of Credit Unions in the Kyrgyz Republic LLC (hereinafter the FCSDCU) for privatization in accordance with the project documents, and also activities on improving supervisory functions.

Within the framework of the Economic Policy Memorandum of the Government of the Kyrgyz Republic for 2005-2007, OJSC Kyrgyz Agricultural Financial Corporation (KAFC) was included in the list of the privatization program in June in accordance with the Resolution of the Jogorku Kenesh

of the Kyrgyz Republic N1037-III of 5 June 2006 On Approval of the State Property Privatization Program in the Kyrgyz Republic for 2006-2007.

On 27 December 2006, the NBKR Board by the decision of its resolution N43/1 issued a banking license to OJSC Aiyl Bank that was established on the basis of OJSC KAFC. Financial indicators for 2006 given below for the system of non-bank finance and credit institutions were presented in view of data for OJSC Aiyl Bank (former OJSC KAFC), that received a banking license at the end of the reporting year.

A stable sustained growth in the system of non-bank finance and credit institutions (NFCIs) contributed to social mobilization of population, provision of employment and reduction of poverty level.

As of end of 2006, the system of non-bank institutions subject to regulation and supervision on the part of the NBKR included the following: a specialized finance and credit institution that was the Financial Company for Support and Development of Credit Unions (FCSDCU); 305 credit unions; 168 microfinance organizations (including 1 microfinance company, 62 microcredit companies and 105 microcredit agencies); 148 pawnshops and 263 exchange offices.

In 2006, the increase was observed in the number of NFCIs, in their assets and loan portfolio, and also in coverage of population by their services. This was explained, in the first place, by demand for services of NFCIs, and also by the fact that, the legislative base provided for liberal requirements to their establishment and activities.

**Table 3.2.1**  
**Change in the Number of NFCIs and Exchange Offices**

Name	Number				
	2002	2003	2004	2005	2006
KAFC (Aiyl Bank) <sup>1</sup>	1	1	1	1	1
FCSDCU	1	1	1	1	1
Microfinance organizations (MFCs, MCCs and MCAs)	0	72	104	136	168
Credits unions	349	303	305	320	305
Pawnshops	85	108	116	140	148
Exchange offices	234	261	266	260	263

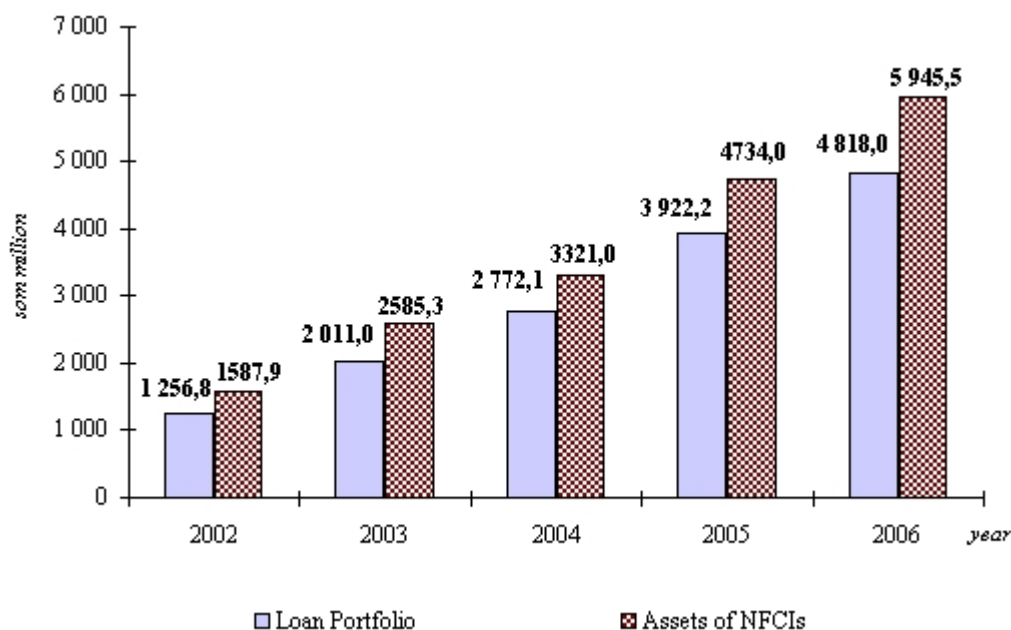
<sup>1</sup> A banking license was issued on 27.12.06 to OJSC *Aiyl Bank*, which was established on the basis of OJSC *KAFC*.

In 2006, the National Bank issued 347 licenses and certificates to various NFCIs. CJSC MFC Aska, the first microfinance company in the country, obtained its license on 26 May 2006. The NBKR revoked 37 licenses for the failure to comply with requirements of normative and legal acts, annulled 71 licenses due to termination of activities, and annulled 211 licenses upon expiration of validity.

According to presented regulatory reports, aggregate assets of NFCIs increased by 25.6 percent for the reporting period and amounted to Som 5 947.5 million at the end of the year.

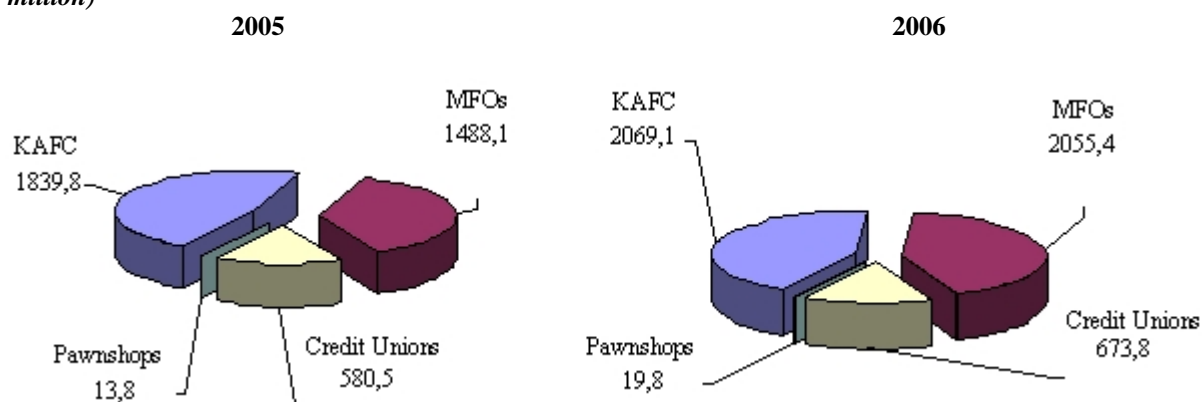
Crediting was the main area of activities of NFCIs. In the reporting year, the size of the loan portfolio increased by Som 895.8 million or by 22.8 percent, and totaled Som 4817.6 million as compared with the prior year, and the number of borrowers increased by 42008 people or by 36.2 percent, and was 157991 people. At the same time, the share of the loan portfolio in aggregate assets of NFCIs reduced from 82.9 to 81.0 percent during 2006.

**Chart 3.2.1**  
**Change in Aggregate Assets and Loan Portfolio of NFCIs**



For the reporting period, the share of KAFC reduced from 46.9 percent to 42.9 percent in the aggregate loan portfolio of NFCIs, and the share of microfinance organizations increased from 37.9 percent to 42.7 percent.

**Chart 3.2.2**  
**Loan portfolio by types of NFCIs (as of period end)**  
*(som million)*



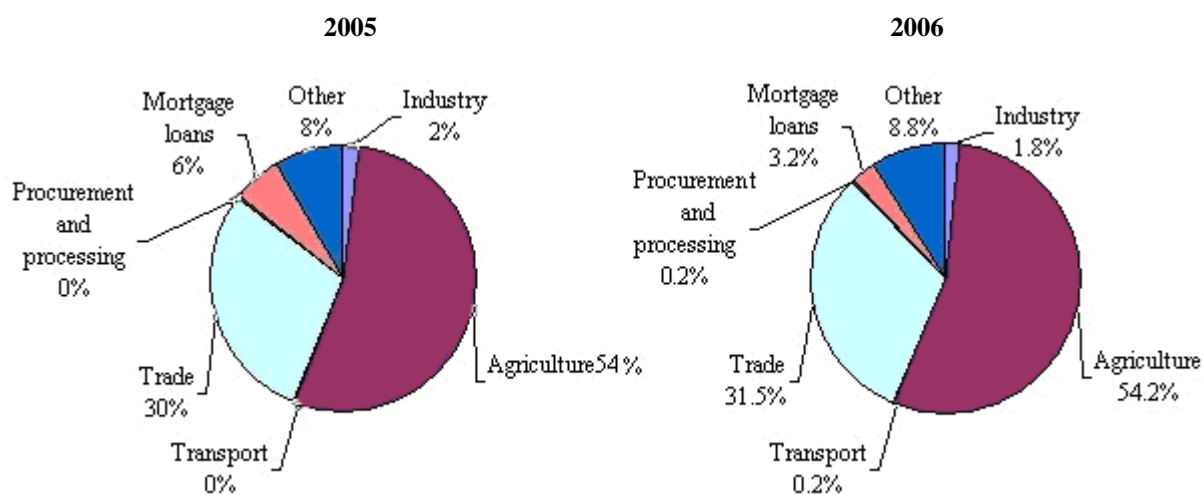
In the reporting year, as in the prior year, the largest volume of the credit portfolio of NFCIs by regions was concentrated in Osh, Chui and Jalalabat Oblasts, and also in Bishkek city.

**Table 3.2.2**  
**Loan Portfolio of NFCIs by Regions**  
*(som million)*

Oblast	2005	2006
Batken	209,1	315,0
Bishkek city	561,9	664,3
Jalalabat	663,8	781,6
Issyk-Kul	421,1	493,5
Naryn	246,4	298,7
Osh	946,2	1257,6
Talas	296,1	346,8
Chui	577,4	660,5

As of end of 2006, the share of agriculture increased from 53.4 percent to 54.2 percent, and the share of loans for trade and services grew from 29.5 percent to 31.5 percent in the structure of the aggregate loan portfolio of NFCIs, as compared with the prior year.

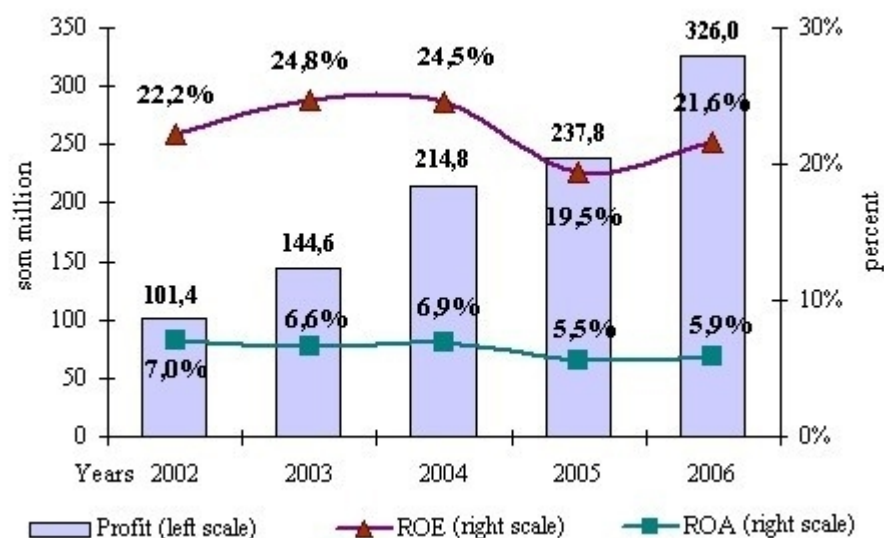
**Chart 3.2.3**  
**Loan Portfolio of NFCIs by Economy Sectors (as of period end)**



In 2006, the aggregate net profit made by NFCIs increased by 37.1 percent, and totaled Som 326 million. At the same time, some increase was observed in return on assets (ROA) and in return on equity (ROE).



**Chart 3.2.4.**  
**Change in Net Profit, ROA and ROE of NFCIs**



In the reporting period, reduction was noted in interest rates on loans of NFCIs, including KAFC, FCSDCU, credit unions and pawnshops, other than microfinance organizations, the rates of which remained at the prior level (table 3.2.3).

**Table 3.2.3**  
**Average Weighted Interest Rates on Loans of NFCIs (as of period end)**

Name	2003	2004	2005	2006
KAFC (Aiyl Bank)	17,3	16,99	15,79	14,2
Microfinance organizations	36,0	28,0	33,5	33,5
FCSDCU	18,7	17,1	16,9	15,1
Credit unions	31,3	28,7	26,8	25,9
Pawnshops	164,0	162,1	153,6	149,5

In 2006, the Kyrgyz Agricultural Financial Corporation issued loans amounting to Som 1197.9 million, which was less by 1.2 percent than in 2005. As of reporting date, the number of borrowers was 45.1 thousand people. Outstanding credit portfolio for 2006 increased from Som 1839.8 million to Som 2069.1 million or by 12.5 percent. In terms of maturities, KAFC's loan portfolio was concentrated in medium-term and long-term loans with maturities in 2 and 3, and 5 years.

In the reporting year, the largest growth rates of the loan portfolio were in the system of credit unions (16.1 percent), in microfinance organizations (38.1 percent) and pawnshops (43.5 percent).

Increase in the aggregate loan portfolio of credits unions in 2006 up to Som 673.8 million was, mainly, related to the growth in the following:

- liabilities on credits from the FCSDCU, other finance and credit institutions up to Som 341.8 million or by 12.8 percent;
- aggregate amount of saving contributions to 173.7 (it was Som 169.7 million), or by 2.4 percent;
- institutional capital of credit unions up to Som 134.6 million (it was Som 92.7 million), or by 1.5 times.

The main share of loans was concentrated in agriculture (55.7 percent), and trade (29.7 percent) in the credit portfolio structure of credit unions.

During 2006 the number of borrowers in credit unions reduced by 0.5 thousand people and was 21.9 thousand people as of reporting date.

In the reporting year, the aggregate loan portfolio of MFOs increased by 38.1 percent and amounted to Som 2055.4 million, the number of clients grew up to 81.8 thousand or by 57.0 percent.

The loan portfolio analysis of MFOs showed that trade remained to be the main sector to which MFOs lend to, and the share of which accounted for 55.9 percent (52.9 percent as of end of 2005) of the aggregate loan portfolio, and agriculture accounted for 25 percent (17.2 percent as of end of 2005). Despite the insignificant share in the aggregate loan portfolio, there was an increase in the share and volume of loans disbursed to the industry. Attracted funds and growth in the number and capital of MFOs, respectively, were main sources of loan portfolio growth in the system of MFOs.

In 2006, pawnshops issued short-term loans totaling Som 84.2 million. The main share in the loan portfolio of pawnshops was concentrated in loans disbursed in Bishkek city (about 82.8 percent).

According to presented reports, the loan portfolio of pawnshops in 2006 grew up to Som 19.8 million or by 43.5 percent. Consumer loans had the main share in the loan portfolio of pawnshops.

In 2006, the National Bank issued, including re-registration, 263 licenses authorizing to conduct foreign exchange transactions with cash foreign currency. The National Bank performed 368 inspections of activities in exchange offices during the reporting period.

Two raids were carried out jointly with the law enforcement bodies to inspect exchange offices of Bishkek city for their compliance with requirements of legislation and normative acts of the NBKR. Six meetings of administrative commissions on consideration of cases on performing foreign exchange transactions without an appropriate license from the NBKR were held in 2006. As a result, seventeen individuals/private entrepreneurs, which carried out unlicensed activities, were brought to administrative liability, and administrative fines were imposed totaling Som 27 thousand.

### **3.3. Supervision and Regulation of Finance and Credit Institutions**

#### **3.3.1. Licensing**

The paid-up authorized capital of commercial banks increased by 35.3 percent, or by Som 938.9 million in 2006. Foreign investments in the banking system of the Kyrgyz Republic (in capital of banks) amounted to Som 416.2 million in 2006. Investments were, primarily, made by Kazakh investors that have subsidiary banks in the Kyrgyz Republic (Halykbank, ‘ATF-Bank’)

In 2006, for purposes of providing access for the population of remote regions, peasant and farm enterprises to banking services, the National Bank of the Kyrgyz Republic considered an application and issued a license to OJSC Aiyl Bank, which was established on the basis of KAFC. OJSC Aiyl Bank with the receipt of its banking license should enter the payment system of the Kyrgyz Republic, might open and keep accounts of the bank’s clients-borrowers, establish correspondent relations with banks, and also conduct foreign exchange transactions with cash foreign currency.

With the same objective the license of OJSC ‘SSC’ was expanded in the part of providing microcredits and extending wholesale loans to FCIs for further financing of borrowers’ projects.

Within the framework of further improvement of the legal framework of the banking supervision area, and its harmonization with changes and addenda to the Law On Banks and Banking Activity in the Kyrgyz Republic concerning introduction of consolidated supervision principles, harmonization of banking supervision in the Kyrgyz Republic with international standards, and Basel principles for banking supervision, a regulation On Licensing Activities of Banks was adopted, which sets requirements, fulfillment of which is mandatory in establishing bank holding companies and banking groups. Introduction of consolidated supervision principles is aimed at reducing risks for a bank, which is part of the banking group, and ensuring protection of interests of its depositors, and also at integrating Kyrgyz banks into the international banking system.

A regulation On Implementation of Islamic Finance Principles in the Kyrgyz Republic Within the Framework of the Pilot Project was adopted with the objective to execute the Memorandum on Understanding between the Kyrgyz Republic, the Islamic Development Bank, and OJSC Ecobank on implementing principles of Islamic finance and banking in the Kyrgyz Republic,.

According to the plan of activities on fulfilling the Medium-Term Microfinance Development Strategy in the Kyrgyz Republic for 2006-2010, changes and addenda were made in the part of expanding activities of cash collection offices by providing them the possibility to issue loans that fall under the criteria and to which special classification applied (for example, microcredits under the EBRD program). As a result, commercial banks opened 77 cash collection offices in various regions during 2006. Furthermore, four new branches of commercial banks were registered.

#### **3.3.2. Off-Site Supervision**

The National Bank conducts off-site supervision of activities of commercial banks by their monitoring, analyzing presented reports and on-site inspection results that ensures early prevention of possible problems in their activities and permits to maintain stability in the banking system.

Off-site supervision of activities of commercial banks is conducted on the basis of assessing risks inherent in banking activity. Assessments of major risks, inherent in activities of commercial banks, given below were prepared on the basis of adjusted annual regulatory reports of operating commercial banks for 2005 and 2006.

Foreign exchange risk. At the end of 2006, foreign exchange assets of the banking system amounted to Som 17.6 billion, or 62.0 percent of total assets. Liabilities of commercial banks in foreign currency totaled Som 17.3 billion or 74.5 percent of total liabilities.

**Table 3.3.2.2.**  
**Assets and Liabilities of Commercial Banks in Foreign Currency (at the end of the period)**  
(som million)

	2005	2006
Assets in foreign currency	14 974,0	17 565,6
Liabilities in foreign currency	14 345,5	17 298,5

Note: At the NBKR official exchange rate as of 31 December 2006: Som 38.1238 per US dollar.

At the NBKR official exchange rate as of 31 December 2005: Som 41.3011 per US dollar.

Liquidity risk. The structure of assets and liabilities by placement terms and maturities characterized the condition of banks in terms of covering liabilities with assets in each maturity interval (table 3.3.2.3), and defined the needs in funds under maturity mismatch of assets and liabilities.

**Table 3.3.2.3.**  
**Assets and Liabilities by Maturities**  
(som million)

2005*	Period in Days					Total
	0-30	31-90	91-180	181-365	365 and over	
Financial assets	12 651,9	1 036,0	1 735,4	2 745,6	3 561,5	21 730,4
Financial liabilities	13 398,1	837,1	800,9	1 290,3	2 130,6	18 457,0
Excess of financial assets over financial liabilities	-746,2	198,9	934,5	1 455,3	1 430,9	3 273,4
As percentage to total financial assets	- 3,4%	0,9%	4,3%	6,7%	6,6%	15,1%

\* - data at 31 December 2005, inclusive.

2006 **	Period in Days					Total
	0-30	31-90	91-180	181-365	365 and over	
Financial assets	13 385,4	1 939,6	1 573,2	3 667,4	7 797,1	28 362,7
Financial liabilities	15 664,7	1 843,7	1 053,6	1 854,5	2 504,1	22 920,6
Excess of financial assets over financial liabilities	-2 279,3	95,9	519,6	1 812,9	5 293,0	5 442,1
As percentage to total financial assets	-8,0%	0,3%	1,8%	6,4%	18,7%	19,2%

\*\* - data at 31 December 2006, inclusive

Credit risk was assessed on the basis of classification of assets and off-balance sheet liabilities<sup>1</sup>. As compared with the beginning of the year the non-repayment risk, calculated as the ratio of established Allowances for Loan Losses (ALL) to the total amount of credit risk bearing assets, reduced and was 3.0 percent at the end of 2006. Past due assets amounted to Som 456.2 million or 1.9 percent of total credit risk bearing assets at the end of 2006. This indicator was 2.0 percent or Som 392.6 million at the beginning of the reporting year.

<sup>1</sup> Data is given in section 3.1 Banking System Overview, Table 3.1.3. Classification of Assets and Off-Balance Sheet Liabilities

Insolvency risk. Solvency of commercial banks is characterized by adequacy of total capital for covering potential losses.

In 2006, net risk assets<sup>1</sup> increased by Som 4.6 billion and net total capital<sup>2</sup> grew by Som 1.6 billion. The share of risk assets in total assets of the banking system was 63.1 percent at the end of 2006 (60.4 percent at the end of 2005).

**Table 3.3.2.1.**

**Total Capital Adequacy Indicators for the System of Commercial Banks (as of period end)**

	2005	2006
Net total capital, som million	3 467,6	5 063,0
Net risk assets, som million	13 235,1	17 872,7
Total capital adequacy ratio, percent	26,2	28,3
Total capital adequacy standard (not less), percent	12,0	12,0

The increase in the authorized capital and also in funds transferred as additional capital to commercial banks resulted in growth of total capital for the banking system. At the same time, a faster growth was observed in net total capital as compared with the growth of assets (46.0 percent and 29.3 percent, respectively). This affected the increase in the aggregate adequacy ratio, and demonstrated an improved financial soundness of banks to external shocks.

In 2006, the capital grew both, as a result of fulfilling the NBKR capital requirements, and increasing retained earnings in banks. In addition, the capital of the banking system grew as a result of the inflow of new foreign investments.

### 3.3.3. On-Site Inspections

In 2006, 20 comprehensive inspections were conducted in banks (including OJSC ‘SSC’ and a branch of the National Bank of Pakistan) licensed by the NBKR within the framework of regulation and supervision of activities of commercial banks, including OJSC ‘SSC’, with the objective to assess their financial condition and their compliance with the requirements of banking legislation of the Kyrgyz Republic.

In addition, 8 target inspections of commercial banks were conducted concerning fulfillment of requirements of the National Bank of the Kyrgyz Republic on compliance with the open foreign exchange position limit, and deposit transactions during the reporting year. 7 target inspections were conducted on the assessment of the asset quality, capital formation and of the payment recording system in commercial banks.

The results of inspections performed in the reporting year showed that banks, mainly, had an adequate management system, and demonstrated sufficient risk management with the exception of certain banks, concerning which the National Bank of the Kyrgyz Republic took measures to rectify violations present in those banks.

Materials on particular serious violations of commercial banks were considered at the meetings of the Supervisory Committee of the National Bank of the Kyrgyz Republic, which made appropriate decisions.

<sup>1</sup> Credit risk weighted assets and off-balance sheet liabilities of commercial banks.

<sup>2</sup> Estimate indicator that includes shareholder capital of the bank, financial result of activities in the reporting year and in prior years, created reserves less investments in subsidiary organizations and capital of other finance and credit institutions. It is used in computing economic ratios set by the NBKR.

On-site inspections were carried out in accordance with the requirements of banking legislation of the Kyrgyz Republic, and normative acts of the NBKR, which involved a detailed analysis of risks (credit, operational, foreign exchange, liquidity risk and so forth) present in commercial banks, finance and credit institutions. In conducting on-site inspections, particular attention was paid to the assessment of the bank management process, and also to materiality of risks in all types of activities and transactions.

#### **3.3.4. Preventive Enforcement Measures**

Decisions about preventive measures and sanctions regarding commercial banks, financial and credit institutions licensed by the NBKR are made both by the Bank Supervision Department (BSD) directly, and by the Supervisory Committee of the NBKR. 14 warnings and 5 orders were given to commercial banks in 2006. 19 meetings of the Supervisory Committee of the NBKR were held, at which the issues were also considered relating to activities of 5 commercial banks. Four monetary fines were imposed on two commercial banks by Resolutions of the Supervisory Committee of the NBKR.

#### **3.3.5. Development of Legal Framework for Banking Regulation and Supervision**

In 2006, the National Bank of the Kyrgyz Republic continued its activity on improving the legal framework of banking supervision and regulation, which was aimed at improving efficiency in supervision, and developing banking system of the Kyrgyz Republic. Particular importance was paid to issues of establishing the adequate system of managing risks inherent in the banking activity, implementing Core Principles of the Basel Committee for Banking Supervision aimed at improving efficiency of banking supervision, developing corporate governance in banks, improving transparency of the banking system, and also to preventing transactions on legalization (money laundering) of proceeds from crime.

For purposes of improving stability and efficiency of the banking system, improving internal management systems, commercial banks developed normative acts that set minimum requirements on managing market and country risks in commercial banks and other finance and credit institutions licensed by the NBKR.

The Law of the Kyrgyz Republic On Counteracting Terrorist Financing and Legalization (Money Laundering) of Proceeds from Crime effective 8 November 2006 established a legal mechanism for counteracting terrorist financing and legalization (money laundering) of proceeds from crime, and regulates relationships emerging from performing transactions and operations with funds, or other property for purposes of preventing, identifying and suppressing actions related to terrorist financing and legalization (money laundering) of proceeds from crime. NBKR conducted activities on bringing normative legal acts of the NBKR in line with the provisions of the above mentioned Law, and creating a system of counteracting terrorist financing and legalization (money laundering) of proceeds from crime.

In pursuance of the Decree of the President of the Kyrgyz Republic N373 of 12 July 2006 On Pilot Project for Implementing Principles of Islamic Finance in the Kyrgyz Republic, and also of the Memorandum on Understanding between the Kyrgyz Republic, Islamic Development Bank and OJSC Ecobank on implementing principles of Islamic Finance and Banking in the Kyrgyz Republic, the National Bank of the Kyrgyz Republic developed a number of normative legal acts, which determined regulatory requirements to activities of OJSC Ecobank within the framework of carrying out this pilot project.

Changes and addenda were made to a number of normative acts of the NBKR for purposes of improving the system of financial and regulatory reporting, bringing the record keeping in banks in line with International Financial Reporting Standards, ensuring transparency and availability of

financial statements of commercial banks, and other finance and credit institutions licensed by the NBKR.

The work was continued on developing and implementing a deposit protection system. In 2006, the NBKR Board approved a draft law On Deposit Protection, which was sent for approval to the Government of the Kyrgyz Republic.

## CHAPTER 4. PAYMENT SYSTEM

### 4.1. Payment System Development

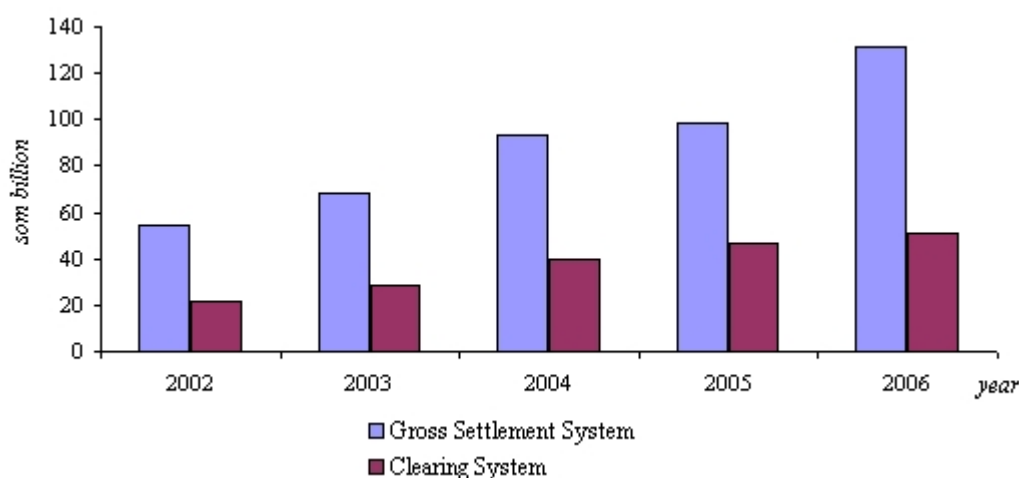
#### 4.1.1. Non-cash Payments

There are two interbank payment systems operating in the Kyrgyz Republic. The system participants were NBKR, commercial banks, including their branches, the Central Treasury of the Ministry of Economy and Finance of the Kyrgyz Republic, and the Interstate Bank at the end of 2006.

Positive trends were observed in the payment system during the reporting year. 1809137 payments totaling Som 182.61 billion were executed through interbank payment systems. As compared with 2005 the volume of payments increased by 25.3 percent or by Som 36985.5 million.

**Chart 4.1.1.1.**

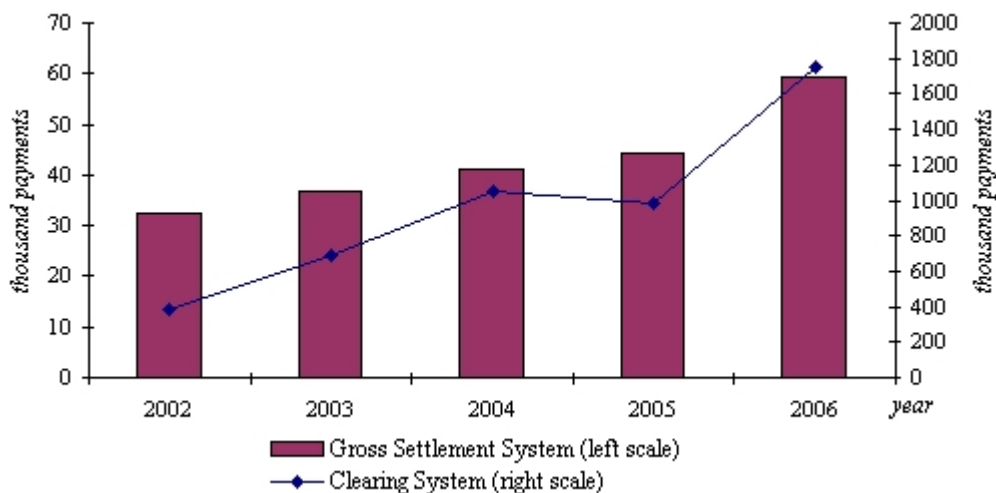
**Volume of Payments through Interbank Payment Systems (as of period end)**



Total number of payments increased by 77.0 percent or by 787038 payments. This growth was the result of the increase in the number of payments in the clearing system by 78.9 percent, and by 34.5 percent in the large payments system.

**Chart 4.1.1.2.**

**Number of Payments through Interbank Payment Systems (as of period end)**



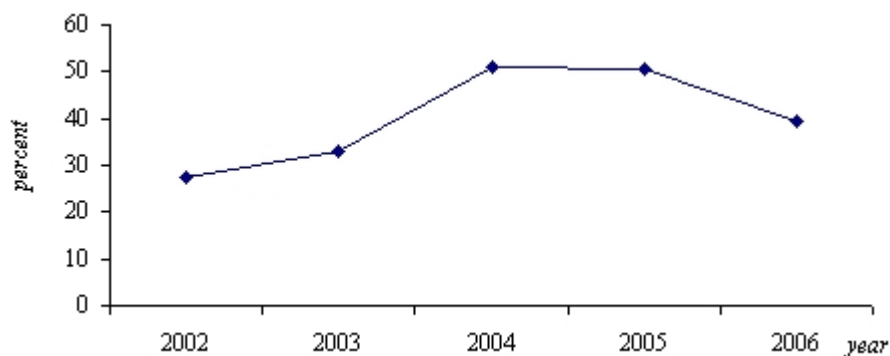


During 2006 commercial banks continued to be active in promoting banking cards, developing the infrastructure for accepting and servicing cards of both domestic and international systems. 15 banks out of operating commercial banks offered acquiring, settlement and cash services with the use of banking cards to their clients. Among them, 7 banks issued international system cards, 5 banks issued domestic system cards, and also 2 banks issued uniform national system cards. Among international card bank issuers, 3 banks were associated members, and 1 bank was a principal participant of the Visa & MasterCard International association.

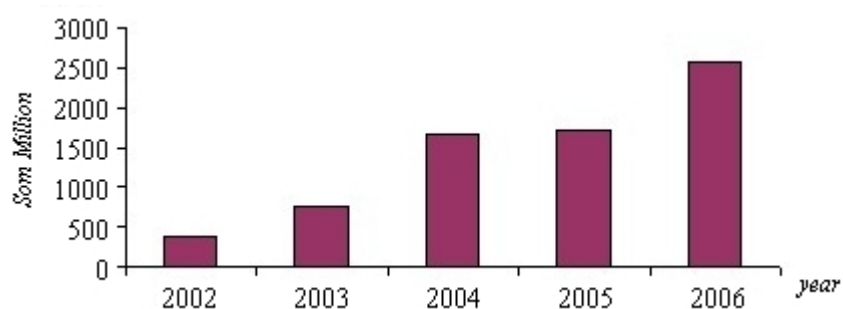
Increase in the number of issued cards and transactions with their use demonstrated an improved activity at the market of banking cards. As compared with 2005 the total number of issued cards in 2006 increased by 48.4 percent and was 33668 payment cards.

As compared with 2005 the aggregate volume of card-based transactions amounted to Som 2559.9 million and increased by 32.8 percent. Transactions conducted through international systems totaled Som 1611.3 million, which was greater by 34.5 percent than in 2005. Transactions conducted through domestic systems amounted to Som 948.6 million, which was greater by 30.0 percent than in 2005.

**Chart 4.1.1.3.**  
**Share of Card-based Transactions in the Total Number of Payments through Interbank Payment Systems**



**Chart 4.1.1.4.**  
**Volume of Card-based Payments**  
*(som million)*



The most preferred transaction among card holders was a cash withdrawal transaction. Transactions on cash withdrawal from payment cards amounted to Som 2380 million, while the volume of card-based transactions in the POS network totaled Som 179.7 million. The ratio of cash transactions and non-cash card-based transactions was 93.0 percent and 7.0 percent, respectively. The volume of payments per card in the POS network, on the average, amounted to Som 5340.0 during the year. Cash amounting to Som 70695.0 was received, on the average, from one card through ATMs and POS terminals. Such ratio of cash and non-cash card-based payments resulted from the underdeveloped infrastructure for their servicing, and also due to the fact that most cards were issued within salary projects. In turn, the increase in the number of salary projects and in terminals servicing domestic

cards, and also the low tariffs for their servicing as compared with international system cards contributed to the growth in the number of payments made by using domestic cards.

In 2006, total of 717170 card-based transactions were conducted, which was greater by 28.0 percent than in 2005. Among them 241864 transactions were made through international systems, which was greater by 30.9 percent than in 2005. Total of 475306 transactions were conducted through domestic systems, which was greater by 26.7 percent than in 2005.

#### **4.1.2. Implementation of the State Program for Payment System Development**

In 2006, NBKR continued its activity on establishing an up-to-date integrated national payment system that would provide a basic infrastructure required for the development of the modern banking system, and would improve efficiency of payment services by contributing to the development of financial intermediation.

Thus, within the framework of implementing the State Program<sup>1</sup> during the year, activities were fulfilled on establishing the technical infrastructure for the payment system of the Kyrgyz Republic and introducing two retail payment systems: Bulk Clearing System and Settlement System for the Uniform National Payment Card.

Bulk Clearing System represents a complex of hardware and software of the clearing center in NBKR and workstations on the side of system participants i.e. commercial banks. The system was put into operation in October 2006 with participation of all commercial banks. The system provided services to banks on centralized processing of bulk clients' payments on the basis of clearing, multilateral netting of all banks' liabilities, which permitted to effectively manage liquidity for conducting payments by banks. The new system was developed in accordance with modern international standards for retail payment systems.

Uniform Interbank Processing Center, a hardware and software complex was put into operation in December 2006 as a result of joint activities performed by NBKR and commercial banks. Uniform Interbank Processing Center is a key element in the uniform national interbank system of non-cash payments with the use of Elcart bank payment cards. Thirteen commercial banks of the Kyrgyz Republic, in six of which Elcart cards were serviced, were participants of the System.

Simultaneously, activities were carried out on implementing a project on establishing the Real Time Gross Settlement System. This system was designed to provide arrangements for transferring large payments with a minimum risk and prompt money transfer techniques connected with activities of financial markets. In 2006, in accordance with the procedures of the World Bank, a tender was conducted and a winner was determined with which a contract was signed subsequently for establishing this system.

In the context of adopting the State Program, fulfillment of the task on development and improvement of the existing legal framework on the payment system became a key component for successful implementation of the payment system modernization projects in the Kyrgyz Republic.

A new wording of the regulation On Bank Payment Cards of the Kyrgyz Republic was developed and approved in view of new market needs in the development of the national settlement system with the use of bank payment cards.

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<sup>1</sup> State Program of Activities for 2003-2008 to introduce a system of non-cash payments and to establish an infrastructure ensuring efficient payment execution in the Kyrgyz Republic (approved by the joint Resolution of the Government of the KR and NBKR N632/26/7 of 30 December 2005).

Rules for Completing Formats of Electronic Payment Document and messages of the Bulk Clearing System for Small Retail and Regular Payments in the Kyrgyz Republic were developed with the objective to provide an appropriate legal framework for successful implementation of the Bulk Clearing System for small retail and regular payments in the Kyrgyz Republic. The instruction on the order and rules for making payments in the Bulk Clearing System were adopted by the General Agreement between participants.

With the objective to supervise the payment system, NBKR developed and approved a Supervisory Policy of the Payment System in the Kyrgyz Republic. This policy defined goals, principles of supervising the payment system of the Kyrgyz republic, entities and a procedure of conducting supervision by NBKR, and also a list of instruments used by NBKR for these purposes. Supervision of operation and compliance with key principles of systemically important payment systems<sup>1</sup> would contribute to ensuring desirable effectiveness of the payment system modernization activities and achieving steady positive trends in its development. From the date of adopting this policy, data was regularly collected according to the set of basic indicators of the payment system operation.

Joint activities along with other activities were regularly carried out with ministries, departments and utility enterprises to fulfill activities on increasing the share of non-cash payments during 2006. Two meetings of the Interministerial Commission<sup>2</sup> were prepared and conducted jointly with the Government of the Kyrgyz Republic to discuss the problems of transferring to non-cash payments in the economy. Following the results of discussions, the decisions were made to enhance measures on transferring to non-cash payments in the economy, closing in-house cash offices of enterprises and organizations that render services to the population, and making payments through accounts in commercial banks.

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<sup>1</sup> Working Group Paper on principles and practical aspects of payments systems of the Committee on payment and settlement systems of the Bank for International Settlements, Basel, Switzerland, January 2001

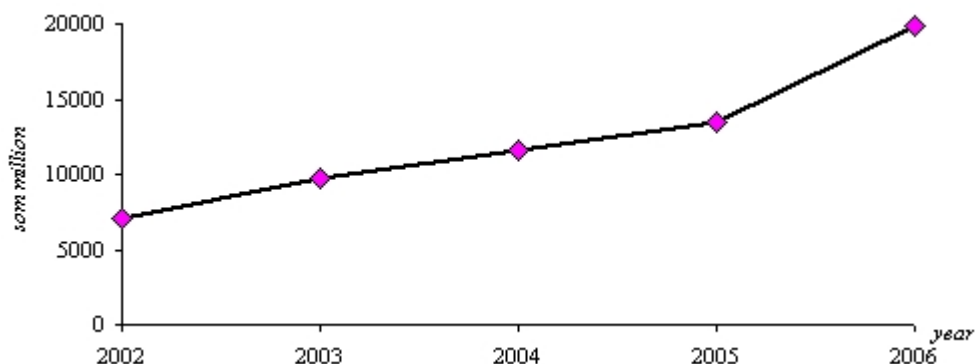
<sup>2</sup> Interministerial commission on implementing main directions of the State Program of Activities for 2003-2008 to introduce the system of non-cash payments in the Kyrgyz Republic was established by a joint resolution of the Government of the Kyrgyz Republic and NBKR N632/26/7 of 30.12.2005. First Vice Prime-Minister is the Chairman of the Commission, representatives of ministries, departments, commercial banks and utility service enterprises are part of this commission.

## 4.2. Currency in Circulation

An important direction in the activity of the National Bank is to meet the needs of the republic's economy in cash, improve the quality and security features of banknotes in a timely manner.

As of end of 2006 the amount of currency in circulation was Som 19910 million and increased by 48.4 percent as compared with the beginning of 2006.

**Chart 4.2.1.**  
Change of Currency in Circulation (as of period end)



At the end of 2006, cash quantity per capita was Som 3982 or US\$ 102 in the Kyrgyz Republic (as an example, in Russia this indicator was Ruble 17407 or US\$ 670).

**Table 4.2.1.**  
Cash Movements through Cash Offices of Commercial Banks by Regions of the Country (for the period)

	Receipt, <i>som million</i>		Disbursement, <i>som million</i>		Recurrency, <i>percent</i>	
	2005	2006	2005	2006	2005	2006
Total	66975	105166	69617	109906	96,2	95,7
Batken Oblast	628	982	1900	2870	33,1	34,2
Jalalabat Oblast	4665	6334	7210	9388	64,7	67,5
Issyk-Kul Oblast	2278	2812	3218	4056	70,8	69,3
Naryn Oblast	605	765	1601	2056	37,8	37,2
Osh Oblast	1090	1528	2846	3436	38,3	44,5
Osh City	9286	13920	7002	12033	132,6	115,7
Talas Oblast	635	881	1448	1836	43,9	48,0
Chui Oblast	3902	5458	3692	5208	105,7	104,8
Bishkek City	43886	72486	40700	69023	107,8	105,0

The National Bank received cash amounting to Som 13608 million and disbursed Som 20099 million during 2006.

In 2006, Som 20021 million was disbursed to commercial banks from cash offices in institutions of the National Bank, which was greater by Som 7138 million or by 1.5 times than in 2005.

In order to ensure timely payment of salaries, pensions, allowances, and other pay-outs, the following was disbursed to commercial banks from cash offices in institutions of the National Bank:

- Som 2058.9 million for payment of salaries to budget-financed organizations;
- Som 2963.5 million for payment of pensions and allowances;
- Som 12911.5 million for other pay-outs;
- Som 2086.6 million for salaries of self-financing organizations.

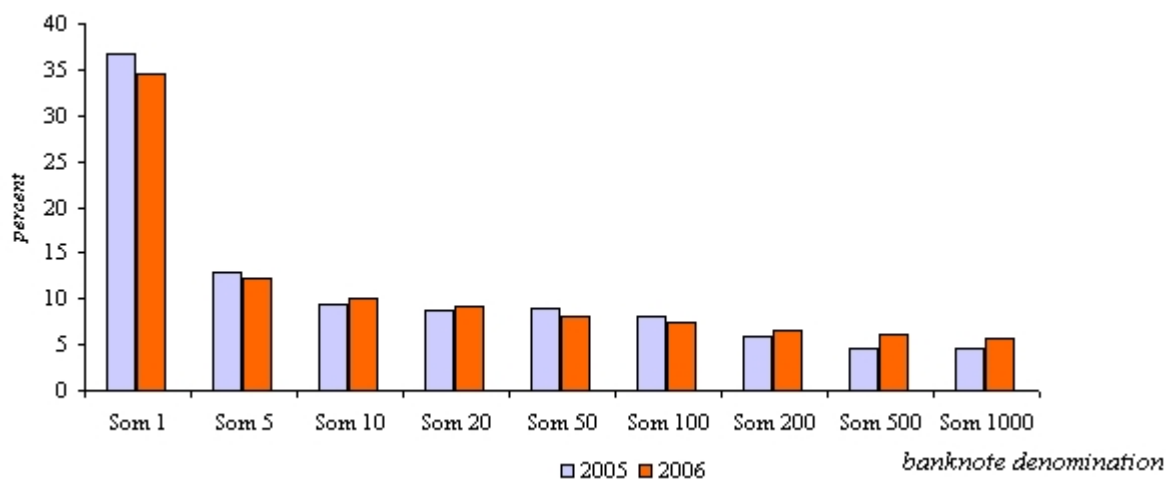
Based on the denomination analysis of money in circulation, the work was carried out to maintain optimal inventory of necessary banknote denominations, damaged banknotes were withdrawn from circulation and terminated, and new banknotes were issued to replace them. Cash offices of the National Bank received damaged currencies amounting to Som 2728 million from commercial banks.

In general, the composition of banknotes in circulation was stable. The largest change was observed in the share of Som 500 banknotes.

**Table 4.2.2.**  
**Denomination Composition of Banknotes in Circulation (in sum as of period end)**  
*(percent)*

Denomination	up to Som 5	Som 10	Som 20	Som 50	Som 100	Som 200	Som 500	Som 1000	Total
2005	1,2	1,0	1,8	4,6	8,2	12,2	23,0	48,0	100,0
2006	0,8	0,9	1,6	3,4	6,5	11,1	26,6	49,1	100,0

**Chart 4.2.2.**  
**Distribution of Banknotes in Circulation by Denomination (as of period end)**



The National Bank conducted activities on further improvement of the legal framework and procedures for organizing currency circulation, and cash activity. Changes and addenda were made to the Interim Instruction On the Procedure of Conducting Cash Transactions in NBKR, the procedure and principles of providing equipment necessary for these transactions were developed.

During 2006 within the framework of activities conducted to inspect the fitness of banknotes for their use as currency, the banknotes amounting to Som 121130 and received by the National Bank according to 548 applications were examined. Out of them the banknotes amounting to Som 60641 were exchanged, and 78 counterfeit banknotes were detected. In the remaining cases of presenting banknotes for expert examination, 50 percent of them was exchanged in the amount of Som 47049.

In 2006, total of 212 counterfeit banknotes amounting to Som 46130 were detected in the country. The National Bank jointly with the law enforcement bodies of the country carried out activities on combating counterfeiting. According to data of the Judicial Department under the Ministry of Justice of the Kyrgyz Republic, courts considered and delivered judgments on 15 criminal cases related to

detection of counterfeit banknotes, and 14 people were sentenced in 2006 on the territory of the republic.

The National Bank conducted four seminars on authenticity features of banknotes for cashiers of credit institutions on the basis of the Bank Training Center.

Within the framework of the annual information and education campaign Som is the Face of Kyrgyzstan, posters were produced in the Kyrgyz and Russian languages containing information about the procedure of exchanging damaged banknotes.

## **CHAPTER 5. EXTERNAL ECONOMIC RELATIONS**

### **5.1. Co-operation with Central Banks**

In 2006, the National Bank of the Kyrgyz Republic continued its co-operation with the central (national) banks from a number of states on issues of implementing technical co-operation projects, advisory assistance, information exchange, improvement of the legal framework, supervision of banking and other finance and credit institutions, and also on issues of exchange of experience and advanced professional training for NBKR personnel.

Co-operation was continued in 2006 on the basis of agreements on bank supervision issues with Central Banks and supervisory authorities of Russia, Republic of Belarus, Ukraine, Kazakhstan, China and Turkey. Within the framework of this co-operation, trainings and internships were conducted for NBKR employees on the issues of early warning system of banking risks, principles of Islamic Finance, counteracting terrorist financing and legalization (money laundering) of proceeds from crime. Further, for purposes of exercising bank supervision functions, NBKR continued cooperating with central banks from the Regional Group on Banking Supervision of Transcaucasia, Central Asia and EAEC of the Basel Committee on Banking Supervision on the issues of implementing core principles for effective banking supervision of the Basel Committee on Banking Supervision.

Within the framework of co-operation with the Central Bank of Russian Federation (CBRF) an internship was organized in the department of issuing and cash transactions of the CBRF on dealing with unfit, counterfeit and doubtful banknotes for purposes of further training of NBKR specialists. NBKR employees also took part in the seminar on problems of organizing work and ensuring security in the central bank.

In accordance with the Technical Assistance Agreement between central (national) banks, Bundesbank specialists conducted seminars for the National Bank personnel on the issues of logistics, currency circulation, information technologies, professional training and monetary policy instruments. During the seminars consultations and materials were obtained on the effective use of the monetary policy instruments, minimization of risks and management of pledge in conducting transactions at the open market.

The activity was started with the Swiss National Bank (SNB) in 2006 on introducing inflationary targeting in NBKR. The activity was continued under a joint research project of NBKR and SNB on Banking Sector Reforms and Interest Rates in Low Income Transition Economies (on the materials of Kyrgyzstan). The first version of this project completed in April 2006 was sent for expert review to international institutions: IMF, WB, EBRD, and also to official reviewers.

In the first quarter of 2006 SNB representatives paid a visit within the framework of a joint research activity. Following the results of the visit, discussions were held and a draft research paper was prepared about the foreign exchange market of Kyrgyzstan. Experts from SNB visited NBKR for purposes of consulting on the issues of generating requirements to the trading systems. Based on the results of the visit, a report and an action plan were prepared to improve the budgeting system of NBKR. Within the framework of the technical assistance, SNB specialists organized a seminar devoted to the experience of the Swiss National Bank in managing its portfolio and risks.

In November 2006, within the framework of arrangements and in accordance with the action plan on co-operation with the People's Bank of China, a delegation of NBKR staff members took part in a final seminar from the series planned by the People's Bank of China on improving the organizational structure of the Bank. Further, during the reporting year a number of internships was organized for the NBKR specialists with the purpose to exchange experience in the areas of the central bank security, information protection and payment system modernization.

Within the framework of the Agreement on co-operation in the area of supervision of credit organizations between central banks, there was an exchange of experience on banking supervision issues between the National Bank of the Republic of Belarus and NBKR. For purposes of enhancing co-operation within the framework of the Eurasian group on counteracting legalization of proceeds from crime and terrorist financing, coordination and information exchange on the issue of combating money laundering through the banking systems of the Republic of Belarus and Kyrgyzstan, NBKR conducts a joint activity with the National Bank of the Republic of Belarus on agreeing upon an appropriate draft Agreement between two banks.

In accordance with the Agreement between the National Bank of the Kyrgyz Republic and the National Bank of Poland, seminars on payment systems of Poland and an internship on international reserve management were organized in October-November of the reporting year.

In the reporting year partnership relations were maintained with a number of training centers of Central (National) Banks of France, England, Austria, the Netherlands, Czech Republic, Italy, Korea, Switzerland, Pakistan, and also of the Bank of Japan, where NBKR employees were trained on the issues of analyzing financial markets, financial legislation, accounting in the central bank, supervision and financial stability, financial programming and policy, legal aspects of international financial organizations, foreign exchange policy of markets, internal audit and control, risk and foreign exchange reserve management, supervision issues, inflationary targeting, payment systems, monetary policy, security and human resource management, small and medium size business financing, and combating money laundering.

In addition, the legal department employees of the Central Bank of Russian Federation underwent internship in the National Bank of the Kyrgyz Republic during the reporting year in accordance with the Agreement on Co-operation in the area of training personnel of central (national) banks of member states of EAEC. In the course of the internship, the employees of CBRF studied banking legislation of the Kyrgyz Republic and familiarized with the law drafting activities of the NBKR.

In accordance with the action plan on implementing main directions of co-operation on cash liquidity issues, a round table on Current issues of currency in circulation was held on the basis of the training center of the Bank of Russia in city of Tula, which was attended by representatives of central (national) banks of EAEC countries and Ukraine. NBKR employees shared their experience on organizing currency in circulation in the Kyrgyz Republic. Information about organization of cash activity in the regions, on the example of the Issyk-Kul Oblast Department of the NBKR, was presented to the round table participants. Also speeches on issues of processing damaged banknotes, assessing efficiency of protective elements and solvency of the national currency banknotes of the Kyrgyz Republic generated the interest of specialists.



## 5.2. Co-operation with International Organizations

In 2006, the National Bank continued its activity on implementing long-term national programs and developing relationships with international financial and non-financial organizations. Within the framework of technical assistance special attention was given to co-operation with international financial institutions in carrying out reforms in the banking sector and in the financial field of the country in general, and also to further payment system modernization. Within the framework of agreements on mutual information exchange, and also in accordance with the requirements of the Special Data Dissemination Standard (SDDS), the National Bank of the Kyrgyz Republic regularly provided general information about the banking system of the country to international financial institutions, international publishing houses, and also to the Bank for International Settlements.

In 2006, within the framework of cooperation between the countries of the Eurasian Economic Community (EAEC), activities were performed in accordance with the approved action plan for central (national) banks of EAEC member states on implementing Main Areas of Cooperation on Issues of Printing Banknotes, Developing Numismatic Market, Issuing Commemorative and Collection Coins, Combating Counterfeiting for 2006-2010. The National Bank of the Kyrgyz Republic developed and approved with central banks of EAEC countries an Agreement On Information Exchange and Exchange of Experience in the Area of Combating Counterfeiting and a program outline for organizing international traveling exhibitions. NBKR specialists took part in the development of techniques for determining main macroeconomic indicators of economic development in EAEC member states.

In the reporting year the National Bank of the Kyrgyz Republic was an organizer of the regular 15-th meeting of the Council of governors of central (national) banks of the EAEC states that was attended by governors and representatives of central (national) banks of the Republic of Belarus, Republic of Kazakhstan, Kyrgyz Republic, Russian Federation, Republic of Tajikistan, Republic of Uzbekistan, and also of the Interstate Bank, Secretariat of EAEC Integration Committee. In the course of the Council's meeting the participants signed the protocol, which completed the legal execution process for joining the Council Agreement by the National Bank of the Republic of Uzbekistan.

The National Bank of the Kyrgyz Republic organized and conducted a seminar on the following topic: Development Strategy for Payment Systems in EAEC countries. The goal of this seminar was to review standards and practices, exchange experience in the area of payment system development and modernization in EAEC member states, and also discuss problems and conceptual issues related to the payment system development strategy. In the course of the seminar, the current condition of the payment system in the Kyrgyz Republic was considered; the issues were discussed on the development of the strategy and on comprehensive planning of the payment system development and reforming. Special attention was given to the role of central (national) banks in reforming the payment system and the securities settlement system. Representatives from central banks of EAEC and abroad participated at the seminar.

NBKR continued its cooperation with the Interstate Bank (ISB) by presenting, on a monthly basis, statistical data on the real and banking sectors, and also on monetary aggregates.

NBKR specialists as part of the working group on developing the perspective program activity and ISB participated in the discussion of issues on further development of the overall payment and settlement system of CIS countries and development of the appropriate legal framework; establishment of the uniform system of money transfers by individuals in national currencies in EAEC member states; cooperation in the area of organizing an integrated foreign exchange market for EAEC member states. Within the framework of activities of the Interstate Foreign Exchange Committee of CIS, NBKR provided information on main indicators describing the status of the banking sector in the country.

In general, as a result of the agreement in the training area between EAEC member states, 62 NBKR employees were trained in Central/National banks of Russia, Belarus, Armenia, Ukraine and Kazakhstan. Training issues included human resource management, records security, electronic flow of documents, activity with an electronic archive, development of the payment system market, organization of internal audit, organization of supervision, currency in circulation, methodology of preparing monetary financial statistics, international accounting standards and international financial reporting standards, and other current issues of the banking activity.

The National Bank of the Kyrgyz Republic jointly with the Government of the Kyrgyz Republic took part in the implementation of the Poverty Reduction and Growth Facility Program (PRGF). The objective of this program for 2005-2007 was to maintain a stable economic growth and further reduction of poverty. The Kyrgyz Republic received next tranches, each amounting to 1.27 million SDR (Special Drawing Rights) in May and November 2006 to support economic programs of the Government of the Kyrgyz Republic for 2005-2007 based on the results of semiannual reviews approved by the Executive Board of the International Monetary Fund (IMF).

The joint mission of the IMF and World Bank (WB) visited the Kyrgyz Republic on October 10-23, 2006 within the framework of the Financial Sector Assessment Program. In the course of the mission's visit, measures were discussed on further development of the country's financial sector in the National Bank and in appropriate ministries and agencies of Kyrgyzstan.

Earlier, on September 5-15, 2005 the IMF mission assessed implementation of Core Principles of the Basel Committee on Banking Supervision in the Kyrgyz Republic. In October 2006 the assessment results were updated in order to reflect actual changes for the past period. The mission noted significant improvements both in the legislative and regulatory framework of NBKR governing activities of banks for the period from September 2005. It was also observed that the bank supervisory practices developed considerably.

For purposes of implementing the Law of the Kyrgyz Republic On Counteracting Terrorist Financing and Legalization (Money Laundering) of Proceeds from Crime effected cooperation with the IMF and Technical Assistance Office of the US Treasury on the issues of counteracting legalization (money laundering) of proceeds from crime and terrorist financing. Within the framework of this collaboration, advisory services were rendered to the National Bank for developing appropriate normative documents.

During the visits of international experts on reforming the payment system, the issues were discussed about managing the project on Payment and Banking System Modernization in the Kyrgyz Republic, coordinating activities between project groups, and also about the process of introducing systems, selecting and using effective management methods and integrating project components; quality control; project monitoring and efficiency control of financial expenses; procurement process systems; risk analysis. Following the results of the activity, reports were presented with comments about the outcomes of the payment system modernization, with recommendations about the short-term and long-term perspective of the payment system development in Kyrgyzstan. Thus, assistance was rendered on project documents' compliance with the World Bank procedures.

NBKR continued its consultations with the World Bank Treasury on Reserves Advisory and Management Program (RAMP) from 2005, the objective of which was to improve international reserve management.

During 2006, NBKR also cooperated with the Asian Development Bank (ADB). According to the arrangements with the final ADB mission under Rural Financial Institutions project, for purposes of strengthening supervisory functions toward credits unions, technical assistance was provided to the

National Bank in the form of consultations, as a result of which a draft manual was developed for supervising credit unions.

Within the framework of the ADB Regional Technical Assistance project, NBKR specialists participated in conducting a research on money transfers made by citizens of Kyrgyzstan working abroad.

Cooperation with the Asian Development Bank continued in 2006 under the Banking Sector and Capital Markets Development Program. The Program objective was to improve the financial sector capacity in order to effectively play its intermediary role. The Program provided for technical assistance to attract consultants and train employees of authorities supervising banking and non-bank financial institutions. Further, within the framework of the Program, advisory services were rendered in developing normative documents on country and market risk management, and also on consolidated supervision. A seminar on operational risk management was conducted and a series of internships were organized for representatives of commercial banks and employees of the supervisory function.

In 2006, cooperation continued with the U.S. Agency for International Development (USAID) within the framework of implementing a three-year program on Economic Reforms in Central Asia that was initiated in 2005. Technical assistance to the banking sector of the Kyrgyz Republic was provided within the framework of this program, including on the issues on further development of the legal framework for banking supervision, preparation of normative documents for regulating activities of the pilot project that provides special Islamic banking products.

USAID also provided advisory services on the development of draft normative acts aimed at preventing unsound and unsafe banking practice, development of criteria for entering the deposit protection system, rehabilitation and restructuring of banks, and so forth. Seminars were conducted on banking supervision fundamentals, IFRS, consolidated supervision and risk management for representatives of commercial banks and employees of the supervisory function. Further, in pursuance of the Decree of the President of the Kyrgyz Republic On Pilot Project for Implementing Principles of Islamic Finance in the Kyrgyz Republic N373 of 12 July 2006, activities were carried out on developing normative and legal acts by taking into account principles of Islamic finance. A seminar was conducted on fundamentals of Islamic banking for the employees of the supervisory function.

In addition, during the reporting period NBKR cooperated with a number of international donor organizations that provide assistance to the microfinance sector (GTZ, UNDP, EBRD, Agency for Community Development and Investments, International Financial Corporation).

FIRST Initiative Company provided an appropriate technical assistance to monitor the implementation of the Medium Term Microfinance Development Strategy in the Kyrgyz Republic for 2006-2010.

## **CHAPTER 6. GENERAL INFORMATION ON ACTIVITIES OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC**

### **6.1. Structure of the National Bank of the Kyrgyz Republic**

The activity on optimizing the organizational chart of the bank, which started in 2005, was continued in the reporting year to ensure stable growth, high quality of its activity, including such stages, as making management decisions, their implementation and follow up control of their execution.

Main directions in the activity on improving the organizational chart of NBKR were as follows:

- Analytical support to the pursued monetary policy and provision of professional growth opportunities to the employees, and realization of their capabilities;
- Improvement of communication between the central office and the regional departments of NBKR;
- Development and improvement of the internal control system.

The Board of the National Bank of the Kyrgyz Republic in its Resolution N21/3 of 26 July 2006 approved the new organizational chart for information systems department. This decision was made in accordance with the perspective plan of the information system development in the National Bank of the Kyrgyz Republic, and also to ensure quality support to projects of the state program of activities for 2005-2008 on introducing the system of non-cash payments. The specified resolution defined the main goal of the information system department: provision of quality and timely services in the area of information technologies to the National Bank of the Kyrgyz Republic. In order to implement this goal the following main objectives were defined:

- Analysis of the information system and its compliance with the bank's needs;
- Development of main areas and of a perspective plan of the information system development in the National Bank of the Kyrgyz Republic in accordance with the bank's development strategy;
- Development and implementation of projects on information system development in the National Bank of the Kyrgyz Republic;
- Maintenance of the information system of the National Bank of the Kyrgyz Republic and its components.

The Board of the National Bank of the Kyrgyz Republic in its Resolution N28/10 of 27 September 2006 established a risk control division (middle-office), the main goal of which was to manage risks in conducting transactions at the financial markets. The main objectives of the risk control division (middle-office) were defined as follows:

- Risk control of transactions concluded at the financial markets;
- Analysis of financial markets, concluded transactions, risks;
- Elaboration of recommendations on improving the procedure of conducting transactions at the financial markets for purposes of ensuring efficiency, soundness and adequacy of the risk management process.

For purposes of quality execution of objectives within the framework of implementing the state program of activities for 2005-2008 on introducing the system of non-cash payments, the Board in its Resolution N35/2 of 14 November 2006 established a division on introducing automated banking information systems within the Accounting and Reporting Department. The main objective of the division was to automate processing of documents and recording of transactions conducted by the National Bank, and introduce modern information technologies of conducting transactions.

As of end of 2006, the organizational chart of NBKR included 25 structural divisions of the central office, 5 regional departments and a representation office of NBKR in Batken Oblast.

Committees and commissions permanently operated in the National Bank of the Kyrgyz Republic. 5 committees, 9 commissions, 8 editorial boards of the National Bank of the Kyrgyz Republic, and also supervisory boards for regulating activities of NBKR’s subsidiaries operated at the end of 2006.

The competitive personnel selection system was successfully implemented in the National Bank. This form of employment proved to be the most effective method of recruiting highly qualified personnel and promoting staff members for purposes of complying with the equal approach. In 2006, regional departments were involved in the competitive personnel selection system.

In 2006, NBKR conducted 26 open and 11 in-house vacancy tenders, 6 vacancy tenders out of them were conducted in regional departments of the National Bank of the Kyrgyz Republic. Vacancy announcements were published in mass media and on NBKR web-site.

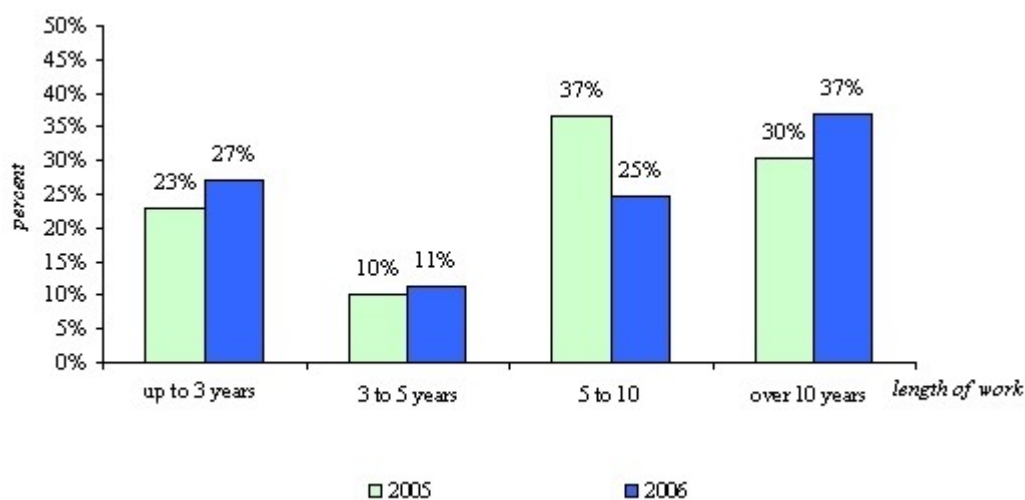
Total of 275 people participated in vacancy tenders. Following the results of conducted vacancy tenders, 51 staff members were employed to the National Bank of the Kyrgyz Republic.

124 students from institutions of higher education underwent internships in structural divisions of the National Bank of the Kyrgyz Republic.

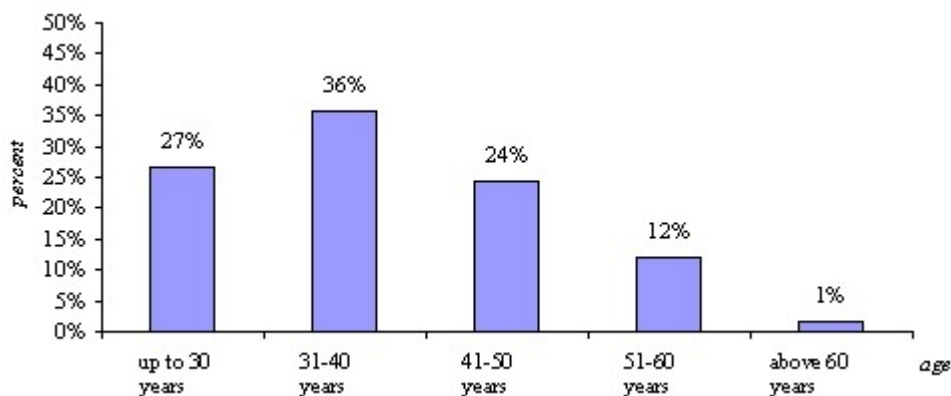
At the end of 2006, the actual number of NBKR employees was 508 people, 423 people out of them worked in the central office, and 85 in regional departments, and in a representation office of NBKR in Batken oblast. The average staffing number of NBKR employees was 574 people, 480 out of them were in the central office, 94 in regional departments of NBKR and in the representation office.

At the same time, the number of specialists was 403 people (344 for the central office, and 59 for regional departments and a representation office). Out of them 94 percent, or 377 people have higher education, 4 have the scientific degree of the candidate of science. Charts 6.1.1, 6.1.2 and 6.1.3 show the personnel structure by years of service, age and education.

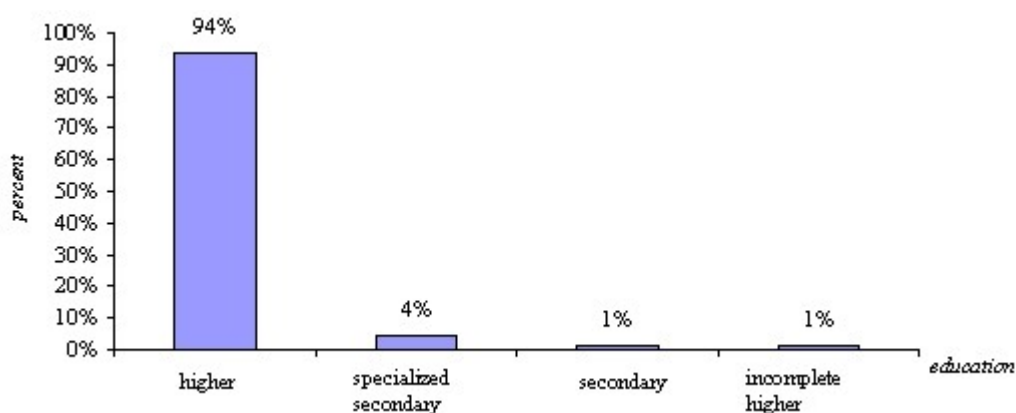
**Chart 6.1.1.**  
**Specialist Composition by Years of Service (as of period end)**



**Chart 6.1.2.**  
**Age Composition of Specialists (at the end of 2006)**



**Chart 6.1.3.**  
**Specialist Composition by Education (at the end of 2006)**



### **Main Functions of Structural Divisions of the National Bank of the Kyrgyz Republic**

Board	a supreme collegial management body of NBKR that defines main directions of its activities. The Chairman of NBKR that heads the Board is appointed by the President of the Kyrgyz Republic with the agreement of the Jogorku Kenesh of the Kyrgyz Republic for seven years. Members of the Board are appointed by the President of the Kyrgyz Republic at the recommendation of the Chairman of the National Bank of the Kyrgyz Republic for the term of seven years.
Economic Department	Develops proposals on the monetary policy and its implementation; conducts analysis in real, financial, fiscal and external sectors of economy.
Foreign Exchange Department	Develops proposals and carries out international reserve management policy of NBKR, analyzes stability of the public debt and monitors its servicing.

Monetary Transactions Department	Assesses and analyzes the situation at the financial markets for purposes of effective coordination of transactions at the open market, carries out transactions at the domestic financial markets.
Economic Research Group	Carries out analytical and research activities, improves the methodology of implementing these activities, participates in scientific and information exchanges.
Banking Supervision Department	Arranges for supervision of banks' activities on their compliance with economic standards, and also with legislation of the Kyrgyz Republic, including normative acts of NBKR.
Supervision Methodology and Licensing Department	Licenses activities of banks, develops and improves the legal framework and supervision methodology regulating commercial banks and other finance and credit institutions licensed by NBKR, and also new areas of the banking system development.
Non-Bank Institutions Supervision Department	Organizes supervision of activities in microfinance organizations, credit unions and other non-bank institutions licensed and regulated by NBKR in accordance with legislation and normative and legal acts.
Payment Systems Department	Develops and implements activities to ensure efficient operation of the payment system, its soundness and safety.
Banking Settlements Department	Ensures uninterrupted operation of interbank settlement systems, participates in implementing projects on modernization of the payment system in the Kyrgyz Republic.
Cash Department	Supports the needs of the republic's economy in cash, organizes currency in circulation, and assists in carrying out activities on combating counterfeiting.
Central Depository	Ensures safety of banknotes, coins and valuables, processes cash and terminates worn money.
Risk Control Division (Middle-Office)	Exercises risk control of transactions concluded at the financial markets, and develops recommendations on improving the procedure of conducting transactions at the financial markets.
Internal Audit Division	Assesses the efficiency of the internal control system and risk

	management in activities of structural divisions.
Legal Division	Provides for comprehensive legal support to activities of NBKR, develops and promulgates banking legislation.
External and Public Relations Divisions	Informs the public about goals, objectives, functions and performance of NBKR, supports cooperation with foreign central banks, international organizations and mass media.
Personnel Division	Selects and allocates personnel, arranges trainings and retrain employees, develops and introduces tools to motivate employees to work efficiently.
Financial Division	Plans and controls current financial activity of NBKR.
Accounting and Reporting Department	Records transactions and prepares financial statements of NBKR, develops documents regulating bookkeeping in the bank, exercises internal control of accounting transactions and carries out activities on introducing modern information technologies on conducting transactions.
Project Implementation Division	Develops and efficiently implements projects of international financial organizations with participation of NBKR.
Information Systems Department	Analyzes the information system and ensures its adequacy to the needs of the National Bank of the Kyrgyz Republic, elaborates and implements information system development projects, and also its maintenance.
General Office	Ensures efficiency in the system of documents flow and records management in NBKR, including follow-up control. Controls compliance with rules and norms of the Kyrgyz language in records management.
Board Secretariat	Provides for organizational support to the work of NBKR Board.
Security and Information Protection Department	Ensures security of activities of the National Bank of the Kyrgyz Republic.



Logistics  
Department

Logistical support and provision of transportation, servicing of buildings and constructions.

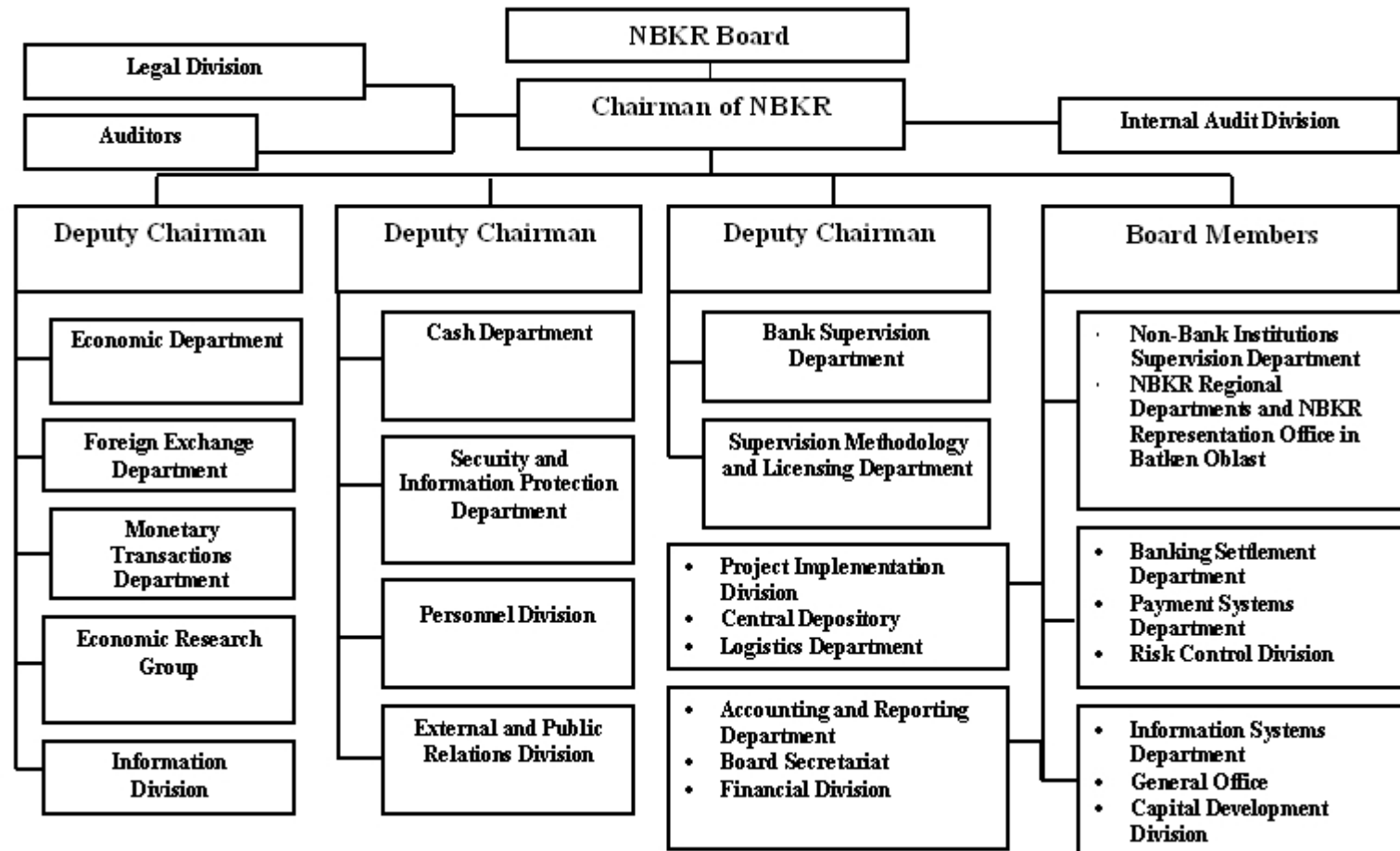
Capital  
Development  
Division

Organizes capital construction and reconstruction of buildings and constructions of NBKR.

Regional  
Departments and  
Representation  
Offices

Supply cash to the regions of the republic, participate in supervisory activities.

Organizational Chart of the National Bank of the Kyrgyz Republic at the end of 2006



## **6.2. Activities of the Board of the National Bank of the Kyrgyz Republic in 2006**

In accordance with the Law On the National Bank of the Kyrgyz Republic, the Board is the highest management body of the National Bank, and approves main directions of its activity. The Board is a collegial body. The President of the Kyrgyz Republic appoints the Board Members at the recommendation of the Chairman of NBKR for the term of seven years.

The Board considers and determines the monetary policy, normative acts, annual report, the procedure of issuing new specimen and denominations of currency, and the procedure for withdrawal of banknotes and coins from circulation. In accordance with the bylaws of the Board of the National Bank, the Board also considers issues referred to its terms of references such as the following: extension of last instance loans, issuance, revocation or suspension of the banking license, initiation of the bankruptcy process and application of bankruptcy procedures, introduction of temporary administration and other issues.

During the reporting period the activities of the Board of the National Bank were carried out in accordance with the approved annual and quarterly activity plans. 44 meetings of NBKR Board were held, 308 issues were considered on which 190 resolutions were adopted in 2006.

Based on analysis of the current condition in the monetary area and development forecast in the real, fiscal and external sectors, and also in view of structural reforms that are carried out in the country, annually NBKR Board adopts the Statement on the monetary policy for the upcoming year, where officially announces the target inflation rate and interim quantitative benchmarks. Attainment of interim monetary policy benchmarks is regularly monitored. On a quarterly basis, NBKR Board considers the monetary policy report that provides outcomes and trends in monetary indicators, and the analysis of the economy development results. In case if the effect of external and internal factors leads to inability to meet set target indicators, NBKR Board may review them. Various instruments, the strategic selection of which is assigned to NBKR Board, are used for effective implementation of the monetary policy.

At the end of the reporting year NBKR Board approved the document on Main Directions of the Monetary Policy for 2007-2009, which defined main and interim goals of NBKR monetary policy for the medium term period, indicated principles of implementing the monetary policy and monetary program versions, prepared on the basis of various economic development scenarios in the country.

In accordance with the Law of the Kyrgyz Republic On the National Bank of the Kyrgyz Republic, international reserves were managed by ensuring liquidity and security of reserve assets. The Board of the National Bank defined general goals and principles of international reserve management, investment strategy, approved regulatory normative documents. In 2006, NBKR Board approved the regulation On the Benchmark International Reserve Portfolio of the National Bank of the Kyrgyz Republic for 2007 that defined the set of instruments and the maximum term of the investment portfolio. The regulation On International Reserve Structure was approved, on a quarterly basis, to determine the structure of international reserves and the set of the working asset instruments. These regulations minimized risks and took into account the composition of liabilities of NBKR and of the Government of the Kyrgyz Republic, monetary and other transactions of NBKR, development forecast of the world financial markets. In 2006, NBKR Board approved the Report on International Reserve Management for 2005. Total of 17 resolutions were adopted on the monetary policy issues in 2006.

In the reporting year the Board paid great attention to the issues of the banking system development and strengthening in the country. NBKR Board considered issues relating to supervision and regulation of activities in commercial banks. Special attention was given to the development trends and results of current activities of the banking sector, financial stability and improvement of confidence in banks,

monitoring of systemic risks, compliance of the current situation with business strategies of development of commercial banks for the medium-term perspective, improvement of the legal framework for banking supervision and regulation.

In May 2006 the Banking Sector Development Strategy for the period until 2008 was considered and approved by NBKR Board in its meeting. In addition, during 2006 NBKR Board considered appeals received from commercial banks on the issues connected with application of prudential enforcement measures against the latter.

Overall for the reporting year 28 resolutions were adopted on the issues of activities of individual commercial banks and institutions licensed by NBKR. Also the Board adopted 36 resolutions about the legal framework regulating activities of commercial banks.

Improvement of the legal framework for banking supervision and regulation in the reporting year was directed to improve its effectiveness, develop the banking system of the Kyrgyz Republic, and to harmonize banking supervision in the Kyrgyz Republic with international standards. Special emphasis was laid on the issues of establishing adequate risk management system for mitigating risks inherent in banking activity, and also on implementing Core Principles of the Basel Committee on Banking Supervision aimed at improving effectiveness of banking supervision, developing corporate governance in banks, improving transparency of the banking system, preventing transactions on legalization (money laundering) proceeds from crime.

For purposes of improving stability and effectiveness of the banking system, enhancing internal management systems by commercial banks, the Board approved normative acts, which set minimum requirements to market and country risk management in commercial banks and other finance and credit institutions licensed by NBKR. These normative acts served as an additional guidance for commercial banks and other finance and credit institutions of the Kyrgyz Republic in regard to minimum requirements to policies, procedures and internal controls with the objective to comply with market and country risk management standards set forth by the regulation On Minimum Requirements to Risk Management in Banks of the Kyrgyz Republic. Also, within the framework of harmonizing the legal framework on banking supervision with changes and addenda to the Law On Banks and Banking Activity in the Kyrgyz Republic, and with the Basel Principles on Banking Supervision, the Board adopted the regulation On Licensing Activities of Banks, which set forth requirements, execution of which was mandatory in establishing bank holding companies and banking groups.

Within the framework of implementing the Memorandum on Understanding between the Kyrgyz Republic, the Islamic Development Bank and OJSC Ecobank on implementing principles of Islamic Finance and Banking in the Kyrgyz Republic, and the Decree of the President of the Kyrgyz Republic On Pilot Project of Implementing Principles of Islamic Finance in Kyrgyzstan, in 2006 NBKR Board approved draft Laws of the Kyrgyz Republic On Banking Transactions and Operations Based on Principles of Islamic Finance, On Introducing Changes and Addenda to the Civil Code, On Introducing Changes and Addenda to the Law On Banks and Banking Activity in the Kyrgyz Republic, On Licensing, and adopted a number of resolutions that determine regulatory requirements to activities of OJSC Ecobank within the framework of carrying out the pilot project on implementing principles of Islamic Finance in the Kyrgyz Republic.

For purposes of ensuring access to the banking services by the population of remote regions, peasant and farm enterprises, and also in pursuance of the assignment from the President of the Kyrgyz Republic, on 27 December 2006 the license was issued to Ayil Bank, which was established on the basis of KAFC. With the same objective the license was expanded to OJSC SSC in the part of providing microcredits and wholesale loans to FCIs for further financing of borrowers' projects. Moreover, within the framework of measures on carrying out the pilot project on implementing the principles of Islamic Finance and Banking in the Kyrgyz Republic, in December 2006 NBKR issued

an addendum to the license of OJSC Ecobank that permitted to perform transactions in accordance with the principles of Islamic Finance.

For purposes of ensuring access to credit resources by the population, changes and addenda were made in the part of expanding activities of cash collection offices and providing them with the possibility to issue loans that meet the criteria of loans to which a special classification applied (for example, microcredits under the EBRD line). As a result, commercial banks opened 77 cash collection offices and registered 4 branches in various regions during 2006.

During the reporting year NBKR also carried out activities on reviewing the legal framework for non-bank finance and credit institutions. Thus, NBKR Board approved a number of normative acts targeted to ease and simplify regulatory and supervisory regime for credit unions, harmonize NBKR normative and legal acts with provisions of Laws of the Kyrgyz Republic On Microfinance Organizations and On Counteracting Terrorist Financing and Legalization (Money Laundering) of Proceeds from Crime. These normative acts governed issues of organizing activities on counteracting terrorist financing by non-bank institutions, their responsibility and cooperation with the authorized body on counteracting terrorist financing and legalization (money laundering) of proceeds from crime, i.e. the Financial Intelligence Service.

For purposes of fulfilling objectives of the Medium-Term Microfinance Development Strategy in the Kyrgyz Republic for 2006-2010, NBKR Board approved new wordings of regulations On Licensing Activities of Microfinance Companies on the Territory of the Kyrgyz Republic and On Credit Classification in Credit Unions.

Functions of NBKR in the payment system area were considered to be priority ones. According to Article 3 of the Law of the Kyrgyz Republic On the National Bank of the Kyrgyz Republic, fulfillment of these functions is aimed at executing one of the main objectives of NBKR that is to ensure effective and uninterrupted operation of the payment system.

By assuming leadership in developing the policy on the general structure and practical activities of the payment system in the Kyrgyz Republic, the Board of the National Bank carried out activities on regulating the payment system in the Kyrgyz Republic. During 2006 NBKR Board adopted the following resolutions: On Draft Joint Resolution of the Government of the Kyrgyz Republic and NBKR On Payment of Salaries to Employees of Ministries, State Committees and Administrative Agencies of the Kyrgyz Republic through Accounts in Commercial Banks with the objective to stimulate the transfer to the payment of salaries in non-cash form, On the New Wording of the Regulation On Banking Payment Cards of the Kyrgyz Republic that was developed in view of the new market needs in developing the republican settlement system with the use of bank payment cards, On Draft Resolution of the Government of the Kyrgyz Republic On Strengthening Measures on Transferring to Non-Cash Payments in the Economy of the Kyrgyz Republic with the objective to accelerate the processes of transferring to non-cash payments, On Approval of the Supervisory Policy for the Payment System in the Kyrgyz Republic, On Approval of Rules for Completing Formats of Electronic Payment Documents and messages of the Bulk Clearing System for Small Retail and Regular Payments in the Kyrgyz Republic with the objective to provide an appropriate methodological base for successful implementation of the Bulk Clearing System for small and regular payments in the Kyrgyz Republic. Supervision of the payment system was the area of government activities, which was aimed, in the first place, at assisting in sound and efficient operation of the payment system, and in minimizing systemic risk to ensure financial stability.

Twice during 2006 NBKR Board considered the progress in carrying out projects of the State program of activities for 2003-2008 on introduction of non-cash payment system and creation of the infrastructure capable of ensuring efficient payment processing in the Kyrgyz Republic, and also

reviewed quarterly reports on the current condition of the payment and settlement systems. Total of 9 resolutions were adopted on the payment system issues.

Also the Board considered general issues and issues about internal organization of NBKR's activities. 25 resolutions were adopted on the issues of NBKR legal framework and 63 resolutions on NBKR internal activities. The Board considered other issues as information messages.

### **6.3. Improving Banking Legislation and Executing Functions of the Financial Advisor**

In 2006, the National Bank continued its activity on improving and developing banking legislation of the Kyrgyz Republic.

During the reporting year the Law On Counteracting Terrorist Financing and Legalization (Money Laundering) of Proceeds from Crime, which was earlier developed by the National Bank of the Kyrgyz Republic, was adopted and came into force.

For purposes of implementing principles of Islamic Finance and Banking in the Kyrgyz Republic that permit to create conditions for developing economic legal relations and alternative funding systems, in pursuance of the Decree of the President of the Kyrgyz Republic N373 of 12 July 2006 On the Pilot Project of Implementing Principles of Islamic Finance in the Kyrgyz Republic, the National Bank developed a draft Law On Banking Transactions and Operations Based on Islamic Principles of Finance. The draft law was sent for approval to ministries and agencies of the country.

The work was continued over the draft Law of the Kyrgyz Republic On Introducing Changes and Addenda to Some Legislative Acts of the Kyrgyz Republic in order to remove available inconsistencies in legislation and harmonize it with the Basel Principles. The draft provided for introducing changes and addenda to the Civil Code of the Kyrgyz Republic, Civil Code of Procedure of the Kyrgyz Republic, Labor Code of the Kyrgyz Republic, Code of the Kyrgyz Republic on Administrative Liability, Criminal Code of the Kyrgyz Republic, to Laws of the Kyrgyz Republic On Joint Stock Companies, On Banks and Banking Activity, On Banking Secrecy. The draft law was sent for consideration to the Jogorku Kenesh of the Kyrgyz Republic.

The work was continued on the draft law On Introducing Changes and Addenda to Some Legislative Acts of the Kyrgyz Republic that envisaged amendments to the Civil and Customs Codes of the Kyrgyz Republic, and to the Law On the National Bank of the Kyrgyz Republic. This draft law was directed at removing discrepancies in determining the legal status of the National Bank of the Kyrgyz Republic. The draft law was sent for consideration to the Jogorku Kenesh of the Kyrgyz Republic.

Draft laws developed by the National Bank were regularly placed on the official web-site of the National Bank of the Kyrgyz Republic for public discussion.

The National Bank took part in the work of interministerial groups on the following areas:

- Development of a funded pension system model;
- Development of normative legal acts related with the transfer to payment of salaries to employees of ministries, state committees and administrative agencies of the Kyrgyz Republic through accounts in commercial banks;
- Development of normative legal acts connected with implementation of principles of Islamic Finance in the Kyrgyz Republic;
- Elaboration of normative legal acts on mortgage development.

In 2006, a joint resolution of the Government of the Kyrgyz Republic and of the National Bank of the Kyrgyz Republic N45/36/6 of 27 January 2006 On the Payment of Salaries to Employees of Ministries, State Committees and Administrative Agencies of the Kyrgyz Republic through Accounts in Commercial Banks and a resolution of the Government of the Kyrgyz Republic N718 of 4 October 2006 On Strengthening Measures on Transferring to Non-Cash Payments in the Economy of the Kyrgyz Republic were approved for purposes of stimulating the transfer to the payment of salaries in non-cash form and accelerating transition to non-cash payments.

For purposes of improving the legal framework regulating the banking card market, and in accordance with activities on introducing the Uniform Interbank Processing Center aimed at developing the market of retail and regular card based non-cash payments, the Board of the National Bank of the Kyrgyz Republic adopted a resolution On Approval of the Draft Regulation On Banking Payment Cards in the Kyrgyz Republic N28/12 of 27 September 2006. This regulation governed relations of participants in banking payment card-based settlement systems, defined the procedure of issuing and acquiring cards, the procedure of issuing pre-paid cards, and also the rules for conducting transactions and card-based non-cash payments in the Kyrgyz Republic.

In 2006, the National Bank continued its activity on improving the legal framework regulating activities of banks, other finance and credit institutions licensed by the National Bank of the Kyrgyz Republic.

For purposes of improving the legal framework governing activities of banks and other finance and credit institutions licensed and regulated by the National Bank of the Kyrgyz Republic, the following resolutions were adopted:

- On approval of the regulation on minimum qualification requirements to officials of microfinance companies licensed by the National Bank of the Kyrgyz Republic (Resolution of the Board of the National Bank of the Kyrgyz Republic N4/2 of 8 February 2006);
- On approval of the regulation on licensing activities of banks (Resolution of the Board of the National Bank of the Kyrgyz Republic N5/7 of 2 March 2006);
- On approval of the regulation on minimum requirements to the internal control system in commercial banks and other finance and credit institutions licensed by NBKR for purposes of counteracting legalization (money laundering) of proceeds from crime and terrorist financing (Resolution of the Board of the National Bank of the Kyrgyz Republic N5/9 of 2 March 2006);
- On approval of rules for completing formats of electronic payment documents and messages of the Bulk Clearing System for Small Retail and Regular Payments in the Kyrgyz Republic (Resolution of the Board of the National Bank of the Kyrgyz Republic N5/10 of 2 March 2006);
- On approval of the regulation on enforcement measures applied to credit unions (Resolution of the Board of the National Bank of the Kyrgyz Republic N7/5 of 23 March 2006);
- On approval of the new wording of the regulation on credit classification in credit unions (Resolution of the Board of the National Bank of the Kyrgyz Republic N10/6 of 12 April 2006);
- On approval of the interim regulation on licensing savings and loan cash offices, housing and construction cash offices (Resolution of the Board of the National Bank of the Kyrgyz Republic N15/4 of 25 May 2006);
- On approval of the interim regulation on savings and loan, housing and construction cash offices (Resolution of the Board of the National Bank of the Kyrgyz Republic N25/3 of 6 September 2006);
- On approval of the regulation on minimum requirements to market risk management in commercial banks and other finance and credit institutions licensed by the National Bank of the Kyrgyz Republic (Resolution of the Board of the National Bank of the Kyrgyz Republic N 19/2 of 28 June 2006);
- On approval of the regulation on minimum requirements to country risk management in commercial banks and other finance and credit institutions licensed by the National Bank of the Kyrgyz Republic (Resolution of the Board of the National Bank of the Kyrgyz Republic N 19/3 of 28 June 2006);



- On the regulation on implementation of principles of Islamic Finance in the Kyrgyz Republic within the framework of the pilot project (Resolution of the Board of the National Bank of the Kyrgyz Republic N 32/2 of 30 October 2006) and others.

In the reporting year the work was continued with the Ministry of Justice of the Kyrgyz Republic on registering normative legal acts of NBKR, fulfilling separate paragraphs in the plan of law drafting activities of the Government of the Kyrgyz Republic, and examining draft normative acts, constituent documents of finance and credit institutions licensed by NBKR. The National Bank representatives took part in the work of the Interministerial Commission on inventory taking of normative legal acts of the Ministry of Justice of the Kyrgyz Republic, on removing inconsistencies and annulling outdated normative acts.

Draft normative legal acts being developed by executive authorities and affecting the banking and financial system of the Kyrgyz Republic were examined within the framework of requirements of the Law On the National Bank of the Kyrgyz Republic. Thus, in the reporting year the following draft laws were examined: On Mortgage Securities, On Securities Market, On the Procedure of Inspecting Business Entities, On State Support of Small Businesses, On the Development Fund of the Kyrgyz Republic, On Amnesty in Connection with Legalization of Income and Property, On Introducing Changes and Addenda to Some Legislative Acts of the Kyrgyz Republic (to the Tax Code of the Kyrgyz Republic, to Laws On the Notary Office, On Pledge and On State Registration of Title to Immovable Property and Transactions with It), On the Republican Budget of the Kyrgyz Republic for 2007 and other draft laws were sent for approval and examination to the National Bank of the Kyrgyz Republic.

In 2006, the National Bank of the Kyrgyz Republic examined and prepared proposals on a number of draft resolutions of the Government of the Kyrgyz Republic: On Shadow Economy Legalization Program in the Kyrgyz Republic for 2007-2010, On Economic Forecast for 2007, On the Payment of Matching Contributions to International Organizations and Integration Unions Within the Framework of the CIS in 2006, On the Plan of Activities of the Government of the Kyrgyz Republic on Strengthening of the Legal Framework for Mortgage Lending and Use of Pledge, On Approval of the National Housing Construction Program in the Kyrgyz Republic until 2010 and other drafts.

In 2006, the National Bank within the framework of fulfilling its functions of the financial advisor to the President of the Kyrgyz Republic, Jogorku Kenesh of the Kyrgyz Republic and Government of the Kyrgyz Republic, performed the following activities:

- Regularly informed the President of the Kyrgyz Republic, Jogorku Kenesh of the Kyrgyz Republic and the Government of the Kyrgyz Republic on implementation of the monetary policy, on the status of the banking system, on the status of the payment system in the Kyrgyz Republic;
- Provided analytical information about the situation at the financial market of the Kyrgyz Republic;
- Examined draft laws and other normative and legal acts, decisions affecting financial and banking issues, or the jurisdiction of the National Bank of the Kyrgyz Republic;
- Took part in developing a number of state programs;
- Made a presentation on the topic of International Reserve Management of NBKR.

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

- Draft agreement between the Slovak Republic and the Kyrgyz Republic On Investment Promotion and Protection;
- Draft agreement On Investment Promotion and Protection between the Government of the Kyrgyz Republic and the Economic Union of Belgium-Luxembourg;
- Draft agreement On Investment Promotion and Protection in Member States of the EAEC;
- Draft agreement On Cooperation in Organizing the Integrated Foreign Exchange Market for Member States of the Eurasian Economic Community;
- Draft agreement On Underlying Policy Principles of the EAEC Member States in Foreign Exchange Regulation and Foreign Exchange Control;
- Draft agreement On Using Special Requirements to Consolidated Supervision Procedures in Member States of Shanghai Cooperation Organization, on Information Exchange and Cooperation between Their Financial Market and Financial Supervision Regulatory Authorities, and also other draft agreements, and other documents developed within the framework of the CIS, EAEC, SCO and other international organizations, where the Kyrgyz Republic is a member.

The National Bank of the Kyrgyz Republic, as a financial agent of the Government of the Kyrgyz Republic, continued its activities on servicing accounts of the Government of the Kyrgyz Republic.

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

Internal audit of NBKR performed by the internal audit service was an integral part of the internal control system that operated in accordance with Standards on Internal Audit Professional Practice.

Principles recommended by the Basel Committee on Banking Supervision created a foundation for organizing internal control system.

NBKR internal control system represented a set of activities, which was based on approved normative legal acts aimed at achieving the following:

- Fulfilling goals and objectives;
- Complying with requirements of legislation and normative acts, and also with internal policies and procedures of NBKR, execution of plans;
- Proper protection of assets;
- Timely identification, assessment, taking measures on minimizing risks by taking into account the monitoring of risks;
- Reliability and integrity of information;
- Conservation and effective use of resources.

Internal control system, being part of NBKR management process, continued to develop dynamically in accordance with the requirements of the Internal Control Policy in NBKR and a Risk Management Concept.

Audits, being part of internal controls, were performed in the National Bank in accordance with the approved annual plan based on the results of assessing operational risks. Following the results of audits conducted in 2006, 75 recommendations were given that were aimed at improving activities of structural divisions. Recommendations of internal auditors accepted for execution by NBKR structural divisions permitted to improve the effectiveness of the internal control system.

The Risk Committee of NBKR carried out its activities for purposes of assessing and minimizing risks, including classification of existing risks.

In connection with establishing of the Audit Committee in the National Bank, normative documents were developed relating to its activities.

For purposes of improving the mechanism of selecting an external auditor for reviewing financial statements of NBKR, the National Bank jointly with the Budget and Finance Committee of the Jogorku Kenesh of the Kyrgyz Republic developed and adopted a normative act on the Procedure of Interaction of the National Bank of the Kyrgyz Republic with the Jogorku Kenesh of the Kyrgyz Republic for Preparing to the Approval of the External Auditor for Reviewing Financial Statements of NBKR. The general procedure of interaction between the Jogorku Kenesh of the Kyrgyz Republic and NBKR was determined according to this act. In particular, a rule was introduced that external audit of financial statements could not be conducted by the same audit firm more than two times in succession.

In the reporting year, cooperation was continued with internal audit services of central banks from CIS and Baltic states. Annual consultative meetings were held within the framework of this cooperation on improving audit methodology and developing risk management. Chairmanship in the Consultative Council of Internal Audit Services of Central Banks from CIS and Baltic States for 2006-2007 was transferred to the National Bank of the Kyrgyz Republic.

## **6.5. Information Dissemination to the Public**

For purposes of implementing the principle of transparency and accountability, the work on disseminating information to the public about activities of the National Bank of the Kyrgyz Republic was continued in 2006.

This goal was fulfilled by publishing its own editions of informational, statistical and analytical nature, through NBKR web-site, publications in mass media, organization of regular broadcasts and radio transmissions, information and educational programs.

In the reporting year, in addition to the main issues of the monetary policy, when informing the public attention was given to such priority areas in NBKR activities as implementation of the State Program on introducing the system of non-cash payments, development of the banking sector and microfinance.

Issues of the monetary policy pursued by the National Bank were disclosed in analytical reviews and comments, which were subsequently placed on web-sites of leading information agencies, on the page of periodicals in the Kyrgyz and Russian languages; detailed comments of NBKR employees on these and other issues relating to the terms of references of NBKR, were given for coverage in the broadcast National Bank Informs in the Russian language and in the radio transmission Uluttuk Bank Bildiret at the State Radio Channel in the Kyrgyz language on a weekly basis. The practice of conducting traditional monthly press conferences was continued with participation of NBKR management with the report on completed activities, on trends at the local and world financial markets, situation in the banking system. In 2006, 11 press conferences were held with participation of the Chairman about the results of the monetary policy. In addition, the management of the National Bank took part in press conferences and seminars organized jointly with other state bodies and international financial institutions. In the course of such activities, fiscal policy, economic planning, coordination of donor assistance, measures required to ensure economic growth and poverty reduction, reduction of external debt were discussed with participants representing the Jogorku Kenesh, mass media, NGOs, students, small and medium size business, local government bodies.

The banking system development strategy was approved in August 2006 after prior discussions of the National Bank with commercial banks, Association of Banks of Kyrgyzstan, ministries and agencies, Coordination Council on Macroeconomic and Investment Policy under the Government of the Kyrgyz Republic. This event was the headline in mass media, and the wording of the strategy was placed on NBKR's web-site. The issues of the banking sector development, which included implementation of the deposit protection system, issues of counteracting terrorist financing and legalization (money laundering) of proceeds from crime, were disclosed in publications on the pages of newspapers and web-sites of leading information agencies, in responses to requests from mass media.

In order to present the Medium-Term Microfinance Development Strategy in the Kyrgyz Republic for 2006-2010, regional departments of NBKR jointly with local government bodies held meetings and field seminars, in the course of which the goals and objectives of this strategy were explained to the participants. More than 3.5 thousand people representing regional and raion State Administrations, Social fund, State Tax Inspection, State Register, and also heads of village councils, managers of microfinance organizations, and village inhabitants took part in these activities.

For purposes of informing population and participants of credit unions about measures taken to soften requirements to credit unions, a live broadcast was held in March 2006 at the state television channel with participation of specialists of the National Bank, GTZ project on Rural Financial System, Alliance of Associations of Credit Unions.

In the course of the explanatory work, participants received answers to their questions relating to the terms of lending to agriculture, the procedure of establishing microfinance organizations, reducing

interest rates of loans, improving the legal framework, developing housing finance, providing land pledge, and also return on banking investments and perspectives of microfinance development. Responses to questions, which were received in the course of field seminars and live broadcast, were published in print media under the heading Public Chamber of NBKR Responds to Your Questions, synchronized in broadcasts and radio transmissions.

During the entire year the problems and perspectives of the payment system, development of non-cash payments in the republic were discussed in mass media. Mass media representatives were invited to the meetings of the Interministerial Commission on implementing the State program, took part in the international round table on the Payment System Development Strategy in EAEC countries that was held in Issyk-Kul in August 2006. For purposes of ensuring equal access to the round table materials, speeches and presentations of participants were placed on NBKR web-site under the section of International Seminars and Conferences.

The current condition of the payment system in regions and measures on the transfer to non-cash payments were discussed in the course of seminars conducted by regional departments of NBKR in Naryn, Talas and Issyk-Kul. Explanations about the use of payment cards, and also practical advice on the transfer of funds were given in a special information edition of Techniques for Transferring Funds, which was disseminated at the utility service enterprises, migration service, among participants of seminars conducted by the National Bank, and also handed to citizens that applied for consultations to the Public Chamber of NBKR.

Activities of the Public Chamber, which operated in each regional department and in a representative office of the Bank, were an integral part of the work on ensuring communication of the National Bank with the population. The Public Chamber of NBKR registered 523 written applications during 2006. 50 applications out of them were sent for consideration to the National Bank by the Jogorku Kenesh (6), Administration of the President (15), Office of the Prime-Minister (29).

For all applications and requests NBKR specialists prepared and sent responses on the following issues: regulation of activities in commercial banks and non-bank finance and credit institutions, the procedure of obtaining, or repaying banking loans through commercial banks of the Kyrgyz Republic, return of deposits in bankrupt banks, explanations of banking legislation and services rendered by commercial banks, and also inability to provide sponsor and material support by the National Bank that was stipulated by legislation of the Kyrgyz Republic.

In addition, in accordance with requests from citizens, information and consultations were provided about the official exchange rate and NBKR discount rate; security features of Som; the procedure of exchanging damaged banknotes and acquisition of souvenir coins and national currency banknotes; the procedure of exchanging cash foreign currency; concerning NBKR editions; on operation of NBKR web-site, on the procedure of receiving and sending money transfers, obtaining and repaying a mortgage loan and other services rendered by commercial banks; on establishment of microfinance organizations. According to information from regional departments about 800 oral requests were received during 2006, and the number of telephone requests was more than 4.5 thousand calls in Bishkek.

Within the framework of information dissemination activity of NBKR, traditional seminars were continued in 2006 on the following topic: Role and Functions of NBKR as the Central Bank. 128 people took part in the seminar from among lecturers and students from departments of economics in institutions of higher education; an introductory excursion to the numismatic exposition on History and Culture of the National Currency was conducted for students.

Som is the Face of Kyrgyzstan, a traditional information and educational campaign was continued, in which regional departments of the National Bank and a representative office in Batken oblast took an

active part. NBKR employees delivered lectures devoted to careful treatment of the national currency, on security elements and portrait images on banknotes of Som, gave explanations about the role and functions of the Bank of Kyrgyzstan in pursuing the money policy; conducted the best composition contests on specified topics for students of educational institutions in the republic. The best essay contest on the topic of the Banking System and Ways of Its Development was conducted among students of higher and specialized secondary educational institutions in Naryn Oblast. There were 14 essays in the contest and the best of them were awarded with diplomas and prizes.

A contest was conducted jointly with the Ministry of Education, Science and Youth Policy, and with the Kyrgyz Academy of Education with a view to develop the methods of teaching lessons on economics by using advanced teaching methods for students of 10-11 grades of secondary schools. The Interministerial Contest Commission considered 25 works. Following the results of the contest, a decision was made not to award prizes. Thank you letters were sent to all contest participants and official editions of NBKR were presented as an incentive.

In 2006, the Central Bank continued its activity on explaining and classifying the banking terminology in the state language. Terms used in the internal audit activity and in conducting monetary transactions, as approved by the Methodology Commission of NBKR and by the Terminology Commission under the State Commission on the State Language Development under the President of the Kyrgyz Republic, were published in addition to the previously issued brochures. Brochures were sent to state bodies, commercial banks, judicial bodies, institutions of higher education and libraries of the country.

The official web-site of NBKR remained to be one of actively used instruments of informing the public. In the reporting year the activity was continued on information content, the activity was conducted on improving formats of documents placed on the web-site, and information was expanded about services rendered by commercial banks. Registers of commercial banks, their banking identification codes, tariffs for banking services, registers of licenses with limitations to performing banking transactions, quarterly consolidated data were placed about the system of commercial banks and NFCIs operating in the Kyrgyz Republic. Information was placed about the lending terms by commercial banks within the framework of international credit lines provided for development and support of small and medium size business in the appropriate section of the site. For purposes of improving transparency in activities of finance and credit institutions, and accountability to the public, information was regularly placed about publication of financial statements by commercial banks and other FCIs, information about violations, and also court proceedings related to application of sanctions against them by the National Bank. In addition, NBKR documents of program and strategic nature were placed on the site, such as the Main Directions and NBKR Monetary Policy Statement, the Banking Sector Development Strategy for the Period until 2008, the Medium-Term Microfinance Development Strategy in the Kyrgyz Republic for 2006-2010, the State Program for Implementing Non-Cash Payments, NBKR normative acts, draft normative acts, and program documents for discussions.

# III

## **FINANCIAL STATEMENTS FOR 2006**

## **CHAPTER 7. FINANCIAL STATEMENTS OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC**

### **7.1. Independent Auditors' Report**



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

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the National Bank of the Kyrgyz Republic (the "Bank"), which comprise the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Management is responsible for the preparation and fair presentation of these financial statements on the basis described in Note 2. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### *Auditors' Responsibility*

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



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2006, and its financial performance and its cash flows for the year then ended in accordance with the basis of preparation described in Note 2.

KPMG Bishkek LLC  
10 April 2007

KPMG Bishkek LLC, a company  
incorporated under the Laws of the Kyrgyz  
Republic and a member firm of the KPMG  
network of independent member firms  
affiliated with KPMG International, a Swiss  
cooperative

## 7.2. Balance Sheet as at 31 December 2006

	Notes	2006 KGS'000	2005 KGS'000
<b>ASSETS</b>			
Gold and silver	4	2,013,889	1,760,600
Placements with banks and other financial institutions	5	20,772,946	17,907,547
Available-for-sale securities	6	8,000,053	5,224,457
Held-to-maturity investments			
- Unpledged	7	3,796,329	4,593,079
- Pledged under sale and repurchase agreements	7	505,566	50,055
Investments in subsidiaries	8	28,000	11,250
Property, equipment and intangible assets	9	483,026	298,752
Other assets	10	454,230	565,253
<b>Total assets</b>		<b>36,054,039</b>	<b>30,410,993</b>
<b>LIABILITIES AND EQUITY</b>			
Currency in circulation	11	19,909,749	13,413,802
Deposits and balances from banks and other financial institutions	12	2,915,521	2,084,507
Accounts of the Government of the Kyrgyz Republic		4,502,400	5,370,790
Amounts payable under repurchase agreements	13	505,105	50,050
Debt securities issued		63,943	15,972
Loans received	14	6,553,769	7,645,133
Other liabilities		70,759	369,938
<b>Total liabilities</b>		<b>34,521,246</b>	<b>28,950,192</b>
<b>Equity</b>	15		
Charter capital		50,000	50,000
Required reserves		100,000	100,000
General reserves		969,423	822,740
Revaluation reserve for available-for-sale securities		(320)	(884)
Retained earnings		413,690	488,945
<b>Total equity</b>		<b>1,532,793</b>	<b>1,460,801</b>
<b>Total liabilities and equity</b>		<b>36,054,039</b>	<b>30,410,993</b>

The financial statements as set out on pages 39 to 43 were approved on 10 April 2007:

\_\_\_\_\_  
Alapaev M.  
Chairman

\_\_\_\_\_  
Aidarkulov Sh.  
Chief Accountant

The balance sheet is to be read in conjunction with the notes to, and forming part of, the financial statements set out [on page 43](#).

### 7.3. Income Statement for the year ended 31 December 2006

	Notes	2006 KGS'000	2005 KGS'000
Interest income	16	1,327,980	999,998
Interest expense	16	(242,672)	(186,563)
<b>Net interest income</b>		<b>1,085,308</b>	<b>813,435</b>
Fee and commission income		7,472	5,877
Fee and commission expense		(4,429)	(733)
<b>Net fee and commission income</b>		<b>3,043</b>	<b>5,144</b>
Net (loss)/gain from foreign exchange and revaluation of precious metals	17	(309,632)	9,050
Recovery of provision for impairment	18	46,037	8,356
Other income/(expense)		8,158	(44,860)
<b>Operating income</b>		<b>832,914</b>	<b>791,125</b>
General administrative expenses	19	(248,046)	(231,967)
Expenses related to issuance of banknotes and coins		(171,178)	(70,213)
<b>Operating expenses</b>		<b>(419,224)</b>	<b>(302,180)</b>
<b>Net income</b>		<b>413,690</b>	<b>488,945</b>

The financial statements as set out on pages 39 to 43 were approved on 10 April 2007:

\_\_\_\_\_  
Alapaev M.  
Chairman

\_\_\_\_\_  
Aidarkulov Sh.  
Chief Accountant

The income statement is to be read in conjunction with the notes to, and forming part of, the financial statements set out [on page 43](#).

#### 7.4. Statement of Cash Flows for the year ended 31 December 2006

	Notes	2006 KGS'000	2005 KGS'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Interest and fee and commission receipts		971,075	649,015
Interest and fee and commission payments		(85,059)	(67,341)
Net receipts from foreign exchange		31,871	107,572
Other income		7,045	4,733
Payroll expenses		(126,921)	(118,849)
General and administrative expenses		(166,761)	(214,406)
		<b>631,250</b>	<b>360,724</b>
<b>(Increase)/decrease in operating assets</b>			
Placements with banks and other financial institutions		(5,809,353)	(2,507,512)
Available-for-sale securities		(2,791,159)	799,371
Other assets		23,272	65,656
<b>Increase/(decrease) in operating liabilities</b>			
Currency in circulation		6,495,947	1,988,742
Deposits and balances from banks and other financial institutions		1,291,747	1,152,260
Accounts of the Government of the Kyrgyz Republic		(662,432)	(778,117)
Debt securities issued		47,971	3,998
Other liabilities		(300,394)	288,405
		<b>(1,073,151)</b>	<b>1,373,527</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of property, equipment and intangible assets		(227,626)	(128,657)
Proceeds from disposals of property, equipment and intangible assets		4,029	-
Purchases of subsidiaries		(13,000)	-
Proceeds from redemption of held-to-maturity investments		16,910	16,910
Interest received from held-to-maturity investments		145,943	123,537
Dividends received		1,390	-
		<b>(72,354)</b>	<b>11,790</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from loans received		257,677	756,062
Repayment of loans received		(1,139,037)	(1,268,482)
		<b>(881,360)</b>	<b>(512,420)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>			
		<b>(2,026,865)</b>	<b>872,897</b>
Effect of changes in exchange rates on cash and cash equivalents		(478,706)	(291,433)
Cash and cash equivalents at the beginning of the year		10,579,483	9,998,019
<b>Cash and cash equivalents at the end of the year</b>	25	<b>8,073,912</b>	<b>10,579,483</b>

The financial statements as set out on pages 39 to 43 were approved on 10 April 2007:

Alapaev M.  
Chairman

Aidarkulov Sh.  
Chief Accountant

Transactions settled in Kyrgyz Soms are included in the statement of cash flows as inflows or outflows of cash and cash equivalents.

The statement of cash flows is to be read in conjunction with the notes to, and forming part of, the financial statements set out [on page 43](#).

## 7.5. Statement of Changes in Equity for the year ended 31 December 2006

KGS'000	Charter Capital	Required reserves	General reserves	Revaluation reserve for foreign currency and precious metals	Revaluation reserve for available-for-sale securities	Retained earnings	Total
<b>Balance at 1 January 2005</b>	<b>50,000</b>	<b>100,000</b>	<b>769,922</b>	<b>118,883</b>	<b>(30,101)</b>	<b>176,060</b>	<b>1,184,764</b>
Distribution of prior year net income to the Government budget	-	-	-	-	-	(123,242)	(123,242)
Transfer of prior year net income to general reserves	-	-	52,818	-	-	(52,818)	-
Net unrealized losses on precious metals and foreign currency	-	-	-	(217,405)	-	-	(217,405)
Transfer of net unrealized losses on precious metals and foreign currency to income statement	-	-	-	98,522	-	-	98,522
Unrealized gain on available-for-sale securities	-	-	-	-	29,217	-	29,217
Net income for the year	-	-	-	-	-	488,945	488,945
<b>Balance at 31 December 2005</b>	<b>50,000</b>	<b>100,000</b>	<b>822,740</b>	<b>-</b>	<b>(884)</b>	<b>488,945</b>	<b>1,460,801</b>

KGS'000	Charter Capital	Required reserves	General reserves	Revaluation reserve for foreign currency and precious metals	Revaluation reserve for available-for-sale securities	Retained earnings	Total
<b>Balance at 31 December 2005</b>	<b>50,000</b>	<b>100,000</b>	<b>822,740</b>	<b>-</b>	<b>(884)</b>	<b>488,945</b>	<b>1,460,801</b>
Distribution of prior year net income to the Government budget	-	-	-	-	-	(342,262)	(342,262)

Transfer of prior year net income to general reserves	-	-	146,683	-	-	(146,683)	-
Net unrealized losses on precious metals and foreign currency	-	-	-	(341,503)	-	-	(341,503)
Transfer of net unrealized losses on precious metals and foreign currency to income statement	-	-	-	341,503	-	-	341,503
Unrealized gain on available-for-sale securities	-	-	-	-	564	-	564
Net income for the year	-	-	-	-	-	413,690	413,690
<b>Balance at 31 December 2006</b>	<b>50,000</b>	<b>100,000</b>	<b>969,423</b>	<b>-</b>	<b>(320)</b>	<b>413,690</b>	<b>1,532,793</b>

The financial statements as set out on pages 39 to 43 were approved on 10 April 2007:

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Alapaev M.  
Chairman

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Aidarkulov Sh.  
Chief Accountant

The statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the financial statements set out on [on page 43](#).

## **7.6. Notes to, and forming part of, the financial statements for the year ended 31 December 2006**

### **1 Background**

#### **(a) Principal activities**

The National Bank of the Kyrgyz Republic (the “Bank”) is an assignee of the State Bank of the Kyrgyz Republic which was renamed by the Law “On the National Bank of the Kyrgyz Republic” dated 12 December 1992 as the National Bank of the Kyrgyz Republic. On 2 July 1997, the Jogorku Kenesh (Parliament) of the Kyrgyz Republic adopted the new Law “On the National Bank of the Kyrgyz Republic”, which regulates the activities of the Bank at the current moment.

The aim of the activities of the Bank in accordance with the Law “On the National Bank of the Kyrgyz Republic” is achievement and maintaining of the price stability.

The basic functions of the Bank include:

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

The address of the head office of the Bank is 101 Umetaliyev Street, Bishkek, Kyrgyz Republic. The Bank has 5 regional departments and one representative office in oblasts of the Kyrgyz Republic.

As at 31 December 2006 and 2005 the number of the Bank employees was 574 and 566, respectively.

#### **(b) Kyrgyz business environment**

The Kyrgyz Republic has been experiencing political change which may affect the activities of organizations operating in this environment. Consequently, operations in the Kyrgyz Republic involve risks, which do not typically exist in other markets. The accompanying financial statements reflect the current economic situation in the Kyrgyz Republic. The future business environment may differ from management’s assessment.

### **2 Basis of preparation**

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

The accompanying financial statements have been prepared in accordance with the accounting policies of the Bank. These accounting policies are in compliance with International Financial Reporting Standards with the exception of the following:

- Gold and silver are carried at market value and when the total net unrealised result from the mark to market of gold and silver and foreign currency assets and liabilities is a gain, the net unrealised gain is recognised directly in equity. When the total net unrealised result from the mark to market of gold and silver and foreign currency assets and liabilities is a loss, the net unrealised loss is recognised in income statement except to the extent that it reverses a previous net unrealised gain, in which case it is recognised directly in equity.
- Subsidiary companies are not consolidated into the financial statements of the Bank. Investments in subsidiaries are carried at cost less accumulated impairment losses. Impairment losses and reversals of impairment losses in respect of these investments are recognized in the income statement.

(b) Basis of measurement

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

(c) Functional and presentation currency

The national currency of the Kyrgyz Republic is the Kyrgyz Som (“KGS”). The Bank’s functional currency is the KGS as it reflects the economic substance of the underlying events and circumstances of the Bank. The KGS is also the Bank’s presentation currency for the purposes of these financial statements.

Financial information presented in KGS has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of the financial statements requires management to consider all circumstances that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the management’s knowledge of current events and actions, the actual results could differ from those estimates. In the opinion of management there are no critical areas of judgement or estimate in the preparation of these financial statements.

### **3 Significant accounting policies**

The following significant accounting policies have been applied in the



preparation of the financial statements. These accounting policies have been consistently applied.

(a) Precious metals and foreign currencies

i) *Precious metals*

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

ii) *Foreign currencies*

Transactions in foreign currencies are translated to the KGS at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the KGS at the foreign exchange rate ruling at that date. Non-monetary assets denominated in foreign currencies, which are stated at historical cost, are translated to the KGS at the foreign exchange rate ruling at the date of the transaction.

iii) *Gains and losses on precious metals and foreign currencies*

Realised gains and losses on precious metals and foreign currencies are recorded in the income statement. When the total net unrealised result from the mark to market of precious metals and foreign currency assets and liabilities is a gain, the net unrealised gain is recognised directly in equity. When the total net unrealised result from the mark to market of precious metals and foreign currency assets and liabilities is a loss, the net unrealised loss is recognised in income statement except to the extent that it reverses a previous net unrealised gain, in which case it is recognised directly in equity.

(b) Cash and cash equivalents

The Bank considers cash on hand in foreign currency and nostro accounts to be cash and cash equivalents.

Transactions settled in Kyrgyz Som are included in the statement of cash flows as inflows or outflows of cash and cash equivalents.

(c) Financial instruments

i) *Classification*

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;
- a derivative (except for a derivative that is a designated and effective hedging instrument); or,
- upon initial recognition, designated by the entity as at fair through the profit or loss.

All trading derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as an asset. All trading derivatives in a net payable position (negative fair value), as well as options written, are reported as a liability.

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 Bank intends to sell immediately or in the near term, those that the Bank upon initial recognition designates as at fair value through profit or loss, or those which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

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

Available-for-sale assets are those 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.

## *ii) Recognition*

Financial assets and liabilities are recognized in the balance sheet when the 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.

## *iii) 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 amortized cost using

- the effective interest method;
- held to maturity investments which are measured at amortized cost using the effective interest method; and
- 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 amortized cost. Amortized cost is calculated using the effective interest method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortized based on the effective interest rate of the instrument.

iv) *Fair value measurement principles*

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated using pricing models or discounted cash flow techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange-traded is estimated at the amount that the Bank would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

v) *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 recognized as follows:

- a gain or loss on a financial instrument classified as at fair value through profit or loss is recognized in the income statement
- a gain or loss on an available-for-sale financial asset is recognized directly in equity through the statement of changes in equity until the asset is derecognized, at which time the cumulative gain or loss previously recognized in equity is recognized in the income statement. Interest in relation to an available-for-sale financial asset is recognized as earned in the income statement calculated using the effective interest method.

For financial assets and liabilities carried at amortized cost, a gain or loss is recognized in the income statement when the financial asset or liability

is derecognized or impaired, and through the amortization process.

vi) *Derecognition*

A financial asset is derecognized when the contractual rights to the cash flows from the financial asset expire or when the Bank transfers substantially all of the risks and rewards of ownership of the financial asset. Any rights or obligations created or retained in the transfer are recognized separately as assets or liabilities. A financial liability is derecognized when it is extinguished.

(d) Repurchase and reverse repurchase agreements

Securities sold under sale and repurchase (“repo”) agreements are accounted for as secured financing transactions, with the securities retained in the balance sheet and the counterparty liability included in amounts payable under repurchase agreements. The difference between the sale and repurchase price represents interest expense and is recognized in the income statement over the terms of the repo agreement.

Securities purchased under agreements to resell (“reverse repo”) are recorded as due from banks. The differences between the sale and repurchase prices are treated as interest and accrued over the life of the reverse repo agreement using the effective interest method.

(e) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(f) Property and equipment

i) *Owned assets*

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

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	3 to 5 years
Computer equipment	3 to 5 years
Vehicles	5 years

(g) Intangible assets

Intangible assets, which are acquired by the Bank, are stated at cost less accumulated amortization.

Amortization is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

Software	3 years
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(h) Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are not included in the financial statements of the Bank.

Investments in subsidiaries are carried at cost less accumulated impairment losses.

(i) Impairment

1) *Financial assets carried at amortized cost*

Financial assets carried at amortized cost consist principally of loans, other receivables and held- to-maturity investments (“loans and receivables”). The 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 an impact on the estimated future cash flows of the loan that can be reliably estimated.

The 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 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 recognized 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 are few available historical data relating to similar borrowers. In such cases, the Bank uses its experience and judgment to estimate the amount of any impairment loss.

All impairment losses in respect of loans and receivables are recognized 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 recognized.

ii) *Financial assets carried at cost*

Financial assets carried at cost include unquoted equity investments in unconsolidated subsidiaries. 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 recognized 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 recognized

iii) *Non financial assets*

Other non financial assets 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 recognized 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 amortization, if no impairment loss had been recognized.

(j) Provisions

A provision is recognized in the balance sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

(k) Taxation

The Bank is not liable to pay income tax in accordance with the Kyrgyz legislation.

(l) Interest income and expenses and fee and commission income

Interest income and expense are recognized in the income statement as they accrue, taking into account the effective interest rate of the asset or liability or an applicable floating rate. Interest income and expense include the amortization of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Loan organization 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 amortized to the interest income over the estimated life of the financial instrument using the effective interest rate method.

Other fee and commission income is recognized when the corresponding service is provided.

(m) Appropriation of net income

In accordance with the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic" 70% of net income of the Bank is allocated to a budget of the Kyrgyz Republic, while 30% is retained by the Bank as general reserves.

(n) Change in accounting policy

During the current year the Bank changed an accounting policy in respect of presentation and disclosure of agency functions. The following change resulted in changes in classification.

## Presentation and disclosure of agency functions

Previously the Bank recognized in the financial statements financial assets and liabilities of the Government, which the Bank managed in its capacity as a financial agent of the Government. During the current year, the Bank excluded these assets and liabilities from its financial statements. This change in accounting policy resulted in the following reclassifications in the Bank's financial statements as at 31 December 2005:

	As previously reported	Change	As reclassified
	KGS '000	KGS '000	KGS '000
<b>Change in presentation of IMF membership quota and related liabilities</b>			
International Monetary Fund membership quota	5,241,845	(5,241,845)	-
IMF current accounts (included in Deposits and balances from banks and financial institutions)	(13,399)	13,399	-
Securities in favor of International Monetary Fund	(5,228,446)	5,228,446	-
	-	-	-
<b>Change in presentation of the loan from Eximbank of Turkey</b>			
Due from the Ministry of Finance under the loan from Eximbank of Turkey (included in Loans related to agent functions)	1,910,881	(1,910,881)	-
Loan from Eximbank of Turkey (included in Loans received)	(1,910,881)	1,910,881	-
	-	-	-
<b>Change in presentation of amount due to the Ministry of Finance (IDA loan)</b>			
Recycle account (included in Placements with banks and other financial institutions)	126,456	(126,456)	-
Loans to resident banks under credit line of International Development Association (included in Loans related to agent functions)	23,548	(23,548)	-
Loan from International Development Association (included in Loans received)	(150,004)	150,004	-
	-	-	-

As a result of reclassifications made total assets and total liabilities of the Bank as at 31 December 2005 were reduced from KGS 37,713,723



thousand to KGS 30,410,993 thousand and from KGS 36,252,922 thousand to KGS 28,950,192 thousand, respectively. Since the balance of “Loans related to agent functions” balance sheet item remaining after reclassifications was not significant, it was reclassified to other assets.

#### 4 Gold and silver

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Gold	2,013,711	1,760,466
Silver	178	134
	<b>2,013,889</b>	<b>1,760,600</b>

#### 5 Placements with banks and other financial institutions

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Term deposits	12,943,512	7,625,483
Nostro accounts	7,931,574	10,427,980
Accrued interest	45,855	14,517
	<b>20,920,941</b>	<b>18,067,980</b>
Provision for impairment	(147,995)	(160,433)
	<b>20,772,946</b>	<b>17,907,547</b>

##### (a) Concentration of placements with banks and other financial institutions

As at 31 December 2006 and 2005 the Bank had 5 and 3 banks, respectively, whose balances each exceeded 10% of total placements with banks and other financial institutions. The gross value of these balances as at 31 December 2006 and 2005 were KGS 18,013,698 thousand and KGS 14,597,450 thousand, respectively.

##### (b) Analysis of movements in the provision for impairment

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Balance at the beginning of the year	160,433	161,689
Net recovery for the year	(12,438)	(1,256)
Balance at the end of the year	<b>147,995</b>	<b>160,433</b>

#### 6 Available-for-sale securities

<b>2006</b>	<b>2005</b>
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	<u>KGS '000</u>	<u>KGS '000</u>
<b>Debt instruments – Quoted</b>		
Bank for International Settlements Fixed Rate Investments (“FIXBIS”)	2,706,254	1,655,249
Australian Reserve Bank Promissory Notes	2,396,661	1,813,282
Federal Bank of Germany bonds (“Bund Schatz”)	1,531,585	-
US Treasury Notes	958,339	-
Federal Bank of Germany bills (“BUBILLS”)	249,244	1,755,926
Australian Reserve Bank bonds	157,970	-
	<u><b>8,000,053</b></u>	<u><b>5,224,457</b></u>

## 7 Held-to-maturity investments

	<u>2006</u>	<u>2005</u>
	<u>KGS '000</u>	<u>KGS '000</u>
<b>Unpledged</b>		
<b>Debt instruments – Unquoted</b>		
The Government Treasury Bonds, "NBKR" series	1,788,325	2,107,067
The Government Treasury Bonds, "Bank" series	916,970	924,406
The Government Treasury Bonds, "Jibek-Jolu" series	644,322	657,989
The Government Treasury Bonds, "Kairat" series	291,330	291,102
The Government Treasury Bonds, "RSK" series	105,128	107,335
The Government Treasury Bills, "Global Certificates"	50,254	505,180
	<u><b>3,796,329</b></u>	<u><b>4,593,079</b></u>
<b>Pledged under sale and repurchase agreements</b>		
<b>Debt instruments – Unquoted</b>		
The Government Treasury Bills, "Global Certificates"	<u><b>505,566</b></u>	<u><b>50,055</b></u>

## 8 Investments in subsidiaries

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Investments in subsidiary companies	28,000	15,000
Provision for impairment	-	(3,750)
	<b>28,000</b>	<b>11,250</b>

The Bank holds equity investments in the following subsidiary companies:

Name	Main Activity	% Controlled		2006	2005
		2006	2005	Carrying Value KGS '000	Carrying Value KGS '000
Financial Company for Support and Development of Credit Unions	Lending to financial institutions	100	100	15,000	11,250
Interbank Processing Center	Settlement transactions	78	78	13,000	-
				<b>28,000</b>	<b>11,250</b>

The financial statements of the subsidiary companies listed above have not been consolidated into those of the Bank in accordance with the Bank's accounting policies.

Investments in subsidiaries are unquoted equity instruments and are carried at cost less accumulated impairment losses as at 31 December 2006 and 2005.

The Bank plans to dispose of the investment in Financial Company for Support and Development of Credit Unions in the near future.

#### **Analysis of movements in the provision for impairment**

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Balance at the beginning of the year	3,750	3,750
Net recovery for the year	(3,750)	-
Balance at the end of the year	<b>-</b>	<b>3,750</b>

## 9 Property, equipment and intangible assets

KGS'000	Buildings and constructions	Furniture and equipment	Computer equipment	Vehicles	Equipment for installation and construction in progress	Intangible assets	Total
<b>Cost</b>							
At 1 January 2005	67,580	48,237	123,990	20,820	86,958	18,132	365,717
Additions	7,872	12,485	32,619	4,153	70,126	1,402	128,657
Transfer	16,679	6,718	2,642	-	(26,039)	-	-
Disposals	(1,220)	(14,028)	(84,003)	(427)	-	(5,579)	(105,257)
At 31 December 2005	90,911	53,412	75,248	24,546	131,045	13,955	389,117
Additions	13,226	13,328	20,220	4,686	173,946	2,220	227,626
Transfer	3,691	4,710	22,880	-	(68,796)	37,515	-
Disposals	(3,493)	(4,948)	(9,903)	(7,529)	-	(491)	(26,364)
At 31 December 2006	104,335	66,502	108,445	21,703	236,195	53,199	590,379
<b>Depreciation</b>							
At 1 January 2005	15,968	29,341	91,390	9,598	-	12,604	158,901
Depreciation charge	2,981	8,639	17,452	4,508	-	3,042	36,622
Disposals	(1,220)	(13,938)	(83,994)	(427)	-	(5,579)	(105,158)
At 31 December 2005	17,729	24,042	24,848	13,679	-	10,067	90,365
Depreciation charge	3,968	10,966	15,901	5,352	-	3,827	40,014
Disposals	(202)	(4,948)	(9,855)	(7,529)	-	(492)	(23,026)
At 31 December 2006	21,495	30,060	30,894	11,502	-	13,402	107,353
<b>Carrying value</b>							
At 1 January 2005	51,612	18,896	32,600	11,222	86,958	5,528	206,816
At 31 December 2005	73,182	29,370	50,400	10,867	131,045	3,888	298,752
At 31 December 2006	82,840	36,442	77,551	10,201	236,195	39,797	483,026

## 10 Other assets

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Non-performing loans to banks and other institutions	403,484	436,099
Cash on hand in foreign currency	142,338	151,503
Prepayments	71,378	73,259
Loans to employees	46,281	40,301
Other	189,673	292,864
	<b>853,154</b>	<b>994,026</b>
Provision for impairment	(398,924)	(428,773)
	<b>454,230</b>	<b>565,253</b>

### Analysis of movements in the provision for impairment

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Balance at the beginning of the year	428,773	435,873
Net recovery for the year	(29,849)	(7,100)
Balance at the end of the year	<b>398,924</b>	<b>428,773</b>

## 11 Currency in circulation

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Banknotes and coins in circulation	20,144,134	13,609,075
Less banknotes and coins in vaults	(234,385)	(195,273)
	<b>19,909,749</b>	<b>13,413,802</b>

## 12 Deposits and balances from banks and other financial institutions

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Current accounts	2,865,521	2,084,507
Term deposits	50,000	-
	<b>2,915,521</b>	<b>2,084,507</b>

### Concentration of deposits and balances from banks and other financial institutions

As at 31 December 2006 and 2005, deposits and balances from banks and other financial institutions, which individually comprised more than 10% of deposits and balances from banks and other financial institutions, were as follows:

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Asia Universal Bank	404,804	291,733
Ineximbank	382,292	232,625
Demir Bank	340,515	255,551
Kyrgyzpromstroj Bank	307,151	-
Savings and Settlements Company	-	215,153
Commercial Bank Kyrgyzstan	-	229,130
Kazkommerzbank	-	319,181
	<b>1,434,762</b>	<b>1,543,373</b>

### 13 Amounts payable under repurchase agreements

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Amounts due to banks and other financial institutions	<b>505,105</b>	<b>50,050</b>

#### Securities pledged

As at 31 December 2006 and 2005, the Bank had pledged securities in the amount of KGS 505,566 thousand and KGS 50,055 thousand, respectively as collateral under repurchase agreements (refer Note 7).

### 14 Loans received

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Loan from the International Monetary Fund	6,211,620	7,346,436
Loan from the European Bank for Reconstruction and Development	198,083	255,839
Loan from the Ministry of Finance	144,066	42,858
	<b>6,553,769</b>	<b>7,645,133</b>

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

## 15 Equity

### Charter capital

Charter capital of the Bank is established by the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” in the amount of KGS 50,000 thousand.

## 16 Net interest income

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
<b>Interest income</b>		
Placements with banks and other financial institutions	772,947	484,105
Held-to-maturity investments	289,354	350,266
Available-for-sale securities	262,811	151,915
Other	2,868	13,712
	<b>1,327,980</b>	<b>999,998</b>
<b>Interest expense</b>		
Accounts of the Government of the Kyrgyz Republic	159,963	117,694
Loans received	47,707	51,587
Deposits and balances from banks and other financial institutions	21,366	13,101
Other	13,636	4,181
	<b>242,672</b>	<b>186,563</b>

## 17 Net (loss)/gain from foreign exchange and revaluation of precious metals

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Loss from revaluation of foreign currencies and precious metals	(341,503)	(98,522)
Gain on spot transactions with foreign currencies	31,871	107,572
	<b>(309,632)</b>	<b>9,050</b>

## 18 Recovery of provision for impairment

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Other assets	29,849	7,100
Placements with banks and other financial institutions	12,438	1,256
Investments in subsidiaries	3,750	-
	<b>46,037</b>	<b>8,356</b>

## 19 General administrative expenses

	2006	2005
	KGS '000	KGS '000
Employee compensation	104,607	96,068
Depreciation	40,014	36,622
Contribution to the Social Fund	22,314	22,782
Repair and maintenance	28,950	26,807
Communication	11,690	7,349
Subscription	8,621	7,721
Staff training	8,372	9,371
Professional services	5,013	6,184
Travel	4,570	5,695
Stationery	3,461	2,950
Other	10,434	10,418
	<u>248,046</u>	<u>231,967</u>

## 20 Risk management

Management of risk is fundamental to the business of banking and is an essential element of the Bank's operations. The major risks faced by the Bank are those related to market risk, which includes price, fair value interest rate and currency risks and credit risk. These risks are managed in the following manner:

(a) Market risk

i) *Price risk*

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or factors affecting all instruments traded in the market. Price risk arises when the Bank takes a long or short position in a financial instrument.

ii) *Fair value interest rate risk*

Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rate. Fair value interest rate risk arises when the actual or forecasted assets of a given maturity period are either greater or less than the actual or forecasted liabilities in that maturity period. For further information on the Bank's exposure to fair value interest rate risk at year end refer to note 26.

iii) *Currency risk*

The Bank has assets and liabilities denominated in several foreign currencies. Foreign currency risk arises when the actual or forecasted assets in a foreign currency are either greater or less than the liabilities in that currency. For further information on the Bank's exposure to currency



risk at year end refer to notes 28.

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

(b) 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 Bank. The Bank has developed policies and procedures for the management of credit exposures, including guidelines to limit portfolio concentration and the establishment of an Investment Committee, which actively monitors the Bank's credit risk. The Bank's policies for the management of credit exposures are reviewed and approved by the Management Board.

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Management believes that the Bank is not exposed to liquidity risk due to the nature of its operations. For further information on the Bank's liquidity at year end refer to note 27.

## **21 Contingencies**

(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 Bank has partial coverage for its premises and equipment, and third party liability in respect of property or environmental damage arising from accidents on Bank property or relating to the Bank's operations. Until the Bank obtains full insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Bank's operations and financial position.

(b) Litigation

In the ordinary course of business, the Bank is subject to legal actions and complaints. Management 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 Bank.

## **22 Agency activities**

(a) Membership quota of the Kyrgyz Republic in the International Monetary Fund

In 1992 the Kyrgyz Republic joined the International Monetary Fund (the

“IMF”). A membership quota expressed in Special Drawing Rights (“SDRs”) is assigned to each member of the IMF. The membership quota is the basis for determining access of the country to IMF financing. The quota of the Kyrgyz Republic as at 31 December 2006 and 2005 amounted to SDR 88,800,012.

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

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

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
IMF membership quota	<u>5,134,551</u>	<u>5,241,845</u>
Securities in favor of the IMF	5,121,426	5,228,446
IMF current accounts	<u>13,125</u>	<u>13,399</u>
	<u><b>5,134,551</b></u>	<u><b>5,241,845</b></u>

(b) Loan from the International Development Association

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

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Recycle account	124,412	126,456
Loans to commercial banks	<u>14,052</u>	<u>23,548</u>
	<u><b>138,464</b></u>	<u><b>150,004</b></u>

(c) Loan from the Export and Credit Bank of Turkey

Export and Credit Bank of Turkey (the “Eximbank”) granted a loan to the Government of the Kyrgyz Republic. On 9 March 2006 Eximbank and the Government of the Kyrgyz Republic represented by the Bank signed a debt restructuring agreement on the terms stipulated in the agreed minutes of the meeting of the Paris Club of Creditors dated 11 March 2005, whereby the entire bilateral debt of the Kyrgyz Republic as at 1 March 2005 was subject to restructuring. Under the above agreement the Bank acting for and on behalf of the Government of the Kyrgyz Republic

issued notes in favor of Eximbank for the amount of restructured debt.

The Government of the Kyrgyz Republic and the Bank entered into agreements pursuant to which the Government of the Kyrgyz Republic bears direct obligation to settle the amounts payable by the Bank to Eximbank in accordance with debt restructuring agreement.

The outstanding amounts payable by the Government of the Kyrgyz Republic to Eximbank under debt restructuring agreement were KGS 1,845,505 thousand and KGS 1,910,881 thousand as at 31 December 2006 and 2005, respectively.

## **23 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 a national 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 members of the Management Board**

The remuneration to members of the Bank’s Management Board for the years ended 31 December 2006 and 2005 amounted to KGS 6,698 thousand and KGS 6,826 thousand, respectively. These amounts include all remuneration paid to the members of the Management Board and represent short-term employee benefits.

The outstanding balances of loans issued to the members of the Management Board as at 31 December 2006 and 2005 were KGS 1,545 thousand and KGS 2,999 thousand, respectively. These loans are interest free.

(c) Transactions with the Ministry of Finance and other related parties

The outstanding balances and the related average interest rates as at 31 December 2006 and related income statement amounts of transactions for the year ended 31 December 2006 with the Ministry of Finance and other related parties are as follows:

	<u>The Ministry of Finance</u>		<u>Banks and financial institutions controlled by the Government</u>		<u>Subsidiaries</u>	<u>Total</u>
	<u>KGS' 000</u>	<u>Average Interest Rate</u>	<u>KGS' 000</u>	<u>Average Interest Rate</u>	<u>KGS'000</u>	<u>KGS'000</u>
<b>Balance Sheet</b>						
<b>Assets</b>						
held-to-maturity investments	4,301,895	6.8%	-	-	-	4,301,895
investments in subsidiaries	-	-	-	-	28,000	28,000
<b>Liabilities</b>						
deposits and balances from banks and other financial institutions	-	-	209,694	2.2%	-	209,694
accounts of the Government of the Kyrgyz Republic	4,502,400	3.5%	-	-	-	4,502,400
loans received	144,066	1.5%	-	-	-	144,066
<b>Income statement</b>						
interest income	289,354	-	-	-	-	289,354
interest expense	162,278	-	402	-	-	162,680
other income	-	-	-	-	1,390	1,390

The outstanding balances and the related average interest rates as at 31 December 2005 and related income statement amounts of transactions for the year ended 31 December 2005 with the Ministry of Finance and other related parties are as follows:

	<u>The Ministry of Finance</u>	<u>Banks and financial institutions controlled by the Government</u>	<u>Subsidiaries</u>	<u>Total</u>
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	<u>KGS' 000</u>	<u>Average Interest Rate</u>	<u>KGS' 000</u>	<u>Average Interest Rate</u>	<u>KGS'000</u>	<u>KGS' 000</u>
<b>Balance Sheet</b>						
<b>Assets</b>						
held-to-maturity investments	4,643,134	8.3%	-	-	-	4,643,134
investments in subsidiaries	-	-	-	-	11,250	11,250
<b>Liabilities</b>						
deposits and balances from banks and other financial institutions	-	-	215,153	2.3%	-	215,153
accounts of the Government of the Kyrgyz Republic	5,370,790	3.4%	-	-	-	5,370,790
loans received	42,858	1.5%	-	-	-	42,858
<b>Income statement</b>						
interest income	350,266	-	-	-	-	350,266
interest expense	119,388	-	786	-	-	120,174

## 24 Cash and cash equivalents

Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are composed of the following items:

	<b>2006</b>	<b>2005</b>
	<b>KGS '000</b>	<b>KGS '000</b>
Placements with banks and other financial institutions	7,931,574	10,427,980
Cash on hand in foreign currency	142,338	151,503
	<b>8,073,912</b>	<b>10,579,483</b>

## 25 Fair value of financial instruments

The estimated fair value of the Bank's financial assets and liabilities, as required to be disclosed by IAS 32 "Financial Instruments: Disclosure and Presentation", are as follows:

	<b>2006</b>	<b>2006</b>	<b>2005</b>	<b>2005</b>
	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>
	<b>KGS'000</b>	<b>KGS'000</b>	<b>KGS'000</b>	<b>KGS'000</b>
<b>ASSETS</b>				
Placements with banks and other financial institutions	20,772,946	20,772,946	17,907,547	17,907,547
Available-for-sale securities	8,000,053	8,000,053	5,224,457	5,224,457
Held-to-maturity investments	4,301,895	4,301,895	4,643,134	4,643,134
<b>LIABILITIES</b>				
Currency in circulation	19,909,749	19,909,749	13,413,802	13,413,802
Deposits and balances from banks and other financial institutions	2,915,521	2,915,521	2,084,507	2,084,507
Amounts payable under repurchase agreements	505,105	505,105	50,050	50,050
Accounts of the Government of the Kyrgyz Republic	4,502,400	4,502,400	5,370,790	5,370,790
Debt securities issued	63,943	63,943	15,972	15,972
Loans received	6,553,769	6,553,769	7,645,133	7,645,133

The estimated fair values of quoted available-for-sale securities is based on quoted market prices at the balance sheet date without any deduction for transaction costs.

The estimated fair values of all other financial assets and liabilities, except as described below, is calculated using discounted cash flow techniques based on estimated future cash flows and discount rates for a similar instruments at the balance sheet date. The fair value of unquoted investments in subsidiaries with a carrying value of KGS 28,000 thousand (2005: KGS 11,250 thousand) could not be determined (refer Note 8)

The estimates of fair value are intended to approximate the amount for which a financial instrument could be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value

should not be interpreted as being realisable in an immediate sale of the assets or settlement of liabilities.

## 26 Average effective interest rates

The table below displays the Bank's interest bearing assets and liabilities as at 31 December 2006 and their corresponding average effective interest rates as at that date.

	<b>2006 Value KGS '000</b>	<b>2006 Average Effective Interest Rate</b>	<b>2005 Value KGS '000</b>	<b>2005 Average Effective Interest Rate</b>
<b>Interest bearing assets</b>				
<b>Gold and silver</b>	2,013,889	0.1%	1,760,600	0.1%
<b>Placements with banks and other financial institutions</b>				
<i>Nostro accounts</i>				
- USD	3,440,945	5.2%	4,297,292	4.0%
- CAD	2,686,538	4.0%	4,723,836	3.0%
- SDR	1,268,178	4.1%	217,653	3.0%
- other currencies	535,913	3.5%	1,189,199	2.3%
<i>Term deposits</i>				
- USD	4,590,512	5.1%	5,313,635	4.1%
- EUR	3,186,993	3.6%	734,529	2.3%
- GBP	2,455,099	5.1%	713,229	4.5%
- other currencies	2,710,908	3.5%	864,090	6.0%
<b>Available-for-sale securities</b>				
- EUR	4,293,678	3.6%	2,004,579	2.2%
- AUD	2,554,631	6.4%	1,813,282	5.6%
- USD	1,151,744	5.1%	1,406,596	4.2%
<b>Held-to-maturity investments</b>				
- KGS	4,301,895	6.8%	4,643,134	8.3%
<b>Interest bearing liabilities</b>				
<b>Deposits and balances from banks and other financial institutions</b>				
<i>Current accounts</i>				

- KGS	2,773,021	2.2%	2,024,951	2.3%
- USD	92,500	-	59,556	-
<i>Term deposits</i>				
- KGS	50,000	2.0%	-	-
<b>Amounts payable under repurchase agreements</b>				
- KGS	505,105	3.9%	50,050	3.6%
<b>Accounts of the Government of the Kyrgyz Republic</b>				
- CAD	2,662,049	4.0%	3,687,285	4.0%
- KGS	1,079,955	1.3%	962,679	1.2%
- USD	508,568	5.3%	472,813	4.3%
- other currencies	251,828	3.7%	248,013	2.3%
<b>Debt securities issued</b>				
- KGS	63,943	3.4%	15,972	4.7%
<b>Loans received</b>				
- SDR	6,211,620	0.5%	7,346,436	0.5%
- USD	342,149	4.3%	298,697	4.8%



## 27 Maturity analysis

The following table shows banking assets and liabilities by remaining contractual maturity dates as at 31 December 2006.

	Less than 1 month	1 to 3 months	3 months to 1 year	1 year to 5 years	More than 5 years	No Maturity	Total
	KGS '000	KGS '000	KGS '000	KGS '000	KGS '000	KGS '000	KGS '000
<b>Assets</b>							
Gold and silver	-	-	-	-	-	2,013,889	2,013,889
Placements with banks and other financial institutions	14,184,054	6,588,892	-	-	-	-	20,772,946
Available-for-sale securities	987,249	5,839,773	1,173,031	-	-	-	8,000,053
Held-to-maturity investments	7,849	68,489	769,113	2,634,606	821,838	-	4,301,895
Investments in subsidiaries	-	-	15 000	-	-	13 000	28,000
Property, equipment and intangible assets	-	-	-	-	-	483,026	483,026
Other assets	142,338	-	71,378	50,841	-	189,673	454,230
<b>Total assets</b>	<b>15,321,490</b>	<b>12,497,154</b>	<b>2,028,522</b>	<b>2,685,447</b>	<b>821,838</b>	<b>2,699,588</b>	<b>36,054,039</b>
<b>Liabilities</b>							
Currency in circulation	-	-	-	-	-	19,909,749	19,909,749
Deposits and balances from banks and other financial institutions	2,915,521	-	-	-	-	-	2,915,521
Accounts of the Government of the Kyrgyz Republic	4,502,400	-	-	-	-	-	4,502,400
Amounts payable under repurchase agreements	73,799	431,306	-	-	-	-	505,105
Debt securities issued	63,943	-	-	-	-	-	63,943
Loans received	79,629	194,497	737,722	3,732,415	1,809,506	-	6,553,769
Other liabilities	70,759	-	-	-	-	-	70,759
<b>Total liabilities</b>	<b>7,706,051</b>	<b>625,803</b>	<b>737,722</b>	<b>3,732,415</b>	<b>1,809,506</b>	<b>19,909,749</b>	<b>34,521,246</b>
<b>Net position as at 31 December 2006</b>	<b>7,615,439</b>	<b>11,871,351</b>	<b>1,290,800</b>	<b>(1,046,968)</b>	<b>(987,668)</b>	<b>(17,210,161)</b>	<b>1,532,793</b>
Net position as at 31 December 2005	14,638,469	401,825	4,031,925	(3,421,712)	(780,089)	(13,409,617)	1,460,801

## 28 Currency analysis

The following table shows the currency structure of assets and liabilities at 31 December 2006:

	KGS	USD	SDR	EUR	CAD	Other	Total
	KGS '000	KGS '000	KGS '000	KGS '000	KGS '000	KGS '000	KGS '000
<b>Assets</b>							
Gold and silver	-	-	-	-	-	2,013,889	2,013,889
Placements with banks and other financial institutions	-	7,898,172	1,276,075	3,679,118	3,727,756	4,191,825	20,772,946
Available-for-sale securities	-	1,151,744	-	4,293,678	-	2,554,631	8,000,053
Held-to-maturity investments	4,301,895	-	-	-	-	-	4,301,895
Investments in subsidiaries	28,000	-	-	-	-	-	28,000
Property, equipment and intangible assets	483,026	-	-	-	-	-	483,026
Other assets	306,402	122,304	-	25,090	-	434	454,230
<b>Total assets</b>	<b>5,119,323</b>	<b>9,172,220</b>	<b>1,276,075</b>	<b>7,997,886</b>	<b>3,727,756</b>	<b>8,760,779</b>	<b>36,054,039</b>
<b>Liabilities</b>							
Currency in circulation	19,909,749	-	-	-	-	-	19,909,749
Deposits and balances from banks and other financial institutions	2,823,021	92,500	-	-	-	-	2,915,521
Accounts of the Government of the Kyrgyz Republic	1,079,955	508,568	-	223,683	2,662,049	28,145	4,502,400
Amounts payable under repurchase agreements	505,105	-	-	-	-	-	505,105
Debt securities issued	63,943	-	-	-	-	-	63,943
Loans received	-	342,149	6,211,620	-	-	-	6,553,769
Other liabilities	17,110	-	-	-	-	53,649	70,759
<b>Total liabilities</b>	<b>24,398,883</b>	<b>943,217</b>	<b>6,211,620</b>	<b>223,683</b>	<b>2,662,049</b>	<b>81,794</b>	<b>34,521,246</b>
<b>Net balance sheet position as at 31 December 2006</b>	<b>(19,279,560)</b>	<b>8,229,003</b>	<b>(4,935,545)</b>	<b>7,774,203</b>	<b>1,065,707</b>	<b>8,678,985</b>	<b>1,532,793</b>
Net balance sheet position as at 31 December 2005	(11,437,853)	10,238,740	(7,156,332)	3,593,545	1,036,551	5,186,150	1,460,801

# IV

## ATTACHMENTS

#### 4.1. Chronology of Major Events in 2006

Date	Content
21 December 2005	NBKR Board approved Main Directions of the Monetary Policy for 2006.
23 December 2005	NBKR Board approved NBKR Statement On the Monetary Policy for 2006.
1 January	The new wording of the regulation On Periodic Regulatory Banking Reporting (PRBR) came into effect.
26 January	A seminar on the Role and Functions of NBKR as of the Country's Central Bank was held at the National Bank of the Kyrgyz Republic for lecturers of economics at KNU named after J. Balasagyn. Topics on fundamentals of the monetary policy, relationships of the Kyrgyz Republic with the Paris Club of Creditors, functions of supervising bank and non-bank finance and credit institutions, State Program on implementing the system of non-cash payments, currency in circulation, were covered in speeches.
9 February	A seminar on the following topic: Role and Functions of NBKR as of the Country's Central Bank was held at NBKR for lecturers of economics from KRSU. Topics on fundamentals of the monetary policy, functions of supervising bank and non-bank finance and credit institutions, State Program on implementing the system of non-cash payments, currency in circulation were considered.
13 February	A press conference was held with participation of Ms. Sadat Janybekova, deputy Chairman of NBKR on the following topic: Medium Term Microfinance Development Strategy in the Kyrgyz Republic and Measures Taken by NBKR to Moderate Regulation of Credit Unions.
15–28	The IMF Mission was in Bishkek to conduct the second review of the PRGF program. During the work with the mission, a draft Economic Policy Memorandum of the Kyrgyz Republic was prepared, which set forth main achievements of the poverty reduction and growth facility program (PRGF) at the end of 2005.
February	
21 February	A traditional monthly press conference was held with participation of Mr. Maksatbek Ishenbaev, deputy Chairman of NBKR on the following topic: Results of the Monetary Policy Pursued by the National Bank in January 2006. Major macroeconomic indicators for the reporting period have been presented at the press conference.
28 February	A press conference on results of work of the International Monetary Fund mission with participation of the Mission Chief, Mr. Michael Mered, IMF Resident Representative in the Kyrgyz Republic, Mr. Ulan Sarbanov, Chairman of NBKR, Mr. Akylbek Japarov, Minister of Economy and Finance of the Kyrgyz Republic.
2 March	NBKR Board considered and acknowledged the monetary policy report for 2005.

- 2 March NBKR Board approved the regulation On Licensing Activities of Banks. This normative document was developed on the basis of banking legislation and Regulation On the Procedure of Establishing Banks and Some Peculiarities of Their Operation on the Territory of the Kyrgyz Republic for purposes of further improvement of prudential legal framework and compliance with adopted changes and addenda to the Law On Banks and Banking Activity in the Kyrgyz Republic, and to the Law On Joint Stock Companies.
- 3 March A meeting of the working group was held in Bishkek to discuss implementation of the Medium-Term Microfinance Development Strategy in the Kyrgyz Republic for 2006-2010, which was attended by representatives of the National Bank, Association of Microfinance Organizations, GTZ Project on Rural Financial Institutions, Alliance of National Associations of Credit Unions and Cooperatives, by a number of finance and credit institutions, and by the State Register of the Kyrgyz Republic.
- 16 March NBKR Board considered the report on international reserve management in 2005.
- 18 March A live broadcast on the topic of Liberalization of Rules for Regulating Credit Unions was held at Zamana studio (KTR) with participation of representatives of NBKR, Alliance of Associations of Credit Unions, and of the German Agency for Technical Assistance (GTZ) project on Development of Rural Financial System.
- 22 March A traditional monthly press-conference of Mr. Maksatbek Ishenbaev, Acting Chairman of NBKR was held at Kabar information agency on results of the monetary policy pursued by NBKR for two months of 2006.
- 27-31 March The National Bank jointly with the Training Center for Judges of the Kyrgyz Republic, and with the support of the International Monetary Fund conducted a seminar devoted to the legal framework of banking activity. Judges from all regions of the country working with banking legislation at interraion, city and oblast levels, representatives of NBKR and commercial banks of the republic participated at the seminar.
- 30 March A meeting of the Interministerial Commission on Fulfillment of the State Program of Activities for 2003-2008 on Implementation of the System of Non-Cash Payments in the Kyrgyz Republic was held under the chairmanship of Mr. Adahan Madumarov, Vice Prime-Minister, at the National Bank of the Kyrgyz Republic.

- 6 -7 April With USAID support a seminar was conducted on the following topic: Consolidated Supervision: Overview of the Common Concept and New (Introduced) Amendments to the Law On Banks and Banking Activity in the Kyrgyz Republic on Exercising Consolidated Supervision. Employees of the legal division and of the supervisory function of NBKR, and also managers and lawyers of commercial banks took part in the seminar.
- 12 April NBKR Board considered and adopted a regulation On the Procedure of Conducting REPO Auctions. The procedure was developed with the objective of further enhancing monetary policy instruments of NBKR and improving transparency at the secondary market of government securities.
- 18 April A traditional monthly press conference was held with participation of Mr. Marat Alapaev, Chairman of NBKR on the following topic: Results of the Monetary Policy Conducted by the National Bank for Three Months of 2006.
- 21 April NBKR Board adopted the resolution On Distribution of Net Profit of the National Bank of the Kyrgyz Republic Following the Results of 2005.
- 25 April A seminar from series of seminars was held on the topic of Anti Money Laundering and Combating the Financing of Terrorism, organized with the support of the World Bank consultant on AML/CFT. Employees of NBKR, Financial Intelligence Service of the Kyrgyz Republic, State Agency on Financial Supervision and Reporting, and of the Financial Police Service of the Kyrgyz Republic took part in the seminar.
- 28 April A Joint Statement of the Government of the Kyrgyz Republic and NBKR on main directions of the economic policy for 2006 was approved by the Resolution of the Government of the Kyrgyz Republic and NBKR.
- 5 May The Executive Board of the International Monetary Fund completed the second review of indicators of the Kyrgyz Republic within the framework of its PRGF economic program, supported by a three-year arrangement on the financing mechanism for purposes of poverty reduction and economic growth facilitation. The review was completed on 5 May 2006 in the absence of objections, and gave the possibility to borrow the amount equivalent to 1.27 SDR (about US\$ 1.86 million) by the Kyrgyz Republic within the framework of this arrangement.
- 17 May NBKR Board considered and took into consideration the monetary policy report for the first quarter of 2006.

- 19-20 May A seminar was held in Bishkek for deputies of the Jogorku Kenesh of the Kyrgyz Republic on the following topic: Role of International Financial Organizations in Supporting Economic Strategies of the Kyrgyz Republic, which was organized by the International Monetary Fund in cooperation with the National Bank of the Kyrgyz Republic.
- 31 May NBKR Board approved the Banking Sector Development Strategy Until the End of 2008. The Strategy has been developed for purposes of encouraging further improvement of financial intermediation, role of the banking sector in the economy and efficiency of banking activity.
- 31 May NBKR Board considered and took into consideration information about the current condition of the payment system, and development trends in the system of commercial banks following the results of the first quarter of 2006.
- 4-8 June Employees of the Legal Department of the Central Bank of Russian Federation underwent internship in the National Bank of the Kyrgyz Republic within the framework of cooperation with central (national) banks of EAEC member states.
- 23 June The regular 15th meeting of the Council of Governors of Central (National) Banks of EAEC member states was held in Bishkek, which was attended by governors and representatives of central (national) banks of the Republic of Belarus, Republic of Kazakhstan, Kyrgyz Republic, Russian Federation, Republic of Tajikistan, Republic of Uzbekistan, and also of the Interstate Bank, Integration Committee Secretariat of EAEC. During the Council meeting participants signed the Protocol, which finalized the legal process of accession of the Central Bank of the Republic of Uzbekistan to the Council Agreement.  
Upon completion of the Council meeting, participants held a press conference and responded to questions of mass media representatives. Chairman of NBKR informed the public about the monetary policy results for five months of 2006.
- 28 June NBKR Board approved regulations On Minimum Requirements to Market Risk Management in Commercial Banks and Other Finance and Credit Institutions Licensed by NBKR, and On Minimum Requirements to Country Risk Management in Commercial Banks and Other Finance and Credit Institutions Licensed by NBKR.
- 6-7 July A seminar-meeting on the issues of promoting microfinance in the Kyrgyz Republic was held at the National Bank of the Kyrgyz Republic for managers of NBKR regional departments. The goal of the seminar-meeting was to carry out public awareness activities about the objectives of the Medium-Term Microfinance Development Strategy in the Kyrgyz Republic for 2006-2010 in all raions of the country.
- 13 July The presentation of the National Bank on NBKR international reserve management was held at the meeting of the Government of the

Kyrgyz Republic.

- 19 July A traditional monthly press conference was held at Kabar information agency with participation of Mr. Marat Alapaev, Chairman of NBKR, devoted to the results of the monetary policy conducted by the National Bank for six months of 2006.
- 27-29 July The third international banking conference was held in Bishkek under the auspices of the Union of Banks of Kyrgyzstan. The National Bank took part in the conference as the observer.
- 2 August The Government and the National Bank adopted the Resolution On the Action Plan for Controlling Inflation in the Kyrgyz Republic for 2006 in addition to the Joint Statement of the Government of the Kyrgyz Republic and NBKR On the Monetary Policy for Current Year, in order to take timely measures to control inflation, ensure sustained socio-economic development of the Kyrgyz Republic.
- 8 August A meeting of the Interministerial Commission on implementing main directions of the State Program of Activities for 2003-2008 on introducing the system of non-cash payments in the Kyrgyz Republic was held under the chairmanship of Mr. Daniyar Usenov, First Vice Prime-Minister.
- 15–30 August The IMF mission was in Bishkek with the objective to perform the third review of the current PRGF program. During the work with the mission a draft Memorandum on Economic Policy of the Kyrgyz Republic (MEP) was prepared, which indicated major program achievements in poverty reduction and economic growth facilitation (PRGF) at the end of June 2006, and described the economic policy for 2007.
- 16 August Coordination Council on Macroeconomic and Investment Policy under the Government of the Kyrgyz Republic approved the Banking Sector Development Strategy Until the End of 2008, adopted by NBKR Board Resolution N16/4 of 31 May 2006.
- 21 August NBKR published information about implementation of the State program of activities on introducing the system of non-cash payments as of 20 August in mass media.
- 29-31 August The National Bank of the Kyrgyz Republic held a round table on the following topic: Payment System Development Strategy in EAEC Countries. Governors, senior specialists and specialists from divisions of central/national banks of EAEC member states, activities of which are connected with organization of the payment system operation, development of the payment system methodology, supervision of payment systems, and combating money laundering took part in it. The objective of the round table was to review practices, and exchange experience in the area of payment system development and modernization in EAEC member states; discuss problems and



conceptual issues related to the development strategy of payment systems.

- 30 August A joint press conference was held in Bishkek with participation of Mr. Paulo Neuhaus, IMF Mission Chief in the Kyrgyz Republic, Mr. Marat Alapaev, Chairman of NBKR, and Mr. Akylbek Japarov, Minister of Economy and Finance of the Kyrgyz Republic. At this press conference the Chairman of NBKR presented information to the public on the monetary policy following the results of seven months of 2006.
- 8 September NBKR Board considered the following: the monetary policy report, information on development trends in the system of commercial banks for the first half of 2006.
- 16-21 September The Chairman of NBKR, being a governor from Kyrgyzstan in the IMF, took part in the annual meeting of the IMF and World Bank in Singapore. Members of the Kyrgyz delegation held negotiations with the management of the IMF and World Bank, and also had a number of meetings with representatives of other partner central banks on current issues of cooperation.
- 20 September A traditional monthly press conference was held at Kabar information agency with participation of Mr. Maksatbek Ishenbaev, Deputy Chairman of NBKR devoted to the results of the monetary policy conducted by the National Bank for eight months of 2006.
- 26 September A press conference of the official delegation of the Kyrgyz Republic, which participated in the Annual Meeting of the Board of Governors of the IMF and World Bank in Singapore, was held at Kabar information agency
- 27 September NBKR Board considered and approved the regulation On the Structure of NBKR International Reserves for the fourth quarter of 2006.
- 13 October The Bulk Clearing System for Small Retail and Regular Payments was put into operation in the Kyrgyz Republic. The Bulk Clearing System is designed to process bulk retail and regular payments of the population using various forms of payment instruments, which are convenient for the population and efficient for arranging currency in circulation.
- 16 October A traditional monthly press conference was held at Kabar information agency with participation of Mr. Marat Alapaev, Chairman of NBKR, devoted to the results of the monetary policy conducted by the National Bank for nine months of 2006.
- 17 October A seminar was held devoted to the external debt of the Kyrgyz Republic. Lecturers of economics from the country's leading institutions of higher education took part in the first seminar. During the seminar, employees of the external debt division of NBKR

presented detailed information about the structure of the public debt of Kyrgyzstan, informed about stages of negotiations, which have been held earlier with the Paris Club of Creditors and about their results, forecasts on the external debt reduction if Kyrgyzstan joins HIPC and MDRI, about experience of other member countries on working with these initiatives.

- 10 -23 October Joint Mission of the IMF and World Bank assessed financial sector of the Kyrgyz Republic within the framework of the FSAP program.
- 18-20 October Mr. Marat Alapaev, Chairman of NBKR took part in the regular meeting of the Board of Governors of Central (National) Banks in Sochi.
- 19 October A seminar devoted to reduction of external debt of the Kyrgyz Republic was held for mass media representatives.
- 25 October A seminar devoted to the issues of reducing external debt of the Kyrgyz Republic was conducted for non-governmental organizations (NGO) and not-for-profit organizations (NPO).
- 27 October A seminar devoted to the issues of reducing external debt of the country was held for employees of NBKR and its regional departments.
- 30 October NBKR Board approved the regulation On Implementing Principles of Islamic Finance in the Kyrgyz Republic Within the Framework of the Pilot Project.
- 30 October The Board took into consideration the report on the current condition of the payment system for the third quarter of 2006.
- 3 November The Executive Board of the International Monetary Fund completed the third review of indicators for the Kyrgyz Republic within the framework of its PRGF economic program supported by a three-year arrangement on the Financing Mechanism for purposes of poverty reduction and economic growth facilitation. The review was completed on 3 November 2006 in the absence of objections, and gave the possibility to borrow the amount equivalent to 1.27 SDR (about US\$ 1.9 million) by the Kyrgyz Republic within the framework of this arrangement.
- 11-27 November The advisor from the US Treasury Technical Assistance Office paid a working visit to the National Bank of the Kyrgyz Republic. During his visit, he held business meetings with representatives of commercial banks and non-bank finance and credit institutions, and also with the working group of NBKR, which develops normative acts on compliance with legislation for purposes of combating the financing of terrorism and money laundering.
- 15 November A traditional monthly press conference was held at Kabar information agency with participation of Mr. Marat Alapaev, Chairman of NBKR, devoted to the results of the monetary policy pursued by the National Bank for ten months of 2006.

- 16 November A traditional seminar was conducted in the National Bank for students of the Kyrgyz-European Faculty of KNU on the following topic: Role and Functions of NBKR as of the Country's Central Bank.
- 24 November A meeting was held in Osh with participation of the management and chiefs from a number of regional departments of the National Bank. Representatives of regional and raion state administrations of Osh Oblast, of judicial and law enforcement authorities, branches of commercial banks, microfinance organizations, credit unions, NGOs, mass media of Osh Oblast, and entrepreneurs also took part in the meeting. Information was presented about the HIPC Initiative, about the Law of the Kyrgyz Republic On Combating the Financing of Terrorism and Money Laundering, effective 8 November 2006, about the progress in implementing the Medium-Term Microfinance Development Strategy in the Kyrgyz Republic for 2006-2010, about the current situation on lending in Osh Oblast to the meeting participants.
- 29 November NBKR Board approved the resolution On Attracting Funds to Time Deposit Accounts of Commercial Banks in accordance with which NBKR commences transactions on attracting funds of commercial banks in national currency to time deposit accounts with the National Bank on a contract basis.
- 29 November NBKR Board considered and took into consideration the Report on the Monetary Policy for Nine Months of 2006.
- 30 November NBKR employees conducted a seminar at AUCA devoted to the issues of reducing external debt of the Kyrgyz Republic.
- 4-9 December The IMF mission paid a working visit to the Kyrgyz Republic. The objective of the mission was to review current execution of the Poverty Reduction and Growth Facility Program (PRGF), and also review issues related to preparation of the draft republican budget for 2007.
- 6 December A meeting of Mr. Marat Alapaev, Chairman of NBKR, Mr. Maksatbek Ishenbaev, Deputy Chairman, and Ms. Sadat Janybekova, Board Member with the Iranian delegation headed by Mr. Davud Djanesh-Djafari, Minister of Economy and Finance of the Islamic Republic of Iran, was held at the National Bank.
- 13 December NBKR Board approved the Regulation On the Structure of NBKR International Reserves for the First Quarter of 2007.
- 14 December A seminar was held at the National Bank of the Kyrgyz Republic for students of the International Institute of Economics and Management under the Kyrgyz State University named after Ishenaly Arabaev on the following topic: Role and Functions of NBKR as of the Central Bank.

- 15 December NBKR Board approved the resolution On NBKR Statement on the Monetary Policy for 2007.
- 15 December NBKR Board considered and approved a number of regulations and instructions regulating banking transactions in OJSC Ecobank in accordance with principles of Islamic Finance.
- 15 December NBKR Board approved the resolution On Main Directions of NBKR Activities until 2008.
- 20 December NBKR Board considered draft Laws of the Kyrgyz Republic On Banking Transactions and Operations Based on Principles of Islamic Finance, On Introducing Addenda to the Law of the Kyrgyz Republic On Banks and Banking Activity in the Kyrgyz Republic, On Introducing Changes to the Civil Code of the Kyrgyz Republic, On Introducing Addendum to the Law of the Kyrgyz Republic On Licensing.
- 22 December The Uniform Interbank Processing Center, a software and hardware complex, was put into operation. The Uniform Interbank Processing Center was a key element in establishing a uniform interbank system of non-cash payments using Elcart banking payment cards. It ensured the receipt, collection and processing of information on payments made using these cards.
- 27 December NBKR Board approved the resolution On Main Directions of the Monetary Policy for 2007-2009.
- 27 December NBKR Board approved the resolution On Introducing Changes and Addenda to the Appendix to the Chart of Accounts in Commercial Banks, Finance and Credit Institutions of the Kyrgyz Republic.
- 27 December NBKR Board adopted the resolution On Approving the Request for License Issue to the Open end Joint Stock Company Aiyl Bank, which is to be established on the basis of Kyrgyz Agricultural Finance Corporation.
- 27 December The National Bank of the Kyrgyz Republic issued a banking license to OJSC Aiyl Bank.
- 30 December The Board of the National Bank of the Kyrgyz Republic approved the resolution On Expanding the Range of Banking Transactions to the Open end Joint Stock Company Settlement and Savings Company.

## 4.2. Statistical Information (Tables and Charts)

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**Table 1: Macroeconomic Indicators**

	Unit of Measurement	2002	2003	2004	2005	2006
<b>Real Sector <sup>1</sup></b>						
Nominal GDP	<i>som million</i>	75 366,7	83 871,6	94 350,7	100 899,2	113 175,6*
Real GDP Growth Rate	<i>percent</i>	0,0	7,0	7,0	-0,2	2,7*
Growth Rate of Industrial Production	<i>percent</i>	-10,9	17,0	4,6	-12,1	-10,2
Growth Rate of Gross Agricultural Output	<i>percent</i>	3,1	3,2	4,1	-4,2	1,5
Retail Turnover	<i>som million</i>	34 090,9	38 735,5	46 614,6	55 494,5	67 772,2
Paid Services	<i>som million</i>	8 794,8	10 980,5	14 267,0	16 050,1	19 921,1
Consumer Prices (in % to December of the prior year)		2,3	5,6	2,8	4,9	5,1
- food goods		2,0	5,2	2,2	9,8	6,7
- non-food goods		0,9	1,9	3,2	2,0	4,6
- services		4,0	18,5	2,5	3,2	7,5
Producers' Prices (in % to December of the prior year)		7,6	11,4	4,4	6,8	10,5
Unemployment Rate	<i>percent</i>	3,1	2,9	2,9	3,3	3,5
Average Nominal Wage	<i>som</i>	1 684,4	1 920,4	2 202,9	2 569,5	3 058,6
Estimated Minimal Consumer Budget	<i>som</i>	1 404,8	1 540,4	1 725,9	1 836,6	2 527,5
<b>Financial Sector <sup>2</sup></b>						
NBKR Discount Rate (end of period)	<i>percent</i>	4,4	4,0	4,0	4,1	3,2
Government Treasury Bills Market (end of period yield as of auction date)	<i>percent</i>					
Maturity Period:						
- 3 months		7,0	3,8	4,0	4,3	4,2
- 6 months		10,3	6,9	4,8	4,8	5,8
- 12 months		12,4	9,1	8,2	7,0	7,9
- 18 months		-	-	-	9,8	10,2
- 24 months		-	-	-	14,9	11,8
Interbank Market						
Credits in National Currency:						
- volume ( for the period)	<i>som million</i>	412,1	295,4	674,1	1 208,1	3 109,6
- interest rate (average for the period)	<i>percent</i>	6,3	4,6	4,8	3,2	2,8
Credits in Foreign Currency:						
- volume ( for the period)	<i>som million</i>	259,5	251,6	331,9	592,9	862,7
- interest rate (average for the period)	<i>percent</i>	5,9	6,0	5,8	4,3	5,7
REPO Transactions						
- turnover volume	<i>som million</i>	1 329,1	1 466,4	3 191,2	5 035,6	7 465,9
- interest rate (average for the period)	<i>percent</i>	5,7	4,1	5,0	4,0	3,3
Foreign Exchange Market						
Transactions at Interbank Foreign Exchange Auctions	<i>US\$ thousand</i>	89 984,8	122 449,9	133 268,2	205 339,5	351 060,0
Deposit and Credit Market						
Credits in National Currency:						
- volume (for the period)	<i>som million</i>	1 385,6	2 003,8	2 559,2	3 025,2	4 671,3
- interest rate (average for the period)	<i>percent</i>	30,2	25,1	24,5	25,4	25,6
Credits in Foreign Currency:						
- volume (for the period)	<i>som million</i>	2 030,2	2 913,7	5 862,5	7 578,2	11 547,2
- interest rate (average for the period)	<i>percent</i>	22,6	19,2	18,9	16,8	17,3
Deposits in National Currency:						
- volume (for the period)	<i>som million</i>	2 502,9	3 601,8	5 902,1	7 976,2	12 647,1
- interest rate (average for the period)	<i>percent</i>	4,1	2,5	2,0	2,0	1,9
Deposits in Foreign Currency:						
- volume (for the period)	<i>som million</i>	11 501,8	28 875,4	95 710,1	117 232,9	62 944,7
- interest rate (average for the period)	<i>percent</i>	0,6	0,5	0,3	0,2	0,5
<b>State Budget <sup>3</sup></b>						
Revenues	<i>som million</i>	14 392,1	16 214,5	18 335,9	20 368,10	25 081,3

including taxes	<i>percent</i>	72,8	73,5	76,3	80,3	79,7
Expenditures	<i>som million</i>	15 190,2	16 895,9	18 841,7	20 143,70	25 297,8
Deficit (-) / Surplus (+)	<i>som million</i>	-798,1	-681,4	-505,8	224,4	-216,5
in percent of GDP	<i>percent of GDP</i>	-1,1	-0,8	-0,5	0,2	-0,2
<b>External Economic Sector<sup>4</sup></b>						
Export of Goods and Services	<i>percent of GDP</i>	39,7	38,7	42,5	38,6	40,5 *
Import of Goods and Services	<i>percent of GDP</i>	44,6	45,7	50,8	57,2	77,7 *
Current Account (including transfers)	<i>percent of GDP</i>	-3,0	-4,4	-3,4	-8,3	-23,9*
Reserve Assets	<i>months of import of goods and services of the following year</i>	3,9	3,8	4,7	3,3	3,7 *

\* preliminary data.

<sup>1</sup> NSC KR data.

<sup>2</sup> NBKR data.

<sup>3</sup> MEF KR without PIP

<sup>4</sup> NSC KR and NBKR data.

"-" - no transactions available.

**Table 2 : GDP Structure***( percent)*

	2002	2003	2004	2005	2006 *
Agriculture, hunting and forestry	34,4	33,6	29,9	28,5	29,0
Mineral resource industry	0,5	0,5	0,6	0,6	0,5
Processing industry	13,0	13,3	15,3	12,9	11,3
Production and distribution of electricity, gas, and water	4,4	3,6	3,3	3,9	3,1
Construction	3,4	2,9	2,5	2,7	2,7
Trade, repair of motor vehicles, household goods and personal use items	14,3	15,2	16,0	17,8	19,3
Hotels and restaurants	1,1	1,5	1,6	1,3	1,5
Transportation and communication	5,1	5,4	6,4	6,6	6,2
Other	23,8	24,1	24,4	25,8	26,4
<b>Total</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>	<b>100,0</b>

NSC KR data.

\* preliminary data.

**Table 3: Structure of Capital Investments by Sources of Financing***( percent)*

	2002	2003	2004	2005	2006*
<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>67,4</b>	<b>65,1</b>	<b>66,2</b>	<b>71,6</b>	<b>80,5</b>
including those financed by:					
Republican budget	8,4	7,8	8,0	6,3	6,5
of which funds for emergency relief:	1,5	1,7	2,0	1,9	1,1
Local budget	1,3	2,4	2,4	1,3	1,7
Funds of enterprises and organizations	40,8	37,7	27,0	37,5	36,9
Funds of the population and others	16,9	17,2	28,7	26,6	35,4
<b>Foreign investments</b>	<b>32,6</b>	<b>34,9</b>	<b>33,8</b>	<b>28,4</b>	<b>19,5</b>
including those financed by:					
Foreign grants and humanitarian aid	19,9	21,5	21,9	15,6	12,0
Foreign loans	10,9	2,2	6,2	11,2	5,7
Foreign direct investments	1,8	4,5	5,8	1,7	1,8

NSC KR data.

\* preliminary data.



**Table 4: Monetary Aggregates (end of period)***(som million)*

	2002	2003	2004	2005	2006
Monetary base	7 658,4	10 075,3	12 379,9	15 465,6	22 798,8
Currency in circulation	7 058,0	9 623,3	11 425,1	13 413,8	19 909,7
Money outside banks (M0)	6 872,6	9 315,1	11 124,0	13 065,4	19 410,0
Monetary aggregate (M1)	7 784,6	10 515,7	12 891,6	15 014,1 <sup>1</sup>	22 690,0
Broad money (M2)	8 304,1	11 086,3	13 568,5	15 959,3 <sup>1</sup>	24 108,1
Monetary aggregate (M2X)	10 995,6	14 676,4	19 379,3	21 295,9 <sup>1</sup>	32 280,9
M2 Multiplier *	1,08	1,10	1,10	1,03	1,03
M2X Multiplier*	1,44	1,46	1,57	1,38	1,42
M1 Velocity**	11,6	9,3	8,1	7,3	6,3
M2 Velocity **	10,5	8,7	7,7	6,9	5,9
M2X Velocity**	8,0	6,7	5,7	4,8	4,5
Currency outside banks/Deposits	1,67	1,74	1,35	1,59	1,51
Deposits/Broad money (M2X)	0,37	0,37	0,43	0,39	0,40

<sup>1</sup> since 1 October 2005 data on deposits and credits is presented in accordance with the new Chart of Accounts for Commercial Banks, where the residence characteristic is taken into account.

\* multiplier is an indicator of monetary units created by each monetary base item

\*\*velocity equals to the ration of the nominal annualized GDP to average monthly money supply.

**Note:** M0-currency outside banks, M1=M0+demand deposits, M2=M1+time deposits  
in national currency, M2X=M2+deposits in foreign currency.

**Table 5: External Economic Indicators**

	Unit of Measurement	2002	2003	2004	2005	2006 <sup>1</sup>
<b>Balance of payments indicators<sup>2</sup></b>						
Total balance	<i>US\$ million</i>	28,6	9,5	118,7	29,1	127,4
	<i>percent of GDP<sup>3</sup></i>	1,8	0,5	5,4	1,2	4,5
Current account	<i>US\$ million</i>	-48,9	-85,2	-75,5	-203,5	-685,4
	<i>percent of GDP<sup>3</sup></i>	-3,0	-4,4	-3,4	-8,3	-24,0
Export of goods (FOB)	<i>US\$ million</i>	498,1	590,3	733,2	686,8	810,8
	<i>percent of GDP<sup>3</sup></i>	30,9	30,5	33,1	28,1	28,3
Import of goods (FOB)	<i>US\$ million</i>	571,4	723,1	903,8	1105,5	1799,1
	<i>percent of GDP<sup>3</sup></i>	35,4	37,4	40,7	45,3	62,9
Reserve assets	<i>months of import of goods and services of the following year</i>	3,9	3,8	4,7	3,3	3,7
<b>External debt</b>						
Public external debt <sup>4</sup>	<i>US\$ million</i>	1586,3	1776,4	1959,2	1860,2	1982,6
	<i>percent of GDP</i>	98,3	91,9	88,3	76,2	69,3
	<i>percent of export of goods and services</i>	247,8	237,3	207,8	197,4	171,2
Public external debt servicing (schedule) <sup>5</sup>	<i>US\$ million</i>	86,5	96,7	106,3	112,9	61,9
	<i>percent of GDP</i>	5,4	5,0	4,8	4,6	2,2
	<i>percent of export of goods and services</i>	13,5	12,9	11,3	12,0	5,3
<b>Nominal exchange rate<sup>6</sup></b>						
I. Currencies of countries outside of the CIS						
US dollar	<i>som/USD</i>	46,0949	44,1902	41,6246	41,3011	38,1238
British pound	<i>som/pound sterling</i>	73,8947	78,3227	80,2148	71,3229	74,7627
Euro	<i>som/euro</i>	47,8719	55,0323	56,3930	48,9686	50,1805
Canadian dollar	<i>som/dollar</i>	29,5442	33,7356	33,8632	35,5370	32,8484
Japanese yen	<i>som/10 yen</i>	3,8408	4,1288	4,0194	3,5204	3,2065
Turkish lira	<i>som/1 lira</i>	0,0276	0,0313	0,0304	30,6843	26,9903
II. Currencies of FSU countries						
Russian ruble	<i>som/ruble</i>	1,4499	1,5110	1,4955	1,4346	1,4452
Kazakh tenge	<i>som/tenge</i>	0,2966	0,3070	0,3202	0,3087	0,3002
Uzbek sum	<i>som/sum</i>	0,0486	0,0451	0,0394	0,0350	0,0308
Ukrainian grivna	<i>som/grivna</i>	8,6443	8,2885	7,8451	8,1784	7,5493
Azerbaijan manat	<i>som/1000 manat</i>	9,5283	8,9781	8,4914	8,9922	43,7450
Armenian dram	<i>som/ 10 dram</i>	0,8261	0,7851	0,8602	0,9174	1,0490
Belorussian ruble	<i>som/ruble</i>	2,4045	2,0525	1,9155	1,9192	1,7815
Latvian lat	<i>som/lat</i>	77,6008	81,5317	80,2015	70,2878	71,1265
Lithuanian lit	<i>som/lit</i>	11,5237	15,8963	16,2077	14,1828	14,4935
Moldovian lei	<i>som/lei</i>	3,3322	3,3467	3,3390	3,2186	2,9542
Estonian krona	<i>som/krona</i>	3,0596	3,5172	3,6042	3,1297	3,2071
Tajik somoni	<i>som/somoni</i>	15,3650	14,8824	13,7058	12,9082	11,1262

<sup>1</sup> indicators on the balance of payments and external debt are preliminary.<sup>2</sup> NSC KR and NBKR data.<sup>3</sup> calculated on the basis of the annual average nominal exchange rate.<sup>4</sup> including IMF credits.<sup>5</sup> excluding bilateral debt restructuring within the framework of the Paris Club of Creditors in 2002 and 2005.<sup>6</sup> NBKR data as of period end.

**Table 6: Monetary Policy Instruments**

	unit of measurement	2002	2003	2004	2005	2006
<b>NBKR Credits (for the period)</b>						
Credits (overnight)	<i>som million</i>	2910,42	4397,5	8927,3	2628,5	-
Last resort credits	<i>som million</i>	25,00	-	-	-	-
<b>NBKR Discount Rate (end of period)</b>	<i>percent</i>	4,43	3,97	4,00	4,13	3,15
<b>NBKR Notes</b>						
	<i>som million</i>					
maturity:						
7 days						
sales (for the period)	<i>som million</i>	-	8,00	-	-	-
yield (average for the period)	<i>percent</i>	-	4,84	-	-	-
14 days						
sales (for the period)	<i>som million</i>	-	-	-	-	72,0
yield (average for the period)	<i>percent</i>	-	-	-	-	3,85
28 days						
sales (for the period)	<i>som million</i>	112,00	112,00	163,50	146,50	100,00
yield (average for the period)	<i>percent</i>	6,98	3,99	4,67	4,35	3,89
<b>Open Market Transactions (for the period)</b>						
Direct REPO	<i>som million</i>	214,83	180,10	432,68	17,00	-
Reverse REPO	<i>som million</i>	193,75	715,10	271,30	210,50	1 795,85
<b>NBKR Deposit Transactions</b>						
volume (for the period)	<i>som million</i>	-	-	-	-	50,0
interest rate (average for the period)	<i>percent</i>	-	-	-	-	2,00
<b>NBKR Foreign Exchange Interventions (for the period)</b>						
	<i>USD million</i>					
Purchase		33,55	53,04	41,92	83,24	186,17
Sale		9,19	7,95	2,73	11,96	-
<b>NBKR SWAP Foreign Exchange Transactions (for the period)</b>						
	<i>USD million</i>					
Purchase		9,51	9,84	4,99	1,60	-
Sale		-	-	-	-	8,40
<b>Mandatory Reserve Requirements</b>						
Reserve requirement ratio (end of period)	<i>percent</i>	10,0	10,0	10,0	10,0	10,0
Required reserves (annual average)	<i>som million</i>	262,3	351,6	534,9	873,4	1 371,7
Excess reserves (annual average)	<i>som million</i>	144,4	177,3	287,8	503,9	706,4

"-"- no transactions

**Table 7: Interest Rates of Deposits in National Currency  
(end of period)**

(percent)

	2002	2003	2004	2005	2006
<b>Deposits of Legal Entities</b>					
<i>demand deposits:</i>	<b>1,36</b>	<b>0,73</b>	<b>0,98</b>	<b>1,43</b>	<b>1,20</b>
<i>time deposits:</i>	<b>9,19</b>	<b>8,58</b>	<b>9,84</b>	<b>9,01</b>	<b>8,86</b>
<i>including:</i>					
up to 1 month	1,93	7,48	7,47	9,48	7,47
1-3 months	5,83	6,50	8,89	7,04	6,66
3-6 months	9,25	8,79	10,59	10,35	10,09
6-12 months	12,31	9,25	11,44	9,76	10,98
over 1 year	16,13	10,96	12,91	10,03	10,11
<b>Deposits of Individuals</b>					
<i>demand deposits:</i>	<b>1,09</b>	<b>0,86</b>	<b>1,69</b>	<b>2,21</b>	<b>2,15</b>
<i>time deposits:</i>	<b>13,92</b>	<b>10,69</b>	<b>10,36</b>	<b>10,65</b>	<b>10,79</b>
<i>including:</i>					
up to 1 month	4,81	11,30	8,87	9,59	9,10
1-3 months	7,58	10,15	8,65	8,52	9,18
3-6 months	11,43	9,75	9,56	9,76	10,19
6-12 months	14,10	10,98	11,14	10,98	11,54
over 1 year	17,55	13,06	13,80	14,04	12,67
<b>Average Weighted Rate</b>	<b>5,11</b>	<b>3,61</b>	<b>3,52</b>	<b>4,03</b>	<b>3,64</b>

**Table 8: Interest Rates of Deposits in Foreign Currency**  
(end of period)

<i>(percent)</i>	2002	2003	2004	2005	2006
<b>Deposits of Legal Entities</b>					
<i>demand deposits:</i>	<b>0,13</b>	<b>0,19</b>	<b>0,47</b>	<b>0,16</b>	<b>0,11</b>
<i>time deposits:</i>	<b>3,66</b>	<b>4,75</b>	<b>4,55</b>	<b>5,80</b>	<b>5,69</b>
<i>including:</i>					
up to 1 month	7,98	5,73	3,74	4,09	3,93
1-3 months	6,69	4,36	4,79	5,44	6,24
3-6 months	9,90	7,17	6,21	6,87	3,59
6-12 months	5,78	6,50	7,06	9,54	9,19
over 1 year	3,13	4,48	4,34	4,79	6,45
<b>Deposits of Individuals</b>					
<i>demand deposits:</i>	<b>0,09</b>	<b>0,06</b>	<b>0,80</b>	<b>0,17</b>	<b>0,21</b>
<i>time deposits:</i>	<b>9,27</b>	<b>8,40</b>	<b>8,15</b>	<b>8,45</b>	<b>8,27</b>
<i>including:</i>					
up to 1 month	1,62	7,54	5,45	5,92	6,20
1-3 months	4,10	7,92	6,74	7,20	7,17
3-6 months	7,75	8,10	7,85	8,23	8,80
6-12 months	8,67	8,03	9,57	9,11	9,36
over 1 year	11,04	11,21	11,63	11,53	8,18
<b>Average Weighted Rate</b>	<b>2,08</b>	<b>2,22</b>	<b>2,12</b>	<b>1,64</b>	<b>1,51</b>

**Table 9: Interest Rates on Credits of Commercial Banks  
in National Currency (debt as of period end)**

(percent)

	2002	2003	2004	2005	2006
<b>up to 1 month</b>	<b>21,43</b>	<b>30,61</b>	<b>29,09</b>	<b>24,85</b>	<b>27,75</b>
Industry	20,00	28,05	28,54	31,45	28,51
Agriculture	45,00	33,13	28,40	28,33	27,00
Transportation and communication	17,00	45,00	20,01	18,94	34,47
Trade	32,13	30,91	32,77	24,26	28,87
Procurement and processing	-	33,40	22,25	30,19	35,00
Construction	-	34,65	28,81	30,61	22,33
Mortgage*		9,08	17,77	20,00	18,11
To individuals	26,20	31,97	30,87	32,98	31,01
Other	13,20	31,56	25,08	21,93	26,41
<b>1-3 months</b>	<b>30,16</b>	<b>23,54</b>	<b>27,22</b>	<b>27,54</b>	<b>27,89</b>
Industry	36,29	25,60	25,48	30,86	24,97
Agriculture	45,69	30,59	24,83	28,49	28,33
Transportation and communication	30,13	17,81	22,67	16,95	26,93
Trade	22,36	22,50	30,65	28,75	29,58
Procurement and processing	68,70	38,36	26,37	28,76	22,52
Construction	26,46	35,30	29,81	25,80	22,68
Mortgage*		3,24	20,27	24,95	20,21
To individuals	46,99	31,33	30,85	28,46	29,29
Other	27,23	34,59	20,01	25,31	24,05
<b>3-6 months</b>	<b>35,82</b>	<b>24,43</b>	<b>22,87</b>	<b>24,09</b>	<b>25,63</b>
Industry	32,20	23,28	14,51	23,55	19,12
Agriculture	36,53	30,47	27,37	27,43	28,77
Transportation and communication	65,00	19,00	19,30	21,46	31,71
Trade	33,32	26,99	22,62	23,72	28,51
Procurement and processing	31,27	30,84	26,86	24,48	30,13
Construction	24,10	36,24	24,98	21,05	22,87
Mortgage*		5,83	21,26	22,13	20,94
To individuals	36,88	32,11	30,81	29,19	28,81
Other	40,77	18,39	24,67	25,19	16,21
<b>6-12 months</b>	<b>30,99</b>	<b>27,12</b>	<b>24,51</b>	<b>27,25</b>	<b>27,82</b>
Industry	31,05	25,55	22,99	19,13	25,43
Agriculture	32,81	28,85	28,11	26,70	29,20
Transportation and communication	26,63	18,36	19,99	32,87	31,81
Trade	26,92	29,26	25,11	28,87	28,34
Procurement and processing	43,57	26,77	23,25	24,92	24,83
Construction	11,92	22,56	25,56	22,51	23,16
Mortgage*		16,21	19,79	18,72	19,30
To individuals	39,75	30,79	28,99	28,40	27,63
Other	28,92	24,39	19,51	24,50	25,16
<b>over 1 year</b>	<b>26,87</b>	<b>19,83</b>	<b>21,50</b>	<b>21,31</b>	<b>19,71</b>
Industry	22,91	22,78	20,28	20,44	19,62
Agriculture	26,92	13,41	20,63	23,30	26,17
Transportation and communication	2,00	-	25,81	30,24	13,81
Trade	19,45	24,51	24,70	25,39	22,16
Procurement and processing	45,00	-	-	20,77	21,20
Construction	8,44	22,72	24,48	21,65	15,49
Mortgage*		16,25	19,77	19,47	17,56
To individuals	7,33	10,28	17,41	23,37	23,07
Other	31,09	19,77	21,60	18,21	18,04
<b>Overdue debt*</b>		<b>29,78</b>	<b>23,18</b>	<b>22,97</b>	<b>20,81</b>
Industry		42,88	23,95	13,58	22,91

Agriculture	28,70	29,01	29,72	21,55
Transportation and communication	-	-	27,00	-
Trade	32,23	23,10	24,04	20,66
Procurement and processing	56,79	25,87	23,90	29,80
Construction	27,01	0,00	6,17	15,38
Mortgage*	0,74	21,88	22,23	19,26
To individuals	36,04	29,44	39,55	24,61
Other	15,45	17,13	16,58	15,69
<b>Average Weighted Rate</b>	<b>29,61</b>	<b>25,17</b>	<b>24,08</b>	<b>24,38</b>

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"-" - no transactions

\*Due to introduction of a different classification of credits, interest rates on overdue and mortgage loans until April 2003 have been accounted for with a view of interest rates on credit debts in the appropriate sector and according to the term, for which they were issued under the agreement. Starting April 2003, the term of loans is shown as the actual period to repayment.

**Table 10: Interest Rates on Credits of Commercial Banks  
in Foreign Currency (debt as of period end)**

(percent)

	2002	2003	2004	2005	2006
<b>up to 1 month</b>	<b>12,46</b>	<b>19,44</b>	<b>20,03</b>	<b>13,25</b>	<b>18,82</b>
Industry	12,55	17,56	18,80	12,85	13,79
Agriculture	30,00	20,00	19,23	21,20	24,78
Transportation and communication	24,00	17,00	11,71	25,78	24,46
Trade	22,03	17,21	19,78	22,03	24,90
Procurement and processing	24,00	29,77	10,90	12,80	-
Construction	-	25,00	18,97	7,90	19,14
Mortgage*		31,22	19,58	20,00	20,93
To individuals	32,09	27,52	25,21	24,09	19,37
Other	6,02	23,72	21,06	11,92	27,12
<b>1-3 months</b>	<b>23,22</b>	<b>22,03</b>	<b>15,16</b>	<b>16,70</b>	<b>17,42</b>
Industry	30,48	19,63	16,77	15,48	15,58
Agriculture	23,45	30,11	22,06	23,80	23,61
Transportation and communication	182,50	28,21	16,04	20,57	24,33
Trade	22,32	26,26	13,32	20,26	19,89
Procurement and processing	40,70	29,54	22,00	24,00	22,00
Construction	21,52	29,03	18,39	20,71	24,15
Mortgage*		20,47	18,93	19,24	17,42
To individuals	23,87	26,71	21,13	23,36	26,21
Other	21,36	22,93	19,83	10,51	12,63
<b>3-6 months</b>	<b>25,09</b>	<b>22,16</b>	<b>19,20</b>	<b>19,33</b>	<b>18,81</b>
Industry	24,24	19,67	15,91	17,34	15,15
Agriculture	23,19	19,99	19,29	21,97	20,95
Transportation and communication	30,93	23,24	16,22	23,89	17,43
Trade	21,64	24,35	20,13	20,24	19,17
Procurement and processing	22,77	19,28	20,56	22,75	24,91
Construction	22,88	23,57	20,41	18,19	18,04
Mortgage*		22,36	19,84	16,06	18,87
To individuals	29,39	24,27	22,74	23,13	23,32
Other	24,03	21,63	20,37	18,72	22,69
<b>6-12 months</b>	<b>26,05</b>	<b>22,27</b>	<b>20,12</b>	<b>19,04</b>	<b>20,13</b>
Industry	22,45	19,06	16,98	16,07	16,25
Agriculture	28,80	23,86	22,26	24,67	23,79
Transportation and communication	82,29	18,55	19,72	22,75	23,10
Trade	23,76	22,88	21,69	20,97	20,91
Procurement and processing	32,24	24,15	19,61	18,13	14,06
Construction	19,96	20,92	18,93	20,99	19,70
Mortgage*		21,82	18,85	19,02	17,88
To individuals	28,90	22,91	19,34	21,90	23,49
Other	27,97	24,55	20,37	13,15	19,81
<b>over 1 year</b>	<b>17,18</b>	<b>17,33</b>	<b>16,57</b>	<b>16,73</b>	<b>17,28</b>
Industry	15,21	15,92	15,13	15,25	14,84
Agriculture	12,80	14,88	23,92	20,65	18,76
Transportation and communication	16,81	15,30	18,95	16,17	19,40
Trade	19,20	21,30	16,43	16,68	19,12
Procurement and processing	30,00	10,61	16,89	18,36	14,89
Construction	17,50	16,23	16,62	15,86	15,79
Mortgage*		19,17	19,08	17,49	16,40
To individuals	21,07	21,29	17,62	19,10	19,71
Other	20,58	16,68	16,92	17,49	17,70
<b>Overdue debt*</b>		<b>18,52</b>	<b>22,78</b>	<b>48,81</b>	<b>16,20</b>
Industry		27,59	29,18	72,64	16,46
Agriculture		29,93	23,09	21,68	25,18
Transportation and communication		13,40	12,06	29,07	29,05
Trade		11,31	21,18	43,20	23,42



Procurement and processing	23,14	25,76	15,69	17,83
Construction	20,17	17,40	24,20	18,00
Mortgage*	29,46	19,04	63,51	19,61
To individuals	25,83	24,57	36,86	20,36
Other	20,25	16,40	61,35	10,09
<b>Average Weighted Rate</b>	<b>22,19</b>	<b>20,44</b>	<b>18,04</b>	<b>17,97</b>

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"-" - no transactions

\*Due to introduction of a different classification of credits, interest rates on overdue and mortgage loans until April 2003 have been accounted for with a view of interest rates on credit debts in the appropriate sector and according to the term, for which they were issued under the agreement. Starting April 2003, the term of loans is shown as the actual period to repayment.

**Table 11: Annual Average Interest Rate of Interbank Credits (excluding transactions with non-residents)**

(percent)

	2002	2003	2004	2005	2006
<b>Interbank REPO Transactions</b>	<b>5,66</b>	<b>4,14</b>	<b>5,02</b>	<b>3,97</b>	<b>3,33</b>
up to 1 day	5,71	4,04	4,85	4,02	3,32
2 - 7 days	5,66	4,13	4,96	3,96	3,32
8 - 14 days	6,23	4,45	5,18	4,00	3,46
15 - 30 days	5,75	4,55	6,15	3,89	3,31
31 - 60 days	-	5,00	6,00	4,11	4,00
61 - 90 days	-	4,70	5,60	-	-
91 - 180 days	-	-	6,70	-	-
181 - 360 days	-	-	-	-	-
<b>Interbank Credits in National Currency</b>	<b>6,26</b>	<b>4,61</b>	<b>4,84</b>	<b>3,25</b>	<b>2,83</b>
up to 1 day	6,11	4,63	5,08	4,51	2,99
2 - 7 days	6,49	4,58	4,84	3,05	2,70
8 - 14 days	6,43	4,21	4,40	2,40	2,79
15 - 30 days	-	4,75	3,63	3,54	3,55
31 - 60 days	-	6,00	-	1,00	-
61 - 90 days	-	-	6,00	7,00	-
91 - 180 days	-	4,32	-	12,00	-
181 - 360 days	-	-	-	-	7,00
<b>Interbank Credits in Foreign Currency</b>	<b>5,92</b>	<b>5,95</b>	<b>5,80</b>	<b>4,32</b>	<b>5,73</b>
up to 1 day	5,50	-	5,17	-	5,15
2 - 7 days	4,37	4,08	4,32	3,70	4,66
8 - 14 days	4,50	4,83	7,79	3,38	4,68
15 - 30 days	6,57	5,28	5,42	3,59	6,43
31 - 60 days	6,18	4,25	5,50	2,75	6,85
61 - 90 days	7,03	9,00	8,50	-	5,00
91 - 180 days	6,98	8,17	6,40	7,12	7,75
181 - 360 days	10,00	8,38	-	6,04	7,77

"-" - no transactions

**Table 12: Balance of Payments of the Kyrgyz Republic***(USD million)*

	2002	2003	2004	2005	2006*
<b>CURRENT ACCOUNT</b>	<b>-48,9</b>	<b>-85,2</b>	<b>-75,5</b>	<b>-203,5</b>	<b>-685,4</b>
Goods and services	-79,4	-134,7	-184,5	-454,6	-1064,8
Trade balance	-73,3	-132,8	-170,6	-418,7	-988,3
Export (FOB)	498,1	590,3	733,2	686,8	810,8
CIS	170,3	202,4	277,6	305,0	380,9
Countries outside of the CIS	327,7	387,9	455,5	381,8	429,9
Import (FOB)	571,4	723,1	903,8	1105,5	1799,1
CIS	311,7	394,5	554,4	641,0	940,0
Countries outside of the CIS	259,6	328,7	349,4	464,5	859,2
Balance of services	-6,2	-1,9	-13,9	-35,9	-76,5
Transportation services	-18,5	-22,3	-37,9	-64,9	-104,4
Trips	25,8	31,2	25,3	14,6	75,3
Construction services	0,5	0,8	6,0	1,1	-0,6
Other services (excluding TA)	7,0	8,7	13,5	34,2	-25,8
Technical assistance (TA)	-21,0	-20,3	-20,8	-21,0	-21,0
Income	-57,8	-62,2	-99,6	-80,9	-53,4
Income from direct investments	-19,6	-26,8	-57,6	-34,1	-30,6
Income from portfolio investments	0,3	0,3	0,1	0,0	0,1
Income from other investments	-26,3	-22,4	-28,4	-29,4	-3,8
Interests on credits (schedule)	-31,8	-26,9	-36,8	-36,8	-31,9
Other income from other investments	5,5	4,5	8,4	7,4	28,1
Remuneration of labor	-12,2	-13,3	-13,7	-17,4	-19,1
Current transfers	88,4	111,7	208,5	332,1	432,9
<b>CAPITAL AND FINANCIAL ACCOUNT</b>	<b>69,0</b>	<b>-14,8</b>	<b>103,3</b>	<b>-70,6</b>	<b>197,1</b>
Capital account	-7,9	-0,9	-19,9	-20,5	-46,9
Capital transfers	-7,9	-0,9	-19,9	-20,5	-46,9
Financial account	76,9	-14,0	123,2	-50,1	244,0
Direct investments	4,7	45,5	131,1	42,6	102,8
Portfolio investments	-12,0	6,0	-2,5	-4,4	-2,7
Financial derivatives	-5,1	-20,0	-20,5	0,0	0,0
Other investments	89,4	-45,5	15,1	-88,3	143,9
Assets (- increase)	15,1	-76,6	-36,1	-61,2	22,0
Commercial banks	-42,8	-50,2	-63,6	-24,5	-11,6
Other assets	58,0	-26,5	27,4	-36,7	33,7
Liabilities (+ increase)	74,2	31,1	51,2	-27,1	121,9
Commercial banks	32,7	36,6	33,8	-65,5	-16,9
Credits	30,9	-13,4	40,3	16,4	30,3
Credits to public sector	46,8	34,0	56,3	16,3	23,3
Disbursement	84,0	75,5	99,2	66,0	78,5
Amortization (schedule)	-37,2	-41,6	-42,9	-49,7	-55,3
Credits to private sector	-15,9	-47,4	-16,0	0,1	7,1
Disbursement	3,0	13,3	6,9	10,7	11,7

Amortization	-18,9	-60,7	-22,9	-10,6	-4,6
Other liabilities	10,6	7,9	-23,0	22,0	108,4
Errors and omissions	8,5	109,6	91,0	303,2	615,6
<b>TOTAL BALANCE</b>	<b>28,6</b>	<b>9,5</b>	<b>118,7</b>	<b>29,1</b>	<b>127,4</b>
Financing	<b>-28,6</b>	<b>-9,5</b>	<b>-118,7</b>	<b>-29,1</b>	<b>-127,4</b>
NBKR reserves	-43,8	-50,8	-160,6	-80,5	-169,9
IMF loans	-6,0	-0,9	-3,8	-12,5	-23,5
Exceptional financing	21,2	42,2	45,7	63,9	66,1
Other financing	0,0	0,0	0,0	0,0	0,0

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\* preliminary data

**Table 13: Data on External Debt of the Kyrgyz Republic**  
(end of period)\*

(USD million)

	2002	2003	2004	2005	2006 <sup>1</sup>
Total external debt (I+II)	1 837,6	1 970,0	2 110,1	2 001,4	2 220,0
I. Public and Government-guaranteed debt	1 586,3	1 776,4	1 959,2	1 860,2	1 982,6
Official creditors					
Multilateral <sup>2</sup>	1 069,7	1 211,4	1 350,4	1 285,3	1 380,4
IMF	185,2	201,90	206,94	177,9	163,07
World Bank	457,0	525,22	579,05	562,8	613,47
European Bank for Reconstruction and Development	48,6	39,72	32,74	27,7	16,59
Asian Development Bank	342,5	399,90	477,84	466,8	535,59
Islamic Bank for Reconstruction and Development	18,7	23,94	30,67	28,8	29,42
International Fund for Agricultural Development	5,7	7,01	9,22	9,0	10,04
		5,9	6,4		
OPEC Fund	6,7	7,30	7,05	6,3	5,62
Nordic Development Fund	5,3	6,38	6,88	6,0	6,65
Bilateral	506,5	555,3	599,8	574,8	599,7
CIS countries	182,4	180,2	192,9	197,1	200,0
Russia	171,1	168,61	181,78	186,0	188,86
Uzbekistan	11,3	11,60	11,11	11,1	11,11
Other countries (excluding CIS)	324,0	375,1	406,9	377,7	399,8
Turkey	44,5	45,81	46,27	46,3	48,41
Japan	197,0	229,81	247,36	225,2	235,16
Germany	26,5	37,09	44,98	40,8	58,85
Pakistan	8,4	8,40	10,02	10,0	0,00
China	10,3	13,31	13,59	13,6	14,01
France	4,1	5,04	5,66	5,5	5,70
Kuwait Fund	13,0	15,54	15,57	15,7	15,67
India	0,9	0,95	1,02	1,0	1,02
South Korea	13,5	14,09	16,51	16,7	17,94
Denmark	5,8	5,01	5,88	3,0	3,00
Government-guaranteed debt	10,1	9,72	9,09	0,0	2,38
II. Private non-guaranteed debt	251,3	193,6	150,9	141,2	237,4

\* MEF KR data

<sup>1</sup> preliminary data

<sup>2</sup> creditors acting on multilateral basis, including international financial institutions

**Table 14: Structure of Exports<sup>1</sup>***(USD million)*

	2002	2003	2004	2005	2006*
<b>Total</b>	<b>485,5</b>	<b>581,7</b>	<b>718,8</b>	<b>672,0</b>	<b>794,1</b>
Food products and live animals	31,2	37,5	62,3	56,6	90,5
Drinks and tobacco	21,0	13,6	16,2	18,6	12,8
Non-food raw materials, other than fuel	82,5	67,9	77,6	75,8	75,0
Mineral fuels, lubricants, and similar materials	58,2	67,3	81,2	78,8	148,9
Animal and vegetable oils, fats and wax	0,2	0,1	0,1	0,1	0,0
Chemical substances and similar products not included in other categories	25,5	9,8	22,0	14,6	13,1
Industry goods classified by the type of material	36,1	57,1	78,1	85,9	96,0
Machinery and transport equipment	48,8	43,4	51,4	51,2	74,5
Various finished products	19,3	25,3	42,6	59,7	77,3
Goods and transactions not included in other categories of the International Standard Commodity Classification	162,8	259,7	287,4	230,7	206,0

<sup>1</sup> by sections of the International Standard Commodity Classification (without exports by shuttle traders).

\* NSC KR preliminary data

**Table 15: Structure of Imports<sup>1</sup>***(USD million)*

	2002	2003	2004	2005	2006*
<b>Total</b>	<b>586,7</b>	<b>717,0</b>	<b>941,0</b>	<b>1101,3</b>	<b>1723,0</b>
Food products and live animals	53,2	56,3	81,2	114,9	187,9
Drinks and tobacco	19,2	26,1	34,4	42,0	46,4
Non-food raw materials, other than fuel	23,8	26,8	30,5	36,3	46,2
Mineral fuels, lubricants, and similar materials	152,0	180,5	256,3	313,7	506,9
Animal and vegetable oils, fats and wax	3,8	9,2	11,3	9,2	12,6
Chemical substances and similar products not included in other categories	87,0	104,8	137,4	157,4	178,0
Industry goods classified by the type of material	76,4	111,8	150,7	161,5	236,7
Machinery and transport equipment	122,6	142,5	180,1	199,5	407,9
Various finished products	48,7	58,9	59,1	65,5	97,6
Goods and transactions not included in other categories of the International Standard Commodity Classification	0,0	0,0	0,0	1,3	2,6

<sup>1</sup> by sections of the International Standard Commodity Classification (in CIF prices, without imports by shuttle traders)

\* NSC KR and NBKR preliminary data

**Table 16: Information on Authorized (Shareholders') Capital of Commercial Banks and Settlement and Savings Company (end of period)**

(som thousand)

Name of Banks	2002			2003			2004			2005			2006		
	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c
<b>Total</b>	<b>2011214,9</b>	<b>1802536,7</b>	<b>756902,1</b>	<b>2416430,0</b>	<b>1950289,0</b>	<b>905954,6</b>	<b>2470844,0</b>	<b>2425138,0</b>	<b>1391656,2</b>	<b>3050756,0</b>	<b>2959605,0</b>	<b>1963408,2</b>	<b>3962806,0</b>	<b>3598492,0</b>	<b>2336735,0</b>
OJSC 'AsiaUniversalBank'	200000,0	200000,0	100743,8	300000,0	200000,0	136120,0	300000,0	300000,0	236217,0	300000,0	300000,0	236217,0	400000,0	300000,0	218897,0
OJSC Russian-Kyrgyz 'Amanbank'	55000,0	55000,0	18872,0	55000,0	55000,0	18755,0	63000,0	55000,0	13156,0	63000,0	63000,0	17823,0	263000,0	63000,0	11878,0
OJSC 'Ak-Bank' <sup>1</sup>				200000,0	60000,0	28950,0	200000,0	200000,0	87500,0						
CJSC 'Bank of Asia'	63000,0	63000,0	63000,0	63000,0	63000,0	63000,0	63000,0	63000,0	63000,0	63000,0	63000,0	63000,0	79788,0	79788,0	79788,0
OJSC 'BAKAI BANK'	38000,0	38000,0	-	47000,0	47000,0	-	60000,0	60000,0	-	80000,0	80000,0	-	100000,0	100000,0	-
CJSC 'Demir Kyrgyz International Bank'	54052,0	54052,8	54052,8	100000,0	100000,0	100000,0	132540,0	132540,0	132540,0	132540,0	132540,0	132540,0	132540,0	132540,0	132540,0
OJSC 'Dos-Credobank'	50000,0	50000,0	-	100000,0	70720,0	-	100000,0	77294,0	-	100000,0	77825,0	-	130000,0	130000,0	-
Investment Bank OJSC 'Issyk-Kul'	35000,0	25250,0	250,0	35000,0	35000,0	4802,0	50000,0	35000,0	4802,0	60000,0	35000,0	4855,0	60000,0	60000,0	3672,0
CJSC 'INEXIMBANK'	230000,0	100000,0	34519,0	230000,0	100000,0	76930,0	230000,0	230000,0	163300,0	480000,0	480000,0	340800,0	480000,0	480000,0	340800,0
OJSC 'Halyk Bank Kyrgyzstan'	170000,0	170000,0	-	170000,0	170000,0	-	170000,0	170000,0	170000,0	211000,0	211000,0	211000,0	334200,0	334200,0	334200,0
CJSC 'Kyrgyz Investment Credit Bank'	322664,3	322664,3	290397,9	309331,0	309331,4	278398,0	291372,0	291372,0	262234,8	289108,0	289108,0	260197,2	266867,0	266867,0	240180,0
OJSC 'Kazkommertsbank Kyrgyzstan'	100000,0	100000,0	72352,0	100000,0	100000,0	73972,0	100000,0	100000,0	73972,0	100000,0	100000,0	93581,0	100000,0	100000,0	93580,0
OJSC 'Kyrgyzcredit'	35000,0	35000,0	-	35000,0	35000,0	-	40000,0	40000,0	35480,0	100000,0	100000,0	80795,0	110000,0	110000,0	49,0
OJSC 'Kyrgyzpromstroibank'	100000,0	100000,0	-	100000,0	100000,0	-	100000,0	100000,0	-	100000,0	100000,0	-	100000,0	100000,0	-
OJSC 'JSCB Kyrgyzstan'	127079,0	120912,0	-	127079,0	120912,0	-	120912,0	120912,0	-	138912,0	120912,0	-	160912,0	138912,0	-
Bishkek Branch of the National Bank of Pakistan	105419,6	105419,6	105419,6	105420,0	105419,6	105420,0	105420,0	105420,0	105420,0	105420,0	105420,0	105420,0	105420,0	105420,0	105420,0
OJSC 'Settlement and Savings Company'	100000,0	100000,0	-	100000,0	100000,0	-	100000,0	100000,0	-	103800,0	103800,0	-	108790,0	108790,0	-
CJSCB 'Tolubai'	26000,0	26000,0	520,0	31000,0	31000,0	589,0	36000,0	36000,0	589,0	48000,0	48000,0	901,0	63000,0	63000,0	1182,0
OJSC 'FinanceCreditBank KAB' <sup>2</sup>										300000,0	300000,0	300000,0	300000,0	300000,0	300000,0
OJSC 'Ecobank'	100000,0	66038,0	9975,0	100000,0	76706,0	12219,0	100000,0	100000,0	6087,0	125976,0	100000,0	5400,0	168290,0	125976,0	3659,0
OJSC 'ATF Bank Kyrgyzstan'	100000,0	71200,0	6800,0	108600,0	71200,0	6799,6	108600,0	108600,0	37358,4	150000,0	150000,0	110879,0	500000,0	500000,0	470890,0

Note: a - declared authorized capital, b- paid-in authorized capital, c - including the share of foreign investors.

<sup>1</sup> Since 30.04.02 the license has been revoked from JSCB 'KyrgyzKRAMDSbank'. On 06.03.03 the license to perform banking operations has been recovered and replaced on 18.07.03 due to the change in the name of JSCB 'KyrgyzKRAMDSbank' to OJSC 'Ak-Bank'. since 01.09.2004 the conservation regime has been introduced, the license authorizing to perform banking operations has been revoked. Since 19.05.2005 the license has been recovered. On 27.09.05 the conservation regime was terminated in accordance with the resolution of the Supreme Court of the KR. Since 28 September 2005 the conservation regime has been repeatedly introduced. Since 01.11.2005 the license has been revoked. <sup>2</sup> Since 30.12.2005 the license authorizing to perform banking operations has been issued. Bank started its operating activities in January 2006.

"-"- no share of foreign capital



**Table 17: Information on Home Offices and Branches of Commercial Banks, and of the Settlement and Savings Company at the end of 2006.**

Bank	Location of Home Office	Branches Total	Branches							
			Bishkek	Chui Oblast	Issyk-Kul Oblast	Naryn Oblast	Talas Oblast	Jalalabad Oblast	Osh Oblast	Batken Oblast
<b>Branches, total</b>		<b>172</b>	<b>30</b>	<b>27</b>	<b>24</b>	<b>13</b>	<b>8</b>	<b>30</b>	<b>29</b>	<b>11</b>
<b>Branches of resident banks</b>										
OJSC 'AsiaUniversalBank'	Bishkek	2	1	-	1	-	-	-	-	-
OJSC Russian-Kyrgyz 'Amanbank'	Bishkek	6	1	1	2	-	-	1	1	-
CJSC 'Bank of Asia'	Bishkek	-	-	-	-	-	-	-	-	-
OJSC 'BAKAI BANK'	Bishkek	5	-	2	1	-	-	1	1	-
CJSC 'Demir Kyrgyz International Bank'	Bishkek	2	1	-	-	-	-	-	1	-
OJSC 'Dos-Credobank'	Bishkek	7	1	1	1	2	-	1	1	-
Investment Bank OJSC 'Issyk-Kul'	Bishkek	6	2	-	2	-	-	1	1	-
CJSC 'INEXIMBANK'	Bishkek	6	2	1	-	-	-	1	1	1
OJSC 'Halyk Bank Kyrgyzstan'	Bishkek	5	2	1	-	-	-	1	1	-
CJSC 'Kyrgyz Investment Credit Bank'	Bishkek	2	1	-	-	-	-	-	1	-
OJSC 'Kazkommertsbank Kyrgyzstan'	Bishkek	3	1	-	-	-	-	1	1	-
OJSC 'KyrgyzCreditBank'	Bishkek	1	1	-	-	-	-	-	-	-
OJSC 'Kyrgyzpromstroibank'	Bishkek	29	2	5	4	3	2	6	4	3
OJSC 'JSCB Kyrgyzstan'	Bishkek	28	5	4	3	3	1	5	5	2
OJSC 'Settlement and Savings Company'	Bishkek	50	3	8	7	5	4	10	8	5
CJSCB 'Tolubai'	Bishkek	1	1	-	-	-	-	-	-	-
OJSC 'Ecobank'	Bishkek	7	3	2	-	-	-	1	1	-
OJSC 'ATF Bank Kyrgyzstan'	Bishkek	8	1	2	2	-	1	1	1	-
OJSC 'Ak-Bank' <sup>1</sup>	Bishkek	-	-	-	-	-	-	-	-	-
OJSC 'FinanceCreditBank KAB' <sup>2</sup>	Bishkek	2	-	-	1	-	-	-	1	-
OJSC 'Aiyl Bank' <sup>3</sup>	Bishkek	-	-	-	-	-	-	-	-	-
<b>Branches of non-resident banks</b>										
Bishkek Branch of 'CABCD' <sup>4</sup>	Almaty	1	1	-	-	-	-	-	-	-
Bishkek Branch of the National Bank of Pakistan	Karachi	1	1	-	-	-	-	-	-	-

<sup>1</sup> Since 01.11.2005 the license authorizing to perform banking operations has been revoked.

<sup>2</sup> On 30.12.2005 the license authorizing to perform banking operations has been issued. The bank started its operations in January 2006.

<sup>3</sup> branches will be included after re-registration.

<sup>4</sup> Since 31.07.02 the temporary administration regime has been introduced. Since 15.07.02 the license authorizing to perform banking operations has been revoked from CABCD in Almaty. Since 30.07.03 the Temporary Manager was introduced in BB of CJSC CABCD.

"-" - no branches

**Table 18: Composition of Currency Circulation in Commercial Banks and its Recurrence in 2006\****(som million)*

	Receipt				Issue					Suprlus of issue (receipt) over receipt (9-4) (issue) (+/-)	Rate of Recurrence (%) (4/9)
	Taxes, duties and fees	From sales of foreign currency	Other	Total	To the Treasury for payment of wages	For payment of pensions and allowances	For purchase of foreign currency	For other expenses	Total		
	1	2	3	4	5	6	7	8	9	10	11
<b>Republic, total</b>	<b>9 267</b>	<b>10 200</b>	<b>85 699</b>	<b>105 166</b>	<b>8 860</b>	<b>5 323</b>	<b>12 548</b>	<b>83 175</b>	<b>109 906</b>	<b>4740</b>	<b>95,7</b>
Bishkek	5 311	8 801	58 374	72 486	3 212	1 039	9 434	55 338	69 023	-3463	105,0
Batken Oblast	85	12	885	982	482	469	389	1 530	2 870	1888	34,2
Jalalabat Oblast	536	229	5 569	6 334	1 184	806	916	6 482	9 388	3054	67,5
Issyk-Kul Oblast	283	64	2 465	2 812	596	282	250	2 928	4 056	1244	69,3
Naryn Oblast	234	8	523	765	534	386	22	1 114	2 056	1291	37,2
Osh	1 687	946	11 287	13 920	813	272	1 128	9 820	12 033	-1887	115,7
Osh Oblast	267	4	1 257	1 528	771	918	131	1 616	3 436	1908	44,5
Talas Oblast	97	1	783	881	316	287	28	1 205	1 836	955	48,0
Chui Oblast	767	135	4 556	5 458	952	864	250	3 142	5 208	-250	104,8

\* NBKR data.

**Table 19: Volume and Number of Payments in the Payment System**

**19.1: Structure of Payments in the Gross System\***

	2002		2003		2004		2005		2006	
	Volume (som million)	Number	Volume (som million)	Number	Volume (som million)	Number	Volume (som million)	Number	Volume (som million)	Number
Payments under Som 1 thousand	0	2 250	1	3 762	1	3 136	1	2 447	1	3 492
From 1 thousand to 100 thousand	209	8 823	312	13 828	371	14 175	433	16 418	628	23 293
From 100 thousand to 1 million	3 309	9 492	3 806	11 610	4 231	11 887	4 347	12 868	5 644	17 251
From 1 million to 10 million	29 231	10 564	31 528	10 682	32 744	9 535	35 172	10 009	41 565	11 708
From 10 million to 100 million	21 039	1 313	32 206	1 778	50 147	2 327	51 853	2 370	77 300	3 598
Payments above 100 million	936	5	822	7	5 901	47	7 144	31	6 062	41
<b>Total</b>	<b>54 724</b>	<b>32 447</b>	<b>68 676</b>	<b>41 667</b>	<b>93 394</b>	<b>41 107</b>	<b>98 951</b>	<b>44 143</b>	<b>131 200</b>	<b>59 383</b>

\* NBKR data.

**19.2: Volume and Number of Clearing Payments by Oblasts\***

	2002		2003		2004		2005		2006	
	Volume (som million)	Number of payments	Volume (som million)	Number of payments	Volume (som million)	Number of payments	Volume (som million)	Number of payments	Volume (som million)	Number of payments
Bishkek and Chui Oblast	18 188	308 887	24 282	533 209	33 759	821 788	38 659	744 346	40 943	1 012 923
Issyk-Kul Oblast	218	13 269	357	18 603	733	29 549	977	35 296	1 135	94 645
Talas Oblast	129	6 850	183	19 226	303	41 293	432	44 576	745	81 035
Naryn Oblast	231	10 508	296	13 591	497	16 546	595	19 811	2 124	50 454
Jalalabat Oblast	559	16 163	945	34 190	1 500	51 680	1 912	53 307	1 379	156 219
Osh Oblast and Osh	1 851	33 225	2 048	72 076	2 842	88 835	3 951	73 072	3 856	236 308
Batken Oblast	0	0	0	0	0	0	148	7 548	1 229	118 170
<b>Total</b>	<b>21 176</b>	<b>388 902</b>	<b>28 110</b>	<b>690 895</b>	<b>39 634</b>	<b>1 049 691</b>	<b>46 675</b>	<b>977 956</b>	<b>51 410</b>	<b>1 749 754</b>

\* NBKR data.

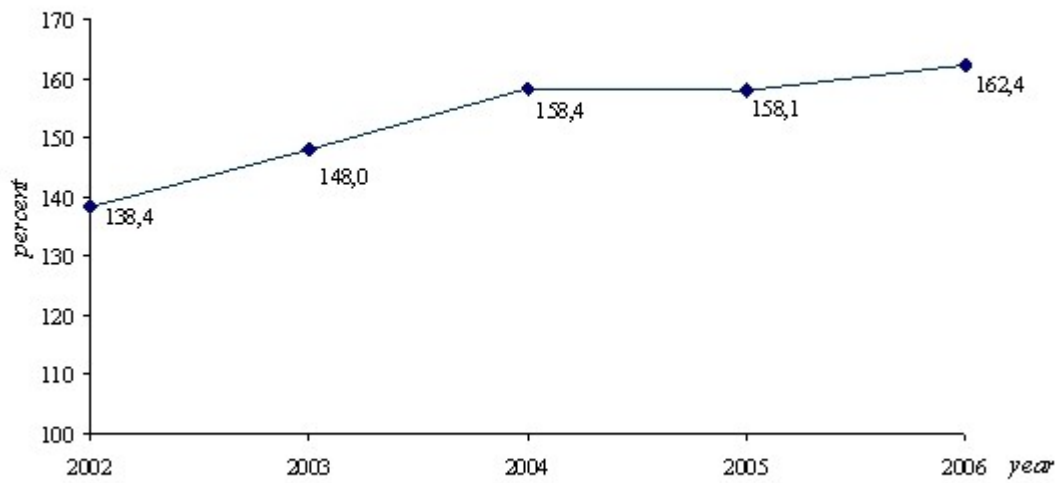
### 19.3: Data on Plastic Cards Transactions in Sales Outlets \*

Type of Card	2002		2003		2004		2005		2006	
	Number of transactions	Volume (som thousand)	Number of transactions	Volume (som thousand)	Number of transactions	Volume (som thousand)	Number of transactions	Volume (som thousand)	Number of transactions	Volume (som thousand)
Visa	6 682	71 566	8 004	90 711	16 956	102 437	21 062	106 917	33 879	112 871
Europay/Master Card	2 452	24 444	3 789	39 692	7 827	44 671	8 920	46 923	6 238	50 280
Alai-Card	43 339	9 162	41 159	8 017	38 857	8 178	34 348	8 366	37 849	11 539
Demir 24	-	-	-	-	2 510	833	5 327	1 781	12 413	5 065
Elcart	-	-	-	-	-	-	-	-	10	3
Union Card	6	3	-	-	-	-	-	-	-	-

\* data of commercial banks.

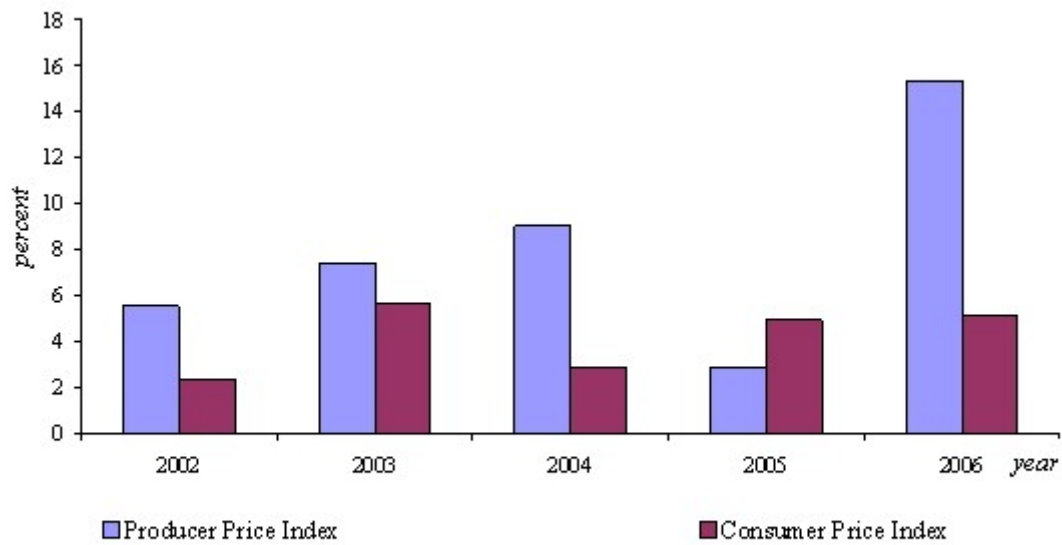
"-" - no transactions.

**Chart 1: Growth Rates of Real Gross Domestic Product  
(1995 = 100 percent)**



*NSC KR data*

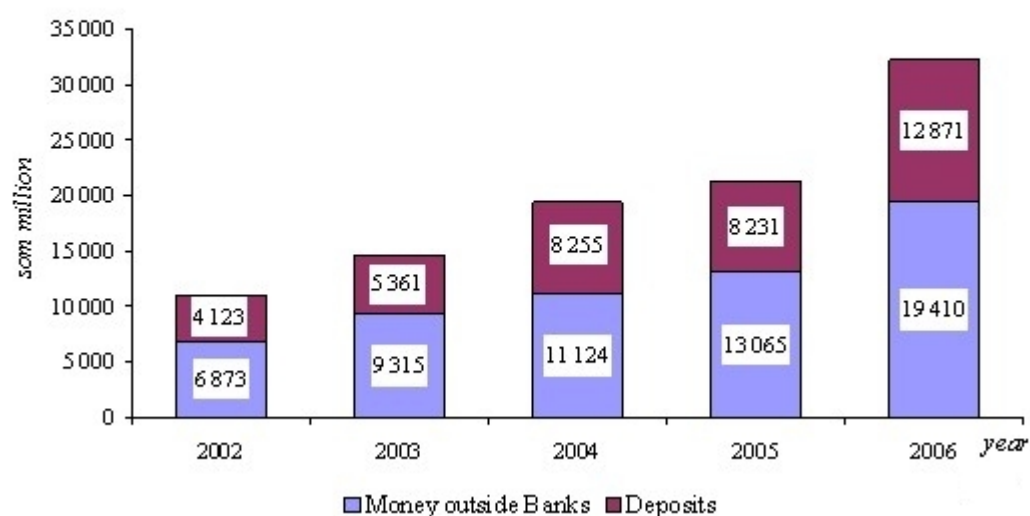
**Chart 2: Growth Rates of Consumer Prices and Producer Prices**



*NSC KR data*

### Chart 3: Monetary Aggregates

#### 3.1: Structure of Monetary Aggregate M2X

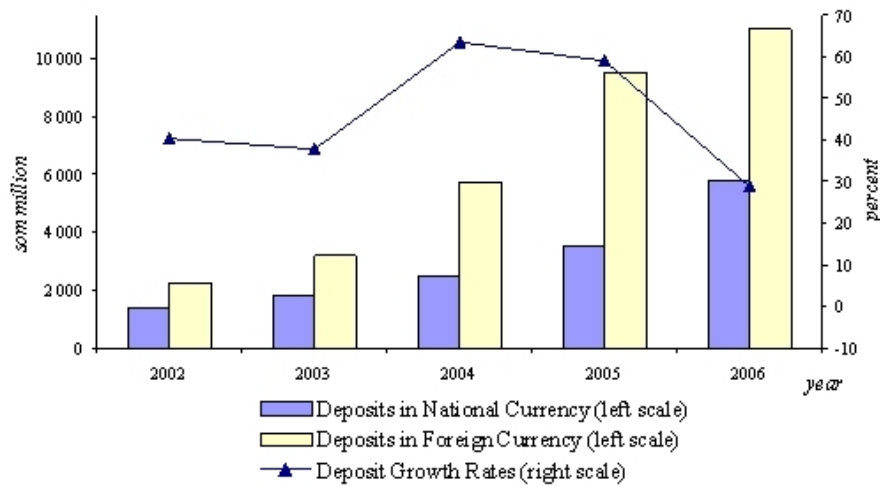


#### 3.2: Growth Rates of Monetary Aggregates and Inflation

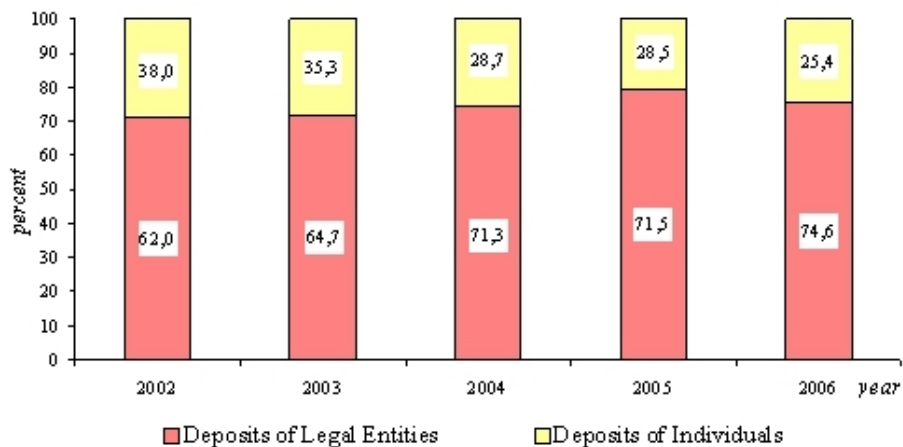


\* Low growth rates in the estimated monetary aggregate in 2005 is explained by methodological changes: since 1 October 2005 the data on deposits and credits is presented in accordance with the new Chart of Accounts in Commercial Banks Data of NSC KR, NBKR and commercial banks.

**4.1: Balances of Deposits in Operating Commercial Banks  
(end of period)**



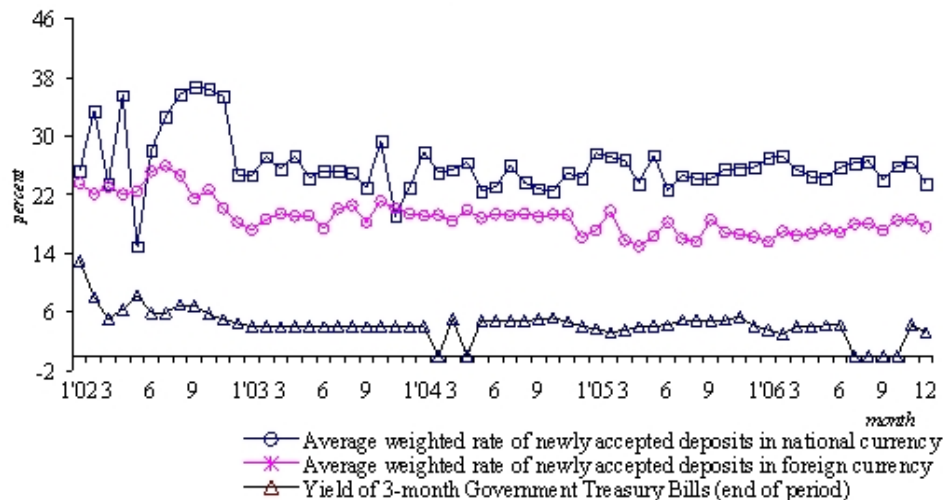
**4.2: Composition of Deposits in Operating Commercial Banks  
(end of period)**



*According to the data of the monthly regulatory reporting of commercial banks*

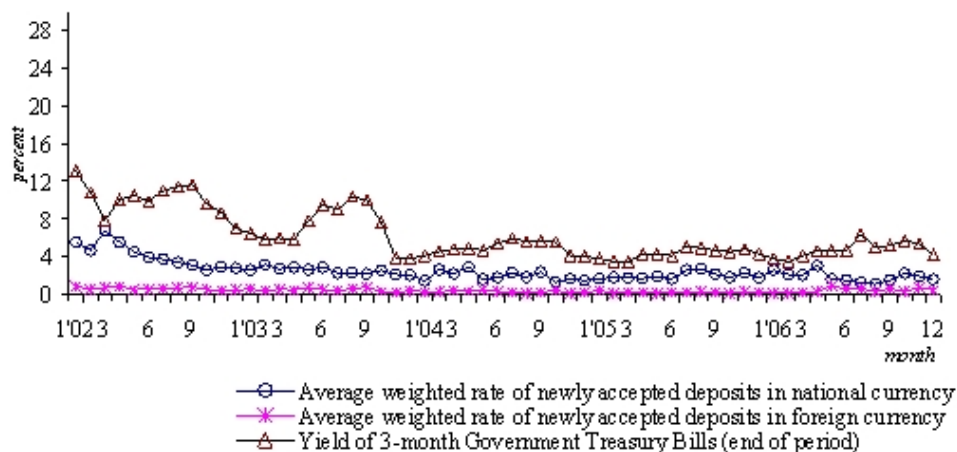
## Chart 5: Interest Rates

### 5.1. Interest Rates of Credits Disbursed by Commercial Banks



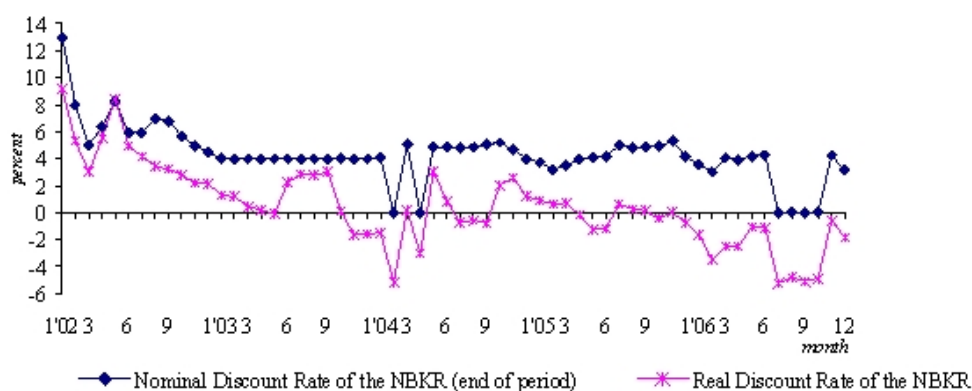
According to the NBKR data and monthly regulatory reporting of commercial banks

### 5.2. Interest Rates of Deposits and Yield of Government Treasury Bills



According to the NBKR data and monthly regulatory reporting of commercial banks

### 5.3. Changes in Nominal and Real Discount Rate



According to the NBKR data

Note: to calculate the real interest rate, the following formula has been used

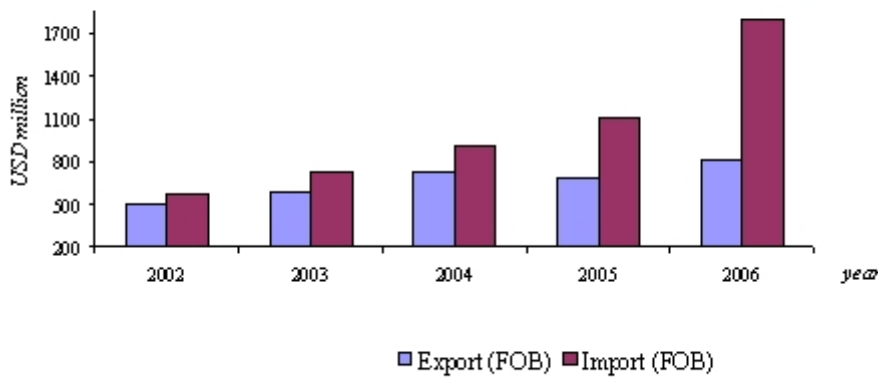
$r = (i - p)/(p+100)*100$ , where  $i$  is a nominal interest rate,

$r$  - real interest rate,  $p$  is the annual inflation rate



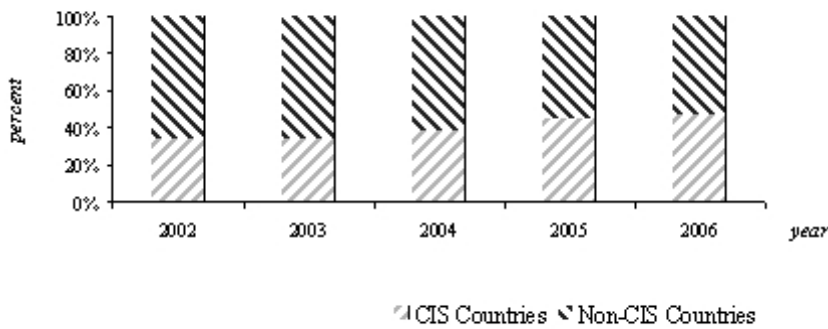
**Chart 6: Share of CIS and Non-CIS Countries in External Trade**

**6.1: Exports and Imports**



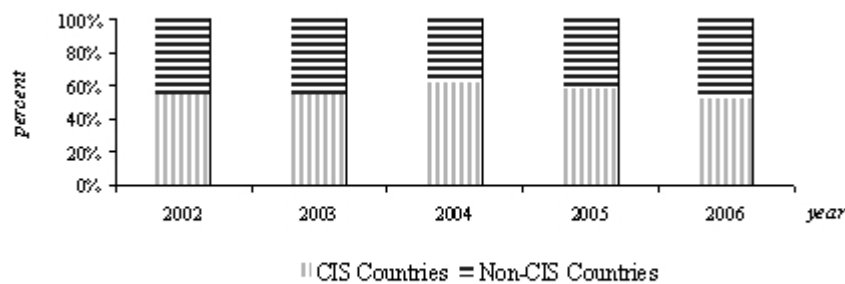
*According to the preliminary data of the NSC KR*

**6.2: Share of CIS and Non-CIS Countries in Exports**



*According to the preliminary data of the NSC KR in FOB prices*

**6.3: Share of CIS and Non-CIS Countries in Imports**

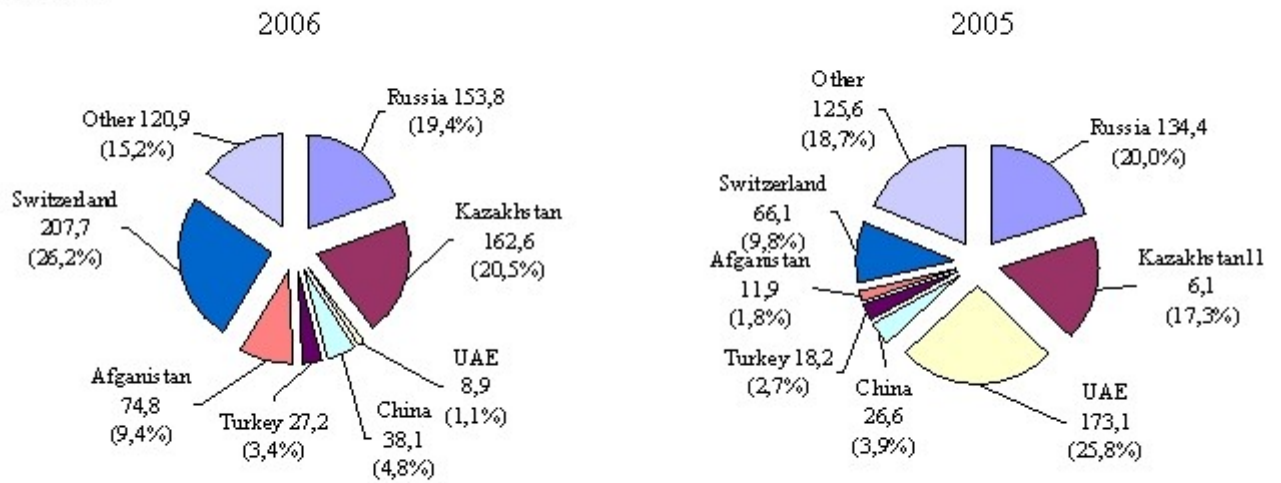


*According to the preliminary data of the NSC KR in CIF prices*

**Chart 7: Geographical Structure of External Trade**

**7.1: Exports to Major Partner Countries**

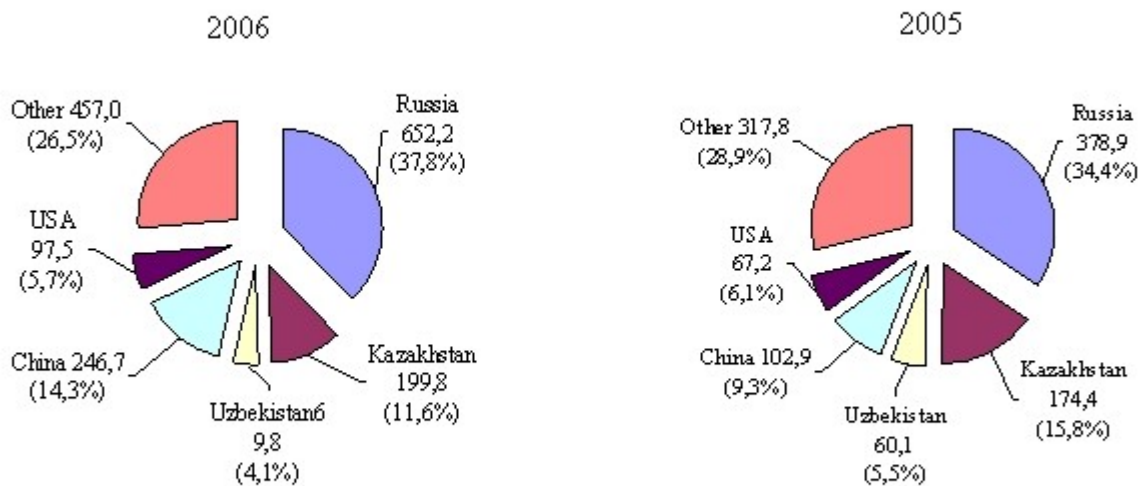
USD million



According to the preliminary data of the NSC KR in FOB prices

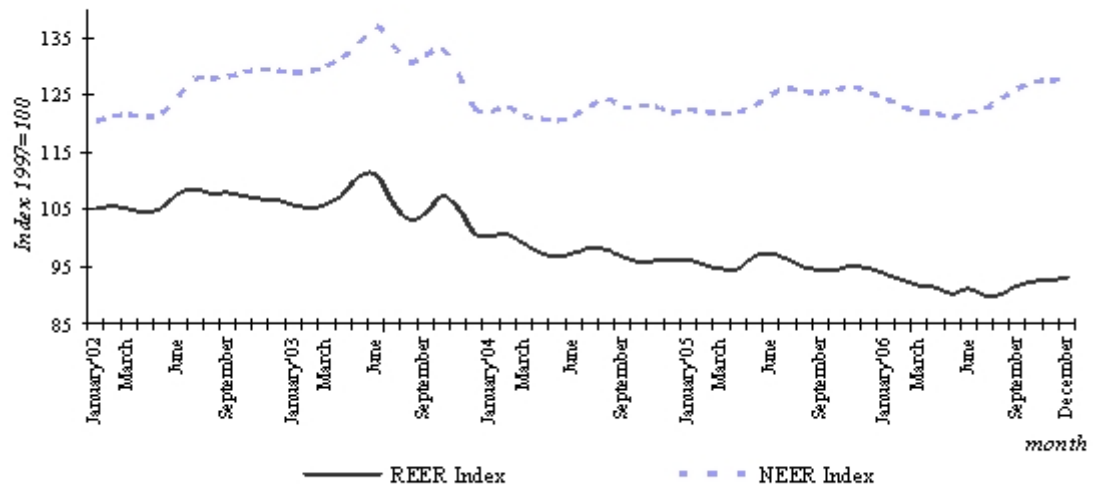
**7.2: Imports from Major Partner Countries**

USD million



According to the preliminary data of the NSC KR in CIF prices

Chart 8. Indices of Nominal and Real Effective Exchange Rate



According to the NBKR data

### 4.3. Periodical Publications and Other Informational Tools of the NBKR

N	Name	Language of Publication	Frequency	Contents	Distribution
1	2	3	4	5	6
1.	Bulletin of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian and English	Monthly	Statistical data on major macroeconomic indicators and economy sectors of the Kyrgyz Republic. In preparing the Bulletin the materials from the following organizations are used: National Statistic Committee, Ministry of Economy and Finance, commercial banks, State Agency on Financial Supervision and Reporting under the Government of the Kyrgyz Republic, and NBKR.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, ministries and departments, commercial banks, local government agencies, institutions of higher education and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic missions of the Republic abroad, representative offices of international organizations, and embassies of the countries accredited in the Kyrgyz Republic.
2.	Annual Report of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian and English	Annually	A comprehensive progress report of the National Bank for the reporting year, which contains brief reference to the results of changes in the real sector of economy, description of decisions and actions of the National Bank in the monetary area. It includes information on economic development, monetary policy, financial statements and general information about the National Bank, and statistic appendices.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, ministries and departments, commercial banks, local government agencies, institutions of higher education and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic missions of the Republic abroad, representative offices of international organizations, and embassies of the countries accredited in the Kyrgyz Republic.
3.	Statutory Acts of the NBKR	Kyrgyz and Russian	Monthly	NBKR official publication of statutory acts	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, commercial banks, judicial authorities, ministries and departments, local government agencies, institutions of higher education and libraries of the Kyrgyz Republic.

4.	Inflation Report	Kyrgyz, Russian and English	Quarterly	Description of consumer price movements in the Republic and its regions, analysis of major inflation factors. The publication informs about NBKR decisions in the monetary policy area, and presents the inflation forecast for the upcoming period.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, ministries and departments, commercial banks, local government agencies, institutions of higher education and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic missions of the Republic abroad, representative offices of international organizations, and embassies of the countries accredited in the Kyrgyz Republic.
5.	The Balance of Payments of the Kyrgyz Republic	Kyrgyz, Russian and English	Quarterly	The publication presents recent trends in the development of the external sector, and contains statistical data on the balance of payments, external trade, international reserves, external debt and international investment position, and also methods and information base for preparing the balance of payments.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, ministries and departments, commercial banks, local government agencies, institutions of higher education and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic missions of the Republic abroad, representative offices of international organizations, and embassies of the countries accredited in the Kyrgyz Republic.
6.	Press Release of the National Bank of the Kyrgyz Republic	Kyrgyz and Russian	Weekly	Updated information on official exchange rates fixed by the National Bank of the Kyrgyz Republic, on the results of inter-bank foreign exchange tenders, on the status of the Government Treasury Bills market and of NBKR Notes, the discount rate of the National Bank, overall macroeconomic status of the Republic, and a preliminary inflation review for the month, analytical materials on major areas of NBKR activities, and also the chronicle of weekly events that take place in the National Bank.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, ministries and departments, commercial banks, local government agencies, institutions of higher education and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic missions of the Republic abroad, representative offices of international organizations, and embassies of the countries accredited in the Kyrgyz Republic, mass media.
7.	Banking System Development Trends	Kyrgyz, Russian and English	Semiannually	Analysis and assessment of development in the banking system of Kyrgyzstan as a financial intermediary, and also evaluation of stability components in the banking system of Kyrgyzstan.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, ministries and departments, commercial banks, local government agencies, institutions of higher education and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, diplomatic missions of the Republic abroad, representative offices of international organizations, and embassies of the countries accredited in the Kyrgyz Republic.

8.	Official Exchange Rates of Foreign Currencies to the Kyrgyz Som, and NBKR Discount Rate	Kyrgyz and Russian	Annually	Information on official exchange rates of foreign currencies to the Som fixed by the National Bank of the Kyrgyz Republic, and NBKR discount rate for the year.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, ministries, departments and financial organizations, commercial banks, local government agencies of the Kyrgyz Republic.
9.	Information Booklets and Guidelines	Kyrgyz and Russian	In accordance with work plans of structural divisions	Information booklets and methodical manuals are published on various areas of NBKR activities. In addition, the National Bank publishes guidelines for commercial banks, and other finance and credit institutions operating in the Kyrgyz Republic.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, ministries and departments, commercial banks and non-bank financial institutions, institutions of higher education and libraries, through the Public Chamber of the NBKR and its regional departments.
10.	Official NBKR Web-Site <a href="http://www.nbkr.kg">www.nbkr.kg</a>	Kyrgyz, Russian and English	Updated online	<p>Information on official exchange rates and discount rate fixed by the National Bank of the Kyrgyz Republic; the chronicle of events that take place in NBKR, information on the results of inter-bank foreign exchange tenders, results of auctions at the government securities market, and of transactions at the open market, on overall macroeconomic indicators of the Republic, information on commercial banks and registers of operating non-bank financial institutions.</p> <p>Also, the following information is posted on the web-site: rules and regulations adopted by the National Bank and new drafts subject to discussion, information on the monetary policy, banking and payment systems, national currency, statistical data on financial and foreign economic sectors, macroeconomic indicators, and information on the National Bank of the Kyrgyz Republic.</p> <p>The following forms of documents are posted in a separate section: an employment form, a form for opening a bank, pawnshops, exchange offices, and microfinance organizations. Internet versions of official publications of the National Bank: <i>NBKR Bulletin</i>, <i>Annual Report</i>, <i>Inflation Report</i>, <i>The Balance of Payments of the Kyrgyz Republic</i>, <i>Press Release of the NBKR</i>, and <i>Banking System Development Trends in the Kyrgyz Republic</i> are updated according to the frequency of each publication.</p>	Free access to information

11.	<i>Natsbank Soobshaet</i> TV Programme	Russian	Weekly	<p>Major events in NBKR activities, weekly review of the financial market;</p> <p>the public is informed about official exchange rates established by the National Bank of the Kyrgyz Republic, overall macroeconomic indicators of the Republic; interviews with NBKR specialists on current issues of the monetary policy, banking and payment systems, banking legislation; explanations are given on queries incoming from citizens in the section <i>NBKR Public Chamber Answers Your Questions</i>.</p>	Broadcasted on KTR TV Channel (State Broadcasting Company)
12.	<i>Uluttuk Bank Bildiret</i> Radio Transmission	Kyrgyz	Weekly	<p>Financial market news: the market situation, discount and foreign exchange rates, chronicle of major events in the bank's activities, interviews with the NBKR specialists on current issues of the monetary policy and banking legislation, on the progress in implementing strategic state programs on the development of the banking sector, payment system, and microfinance market.</p> <p>Answers to the frequently asked questions of citizens are covered under the heading of</p> <p><i>NBKR Public Chamber Answers Your Questions</i>.</p>	Broadcasted on the Kyrgyz Radio (GTRK) at 104.1 FM

#### 4.4. List of Abbreviations

ADB	- Asian Development Bank
JSCB	- Joint Stock City Bank
JSCB	- Joint Stock Commercial Bank
CJSC	- Close end type Joint Stock Company
UIPC HSC	- Uniform Interbank Processing Center Hardware and Software Complex
BTC	- Bank Training Center
WB	- World Bank
GDP	- Gross Domestic Product
IHE	- Institution of Higher Education
GT-Bills	- Government Treasury Bills
GT-Bills (s)	- Government Treasury Bills for Settlement
GTB	- Government Treasury Bonds
GTB (s)	- Government Treasury Bonds for Settlement
GS	- Government Securities
GS (s)	- Government Securities for Settlement
EAEC	- Eurasian Economic Community
EBRD	- European Bank for Reconstruction and Development
CJSC	- Closed Joint Stock Company
IDB	- Islamic Development Bank
CPI	- Consumer Price Index
KSU	- Kyrgyz State University named after I. Arabaev
KNU	- Kyrgyz National University named after J. Balasagyn
KR	- Kyrgyz Republic
KRSU	- Kyrgyz Russian Slavic University
KTR	- Kyrgyz Television and Radio Company
KAFC	- Kyrgyz Agricultural Finance Corporation
IDA	- International Development Association
IMF	- International Monetary Fund
ISB	- Interstate Bank
MCA	- Micro Credit Agencies
MCC	- Micro Credit Companies
IPC	- CJSC Interbank Processing Center
IAS	- International Accounting Standards
IFRS	- International Financial Reporting Standards
MEF KR	- Ministry of Economy and Finance of the Kyrgyz Republic
EPM	- Economic Policy Memorandum
MFC	- Microfinance Company
MFO	- Microfinance Organizations
NBKR	- National Bank of the Kyrgyz Republic
BNS	- Banque Nationale Suisse
VAT	- Value Added Tax



NGO	- Nongovernmental Organization
NSC KR	- National Statistic Committee of the Kyrgyz Republic
NFCI	- Non-bank Finance and Credit Institutions
OJSC	- Open Joint Stock Company
OJSC JSCB	- Open Joint Stock Company Joint Stock Commercial Bank
OJSC IB	- Open Joint Stock Company Investment Bank
OJSC CB	- Open Joint Stock Company Commercial Bank
OJSC RK	- Open Joint Stock Company Russian-Kyrgyz
UAE	- United Arab Emirates
LLC	- Limited Liability Company
OECD	- Organization for Economic Cooperation and Development
PIP	- Public Investment Program
PLES	- Prevention and Liquidation of Emergency Situations
PRBR	- Periodic Regulatory Banking Report
PRGF	- Poverty Reduction and Growth Facility Program
UNDP	- United Nations Development Program
REPO	- Repurchase Agreement (agreement under which the seller shall repurchase at a stated time from the buyer securities, which he sold him at a fixed price)
PPLA	- Provisions for Potential Losses on Assets
SSC	- Settlement and Savings Company
RED	- Republic's Encashment Department
SWAP	- Purchase of foreign currency in exchange for the national currency with subsequent repurchase
CIF	- Price on the Frontier of the Importer (cost, insurance, freight)
MM	- Mass Media
CIS	- Commonwealth of Independent States
SDR	- Special Drawing Rights
BCS	- Bulk Clearing System
USA	- United States of America
TIES	- Trade and Information Electronic System
TA	- Technical Assistance
FCI	- Finance and Credit Institutions
FCSDCU	- Financial Company for Support and Development of Credit Unions
FOB	- Price on the Frontier of the Exporter (free on board)
FSAP	- Financial Sector Assessment Program
CABC&D	- Central Asian Bank for Cooperation and Development
S	- Securities
CBRD	- The Central Bank of the Russian Federation
SCO	- Shanghai Cooperation Organizations
UNICEF	- United Nations Children's Fund
HIPC	- The Initiative of the IMF and WB for Heavily Indebted Poor Countries The Initiative of the IMF, WB and African Development Fund on Multilateral
MDRI	- Debt Relief
GTZ	- German Agency for Technical Assistance

RAMP - Reserves Advisory and Management Program  
ROA - Return on Assets  
ROE - Return on Equity  
SWIFT - Society for Worldwide Interbank Financial Telecommunication  
USAID - United States Agency for International Development