

NATIONAL BANK OF THE KYRGYZ REPUBLIC

# ANNUAL REPORT

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Bishkek 2009

## ***Report of the National Bank of the Kyrgyz Republic for 2008***

Report of the National Bank of the Kyrgyz Republic for 2008 made pursuant to Articles 8 and 10 of the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic”.

Report of the National Bank of the Kyrgyz Republic for 2008 approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No 15/1 of March 25, 2009.

Financial statements for the year ended 31 December 2008, approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No 18/1 of April 9, 2009.

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The Annual Report of the National Bank of the Kyrgyz Republic for 2008 is prepared according to the Law “On the National Bank of the Kyrgyz Republic” and describes performance of the bank on achievement and maintenance of price stability in the country, development and strengthening of the banking system and improvement of the payment system to promote long-term economic development of the republic.

The National Bank’s activity was based on intended targets of a Country Development Strategy for 2007-2010 and tasks set by the President of the Kyrgyz Republic.

The past year was significant for the 15<sup>th</sup> anniversary of the country’s national currency. The decision on introduction of the Som taken in 1993 allowed the National Bank to start implementing independent monetary policy. For this period, significant progress was made in strengthening macroeconomic stability and confidence of the population in the country’s own currency.

Under conditions of a persistent negative influence of external price shocks and a global financial crisis that had just started in the year of account, the National Bank, in concert with the Government, implemented the macroeconomic policy directed to restrain inflationary processes in the economy. A tightening of monetary policy, initiated in 2007, allowed in 2008 to create conditions for curbing inflation at a level of the previous year.

The activity of the National Bank was directed to maintain financial stability in the country, to strengthen confidence of the population in the banking system and to increase the level of financial intermediation. Deterioration of financial market condition in the world and in countries - basic trading partners of the republic required adequate measures for minimization of the negative influence of the world crisis on the country’s financial sector.

Much attention was paid to further development of microfinance organizations promoting an increase in access to financial resources for small and medium business, growth of employment and a reduction in the level of poverty in regions.

In the year of account, the National Bank continued working on development of the payment system and an infrastructure essential for effective payments under the State Program on Introduction of Non-Cash Payment System. Performance along this line of the bank’s activity resulted in growth of clearing settlements and availability of payment services.

When preparing this edition, the National Bank traditionally adhered to principles of transparency and full coverage. The report comprises financial statements, confirmed by an independent audit.

Chairman

M. Alapaev

# I

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

## **I. ECONOMIC STATUS OF THE KYRGYZ REPUBLIC IN 2008**

### **CHAPTER 1. ECONOMIC DEVELOPMENT OF KYRGYZSTAN IN 2008**

In spite of the fact that rates of economic growth in Kyrgyzstan still exceeded the rates of growth of the world economy, as a whole, a business slowdown was observed in the country in 2008: real GDP growth was 7.6 percent, while in 2007 it was 8.5 percent. An impairment of conditions of trade, output expansion costs and financing, as well as slower growth of real wages reduced noticeably an economic growth potential and affected an investment climate of the country. The economic growth rate was, largely, driven by dynamic development of the sector of services and active gold mining in a manufacturing industry.

Outstripping growth of state budget revenue in comparison with growth of expenditure led to the reduction in a budget deficit compared with 2007.

As a result of impact of external factors, the positive balance of payments decreased 2.8 times in comparison with the previous year.

The financial market situation in the republic developed on impact of monetary policy, which the NBKR implemented under conditions of persistently high rates of inflation and the growing impact of the global financial crisis. The influence of internal and external factors resulted in a change in a direction of a dynamics and the increase in an exchange rate volatility of the national currency, the increase in the level of interest rates in the market, and the reduction in the rates of growth of deposits and credits. In this regard, liquidity in the banking system remained at quite the high level; however, fluctuations of liquidity and its concentration in commercial banks also affected market condition during the year.

#### **1.1. Real Sector of Economy**

The real sector developed under difficult conditions in 2008. Problems in an energy complex and a global rise in food and energy prices had the strong impact on the economy. These factors promoted acceleration in the rates of inflation and the output expansion costs that in turn adversely affected business activity of economic agents and raised uncertainty as to conditions of business activity in the country.

Furthermore, consequences of the financial crisis indirectly influenced the real sector of the Kyrgyz Republic as well. In particular, following the sales slowdown, the essential reduction was observed in trade with the basic trading partners, Russia and Kazakhstan, first of all.

All these turned out to become reasons for a recession in the Kyrgyz economy in 2008. According to NSC preliminary data, GDP made Som 185.0 billion in 2008, having thus increased by 7.6 percent in real terms (in 2007 growth was 8.5 percent). In many ways, growth resulted from continued vigorous activity in trade and in the sphere of transport and communications, as well as by output expansion in the manufacturing industry.

A speedup in the manufacturing industry allowed to partially offset the decrease in the rates of growth in other sectors. If to disregard enterprises that develop a gold ore deposit “Kumtor”, growth of real GDP made 5.4 percent against 9.0 percent in 2007. In 2008, the share of a gross value added of the Kumtor gold deposit enterprises in the total volume of GDP increased to 4.5 percent from 2.7 percent in 2007.

*Gold mining sector*

The volume of per capita GDP amounted to Som 35.1 thousand (US\$ 959.0) and increased by 6.8 percent for the accounting year.

According to year-end performance, a GDP deflator made 21.2 percent against 14.9 percent in 2007.

**Table 1.1.1.**

**Gross Domestic Product in 2008**

	Share, <i>in percent</i>	Growth Rate, <i>in percent</i>	Contribution to Growth Rate, <i>in percentage points</i>
Agriculture, hunting and forestry	25.8	0.7	0.2
Mining	0.4	6.4	0.0
Manufacturing	11.3	23.6	2.3
Generation and distribution of electricity, gas and water	2.2	-7.5	-0.2
Construction	3.1	-10.8	-0.4
Trade, repair of cars articles for personal use	18.6	9.2	1.7
Hotels and restaurants	1.3	13.2	0.2
Transport and communications	8.4	29.7	2.2
Other	15.6	3.4	0.6
Net taxes on products	13.2	7.6	1.0
<b>GDP</b>	<b>100.0</b>	<b>7.6</b>	<b>7.6</b>

*Source: NSC data*

Having increased by 0.7 percent compared with 2007, gross agricultural output totaled Som 112.4 billion in 2008. The share of plant growing in the year under review was 57.0 percent of gross agricultural output. Grain production (post-processing weight) increased by 1.3 percent. Cotton production (raw cotton) in physical terms did not change. A crop of tobacco decreased by 5.6 percent, that of oil-plants – by 11.8 percent and potato - by 2.8 percent. Output of meat increased in cattle farming (live weight) - by 1.9 percent, raw milk - by 2.7 percent, and egg production decreased by 1.2 percent.

*Agriculture*

Industrial output increased by 14.9 percent in physical terms in the year of account. Excluding the Kumtor gold deposit enterprises, industrial output decreased by 2.1 percent.

*Industry*

Growth of industrial output was observed to be most significant in the manufacturing industry, in such sectors, as metal manufacture and hardware (gold extraction), the textile and clothing industry, the food industry, and with regard to production in the sector of electronic and optical equipment. At the same time, there was a downswing in the area of production of some of the construction materials and rubber and plastic articles. Overall, output in the manufacturing industry totaled Som



70.5 billion in 2008, and a volume index was 123.6 percent (in 2006 – 107.5 percent).

The essential downswing was observed in the sector of electricity and in gas and water generation and distribution. Due to reduced generation of electricity resulting from the insufficient level of water in the Toktogul water basin, effective capacity in this sector fell by 7.5 percent compared to the past year, with growth, on the contrary, by 7.8 percent in 2007.

*Energy sector*

Output in the mining industry increased in the accounting year by 6.4 percent, including growth of extraction of fuel and energy mineral resources by 6.5 percent, and output of other mineral resources in physical terms grew by 6.2 percent.

The most dynamically developing sector of services significantly contributed to economic growth: the total of a turnover of trade, car repairs, household products, and articles for personal use increased by 8.8 percent. The volume of services rendered by hotels and restaurants grew by 13.0 percent, those of freight traffic - by 5.6 percent by all types of transport, while the volumes of communication services indicated significant growth – by 45.3 percent.

*Development of the sphere of services*

A downward tendency was observed in investments in fixed assets, whose volume totaled Som 29.2 billion in 2008 and, in real terms, it is by 5.4 percent less than in 2007. Of sources of financing, the largest share is still that of equity capital of companies (mainly, funds of companies with foreign interest) – 27.8 percent of total capital, and investments made by households, whose share was 28.5 percent in the year of account. The share of foreign investments increased from 21.5 percent in 2007 to 30.2 percent in 2008.

*Disinvestment*

The size of a nominal average monthly wage of one worker in the republic<sup>1</sup> was Som 5,422.0 (US\$148.3) and increased by 36.0 percent as compared to 2007, while in real terms the wage increase was 9.2 percent (in 2007 a similar indicator was 19.0 percent).

## **1.2. Public Finance Sector**

Fiscal policy in 2008 was, largely, focused on a tax system reform. The work issued well on a new version of the Tax Code of the Kyrgyz Republic, which was enacted on January 1, 2009. The reduction of the value added tax rate and in the total number of taxes, as well as the tax administration reform could be registered as the key changes in the tax legislation.

*Changes in fiscal policy*

Regarding an issue of improving the statistical service system relating to the public finance sector, the work continued to bring a budget classification in conformity with international standards.

In 2008, according to preliminary data of the Ministry of Finance of the Kyrgyz Republic, the state budget deficit decreased significantly, down to 0.4 percent of GDP from 1.6 percent of GDP in 2007. Compared with growth of state budget

*Budget deficit narrowing*

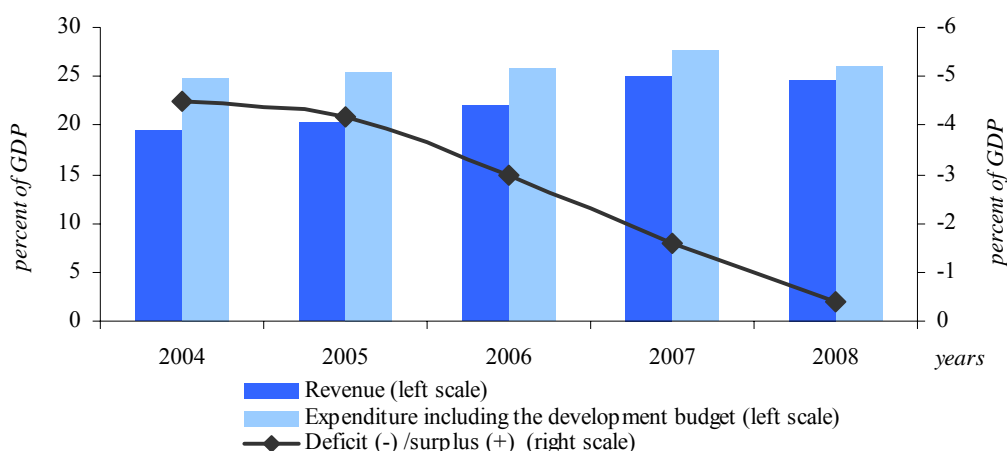
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<sup>1</sup> KR NSC data excluding small businesses.

expenditure, the state budget deficit was mainly promoted by outstripping growth of revenue in the state budget.

State budget revenues and official transfers increased by 28.0 percent and amounted to Som 45.5 billion in 2008, being 24.6 percent of GDP. Total state budget expenditures in 2008 (including grants as part of the development budget) were Som 48.1 billion or by 22.4 percent larger than the corresponding indicator for 2007. With regard to GDP, expenditures decreased from 27.7 percent to 26.0 percent.

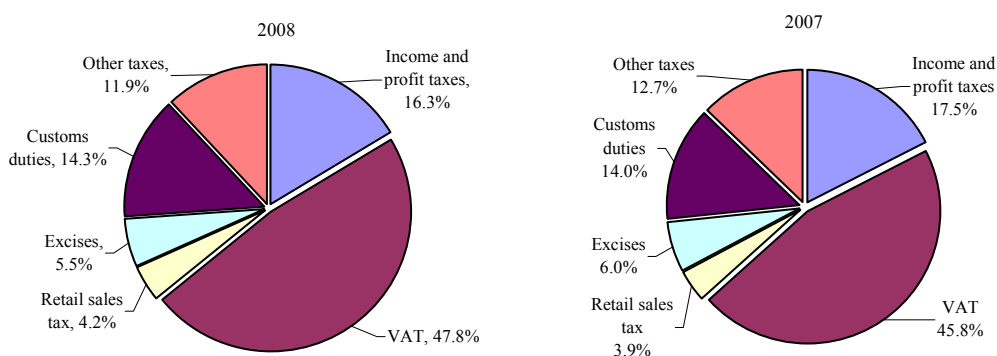
**Chart 1.2.1.**  
Key State Budget Parameters



The basic share (79.0 percent) in state budget revenue was that of tax revenue, whose volume in comparison with the past year increased by 35.3 percent. Total tax revenue was Som 35.9 billion, of which customs and tax bodies provided for 52.0 and 48.0 percent of total tax revenue, accordingly.

*Growth of tax revenue*

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

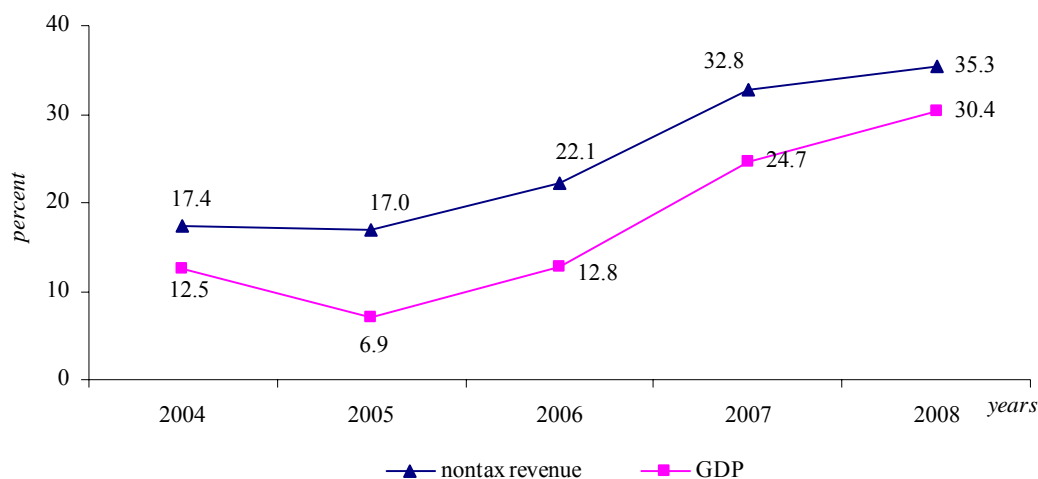


The increase in tax revenue resulted, first of all, from growth of revenue from profit and income taxes on individuals and this speaks for growth of wages and overall, relatively stable, growth of business activity. However, despite increased revenue from taxes on profit and income, indirect taxes continued to be dominating in

the tax revenue structure. In this regard, it should be noted that in 2008 the rates of growth of tax revenue and nominal GDP approximated maximally.

***Chart 1.2.3.***

Growth of Nominal GDP and State Budget Tax Revenues



In the light of the essential rise in food and energy prices, special attention in public expenditure policy was paid to rendering a targeted social support to needy categories of the population, with pensions and wages of civil and municipal servants raised as well. For instance, expenditures for wages and contributions to the Social Fund increased by 36.8 percent and those for social benefits and payments - by 21.0 percent in comparison with 2007.

*Socially oriented public expenditure policy*

In 2008, state budget operational expenditure totalled Som 36.9 billion, being 20.0 percent of GDP.

Budget expenditures for public debt service increased by 0.6 percentage points to 2.7 percent of GDP, including 0.7 percent of GDP of interest payments.

*Growth of debt service expenditure*

State budget expenditure for capital investments, including financing of projects as part of the development budget, was Som 9.5 billion or 5.1 percent of GDP (in 2007 it was 6.0 percent of GDP). As a result of excess of loans to enterprises, financial institutions, and to the population over their repayment, net budget lending totaled Som 650.1 million in 2008.

*Decrease in capital expenditure*

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

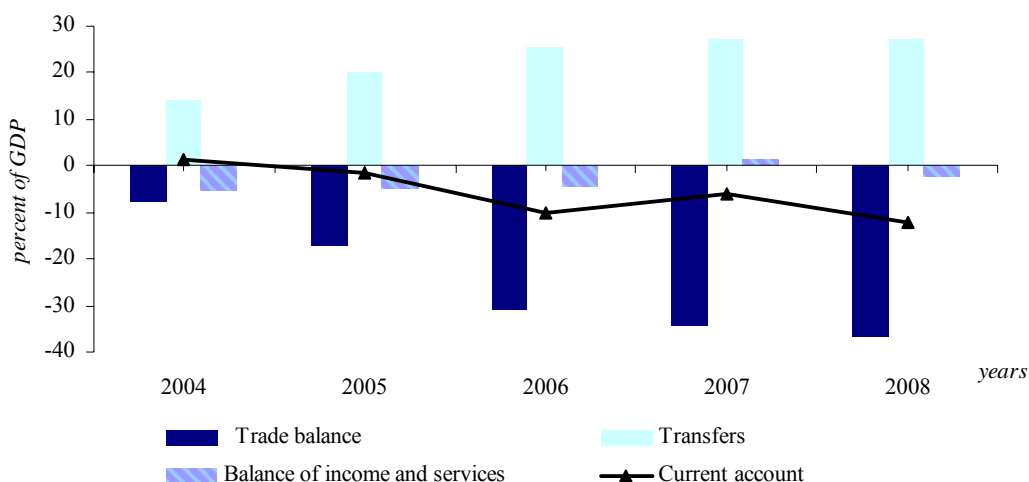
The world economic crisis adversely affected the balance of payments of the Kyrgyz Republic, whose positive balance decreased 2.8 times – down to US\$111.1 million in 2008.

Current income from export of goods and services and transfers did not cover current expenses relating to import of goods and services and income payments to non-residents. As a result, the current account deficit doubled, up to 12.3 percent of GDP.

*Status of current account*

**Chart 1.3.1.**

## Current Account



In 2008, growth of world prices in the commodity markets, of gold and oil prices, in particular, as well as growth of domestic production of gold provided for continued growth of export proceeds by 38.7 percent and import proceeds - by 41.2 percent, thereby resulting in the further increase in a trade gap by 43.8 percent, up to US\$ 1.9 billion.

*Growth of the trade gap*

A 1.6 times advance of rates of growth of import of services compared to the rates of growth of export of services generated the negative balance of services of US\$ 10.9 million (in 2007 this parameter was positive and equal to US\$ 102.1 million). By and large, the structure of international services indicated growth with regard to all types of services, but an item “Travels” underwent the most significant changes, with growth of import having more than tripled. The travels were mainly made to the CIS countries.

Total transfers, including remittances of migrants, increased in the year of account by 33.7 percent relative to 2007 and made US\$ 1.4 billion.

The negative balance of income increased 2.1 times and made US\$ 112.0 million. This increase resulted from growth of income from foreign direct investors’ activities in Kyrgyzstan.

In 2008, the largest share of currency receipts on the financial account fell on foreign direct investments, namely, on credits received from investors. An inflow of foreign direct investment made US\$ 206.7 million and it is less than the value of this parameter in 2007 by 0.7 percent. Foreign loans of public and private sectors of the economy (“Other Investment”) totaled US\$ 64.2 million.

*Status of capital account*

The item “Other Investment” showed the sharp increase in the assets of commercial banks abroad, which made US\$ 115.9 million owing to, mainly, growth of cash assets of residents of the Kyrgyz Republic held on current accounts with the foreign banks. Growth of foreign assets came from also the tenfold increase in accounts receivable of enterprises to non-residents, which is equivalent to US\$ 273.2

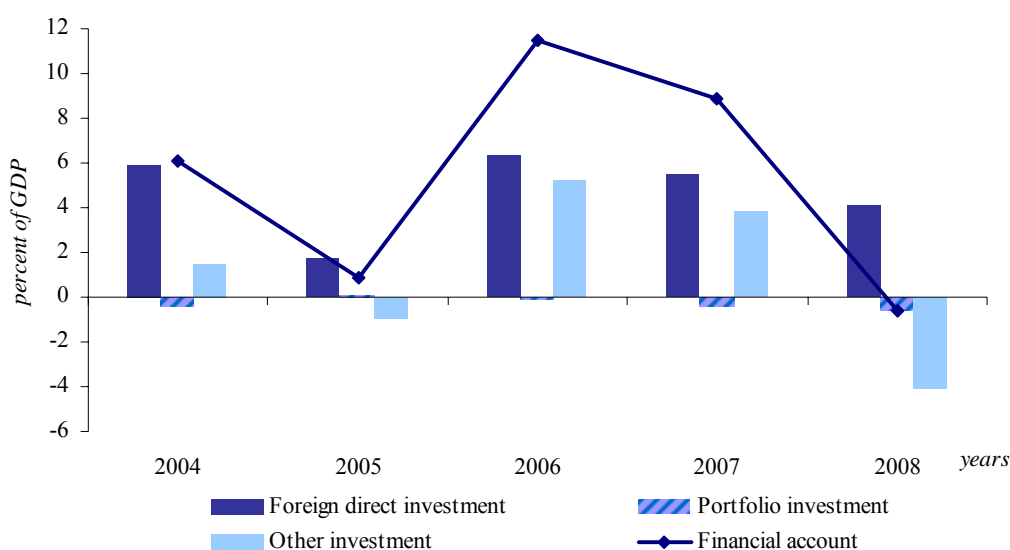
*Growth of foreign assets of residents*

million.

At the same time, accounts payable of domestic enterprises to non-residents grew 6.3 times, up to US\$ 83.8 million. As a result, the item “Other Investment” exhibited excess of foreign assets over liabilities of residents to the external world led to the fact that the positive balance of this item in 2007 turned into the negative value of US\$ 205.4 million as evidenced by a 2008 outcome. This factor predetermined the negative value of the capital and financial account in 2008 that totaled US\$ 90.4 million as against the positive balance of this account in 2007 - US\$ 259.4 million.

### **Chart 1.3.2.**

#### Financial Account



According to the 2008 preliminary outcome, the positive balance of the item “Errors and Omissions” tripled in comparison with 2007 and it testifies to statistical under-recording of export of goods and services or the inflow of capital. With the view of enhancing balance of payments statistics of the Kyrgyz Republic, the National Bank, in concert with the NSC and the State Customs Committee, continued working on increasing coverage and improving statistical data.

*Errors and omissions*

The volume of gross international reserves increased by 4.1 percent and made US\$ 1.2 billion at the end of 2008. The level of the NBKR’s reserve assets corresponded to 3.6 months of cover for the future critical volume of imports of goods and services.

*International reserves*

## **1.4. Financial Markets**

### **1.4.1. Foreign Exchange Market**

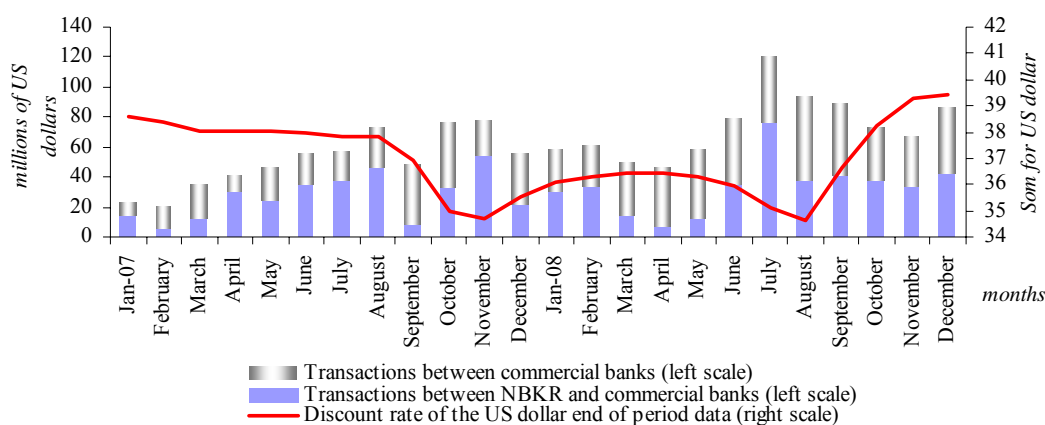
According to 2008 data, for the first time during the recent few years, some

*Basic foreign exchange market trends*

weakening of the national currency was noted against the US dollar in the foreign exchange market of the republic. The direction of the Som exchange rate dynamics changed under conditions of the deepening global financial crisis, which made the balance of payments of the republic worse. Exchange fluctuations observed from the beginning of the year till the end of the summer were, basically, seasonal and indicative of this period. For instance, early in this year, the US dollar exchange rate increased on impact of a strong demand for foreign exchange during this period, however, this tendency, usually short, was still there till May. From May to August, the Som was observed to appreciate in the foreign exchange market in connection with the seasonal increase in the inflow of foreign exchange in the domestic market. The US dollar exchange rate again started to appreciate in September on impact of exchange rate developments in the world markets and further deterioration of the balance of payments of the country. The official US dollar exchange rate grew by 11.0 percent since the beginning of the year, making 39.4181 Som/US\$ 1.00.

#### **Chart 1.4.1.1.**

Exchange Rate Movement and Total Interbank Foreign Exchange Auction Transactions



The dollar exchange rate mostly increased in the foreign exchange market of the republic in the first quarter. This development was conditioned by the increased demand in the commercial banking system for foreign exchange to make the payments under clients' contracts on imports of goods and services in the context of an import surplus. From end-March till May, the US dollar exchange rate was observed to display fluctuations resulting from the changes in the supply and demand of foreign exchange in the market. In May-August the situation developed on impact of the abundant supply of foreign exchange in the foreign exchange market owing to the seasonal increase in its inflow in the form of remittances and receipts from export of goods and services that determined a prevalence of the downward tendency in the dollar exchange rate during this period. In September, the dollar exchange rate was observed to increase in the foreign exchange market as caused by internal and external factors. The increase in the demand for foreign exchange is, first of all, one of the internal factors, which influenced the dynamics of the dollar exchange rate during this period.

*Year-on-year  
exchange rate  
developments*

Appreciation of the US dollar vis-à-vis the basic, European, first of all, currencies in the global markets as a result of measures taken by the US government, as part of combat with the developing financial crisis, could be considered as one of the external factors that had the essential impact on the situation in the foreign exchange market in the country. The situation in the foreign exchange markets of Russia and Kazakhstan indicated growth of the demand for US dollars under conditions of an outflow of capital from Russia and the payments made on foreign loans in the banking system of Kazakhstan, having thus influenced the Som exchange rate developments. At the end of the year the dollar exchange rate continued to grow, however, the rates of its appreciation gradually declined and the change in its rate turned out to be insignificant in December.

In order to prevent violent exchange fluctuations, the National Bank sold US dollars through foreign exchange auctions in January to mid-April, while from the second half of April till August it had to purchase US dollars due to changing market conditions. Starting from September, the NBKR participated in the market both as a seller and a purchaser of US dollars, thereby smoothing time gaps in the foreign exchange supply and demand. Totally for 2008, the NBKR's purchases of US dollars totaled US\$ 228.5 million, while its sales of US dollars totaled US\$ 175.6 million. Furthermore, NBKR transactions in the year of account on sales of Euro totaled Euro1.2 million, Russian rubles – Ruble 17.5 million, and Kazakh tenge – Tenge 0.25 million. The NBKR conducted also US dollar encashment transactions with the commercial banks in the amount of US\$ 11.0 million.

*NBKR  
interventions*

**Table 1.4.1.1.**  
Foreign Exchange Purchase/Sale Transactions  
(In millions of soms)

	2007	2008	Rate of Growth, percent
<b>Total volume</b>	<b>144,318</b>	<b>158,348</b>	<b>9.7</b>
including			
<i>Spot operations with foreign currency in non-cash at foreign exchange auctions</i>			
operations with the NBKR	22,600	32,388	43.3
interbank operations	11,907	14,869	24.9
interbank operations	10,693	17,519	63.8
<i>Spot operations with foreign currency in non-cash outside foreign exchange auctions</i>	2,278	2,041	-10.4
<i>Spot operations with foreign currency in cash</i>	117,512	119,921	2.1
operations with the NBKR	114	12	-89.7
commercial banks	92,286	91,119	-1.3
exchange bureaus	25,113	28,791	14.6
<i>SWAP operations</i>	1,928	3,999	107.4
operations with the NBKR	1,761	2,514	42.8
commercial banks	167	1,485	787.8

Growth of the volume of exports and imports and capital transactions and the inflow of foreign direct investments promoted furious activity in the foreign exchange market. For instance, the total of transactions on purchases and sales of foreign exchange in the domestic foreign exchange market equaled Som 158.3 billion in 2008, having thus increased by 9.7 percent against 2007. The increase in the volume of transactions was observed with regard to all currencies, except for the Kazakh tenge. The best part of transactions was conducted in US dollars, whose share

*Forex market  
organization  
by currencies*

in the total of transactions was 66.8 percent, while the share of transactions on purchases and sales of Euro was 6.3 percent, and that of the Russian ruble – 18.1 percent. The share of transactions with the Kazakh tenge decreased from 17.8 percent down to 8.6 percent as a result of the 2.2 times reduction in the volume of operations with the cash Kazakh currency in the commercial banks. The share of operations with other currencies<sup>1</sup> made 0.2 percent.

As before, the basic volume of operations was conducted in a cash segment of the foreign exchange market (75.7 percent in the total of transactions on purchases and sales of foreign currency). As in the past, the significant volume of transactions on purchases and sales of foreign exchange in cash, despite some decrease in their volume, was that of transactions conducted in the commercial banks. Practically all of the transactions in the non-cash segment of the foreign exchange market were conducted in US dollars through the interbank foreign exchange auctions<sup>2</sup>, whose volume grew by 43.3 percent, up to Som 32.4 billion. In this regard, growth was observed both in operations with the NBKR and in interbank operations.

*Cash and non-cash segments of forex market*

In the year of account, the National Bank continued to conduct SWAP operations aimed at sterilizing excess liquidity in the banking system. The volume of SWAP operations more than doubled and made US\$ 129.9 million (Som 4.0 billion) in 2008 compared with 2007. The increase resulted from both the NBKR operations with the commercial banks, and the transactions between the commercial banks. However, despite growth, the share of these operations remains insignificant (2.5 percent of total operations).

*SWAP operations*

The dynamics of the dollar exchange rate at exchange bureaus was similar to its dynamics at the interbank foreign exchange auctions: the 2008 average dollar exchange rate grew by 11.8 percent being Som 39.7217/US\$1.00 at the end of December. The Euro average weighted selling rate at the exchange bureaus made 55.2291 Som/Euro 1.00, having thus grown by 5.8 percent, that of the Kazakh tenge - Som 0.3247/Tenge 1.00, indicating the increase by 11.7 percent. In relation to the Russian ruble, the national currency became stronger by 9.6 percent, having made Som 1.2903/Ruble 1.00.

*Exchange rate dynamics of basic currencies in exchange bureaus*

#### **1.4.2. Interbank Credit Market**

The volume of interbank credits in national and foreign currencies was observed to have increased the interbank market of credit resources in 2008. The primary reasons for growth of interbank lending were those of significant liquidity fluctuations in the whole banking system and in the individual commercial banks, as well as growth of demand in the commercial banking system for financial resources due to more dynamic activities in the market of government securities.

*Basic interbank credit market trends*

Total operations in national currency in the interbank credit market made Som 10.3 billion, having thus increased by 21.9 percent compared with 2007. The basic

*Operations in national currency*

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<sup>1</sup> British pound, Swiss franc, Turkish lira, Uzbek Sum and Chinese Yuan.

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



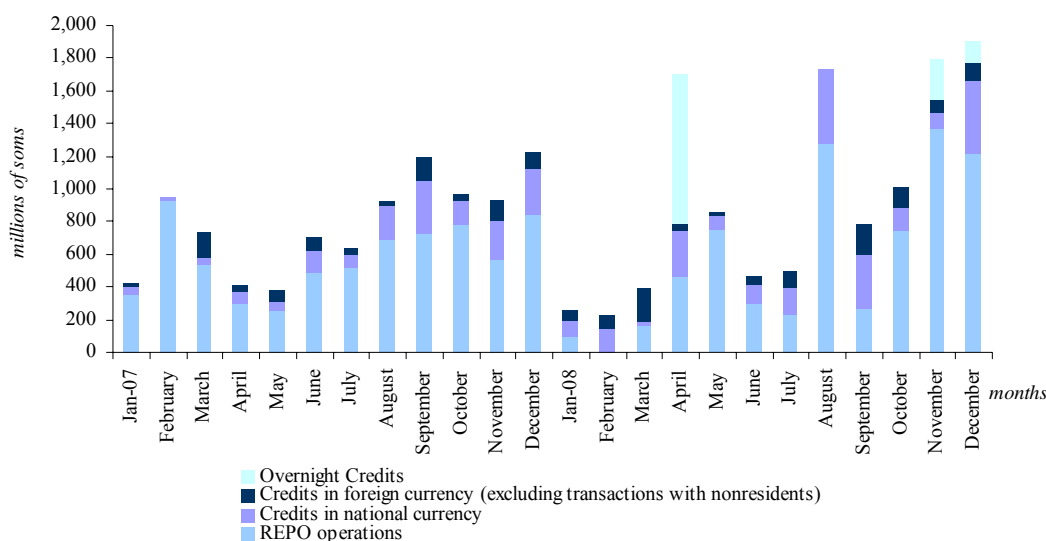
part of loans in soms was concentrated, as before, in the segment of REPO operations though their volume decreased by 1.8 percent down to Som 6.9 billion, with their share in the year of account having decreased from 80.9 to 65.2 percent in comparison with 2007. The volume of transactions in the segment of credit operations in national currency increased by 44.2 percent and made Som 2.4 billion. Furthermore, the National Bank extended the overnight credits, which totaled Som 1.3 billion in 2008.

The situation in the interbank credit market remained relatively stable in the first half of the year and the interest rates of Som credits changed within a narrow range. In the second half of the year, the value of loan proceeds, as well as their volatility increased noticeably on impact of growth of demand and rates in other segments of the domestic financial market. Totally for 2008, the average rate of REPO operations made 8.9 percent, having thus increased by 4.9 percentage points compared with 2007. The level of the average rate of simple interbank credits in national currency grew by 4.4 percentage points and made 7.6 percent, and the average rate of overnight credits made 16.4 percent. The lower level of the rate of credits in national currency in comparison with the rate of REPO operations resulted from high liquidity of collateral funds for individual transactions, with non-cash US dollars serving as collateral inter alia. Average maturity of REPO operations in 2008 in comparison with 2007 grew from 7 to 15 days, while maturity of credits in national currency - from 8 to 65 days.

*Interest rate developments*

#### **Chart 1.4.2.1.**

Total Domestic Interbank Credit Market Transactions



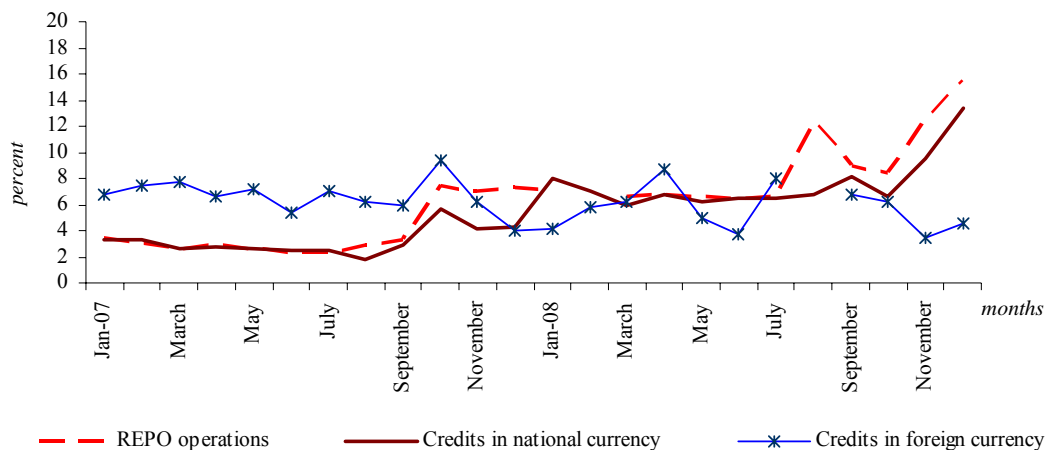
The volume of operations in foreign currency in the domestic interbank credit market increased by 32.1 percent and in soms made Som 1.1 billion in 2008. The share of these operations in the total volume of interbank credits grew from 8.7 up to 10.5 percent. The range of interest rate fluctuations of interbank credits in foreign currency in the year of account increased noticeably, and the rate basically decreased in the second half of the year on impact of the decrease in the FRS rate. As a whole

*Operations in the domestic market in foreign currency*

for the year, the average rate of credits in foreign currency, given in the domestic interbank market, decreased by 1.0 percentage points in comparison with 2007 and made 5.7 percent, while average maturity increased from 69 days to 73 days.

### **Chart 1.4.2.2.**

**Domestic Interbank Credit Market Interest Rate Movement**



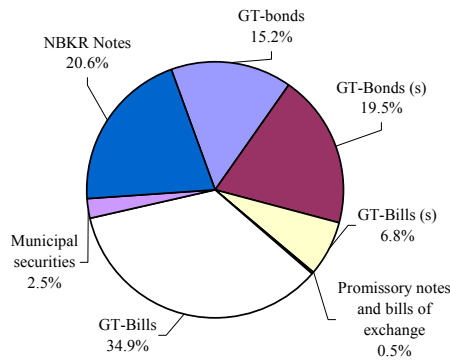
## **1.4.3. Securities Market**

### **1.4.3.1. Government Securities Market**

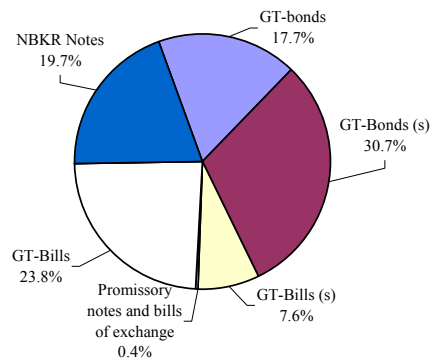
The market of government securities (GS) was represented in 2008 by outstanding Government Treasury Bills (GT-Bills), NBKR Notes, Government Treasury Bonds (GT-Bonds), and Government Securities for Settlement - GT-Bills(s) and GT-Bonds(s), Promissory Notes, Bills of Exchange, and municipal securities. Having increased by 10.7 percent compared to the early year situation, the volume of outstanding government securities totaled Som 8.0 billion at the end of the year under review. Growth of the volume of outstanding government securities resulted from the increase in issues of GT-Bills and the NBKR Notes according to the joint policy of the Ministry of Finance and the National Bank on coordination of actions in the primary market of government securities. As a result, their shares in the total volume of government securities grew from 23.8 percent to 34.9 percent and from 19.7 percent to 20.6 percent, accordingly. At the same time, in 2008 the Ministry of Finance redeemed GT-Bonds and GT-Bonds (s), issued earlier with the view of restructuring debts of the Government of the Kyrgyz Republic to the commercial banks, the nonbank institutions, and the National Bank. As a result, their shares were reduced down to 15.2 and 19.5 percent, accordingly. The volume of GT-Bills (s), emitted when settling the debt of the Government to the NBKR, did not change, and their share in the GS structure decreased down to 6.8 percent. The volume of outstanding Promissory Notes and Bills of Exchange, issued by the Ministry of Finance when restructuring debts of banks and other financial institutions to investors, increased slightly in the year of account. Nevertheless, their share remained insignificant (0.5 percent). In July 2008, the Bishkek city administration issued and placed municipal securities in the amount of Som 200.0 million - their share in the total volume of GS made 2.5 percent.

*Outstanding  
government  
securities*

**Chart 1.4.3.1.1.**  
Structure of Outstanding Government Securities  
2008



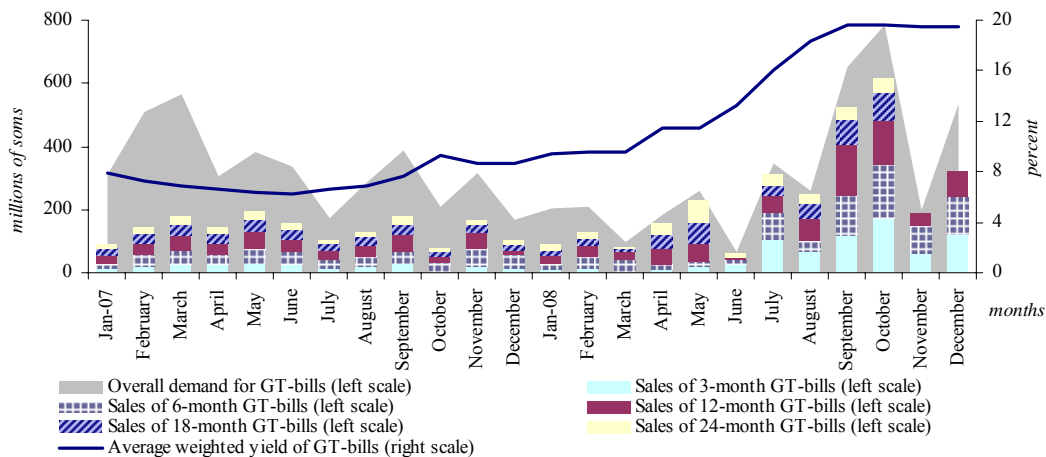
2007



### 1.4.3.1.1. Government Treasury Bills

In 2008, the situation in the primary market of GT-Bills developed substantially on impact of measures for the moderate tightening of monetary policy, adopted by the NBKR under conditions of persistent high rates of inflation, as well as due to liquidity fluctuations and its concentration in the banking system.

**Chart 1.4.3.1.1.1.**  
Demand and Placement of GT-Bills



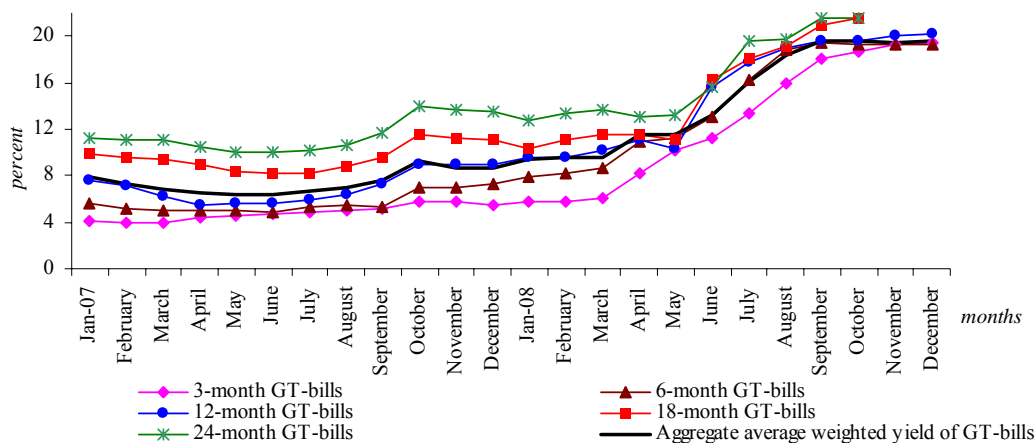
During the period from early year to mid-May, the Ministry of Finance gradually increased the volume of the GT-Bills supply. Then, till mid-July, the weekly supply of Treasury Bills remained at the level of Som 50-55 million. With the high level of excess reserves in the banking system, the demand remained quite stable in the first quarter, and a yield of GT-Bills had been increasing at a slack pace. In April to July 2008 inclusive, the yield and its volatility went up on impact of growth of the yield of NBKR Notes. In this regard, the most appreciable increase in the yield was observed in segments of short-term bills (3 and 6-month GT-Bills). From end-

*Demand and supply in the GT-Bills market*

July to mid-October, the weekly supply of GT-Bills increased, having thus reached Som 210 million. Against the background of increasing excess liquidity in the banking system, the demand for bills increased as well, however, it basically lagged behind their supply, and the certain influence on insufficient growth of demand for GT-Bills was that of reorientation of some of the active participants in the market towards the relatively short-term market of NBKR Notes. This resulted in the further increase in the yield of GT-Bills in all of the segments of the market. In the second half of October, the Ministry of Finance reduced weekly issues of GT-Bills, having changed the structure of their placement: weekly, there were no more than two auctions on placement of 3, 6 or 12-month GT-Bills, and no placement of 18 and 24-month GT-Bills till the end of the year. As a result, the situation in the market flattened out: the rates of growth of yield by all types of GT-Bills decreased noticeably, while the overall average yield by all types of GT-Bills did not almost change for the last three months of the accounting year.

**Chart 1.4.3.1.1.2.**

Average Weighted Yield by All Types of GT-Bills



Overall, the consolidated sales of Government Treasury Bills made Som 3.0 billion for 2008, having thus increased by 78.3 percent against 2007. In this regard, the sales volume of bills with the term to maturity of less than one year increased considerably (3-month - tripled, 6-month - by 73.7 percent and 12-month - by 63.7 percent), and the sales volume of 18 and 24-month GT-Bills increased as well, but to a lesser degree (by 32.8 and 45.6 percent, accordingly). As a result, the share of short-term bills in the structure of sales grew up to 50.4 percent in 2008 from 41.0 percent in 2007. The average yield of Government Treasury Bills grew by 7.3 percentage points up to 14.8 percent for the whole year of 2008.

*Sales and yield of GT-bills*

**Table 1.4.3.1.1.1.**

Issue and Average Annual Yield of GT-Bills

	2007			2008		
	Sales, in millions of soms	Share, percent	Yield, percent	Sales, in millions of soms	Share, percent	Yield, percent
<b>Total</b>	<b>1,687.6</b>	<b>100.0</b>	<b>7.4</b>	<b>2,962.8</b>	<b>100.0</b>	<b>14.8</b>
including:						
3 month GT-bills	245.9	14.6	4.8	730.5	24.7	12.7
6 month GT-bills	442.0	26.2	5.7	761.8	25.7	14.3
12 month GT-bills	461.8	27.4	7.0	744.0	25.1	15.2
18 month GT-bills	312.4	18.5	9.6	405.6	13.7	15.2
24 month GT-bills	225.4	13.4	11.4	321.0	10.8	16.4

\* Data cum volumes of GT-bills, placed via NBKR regional departments

Having made Som 2.7 billion at the end of December, the total volume of outstanding GT-Bills increased by 62.0 percent for 2008, while net financing of the budget through GT-Bills was negative and made a minus of Som 68.8 million, with the 2007 similar parameter being Som 425.5 million. In this regard, duration of bills, outstanding as of the end of the year, decreased down to 214 days from 233 days at the beginning of the year. The commercial banks remained the basic GT-Bills holders in the year of account, though their share decreased for the year from 98.9 percent down to 88.3 percent of the total volume of outstanding GT-Bills. A portfolio of GT-Bills in the banking system increased by 43.5 percent and made Som 2.2 billion for the accounting year. However the number of banks holding GT-Bills decreased from 19 banks down to 16 banks. The share of institutional investors in the total volume of outstanding GT-Bills made 5.3 percent at the end of the year, the share of resident legal entities – 4.7 percent, and the share of individuals – 1.7 percent.

*Volume of  
outstanding  
GT-Bills*

The commercial banks used GT-Bills in the secondary market, mainly, as collateral when conducting the lending operations on REPO terms. However, the volume of interbank operations on REPO terms decreased by 1.8 percent in comparison with 2007. Nevertheless, the volume of purchase/sale operations with GT-Bills prior to redemption in the year of account increased more than 15 times, up to Som 435.4 million. It was basically due to low liquidity at some of the commercial banks, and the banks sold securities available in their portfolio to cover this lack of liquidity. Average maturity of GT-Bills in these transactions made 213 days, and the average annual rate made 11.9 percent.

*Operations  
on the  
secondary  
market of  
GT-Bills*

In January to May 2008, the Ministry of Finance held the auctions on placement of 9-month GT-Bills at a trading post of the CJSC “Kyrgyz Stock Exchange” under a pilot project to trade GT-Bills in the share market. The auctions that took place resulted in Som 43.2 million of consolidated sales of these GT-Bills, with the average yield of the last auction being 13.9 percent.

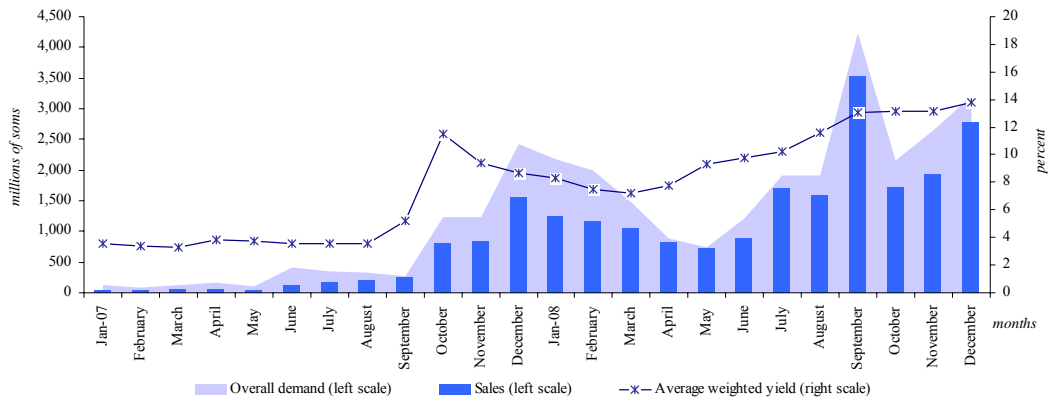
*Placement of  
GT-bills at the  
Stock  
Exchange*

#### 1.4.3.1.2. National Bank Notes

The National Bank placed in the market 14-, 28-, 91- and 182-day NBKR Notes in 2008, and starting from August - 7-day NBKR Notes. Under conditions of persistent high rates of inflation, the NBKR continued to use the notes largely as a tool of a withdrawal of excess liquidity, thereby regulating their supply depending on monetary policy objectives and liquidity in the banking system.

**Chart 1.4.3.1.2.1.**

**Demand and Placement of NBKR Notes**

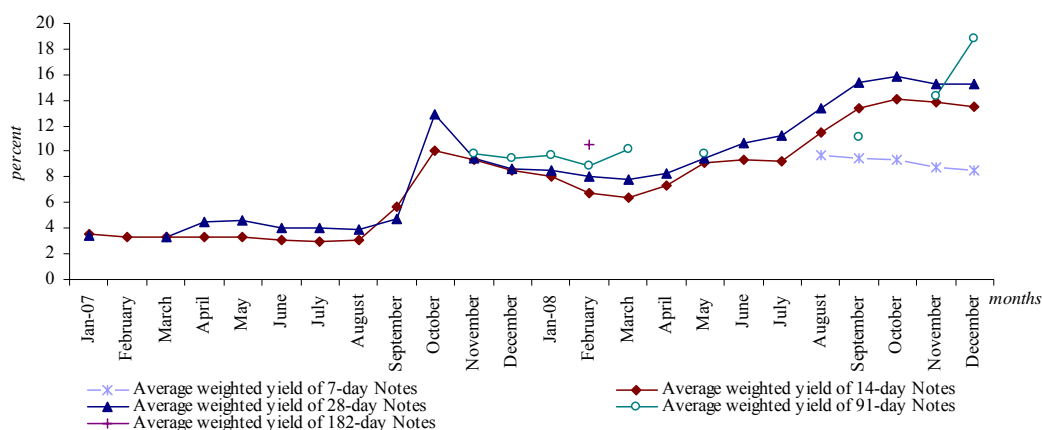


In January to July weekly supplied issues of NBKR Notes fluctuated within the range of Som 260-410 million. At the same time, the demand for notes since early year till May decreased against the background of the reduction in the excess reserves of the banking system, then, with growth of liquidity in the banking system, the demand started to increase. In this regard, the demand for NBKR Notes in the market exceeded their supply in the first quarter and resulted in the reduction in their yield during this period. Subsequently, the demand for notes basically lagged behind their supply and the yield of notes started to grow. As part of measures for the moderate tightening of monetary policy, starting from August, the National Bank more than doubled the supply of notes in the context of the persistently high rate of inflation, while making additional placements of Notes. In this regard, largest issues of Notes were in September and December. The demand for NBKR Notes increased as well, however, it lagged behind their supply leading to growth of the yield of 14 and 28-day NBKR Notes. The demand in the segment of 7-day NBKR Notes was quite great owing to a short-term nature of excess liquidity of commercial banks, thereby resulting in the gradual reduction in their yield by the end of the year. For the same reason, the demand for 91 and 182-day NBKR Notes remained modest: only 13 of 28 announced auctions (basically at the beginning and the end of the year) were actually held in the segment of 91-day NBKR Notes in 2008, and only 1 of 13 announced auctions - in the segment of 182-day NBKR Notes.

*Demand, supply and yield in the market of NBKR Notes*

**Chart 1.4.3.1.2.2.**

**Average Weighted Yield by Types of NBKR Notes**



Overall, placements of notes in the market the National Bank totaled Som 19.1 billion for 2008, their volume being thus increased 4.5 times in comparison with 2007. The average yield by all types of notes made 10.4 percent, having thus grown by 5.1 percentage points compared with 2007, of which the average yield of 7-day notes was 9.2 percent, the average annual yield in the segment of 14-day notes made 10.2 percent, having increased by 5.2 percentage points, and the average annual yield in the segment of 28-day NBKR Notes made 11.6 percent, indicating the increase by 5.8 percentage points compared with 2007. The yield of 91-day NBKR Notes was 11.8 percent on the average for the year, having grown by 2.2 percentage points, and the yield of 182-day notes at only one auction in February made 10.5 percent.

*Sales and yield of NBKR Notes*

The volume of outstanding NBKR Notes was Som 1.7 billion at the end of 2008, indicating growth 15.7 percent compared with the situation at the beginning of the year. The share of commercial banks in the structure of holders of notes was 80.5 percent, those of resident legal entities – 13.5 percent, institutional investors – 5.4 percent, and individuals-residents – 0.6 percent. 17 banks held the NBKR Notes in their portfolio.

*Outstanding NBKR Notes*

#### 1.4.3.2. Corporate Securities Market

An upswing and significant growth of trading volumes were observed in the share market in 2008 (based on official data for 9 months of 2008). Having increased by 66.1 percent in comparison with the similar period of 2007, the volume of auctions at trading posts of the Kyrgyz Stock Exchange, Central Asian Stock Exchange, and the Exchange Trading System totaled Som 5.9 billion for nine months of 2008. The basic trading post of the securities market of the republic is the Kyrgyz Stock Exchange, whose trading volume of auctions totaled Som 3.7 billion in January to September 2008 and increased by 12.0 percent in comparison with the corresponding period of 2007. In 2008, the volumes of auctions at the Central Asian Stock Exchange increased more than 9 times in comparison with January to September 2007 and totaled Som 1.8 billion.

Furthermore, 5 investment funds were the participants in the securities market at the end of September 2008. Their share in financial services was insignificant, with their assets of investment funds remaining at the level of 0.02 percent of GDP.

#### 1.4.4. Deposit and Credit Market

In 2008, the banking system still showed the upward tendency of deposits and credits, with the rates of growth having nevertheless fallen noticeably. Crisis phenomena in the international financial markets influenced essentially aforementioned developments, mainly, in the countries - basic economic partners of the Kyrgyz Republic, first of all, in Russia and Kazakhstan. Furthermore, commercial banking was affected by also the persistently high rates of inflation, deterioration in the terms of foreign trade, and the slowdown of private business in the country. Totally for 2008, a deposit base<sup>1</sup> of the banking system increased by 25.9 percent, having made Som 29.8 billion at the end of the accounting year, and the loan portfolio<sup>2</sup> was Som 26.3 billion, having increased by 22.1 percent. In the year of account, the deposits and credits of problem banks were observed to have decreased. It was promoted by repayment of all deposit liabilities and credits by the Akyl IJSCB connected with the process of its rehabilitation. By end-2008, the total share of banks undergoing rehabilitation in the deposit base decreased from 0.8 percent to 0.6 percent, while the share of credits decreased by 0.3 percentage points and made 2.7 percent of total debts of the banking system on credits.

*Credit and  
deposit  
slowdown*

The reduction of the rates of growth of deposits and credits of the banking system influenced performance of financial intermediation of the banking system. The ratio of the deposit base to GDP was 16.1 percent in 2008 against 16.9 percent in 2007 and the ratio of credit investments to GDP decreased from 15.4 to 14.2 percent. As a result of the slowdown in lending to the economy and outstripping growth of deposits, the credit and deposit balance decreased by 2.8 percentage points and made 88.2 percent.

*Financial  
intermediation*

The deposits continued to grow in the operating commercial banks<sup>3</sup>, with some reduction noticed only in February, August and December of the accounting year. In February and August it was due to the reduction of deposits in national and foreign currencies, and in December – due to the outflow of deposits in national currency. The rates of growth of deposits in national currency were higher during the year. However, starting from October their rates of growth slowed down, while those of deposits in foreign currency started to accelerate and it was basically due to the increase in the demand deposits in foreign currency of enterprises with one of the banks, whose share was significant in this market, as well as due to appreciation of the US dollar at the end of the year. For instance, the Som deposits grew by 11.5 percent and the deposits in foreign currency - by 39.5 percent. As a result of dollarization, the deposit base grew by 5.5 percentage points in 2008, up to 57.6 percent. At the end of 2008, the ratio of deposits in national currency to the volume of cash (M0) made 42.6 percent, having increased by 0.5 percentage points compared with this parameter at the beginning of the year.

*Deposit base*

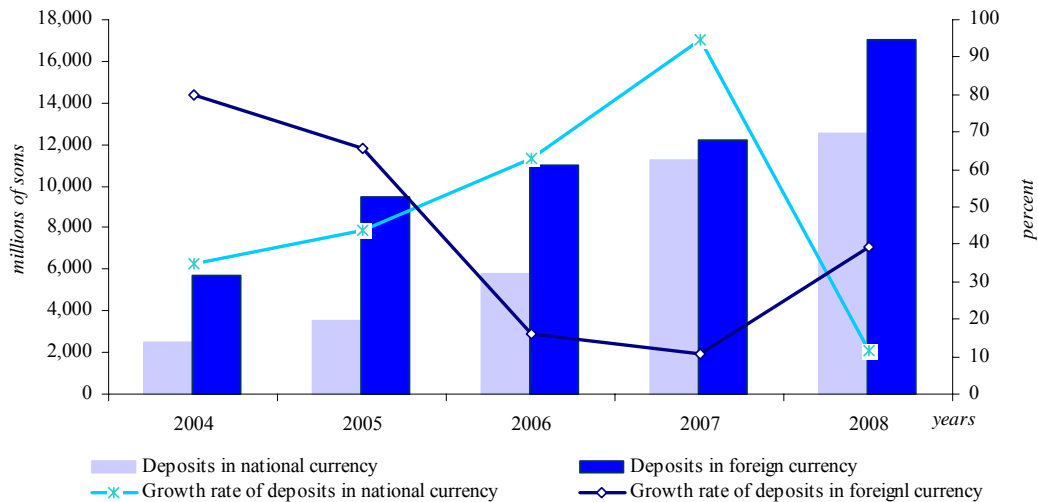
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<sup>1</sup> Including deposits of Government and financial institutions.

<sup>2</sup> Excluding the discount.

<sup>3</sup> Data are hereinafter based as covering operating commercial banks



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

As before, the basic share of deposits of commercial banks was that of contributions of legal entities. Their share since the beginning of the year grew by 3.3 percentage points up to 76.7 percent. In the accounting year, the volume of these deposits increased by 31.8 percent, with the deposits in foreign currency having grown in their structure by 51.4 percent, and in national currency - by 11.4 percent. The rates of growth of deposits of individuals were considerably low and made 10.4 percent, of which the deposits of the population in national currency increased by 12.1 percent, and in foreign currency - by 8.9 percent.

*Structure of the deposit base*

As a result of outstripping growth of demand deposits in the year of account, the reduction was observed with regard to the time deposits in the term structure of the deposit base. For instance, the share of demand deposits grew by 3.5 percentage points or to 64.6 percent of the deposit base. In the structure of time deposits growth was noted in shares of all of the short-term deposits except for the deposits with maturity of 6 to 12 months. This led to the reduction of duration of the deposit base from 6.6 to 5.2 months, including that of time deposits – from 16.9 up to 14.7 months.

By and large, the average rate of the deposit base in national currency grew by 1.4 percentage points and made 6.0 percent in the accounting year, while the rate of deposit balances in foreign currency decreased by 0.6 percentage points to 1.6 percent.

*Deposit base value*

Having increased by 13.0 percent in comparison with 2007, the deposits, newly accepted by the commercial banks,<sup>1</sup> totaled Som 83.1 billion. This growth was triggered by the increase in the deposits in national currency by 43.1 percent due to, first of all, growth of short-term deposits. In this regard, the increase in the inflow of

*Newly attracted deposits*

<sup>1</sup> Receipts on demand deposits of legal entities are not accounted in the newly accepted deposits.

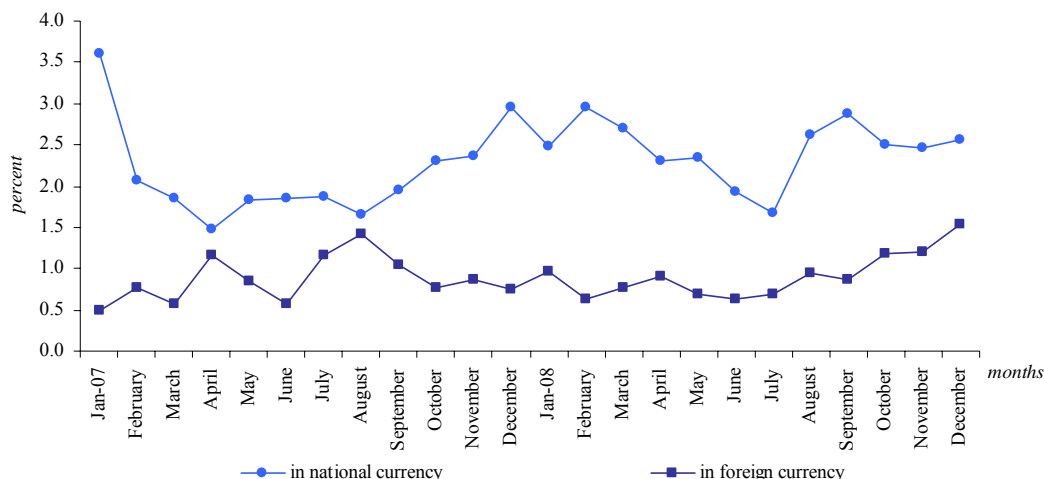
Som deposits was observed in all of the commercial banks, except for one bank. The deposits in foreign currency increased slightly (by 0.1 percent) and totaled Som 51.7 billion.

As compared with 2007, the interest rate of newly accepted deposits in national currency grew on the average for the year by 0.3 percentage points up to 2.5 percent due to growth of rates of demand deposits and the increase in the time deposits. The yield of newly accepted time deposits decreased with regard to practically all of their types, and as a whole for the period it made 6.8 percent, having thus decreased by 0.1 percentage points. The average rate of deposits in foreign currency remained at the level of 2007, having made 0.9 percent. The average annual interest rate of time deposits in foreign currency grew by 0.4 percentage points up to 5.8 percent due to growth of rates of time deposits attracted from the population.

*Interest rate of newly attracted deposits*

**Chart 1.4.4.2.**

Interest Rate Developments in Newly Accepted Time Deposits



The reduction of rates of growth of the deposit base of the banking system and the decreasing of financing by the parent banks of banks with foreign capital led to the reduction of the resource base of commercial banks. Furthermore, the high level of uncertainty as to financial condition of borrowers and growth of a credit risk led to the tightening of requirements for the extended credits. As a result, the reduction was observed in the rates of growth of the loan portfolio and in the volume of credits newly extended in 2008. In this regard, in the context of increasing risks and the high rate of inflation the value of financial resources grew and resulted in the increase in the interest rates of credits extended by the commercial banks.

*Credit market*

The increase was observed in credits both in national (by 15.0 percent), and in foreign currency (by 27.5 percent). Higher growth of credits in foreign currency resulted from basically the increase in the US dollar exchange rate vis-à-vis the Som. This influenced growth of dollarization of the loan portfolio by 2.4 percentage points, up to 64.8 percent.

*Loan portfolio*

The term structure of the loan portfolio in the year under review still showed a

*Term structure of the loan portfolio*

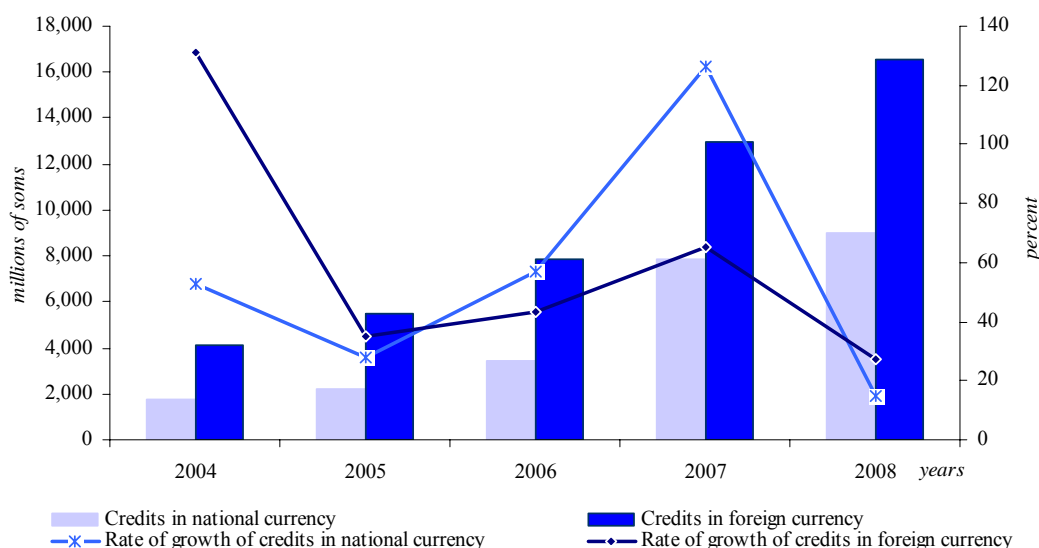
positive upward trend in long-term lending (over one year). As a result, its share in the loan portfolio increased by 2.0 percentage points, to 69.4 percent, at the end of the year. In this regard, the share of credits with shortest maturity in the structure of both short-term and long-term credits increased thereby entailing the decrease in duration of the loan portfolio from 25.2 to 24.8 months at the end of the accounting year.

The increase in the volumes of lending was observed with regard to practically all of the commercial banks, except for three banks that displayed the reduction in lending in foreign currency, in one of them the share of credits in national currency decreased either. The concentration ratio of the loan portfolio of commercial banks grew from 0.09 to 0.10 indicating its low concentration and it is equivalent to sharing of the market by 11 banks. The level of sectoral concentration of the loan portfolio of banks decreased from 0.45 to 0.42, remaining nevertheless still high and indicating the distribution of debt on credits of the majority of banks between approximately the two branches.

*Portfolio allocation by sectors*

**Chart 1.4.4.3.**

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

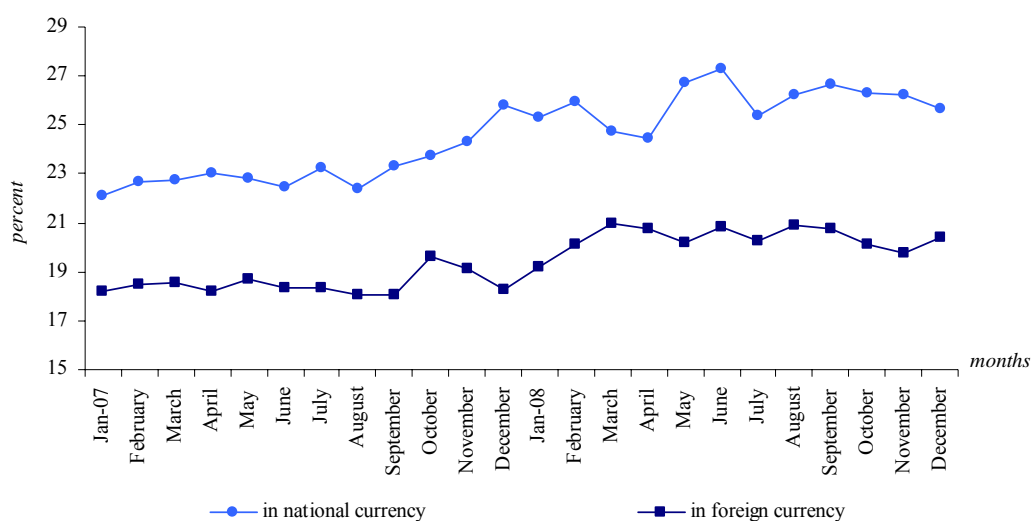


The average annual level of interest rates of credits forming the portfolio of commercial banks in national currency grew by 2.4 percentage points, up to 23.7 percent, in 2008, while in foreign currency the rate grew by 1.4 percentage points and made 19.5 percent. The real interest rate was negative on the average for the year and made (-1.0) percent.

*Loan portfolio value*

**Chart 1.4.4.4.**

Interest Rate Developments in Newly Extended Credits



The volume of newly extended credits decreased in the year of account by 0.6 percent in comparison with 2007, having made Som 24.4 billion, and it was due to the reduction of credits extended in foreign currency by 5.4 percent, thereby making Som 15.3 billion. At the same time, lending in national currency grew by 8.6 percent, up to Som 9.1 billion. In this regard, the dynamics of volumes of extended credits was of the multi-directional nature. In January to April, the volumes of lending were observed to increase, while basically showing the decrease by the end of the year.

*Newly given credits*

In a breakdown by sectors, the flow of newly extended credits was observed to decline in 2008 with regard to mortgage lending (by 56.1 percent) and in industry (by 11.0 percent) in comparison with 2007. At the same time, growth of the volume of credits in agriculture (by 21.8 percent), for trade and commercial operations (by 3.6 percent), for social services (4.9 times), transport (by 16.2 percent), for consumer goals (by 18.7 percent), and in construction (by 14.2 percent). Lending under a category "Other" decreased by 1.3 percent.

*Sectoral structure of newly given credits*

The average level of rates of credits, extended in national currency, increased by 2.7 percentage points and made 25.9 percent in the accounting year. Growth of interest rates was observed with regard to all of the branches of the real sector. The largest increase in the rates was observed in lending to agriculture, for procurement and processing, communications and other credits. The average interest rate of new credits in foreign currency also grew for the period under review (by 1.9 percentage points) and made 20.3 percent. In this regard, growth of rates was observed with regard to all of the branches of the real sector, except for the rates of credits for social services. The consumer credits were the most expensive credits in national and foreign currencies.

*Interest rate of newly given credits*

By the end of 2008, the cumulative loan portfolio of the nonbank finance and credit institutions grew by 52.2 percent and made Som 7.4 billion or 28.9 percent of the loan portfolio of commercial banks, while in 2007 this parameter was 23.4 percent.

**II**

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

## II. ACTIVITY OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC IN 2008

### CHAPTER 2. MONETARY POLICY

Under conditions of the unimpaired high inflationary potential coupled with the global financial crisis and problems in the energy sector of the country, monetary policy of the National Bank of the Kyrgyz Republic was focused on achievement and maintenance of stability of the general price level, on the one hand, and performance of tasks on maintenance of stability of the finance and banking system and promotion of long-term economic growth of the republic, on the other hand. As a result of agreed measures, undertaken by the National Bank and the Government to regulate liquidity in the banking system, inflation in the Kyrgyz Republic decreased from the mid-year level of more than 30 percent (year-on-year) to the end-year level of 20 percent. In this regard, they succeeded in keeping the positive dynamics of growth of basic parameters of the banking system: growth was observed in the loan portfolio, the deposit base, and own capital of commercial banks.

The international reserves were used with the view of the National Bank's monetary policy, as well as for servicing external liabilities of the Government and the National Bank. The volume of gross international reserves grew to the level of US\$1.2 billion at the end of 2008. The structure of international reserves remained constant, comprising the foreign exchange portfolio, SDR, and the assets in gold.

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

#### 2.1. Monetary Policy Targets and Effects

According to the Statement of the National Bank of the Kyrgyz Republic, adopted at the end of 2007, the following were determined as the basic monetary policy targets for 2008: the reduction of increased inflationary expectations of the population, achievement and maintenance of stability of the general price level, as one of the key conditions of economic growth in the medium term.

Monetary policy was directed to achieve the goals and objectives specified in the Joint Statement of the Government and the NBKR about Basic Economic Policy Guidelines for 2008 and in the "Basic Monetary Policy Guidelines for 2008-2010".

*Monetary  
policy  
targets*

Monetary policy in 2008 was implemented under conditions complicated by deterioration of the economic situation in the countries - basic trade and economic partners - owing to the grave global crisis. The situation in the banking sector of neighboring states led to a restriction on access for the local affiliated commercial banks to external financial resources. The sales slowdown was registered with regard to the domestic products. The downward tendency in the rates of growth of remittances of labor migrants was also observed at the end of the reporting period and this fact, coupled with the above-stated reasons, led to the reduction in the inflow of

*Monetary  
policy  
implementation  
terms*

foreign exchange in the domestic market.

The significant inflationary potential conditioned by high dependence of domestic consumption on import was persistent in the republic.

High excess Som liquidity in the banking system created the excessive demand for foreign exchange, which, under conditions of uncertainty as to development of the external economic environment, instilled some instability in the situation in the domestic foreign exchange market.

In this regard, monetary policy measures in 2008 were directed to satisfy a need for achievement and maintenance of price stability, which is the goal of the NBKR's activity, and to settle several tasks in one go:

- Maintenance of stable operation of the financial and banking sector and the payment system of the republic with the view of promoting long-term economic growth;
- Prevention of violent Som exchange fluctuations as the essential factor to maintain price and financial stability.

Peak growth of the general price level was registered in the middle of 2008, when inflation was 4.3 percent (in June as against the previous month). The NBKR measures directed to sterilize excess liquidity in the banking system with the help of the whole range of monetary policy tools and under favorable external conditions allowed to lower inflation by the end of the year. According to the National Statistics Committee of the Kyrgyz Republic data, growth of the consumer price index, characterizing the rate of inflation, made 20.0 percent by the end of the year (December 2008 to December 2007).

The NBKR Notes remained as the basic tool of sterilization of excess liquidity in the banking system in 2008. The sales of NBKR Notes totaled Som 19.1 billion in 2008 and it is 4.5 times more than their sales in 2007 - Som 4.2 billion. The volume of operations on sale of notes was increased according to a Concept of Tightening Monetary Policy adopted by the NBKR in 2007 due to strengthening of inflationary pressure. At the same time, in comparison with the year before, the volume of reverse REPO operations more than halved and made Som 1.8 billion in 2008.

*Monetary  
policy  
measures*

During the year, the NBKR pursued the policy to prevent violent Som exchange fluctuations and restrict any gamble with foreign exchange – this being most appropriate to maintain price stability and reduce the risks in the financial and banking sphere.

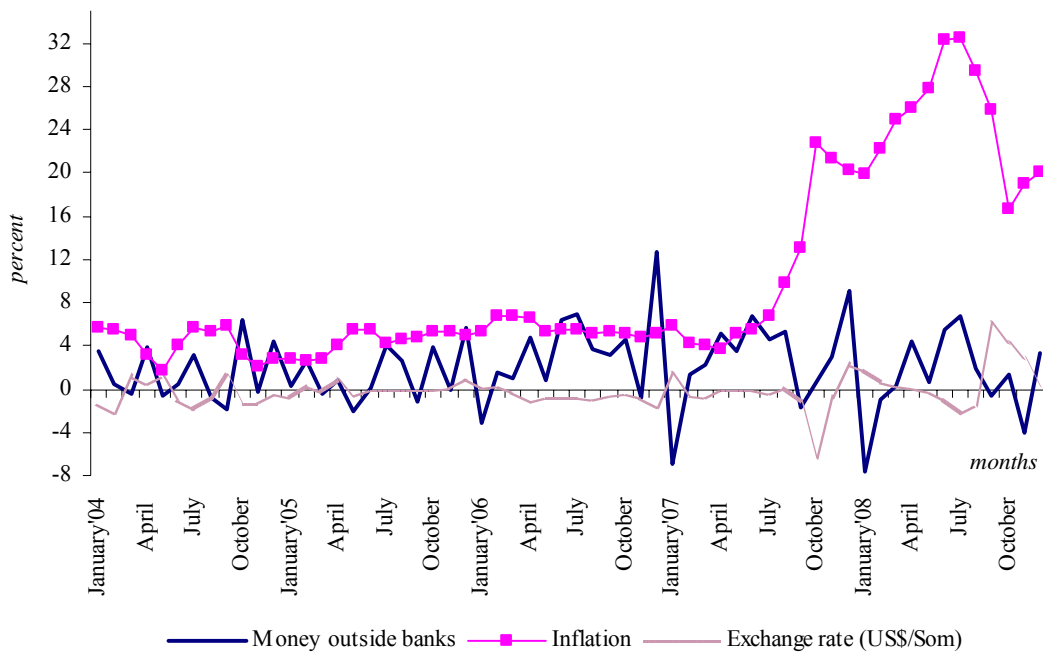
With the view of smoothing violent Som exchange fluctuations, the NBKR conducted operations on the withdrawal of excess foreign exchange from circulation, while continuing to follow the adopted floating exchange rate policy. In 2008, the net purchases of non-cash foreign currency by the National Bank totaled US\$ 53.2 million, with the dollar exchange rate increasing vis-à-vis the Som by 11.0 percent. In

this regard, the major increase in the official dollar exchange rate was registered in the fourth quarter of 2008, driven by the growing demand for foreign exchange due to the strengthening global financial crisis.

The NBKR also conducted the SWAP operations with US dollars, whose volume in the reporting year was Som 2.5 billion, having increased more than 1.4 times in comparison with 2007 (Som 1.8 billion).

**Chart 2.1.1.**

Growth of Money Outside Banks, Exchange Rate and CPI



As a result of NBKR’s monetary policy, money supply growth was more moderate in 2008: the monetary base grew by 11.3 percent and made Som 35.2 billion in 2008 (in 2007 growth of the monetary base was 38.5 percent).

*Monetary base dynamics and structure*

**Table 2.1.1.**

Sources of Base Money (end of period)  
(In millions of soms, at the current exchange rate)



	2007	2008	Growth, in millions of soms	Growth rates, in percent	Impact on base money, in percentage points
Net foreign assets	36,452.1	41,737.1	5,285.0	14.5	16.7
Net international reserves	37,112.4	41,699.9	4,587.6	12.4	14.5
Other foreign assets	-607.8	74.0	681.8	-112.2	2.2
Settlements with CIS countries	-52.4	-36.8	15.6	-29.8	0.0
Long-term foreign liabilities	-2,026.1	-2,099.4	-73.4	3.6	-0.2
Net domestic assets	-2,850.2	-4,486.9	-1,636.7	57.4	-5.2
Net domestic loans	314.3	659.2	344.9	109.7	1.1
Claims to KR Government	216.3	354.6	138.4	64.0	0.4
REPO	-193.2	0.0	193.2	-100.0	0.6
Liabilities of banks	291.2	304.6	13.4	4.6	0.0
Other items	-3,164.5	-5,146.1	-1,981.6	62.6	-6.3
<b>Base money</b>	<b>31,575.9</b>	<b>35,150.8</b>	<b>3,574.9</b>	<b>11.3</b>	<b>11.3</b>
Money outside banks	26,674.7	29,385.1	2,710.4	10.2	8.6
Reserves of commercial banks	4,014.0	4,347.5	333.5	8.3	1.1

Of monetary aggregates, the rate of growth of M2X (M2 + the deposits in foreign currency) was the highest one - 12.6 percent - in the year 2008, while the growth rate of M2 (money outside banks + the deposits in national currency) was the lowest one - by 9.9 percent.

*Monetary  
aggregates*

Having increased by Som 5.4 billion and being much less than its value in 2007 (+33.3 percent or by Som 10.7 billion), the monetary aggregate M2X made Som 48.5 billion by the end of 2008. Growth of the deposit base contributed to growth of broad money by Som 2.7 billion, while growth of money outside banks – by Som 2.7 billion. In this regard, the rates of growth of deposits in foreign currency exceeded the rates of growth of Som deposits.

According to 2008 data, the following changes were observed in the structure of broad money (M2X):

*Broad money  
dynamics and  
composition*

- The share of money outside banks was 60.7 percent (at the end of 2007 – 62.0 percent);

- The share of deposits in national currency was 18.2 percent (at the end of 2007 – 18.8 percent);

- The share of deposits in foreign currency was 21.1 percent (at the end of 2007 – 19.2 percent).

**Table 2.1.2.**

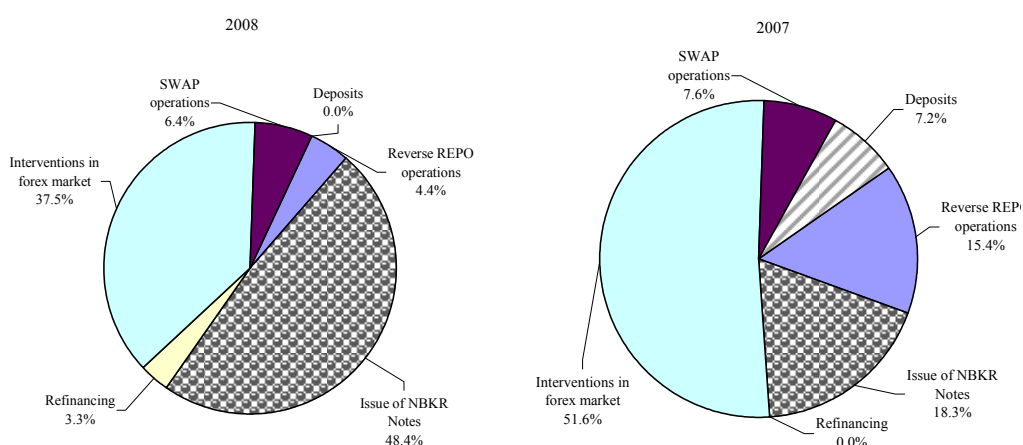
Sources of Money Supply M2X (end-of-period)  
(In millions of soms, at the current exchange rate)

	2007	2008	Growth, in millions of soms	Growth rate, in percent	Impact on M2X, in percentage points
Net foreign assets	35,258.6	39,807.9	4,549.3	12.9	10.6
Net international reserves	35,918.8	39,770.7	3,851.9	10.7	9.0
Other foreign assets	-607.8	74.0	681.8	-112.2	1.6
Settlements with CIS countries	-52.4	-36.8	15.6	-29.8	0.0
Long-term foreign liabilities	-2,026.1	-2,099.4	-73.4	3.6	-0.2
Net domestic assets	9,785.5	10,744.7	959.3	9.8	2.2
Net claims to Government	-1,657.4	-1,613.6	43.8	-2.6	0.1
Claims to other sectors	21,128.9	26,699.5	5,570.6	26.4	12.9
Other items	1,567.7	697.0	-870.7	-55.5	-2.0
<b>Money supply</b>	<b>43,018.0</b>	<b>48,453.2</b>	<b>5,435.2</b>	<b>12.6</b>	<b>12.6</b>
Money outside banks	26,674.7	29,385.1	2,710.4	10.2	6.3
Deposits of other deposit corporations	16,343.3	19,068.1	2,724.8	16.7	6.3
Deposits in national currency	8,093.9	8,824.1	730.2	9.0	1.7
Deposits in foreign currency	8,249.3	10,243.9	1,994.6	24.2	4.6

## 2.2. Monetary Policy Instruments

In the context of the prolonged world economic and financial crisis, the National Bank applied the monetary policy instruments to restrain inflationary pressure and promote long-term economic growth in 2008. When implementing monetary policy, the National Bank aimed to minimize the influence of the monetary factor on inflation by maintaining the optimal rate of growth of money supply. Operations of the National Bank were directed to sterilization of highly excess liquidity in the banking system through, mainly, issues of NBKR Notes. In this regard, the share of these NBKR operations for the accounting year increased to 48.4 percent in comparison with 18.3 percent in 2007. In addition to issues of NBKR Notes, the National Bank withdrew excess liquidity by means of reverse REPO and SWAP operations, however, their shares decreased by 4.4 and 6.4 percent, accordingly, in comparison with 2007.

**Chart 2.2.1.**  
Structure of NBKR Operations



Against the background of the world financial crisis, the trade gap of the republic increased and affected in turn growth of demand for foreign currency in the domestic foreign exchange market. In this regard, insufficient capacity of the

interbank foreign exchange market caused from time to time a temporary foreign exchange supply and demand disbalance in the market. To remove this disbalance and its negative impact on the exchange rate, the National Bank intervened both in purchases and sales of foreign exchange, with the share of interventions in total operations having decreased from 51.6 percent in 2007 to 37.5 percent in 2008.

Under conditions of excess liquidity in the banking system, the demand for monetary resources of the National Bank was insignificant. Totally for the year, the National Bank extended some overnight credits and did not conduct other operations on refinancing (intraday credits, and the direct REPO and SWAP operations). The share of operations on refinancing was 3.3 percent.

Total operations of the National Bank were about Som 39.5 billion in 2008 or by 70.5 percent more than those in 2007 (Som 23.2 billion). In this regard, due to operations of the National Bank the monetary base increased by Som 2.1 billion and it is by 69.1 percent less than in 2007.

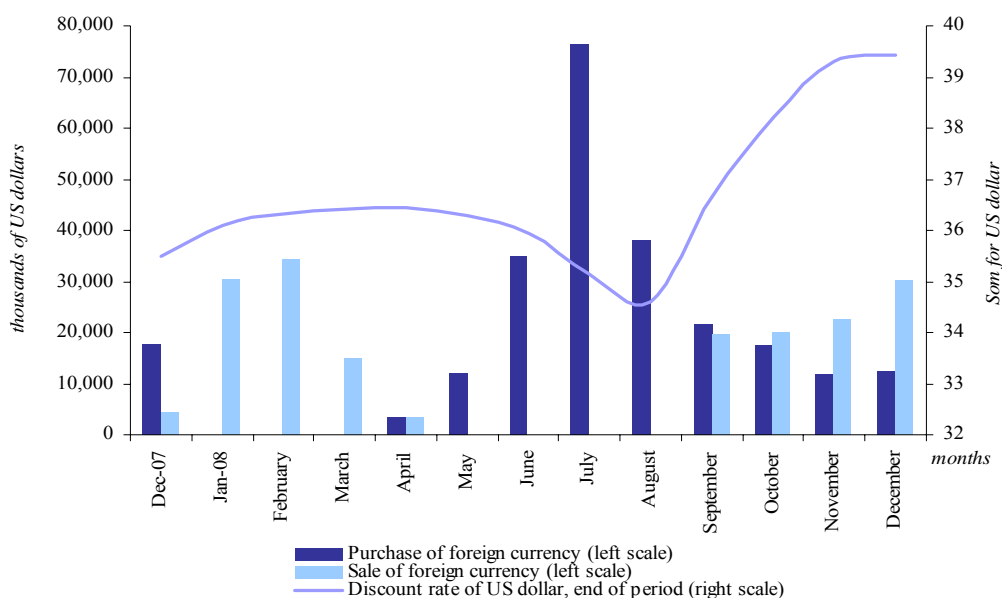
### 2.2.1. Domestic Foreign Exchange Market Operations

In 2008 the National Bank took an active part in the interbank foreign exchange auctions in order to smooth exchange fluctuations and market conditions. For instance, at the beginning of the year the domestic foreign exchange market exhibited seasonal growth of demand for US dollars against the reduced supply of foreign exchange, thereby conditioning growth of the exchange rate. To satisfy the demand for US dollars and smooth exchange fluctuations, the National Bank conducted the operations on sale of foreign exchange in the first quarter. As a result, the exchange rate was stabilized at the level 36.3-36.5 Som/US\$ 1.00 (Som 35.5 /US\$ 1.00 at the beginning of the year).

*Forex market condition*

**Chart 2.2.1.1.**

**NBKR Operations at Interbank Forex Auctions**



The supply of foreign exchange in the domestic market increased noticeably in the second and third quarters due to, mainly, the inflow of remittances of labor migrants, as well as due to growth of export proceeds of the mining industry in foreign exchange. During this period, the National Bank purchased mainly excess foreign exchange from the commercial banks. In this regard, the exchange rate was observed to decrease in the summer months, and in September it started to increase. The situation in the domestic foreign exchange market changed because of the increase in the demand for US dollars due to the time gaps between the flows of money receipt and spending as a result of the ongoing world economic and financial crisis. Furthermore, appreciation of the US dollar in the international markets bore certain pressure upon the exchange rate. Growth of the exchange rate in the domestic market was persistent up to the end of the year, and in December its rate decreased noticeably. In this regard, from September to December the National Bank conducted both the purchase and sale operations with foreign currency because of the disbalance between the foreign exchange supply and demand in the domestic foreign exchange market.

Totally for 2008, the National Bank bought US\$ 228.5 million and sold US\$175.6 million. With that, the officially registered dollar exchange rate for the year increased by 11.0 percent, having made Som 39.4181/US\$ 1.00 by the end of the year.

*Volumes of interventions in forex market*

In addition to the operations with US dollars, the National Bank also intervened in the foreign exchange market with other foreign currencies - Euro, Russian rubles, and the Kazakh tenge - with the view of developing and deepening the domestic foreign exchange market.

Alongside with the currency interventions, the National Bank conducted the reverse SWAP operations on sales of US dollars with the view of sterilizing excess liquidity in national currency. The total volume of these transactions made US\$ 69.0 million in the accounting period, having thus increased by 41.1 percent against 2007. The average weighted term of these operations was 55 days (50 days - in 2007).

*Reverse SWAP operations*

**Table 2.2.1.1.**

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

	Q1	Q2	Q3	Q4	Total
<b>2007, total</b>	<b>36,020.0</b>	<b>92,280.0</b>	<b>101,150.0</b>	<b>144,942.4</b>	<b>374,392.4</b>
<i>including:</i>					
purchase of US dollars	16,170.0	88,480.0	88,650.0	88,950.0	282,250.0
sale of US dollars	15,750.0	-	6,000.0	21,200.0	42,950.0
sale of foreign currency (excluding US dollars)	-	-	-	292.4	292.4
SWAP operations in foreign currency (sale)	4,100.0	3,800.0	6,500.0	34,500.0	48,900.0
<b>2008, total</b>	<b>105,548.7</b>	<b>65,818.6</b>	<b>175,928.6</b>	<b>128,248.5</b>	<b>475,544.4</b>
<i>including:</i>					
purchase of US dollars	-	50,600.0	136,300.0	41,600.0	228,500.0
sale of US dollars	79,600.0	3,400.0	19,550.0	73,000.0	175,550.0
purchase of foreign currency (excluding US dollars)	480.7	2.1	78.6	148.5	709.9
sale of foreign currency (excluding US dollars)	1,468.0	316.5	-	-	1,784.5
SWAP operations in foreign currency (sale)	24,000.0	11,500.0	20,000.0	13,500.0	69,000.0

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

The NBKR Notes are the government securities, issued for circulation for 7, 14, 28, 91 and 182 days and placed by the National Bank through the auctions and off the auctions, in order to regulate liquidity in the banking system and determine the discount rate. In June 2008 the new version of the Regulation “On Issue, Placement, Circulation and Redemption of Notes of the National Bank of the Kyrgyz Republic” was carried into effect, developed with the view of improving this tool. According to the new Regulation, the NBKR can change issues of notes towards their reduction and increase, proceeding from the monetary policy targets and the state of the developed market. This norm was incorporated into the Regulation in order to reduce the risk of impact of speculative bids on the level of interest rates, as well as to satisfy the higher demand for the NBKR Notes.

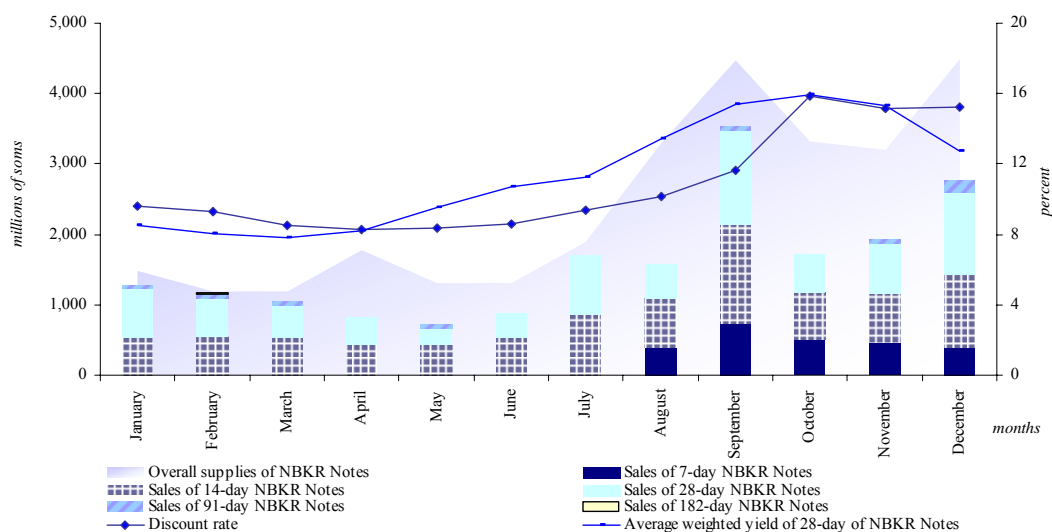
*Changes in  
the regulatory  
framework*

Under conditions of the persistently high rate of inflation, the National Bank continued to use the Notes as the structural tool to withdraw excess liquidity in banks in 2008. As a result, the supply of NBKR Notes increased considerably and made Som 29.0 billion. In this regard, considering the short-term nature of liquidity of banks, in August the National Bank started to conduct the auctions on placement of 7-day NBKR Notes. The sales volume of NBKR Notes increased 4.5 times and made Som 19.1 billion in 2008, with the basic sales volume (84.3 percent) having fallen on 14 and 28-week NBKR Notes.

*Operations  
with NBKR  
Notes*

#### Chart 2.2.2.1.

Sales of NBKR Notes and NBKR Discount Rate Movement in 2008



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

*Essence of the discount rate*

From January to September 2008, a mechanism was used to define the discount rate, according to which the value of the discount rate was equated to the average yield of 28-day NBKR Notes for the latest 20 auctions. As a result of the use of this technique, the discount rate was strongly smoothed reacting to market developments with a greater time lag. With the view of enhancing efficiency in the discount rate definition mechanism, in October the NBKR started to define its level as the average value of the yield of 28-day NBKR Notes for the latest 4 auctions. When this new mechanism was implemented, the discount rate grew by 3.6 percentage points and came closer to the yield of 28-day NBKR Notes, making 15.6 percent. At the same time, not to allow significant growth of the value of overnight credits, whose rate is defined based on the discount rate, the factor of its pegging was lowered from 1.5 to 1.2. As a result, the overnight credit rate remained approximately at the same level.

*The change in the discount rate definition mechanism*

The average level of the discount rate in 2008 increased by 5.2 percentage points to 10.8 percent. At the end of December 2008 the NBKR discount rate made 15.2 percent.

### 2.2.3. REPO Operations

The REPO operations are the operations on purchase or sale of government securities with an obligation of their resale or redemption payment within the envisaged period. The National Bank conducts these operations with the view to regulate liquidity in the banking system, proceeding from the monetary policy targets and market condition.

*Essence of REPO operations*

Against the background of the high level of excess reserves in the commercial banks, in 2008, the operations of the National Bank were directed to withdraw short- and mid-term liquidity, by means of selling the government securities on REPO terms (reverse REPO). The Government Treasury Bills for settlement - GT-Bills (s), being part of the NBKR portfolio serves as an object of sale.

The reverse REPO operations were conducted by the National Bank during the whole year. In this regard, due to the change in a pattern of demand, the National Bank reduced maturity of operations stage by stage. For instance, from January to May the National Bank conducted the operations with maturity of 2 months, during the summer period – the operations for 1.5 months, and later – for 1 week.

*Maturity of reverse REPO operations*

The total volume of REPO operations in 2008 halved to Som 1.8 billion compared to the year before. The average term of reverse REPO operations increased from 34 to 35 days, and the average yield of these operations doubled and made 8.9 percent.

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

	Q1	Q2	Q3	Q4	Total
<b>2007, total</b>	<b>351.8</b>	<b>915.8</b>	<b>1,549.5</b>	<b>745.5</b>	<b>3,562.6</b>
<i>including:</i>					
direct REPO operations	-	-	-	-	-
reverse REPO operations	351.8	915.8	1,549.5	745.5	3,562.6
<b>2008, total</b>	<b>520.5</b>	<b>230.9</b>	<b>517.9</b>	<b>482.0</b>	<b>1,751.3</b>
<i>including:</i>					
direct REPO operations	-	-	-	-	-
reverse REPO operations	520.5	230.9	517.9	482.0	1,751.3

#### **2.2.4. Refinancing of Banks**

At the disposal of the National Bank there is a package of tools of refinancing the commercial banks. These are intraday time credits, and overnight, last resort, and other credits.

Under conditions of the high level of excess reserves in the year of account, the commercial banks requested only the overnight credits, extended at the fixed rate, on collateral in the form of government securities with maturity up to 6 months. The overnight credits were extended in April, November, and December to two banks for the total amount of Som 1.3 billion. The average annual rate of overnight credits was 15.0 percent in 2008.

*Overnight credits*

The National Bank took the measures for further improvement of a refinancing facility for the commercial banks. For instance, in December 2008 the new versions of Regulations “On Overnight Credit” and “On One-Day Time Credit of NBKR” inuring in 2009 were adopted in 2008. These new versions regulate the process of extension and repayment of one-day time credits and overnight credits

*Changes in the regulatory framework*

using the automated system in connection with its commissioning.

**Table 2.2.4.1.**

**NBKR Overnight Credits**

*(In millions of soms)*

	Q1	Q2	Q3	Q4	Total
2007	-	-	-	-	-
2008	-	914.5	-	370.0	<b>1,284.5</b>

**2.2.5. Reserve Requirements**

The reserve requirements are one of the tools to regulate the volume of monetary aggregates and represent the sum of funds, which the commercial banks are bound to hold on their correspondent account with the National Bank.

In 2008, the National Bank worked on the issue of improving this tool. For instance, the new version of the Regulation “On Reserve Requirements”, inuring in early 2009, was approved in November. According to the new Regulation, other liabilities were removed from total liabilities and the deposits in foreign currency with maturity of more than 1 year were added to determine the size of reserve requirements. Furthermore, as part of the pilot project on introduction of Islamic principles of financing, amendments were introduced twice in 2008 into the Regulation “On Reserve Requirements for the OJSC “EcoBank” to expand the structure of liabilities used for calculations of reserve requirements. In this regard, the norm of reserve requirements for commercial banks remained at the former level of 10 percent of the average daily amount of liabilities taken for calculations in 2008.

*Changes in the regulatory framework*

Collection of the payment at the rate of the triple NBKR discount rate of the average daily shortfall in the required reserve was envisaged in case of a breach of reserve requirements. The commercial banks were paid compensation equal to the uniform average rate of deposits of commercial banks for an observance of reserve requirements. On October 13, the rate of compensation for the observance of reserve requirements was set up at the zero level following recommendations of a Chamber of Accounts to reduce NBKR expenses and tighten monetary policy under conditions of excess liquidity and the high rate of inflation.

*Payment and compensation for the observance of reserve requirements*

In 2008, the deposits still showed the upward tendency and there was, as a consequence, growth of reserve requirements. By and large, the volume of reserve requirements increased by 22.5 percent to Som 2.6 billion at the end of December. Only one fact of the non-observance of reserve requirements was registered during the year of account. The amount of compensation paid to the commercial banks for the observance of reserve requirements increased by 23.3 percent to Som 42.7 million against the year of 2007 .

**Table 2.2.5.1.**

**Average Daily Level of Reserves of Commercial Banks in National Currency**

*(In millions of soms)*



	Q1	Q2	Q3	Q4
<b>2007, total</b>	<b>2 397,7</b>	<b>2 573,4</b>	<b>2 749,9</b>	<b>3 245,0</b>
<i>including:</i>				
required reserves	1 547,2	1 639,3	1 923,9	2 007,1
excess reserves	850,0	936,1	829,4	1 230,3
<b>2008, total</b>	<b>3 700,1</b>	<b>3 462,4</b>	<b>4 096,5</b>	<b>3 707,2</b>
<i>including:</i>				
required reserves	2 052,2	2 209,9	2 437,9	2 460,5
excess reserves	1 647,9	1 252,6	1 658,6	1 246,7

### 2.3. International Reserves Management

The National Bank managed its international reserves according to “Risk Management Policy in Management of International Reserves”, the Regulations “On Benchmark Portfolio of International Reserves of the National Bank of the Kyrgyz Republic for 2008”, “On Structure of International Reserves of the National Bank of the Kyrgyz Republic” and “On Limits in Management of Investment Asset of International Reserves”.

*Regulatory documents*

Pursuant to the Law “On the National Bank of the Kyrgyz Republic”, the priority tasks of the National Bank in the area of international reserves management are those of maintaining liquidity and ensuring security of international reserves. An income maximization principle in management of international reserves is realized only in case of the strict observance of liquidity maintenance and asset security principles.

*Principles of governance*

Decisions regarding the issues of mapping out the bank investment strategy, portfolio allocation of international reserves, the ratio of risks and yields of investment tools, as well as a choice of bank counterparts were taken by the Board and the Investment Committee of the National Bank. 17 meetings of the Investment Committee were held in 2008 on the issues of management of international reserves. Criteria, requirements and restrictions on counterparts, types of tools, and amounts and maturity of investment were established to minimize the risks arising in reserve asset management.

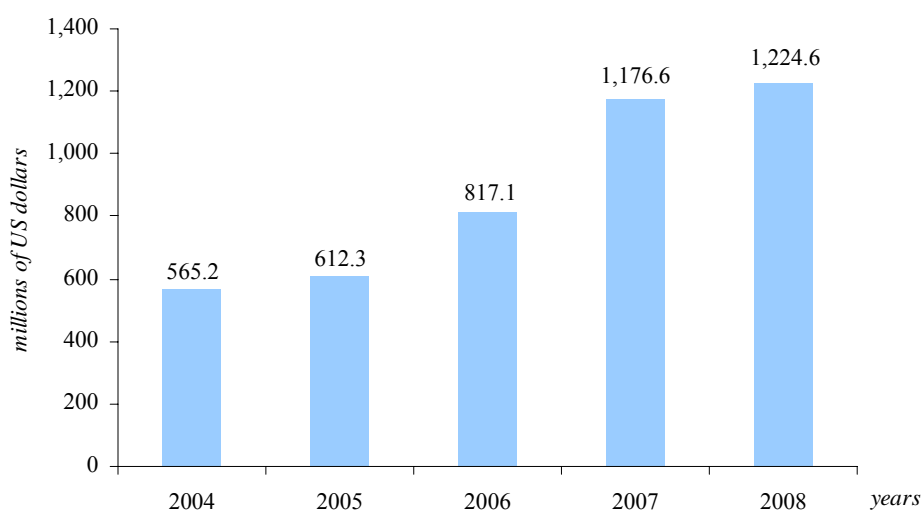
*Power of agencies in decision making*

The structure of international reserves of the National Bank comprises the assets in gold, Special Drawing Rights, and the portfolio of foreign currencies. Total reserves at the end of 2008 were equivalent to US\$ 1.2 billion, having increased for the year by US\$ 48.0 million or by 4.1 percent.

*Structure and volume of IR*

#### **Chart 2.3.1.**

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



The main sources of growth of international reserves in value terms in 2008 were those of exchange transactions of the NBKR conducted in the domestic market, income from management of international reserves, the changes in the exchange rates of portfolios, and the changes in the prices of precious metals. Other sources of growth of assets were those of exchange receipts in favor of the Government and the National Bank from the international financial institutions and the donor countries.

*Sources of IR growth*

The volume of gold, as part of international reserves of the National Bank, remained unchanged in 2008. Growth of the share of SDR in the international reserves was due to the receipts on IMF loans, as well as owing to the purchases of SDR for US dollars according to a schedule of payments for 2008 (NBKR liabilities to the IMF).

*Changes in the IR structure*

***Table 2.3.1.***

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

	2007	2008
Gold	5,9	5,9
Foreign currency portfolio	92,9	89,6
Special Drawing Rights	1,2	4,5
<b>Total</b>	<b>100,0</b>	<b>100,0</b>

In 2008, the foreign exchange portfolio of international reserves of the National Bank comprised: US\$, Euro, Swiss francs, British pounds, Australian and Canadian dollars, as well as Japanese yens, and Russian rubles.

*Structure of foreign exchange portfolio of international reserves and its change*

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

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

*IR structure*

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

*IR allocation*

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

The international reserves were placed with the central banks of developed countries, the international financial institutions and the foreign commercial banks with the high credit rating established by leading world rating agencies. An analysis of financial markets and a monitoring of performance of counterpart banks were done on the regular basis.

Under conditions of the world financial crisis, the central banks of major developed countries continued liberalizing their monetary policy by means of accessible tools, including through the downward adjustment of key interest rates. As part of measures for stimulation of the economy, the individual central banks lowered the rates down to historical minima. The consequences of these actions were those of the universal decrease in the level of market interest rates that, in turn, influenced the yield of the foreign exchange portfolio of the National Bank, as well as the pattern of placement of international reserves.

**Table 2.3.2.**

Pattern of Placement of NBKR International Reserve Assets (end of period)

(In percent)

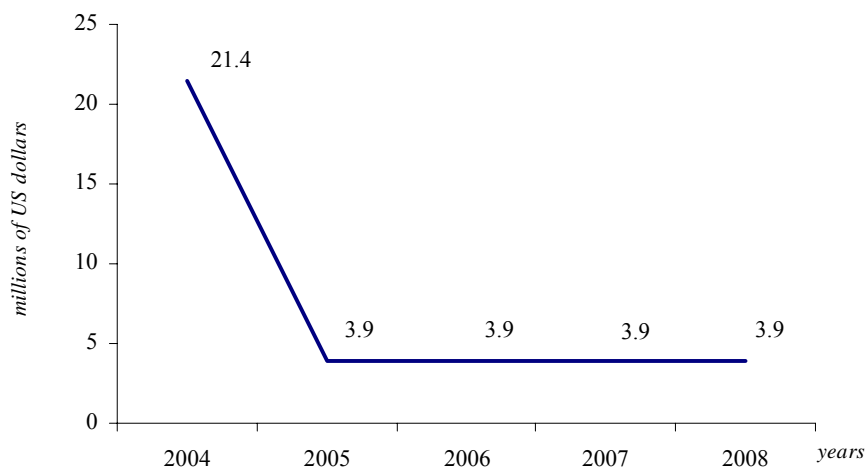
	2007	2008
International financial institutions	44,5	46,3
Central banks	32,6	29,0
Commercial banks	22,7	24,1
NBKR	0,2	0,6
<b>Total</b>	<b>100,0</b>	<b>100,0</b>

The low liquid assets of the National Bank consist of deposits with the JSC "Central Asian Bank for Cooperation and Development" and shareholdings in the Interstate Bank.

**Chart 2.3.2.**

**Low Liquid Asset Developments**

(In millions of US dollars)



As of the end of 2008, the volume of low liquid assets in the structure of international reserves of the NBKR remained unchanged and totaled US\$ 3.9 million as was the case one year earlier.

In 2008 the international reserves were used mainly for the operations in the domestic foreign exchange market, servicing the state external debt of the Kyrgyz Republic and the payment of membership fees and contributions of the Government to the international organizations and integration institutes.

*Use of IR*

### **CHAPTER 3. OVERVIEW AND REGULATION OF ACTIVITY OF FINANCE AND CREDIT INSTITUTIONS**

The world financial crisis indirectly influenced the finance and credit system and resulted in the slowdown in its basic parameters and the increase in the credit risk. The National Bank, in concert with the Government and the commercial banks, conducted the relevant anti-crisis actions directed to further strengthening of the banking system stability and its resistance to the risks and threats, and to improve a bank risk appraisal procedure and the risk management system in the commercial banks.

By and large, development trends in the banking system and in the system of nonbank finance and credit institutions remained positive, thereby leading to improvement of competition, expansion of the spectrum of services, growth of a network of branches and savings banks that in turn promoted the increase in access of the population to financial services. In 2008 the increase was observed in the total number of NFCI and borrowers, the volumes of their assets, and the loan portfolio.

The work was in progress to improve regulatory and legal acts that regulate activities of banks and others NFCI. These acts are a legislative framework for further development of the financial system. For instance, the measures were directed to enhance efficiency in supervision and to establish the adequate risk management system. The Law “On Protection of Bank Deposits” was passed in 2008 and the regulatory and legal framework is developed for introduction of the deposit protection system. The National Bank continued working on improvement of the regulatory framework with the view of implementing the pilot project on introduction of Islamic principles of banking and financing and on the amendments and addenda to the banking legislation directed to ensure equal treatment of all of the participants in the banking sector, as well as on further promotion of Islamic banking in the Kyrgyz Republic. The National Bank, in concert with the commercial banks, developed the Banking Sector Development Strategy till End-2011. Under the “Mid-Term Microfinancing Development Strategy in the Kyrgyz Republic for 2006-2010”, the amendments and addenda were introduced to several acts on the activity of credit unions.

#### **3.1. Banking System Overview**

21 commercial banks<sup>1</sup> (including the Bishkek branch of the National Bank of Pakistan) operated in the territory of the Kyrgyz Republic in 2008. The overview of activities of these institutions is based on revised annual regulatory reports of operating commercial banks for 2007 and preliminary reports for 2008.

*Number of  
commercial  
banks*

The National Bank kept reducing the indirect influence of the world financial crisis on the finance and credit system in order to enhance its stability and resistance to threats and risks and to improve the supervision technique and practice, including an early prevention of problems in the finance and credit institutions licensed by the

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<sup>1</sup> On November 1, 2008, the JSC “Kyrgyzpromstroibank” joined the JSC “AsiaUniversalBank”.

NBKR.

Jointly with the commercial banks, the National Bank drafted the Banking Sector Development Strategy till End-2011, which was approved on December 30, 2008, by the Coordination Center for Strategic Management of the Kyrgyz Republic. This Strategy is aimed at further growth in financial intermediation, increase in a role of the banking sector in the economy of the Kyrgyz Republic, and maintenance of efficiency, safety and reliability of banking.

*Banking Sector  
Development  
Strategy*

As compared to 2007, the slowdown trends in the basic development parameters took shape in the system of commercial banks in the accounting period. Due to the indirect influence of the world financial crisis on the banking system, the basic efforts of the National Bank were directed to the appraisal of bank risks and implementation of relevant anti-crisis measures, including those taken in concert with the Government and the commercial banks of the Kyrgyz Republic.

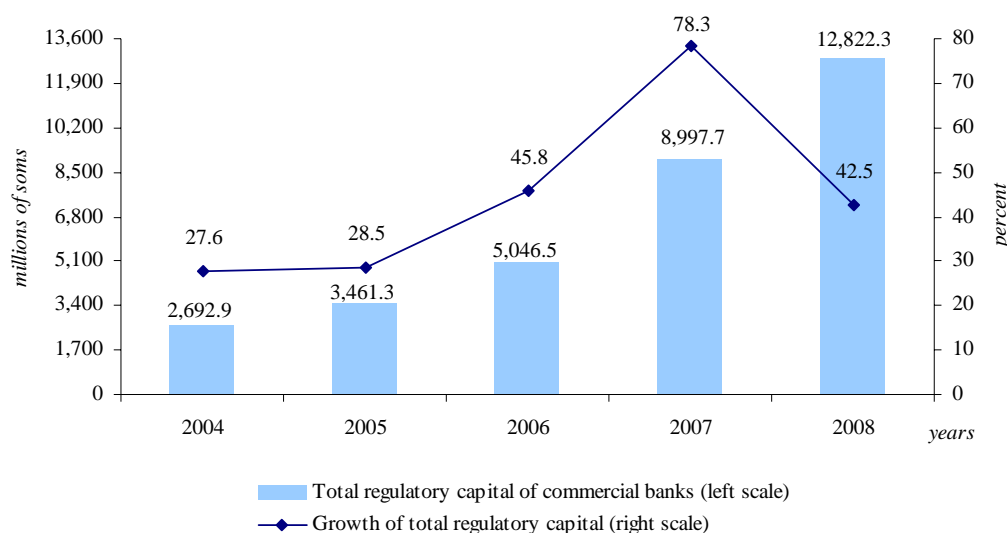
*Slowdown of  
rates of growth*

Total regulatory capital<sup>1</sup> of commercial banks grew by Som 3.8 billion or 42.5 percent amounting to Som 12.8 billion as of the end 2008. In this regard, paid authorized capital<sup>2</sup> increased by 34.6 percent.

*Capital of  
commercial  
banks*

### **Chart 3.1.1.**

Growth of Total Regulatory Capital of Commercial Banks



Total liabilities<sup>3</sup> of commercial banks increased by 27.1 percent in 2008 and made Som 42.1 billion. In this case, the share of liabilities in foreign currency in total liabilities was 67.2 percent (at the end of 2007 – 61.8 percent).

*Liabilities of  
commercial  
banks*

The deposit base of commercial banks continued to increase. At the end of

*Deposit base*

<sup>1</sup> Total regulatory capital of any bank comprises authorized capital, reserves, historical retained earnings (losses), reporting year earnings (losses), and general provisions formed in the bank for the unclassified assets.

<sup>2</sup> This category covers ordinary shares and preference shares.

<sup>3</sup> Total liabilities comprise all of the funds mobilized by the bank.

2008 the volume of deposits of operating commercial banks<sup>1</sup> increased by 21.8 percent and made Som 23.2 billion. The share of legal entities in the structure of deposits increased by 3.0 percentage points and made 70.3 percent of the deposit portfolio of the banking system. The deposits of legal entities increased by Som 3.5 billion or 27.4 percent during the accounting period. The deposits of individuals increased by Som 646.7 million or 10.4 percent during the accounting period. Growth of time deposits both in absolute and relative terms was observed in 2008 in the structure of deposits of individuals.

**Table 3.1.1.**

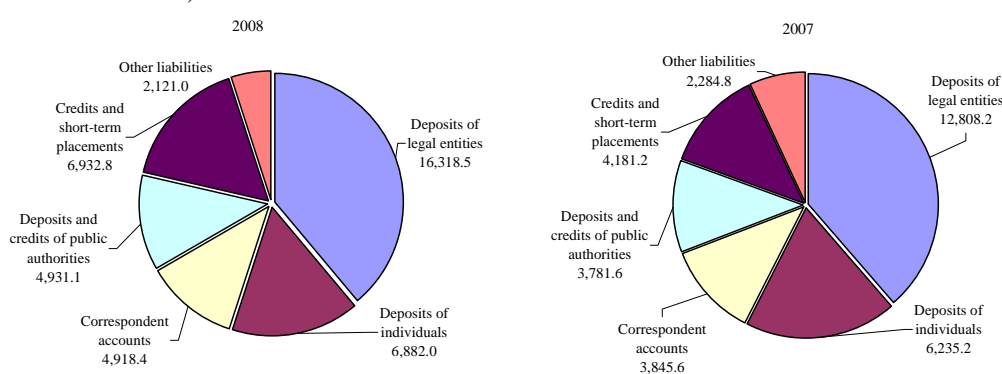
Pattern of Liabilities of Commercial Banks (end of period)

Category of liabilities	2007		2008	
	<i>in millions of soms</i>	share, percent	<i>in millions of soms</i>	share, percent
Demand deposits of legal entities	10,244.8	30.9	13,946.9	33.1
Deposits of individuals	6,235.2	18.8	6,882.0	16.3
Time deposits of legal entities	2,563.4	7.7	2,371.6	5.6
Liabilities to NBKR	13.3	0.0	8.2	0.0
Correspondent accounts	225.9	0.7	39.8	0.1
Deposits of other banks	3,619.7	10.9	4,878.6	11.6
Short-term placements	284.0	0.9	142.6	0.3
Deposits and credits of public authorities	3,781.6	11.4	4,931.1	11.7
Securities issued under REPO agreements	140.8	0.4	170.3	0.4
Received loans	3,756.4	11.3	6,619.9	15.7
Subordinated debt	324.9	1.0	127.5	0.3
Other liabilities	1,946.6	5.9	1,985.3	4.7
<b>Total</b>	<b>33,136.6</b>	<b>100.0</b>	<b>42,103.8</b>	<b>100.0</b>

**Chart 3.1.2.**

Total Liabilities of Commercial Banks (end of period)

(In millions of soms)



In 2008, total assets of banks increased by 30.4 percent and made Som 54.9 billion. In this regard, the assets in foreign currency grew by 34.0 percent, while those in national currency - by 26.5 percent.

Assets

**Table 3.1.2.**

<sup>1</sup> Excluding the government deposits and credits and the deposits of finance and credit institutions.

**Pattern of Assets of Commercial Banks (end of period)**  
(In percent unless indicated otherwise)

Category of assets	2007		2008	
	in millions of soms	share, percent	in millions of soms	share, percent
Cash	2,088.1	5.0	2,967.2	5.4
Correspondent accounts with the NBKR	4,014.0	9.5	3,835.0	7.0
Correspondent accounts and deposits with other banks	5,069.1	12.0	9,935.1	18.1
Securities portfolio	4,899.0	11.6	5,727.4	10.4
Short-term placements	149.1	0.4	684.2	1.2
Securities purchased on REPO operations	334.2	0.8	257.7	0.5
Loans to finance and credit institutions	1,515.3	3.6	1,770.3	3.2
Lending to clientele	20,797.6	49.4	25,573.6	46.6
Special LLP*	-444.2	-1.1	-759.2	-1.4
Fixed assets	2,250.1	5.3	3,427.6	6.2
Other assets	1,462.2	3.5	1,507.2	2.7
<b>Total</b>	<b>42,134.5</b>	<b>100.0</b>	<b>54,926.1</b>	<b>100.0</b>

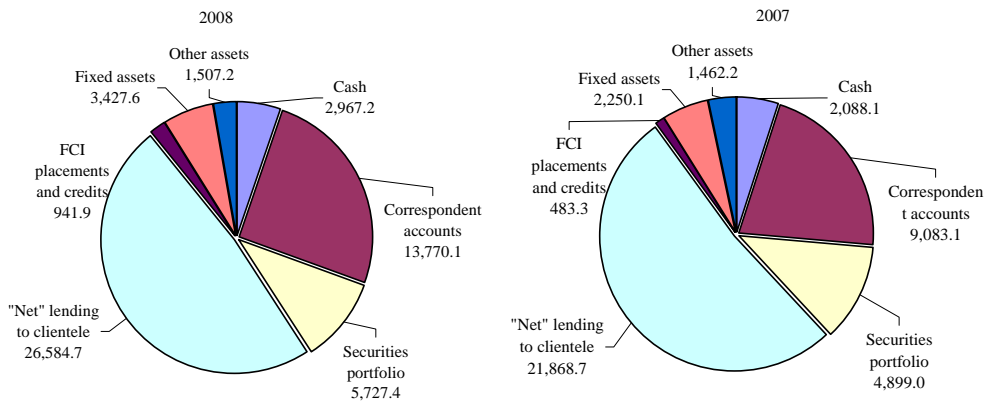
\* Special LLP - loan loss provisions on classified credits (substandard, doubtful, & losses).

The volume of highly liquid assets placed by the commercial banks as cash assets and short-term placements, on the correspondent accounts with other banks and the NBKR, as well as in the form of deposits, increased in the aggregate by 53.9 percent during the accounting period and as of the end of 2008 this category of assets made Som 17.4 billion. The rates of growth of balances of credits to clients<sup>1</sup> were observed to decrease in the accounting period (23.0 against 84.1 percent, accordingly) in comparison with 2007.

*Highly liquid assets*

**Chart 3.1.3.**

**Total Assets of Commercial Banks (end of period)**  
(In millions of soms)



The volume of total net lending<sup>2</sup> increased by 21.6 percent in 2008 and made Som 26.6 billion at the end of 2008. Its share in total assets of banks decreased by 3.5 percentage points and made 48.4 percent in comparison with the end of 2007.

*Net lending*

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

<sup>2</sup> Net lending to customers are credits and financial lease to customers and finance and credit institutions net of loan loss provisions, as well as accrued discount.



According to the regulatory reports of banks, the share of unclassified<sup>1</sup> assets was 96.9 percent of assets subject to classification, while the share of classified<sup>2</sup> assets – 3.1 percent. Quality of the loan portfolio of the banking system worsened in 2008 – 5.3 percent was the share of classified credits against 3.5 percent at the end of 2007. Because of the slowdown in lending in 2008 against 2007, the decrease in the share of the loan portfolio in assets and the increase in the volume and share of classified credits in the total of the loan portfolio, the National Bank kept working to estimate the credit risks and to improve the risk management system in the commercial banks.

*Quality of assets and loan portfolio*

**Table 3.1.3.**

**Classification of Assets and Off-Balance Sheet Liabilities**

*(In percent unless indicated otherwise)*

Category	2007	2008
<b>Total unclassified</b>	<b>97.5</b>	<b>96.9</b>
<i>including:</i>		
Standard	41.2	47.2
Satisfactory	53.1	43.9
Under watch	3.2	5.8
<b>Total classified</b>	<b>2.5</b>	<b>3.1</b>
<i>including:</i>		
Substandard	0.9	1.5
Doubtful	0.5	0.5
Losses	1.0	1.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
<b>Total, in millions of soms</b>	<b>36,455.2</b>	<b>49,800.7</b>

**Table 3.1.4.**

**Classification of Credits to Clients**

*(In percent unless indicated otherwise)*

Category	2007	2008
<b>Total unclassified</b>	<b>96.5</b>	<b>94.7</b>
<i>including:</i>		
Standard	4.4	3.8
Satisfactory	86.5	80.0
Under watch	5.6	10.9
<b>Total classified</b>	<b>3.5</b>	<b>5.3</b>
<i>including:</i>		
Substandard	1.3	2.4
Doubtful	0.8	1.0
Losses	1.5	1.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>
<b>Total, in millions of soms</b>	<b>20,797.6</b>	<b>25,573.6</b>

The resource base of commercial banks (fixed assets) increased, having amounted to Som 3.4 billion (growth by 52.3 percent) at the end of 2008. The level of

*Fixed assets*

<sup>1</sup> The unclassified assets (credits) comprise assets (credits) referred to standard assets, satisfactory assets and assets under watch.

<sup>2</sup> The classified assets (credits) comprise assets (credits) referred to substandard assets, doubtful assets and losses.

capitalization continued to increase, the credit work continued to be improved further, and the new types of banking services were developed in the year of account.

Income and expenses of commercial banks, both interest (76.6 percent and 105.3 percent, accordingly) and non-interest income (by 45.5 percent and 66.8 percent, accordingly), continued to grow in 2008. Having increased by 20.4 percent as compared to 2007, net operational income of banks totaled Som 2.1 billion for 2008.

*Income  
and  
expenses*

**Table 3.1.5.**

**Composition of Income and Expenses**

*(In millions of soms)*

Category	2007	2008
Total interest income	3,853.0	5,605.1
Total interest expenses	1,174.2	1,959.0
Net interest income	2,678.8	3,646.1
Loan loss provisions (on credits)	150.3	378.8
Net interest income after LLP	2,528.4	3,267.3
Total non-interest income	2,968.4	11,280.6
Total non-interest expenses	3,783.8	12,485.5
Net operating income (loss)	1,713.0	2,062.3
Loan loss provisions (on other assets)	-3.7	23.2
Net income (loss) before taxes	1,716.7	2,039.1
Profit tax	166.2	198.4
Net profit (loss)	1,550.5	1,840.7

Totally for 2008 deductions of banks for reserves to cover contingent losses and losses from credit operations made Som 378.8 million and it is 2.5 times more than the value of this parameter in 2007.

The banking system closed the year of 2008 with a net profit of Som 1.8 billion, while the financial result of 2007 was Som 1.6 billion (growth by 18.7 percent).

The status of the banking sector in the year under review remained stable. The world financial crisis influenced the banking system indirectly in the form of the slowdown in its basic parameters compared to 2007. Nevertheless, the basic parameters of the banking system showed the positive growth dynamics. The following changes were observed in commercial banking:

*Banking  
system  
development  
outcome*

- Strengthening of the capital base of commercial banks, as the basis for banking expansion, and the factor promoting financial stability of banks and confidence of creditors and depositors in these banks (growth by 42.5 percent);

- Growth of the volume of deposits attracted from both the enterprises and the population (growth by 21.8 percent);

- Growth of basic commercial banking parameters (the assets increased by 30.4 percent and the liabilities - by 27.1 percent);

- The slowdown of key commercial banking system parameters compared with 2007;

- The slowdown of parameters that characterize the level of financial intermediation of the commercial banking system: the ratio of assets, credits to clients and deposits (including the Government deposits and credits) to annual nominal GDP. At the end of the year under review these ratios were 29.7 percent, 13.8 percent and 15.2 percent, accordingly (at the end of 2007 – 30.1 percent and 14.9 percent and 16.3 percent, accordingly).

- Growth of the volume and the share of classified credits in the total loan portfolio (from Som 0.7 billion or 3.5 percent, accordingly, in 2007 to Som 1.3 billion or 5.3 percent, accordingly, in 2008), i.e., the status of the loan portfolio deteriorated;

- Growth of funds raised in foreign currency and their placement by banks;

- Based on the outcome of 2008, a return on assets (ROA) decreased by 0.5 percentage points and was 3.8 percent, while the return on equity (ROE) decreased by 5.7 percentage points making 20.7 percent.

### **3.2. Overview of Activity of Nonbank Finance and Credit Institutions**

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

For the purpose of further implementation of the Medium-Term Microfinance Development Strategy of the Kyrgyz Republic for 2006-2010, the measures were implemented to improve the legal framework of credit unions, and, as part of this work, the Law “On Amendments and Addenda to Selected Acts of the Kyrgyz Republic” was adopted in the part pertaining to activities of credits unions. With this Law, the amendments and addenda were introduced to the following laws: "On Credit Unions", “On Cooperatives” and to the Civil Code. A draft of this law was prepared by a working group that had representatives of the NBKR and associations of credit unions as its members.

*MTMDS  
implementation  
measures*

On February 12 and July 4, the working group on monitoring progress in implementation of the Medium-Term Microfinance Development Strategy of the Kyrgyz Republic for 2006-2010 held its meetings to review performance under an Action Plan on implementation of this Strategy.

During 2008, the NBKR continued working on improvement of the regulatory and supervisory framework to regulate the activity of nonbank finance and credit institutions that resulted in:

*Improvement of  
the regulatory  
and legal  
framework*

- The amendments and addenda were introduced to the Temporary Regulation “On Establishing Microcredit Companies and Microcredit Agencies in the Kyrgyz

Republic”, which provide for setting the minimal qualifying requirements for positions of a manager and a chief accountant, as well as the changes concerning grounds for the withdrawal of certificates;

- The amendments and addenda were introduced to the Regulation “On Precautionary Measures and Sanctions Applied by NBKR to Microfinance Organizations” in order to enhance efficiency in the process of regulation and supervision over the MFO activity;

- The amendments and addenda were introduced to the Regulation “On Licensing Credit Unions” concerning availability of information systems satisfying the minimal requirements set for those credit unions that pretend a right to attract the deposits from the participants in the credit unions;

- The Regulation “On Periodic Regulatory Report of the Credit Union” is developed to improve supervisory functions;

- The amendments and addenda were introduced to the Regulation “On Financial Statements and Disclosure Requirements for Nonbank Institutions Licensed by the National Bank of the Kyrgyz Republic”, according to which the requirements are established for the microfinance companies and credit unions entitled to mobilize the deposits in the part of submission of financial statements.

The amendments and addenda were introduced to the Regulation “On Procedure for Exchange of Foreign Currency in Cash in the Kyrgyz Republic” to apply the requirements for the exchange bureaus on data collection and transfer an authorized public agency and to harmonize the Regulation with the Law “On Anti-Money Laundering and Combating the Financing of Terrorism”.

In 2008, NFCI continued to grow in their number and promoted growth of microfinancial services. As of the end of 2008, the system of nonbank institutions subject to licensing and regulation by the NBKR comprised: specialized finance and credit institution - FCSDCU; 248 credit unions; 291 microfinance organizations (including 2 microfinance companies, 170 microcredit companies and 119 microcredit agencies); 196 pawnshops and 353 exchange bureaus.

*NFCI  
structure*

The increase was observed in 2008 in the total number of NFCI, in the volumes of their assets and the loan portfolio. This speaks for, first of all, the demand for the NFCI services, and for the fact that the legislative framework provides for quite liberal requirements as to their establishing and activities.

**Table 3.2.1.**

Number of NFCI and Exchange Bureaus

Title	2004	2005	2006	2007	2008
FCSDCU	1	1	1	1	1
Microfinance organizations (MFC, MCC & MCA)	104	136	168	233	291
Credit unions	305	320	305	272	248
Lombards	116	140	148	181	196
Exchange bureaus	266	260	263	318	353

The NBKR issued 404 licenses and 96 certificates in 2008 to NFCI, including re-registration at the expiration of the license period of exchange bureaus. For the non-observance of requirements of regulatory and legal acts the NBKR withdrew 31 licenses and 31 certificates, and cancelled 347 licenses and 7 certificates due to expiration of their validity or termination of their activity.

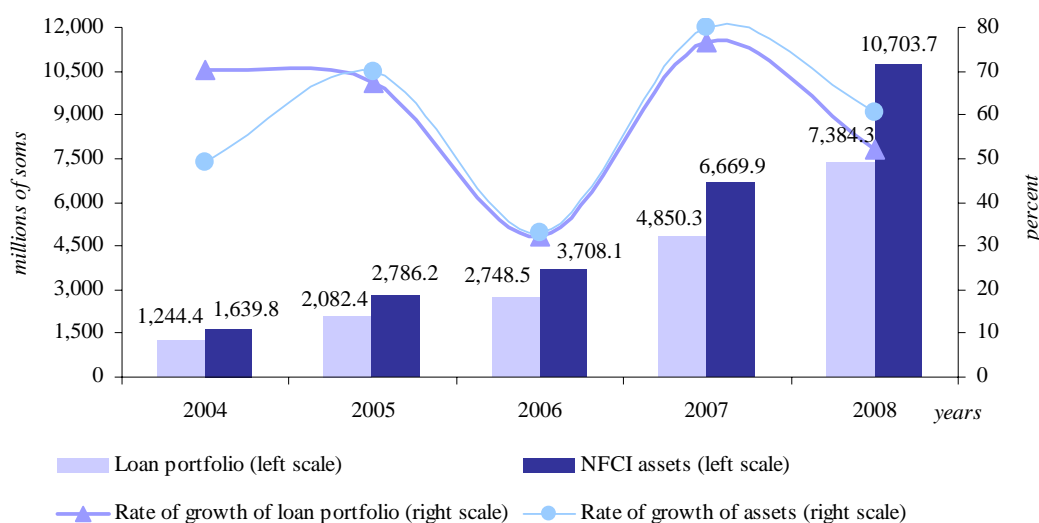
*Licensing*

According to the regulatory reports, the NFCI cumulative assets for the year of account increased by 60.5 percent<sup>1</sup> and as of December 31, 2008, totaled Som 10.7 billion. Microlending is the basic direction of the NFCI activity. The size of the NFCI loan portfolio increased by 52.2 percent and made Som 7.4 billion in the year of account in comparison with 2007, while the number of borrowers increased by 47.4 percent and totaled 255.7 thousand people.

*Assets and credit portfolio*

### **Chart 3.2.1.**

**NFCI Total Assets and Loan Portfolio**



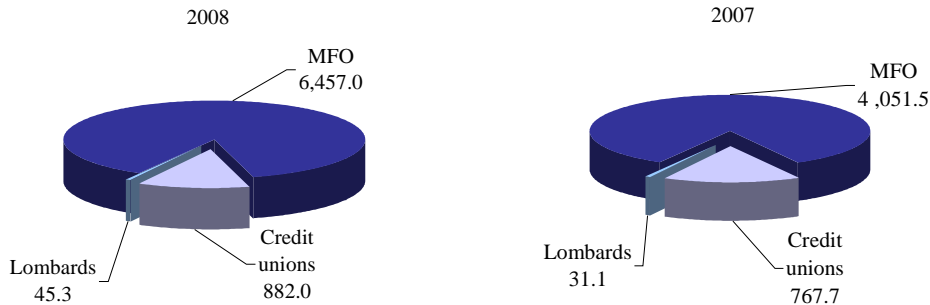
The share of microfinance organizations increased in the NFCI cumulative loan portfolio from 83 to 87 percent, and the share of credit unions decreased from 16 to 12 percent in the accounting period.

*Loan portfolio by NFCI*

<sup>1</sup> The NFCI system data are given excluding the FCSDCU loan portfolio, because the loans were given to the credit unions, which on-lent them further.

**Chart 3.2.2.**

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



In the year of account, as in the previous one, the largest volume of the NFCI loan portfolio is placed in the Osh oblast and in Bishkek.

**Table 3.2.2.**

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

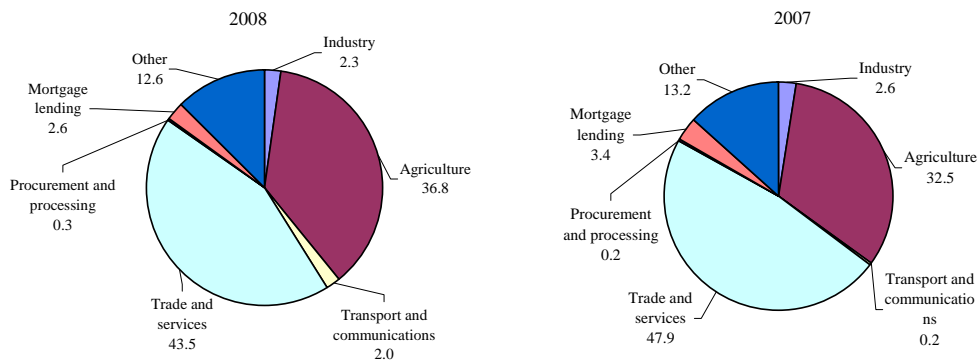
	2007	2008
Bishkek	1,033.1	1,396.7
Batken oblast	281.2	670.6
Jalalabat oblast	635.9	1,101.4
Issyk-Kul oblast	593.5	849.9
Naryn oblast	233.8	406.5
Osh oblast	1,268.0	1,787.6
Talas oblast	376.7	559.7
Chui oblast	428.1	612.0

The share of agriculture increased in the cumulative NFCI loan portfolio from 32.5 to 36.8 percent in comparison with 2007, and growth was also observed in the share of credits for transport and communications - from 0.2 to 2.0 percent, while the share of credits for trade decreased from 47.9 to 43.5 percent.

*NFCI loan portfolio by sectors of economy*

**Chart 3.2.3.**

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

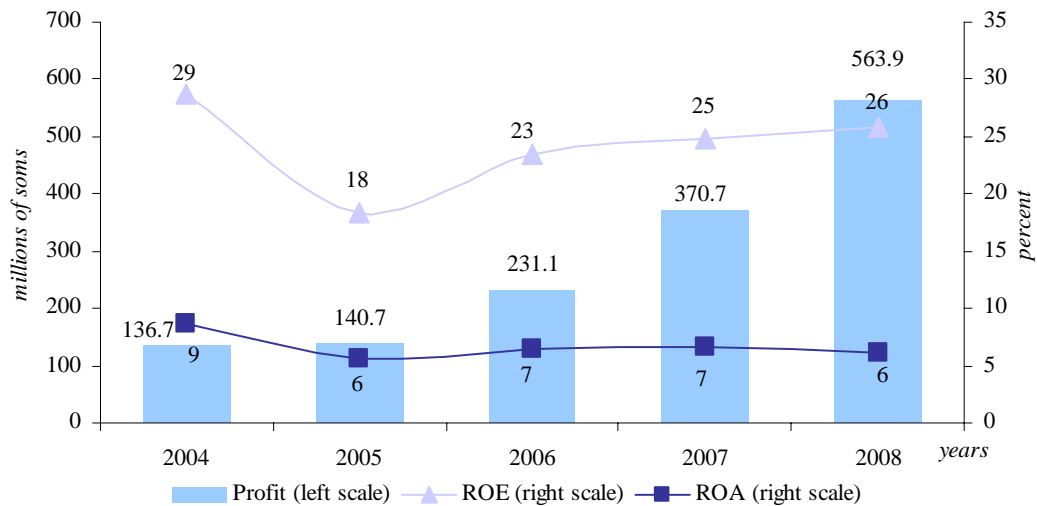


In 2008, the cumulative net profit of NFCI increased by 52.1 percent and amounted to Som 563.9 million, and some growth was observed in the return on equity (ROE), with the reduction in return on assets (ROA).

*NFCI profit*

**Chart 3.2.4.**

NFCI Net Profit and ROA and ROE coefficients



In the accounting period the interest rates of extended credits with regard to all types of NFCI decreased, except for the credit unions.

**Table 3.2.3**

Average Weighted Interest Rates of Credits  
(in percent)

	2004	2005	2006	2007	2008
Microfinance organizations	28.0	33.5	33.5	32.9	32.4
FCSDCU	17.1	16.9	15.1	14.3	13.5
Credit unions	28.7	26.8	25.9	25.8	28.0
Pawnshops	162.1	153.6	149.5	167.9	132.3

The most significant rates of growth of the loan portfolio were observed in the

*MFO*

MFO system in the year of account. For instance, the cumulative MFO loan portfolio increased by 59.4 percent and amounted to Som 6.5 billion at the end of 2008.

The number of MFO borrowers increased by 56.0 percent and totaled 222.3 thousand people in the year under review. In terms of repayment, the MFO loan portfolio consists of basically mid- and short-term credits with the term to maturity of 3 years.

The analysis of the MFO loan portfolio showed that trade remains the basic branch of lending – its share was 45.2 percent (at the end of 2007 – 50.8 percent) of the cumulative loan portfolio, that of agriculture – 35.2 percent (as of December 31, 2007 – 29.2 percent). The main sources of growth of the MFO loan portfolio were those attracted funds from the international financial institutions, and widening of MFO capital.

The cumulative loan portfolio of credit unions increased by 14.9 percent in 2008 and at the end of the year amounted to Som 882.0 million. In the composition of the loan portfolio of credit unions, the basic share of credits fell on agriculture – 50.6 percent and trade – 33.4 percent (in 2007 – 50.8 and 33.5 percent, accordingly). The number of borrowers of credit unions decreased in 2008 to 9.1 percent and totaled 18.8 thousand people as of December 31, 2008. The reduction in the number of borrowers of credit unions is due to the reduction in the number of credit unions resulting from, first, the withdrawal of licenses of some of the credit unions for a violation of the legislation and the NBKR's regulatory requirements, and as a result of self-liquidation of some of the credit unions, and, secondly, on completion in 2006 of the project of the Asian Development Bank on development of credit unions in Kyrgyzstan titled "Rural Financial Institutions", which was launched in 1997. On completion of this project, the credit unions felt a need for other sources of financing. The upward tendency is observed in foreign loans from other FCI, as well as in the deposits attracted from the participants. For instance, for 2008, the liabilities to other FCI doubled and totaled Som 120.6 million, and the volume of deposits attracted from the participants in the credit unions increased 3.3 times and amounted to Som 18.2 million.

*Credit unions*

During 2008, the NBKR issued additional licenses to four credit unions to attract the deposits from the participants. The total number of credit unions with the deposit licenses reached ten units as of December 31, 2008.

The loan portfolio of pawnshops totaled Som 45.3 million at the end of 2008, with the basic share falling on the consumer credits.

*Pawnshops*

In 2008, the NBKR inspected 362 exchange bureaus as part of its work on licensing private entrepreneurs and legal entities conducting swap operations, including the work on re-registration upon the expiration of the license period. Furthermore, the NBKR, both independently and jointly with the Financial Police Service at the Government, the State Tax Committee and the Public Prosecutor offices conducted fourteen thorough inspections (spot-checks) of exchange bureaus in Bishkek, regional centers and a resort zone of the Issyk-Kul lake with the view of

*Inspection of  
exchange  
bureaus*



revealing unlicensed activities and violations of rules of exchange of foreign currency in cash. Based on inspection results, the NBKR considered 87 cases on administrative offences in the sphere of exchange of foreign currency in cash and imposed administrative penalties totaling Som 129.5 thousand, of which Som 122.0 thousand is paid, and the cases on unpaid penalties are directed to Court.

### 3.3. Supervision and Regulation of Commercial Banks

#### 3.3.1. Licensing

During the reporting period, the banking system of the Kyrgyz Republic still exhibited the upward tendency in authorized capital, though the rates of growth, in comparison with 2007, slightly decreased. Paid authorized capital of commercial banks totaled Som 7.8 billion by the end of 2008, having thus increased by 25.7 percent in comparison with 2007, with the increase in authorized capital of banks being 61.3 percent. The increase in authorized capital for the accounting year was due to the retained profit earned in 2007, as well as due to the inflow of new investments. As of the end of 2008, the share of foreign capital in authorized capital of the banking system made 58.1 percent. With the view of strengthening stability, safety and reliability of the banking system, and confidence of a society in banking institutions in view of rates of growth of assets of the banking system, a Resolution “On Minimum Authorized Capital for Newly Opened Banks” was issued, according to which the minimal size of authorized capital for the newly opened commercial banks (including the capital requirement for branches of nonresident banks) is set at no less than Som 600 million.

*Authorized capital of banks*

Two banks were reorganized in the reporting year through a take-over of the OJSC “Kyrgyzpromstroibank” by the OJSC “AsiaUniversalBank”. Furthermore, the National Bank gave its consent to a start-up of the affiliated company and the purchase by the bank of control stock of companies, engaged in financing.

During the year of 2008, the licenses of some of the banks were re-issued due to the change in their titles. In connection with the changes in the structure of shareholders of the CJSC “INEXIMBANK” it was renamed into the CJSC “BTA Bank”. Furthermore, due to the full license to conduct the bank operations and granting the status of the bank to the OJSC “Settlement Savings Company”, it was renamed into the OJSC “RSK Bank”. After the CJSC “JSCB “Insan” underwent rehabilitation, this bank was renamed into the CJSC “Manas Bank”.

*Change of banking licenses*

The work was done in the year under review on rehabilitation of banks, which are currently undergoing bankruptcy proceedings: a prior approval got a request of a special administrator of the JSCB “Adil” for the rehabilitation procedure to be applied to this bank; according to the decision of the Bishkek Inter-District Court, the banking license of the IJSCB “AkyI” was restored, but suspended until an investor completes implementing the action plan of its rehabilitation.

*Rehabilitation of bankrupt banks*

With the view of satisfying fully the needs of countrymen in banking services, a number of restrictions in the bank license of the OJSC “Aiyl Bank” were removed.

*Removal of restrictions on banking licenses*

Due to lifting the restrictions, a list of services the bank renders in the remote regions was expanded, and there emerged an opportunity of remittances and involvement of the bank in the state payment system development program, and of issuance of credit and payment cards.

***Table 3.3.1.1.*****Multi-Branch and Savings Banking Development**

	Number of branches		Number of savings offices	
	2007	2008	2007	2008
Bishkek	38	49	136	167
Batken oblast	13	13	20	28
Jalalabat oblast	37	39	54	63
Issyk-Kul oblast	32	36	19	22
Naryn oblast	17	17	4	3
Osh oblast	36	38	68	93
Talas oblast	9	9	2	3
Chui oblast	33	32	34	39
<b>Total:</b>	<b>215</b>	<b>233</b>	<b>337</b>	<b>418</b>

During the whole accounting period growth was observed in the number of branches and savings offices of banks thereby expanding access of the population in the regions of the country to banking services. For instance, in 2008 the commercial banks opened 81 savings-banks and 18 branches, including 8 branches in the remote areas of the republic.

*Branches and savings offices*

**3.3.2. Off-Site Supervision**

The National Bank exercises off-site (remote) supervision over the activity of commercial banks by monitoring, analyzing reports and auditing findings, with all these providing for the early prevention of contingent problems in their activities and allows maintaining stability of the banking system.

*Off-site supervision*

Off-site supervision over activity of commercial banks was based on the appraisal of risks inherent in banking. The below given valuation of basic risks is based on the adjusted annual regulatory reports of operating commercial banks for 2007 and preliminary reports for 2008.

Solvency of commercial banks is characterized by the level of total capital adequacy to cover contingent losses.

*Solvency*

In 2008, the net risk assets<sup>1</sup> increased by Som 8.1 billion, and net total capital<sup>2</sup> was augmented by Som 3.0 billion. The share of risk assets in total assets of the banking system as of the end of 2008 made 66.7 percent (67.8 percent – at the end of 2007).

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

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

**Table 3.3.2.1.**

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

	2007	2008
Net total capital, <i>in millions of soms</i>	8,898.1	11,926.9
net risk assets, <i>in millions of soms</i>	28,566.5	36,621.6
Total capital adequacy ratio, <i>percent</i>	31.1	32.6
Total capital adequacy requirement (not less), <i>percent</i>	12.0	12.0

Expansion of authorized capital, as well as funds listed as additional capital in commercial banks, led to growth of total capital of the banking system, with outstripping growth registered in net total capital as compared to growth of net risk assets (34.0 percent and 28.2 percent, accordingly). It had its impact on the increase in the total capital adequacy ratio and testifies to improvement of financial stability of banks as to their resistance to external shocks. In 2008, growth of capital resulted from growth of reserves and retained profit of banks, and the inflow of new foreign investments.

*Expansion of capital*

*The credit risk* is estimated based on the classification of assets and off-balance sheet liabilities<sup>1</sup>. The credit risk, calculated as the ratio of loan loss provisions to total assets bearing the risk of credit losses, increased and made 2.9 percent at the end of 2008 as compared to the end of 2007. By end-2008, the overdue assets totaled Som 974.3 million or made 2.0 percent of all of the assets bearing the risk of credit losses. At the end of 2008 this parameter was 1.3 percent or Som 491.3 million.

*Credit risk*

*The exchange risk* is considered from the point of view of contingent losses of the bank due to changes in values of its assets and liabilities in foreign currency when exchange rate changes. This risk is assessed as the ratio of assets and liabilities in foreign currency, as well as their shares in total assets or liabilities of commercial banks. The assets of the banking system in foreign currency were Som 29.2 billion or 53.1 percent of total assets by end-2008. The liabilities of commercial banks in foreign currency were Som 28.3 billion or 67.2 percent of total liabilities. At the same time, the open foreign currency position of the banking system at the end of 2008 was short totaling Som 388.5 million or being 3.3 percent of net total capital of the banking system. At the end of 2007, the aggregate foreign currency position of the banking system was long totaling Som 314.2 million or being 3.5 percent of net total capital of the banking system.

*Exchange risk***Table 3.3.2.2.**

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

*(In millions of soms)*

<sup>1</sup> The data are given in section 3.1. "Banking System Overview", table 3.1.3. "Classification of Assets and Off-Balance Sheet Liabilities".

	2007	2008
Assets in foreign currency	21,762.3	29,161.0
Liabilities in foreign currency	20,490.6	28,292.4

Note:

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

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

The liquidity risk is considered from the point of view of coverage of liabilities by assets in each maturity interval that enables to estimate the need for funds in case of a mismatch between the assets and the liabilities in the context of maturity. The 2008 analysis of liquidity risks of commercial banks shows that the negative gap in maturities of assets and liabilities was noted with regard to maturities up to 90 days, however, this being the case, the positive gap by maturities of more than 90 days shows that the banks have long-term sources of coverage of their liabilities.

Liquidity risk

**Table 3.3.2.3.**

**Assets and Liabilities by Maturities**

(In millions of soms)

2007*	Terms in days					Total
	0-30	31-90	91-180	181-365	more than 365	
Financial assets	16,408.5	1,319.5	2,547.4	5,249.1	16,349.5	<b>41,874.0</b>
Financial liabilities	17,728.8	3,078.8	2,239.0	5,122.0	4,939.9	<b>33,108.5</b>
Amount of excess of financial assets over financial liabilities	-1,320.3	-1,759.4	308.4	127.2	11,409.6	<b>8,765.5</b>
In percent, total to financial assets	-3.2%	-4.2%	0.7%	0.3%	27.2%	<b>20.9%</b>

\* - data as of December 31, 2007, inclusive

2008**	Terms in days					Total
	0-30	31-90	91-180	181-365	more than 365	
Financial assets	21,786.0	2,883.1	3,769.1	5,669.5	21,684.0	<b>55,791.6</b>
Financial liabilities	23,993.5	3,418.0	3,726.8	4,426.8	6,538.8	<b>42,103.8</b>
Amount of excess of financial assets over financial liabilities	-2,207.5	-534.9	42.3	1,242.7	15,145.2	<b>13,687.8</b>
In percent, total to financial assets	-4.0%	-1.0%	0.1%	2.2%	27.1%	<b>24.5%</b>

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

The analysis of basic risks indicates the fact of them being at the acceptable level. At the same time, it should be noted that there are potential hazards connected with the resources attracted by commercial banks from other countries and in the external financial markets. Therefore, in case of continuation and strengthening of the world financial crisis and deepening of any crisis phenomena in the economy of these countries or in the external financial markets, the risks of the outflow of attracted financial assets and the loss of liquidity of commercial banks would become stronger. The National Bank regularly traces the development trends in the banking sector of Kyrgyzstan and other countries, as well as in the external financial markets in order to undertake the necessary actions on minimization of negative developments of the world financial crisis and to take, in addition, the relevant anti-crisis measures,

involving inter alia the commercial banks.

### **3.3.3. Inspection**

Activities of all of the commercial banks were thoroughly inspected as part of regulation and supervision over the activity of commercial banks aimed at assessing their financial position and the observance of requirements of the banking legislation in 2008. In addition, during the year of account, target inspections of commercial banks were conducted in some of the commercial banks as to the issue of the observance of requirements of the National Bank, including the issues of AML/CFT, asset quality ratings, and the cash-based operations.

*Inspection*

The findings of these inspections in the year under review showed that, overall, the banks have the adequate management systems and demonstrate quite an adequate level of risk management.

The banks were inspected according to requirements of the banking legislation of the Kyrgyz Republic, which assume the detailed analysis of existing risks (credit, operational, currency, liquidity, and market risks, etc.) in the commercial banks and finance and credit institutions. When conducting field inspections, special attention was paid to the issues of assessing the bank management process, as well as to essentiality of risks by activity categories and operations.

Inspections were on going within the whole year of account on the issues of both anti-money laundering and combating the financing of terrorism.

### **3.3.4. Precautionary Measures of Influence**

The decisions on the precautionary measures and sanctions vis-à-vis commercial banks and finance and credit institutions, licensed by the NBKR, are directly taken by both the NBKR's Banking Supervision Department and the NBKR's Supervision Committee. 41 notes of warning and 2 instructions were delivered to the commercial banks in 2008. The issues of operations of 9 commercial banks were considered at 17 meetings of the NBKR's Supervision Committee and 2 commercial banks were imposed fines as a result of these meetings.

*Precautionary measures of influence*

### **3.3.5 Development of Regulatory Framework for Bank Regulation and Supervision**

In 2008, the National Bank continued working on improvement of the regulatory framework in the area of banking supervision and regulation, aimed at enhancing efficiency in the banking supervision system and development of the banking system of the Kyrgyz Republic, implementation of basic banking supervision principles of the Basel Committee on Banking Supervision, and harmonization of prudential norms with the banking legislation. In this connection special accent was put on the issues of forming the adequate risk management system, increasing transparency of the banking system, developing corporate governance in the banks, and preventing the operations on money laundering.

*Basic guidelines of regulatory framework*

The amendments and addenda were approved for the Regulation “On Prudential Norms and Requirements, Mandatory for Commercial Banks and Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”. These amendments and addenda establish the requirements of the preliminary approval by the National Bank of investments of commercial banks in capital of any nonbank organization at the rate of 10 percent and more of net total capital and the procedure of calculating the maximal size of investments into bank premises, established by the Law “On Banks and Banking in the Kyrgyz Republic”.

*Prudential norms and requirements*

To improve the regulatory framework in the area of licensing the activity of banks, the amendments and addenda were introduced to the Regulation “On Licensing the Activity of Banks”, providing some clarifications on the issues of purchasing significant holdings of shares, approving candidacies of officials, and establishing independent structural units. Furthermore, the list of international rating agencies, whose ratings are taken into account when considering the issues of signing on the market, was expanded.

*Licensing of activities of banks*

The Regulation “On Corporate Governance in Commercial Banks of the Kyrgyz Republic” was approved for quality improvement of corporate governance in the banks and realization of corporate governance principles developed by the Basel Committee on Banking Supervision. The Regulation specifies basic components of effective corporate governance including:

*Corporate governance*

- Distribution of authority, terms of reference, accountability and responsibility between the bank management units;
- Definition of professional ethics standards;
- Prevention of conflicts of interests;
- Maintenance of transparency in bank management.

For the purpose of harmonizing with the banking legislation, approved were the new versions of the Regulations “On Direct Banking Supervision” and “On Provisional Bank Management Guidelines”, which give the grounds for these measures of influence, as well as the procedure for appointment, terms of reference, and duties of NBKR’s authorized staff, commencement and termination of direct banking supervision and provisional administration. Due to the need for bringing the Regulation “On Enforcement Measures Applied to Banks and Other Finance and Credit Institutions” in conformity with the legislation of the Kyrgyz Republic, the amendments and addenda were introduced to this document. The amendments and addenda on imposition of penalties on official and affiliated people of the bank, the decision-making procedure with regard to recovery of penalties in cash from the bank, as well as the penalty imposition for the non-observance of reserve requirements.

*Enforcement Measures*

As part of the action plan aimed at implementing the FATF 40+9

recommendations approved by the President of the Kyrgyz Republic and according to the Law “On Anti-Money Laundering and Combating the Financing of Terrorism”, the National Bank approved the amendments and addenda to the Regulation “On Minimal Internal Control Implementation Requirements for Commercial Banks and Other Finance and Credit Institutions Licensed by NBKR, Aimed at Combating Financing of Terrorism and Anti-Money Laundering”, the Interim Instruction “On Work with Deposits”, and the Regulation “On Procedure for Exchange of Foreign Currency in Cash”. The requirements are set in these regulatory and legal acts for the banks on strengthening control over the clients classified as the clients, exposed to higher risks, identifying the risks relating to introduction of new banking products, establishing in the contracts on correspondent relations the duties and powers with regard to the measures applied for the AML/CFT objectives. Furthermore, the new requirements to fix and transfer information on exchange of foreign currency in cash, including information on the clients, are established for the exchange bureaus of authorized banks, to the authorized public agency.

*Anti-money laundering and combating the financing of terrorism*

In 2008 the National Bank adopted the amendments and addenda to the Regulation “On Periodic Regulatory Bank Report” because of the amendments introduced to the Chart of Accounts of commercial banks and other FCI in the Kyrgyz Republic and to the Regulation “On Pilot Project on Introduction of Islamic Principles of Financing in the Kyrgyz Republic”. The amendments and addenda were also introduced to the Regulation “On Periodic Regulatory Bank Report” to describe the risk and provide for automation of commercial bank data collection, processing and the analysis by oblasts of the Kyrgyz Republic. During the accounting period, the amendments and addenda were made to the Guidelines on Filling the Periodic Regulatory Bank Report in view of the approved amendments and addenda of this report.

*Periodic regulatory bank reporting*

According to the terms of the second tranche under the Banking Sector and Capital Market Development Program of ADB, in view of the ADB technical adviser’s recommendation on the size of the country risk reserve, as well as the recommendations of the Basel Committee for Banking Supervision, the amendments and addenda were approved for the Regulation “On Minimal Requirements of Country Risk Management in Commercial Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”.

*Risk management*

The Regulation “On Calculations of Effective Interest Rate when Disseminating Information on Banking Services Fee Rate” was approved with the view of specifying the procedure for calculations of interest rates of credits and deposits on the exact, annual, effective, comparable basis when disseminating information on the rate of the fee for banking services

*Effective interest rate*

As part of the Action Plan on Implementation of Recommendations of the IMF and WB Joint Mission on Improvement of Observance of Basic Basel Principles of Banking Supervision, the amendments were approved to the Regulation “On Minimal External Audit Requirements for Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”.

*External audit of banks*

The joint Resolution of the Governmental and the NBKR approves the Decision-Making Procedure for Implementation of Systemic Bank Rehabilitation Measures”. This document was developed according to the Law “On Preservation, Liquidation and Bankruptcy of Banks” and with the view of reacting effectively and timely and of decision-making on implementation of measures for rehabilitation of the systemic bank.

*Systemic bank  
rehabilitation  
measures*

Under the Memorandum of Understanding between the Kyrgyz Republic, the Islamic Development Bank, and the OJSC “EcoBank” on introduction of Islamic principles of financing and banking in the Kyrgyz Republic, as well as in pursuance of the Decree of the President of the Kyrgyz Republic “On Pilot Project on Introduction of Islamic Principles of Financing in the Kyrgyz Republic”, during the year of 2008, the National Bank drafted and got the approval for the draft laws “On Amendments and Addenda to the Law “On the National Bank of the Kyrgyz Republic” and “On Amendments and Addenda to the Law “On Banks and Banking in the Kyrgyz Republic”, and approved the following:

*Islamic  
financing  
principles*

- Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On the Regulation “On Pilot Project on Introduction of Islamic Principles of Financing in the Kyrgyz Republic”;

- The Regulation “On Financial Statements Formulation Requirements for OJSC “EcoBank” on Outcome of Operations Conducted under Pilot Project on Introduction of Islamic Principles of Financing in the Kyrgyz Republic”;

- The amendments and addenda to the Chart of Accounts in the commercial banks and other FCI for the OJSC “EcoBank”.

On May 7, 2008, the President of the Kyrgyz Republic signed the Law “On Protection of Bank Deposits”. Adoption of this law is one of the important and essential stages in the reform of the banking system. Enforcement of this law assumes creation in the country of the deposit insurance system, whose goal is to protect the deposits of the least solvent citizens, strengthen confidence in the banking system, and maintain its stability. With the view of enforcing the Law “On Protection of Bank Deposits”, the National Bank did the following work:

*Deposit  
protection  
system*

- Approval of candidate requirements for positions of Members of the Board of Directors and other positions in the Deposit Protection Agency;

- Approval of the Regulation “On Procedure for Submission of Bank Application for Participation in the Deposit Protection System and Consideration by the National Bank of the Kyrgyz Republic”;

- Approval and delivery to the Deposit Protection Agency for agreement of the “Technique of Defining the Initial Size of the Deposit Protection Fund and the Contribution Rate for Commercial Banks to the Deposit Protection Fund”;

- Development and approval by ministries and departments of the Regulation



“On the Deposit Protection Agency of the Kyrgyz Republic”, which is approved with the Government Resolution;

- Development of the Rules of the Board of Directors of the Deposit Protection Agency of the Kyrgyz Republic, which is approved by the Board of Directors of the Deposit Protection Agency;

- Determination of the DPF target size, which made Som 132.7 million. The government paid the initial contribution Som 35.0 million to the DPF projected in the republican budget for 2008. The commercial banks started to make the quarterly payments to the DPF in the fourth quarter of the year of account and the payments by the banks totaled Som 1.9 million by the end of 2008;

- Approval of the DPS membership procedure;

- Development of amendments and addenda to the Law “On Banks and Banking in the Kyrgyz Republic” and to the Tax Code of the Kyrgyz Republic;

- Development of the Regulation “On the Deposit Protection Fund Contribution Calculations Procedure”, which was approved with the Government Resolution;

- The Memorandum of Cooperation between the NBKR and the Deposit Protection Agency of the Kyrgyz Republic was drafted.

Furthermore, by the end of the accounting period, the National Bank had drafted the bill “On Amendments and Addenda to the Law “On Protection of Bank Deposits”, providing for the essential increase in the amount of compensation for the guaranteed deposits - from Som 20 thousand to Som 100 thousand. According to this bill, the Government made the lump sum payment to the DPF, making 100.0 percent of the amount of the target value of the Fund, including the share of commercial banks. In this regard, prior to repayment of shares of commercial banks paid by the Government to the DPF, the payments of banks will be channeled by the Deposit Protection Agency to the republican budget as repayment of the amount paid by the Government to the DPF.

## CHAPTER 4. PAYMENT SYSTEM

In 2008, the NBKR continued establishing the modern integrated national payment system, which is called to provide for establishment of the base infrastructure essential for development of the modern banking system as part of development of financial intermediation, as well as to enhance efficiency in payment services. Special attention was paid to the issue of expanding the spectrum of retail business. As a result, the use of such a promising tool of non-cash payments, as payment cards became active, the number of banks, which render the services for making the regular payments, increased. To ensure accessibility of banking services to the population, the commercial banks continued to actively develop the infrastructure of retail payments, including the use of an ATM (Automatic Teller Machine) and terminal network.

The important line of activity of the National Bank is to timely satisfy the needs of the economy of the republic for cash. The demand for cash in 2008 developed on impact of consumer market development and persistent growth of small and medium business. The commercial banks distributed their cash assets according to the needs of the financial market. In turn, the NBKR regulated a currency mix and exercised control over meeting the need of the economy for the required denominations of banknotes in national currency.

### 4.1. Payment System Development

#### 4.1.1. Non-Cash Payments

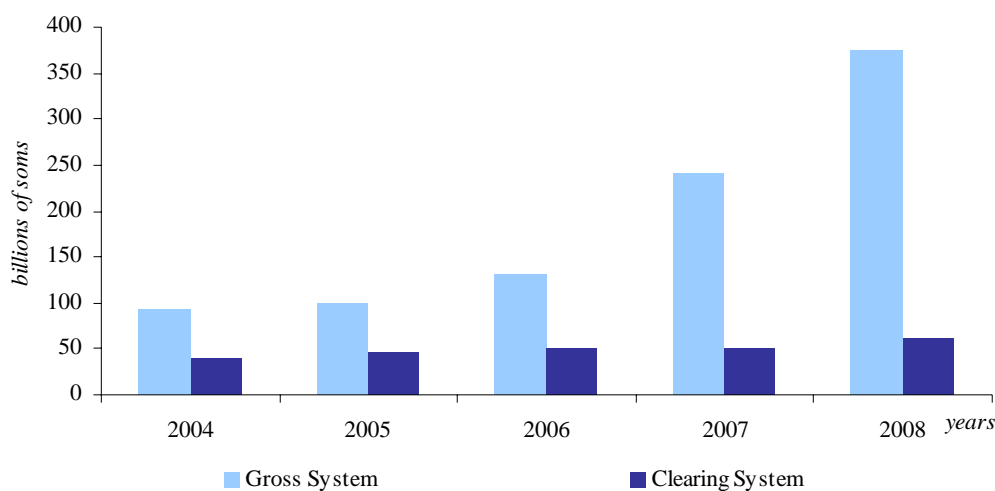
The NBKR, the commercial banks, including their branches, the Central Treasury of the Ministry of Finance, and the Interstate Bank were the participants in the interbank payment systems in the Kyrgyz Republic as of the end of 2008. The interbank payment systems are represented by the gross settlement system, the bulk clearing system (BCS), and the system of settlements with the use bank payment cards.

*Interbank  
payment  
systems*

The positive trends were observed in the payment system in 2008. Overall, 2,591,844 payments totaling Som 463.8 billion were made through the interbank payment systems. The volume of payments increased by 32.8 percent or by Som 142.8 billion as compared to 2007.

#### Chart 4.1.1.1.

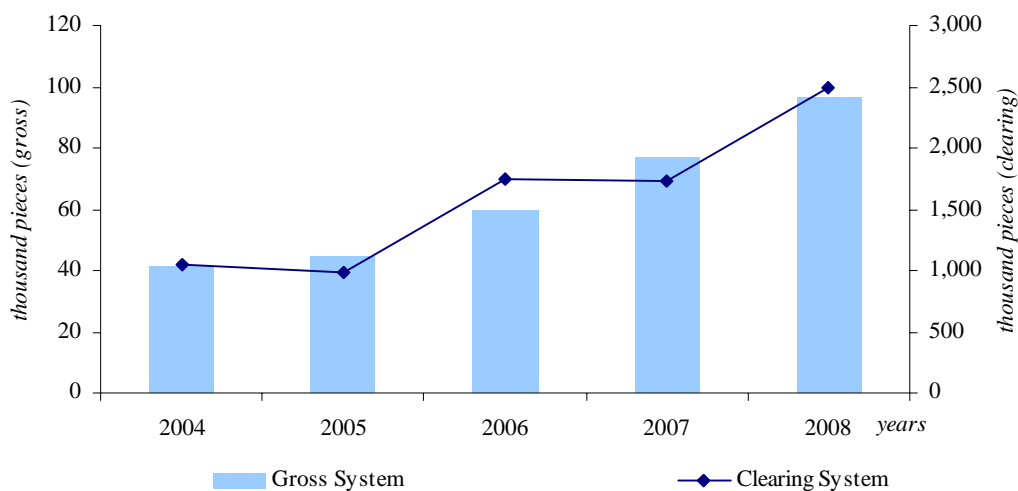
Volume of Payments through Interbank Payment Systems (end of period)



The number of gross payments increased against 2007 by 25.6 percent, and the number of clearing payments - by 44 percent.

**Chart 4.1.1.2.**

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



In 2008, there was still the trend of active use of such tools of non-cash payments, as payment cards. The commercial banks actively developed the programs on expansion of services in the area of issuing and servicing the payment cards of local, international systems, and the national Elkart system.

*Bank payment cards*

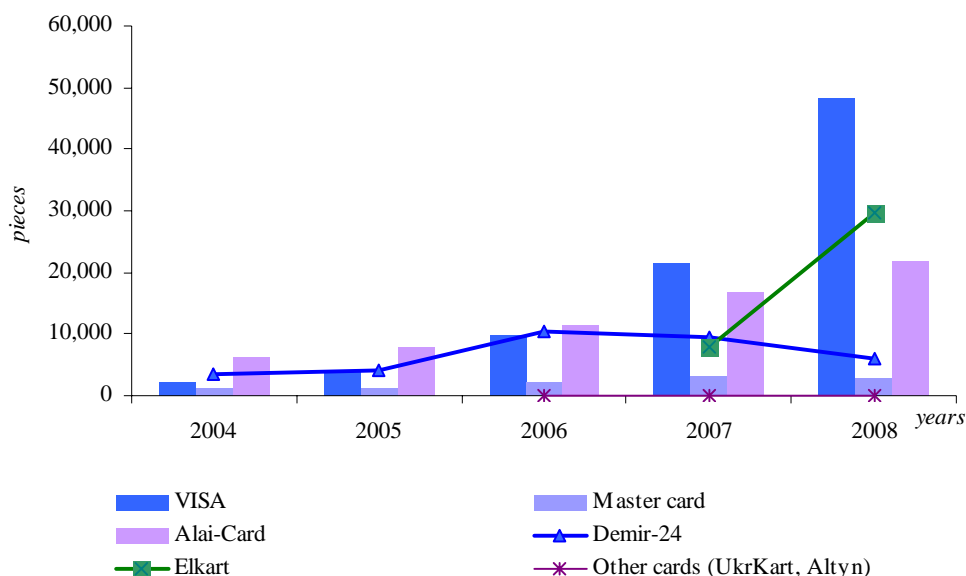
At the end of the reporting year, the services for issuing, acquiring, and the settlement-cash services were rendered to the clients with the use of bank cards by 19 of 21 banks of the republic, of which emitters and acquirers of international payment cards were 11 banks, 3 banks serviced the payment cards through the local systems, and 16 banks - via the integrated national system.

In comparison with 2007, the total number of the emitted cards increased by 42 percent and made 101,383 payment cards. The increase was driven by growth of the number of card holders due to basically attraction of staffs of enterprises and organizations under the salary payment projects that resulted in issues of 72,157 cards, of which 36,927 were the cards of the Elkart national system, which was 4.4 times more than in 2007.

*Emission of cards*

### **Chart 4.1.1.3**

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



The total card-based operations made Som 6.8 billion and increased by 38.3 percent compared to 2007. Som 4.4 billion was channeled via the international systems and it is by 40 percent more than the volume of operations conducted for the year of 2007. The volume of operations conducted through the local systems totaled Som 1.8 billion and it is by 17.4 percent more than in 2007. The total operations conducted via the Elkart national system in 2008 was Som 642.8 million.

*Operations with the use of cards*

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

The operations on the cash withdrawal were the most preferable among card holders. The volume of operations on the cash withdrawal with the use of payment cards amounted to Som 6.6 billion, while the volume of transactions in the trade and service network using the cards made Som 259.2 million.

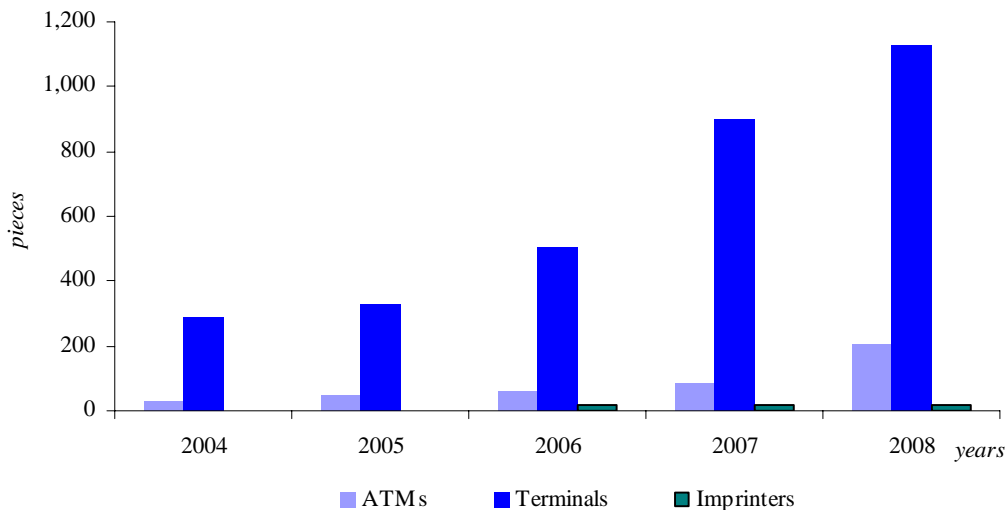
Overall, 1,589,248 card-based operations were conducted in 2008 and it is by 32 percent more than in 2007. Of these operations, 781,138 operations were conducted via the international systems and it is by 43.3 percent more than in 2007. 566,796 operations were conducted through the local systems being by 5.4 percent less than in 2007. 241,234 operations were conducted via the national Elkart system in 2008.

To attract and increase the clientele base, the commercial banks dynamically expanded the network of terminals in public places. The total number of operating terminals and ATMs by systems is as follows:

- The Alai-Card system - 126 terminals (of which 34 terminals provide for receipt of the Gold Crown cards for servicing) and 11 ATMs;
- The Demir 24 system - 131 terminals and 11 ATMs;
- The Elkart system - 281 terminals and 82 ATMs;
- The international systems - 561 terminals, 17 imprinters and 70 ATMs.

Thus, the bank payment cards are accepted for servicing by 174 ATMs, 17 imprinters, and 1,099 terminals installed in the public places throughout the whole territory of the republic.

**Chart 4.1.1.4.**



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

In 2008, the NBKR continued working on actualization of guidelines of the State Program of Measures to Introduce the Non-Cash Payment System and Establish the Infrastructure that Could Ensure Efficient Payment Execution in the Kyrgyz Republic for 2003-2008.

For instance, the actions on development of the bulk clearing system, on introduction of new payment tools of this system, and the salary projects were taken during the year under this program. Software for processing the direct debiting payments was prepared in the Severelectro Energy Company, Bishkekvodokanal Water Supply Company, and the Bishkek Municipal Telephone Station as part of the

second stage of the pilot direct debiting project. In this connection, the Rules were developed for the payments in the form of direct debiting in the BCS.

The work was also done on implementation of the project on establishing the Real-Time Gross Settlement System, which is designed to provide ways of transferring large payment amounts with minimal risks, and to ensure quick ways of transferring cash related to the activity of financial markets. Based on the successful acceptance testing outcome, on June 20, 2008, the system was accepted for commercial operation. A General Agreement “On the Procedure and Rules of Payments in the RTGS System” was signed, as well as contracts on a discharge of mutual obligation between the NBKR and the participants of the system. Upon acceptance of the system, software was tested on interaction between the RTGS and the integrated interbank processing center.

*Real-time  
gross  
settlement  
system*

To establish and develop the intergrated interbank processing center, the work was done in 2008 to integrate the system with the local payment systems and the international payment system “VISA”. The CJSC “Interbank Processing Center” performs the operator functions on monitoring and exercising control over the processing of transactions, calculations of net positions of participants, the transfer of a file of net positions to the BCS, the preparation and transfer of standard reports for the commercial banks.

*Integrated  
interbank  
processing  
center*

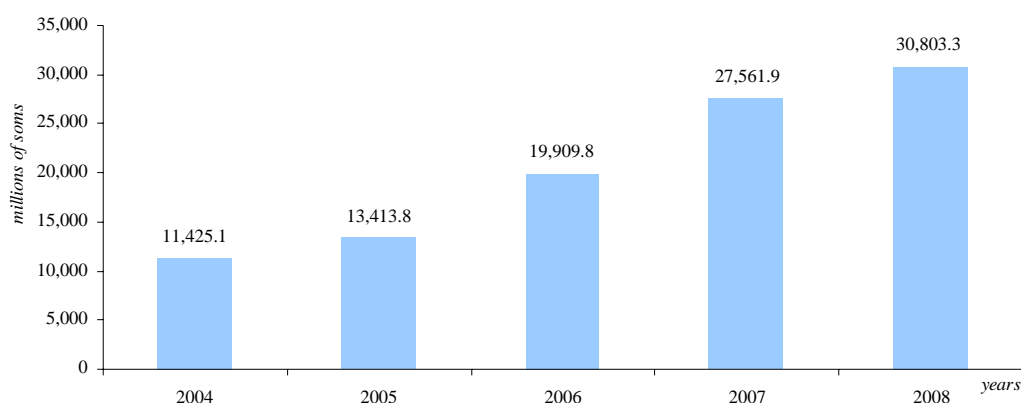
#### 4.2. Cash Turnover

The important direction in the activity of the National Bank is to timely satisfy the needs of the economy of the Republic for cash.

In 2008, the total amount of currency in circulation increased by 11.8 percent and was Som 30.8 billion.

##### Chart 4.2.1.

Developments in Currency in Circulation (end of period)



Growth of money in circulation is connected with the persistent need of the economy for cash and the increase in the state social package payments.

*Money in  
circulation*

Collectibility of cash in the cash departments of commercial banks was 99.7 percent in 2008 (in 2007 – 97.7 percent).

Receipt of cash in the cash departments of commercial banks totaled Som 240.8 billion in 2008, being by 44.3 percent more than in 2007, issuance of cash from the cash departments of commercial banks increased by 41.5 percent and made Som 241.6 billion.

**Table 4.2.1.**

**Movement of Cash via Cash Departments of Commercial Banks**

	Receipt, in millions of soms		Issue, in millions of soms		Collectibility, in percent	
	2007	2008	2007	2008	2007	2008
Total	166,794.3	240,759.4	170,715.6	241,567.2	97.7	99.7
city of Bishkek	116,129.3	158,597.0	108,457.1	149,201.7	107.1	106.3
Batken oblast	1,718.6	2,942.2	4,190.4	6,296.2	41.0	46.7
Jalalabat oblast	10,039.4	16,165.2	15,035.9	22,992.9	66.8	70.3
Issykkul oblast	4,416.0	7,236.9	6,128.2	8,823.6	72.1	82.0
Naryn oblast	1,120.6	2,109.3	2,798.8	3,422.4	40.0	61.6
city of Osh	21,463.9	36,428.3	19,008.6	29,758.4	54.5	122.4
Osh oblast	2,915.2	4,786.3	5,350.8	8,388.9	112.9	57.1
Talas oblast	1,326.8	2,180.7	3,035.5	3,518.0	43.7	62.0
Chui oblast	7,664.5	10,313.5	6,710.3	9,165.1	114.2	112.5

For 2008, the Cash Department of the National Bank received Som 32.2 billion and it is by 48.2 percent more than in 2007 and issued at the same time Som 35.4 billion, which is by 20.6 percent more than in 2007.

*Receipt and issue of cash in NBKR cash office*

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

*Banknotes by denomination*

Banknotes by denomination were stable as a whole, with the most significant change in their shares noted with regard to the Som 1000 banknote.

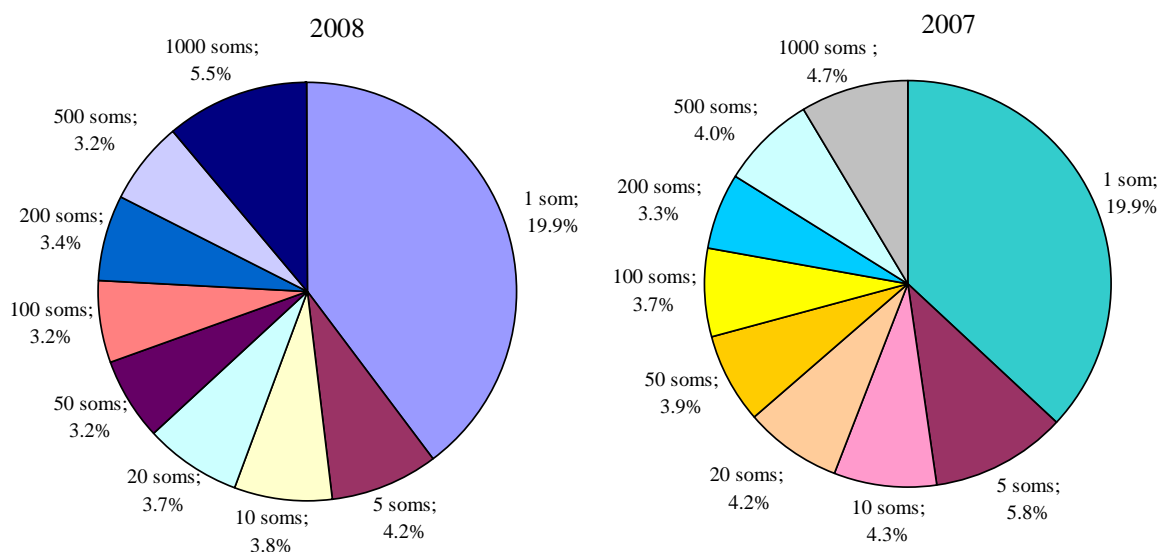
**Table 4.2.2.**

**Denominations of Banknotes in Circulation (end of period)  
(percentage share of the total amount of money in circulation)**

Denomination	below 5 soms	10 soms	20 soms	50 soms	100 soms	200 soms	500 soms	1 000 soms	Total
2007	0.8	0.5	1.0	2.3	4.6	8.2	24.8	57.8	100.0
2008	0.7	0.4	0.9	1.9	3.9	8.0	19.1	65.1	100.0

**Chart 4.2.2.**

**Denominations of Banknotes in Circulation in Sheets (end of period)**



In 2008, the NBKR issued silver collection coins “Burana”, the coins of a series “Kyrgyzstan on the Great Silk Road” and “Bishkek” of the series “Capitals of EurAsEC Countries”, as well as the copper-nickel coins “Burana”, “Tashrabat”, “Uzgen Architectural Complex”, devoted to the Great Silk Road, and uncut sheets of third issue banknotes at face value of Som 20, 50, 100, 500, and 1 000. On January 1, 2008, the circulating coins were issued at face value of 10 and 50 tyins and 1, 3, and 5 soms and the collection coin at face value of 1 tyin.

*Issue of numismatic & circulating coins into circulation*

Totally, 113 counterfeit banknotes were revealed in 2008 (in 2007 - 144 banknotes) and in terms of value they made Som 49,480 (0.0002 percent of the total amount of money in circulation).

The National Bank held twenty three seminars for cashiers of finance and credit institutions on training in the banknote authenticity features on the basis of the Training Center of the Union of Banks of Kyrgyzstan.



## CHAPTER 5. FOREIGN ECONOMIC RELATIONS

International activity of the National Bank of the Kyrgyz Republic in 2008 was determined by the need for further strengthening of cooperation with the central (national) banks of non-CIS and CIS countries, and with the international organizations. Cooperation of the National Bank with the central banks developed both on the bilateral and on multilateral basis under the operating integration unions. The NBKR continued working on development of mutual relations with the international financial and nonfinancial institutions.

### 5.1. Cooperation with International Organizations

In 2008, the National Bank of the Kyrgyz Republic continued its cooperation with the International Monetary Fund, Islamic Development Bank and other international organizations under programs of technical support, consultative assistance, information exchange, and improvement of the regulatory and legal framework.

*Cooperation  
with the  
IMF*

Relationships with the IMF were basically directed in 2008 to consultations and attraction of technical assistance (TA) on topical questions of NBKR's activity. In particular, the IMF TA mission visited the Kyrgyz Republic in February 2008 on introduction of Islamic principles of banking and financing to consider the legislative, regulatory, and supervisory issues of accounting and their conformity with the Sheriat under the pilot project on introduction of Islamic principles of financing.

During the IMF TA missions on reforming the payment system, the IMF expert on retail payments consulted the NBKR and the banks on the issues of increasing the clearing settlements based on the current situation under the Banking and Payment System Modernization Project.

In March 2008, the National Bank of the Kyrgyz Republic, in cooperation with the IMF and under financial support of the Swiss Bureau on Cooperation in the Kyrgyz Republic, completed implementing a supervisory component of the AML/CFT project. The following was done during the first phase of the project: the issues of improving a methodology of banking and nonbanking supervision were considered with a view of implementing the recommendations of the Eurasian group on introduction of AML/CFT in Kyrgyzstan and identifying the risks in the course of the payment system's functioning; the recommendations were given as to the need for the analysis of an emergence and use of new technologies of financing the terrorism and money laundering with the view of their prevention. Based on the findings of studies of these issues, the amendments and addenda were introduced to the NBKR's regulatory documents that regulate the AML/CFT issues. The seminars were also organized for the staff of the supervisory block and the meeting was held with the experts on the AML/CFT issues.

Upon successful completion by the Kyrgyz Republic of the next three-year PRGF program (Poverty Reduction and Growth Facility) in May 2008, the National Bank and the Government of the Kyrgyz Republic held a number of meetings with

the IMF missions to determine the further ways of cooperation with this international organization. The result of these negotiations was the statement about the new program of economic cooperation under the ESF program (Exogenous Shock Facility). On December 10, 2008, the Executive Board of the IMF approved the ESF Program for the Kyrgyz Republic. This facility is the new IMF initiative that gives the countries greater flexibility in their reaction to external economic challenges as compared to the PRGF program. Under this program, the Kyrgyz Republic will be given SDR 66.6 million on favorable terms (about US\$ 100 million), of which SDR 16.7 million was already received on December 23, 2008.

In May 2008, under the regional IMF TA project on public debt management in Central Asia and Azerbaijan, the representatives of the National Bank of the Kyrgyz Republic took part in the seminar on the following subject: “Training and Auxiliary Guide on Public Debt Management in Central Asia and Azerbaijan”.

On June 23, 2008, Executive Directors, representing the Swiss group of countries in the World Bank and International Monetary Fund, visited the Kyrgyz Republic. In the context of this visit, the meetings were held with the NBKR management and the top management of the country, during which the parties discussed the current macroeconomic situation in Kyrgyzstan and the issues of further cooperation of Kyrgyzstan with the World Bank and the IMF.

*Cooperation  
with the  
World Bank*

On March 31, 2008, the management of the NBKR met with a delegation of the International Financial Corporation. The issues on the agenda introduced for discussion comprised the strategy of the Corporation in the financial and banking sectors of the republic, the amendments to the Tax Code, a VAT exemption for the leasing operations, in particular, as well as the issue of privatization of the OJSC “Aiyl Bank”.

Cooperation of the NBKR with the Asian Development Bank under the Banking Sector and Capital Market Development Program ended in 2008. According to the report of the regular ADB mission in the Kyrgyz Republic, the NBKR met at the end of the accounting period all of the conditions of the second tranche envisaged in the Reform Matrix under this program.

*Cooperation  
with the Asian  
Development  
Bank*

The National Bank continued its cooperation with the Islamic Development Bank in the accounting period. The meetings were held in May 2008 between the NBKR management and the representatives of the mission of the Islamic Development Bank. A possibility of involving the commercial banks and other finance and credit institutions of the Kyrgyz Republic in the IDB projects on microfinancing and financing of small and medium business were discussed during the negotiations.

*Cooperation  
with the  
Islamic  
Development  
Bank*

As part of TA on introduction of Islamic principles of banking and financing, the NBKR staff took part in the seminars organized by the IDB in the year under review, namely, in the First International Seminar “Islamic Finances – Banking and Insurance”, which was held in June 2008 in the city of Kazan, “Islamic Financing Principles” - in November 2008 in the city of Kuala Lumpur.

On February 27, 2008, the scientific and practical conference “Inflation Issues and Steady Economic Growth” was organized by the National Bank jointly with the Administration of the President of the Kyrgyz Republic. The participants in the conference actively discussed the issues most topical for economies in transition. The objective of this conference was to discuss the problems of inflation and economic growth and work out the relevant recommendations on maintenance of financial stability. The representatives of the donor community, central banks, organizations and departments of the republic, and scientific circles and high schools of the republic, as well as the independent experts took part in the work of the conference.

*Conference  
“Inflation  
Issues and  
Steady  
Economic  
Growth”*

On June 26, 2008, a session was held in the National Bank of the Kyrgyz Republic on the following subject: “Macroeconomic Policy/Mitigation of Inflationary Shocks” as part of the conference “Management of Short-Term Risks and Acceleration of Long-Term Economic Growth”, organized by the World Bank in concert with the Government of the Kyrgyz Republic. The reports, devoted to the issues of growth of the world food prices, were heard during this session. The representatives of international financial institutions, as well as the public institutions and departments of the Kyrgyz Republic took part in the conference.

The NBKR representatives took part in the 4<sup>th</sup> political forum in Krakow (Poland) on the issues of the legislation and regulation of microfinancing and made a presentation on the status and the development problems of nonbank finance and credit institutions in Kyrgyzstan. The forum was organized by the Microfinance Center for Eastern Europe and CIS countries (Poland) with the help of CGAP (the Consultative Group of Assistance to Poor - a consortium of international donors). The Krakow Political Forum held biannually is a platform for the exchange of experience and the discussion of an outlook for microfinancing in the East European and CIS countries in view of the world tendencies in this area. Such subjects, as legal regulation of microfinance institutions, the impact of the world financial crisis, the outlook for the use of payment terminals, and protection of consumers of microfinancial services and other issues were considered at the forum.

*Forum on  
issues of the  
legislation and  
regulation of  
microfinancing*

In 2008, the National Bank continued cooperation under the EurAsEC. The NBKR was actively involved in the work of a Council of Heads of Central (National) Banks of EurAsEC States-Participants. Implementing the decisions of the Council, the work was promoted with the central banks of states-participants in the EurAsEC on the issues of monetary policy, the outlook for the banking sector and banking supervision, interaction between the national payment systems, printing of banknotes, development of the numismatic market, issue of memorable and collection coins, combat with coinage offence, personnel development, and on other issues. Cooperation was developed further with the central banks in the area of staff training, and, in particular, the Program of Professional Training of Personnel of Central (National) Banks of EurAsEC States-Participants was approved for 2009.

*Cooperation  
within the  
EurAsEC  
framework*

In December 2008, the NBKR management took part in the joint session of the Council on Financial and Economic Policy of EurAsEC States-Members and the Council of Heads of Central (National) Banks of EurAsEC States-Participants. The

session was, mainly, devoted to the issue of overcoming the consequences of the world financial crisis. Furthermore, the working group was established to develop the Joint Action Plan on overcoming the consequences of the world financial crisis, with the representatives of the National Bank being its members as well.

The regular 36<sup>th</sup> and 37<sup>th</sup> sessions of the Interstate Bank were held in April and December of the period under review in Moscow. The following questions were considered during these sessions: on the audit of the Interstate Bank financial statements as of December 31<sup>st</sup> of 2007 conducted by the auditor company “PricewaterhouseCoopers”, on approval of the budget for 2008, and on ISB performance for 9 months of the accounting period. They also discussed the results of the inspection of the ISB and its lending status, conducted by the working group in June 2008, with the representative of the NBKR being its member.

*Cooperation  
within the  
ISB  
framework*

The NBKR experts took part in the work of the 14<sup>th</sup> session of the Interstate Monetary Committee which took place on December 4, 2008, in Moscow. The agenda, among the key questions, covered the issue of discussing the draft agreement on information and analytical cooperation between the central banks of the CIS states-participants. Under the Action Program on realization of the Concept of Cooperation and Coordination of Monetary Activity of Commonwealth States-Participants, approved with the Decision of the Council of Heads of CIS Governments of September 15, 2004, the issue was discussed as to assigning the ISB to perform the functions of a specialized institute of the Payment Union to conduct the settlements between the central (national) banks based on multilateral clearing and operations in the foreign exchange markets, to manage information and reference data, and to perform other functions in the interests of the Payment Union. The work was done to consider an opportunity of creating the payment and settlement system on the basis of national currencies of CIS states-participants.

*Cooperation  
within the  
IMC  
framework*

## **5.2. Cooperation with Central (National) Banks**

In 2008, the National Bank of the Kyrgyz Republic continued cooperating with the central (national) banks of some of the states under the technical and consultative assistance programs, as well as on the issues of the exchange of experience and personnel development.

During the year under review, the training visits were arranged for the bank staff in the National Bank of Switzerland on the issues of supervision of the payment system, management of human resources and accounting. Furthermore, in August 2008, the representatives of the National Bank of Switzerland organized the seminar in Bishkek for the Board Members of the National Bank of the Kyrgyz Republic and advised the bank staff on monetary policy. In September the SNB expert visited the NBKR and consulted on the issue of modernization of the interbank market trading posts.

*Cooperation  
with the  
NBS*

The NBKR continued to cooperate with the Deutsche Bundesbank on consultative assistance in the area of a cash turnover and professional training of the NBKR staff. For instance, the seminar was organized in October 2008 for the staff of

*Cooperation  
with the  
Deutsche  
Bundesbank*

the National Bank on the following subject: “Monetary and Financial Stability”. In September 2008, the Deutsche Bundesbank experts consulted on the issues of budgeting and planning, as well as on the issue of monetary operations.

As part of technical cooperation with the National Bank of Poland, training on probation was organized for the staff of the National Bank of the Kyrgyz Republic in the National Bank of Poland at the end of 2008. During these periods of probation the staffs of both banks exchanged their experience on the issues of managing human resources, and accounting. The staff of the NBKR also familiarized itself with the budgetary process in the National Bank of Poland.

*Cooperation  
with the  
National  
Bank of  
Poland*

The NBKR staff took part in the seminar on the payment and settlement systems organized by the European Central Bank in September 2008 for the central banks in the city of Frankfurt am Main. A number of issues were discussed at the seminar covering the risks in the payment systems, the role of central banks in supervision of payment and settlement systems, and schemes of payments with the use of payment cards. Experience and practice of European and American countries in construction of the effective system of interaction between the payment systems and the systems of settlements on the operations conducted in the financial markets were analyzed in the course of collaboration with other central banks. Plans of central banks of EU countries-participants were also studied in the part of a transition to the TARGET-2 system (the new Euro system service for the real time settlements on securities in the Central Bank of Europe). The questions of improving the methodology of supervision of the payment system, developing the statutory acts on regulation of trans-border payments and other questions were studied either.

*Cooperation  
with the  
European  
Central Bank*

The relations with the National Bank of Malaysia developed successfully in the reporting year and resulted in a signing of the Memorandum of Understanding between the National Bank of the Kyrgyz Republic and the National Bank Negara of Malaysia in July 2008. This Memorandum provided for the exchange of experience and consultative assistance in the area of banking supervision, as well as the issue of future training for the NBKR staff.

*Cooperation  
with the  
Negara Bank*

The representatives of the State Development Bank of China were on the familiarization visit in the republic in April 2008. The goal of this visit was to make themselves acquainted with the current macroeconomic situation and the status of the banking and financial sectors of the Kyrgyz Republic. The issues were also discussed as to contingent cooperation between the SBDC and the NBKR.

*Cooperation  
with the  
Bank of  
China*

The delegation of the National Bank of China (NBC - the representatives of the NBC branch in Urumchi) visited the National Bank of the Kyrgyz Republic in May 2008. The circle of questions covered investment policy and the investment legislation of the Kyrgyz Republic, as well as the opportunity of opening the correspondent accounts with the commercial banks of the Kyrgyz Republic, currency regulation and prospects for the use of the Chinese Yuan and the Kyrgyz Som in the transactions between the individuals and the legal entities, as well as the issue of establishing working contacts between the NBKR and the NBC branch in Urumchi.

The representatives of the National Bank of the Kyrgyz Republic took part in the meetings of the Club of Governors of Central Banks organized by the Bank of Albania and the Central Bank of Bosnia and Herzegovina, which performed the functions of the Club Secretariat past year. The participants in these meetings discussed the issues of the status of banking and financial systems of countries under conditions of instability in the world financial markets, as well as the topical question of activities of central banks in the area of monetary policy, the basic banking sector development trends, and development of payment systems.

*Participation  
in the  
meetings of  
the Club of  
CB Governor*

In March 2008 the Bank of France organized an international symposium attended by heads of central banks, and by the financial institutions and the international organizations. This symposium was devoted to such issues, important for activities of central banks, as globalization, inflation, and modern monetary policy aspects. Participation in this symposium was productive from the point of view of the exchange of views and experience, and of establishing the new business contacts, and cooperation.

*Cooperation  
with the  
Bank of  
France*

One of the important aspects of foreign economic relations of the National Bank is that of the relations with the Central Bank of the Russian Federation. In December 2008, the NBKR staff took part in the meeting of the working group on comparison of data on mutual trade in goods and services for 2006-2007. Furthermore, the Central Bank of the Russian Federation is regularly furnished by the National Bank with information on the recent developments in the financial and banking sectors of the Kyrgyz Republic and the status of the balance of payments.

*Cooperation  
with the  
CBRF*

The NBKR staff was on the training visit in the Central Bank of the Russian Federation in May 2008 on the following subject: "Balance of Payments Parameters Not Covered by Statistics and Issues of Real Effective Exchange Rate and Balance of Payments. Various issues - the BOP compilation technique, the problems of assessment of unregistered operations, and the procedure to calculate and analyze the real effective exchange rate – were discussed during the meeting with the staff of the Balance of Payments Department of the Bank of Russia.

Under the Cooperation Agreement in the area of training personnel of central (national) banks of EurAsEC states-participants in 2008, the staff of the National Bank of the Kyrgyz Republic participated in the programs of the exchange of experience and personnel development in the central (national) banks of Russia, Armenia, Belarus, Tajikistan and Kazakhstan.

*Cooperation  
with CBs within  
the EurAsEC  
framework*

The NBKR staff took part in the international banking conference on safety: "Comprehensive Security Enforcement in Credit and Financial Sphere", which was organized by the Central Bank of the Russian Federation in June 2008 in Volgograd.

Through the whole year of 2008, with the view of organizing the exchange of experience, the Inter-Regional Training Center of the Central Bank of the Russian Federation (Tula) conducted the seminars, attended by also the NBKR staff, on various aspects of the activity of central banks.

*Public  
information in  
the regions*

During 2008, cooperation on personnel training continued with the non-CIS central (national) banks, France, Holland, England, Germany, Italy, Japan, Serbia and other countries, in particular, with the NBKR staff taking training on probation and participating various seminars there.

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

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

As of December 31, 2008, the NBKR's organizational structure comprised 25 central staff departments, 5 regional departments and the NBKR Representative Office in the Batken oblast.

*NBKR  
organization  
structure*

The committees and commissions operate at the National Bank on the ongoing basis. By the end of 2008, there were 7 committees, 8 commissions and 7 editorial boards in the National Bank, as well as the supervisory board to exercise control over the activity of the Republican Collection Department.

During 2008, the organizational structure of the National Bank underwent the following changes:

a) The Cash Circulation Office of the Cash Emission Division of the Cash Management Department was reorganized into the Central Cash Circulation Division of the Cash Emission Division of the Cash Management Department;

b) The Financial Reporting and Control Division of the Accounting and Reporting Department was reorganized into the Financial Reporting and Methodology Division of the Accounting and Reporting Department;

c) The Group for Uninterrupted Activity of NBKR was established in the Security and Information Security Department;

d) The Cash Operations Group was closed and the Cash Circulation Division was formed in the Osh Regional Department of the NBKR.

To maintain the open, transparent, equal, and fair approach, the system of a competitive selection of staff is applied when employing the new staff. This allows to ensure the selection of the most qualified specialists in view of their professional training, and to provide for the appropriate level of realization of the tasks and functions assigned to the National Bank. Announcements of competitions for vacancies are published on a web-site of the NBKR and in the mass media.

*Competitive  
selection*

63 competitions were held in 2008, of which 60 were open and 3 were the internal competitions, with 9 competitions held in the regional departments. Totally, 471 people participated in the competitions. 54 people were recruited to work at the NBKR based on the results of these competitions.

As part of cooperation with high schools of the country aimed at training the contingent staff, 62 students of higher educational institutions of the Republic practice-worked at the NBKR's departments in the year of account.

As of the end of the reporting year, NBKR's accountable strength of staff amounted to 600 people, including 512 people employed as the central staff and 88

*Authorized  
staff size*



people working at the regional departments and at the Batken Representative Office. Of this number, the female staff made 309 people as central staff members and 46 people – the staff of regional departments and the Batken Representative Office. The number of banking specialists totaled 419 people, of which 379 specialists as central staff and 40 people – in regional departments and the Batken Representative Office. Of this number of specialists, 96.4 percent or 404 people are those with higher education and 4 hold scientific degrees of candidates of sciences.

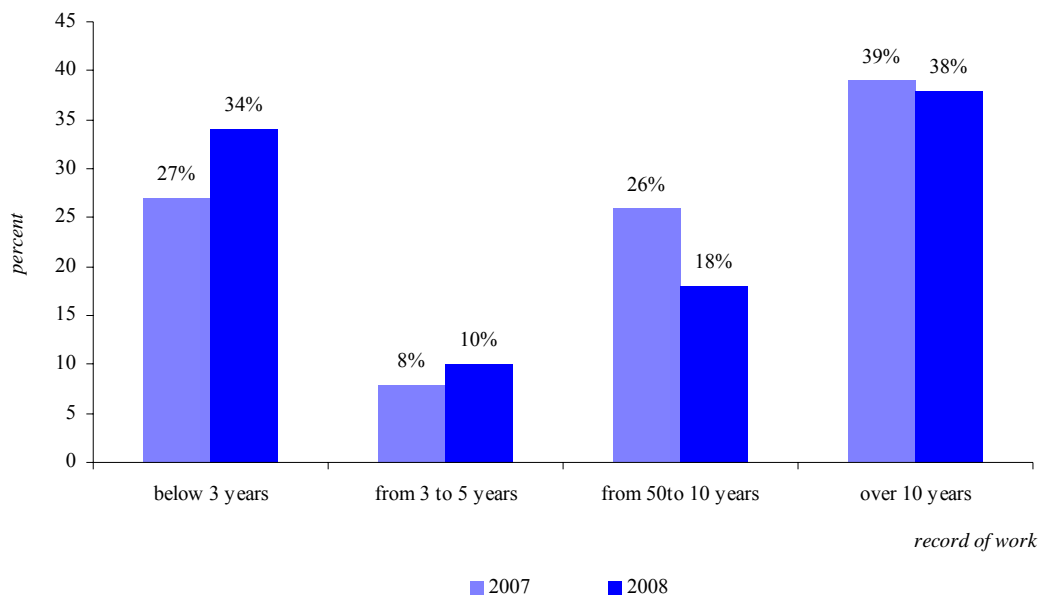
Despite the undertaken organizational measures, in the context of the developing financial system of the Republic and strong competition in the labor market in this sphere, the situation remains strained with regard to the outflow of the qualified staff of the National Bank to the commercial financial agencies. The turnover of staff was 19 percent in 2008 (in 2007 – 17 percent).

Proceeding from this, the National Bank implements the measures for creation of competitive working conditions for its staff, including those for labor remuneration.

The staffing structure by record of work and age are described in charts 6.1.1, and 6.1.2, correspondingly.

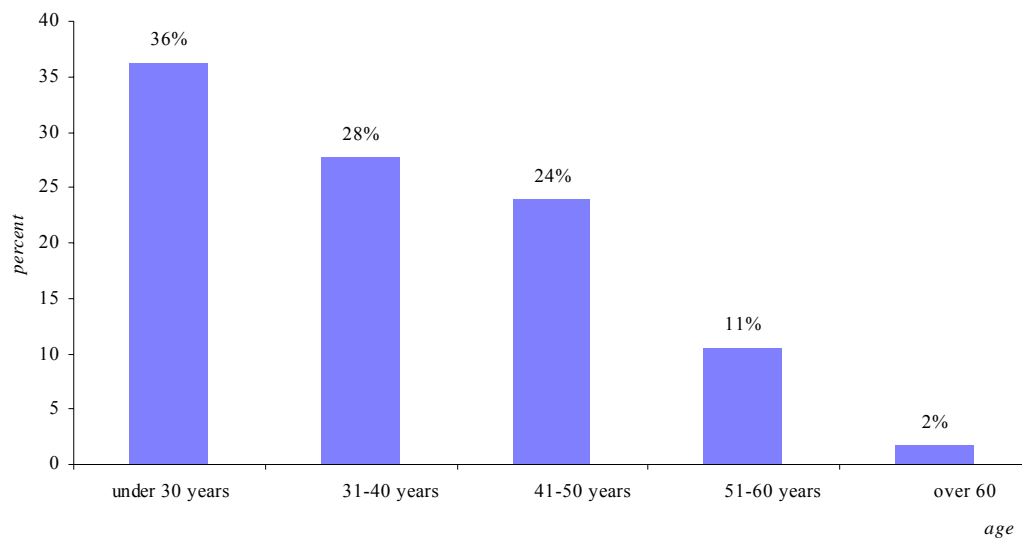
**Chart 6.1.1.**

Staffing Structure by Record of Work

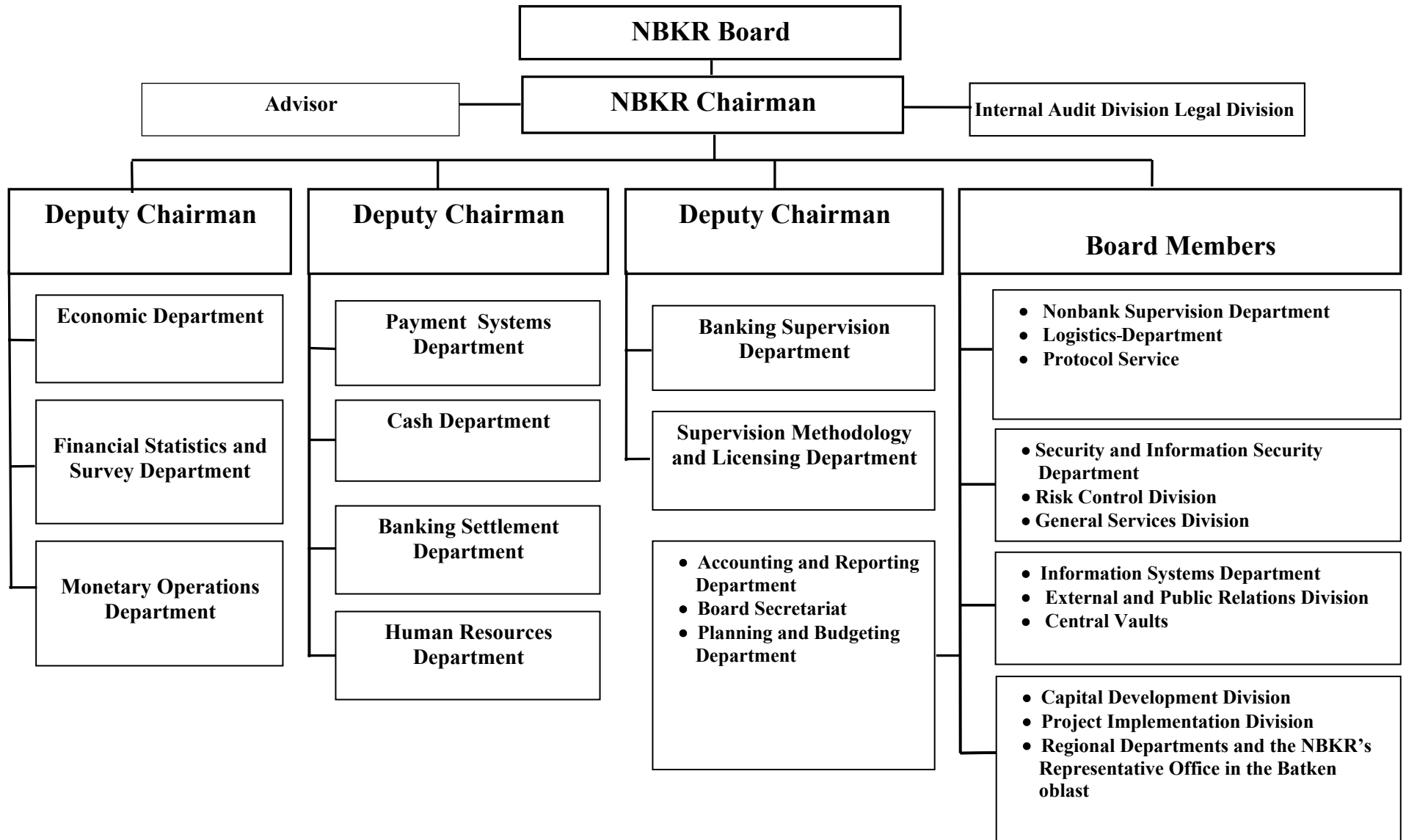


**Chart 6.1.2.**

Staffing Structure by Age



## Organization Chart of the National Bank of the Kyrgyz Republic



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

Board	It is a superior collegial body of management of the National Bank of the Kyrgyz Republic, which determines the guidelines of its activity, including monetary policy, the decision-making on maintenance of stability in the banking and payment systems, and on other issues that come within the terms of reference of the Board as established by law.
Economic Department	Develops proposals on monetary policy and on its implementation; studies the situation in the real, financial, fiscal and external sectors of the economy.
Monetary Operations Department	Makes the assessment and performs the analysis, identifies the trends and factors of developments in the financial markets in order to effectively coordinate the open market operations and conduct the operations on the financial markets.
Financial Statistics and Survey Department	Collects monetary and financial market statistics and processes real sector and public finance statistical data; compiles the balance of payments; and provides expert support on the external debt issues.
Banking Supervision Department	Organizes supervision over banking and finance and credit institutions, licensed and regulated by the NBKR, over the observance of prudential norms and requirements, as well as over the observance of the legislation of the Kyrgyz Republic; and studies the situation in the banking sector.
Supervision Methodology and Licensing Department	Issues the banking licenses, develops and improves the methods of supervision and regulation of the activity of commercial banks and other finance and credit institutions, licensed and regulated by the NBKR.
Nonbanking Supervision Department	Organizes supervision and licensing of the activity of microfinance institutions, credit unions, pawn-shops and exchange bureaus, licensed and regulated by the NBKR.
Cash Department	Satisfies the needs of the economy of the Republic for cash, provides for cash circulation, and promotes implementation of anti-counterfeiting actions.
Central Vaults	Provides for safety of banknotes, coins and values in a vault, transports values between the NBKR departments, processes cash and destructs unfit currency.

Bank Settlement Department	Provides for the uninterrupted functioning of interbank settlement systems.
Information Systems Department	Provides for conformity of the information system with the NBKR's Development Strategy and its needs, and ensures its maintenance.
Payment Systems Department	Develops and implements the actions on maintenance of the effective operation the payment system, its reliability and safety.
Accounting and Reporting Department	Maintains accounting of operations and values and makes the NBKR's financial statements; develops the documents to regulate the bank accounting; and exercises internal control over the accounting transactions.
Human Resources Department	Performs the manpower deployment; organizes staff training and professional development; works out and implements work progress report for the NBKR staff.
Planning and Budgeting Department	Organizes and enforces NBKR's planning and budgeting; ensures control over the use of NBKR's financial resources.
General Services Division	Provides for the effectiveness of the NBKR's system of the flow of documents and records management, including control over execution.
External and Public Relations Division	Informs the public of goals, tasks, functions and results of the NBKR's activity; cooperates with the external organizations and the mass media.
Internal Audit Division	Inspects and estimates the operating internal control system in the NBKR and works out the recommendations on its improvement.
Capital Development Division	Provides for organization of capital construction and reconstruction of the NBKR's buildings and structures.
Risk Control Division	Exercises risk-control over the transactions conducted in the financial markets; and develops the recommendations on their improvement.
Project Implementation Division	Provides for implementation of credit lines as part of cooperation with the international organizations.

Board Secretariat	Provides for organizational support of the work of the Board of the NBKR.
Protocol Service	Provides for organization and implementation of official entertainment, administrative and public relations events.
Security and Information Security Department	Provides for safe functioning of the National Bank of the Kyrgyz Republic; and organizes technical protection of the National Bank.
Logistics Department	Provides for logistics, transportation services; servicing of buildings and structures.
Legal Division	Provides for comprehensive enforcement of the NBKR's activity, development and promulgation of the banking legislation.
Regional Departments and the NBKR's Representative Office	Provide the commercial banks and their branches with cash; undertakes the actions on supervision of the observance of the banking legislation by the banks and finance and credit institutions, whose activity is licensed by the NBKR, as well as performs the functions as established by law.

## 6.2. Activity of the Board of the National Bank of the Kyrgyz Republic in 2008

According to the Law “On the National Bank of the Kyrgyz Republic”, the Board is the superior body of management of the National Bank and approves the guidelines of its activity. The Board is the collegial body. The Board Members are appointed by the President of the Kyrgyz Republic as advised by the NBKR Chairman for the period of seven years. The Chairman of the National Bank, who is elected by the Jogorku Kenesh of the Kyrgyz Republic as advised by the President of the Kyrgyz Republic for the period of seven years, is in charge of the work of the Board.

*General information about activity of the Board of the NBKR*

The Board considers and defines monetary policy, solves the issues of banking supervision and payment system development, approves the regulatory acts and the annual report, establishes the procedure for issuing new samples and denominations of banknotes and the procedure for the withdrawal of banknotes and coins from circulation. According to the Regulation of the Board of the National Bank, the Board also considers other issues within its terms of reference, such as: extension of credits of last resort, issue, recall or suspension of banking licenses, initiation and application of bankruptcy proceedings, and introduction of provisional administration, as well as other issues.

During the reporting period, the Board of the NBKR acted according to the approved annual and quarterly policy plans. In 2008, 51 meetings were held and 469 issues were considered, with 250 resolutions on these issues.

Starting from the beginning of 2008, the National Bank undertook the actions on enhancement of the role of quarterly board meetings on the monetary policy issue. In particular, the content of the document submitted to the Board for discussion and a format of decision-making were amended: in 2008, in addition to consideration of the monetary policy report for the past period, the Board started approving the monetary program for the forthcoming period, which, together with the recommendations on monetary policy serves as the target for the Monetary Regulation Committee in the decision-making on the open market operations. In order to improve coordination of monetary policy measures with fiscal and trade and investment policies, the representatives of the Administration of the President of the Kyrgyz Republic and the heads of the Ministry of Finance and the Ministry of Economic Development and Trade were invited in 2008 to participate in the quarterly board meetings and took active part in the monetary policy document discussions.

*Consideration  
of monetary  
policy issues*

Based on the analysis of the current situation in the monetary sphere and the forecast of development in the real, fiscal and external sectors, as well as in view of the ongoing structural reforms in the country, at the end of 2008, the Board adopted the Monetary Policy Statement for 2009, which sets out the quantitative inflation target.

At the end of 2008, the Board approved the “Basic Monetary Policy Guidelines for 2009-2011” that sets out the NBKR’s medium-term monetary policy goals. When developing this document, the world financial and commodity market trends were taken into account as well as new conditions of implementation of monetary policy at the current transition stage, small scales and the high degree of openness of the economy of the Kyrgyz Republic.

Under the Action Plan on control of inflation, information on the situation in the world commodity and primary and financial markets, as well as in the domestic market was monthly considered at the Board information meetings.

The Board of the National Bank sets out the common objectives and principles of international reserves management, the investment strategy, and approves the regulatory documents. According to the Law “On the National Bank of the Kyrgyz Republic”, international reserves are managed with provision for maintenance of liquidity and safety of reserve assets.

Annually, the Board of the NBKR considers and approves the benchmark portfolio of investment assets. The approval of benchmark portfolio parameters allows minimizing the financial risks arising in the course of management of international reserves. Also, as part of the task of minimizing the arising risks, the Board of the NBKR considered and approved the Regulation “On Structure of International Reserves” on the quarterly basis.

For performance evaluation of management of international reserves, the Board of the NBKR considers and approves annually the report on management of international reserves, for instance, the report on management of international reserves for 2007 was considered in the 1<sup>st</sup> quarter of 2008.

Totally, 43 Resolutions were adopted on the monetary policy issues in 2008.

The Board paid great attention in 2008 to the issues of developing and strengthening the banking system of the republic, considered the questions of supervision and regulation of commercial banking, as well as the issues of enhancing confidence in the afore-mentioned measures. Information on the commercial banking system development trends was considered on the quarterly basis, including financial stability of commercial banks and a monitoring of system risks.

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

For the purposes of further growth of financial intermediation, the increase in the role of the banking sector in the economy of the Kyrgyz Republic, maintenance of efficiency, safety and reliability of banking, the Board considered in 2008 the draft of the Banking Sector Development Strategy till the end of 2011.

The Board of the NBKR considered an appeal of one the commercial banks relating to the prudential measure of influence imposed on this bank and the size of the penalty for the violation.

As part of further improvement of the regulatory framework in the area of banking supervision and in order to bring it in conformity with the legislation of the Kyrgyz Republic, as well as to harmonize banking supervision with the international standards and the Basel Principles of Banking Supervision, the Board of the NBKR adopted the Resolution on the amendments and addenda to a number of regulatory and legal acts: “On Prudential Norms and Requirements, Mandatory for Commercial Banks and Finance and Credit Institutions Licensed by NBKR”, “On Measures of Influence Applied to Banks and Some Other Finance and Credit Institutions, Licensed by NBKR”, “On Minimal Country Risk Management Requirements for Commercial Banks and Other Finance and Credit Institutions Licensed by NBKR”, “On Periodic Regulatory Bank Report”. Furthermore, the Board approved the new versions of the Regulations “On Corporate Governance in Commercial Banks of the Kyrgyz Republic”, “On Direct Banking Supervision” and “On Provisional Bank Management Guidelines”.

In order to reduce the risk of instability and unreliability of the financial position of microcredit agencies and microcredit companies, the amendments and addenda were introduced to the Temporary Regulation “On Establishing Microcredit Companies and Microcredit Agencies in the Kyrgyz Republic”.

To enhance efficiency in regulation and supervision of MCA and MCC activities, the amendments and addenda were introduced to the Regulation “On Precautionary Measures and Sanctions Applied by NBKR to Microfinance Organizations”. In addition, in 2008, the Board considered the draft of amendments and addenda to the Law “On Microfinance Organizations”, directed to their further



development.

According to the NBKR's action plan on implementation of FATF recommendations in the Kyrgyz Republic, with the view of anti-money laundering and combating the financing of terrorism, the Board approved the amendments and addenda to the Regulation "On Minimal Internal Control Implementation Requirements for Commercial Banks and Other Finance and Credit Institutions Licensed by NBKR", the Interim Instruction "On Work with Deposits" and the Regulation "On Procedure for Exchange of Foreign Currency in Cash in the Kyrgyz Republic".

Under the Memorandum of Understanding between the Kyrgyz Republic, Islamic Development Bank, and the OJSC "EcoBank" on introduction of Islamic principles of financing and banking, as well as in pursuance of the Decree of the President of the Kyrgyz Republic "On Pilot Project on Introduction of Islamic Principles of Financing in the Kyrgyz Republic", the Board of the NBKR introduced the addenda to the Resolution of the Board of the NBKR "On the Regulation "On Pilot Project on Introduction of Islamic Principles of Financing in the Kyrgyz Republic" and approved the Regulation "On Financial Statements Formulation Requirements for OJSC "EcoBank" Based on Results of Operations Conducted under Pilot Project on Introduction of Islamic Principles of Financing in the Kyrgyz Republic".

In pursuance of the Decree of the President "On Further Measures for Introduction of Industry of Islamic Financial Services in the Kyrgyz Republic", the Board approved the draft Laws "On Amendments and Addenda to Laws "On the National Bank of the Kyrgyz Republic" and "On Banks and Banking in the Kyrgyz Republic".

Due to effectiveness of the Law "On Protection of Bank Deposits", the Board adopted the Regulation "On Procedure for Submission of Bank Application for Participation in the Deposit Protection System and Consideration by the National Bank of the Kyrgyz Republic", the candidate requirements for positions of Members of the Board of Directors and other positions in the Deposit Protection Agency, and approved candidacies of representatives of the National Bank in the Board of Directors of the Deposit Protection Agency of the Kyrgyz Republic.

With the view of strengthening confidence of the population in the banking system, the bill "On Amendments and Addenda to the Law of the Kyrgyz Republic "On Protection of Bank Deposits" was approved with the Resolution of the Board of the NBKR providing for the essential increase in the amount of compensation for the guaranteed deposits – from Som 20 thousand to Som 100 thousand.

The Regulation "On Calculations of Effective Interest Rate when Disseminating Information on Banking Services Fee Rate" was approved with the Resolution of the Board of the NBKR in order to determine the procedure for calculations by the commercial banks and other finance and credit institutions of interest rates of credits and deposits in reliable, annual, effective, comparable

calculations when disseminating information on the rate of the fee for banking services.

As part of the task to improve the functions of supervision over the activity of nonbank finance and credit institutions, the Board approved the Regulations “On Periodic Regulatory Report of Credit Union” and the amendments and addenda to the Regulation “On Licensing of Credit Unions”.

17 Resolutions were adopted as a whole for the accounting year on activities of individual commercial banks and other FCI, licensed by the NBKR. Overall, the Board adopted 26 Resolutions on the regulatory framework that regulates commercial banking. These were both the new statutory acts, and the amendments introduced to the earlier adopted statutory acts.

According to item 3 of the Law “On the National Bank of the Kyrgyz Republic”, fulfillment of functions in the payment system area is directed to maintenance of the effective and uninterrupted functioning of the payment system.

*Consideration  
of the payment  
system issues*

Assuming the supervisory role in a policy-making on the general structure and the functioning of the payment system of the Kyrgyz Republic, the Board of the National Bank carried out the work on regulation of the payment system of the country. For instance, during 2008, the Board of the NBKR adopted a number of resolutions directed to development of the market of retail payments: “On the Draft of the Decree of the President of the Kyrgyz Republic “On Measures for Increasing Transparency of Circulation of Money and Application of Innovative Technologies in Finance Management in the Kyrgyz Republic for 2008-2010”; “On Addenda to the Law “On licensing”; “On Addenda to The Regulation “On Licensing Payment Services Using E-Cash as Prepaid Cards”.

In 2008 the Board also approved the “Rules of Supervision over Payment System of the Kyrgyz Republic”, the amendments and addenda to the Regulation “On Periodic Regulatory Bank Report”, the amendments and addenda to “The State Classifier of the Payments Turnover”, “The Basic Payment System Development Guidelines for the Kyrgyz Republic for 2009-2011”.

Progress in implementation of projects within the framework of the State Program of Measures to Introduce the Non-Cash Payment System and Establish the Infrastructure that Could Ensure Efficient Payment Execution in the Kyrgyz Republic for 2003-2008 was considered on the quarterly basis, as well as the reports on the current status of the payment system.

Totally, 24 resolutions were adopted with regard to the payment system in 2008.

The board considered the general questions and the questions of the NBKR’s internal activity. 33 resolutions were adopted concerning the regulatory framework of the NBKR and 100 – on the NBKR’s internal activity. 219 issues were considered at the board meetings as information reports.

*Other issues*

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

The National Bank continued its work on improvement and development of the banking legislation of the Kyrgyz Republic in 2008.

A number of amendments and addenda were introduced to the banking legislation of the Kyrgyz Republic in the accounting period, in particular:

- The amendments were introduced to the Law “On the National Bank of the Kyrgyz Republic” with the view of optimizing the legislative rules for activity of the National Bank, establishing its legal status, increasing the role of the National Bank in economic development of the republic, and bringing the norms of this Law in conformity with the Constitution of the Kyrgyz Republic;

- The Law “On Banks and Banking in the Kyrgyz Republic” was amended in order to promote the increase in capitalization of banks, increase the opportunity of their involvement in development of the economy of the republic, establish the requirement for the banks concerning the need to appropriately inform their clients of the level of interest rates, commissions and other additional expenses incorporated into the cost of banking services, and of a number of other changes.

The amendments to the Civil Code of the Kyrgyz Republic, envisaging the strengthening of flexibility of the use of bank accounts (including the demand deposits) for the settlements between the individuals and legal entities came into force in 2008.

*Adopted  
amendments*

The Law “On Protection of Bank Deposits” came into force in the year of account, and its development and adoption was one of the priority directions in development of the banking system in the republic. This Law was developed with the view of implementing the system of protection of deposits of individuals and strengthening confidence of the population in the banking system.

The Law “On Amendments and Addenda to Several Acts on Activity of Credit Unions” envisaging the amendments to the Civil Code, to the Laws “On Credit Unions” and “On Cooperatives” was adopted in order to further improve credit union activities.

In pursuance of the Decree of the President of the Kyrgyz Republic No 146 of April 22, 2008, “On Further Measures for Introduction of Industry of Islamic Financial Services in the Kyrgyz Republic” and the Government Resolution of the Kyrgyz Republic No 361 of July 2, 2008, “On Introduction of Industry of Islamic Financial Services in the Kyrgyz Republic”, and for the purposes of establishing the appropriate legislative framework of banking according to the Islamic principles of banking and financing, the National Bank drafted the laws “On Amendments and Addenda to the Law “On the National Bank of the Kyrgyz Republic” and “On Banks

*Proposed  
amendments*

and Banking in the Kyrgyz Republic”.

The National Bank developed the bill “On Amendments and Addenda to the Law “On the National Bank of the Kyrgyz Republic”, providing for the increase in the size of authorized capital of the bank until it reaches the adequate (sufficient) level and until its stability is strengthened.

In pursuance of the Decree of the President of the Kyrgyz Republic No 5 of January 8, 2009, “On Measures for Maintenance of Stability of the Banking System of the Kyrgyz Republic”, the National Bank drafted the Law “On Amendments and Addenda to the Law “On Protection of Bank Deposits”, providing for the increase in the size of compensation for the deposits paid at maturity guaranteed up to Som 100 thousand.

The bills developed by the National Bank are regularly placed on the official website of the NBKR for public discussion.

The National Bank participated in the work of interdepartmental groups along the following directions:

- Development of regulatory and legal acts relating to implementation of Islamic principles of financing in the Kyrgyz Republic;
- Development of republican measures for implementation of the National Housing Development Program in the Kyrgyz Republic for 2008-2010;
- Development of regulatory and legal acts, directed to introduction of the one-window principle in the system of state registration of legal entities and individual entrepreneurs;
- Development of statutory acts on development of mortgage lending;
- Inventory of regulatory and legal acts of the Kyrgyz Republic, etc.

*Involvement  
in the work of  
inter-  
departmental  
groups*

The work continued in 2008 on improvement of the regulatory framework regulating activities of banks and other finance and credit institutions, licensed and regulated by the NBKR.

To improve the regulatory and legal framework for activities of banks and other finance and credit institutions, licensed and regulated by the National Bank, the following Resolutions were issued:

- On Minimal Size of Authorized Capital for Newly Opened Banks (Resolution of the Board of the NBKR No 6/3 of February 13, 2008);
- On Regulation “On Corporate Governance in Commercial Banks of the Kyrgyz Republic” (Resolution of the Board of the NBKR No 13/4 of March 26, 2008);

*RLA  
improvement*

- On the New Version of the Regulation “On Issue, Placement, Circulation and Redemption of Notes of the National Bank of the Kyrgyz Republic” (Resolution of the Board of the NBKR No 18/4 of April 25, 2008);

- On Approval of Rules of Exercising Supervision of the Payment System of the Kyrgyz Republic (Resolution of the Board of the NBKR No 22/11 of May 28, 2008);

- On the New Version of the Regulation “On Direct Banking Supervision” (Resolution of the Board of the NBKR No 22/4 of May 28, 2008);

- On Candidate Requirements for Positions of Members of the Board of Directors and Other Positions in the Deposit Protection Agency (Resolution of the Board of the NBKR No 22/8 of May 28, 2008);

- On the Regulation “On Financial Statements Formulation Requirements for the OJSC “EcoBank” on Outcome of Operations Conducted under Pilot Project on Introduction of Islamic Principles of Financing in the Kyrgyz Republic” (Resolution of the Board of the NBKR No 25/5 of June 27, 2008);

- On Approval of Rules of Conducting Payments in the Form of Direct Debiting in the Bulk Clearing System” (Resolution of the Board of the NBKR No 30/6 of July 30, 2008);

- On Approval of the Regulation “On Signs of Fitness for Use as Currency and Rules of Exchange of Banknotes and Coins of the Kyrgyz Republic” (Resolution of the Board of the NBKR No 33/5 of August 27, 2008);

- On Approval of the Regulation “On Calculations of Effective Interest Rate when Disseminating Information on Banking Services Fee Rate” (Resolution of the Board of the NBKR No 33/4 of August 27, 2008);

- On the Regulation “On Provisional Bank Management Guidelines” (Resolution of the Board of the NBKR No 36/5 of September 30, 2008);

- On the New Version of the Regulation “On Reserve Requirements” (Resolution of the Board of the NBKR No 42/3 of November 26, 2008);

- On Amendments and Addenda to Various Regulatory and Legal Acts of the National Bank Regulating Activity of Banks and Other Finance and Credit Institutions, Licensed and Regulated by the NBKR.

The work continued in the year of account with the Ministry of Justice of the Kyrgyz Republic on the issues of registration of NBKR’s regulatory and legal acts, implementation of specific items of the lawmaking action plan of the Government and examination of draft statutory acts and constituent documents of finance and credit institutions licensed and regulated by the NBKR.

*RLA  
registration*

In pursuance of requirements of the Law “On the National Bank of the Kyrgyz Republic”, the regulatory and legal acts developed by public authorities and covering the banking and financial system of the republic were examined in the reporting year.

In the year of account, the following draft laws were examined: “On National Financial Market Regulation and Supervision Service of the Kyrgyz Republic”, “On Venture Activity”, “On Amendments and Addenda to the Law “On the Development Fund of the Kyrgyz Republic”, “On State and Private Partnership”, “On the Draft of the Housing Code of the Kyrgyz Republic”, “On the Chamber of Accounts of the Kyrgyz Republic”, “On the Securities Market”, “On the Central Depository of Securities” and other bills directed to the NBKR for examination and approval.

*Examination  
of draft laws*

In 2008 the National Bank examined and prepared a number of drafts of the Government Resolutions of the Kyrgyz Republic: “On Establishing State Insurance Company”, “On Implementation of Measures for Simplification of State Regulation of Entrepreneurial Activity”, “On the Strategy of Industrial and Innovative Development of the Kyrgyz Republic till 2015”, “On Improvement of Strategic Management in Executive Agencies”, “On the State Business Development Program in the Kyrgyz Republic for 2009-2011”, “On Approval of the List of Basic Economic Stability Indicators of the Kyrgyz Republic”, “On the Concept of Establishing the Central Depository of Securities”, “On Construction of Multi-Storey Apartment Houses”, “On the Public Debt Management Strategy of the Kyrgyz Republic for 2009-2011”, “On Approval of the Draft Trade Development Strategy of the Kyrgyz Republic till 2014” and other drafts.

*Examination  
of RLA*

In fulfillment of its financial adviser functions of the President, the Jogorku Kenesh and the Government, the National Bank carried out the following work in 2008:

*Fulfillment of  
financial  
advisor  
functions*

- Consultative assistance to the Government of the Kyrgyz Republic when preparing and considering the draft of the republican budget;
- Regular provision of information for the President, the Jogorku Kenesh and the Government on the monetary policy implementation issues, and on the status of banking and payment systems;
- Provision of analytical information on financial market condition;
- Review of bills and other regulatory and legal acts and the decisions on the financial and banking issues or the jurisdiction of the National Bank;
- Involvement in the development and implementation of a number of state programs.

Provision of recommendations to the Government in relation to membership of the Kyrgyz Republic in the international and interstate institutions and examination

*Examination  
of agreements*

of the following international contracts, agreements on the financial or banking issues:

- The draft Agreement on Investment Promotion and Protection between the members of the Organization of the Islamic Conference;
- The draft Agreement on Investment Promotion and Protection between the Governments of the Kyrgyz Republic and the United Arab Emirates;
- The draft Agreement on Investment Promotion and Protection between the Government of the Latvian Republic and the Government of the Kyrgyz Republic;
- The draft Agreement on Investment Promotion and Protection between the Governments of the Kyrgyz Republic and Japan;
- The draft Agreement on Investment Promotion and Protection between the Governments of the Kyrgyz Republic and Italy;
- The draft Agreement on Investment Promotion and Protection between the Government of the Slovak Republic and the Government of the Kyrgyz Republic, as well as other drafts of agreements and other documents developed as required by membership of the Kyrgyz Republic in the CIS, EurAsEC, SCO and other international organizations.

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

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

According to the Law “On the National Bank of the Kyrgyz Republic”, internal audit of the NBKR is conducted by its Internal Audit Division, which is the integral part of the internal control system.

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

*Legal  
framework*

Performance evaluation of the NBKR’s internal control system is based on the principles recommended by the Basel Committee on Banking Supervision.

As part of the work on optimization of the organizational structure of the NBKR, at the beginning of 2008, the Internal Audit Division was assigned the additional function of conducting audits.

Planning of audit and review inspections of 2008 was done through the analysis of operational risks inherent in the activity of any central bank. Proceeding from the results of audit and review inspections and in order to reduce the risks, internal auditors and inspectors gave 211 recommendations directed to improvement of activities of structural units and the internal control system. The recommendations

*Consolidation  
of activities*

accepted for implementation allow minimizing the risks inherent in activity of the bank.

The work continued in 2008 on implementation of the Deloitte & Touché auditing company's recommendations regarding improvement of activity of the NBKR's internal audit service under the earlier conducted independent review of its activity.

According to the Risk Management Concept, the internal audit division, in concert with the Committee on Risks, considered the updated cards on risk management. The cards submitted for consideration as to risk management of NBKR's structural units are directed to identify the risks and develop measures for their minimization, thereby eventually aiming at enhancing efficiency in the activity of the NBKR.

*Interaction  
with the Risk  
Committee*

In 2008, the Audit Committee of the NBKR, whose members are three independent experts, whose activity is not connected with that of the NBKR, and two Board Members of the NBKR, had eight meetings to consider the issues and take the decisions on its terms of reference according to the assigned tasks and functions. The primary goals of the Committee are to adequately apply the accounting standards, to exercise supervision over quality of financial statements, to assist in development of the effective internal control system, and to maintain relations with external auditors and interaction with the internal audit division.

*Interaction  
with the Audit  
Committee*

The same way as in the previous years, cooperation of internal audit services of CIS and Baltic central banks continued within the framework of annual advisory meetings directed to implementation and use of the advanced practice of arranging audits. The issues relating to development of internal audit services of CIS and Baltic central banks were discussed at the meeting of the Advisory Council chaired by the National Bank of the Republic of Tajikistan. Chairmanship at the next meeting of the Advisory Council of 2009 was transferred to the National Bank of the Republic of Georgia.

*Activity under  
the CIS and  
Baltic  
Advisory  
Council*

## **6.5 Public Information**

In 2008, as in the previous years, the National Bank of the Kyrgyz Republic continued its work on enhancement of transparency of its activity, informing the public of activities of the National Bank and explain financial and banking sector developments in the republic. The public was informed by means of informative, statistical, and analytical issues, placement of data on the web-site of the NBKR, publications in the mass media, regular television and radio broadcasts, briefings and press conferences with involvement of the NBKR management, as well as the informative and educational programs.

*Transparency  
of activity*

The NBKR management regularly gave the mass media and the public briefings and held the press conferences, devoted to the most prominent aspects of bank's activity. Special attention was paid in the year of account to the issues of monetary policy, supervisory activity, the payment system reform, international

*Informing the  
mass media  
about the  
NBKR activity*



reserves management, impacts of the world financial crisis, and other issues.

The monetary policy issues were covered by holding the traditional monthly press conferences involving the NBKR management. Practice of preparing handouts for the mass-media representatives including a chronicle of basic events in NBKR' activity and the basic macroeconomic parameters was developed further in the accounting period. A press release was issued in December on the results of the discussion by the Board of the NBKR of monetary policy effects and the draft of the monetary program for the forthcoming period.

The NBKR continued to inform the public of progress in implementation of the State Program on Introduction of Non-Cash Payment System in 2008. Separate columns in the television broadcast "Natsbank Soobschayet" and in the radio broadcast "Uluttuk Bank Bildiret" were devoted to this subject and provided an explanation for the State Program goals and objectives and described progress in implementation of individual components of the Payment System Modernization Project. The progress report on implementation of the State Program was published in the official NBKR's publications, on the web-site of the NBKR and in the mass-media. The actions taken by the bank were covered in the NBKR's Press Release.

*Non-cash  
payment  
system*

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

*Elkart*

The questions concerning the issue of regulating commercial banking and the lawmaking activity of the NBKR were brought to the notice of the public by means of basically the publications in the Press Release of explanations for the regulatory and legal acts adopted by the NBKR. The topical issues of banking sector development were discussed on pages of domestic analytical magazines. Furthermore, the press conferences were organized involving the representatives of the Administration of the President of the Kyrgyz Republic in cases of signing by the President of some of the orders concerning maintenance of the bank deposit protection system.

*Banking  
system  
development*

Much attention was paid to promotion of new banking products, namely, to implementation of Islamic financing principles. An interview was organized in May 2008 in a telecast devoted to Islamic principles of financing. Answers to the questions made during this telecast were published in the Press Release of the NBKR in the column "The NBKR Public Chamber Answers Your Questions".

*Islamic  
financing  
principles*

The progress report on the actions taken under the Mid-Term Microfinancing Development Strategy in the Kyrgyz Republic for 2006-2010 was covered in the Press Release of the NBKR, the telecast "Natsbank Soobschayet" and the radio broadcast "Uluttuk Bank Bildiret"; information on development of credit unions and the need for accelerating efforts of credit unions in their practice of attracting the

*Development  
of  
microfinancing*

resources of their participants and on the measures undertaken by the National Bank for creating the progress report in their activity

Due to issue of circulating coins in January 2008, the National Bank launched an information campaign and the following was done as part of this campaign: information was placed in the printed media; hire of video clips was arranged on TV; calendars and posters with a picture and description of characteristics of circulating coins were printed and disseminated; addresses of NBKR experts and specialists of its regional departments were arranged on national and local TV and radio.

Circulating  
coins

The National Bank made the presentation on the souvenir collection banknotes in the form of uncut sheets in the mass-media and to the public, and started to sell them to the population. Issue and sale of uncut sheets of banknotes is practiced by many central (national) banks.

The briefing was given in December of the accounting year on issuance of memorable collection coins of the series “Kyrgyzstan on the Great Silk Road” and the memorable collection coin “Bishkek” of the series “Capitals of EurAsEC Countries”.

Numismatic  
coins

The collection coins of the series “Kyrgyzstan on the Great Silk Road” are devoted to the most ancient monuments of the Great Silk Road - a tower of Burana, Tashrabad, and the Uzgen Architectural Complex, located in the territory of Kyrgyzstan.

The subject of the 15<sup>th</sup> anniversary of national currency - the Kyrgyz Som - took a special place in NBKR’s information activity. As part of the 15<sup>th</sup> anniversary of introduction of national currency, the meeting of NBKR Chairman was held with the students of leading high schools of the country at the Kyrgyz-Russian Slavic University. The Chairman of the National Bank described at this meeting a history of national currency and stages of its development and answered the numerous questions of students; the NBKR Deputy Chairman gave a lecture on NBKR roles and functions as the central bank of the country.

Som is the  
face of  
Kyrgyzstan

A number of thematic articles on national currency, prepared by the staff of the National Bank were published in the republican press; hire of video clips was organized on TV; a banner is placed on the official web-site of the NBKR with information on the celebration of the 15<sup>th</sup> anniversary of the national currency.

In concert with the Kyrgyz radio, the cycle of live programs devoted to the anniversary of the Som, was organized to tell, in detail, about historical and economic preconditions of introduction of own national currency in the Kyrgyz Republic, about the cash turnover; about the basic monetary policy instruments and the role of the NBKR in implementation of this monetary policy; and about the Som banknote security features and issue of circulating coins, etc.

The NBKR management and staff informed radio listeners in their live radio broadcast of progress in implementation of the State Program on Introduction of Non-

Cash Payment System and answered the questions concerning the process of organizing cash and non-cash payments, the salary projects, and the outlook for development of the payment system of the republic, as well as described the commercial banking system development trends. They also answered the questions of radio listeners on lending and interest rates, mechanisms of the deposit protection system, enlargement of the spectrum of services provided by the commercial banks, and the outlook for development of the banking system as a whole.

The integral part of the work on maintenance of interaction of the National Bank with the population is that of activity of the Public Chamber, which functions both in the central office of the NBKR, and in each regional department and the Batken Representative Office of the bank. Its activity is focused, first of all, on: consultative assistance and provision of information to the population on all of the issues appertaining to the National Bank; the meetings of the public with the NBKR management and experts on the topical issues of the banking and financial sphere; the work with written requests and bids (totally, about nine thousand requests were received in 2008, of which the number of written requests made 919).

Public  
Chamber

The major subjects of written requests received by the National Bank during 2008 were those of data requests for the official exchange rates of foreign currencies vis-à-vis the Kyrgyz Som and the discount rate fixed by the NBKR, the procedure for opening nonbank finance and credit institutions, as well as the procedures of exchanging worn currency, arranging the cash turnover, and purchasing the GT-Bills.

Furthermore, the NBKR experts prepare and give consultations concerning the procedure of receipt of credits for various objectives, including mortgage lending, explanations of “bank-client” legal mutual relations, regulations of bank and nonbank institutions, the procedure of repaying the deposits and savings deposits by the bankrupt banks, arranging the cash turnover, sending remittances, explaining the specific monetary policy issues, foreign exchange market condition, the questions concerning the gold and foreign exchange reserves, external debt, as well as the impacts of the world financial crisis on the banking system of the country.

The National Bank was visited by deputies of the Jogorku Kenesh of the Kyrgyz Republic, the members of its Committee for Economy, Budget and Finance. Parliamentarians met with the NBKR management, familiarized themselves with activities of some of the leading structural units, the functioning of the NBKR’s automated trading systems for conducting the operations in the interbank foreign exchange market and the secondary market of government securities, as well as with the process of destruction of worn currency.

Meetings and  
seminars

In 2008, the NBKR continued holding the traditional familiarization seminars on the following subjects: “Role and Functions of the NBKR as the Central Bank of the Country”. These seminars were held for the students of economic faculties of higher educational institutions, and excursions were organized on NBKR’s numismatic exhibits. The objective of the seminar is to explain to the public National Bank’s activity, its role in monetary policy implementation, as well as to increase the level of understanding of economic processes by the population.

The NBKR's regional departments continued undertaking the actions as part of the traditional information and educational campaign called "Som is the Face of Kyrgyzstan". The experts of the Jalalabat, Naryn, Osh and Talas Regional Departments gave pupils of secondary schools and the students of high schools various lectures about the national currency, about security features of the Som, and combat with coinage offence, about the procedure of exchanging worn currency, arranging the cash turnover, and about the banking system of the Kyrgyz Republic. Competitions were offered for the best composition and the best painting on the following subject: "History of the National Currency". The Naryn Regional Department organized a radio quiz about the national currency. Information posters about the procedure of exchanging worn national currency are disseminated throughout all of the oblasts of the republic.

# III

## **FINANCIAL STATEMENTS FOR 2008**

# **NATIONAL BANK OF THE KYRGYZ REPUBLIC**

**Financial Statements**  
For the Year Ended 31 December 2008

# NATIONAL BANK OF THE KYRGYZ REPUBLIC

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# **NATIONAL BANK OF THE KYRGYZ REPUBLIC**

## **STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008**

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

Management of the National Bank is responsible for the preparation of the financial statements that present fairly the financial position of the National Bank as at 31 December 2008, the results of its operations, cash flows and changes in equity for the year then ended, in accordance with the Accounting Policy of the National Bank based on International Financial Reporting Standards ("IFRS").

In preparing the financial statements, management is responsible for:

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

Management is also responsible for:

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

The financial statements for the year ended 31 December 2008 were authorized for issue on 9 April 2009 by Management.

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**Alapaev M.O.**  
**Chairman**  
9 April 2009

Bishkek  
Kyrgyz Republic

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**Aidarkulov Sh. A.**  
**Chief accountant**  
9 April 2009

Bishkek  
Kyrgyz Republic



## 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 "National Bank"), which comprise the balance sheet as at 31 December 2008, the income statement, the statements of changes in equity and cash flows 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 in accordance with the basis of preparation as described in Note 3 to the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' responsibility

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

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

## Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects the financial position of the National Bank as at 31 December 2008, and its financial performance and cash flows for the year then ended in accordance with the basis of preparation as described in Note 3 to the financial statements.

DELOITTE & TOUCHE, LTD

9 April 2009

Bishkek, Kyrgyz Republic

# NATIONAL BANK OF THE KYRGYZ REPUBLIC

## BALANCE SHEET AS AT 31 DECEMBER 2008 (in KGS and in thousands)

	Notes	31 December 2008	31 December 2007
<b>ASSETS:</b>			
Precious metals	6	2 785 358	2 467 527
Due from banks and other financial institutions	7	22 615 524	26 034 108
Investments available-for-sale	8	22 234 147	12 959 655
Investments held to maturity	9, 27	3 505 088	4 094 161
Investments in subsidiaries	10, 27	15 000	28 000
Property, equipment and intangible assets	11	562 771	536 402
Other assets	12	742 524	528 206
<b>TOTAL ASSETS</b>		<b>52 460 412</b>	<b>46 648 059</b>
<b>LIABILITIES AND EQUITY</b>			
<b>LIABILITIES:</b>			
Banknotes and coins in circulation	13	30 803 279	27 561 852
Due to banks and other financial institutions	14, 27	4 395 994	4 022 231
Accounts of the Government of the Kyrgyz Republic	27	4 774 147	5 438 446
Amounts payable under sale and repurchase agreements	15	-	195 499
Debt securities issued	16	1 641 751	1 426 507
Loans received	17, 27	6 762 686	5 548 876
Other liabilities	18	181 033	78 640
Total liabilities		48 558 890	44 272 051
<b>EQUITY:</b>			
Charter capital	19	300 000	50 000
Required reserves		1 282 357	1 193 530
Precious metals and foreign currency revaluation reserve		1 183 329	-
Investments available-for-sale fair value reserve		29 286	3 054
Retained earnings		1 106 550	1 129 424
Total equity		3 901 522	2 376 008
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>52 460 412</b>	<b>46 648 059</b>

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**Alapaev M. O.**  
Chairman

9 April 2009  
Bishkek  
Kyrgyz Republic

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**Aidarkulov Sh. A.**  
Chief accountant

9 April 2009  
Bishkek  
Kyrgyz Republic

The notes on pages 9-37 form an integral part of these financial statements.

# NATIONAL BANK OF THE KYRGYZ REPUBLIC

## INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2008 (in KGS and in thousands)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
Interest income	20, 27	2 110 558	1 760 700
Interest expense	20, 27	<u>(311 379)</u>	<u>(297 617)</u>
<b>NET INTEREST INCOME</b>		<u>1 799 179</u>	<u>1 463 083</u>
Fee and commission income		10 379	8 310
Fee and commission expense		<u>(1 324)</u>	<u>(5 118)</u>
<b>NET FEE AND COMMISSION INCOME</b>		<u>9 055</u>	<u>3 192</u>
(Provision)/recovery of provision for impairment losses on assets	21	(318 875)	36 497
Net gain on precious metals and foreign exchange operations	22	86 028	31 027
Other income	27	<u>25 528</u>	<u>5 477</u>
<b>NET NON-INTEREST (EXPENSE)/INCOME</b>		<u>(207 319)</u>	<u>73 001</u>
<b>OPERATING INCOME</b>		<u>1 600 915</u>	<u>1 539 276</u>
Administrative expenses	23	(354 855)	(278 447)
Expenses related to issuance of banknotes and coins in circulation		(139 510)	(131 405)
<b>OPERATING EXPENSES</b>		<u>(494 365)</u>	<u>(409 852)</u>
<b>NET PROFIT</b>		<u>1 106 550</u>	<u>1 129 424</u>

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# NATIONAL BANK OF THE KYRGYZ REPUBLIC

## STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2008

(in KGS and in thousands)

	Notes	Charter capital	Required reserves	Precious metals and foreign currency revaluation reserve	Investments available-for-sale fair value reserve	Retained earnings	Total equity
<b>31 December 2006</b>		50 000	1 069 423	-	(320)	413 690	1 532 793
Distribution of prior year net profit to the Government budget		-	-	-	-	(289 583)	(289 583)
Transfer of prior year net profit to reserves		-	124 107	-	-	(124 107)	-
Net unrealized losses on precious metals and foreign currency		-	-	(73 114)	-	-	(73 114)
Transfer of net unrealized losses on precious metals and foreign currency to income statement		-	-	73 114	-	-	73 114
Unrealized gain on investments available-for-sale		-	-	-	3 374	-	3 374
Net profit		-	-	-	-	1 129 424	1 129 424
<b>31 December 2007</b>		<u>50 000</u>	<u>1 193 530</u>	<u>-</u>	<u>3 054</u>	<u>1 129 424</u>	<u>2 376 008</u>
Distribution of prior year net profit to the Government budget	19	-	-	-	-	(790 597)	(790 597)
Transfer of prior year net profit to reserves		-	338 827	-	-	(338 827)	-
Transfer of reserves to charter capital	19	250 000	(250 000)	-	-	-	-
Unrealized income on precious metals and foreign currency		-	-	1 183 329	-	-	1 183 329
Unrealized gain on investments available-for-sale		-	-	-	26 232	-	26 232
Net profit		-	-	-	-	1 106 550	1 106 550
<b>31 December 2008</b>		<u>300 000</u>	<u>1 282 357</u>	<u>1 183 329</u>	<u>29 286</u>	<u>1 106 550</u>	<u>3 901 522</u>

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# NATIONAL BANK OF THE KYRGYZ REPUBLIC

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2008 (in KGS and in thousands)

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Interest and fee and commission received		1 356 771	1 525 337
Interest and fee and commission paid		(223 761)	(116 807)
Realized gain on foreign exchange operations		99 514	104 141
Other income		33 886	24 917
Payroll expenses		(164 148)	(132 035)
Administrative expenses		(268 299)	(325 069)
		<hr/>	<hr/>
Cash inflow from operating activities before changes in operating assets and liabilities		833 963	1 080 484
Changes in operating assets and liabilities (Increase)/decrease in operating assets:			
Due from banks and other financial institutions		(3 617 143)	4 080 063
Investments available for sale		(8 533 857)	(4 556 913)
Other assets		950	(21 513)
Increase/(decrease) in operating liabilities:			
Banknotes and coins in circulation		3 241 426	7 652 103
Due to banks and other financial institutions		172 614	802 979
Accounts of Government of the Kyrgyz Republic		(492 755)	532 898
Debt securities issued		215 245	1 362 564
Other liabilities		99 204	1 016
		<hr/>	<hr/>
Net cash(outflow)/inflow from operating activities		(8 080 353)	10 933 681
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property, equipment and intangible assets		(112 764)	(132 544)
Proceeds on sale of subsidiaries		13 000	-
Proceeds on redemption of investments held to maturity		379 342	81 262
Interest received on investments held-to-maturity		98 049	80 503
Dividends received	27	2 143	1 309
		<hr/>	<hr/>
Net cash inflow from investing activities		379 770	30 530

# NATIONAL BANK OF THE KYRGYZ REPUBLIC

## STATEMENT OF CASH FLOWS (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2008 *(in KGS and in thousands)*

	Notes	Year ended 31 December 2008	Year ended 31 December 2007
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds on loans received		1 637 592	164 024
Repayments on loans received		<u>(905 870)</u>	<u>(990 029)</u>
Net cash inflow/(outflow) from financing activities		<u>731 722</u>	<u>(826 005)</u>
Effect of changes in foreign exchange rate fluctuations on cash and cash equivalents		<u>507 153</u>	<u>(503 248)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(6 461 708)	9 634 958
CASH AND CASH EQUIVALENTS, beginning of year	7	<u>17 715 863</u>	<u>8 080 905</u>
CASH AND CASH EQUIVALENTS, end of year	7	<u><u>11 254 155</u></u>	<u><u>17 715 863</u></u>

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**Chairman**

9 April 2009  
Bishkek  
Kyrgyz Republic

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**Aidarkulov Sh. A.**  
**Chief accountant**

9 April 2009  
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# NATIONAL BANK OF THE KYRGYZ REPUBLIC

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008 *(in KGS and in thousands)*

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### 1. ORGANIZATION

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

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

The basic functions of the Bank include:

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

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

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

As at 31 December 2008 and 2007 the National Bank has 5 regional departments and a representative office operating in oblasts of the Kyrgyz Republic.

As at 31 December 2008 and 2007 the number of the National Bank employees was 600 and 577, respectively.

These financial statements were authorized for issue by the Management Board of the National Bank on 9 April 2009.

### 2. OPERATING ENVIRONMENT IN THE KYRGYZ REPUBLIC

In recent years, the Kyrgyz Republic has undergone substantial political, economic and social changes. As an emerging market, the Kyrgyz Republic does not possess a well-developed business and regulatory infrastructure that would generally exist in more developed market economies. As a result operations in the Kyrgyz Republic involve risks that are not typically associated with those in developed markets.

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



### **3. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

#### **Accounting basis**

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

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

- Precious metals are carried at market value and the total net unrealized gain from the mark to market of precious metals and foreign currency assets and liabilities revaluation is recognized directly in equity. The total net unrealized loss from the mark to market of gold and silver and foreign currency assets and liabilities revaluation is recognized in the income statement except to the extent that it reverses a previous net unrealized gain, in which case it is recognized directly in equity.
- Subsidiaries of the National Bank are not consolidated into the financial statements of the National Bank. Investments in subsidiaries are temporal and 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.

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

#### **Functional currency**

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

### **4. SIGNIFICANT ACCOUNTING POLICIES**

#### **Recognition and measurement of financial instruments**

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

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

## **Cash and cash equivalents**

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

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

## **Precious metals**

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

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

## **Due from banks and other financial institutions**

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

## **Investments available-for-sale**

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

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

## **Investments held to maturity**

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

## **Allowance for impairment losses**

### *Assets carried at amortized cost*

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

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

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

#### *Available-for-sale financial assets*

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

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

### **Derecognition of financial assets and liabilities**

#### *Financial assets*

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

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

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

#### *Financial liabilities*

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

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

## **Property, equipment and intangible assets**

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

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

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

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

## **Taxation**

The National Bank is liable for tax free regime in regards to corporate income tax. All compulsory payments to the budget, which are assessed on the National Bank's activities, are paid in accordance with the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic". According to the Tax Code, the National Bank pays taxes as an agent. These taxes are included as a component of administrative expenses in the income statement.

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

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

## **Charter capital and reserves**

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

Required reserves have been created through capitalization of net profit upon its distribution. Required reserves are recognized at cost. Based on amendment to the Law "On the National Bank of the Kyrgyz Republic" #87 as at 16 May 2008 general reserves were eliminated through the replenishment of charter capital and required reserves.

## **Recognition of income and expense**

### *Recognition of interest income and expense*

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

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

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

#### *Recognition of fee and commission income and expense*

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

#### **Foreign currency translation**

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

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

#### **Rates of exchange**

The exchange rates used by the National Bank in the preparation of the financial statements as at 31 December 2008 and 2007 are as follows:

	<b>31 December 2008</b>	<b>31 December 2007</b>
som/US dollar	39.4181	35.4988
som/euro	55.4790	52.0111
som/special drawing rights	60.8466	55.6362
som/Canadian dollar	32.4723	36.1790
som/Australian dollar	26.9955	31.0561
som/Swiss franc	36.6799	31.2723
som/Great Britain pound sterling	58.2067	70.8396

#### **Financial depositary functions**

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

#### **Areas of significant management judgment and sources of estimation uncertainty**

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

### *Valuation of Financial Instruments*

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

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

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

### **Adoption of new and revised standards**

In the current year, the National Bank has adopted all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB that are relevant to its operations and effective for annual reporting periods ending on 31 December 2008. The adoption of these new and revised Standards and Interpretations has not resulted in significant changes to the National Bank's accounting policies that have affected the amounts reported for the current or prior years.

Amendments to IAS 1 "Capital Disclosures" ("IAS 1") – On 18 August 2005, the IASB issued an amendments to IAS 1 which requires certain disclosures to be made regarding the entity's objectives, policies and processes for managing capital. Additional information was disclosed in the financial statements for the current and comparative reporting periods as required by amended IAS 1.

Amendments to IAS 39, "Financial Instruments: Recognition and Measurement", and IFRS 7, "Financial Instruments: Disclosures", titled "Reclassification of Financial Assets" – On 13 October 2008 IASB issued amendments to IAS 39 and IFRS 7 which permits certain reclassifications of non-derivative financial assets (other than those designated as at fair value through profit or loss at initial recognition under the fair value option) out of the fair value through profit or loss category and also allow reclassification of financial assets from the available for sale category to the loans and receivables category in particular circumstances. The amendments to IFRS 7 introduce additional disclosure requirements if an entity has reclassified financial assets in accordance with the amendments to IAS 39. The amendments are effective as of 13 October 2008 and in certain circumstances can be applied retrospectively from 1 July 2008.

## 5. RECLASSIFICATIONS

Certain reclassifications have been made to the financial statements as at 31 December 2007 and for the year then ended to conform to the presentation as at 31 December 2008 and for the year then ended as current year presentation provides better view of the financial position of the National Bank.

Nature of reclassification	Amount	Before reclassification	After reclassification
Current accounts in banks and other financial institutions	8 277	17 632 754	17 641 031
Term deposits in banks and other financial institutions	(8 277)	8 510 859	8 502 582
General reserves	(1 093 530)	1 093 530	-
Required reserves	1 093 530	100 000	1 193 530

## 6. PRECIOUS METALS

Precious metals comprise:

	31 December 2008	31 December 2007
Gold in deposits	2 833 091	2 467 336
Silver in deposits	155	191
	<u>2 833 246</u>	<u>2 467 527</u>
Allowance for impairment losses	(47 888)	-
<b>Total precious metals</b>	<u><u>2 785 358</u></u>	<u><u>2 467 527</u></u>

Weight of gold and silver has not changed and as of 31 December 2008 and 2007 are 83,090 ounces and 364 ounces respectively.

Movements in allowance for impairment losses on precious metals for the years ended 31 December 2008 and 2007 are disclosed in Note 21.

## 7. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Due from banks comprise:

	31 December 2008	31 December 2007
Term deposits	11 960 529	8 502 582
Current accounts	10 986 933	17 641 031
Accrued interest	52 973	27 735
	<u>23 000 435</u>	<u>26 171 348</u>
Allowance for impairment losses	(384 911)	(137 240)
<b>Total due from banks and other financial institutions</b>	<u><u>22 615 524</u></u>	<u><u>26 034 108</u></u>

Movements in allowance for impairment losses on balances due from banks and other financial institutions for the years ended 31 December 2008 and 2007 are disclosed in Note 21.

As at 31 December 2008 and 2007 the National Bank had balances due from 3 and 5 banks, respectively, which individually exceeded 10% of total balance due from banks and other financial institutions.

As at 31 December 2008 and 2007 the maximum credit risk exposure on due from banks and other financial institutions amounted to KGS 22 615 524 thousand and KGS 26 034 108 thousand, respectively.

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

	<b>31 December 2008</b>	<b>31 December 2007</b>
Due from banks	10 986 933	17 641 031
Cash on hand in foreign currency	<u>267 222</u>	<u>74 832</u>
<b>Total cash and cash equivalents</b>	<u><u>11 254 155</u></u>	<u><u>17 715 863</u></u>

## 8. INVESTMENTS AVAILABLE-FOR-SALE

Investments available-for-sale comprise:

	<b>31 December 2008</b>		<b>31 December 2007</b>	
	<b>Nominal interest rate</b>	<b>Fair value</b>	<b>Nominal interest rate</b>	<b>Fair value</b>
<b>At fair value:</b>				
Debt instruments – Quoted <i>Debt securities of the International Financial Organizations</i>	1.45%	13 755 663	4.18%	9 379 637
<i>Australian Treasury Bonds</i>	5.34%	5 228 239	6.82%	1 238 904
<i>Germany Treasury Bonds</i>	3.36%	2 850 917	2.83%	2 341 114
<i>US Treasury Bonds</i>	1.25%	<u>399 328</u>	-	<u>-</u>
<b>Total investments available-for-sale</b>		<u><u>22 234 147</u></u>		<u><u>12 959 655</u></u>

## 9. INVESTMENTS HELD TO MATURITY

	<b>31 December 2008</b>		<b>31 December 2007</b>	
	<b>Nominal interest rate</b>	<b>Amount</b>	<b>Nominal interest rate</b>	<b>Amount</b>
<b>Unpledged debt securities</b>				
<i>Kyrgyz Republic Treasury Bonds</i>	15.19%	<u>3 505 088</u>	9.70%	<u>3 899 228</u>
<b>Debt securities pledged under sale and repurchase agreements</b>				
<i>Kyrgyz Republic Treasury Bonds</i>	-	<u>-</u>	6.15%	<u>194 933</u>
<b>Total investments held to maturity</b>		<u><u>3 505 088</u></u>		<u><u>4 094 161</u></u>

As at 31 December 2007 investments held to maturity amounted to KGS 194 933 thousand were pledged as collateral under sale and repurchase agreements.



## 10. INVESTMENTS IN SUBSIDIARIES

As at 31 December 2008 and 2007 investments in subsidiaries comprise:

	<b>31 December 2008</b>		<b>31 December 2007</b>	
	<b>Ownership interest</b>	<b>Carrying value</b>	<b>Ownership interest</b>	<b>Carrying value</b>
Financial Company for Support and Development of Credit Unions LLC	100%	15 000	100%	15 000
Interbank Processing Center CJSC	-	-	68%	13 000
		<u>15 000</u>		<u>28 000</u>

The financial statements of the subsidiary companies listed above have not been consolidated into these financial statements in accordance with the National Bank's accounting policies. The National Bank plans to dispose of the investment in Financial Company for Support and Development of Credit Unions in the near future.

## 11. PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

	Buildings and constructions	Furniture and equipment	Computers	Vehicles	Equipment for installation and construction in progress	Intangible assets	Total
<b>At initial cost</b>							
31 December 2006	104 335	66 502	108 445	21 703	236 195	53 199	590 379
Additions	45 876	9 454	15 109	333	57 308	4 464	132 544
Transfers	7 594	26 856	42 153	-	(105 816)	29 213	-
Disposals	(1 927)	(18 533)	(19 622)	(4 096)	(14)	-	(44 192)
31 December 2007	155 878	84 279	146 085	17 940	187 673	86 876	678 731
Additions	18 733	21 375	5 221	16 525	48 729	4 262	114 845
Transfers	1 646	3 635	16 329	-	(48 363)	26 753	-
Disposals	(1 331)	(7 310)	(12 662)	(8 191)	(362)	(1 471)	(31 327)
31 December 2008	174 926	101 979	154 973	26 274	187 677	116 420	762 249
<b>Accumulated depreciation and impairment</b>							
31 December 2006	21 495	30 060	30 894	11 502	-	13 402	107 353
Charge for the year	5 262	14 809	23 030	3 666	-	17 154	63 921
Eliminated on disposals	(692)	(18 459)	(5 698)	(4 096)	-	-	(28 945)
31 December 2007	26 065	26 410	48 226	11 072	-	30 556	142 329
Charge for the year	5 968	18 620	29 043	5 896	-	28 582	88 109
Eliminated on disposals	(1 331)	(7 305)	(12 662)	(8 191)	-	(1 471)	(30 960)
31 December 2008	30 702	37 725	64 607	8 777	-	57 667	199 478
<b>Net book value</b>							
<b>As at 31 December 2008</b>	<u>144 224</u>	<u>64 254</u>	<u>90 366</u>	<u>17 497</u>	<u>187 677</u>	<u>58 753</u>	<u>562 771</u>
<b>As at 31 December 2007</b>	<u>129 813</u>	<u>57 869</u>	<u>97 859</u>	<u>6 868</u>	<u>187 673</u>	<u>56 320</u>	<u>536 402</u>

Intangible assets are represented with software and license agreements.

## 12. OTHER ASSETS

Other assets comprise:

	31 December 2008	31 December 2007
<b>Other financial assets:</b>		
Non-performing loans to banks and other institutions	408 181	384 317
Cash on hand in foreign currency	267 222	74 832
Loans to employees	52 794	51 778
Other assets	18 791	24 684
	<u>746 988</u>	<u>535 611</u>
Allowance for impairment losses	<u>(405 947)</u>	<u>(381 132)</u>
Other financial assets	<u>341 041</u>	<u>154 479</u>
<b>Other non-financial assets:</b>		
Inventory	320 104	310 201
Prepayments	71 821	55 026
Other assets	9 558	8 500
	<u>742 524</u>	<u>528 206</u>
<b>Total other assets</b>	<u><u>742 524</u></u>	<u><u>528 206</u></u>

Movements in allowance for impairment losses on other assets for the years ended 31 December 2008 and 2007 are disclosed in Note 21.

## 13. BANKNOTES AND COINS IN CIRCULATION

Banknotes and coins in circulation comprise:

	31 December 2008	31 December 2007
Banknotes and coins in circulation	31 429 550	28 046 665
Banknotes and coins in operating cash	<u>(626 271)</u>	<u>(484 813)</u>
<b>Total banknotes and coins in circulation</b>	<u><u>30 803 279</u></u>	<u><u>27 561 852</u></u>

## 14. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

Due to banks and other financial institutions comprise:

	31 December 2008	31 December 2007
Current accounts of commercial banks	3 883 559	4 022 231
Term deposits of banks and other financial institutions	<u>512 435</u>	<u>-</u>
<b>Total due to banks and other financial institutions</b>	<u><u>4 395 994</u></u>	<u><u>4 022 231</u></u>

As at 31 December 2008 and 2007 the National Bank had balances due to banks and other financial institutions, which individually exceeded 10% of net assets of the National Bank:

	31 December 2008	31 December 2007
AsiaUniversalBank OJSC	957 663	907 261
Bank Bakai OJSC	622 451	-
Demir Kyrgyz International Bank CJSC	444 142	406 105
ATFBank-Kyrgyzstan OJSC	390 257	419 354
BTA Bank CJSC	<u>-</u>	<u>639 539</u>
	<u><u>2 414 513</u></u>	<u><u>2 372 259</u></u>

## 15. AMOUNTS PAYABLE UNDER SALE AND REPURCHASE AGREEMENTS

As at 31 December 2008 and 2007 amounts payable under sale and repurchase agreements comprise:

	<b>31 December 2008</b>	<b>31 December 2007</b>
Amounts payable under sale and repurchase agreements	-	195 499
<b>Total amounts payable under sale and repurchase agreements</b>	<u>-</u>	<u>195 499</u>

## 16. DEBT SECURITIES ISSUED

Debt securities issued comprise:

	<b>31 December 2008</b>	<b>31 December 2007</b>
Debt securities issued	1 641 751	1 426 507
<b>Total debt securities issued</b>	<u>1 641 751</u>	<u>1 426 507</u>

As at 31 December 2008 and 2007 debt securities issued included balances with following counterparties, which individually exceeded 10% of the total balance on debt securities issued:

	<b>31 December 2008</b>	<b>31 December 2007</b>
AsiaUniversalBank OJSC	375 587	-
Demir Kyrgyz International Bank CJSC	348 071	-
Issyk-Kul Investment Bank OJSC	218 341	
BTA Bank CJSC	-	564 910
ATFBank-Kyrgyzstan CJSC	-	409 553
Bank Bakai OJSC	-	136 789
	<u>941 999</u>	<u>1 111 252</u>

As at 31 December 2008 and 2007 accrued interest expense included in debt securities issued amounted to KGS 7 526 thousand and KGS 2 480 thousand, respectively.

## 17. LOANS RECEIVED

Loans received comprise:

	<b>Currency</b>	<b>Maturity</b>	<b>31 December 2008</b>	<b>31 December 2007</b>
Funding by International Monetary Fund	SDR	2010	6 499 390	5 275 091
Funding by the Ministry of Finance of the Kyrgyz Republic	US dollars	2016	138 824	125 388
Funding by European Bank for Reconstruction and Development	US dollars	2012	124 472	148 397
<b>Total loans received</b>			<u>6 762 686</u>	<u>5 548 876</u>

As at 31 December 2008 and 2007 accrued interest expense included in other borrowed funds amounted to KGS 6 544 thousand and KGS 6 185 thousand, respectively.

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

## 18. OTHER LIABILITIES

Other liabilities comprise:

	31 December 2008	31 December 2007
<b>Other financial liabilities:</b>		
Accumulated account for forming of charter capital of commercial banks	100 000	-
Amounts due to the central banks of the CIS	50 449	53 700
Accounts payable	18 918	15 515
Other liabilities	396	962
	<hr/>	<hr/>
Other financial liabilities	169 763	70 177
	<hr/>	<hr/>
<b>Other non-financial liabilities:</b>		
Future periods income	11 270	8 194
Prepayments	-	269
	<hr/>	<hr/>
<b>Total other liabilities</b>	<u>181 033</u>	<u>78 640</u>

## 19. CHARTER CAPITAL

As at 31 December 2008 and 2007 charter capital of the National Bank established by the Law “On the National Bank of the Kyrgyz Republic” amounted to KGS 300 000 thousand and KGS 50 000 thousand, respectively.

On 30 June 2008 an increase of the charter capital of KGS 250 000 thousand through transfer from general reserves was approved by the management of the National Bank based on amendment to the Law “On National Bank of the Kyrgyz Republic” as at 16 May 2008 (Note 4).

Amounts distributable to the budget of the Government of the Kyrgyz Republic are limited to the net profit earned by the National Bank for the year. In accordance with the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” 70% of net profit of the National Bank is allocated to the budget of the Kyrgyz Republic, while 30% is retained by the National Bank as general reserves. On 22 April 2008 the net profit distributable to the budget of the Government of the Kyrgyz Republic earned for the year 2007 in the amount of KGS 790 597 thousand was approved.

Non-distributable reserves are represented with required reserves created as required by the statutory regulations, in respect of general banking risks, including future losses and other unforeseen risks or contingencies. These reserves are created in accordance with the Law “On the National Bank of the Kyrgyz Republic” providing for creation of such reserves for above-mentioned purposes in the amount limited to the monetary liabilities of the National Bank. On 30 June 2008 based on amendment to the Law “On the National Bank of the Kyrgyz Republic” as of 16 May 2008 (Note 4) an increase of required reserves through transfer of general reserves in the amount of KGS 1 182 357 thousand was approved.

## 20. NET INTEREST INCOME

	Year ended 31 December 2008	Year ended 31 December 2007
<b>Interest income comprises:</b>		
Interest on due from banks and other financial assets	746 622	1 104 930
Interest on investments held-to-maturity	721 964	235 448
Interest on investments available-for-sale	621 491	413 084
Interest on other financial assets	20 481	7 238
	<hr/>	<hr/>
Total interest income	2 110 558	1 760 700
	<hr/>	<hr/>
<b>Interest expense comprises:</b>		
Interest on debt securities issued	122 305	15 473
Interest on accounts of Government of the Kyrgyz Republic	91 036	184 829
Interest on due to banks and other financial institutions	42 768	35 358
Interest on loans received	36 081	42 685
Interest on amount payable under sale and repurchase agreements	16 371	17 779
Interest on other financial liabilities	2 818	1 493
	<hr/>	<hr/>
Total interest expense	311 379	297 617
	<hr/>	<hr/>
<b>Net interest income</b>	<u>1 799 179</u>	<u>1 463 083</u>

## 21. ALLOWANCE FOR IMPAIRMENT LOSSES ON FINANCIAL ASSETS

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

	Precious metals	Due from banks and other financial institutions	Other financial assets	Total
<b>31 December 2006</b>	-	147 995	398 924	546 919
Recovery of reserves	-	(10 755)	(25 742)	(36 497)
Recoveries of assets previously written off	-	-	7 950	7 950
	<hr/>	<hr/>	<hr/>	<hr/>
<b>31 December 2007</b>	-	137 240	381 132	518 372
Additional provisions recognized	47 888	247 671	23 316	318 875
Recoveries of assets previously written off	-	-	1 499	1 499
	<hr/>	<hr/>	<hr/>	<hr/>
<b>31 December 2008</b>	<u>47 888</u>	<u>384 911</u>	<u>405 947</u>	<u>838 746</u>

## 22. NET GAIN ON PRECIOUS METALS AND FOREIGN EXCHANGE OPERATIONS

Net gain on precious metals and foreign exchange operations:

	Year ended 31 December 2008	Year ended 31 December 2007
Net realized gain on foreign exchange operations	86 028	104 141
Net unrealized loss on revaluation of precious metals and foreign currency	-	(73 114)
<b>Total net gain on precious metals and foreign exchange operations</b>	<b>86 028</b>	<b>31 027</b>

## 23. ADMINISTRATIVE EXPENSES

Administrative expenses comprise:

	Year ended 31 December 2008	Year ended 31 December 2007
Employee compensations	137 298	109 408
Depreciation and amortization	88 109	63 921
Repair and maintenance	42 550	34 534
Contribution to the Social Fund	26 850	22 627
Staff training	9 641	6 168
Subscription	8 893	9 087
Communication	8 867	9 171
Professional services	7 554	6 272
Entertainment expenses	5 816	3 964
Travel expenses	5 791	4 912
Stationery	3 840	3 047
Other	9 646	5 336
	<b>354 855</b>	<b>278 447</b>

## 24. COMMITMENTS AND CONTINGENCIES

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

As at 31 December 2008 and 2007 the total quantity of customer securities recorded at the National Bank's depositary accounts amounted to 28 075 218 and 17 332 623, respectively.

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

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

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

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

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

As at 31 December 2008 the National Bank has financial assets amounting to KGS 51 481 158 thousand (KGS 45 709 930 thousand as at 31 December 2007). The recoverability of these financial assets depends to a large extent on the efficacy of the fiscal measures and other measures and other actions, beyond the National Bank’s control, undertaken within various countries to achieve economic stability and recovery. The recoverability of the National Bank’s financial assets is determined based on conditions prevailing and information available as at balance sheet date. It is the management’s opinion that no additional provision on financial assets is needed at present, based on prevailing conditions and available information.

## 25. AGENCY FUNCTIONS

### **Membership quota of the Kyrgyz Republic in the International Monetary Fund**

In 1992 the Kyrgyz Republic joined the International Monetary Fund (the “IMF”). A membership quota expressed in Special Drawing Rights (“SDRs”) is assigned to each member of the IMF. The membership quota is the basis for determining access of the country to IMF financing. The quota of the Kyrgyz Republic as at 31 December 2007 and 2006 amounted to SDR 88 800 012.

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



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

	<b>31 December 2008</b>	<b>31 December 2007</b>
IMF membership quota	<u>5 391 457</u>	<u>5 212 828</u>
Securities in favor of the IMF	5 377 675	5 199 502
IMF current accounts	<u>13 782</u>	<u>13 326</u>
	<u><u>5 391 457</u></u>	<u><u>5 212 828</u></u>

#### **Loan from International Development Association**

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

	<b>31 December 2008</b>	<b>31 December 2007</b>
Recycle account	-	121 737
Loans to commercial banks	<u>3 474</u>	<u>7 193</u>
	<u><u>3 474</u></u>	<u><u>128 930</u></u>

#### **Loan from the Export and Credit Bank of Turkey**

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

The outstanding amounts payable by the Government of the Kyrgyz Republic to Eximbank under debt restructuring agreement were KGS 1 972 917 thousand and KGS 1 750 827 thousand as at 31 December 2008 and 2007, respectively.

## **26. SUBSEQUENT EVENTS**

Based on a decree of the President of the Kyrgyz Republic "On arrangements on procurement of stability of the banking system of the Kyrgyz Republic" as of 8 January 2009 the National Bank formed the Specialized Fund on Refinancing of Banks of the Kyrgyz Republic (the "Fund") with 50% paid charter capital of KGS 4 000 000 thousand. The main activity of the Fund is supporting and financing of real sector of the economy through commercial banks operating in the Kyrgyz Republic.

On February 3, 2009 Agreement on provision of grant to Kyrgyzstan by Russia was signed between Ministry of Finance of the Kyrgyz Republic and Ministry of Finance of the Russian Federation. Under this agreement, on April 1, 2009 the Government of the Russian Federation provided Kyrgyz Republic with grant in the amount of USD 150 million (equivalent KGS 5 912 715 thousand) for supporting the state budget of Kyrgyz Republic. These funds were transferred to the USD account of the Ministry of Finance of Kyrgyz Republic at National Bank.

## 27. TRANSACTIONS WITH RELATED PARTIES

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. Details of transactions between the National Bank and other related parties are disclosed below:

	31 December 2008		31 December 2007	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
Investments held-to-maturity				
- <i>Government of the Kyrgyz Republic</i>	3 505 088	3 505 088	4 094 161	4 094 161
Investments in subsidiaries				
- <i>subsidiaries</i>	15 000	15 000	28 000	28 000
Due to banks and other financial institutions				
- <i>entities under the joint control with the National Bank</i>	388 822	4 395 994	217 966	4 022 231
Accounts of the Government of the Kyrgyz Republic				
- <i>Government of the Kyrgyz Republic</i>	4 774 147	4 774 147	5 438 446	5 438 446
Loans received				
- <i>entities under the joint control with the National Bank</i>	138 824	6 762 686	125 388	5 548 876

The remuneration and due from members of the Management Board were as follows:

	31 December 2008		31 December 2007	
	Related party balances	Total category as per financial statements caption	Related party balances	Total category as per financial statements caption
<b>Key management personnel compensation for the year:</b>				
Short-term employee benefits	7 556	137 298	6 548	109 408
<b>Due from key management personnel:</b>				
Loans to employees	5 347	52 794	4 949	51 778

Included in the income statement for the years ended 31 December 2008 and 2007 are the following amounts which arose due to transactions with related parties:

	Year ended 31 December 2008		Year ended 31 December 2007	
	Related party transactions	Total category as per financial statements caption	Related party transactions	Total category as per financial statements caption
Interest income				
- <i>Government of the Kyrgyz Republic</i>	721 964	2 110 558	235 448	1 760 700
Interest expense				
- <i>Government of the Kyrgyz Republic and entities under the joint control with the National Bank</i>	111 992	311 379	188 438	297 617
Other income				
- <i>subsidiaries</i>	2 143	25 528	1 309	5 477

## 28. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments are made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. Fair value is defined as the amount at which the instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm’s length transaction, other than in forced or liquidation sale. As no readily available market exists for some of the National Bank’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument. The Management of the National Bank estimates that the carrying value of all assets and liabilities approximates their fair value.

The fair value of unquoted investments in subsidiaries with a carrying value of KGS 15 000 thousand (2007: KGS 28 000 thousand) could not be determined (Note 10).

## 29. RISK MANAGEMENT POLICIES

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

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

### *Credit risk*

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

Credit risk management in the National Bank is implemented through continual monitoring, control and observation over the risk sources. For this purpose the National Bank draw up criteria and requirements on counterparties and limitations on financial instruments and amounts of assets as well.

The National Bank sets up a level of its credit risk based on determined maximum exposure and geographic segments.

### **Maximum exposure to credit risk per one counterparty**

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

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

	31 December 2008		31 December 2007	
	Maximum exposure to credit risk per one counterparty	Total category as per financial statements caption	Maximum exposure to credit risk per one counterparty	Total category as per financial statements caption
Precious metals	1 193 383	2 785 358	1 039 316	2 467 527
Due from banks and other financial institutions	6 236 984	22 615 524	8 583 274	26 034 108
Investments available-for-sale	13 755 663	22 234 147	9 379 637	12 959 655
Investments held-to-maturity	3 505 088	3 505 088	4 094 161	4 094 161

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

To minimize credit risk the National Bank uses risk management policy which establishes limitations on counterparties of the National Bank. In accordance with the policy only central banks, financial institutions and commercial banks with high ratings per Moody's Investors Service classification or similar ratings per classification of other leading world rating agencies (Standard & Poor's Corporation, Fitch IBCA) may be counterparties of the National Bank.

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

Category A

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

Category B

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

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

The following table details the credit ratings of financial assets held by the National Bank as at 31 December 2008:

	<b>Aaa</b>	<b>Aa</b>	<b>A</b>	<b>Baa</b>	<b>&lt;Baa</b>	<b>Not rated</b>	<b>Total at 31 December 2008</b>
Precious metals	681 933	2 103 425	-	-	-	-	2 785 358
Due from banks and other financial institutions	17 948 108	4 649 029	-	13 650	4 737	-	22 615 524
Investments available-for- sale	22 234 147	-	-	-	-	-	22 234 147
Investments held-to- maturity	-	-	-	-	-	3 505 088	3 505 088
Other financial assets	-	-	-	-	-	341 041	341 041

As at 31 December 2007:

	<b>Aaa</b>	<b>Aa</b>	<b>A</b>	<b>Baa</b>	<b>&lt;Baa</b>	<b>Not rated</b>	<b>Total at 31 December 2007</b>
Precious metals	2 467 527	-	-	-	-	-	2 467 527
Due from banks and other financial institutions	22 519 669	3 508 966	-	-	5 473	-	26 034 108
Investments available-for- sale	12 959 655	-	-	-	-	-	12 959 655
Investments held-to- maturity	-	-	-	-	-	4 094 161	4 094 161
Other financial assets	-	-	-	-	-	154 479	154 479

### ***Geographical concentration***

The Investment Committee of the National Bank exercises control over the risk in the legislation and regulatory arena and assesses its influence on the National Bank's activity. This approach allows the National Bank to minimize potential losses from the investment climate fluctuations in the countries where the National Bank's currency reserves are placed.

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

	<b>Kyrgyz Republic</b>	<b>OECD countries</b>	<b>Non-OECD countries</b>	<b>International financial institutions</b>	<b>31 December 2008 Total</b>
<b>FINANCIAL ASSETS</b>					
Precious metals	-	2 785 358	-	-	2 785 358
Due from banks and other financial institutions	-	20 415 874	13 650	2 186 000	22 615 524
Investments available-for-sale	-	22 234 147	-	-	22 234 147
Investments held-to-maturity	3 505 088	-	-	-	3 505 088
Other financial assets	341 041	-	-	-	341 041
<b>TOTAL FINANCIAL ASSETS</b>	<b>3 846 129</b>	<b>45 435 379</b>	<b>13 650</b>	<b>2 186 000</b>	<b>51 481 158</b>
<b>FINANCIAL LIABILITIES</b>					
Banknotes and coins in circulation	30 803 279	-	-	-	30 803 279
Due to banks and other financial institutions	4 381 764	-	-	14 230	4 395 994
Accounts of the Government of the Kyrgyz Republic	4 774 147	-	-	-	4 774 147
Debt securities issued	1 641 751	-	-	-	1 641 751
Loans received	138 825	-	-	6 623 861	6 762 686
Other financial liabilities	119 314	-	50 449	-	169 763
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>41 859 080</b>	<b>-</b>	<b>50 449</b>	<b>6 638 091</b>	<b>48 547 620</b>
<b>NET POSITION</b>	<b>(38 012 951)</b>	<b>45 435 379</b>	<b>(36 799)</b>	<b>(4 452 091)</b>	
	<b>Kyrgyz Republic</b>	<b>OECD countries</b>	<b>Non-OECD countries</b>	<b>International financial institutions</b>	<b>31 December 2007 Total</b>
<b>FINANCIAL ASSETS</b>					
Precious metals	-	2 467 527	-	-	2 467 527
Due from banks and other financial institutions	-	25 542 900	1 269	489 939	26 034 108
Investments available-for sale	-	12 959 655	-	-	12 959 655
Investments held-to-maturity	4 094 161	-	-	-	4 094 161
Other financial assets	154 479	-	-	-	154 479
<b>TOTAL FINANCIAL ASSETS</b>	<b>4 248 640</b>	<b>40 970 082</b>	<b>1 269</b>	<b>489 939</b>	<b>45 709 930</b>
<b>FINANCIAL LIABILITIES</b>					
Banknotes and coins in circulation	27 561 852	-	-	-	27 561 852
Due to banks and other financial institutions	4 014 001	-	-	8 230	4 022 231
Accounts of the Government of the Kyrgyz Republic	5 438 446	-	-	-	5 438 446
Amounts payable under sale and repurchase agreements	195 499	-	-	-	195 499
Debt securities issued	1 426 507	-	-	-	1 426 507
Loans received	125 388	-	-	5 423 488	5 548 876
Other financial liabilities	16 477	-	53 700	-	70 177
<b>TOTAL FINANCIAL LIABILITIES</b>	<b>38 778 170</b>	<b>-</b>	<b>53 700</b>	<b>5 431 718</b>	<b>44 263 588</b>
<b>NET POSITION</b>	<b>(34 529 530)</b>	<b>40 970 082</b>	<b>(52 431)</b>	<b>(4 941 779)</b>	

### *Liquidity risk*

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

An analysis of the liquidity risk is presented in the following table. The presentation below is based upon the internal information:

	<b>Up to 1 month</b>	<b>1 month to 3 months</b>	<b>3 month to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Maturity undefined</b>	<b>31 December 2008 Total</b>
<b>FINANCIAL ASSETS</b>							
Precious metals	-	-	-	-	-	2 785 358	2 785 358
Due from banks and other financial institutions	16 945 874	5 155 904	484 375	-	-	-	22 586 153
Investments available-for- sale	6 781 947	9 162 977	4 858 007	1 431 216	-	-	22 234 147
Investments held-to- maturity	10 102	452 950	764 109	566 387	1 711 540	-	3 505 088
<b>Total interest bearing financial assets</b>	<b>23 737 923</b>	<b>14 771 831</b>	<b>6 106 491</b>	<b>1 997 603</b>	<b>1 711 540</b>	<b>2 785 358</b>	<b>51 110 746</b>
Due from banks and other financial institutions	29 371	-	-	-	-	-	29 371
Other financial assets	275 543	1 100	6 085	24 970	33 343	-	341 041
<b>Total financial assets</b>	<b>24 042 837</b>	<b>14 772 931</b>	<b>6 112 576</b>	<b>2 022 573</b>	<b>1 744 883</b>	<b>2 785 358</b>	<b>51 481 158</b>
<b>FINANCIAL LIABILITIES</b>							
Due to banks and other financial institutions	34 257	-	-	-	-	-	34 257
Accounts of the Government of the Kyrgyz Republic	4 374 479	-	-	-	-	-	4 374 479
Debt securities issued	1 421 408	193 500	26 843	-	-	-	1 641 751
Loans received	129 482	277 826	668 324	3 514 283	2 172 771	-	6 762 686
<b>Total interest bearing financial liabilities</b>	<b>5 959 626</b>	<b>471 326</b>	<b>695 167</b>	<b>3 514 283</b>	<b>2 172 771</b>	<b>-</b>	<b>12 813 173</b>
Banknotes and coins in circulation	-	-	-	-	-	30 803 279	30 803 279
Due to banks and other financial institutions	4 361 737	-	-	-	-	-	4 361 737
Accounts of the Government of the Kyrgyz Republic	399 668	-	-	-	-	-	399 668
Other financial liabilities	110 936	-	8 378	-	-	50 449	169 763
<b>Total financial liabilities</b>	<b>10 831 967</b>	<b>471 326</b>	<b>703 545</b>	<b>3 514 283</b>	<b>2 172 771</b>	<b>30 853 728</b>	<b>48 547 620</b>
Liquidity gap	13 210 870	14 301 605	5 409 031	(1 491 710)	(427 888)		
Interest sensitivity gap	17 778 297	14 300 505	5 411 324	(1 516 680)	(461 231)		
Cumulative interest sensitivity gap	17 778 297	32 078 802	37 490 126	35 973 446	35 512 215		
Cumulative interest sensitivity gap as a percentage of total assets	35%	62%	73%	70%	69%		

	Up to 1 month	1 month to 3 months	3 month to 1 year	1 year to 5 years	Over 5 years	Maturity undefined	31 December 2007 Total
<b>FINANCIAL ASSETS</b>							
Precious metals	-	-	-	-	-	2 467 527	2 467 527
Due from banks and other financial institutions	24 532 802	1 487 529	395	249	-	-	26 020 975
Investments available-for- sale	5 243 333	7 716 322	-	-	-	-	12 959 655
Investments held-to- maturity	5 511	52 610	685 870	709 312	2 025 867	-	3 479 170
Total interest bearing financial assets	29 781 646	9 256 461	686 265	709 561	2 025 867	2 467 527	44 927 327
Due from banks and other financial institutions	13 133	-	-	-	-	-	13 133
Investments held-to- maturity	-	614 991	-	-	-	-	614 991
Other financial assets	85 835	3 044	5 139	23 250	37 211	-	154 479
<b>Total financial assets</b>	<b>29 880 614</b>	<b>9 874 496</b>	<b>691 404</b>	<b>732 811</b>	<b>2 063 078</b>	<b>2 467 527</b>	<b>45 709 930</b>
<b>FINANCIAL LIABILITIES</b>							
Due to banks and other financial institutions	4 014 001	-	-	-	-	-	4 014 001
Accounts of the Government of the Kyrgyz Republic	5 119 782	-	-	-	-	-	5 119 782
Amounts payable under sale and repurchase agreements	195 499	-	-	-	-	-	195 499
Debt securities issued	1 389 083	37 424	-	-	-	-	1 426 507
Loans received	139 507	188 829	560 603	4 114 869	545 068	-	5 548 876
Total interest bearing financial liabilities	10 857 872	226 253	560 603	4 114 869	545 068	-	16 304 665
Banknotes and coins in circulation	-	-	-	-	-	27 561 852	27 561 852
Due to banks and other financial institutions	8 230	-	-	-	-	-	8 230
Accounts of the Government of the Kyrgyz Republic	-	318 664	-	-	-	-	318 664
Other financial liabilities	13 267	-	3 210	-	-	53 700	70 177
<b>Total financial liabilities</b>	<b>10 879 369</b>	<b>544 917</b>	<b>563 813</b>	<b>4 114 869</b>	<b>545 068</b>	<b>27 615 552</b>	<b>44 263 588</b>
Liquidity gap	19 001 245	9 329 579	127 591	(3 382 058)	1 518 010		
Interest sensitivity gap	18 923 774	9 030 208	125 662	(3 405 308)	1 480 799		
Cumulative interest sensitivity gap	18 923 774	27 953 982	28 079 644	24 674 336	26 155 135		
Cumulative interest sensitivity gap as a percentage of total assets	41%	61%	61%	54%	57%		

### *Average effective interest rates*

The table below displays average effective interest rates on assets and liabilities of the National Bank as at 31 December 2008 and 2007.

	Average effective interest rates 2008	Average effective interest rates 2007
<b>Assets:</b>		
<b>Interest bearing financial assets</b>		
Precious metals	0.15%	0.03%
Due from banks and other financial institutions	2.95%	4.35%
Investments available-for-sale	3.87%	4.61%
Investments held to maturity	21.16%	5.67%
<b>Liabilities:</b>		
<b>Interest bearing financial liabilities</b>		
Due to banks and other financial institutions	1.04%	1.14%
Amounts payable under sale and repurchase agreements	10.49%	4.61%
Debt securities issued	11.73%	5.61%
Accounts of the Government of the Kyrgyz Republic	1.92%	3.05%
Loans received	0.63%	0.71%

### **Market risk**

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

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

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

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

#### *Interest rate risk*

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

#### *Currency risk*

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

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



## Interest rate sensitivity

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

Impact on profit before tax based on asset values as at 31 December 2008 and 31 December 2007:

	As at 31 December 2008		As at 31 December 2007	
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
<b>FINANCIAL ASSETS:</b>				
Due from banks and other financial institutions	109 619	(109 619)	176 407	(176 407)
Investments available-for-sale	(61 349)	61 991	(13 797)	9 412
Investments held-to-maturity	18 045	(18 045)	24 052	(24 052)
<b>FINANCIAL LIABILITIES</b>				
Due to banks and other financial institutions	(342)	342	-	-
Accounts of the Government of the Kyrgyz Republic	(43 745)	43 745	(54 203)	54 203
Loans received	(1 230)	1 230	(54 214)	54 214
Net impact on profit	<u>20 998</u>	<u>(20 356)</u>	<u>78 245</u>	<u>(82 630)</u>

## Currency risk

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

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

	KGS	USD USD 1= KGS 39.4181	EUR EUR 1= KGS 55.4790	SDR SDR 1= KGS 60.8466	CAD CAD 1= KGS 32.4723	AUD AUD 1= KGS 26.9955	CHF CHF 1= KGS 36.6799	GBP GBP 1= KGS 58.2067	Other currency	31 December 2008 Total
<b>FINANCIAL ASSETS</b>										
Precious metals	-	-	-	-	-	-	-	-	2 785 358	2 785 358
Due from banks and other financial institutions	-	6 697 166	5 922 116	2 186 000	3 461 839	18 630	1 664 227	2 650 965	14 581	22 615 524
Investments available-for-sale	-	5 316 659	8 353 691	-	487 183	5 525 225	2 551 389	-	-	22 234 147
Investments held-to-maturity	3 505 088	-	-	-	-	-	-	-	-	3 505 088
Other financial assets	70 455	242 846	27 740	-	-	-	-	-	-	341 041
<b>Total financial assets</b>	<b>3 575 543</b>	<b>12 256 671</b>	<b>14 303 547</b>	<b>2 186 000</b>	<b>3 949 022</b>	<b>5 543 855</b>	<b>4 215 616</b>	<b>2 650 965</b>	<b>2 799 939</b>	<b>51 481 158</b>
<b>FINANCIAL LIABILITIES</b>										
Banknotes and coins in circulation	30 803 279	-	-	-	-	-	-	-	-	30 803 279
Due to banks and other financial institutions	3 786 985	609 009	-	-	-	-	-	-	-	4 395 994
Accounts of the Government of the Kyrgyz Republic	2 905 352	18 228	224 488	-	1 612 489	-	-	-	13 590	4 774 147
Amounts payable under sale and repurchase agreements	-	-	-	-	-	-	-	-	-	-
Debt securities issued	1 641 751	-	-	-	-	-	-	-	-	1 641 751
Loans received	-	263 296	-	6 499 390	-	-	-	-	-	6 762 686
Other financial liabilities	119 251	63	-	-	-	-	-	-	50 449	169 763
<b>Total financial liabilities</b>	<b>39 256 618</b>	<b>890 596</b>	<b>224 488</b>	<b>6 499 390</b>	<b>1 612 489</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>64 039</b>	<b>48 547 620</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>35 681 075)</b>	<b>11 366 075</b>	<b>14 079 059</b>	<b>4 313 390)</b>	<b>2 336 533</b>	<b>5 543 855</b>	<b>4 215 616</b>	<b>2 650 965</b>	<b>2 735 900</b>	
<b>FINANCIAL ASSETS</b>										
Precious metals	-	-	-	-	-	-	-	-	2 467 527	2 467 527
Due from banks and other financial institutions	-	7 258 389	6 500 324	489 939	4 309 617	1 140 756	2 005 702	4 327 882	1 499	26 034 108
Investments available-for-sale	-	3 518 775	6 040 688	-	-	2 855 960	350 798	193 434	-	12 959 655
Investments held-to-maturity	4 094 161	-	-	-	-	-	-	-	-	4 094 161
Other financial assets	72 040	56 433	26 006	-	-	-	-	-	-	154 479
<b>Total financial assets</b>	<b>4 166 201</b>	<b>10 833 597</b>	<b>12 567 018</b>	<b>489 939</b>	<b>4 309 617</b>	<b>3 996 716</b>	<b>2 356 500</b>	<b>4 521 316</b>	<b>2 469 026</b>	<b>45 709 930</b>
<b>FINANCIAL LIABILITIES</b>										
Banknotes and coins in circulation	27 561 852	-	-	-	-	-	-	-	-	27 561 852
Due to banks and financial institutions	3 935 181	87 050	-	-	-	-	-	-	-	4 022 231
Accounts of the Government of the Kyrgyz Republic	2 159 620	482 800	231 049	-	2 564 977	-	-	-	-	5 438 446
Amounts payable under sale and repurchase agreements	195 499	-	-	-	-	-	-	-	-	195 499
Debt securities issued	1 426 507	-	-	-	-	-	-	-	-	1 426 507
Loans received	-	273 785	-	5 275 091	-	-	-	-	-	5 548 876
Other financial liabilities	15 515	206	756	-	-	-	-	-	53 700	70 177
<b>Total financial liabilities</b>	<b>35 294 174</b>	<b>843 841</b>	<b>231 805</b>	<b>5 275 091</b>	<b>2 564 977</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>53 700</b>	<b>44 263 588</b>
<b>OPEN BALANCE SHEET POSITION</b>	<b>31 127 973)</b>	<b>9 989 756</b>	<b>12 335 213</b>	<b>4 785 152)</b>	<b>1 744 640</b>	<b>3 996 716</b>	<b>2 356 500</b>	<b>4 521 316</b>	<b>2 415 326</b>	

### *Currency risk sensitivity*

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

Impact on net profit and equity of currency risk sensitivity of financial instruments as at 31 December 2008 and 31 December 2007 is presented below:

	<b>As at 31 December 2008</b>		<b>As at 31 December 2007</b>	
	<b>KGS/USD +10%</b>	<b>KGS/USD -10%</b>	<b>KGS/USD +10%</b>	<b>KGS/USD -10%</b>
Impact on profit or loss	1 136 608	(1 136 608)	998 976	(998 976)

	<b>As at 31 December 2008</b>		<b>As at 31 December 2007</b>	
	<b>KGS/EUR +10%</b>	<b>KGS/EUR -10%</b>	<b>KGS/EUR +10%</b>	<b>KGS/EUR -10%</b>
Impact on profit or loss	1 407 906	(1 407 906)	1 233 521	(1 233 521)

	<b>As at 31 December 2008</b>		<b>As at 31 December 2007</b>	
	<b>KGS/SDR +10%</b>	<b>KGS/SDR -10%</b>	<b>KGS/SDR +10%</b>	<b>KGS/SDR -10%</b>
Impact on profit or loss	(431 339)	431 339	(478 515)	478 515

	<b>As at 31 December 2008</b>		<b>As at 31 December 2007</b>	
	<b>KGS/CAD +10%</b>	<b>KGS/CAD -10%</b>	<b>KGS/CAD +10%</b>	<b>KGS/CAD -10%</b>
Impact on profit or loss	233 653	(233 653)	174 464	(174 464)

	<b>As at 31 December 2008</b>		<b>As at 31 December 2007</b>	
	<b>KGS/AUD +10%</b>	<b>KGS/AUD -10%</b>	<b>KGS/AUD +10%</b>	<b>KGS/AUD -10%</b>
Impact on profit or loss	554 386	(554 386)	399 672	(399 672)

	<b>As at 31 December 2008</b>		<b>As at 31 December 2007</b>	
	<b>KGS/CHF +10%</b>	<b>KGS/CHF -10%</b>	<b>KGS/CHF +10%</b>	<b>KGS/CHF -10%</b>
Impact on profit or loss	421 562	(421 562)	235 650	(235 650)

	<b>As at 31 December 2008</b>		<b>As at 31 December 2007</b>	
	<b>KGS/GBP +10%</b>	<b>KGS/GBP -10%</b>	<b>KGS/GBP +10%</b>	<b>KGS/GBP -10%</b>
Impact on profit or loss	265 097	(265 097)	452 132	(452 132)

*Limitations of sensitivity analysis*

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

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

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

# IV

## ATTACHMENTS

### **Chronology of Major Events in the Monetary Sphere in 2008**

<b>Date</b>	<b>Events</b>
December 20, 2007	The Board of the NBKR considered and approved: <ul style="list-style-type: none"> <li>– Basic Monetary Policy Guidelines for 2008-2010;</li> <li>– Statement of the National Bank of the Kyrgyz Republic about Monetary Policy for 2009.</li> </ul>
January 24	The press conference was held in the KABAR Information Agency on preliminary performance of the National Bank in 2007. The NBKR Deputy Chairmen participated in the press conference.
January 31	The survey lecture was given in the National Bank to the students of the International University of Kyrgyzstan on the following subject: “The Impact of Coins on the Cash Turnover”.
February 12	The 15 <sup>th</sup> enlarged session of the working group on monitoring progress in implementation of the Medium-Term Microfinance Development Strategy of the Kyrgyz Republic for 2006-2010 was held in the National Bank. The representatives of the Presidential Administration, the Ministry of Justice, the State Register, the OJSC “Ayil Bank”, the microfinance organizations, the credit unions, the credit information bureau “Ishenim”, the Financial Company for Support and Development of Credit Unions, the USAID, the EBRD, and the GTZ participated in this meeting. Performance under the Action Plan on implementation of the Medium-Term Microfinance Development Strategy of the Kyrgyz Republic for 2006-2010 was discussed at this meeting, as well as the measures for its implementation in 2008.
February 13	The Board of the NBKR adopted the Resolution on the minimal size of authorized capital for the newly opened commercial banks.
February 15	The National Bank was visited by the deputies of the Jogorku Kenesh of the Kyrgyz Republic, members of the Committee for Economy, Budget and Finances. The parliamentarians met with the NBKR Board Members, familiarized themselves with activities of some of the leading structural units, the functioning of the NBKR’s automated trading systems for conducting the operations in the interbank foreign exchange market and the

secondary market of government securities, as well as with the process of destruction of worn currency.

- February 20 The Board of the NBKR considered and took note of the report on monetary policy for 2007 and the monetary program for the forthcoming period. The meeting was attended by heads of the Ministry of Finance and the Ministry of Economic Development and Trade, and by the representative of the Administration of the President as invitees.
- February 20 The Board of the NBKR considered and took note of information on the banking system development trends.
- February 25 The press conference was held in the KABAR Information Agency on the monetary policy effects in 2007, and was attended by the NBKR Deputy Chairman.
- February 25 to March 5 The IMF mission visited the Kyrgyz Republic to conduct the 6<sup>th</sup> Review of the PRGF program.
- February 27 The scientific and practical conference “Inflation Issues and Steady Economic Growth” was organized by the National Bank in concert with the Administration of the President of the Kyrgyz Republic. The objective of this conference was to discuss the problems of inflation and economic growth and work out the relevant recommendations. The representatives of the Administration of the President, the Jogorku Kenesh, organizations and departments of the republic, as well as the representatives of central banks, international financial institutions, independent experts, and the representatives of high schools took part in this conference.
- March 17 The Chairman of the NBKR met with the Advisor to the President of the Kyrgyz Republic, the Executive Director of the Central Asian Research Institute in Japan, the Member of the Board of Directors of the Mitsui Company, and a correspondent of the Asahi newspaper (Japan). At the meeting, parties discussed the current macroeconomic situation, the situation in the banking and financial sectors, the development outlook for the banking system, and the measures for curbing inflation.
- March 19 The press conference was held in the KABAR Information Agency with the NBKR Chairman on the monetary policy effects in January and February of 2008.

- March 19 The Board of the NBKR adopted the Resolution “On the Draft Resolution of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic “On the Joint Statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic on Basic Economic Policy Guidelines for 2008”;
- March 26 The Board of the NBKR adopted the Resolutions:
- On Report on Management of International Reserves for 2007 ;
  - On the Regulation “On the Structure of International Reserves of the National Bank of the Kyrgyz Republic in Quarter II of 2008”;
  - On the Regulation “On Corporate Management in the Commercial Banks of the Kyrgyz Republic”.
- March 31 The NBKR Chairman met with the delegation of the International Finance Corporation headed by its Vice President. The parties discussed in the course of the meeting the issues relating to the strategy of the Corporation in the finance and banking sectors of the republic, the amendments to the Tax Code, the VAT exemption for the leasing operations, in particular, as well as the issue of privatization of the OJSC “Ayil Bank”.
- April 22 The press conference was held in the KABAR Information Agency on the monetary policy effects for quarter I of 2008 with the NBKR Deputy Chairman.
- April 24 The meeting of the NBKR Chairman and the NBKR Deputy Chairman was held with the students of the leading high schools of the country at the Kyrgyz-Russian Slavic University (KRSU) on the following subjects: “The Role and Functions of the NBKR as the Central Bank of the Country” and “The History of the National Currency”. The meeting was held with the students of economic faculties of the Kyrgyz-Russian Slavic University, the Kyrgyz National University named after J. Balasagyn, the International University of Kyrgyzstan, and the American University in Central Asia, the Kyrgyz Turkish University “Manas”, and the Academy of Management under the President of the Kyrgyz Republic.
- April 25 The Board of the NBKR adopted the Resolutions:
- On Addenda to the Resolution of the Board of the NBKR “On Approval of New Version of Chart of Accounts in the



Commercial Banks and Other Finance and Credit Institutions of the Kyrgyz Republic” No 28/3 of 30 May 2007 , registered with the Ministry of Justice of the Kyrgyz Republic No 66-07 of 10 July 2007 ;

– On Addenda to the Resolution of the Board of the NBKR No 32/2 of 30 October 2006 “On the Regulation “On the Pilot Project on Introduction of Islamic Principles of Financing in the Kyrgyz Republic” registered with the Ministry of Justice of the Kyrgyz Republic No 120-06 of 30 November 2006.

May 14

The Board of the NBKR adopted the Resolutions:

– On Approval of Proposals on the Action Plan for 2008-2010 on Formation and Development of the Central Asian Center for Islamic Financial Services in Bishkek;

– On Approval of the Annual Report of the Financial Company for Support and Development of Credit Unions.

May 26

The round table discussions were held on the following subject: “Reform of the Regulatory and Legal Framework for Activity of Credit Unions”. The round table was initiated by the Committee for Economy, Budget and Finance of the Jogorku Kenesh of the Kyrgyz Republic jointly with the National Bank of the Kyrgyz Republic and the National Union of Credit Unions and Cooperatives.

May 28

The Board of the NBKR adopted the Resolutions:

– On the Monetary Policy Report for Quarter I of 2008 and the Monetary Program for the Forthcoming Period. Heads of the Ministry of Finance of the Kyrgyz Republic, Ministry of Economic Development and Trade of the Kyrgyz Republic, and the Administration of the President of the Kyrgyz Republic were invited to participate at the meeting;

– On the US Dollar Exchange Rate Applied for Calculations of Reserve Requirements;

– On the Commercial Banking System Development Trends for Quarter I of 2008 ;

– On the New Version of the Regulation “On Direct Banking Supervision”;

– On Amendments to the Resolution of the Board of the NBKR “On the Regulation “On Financial Statements Formulation and Submission Requirements for Nonbank Institutions Licensed by the National Bank of the Kyrgyz Republic” (certificates) of 27 December 2003 No 36/1, registered with the Ministry of Justice of the Kyrgyz Republic № 19-04 of 9 February 2004 ;

- On Candidate Requirements for Positions of Members of the Board of Directors and Other Positions in the Deposit Protection Agency;
  - On Approval of Candidacies for Positions of Members of the Board of Directors of the Deposit Protection Agency.
- June 10           The Board of the NBKR adopted the Resolutions:
- On Issue of Prior Permission for Reorganization through Merger of the OJSC “Kyrgyzpromstroibank” and “AsiaUniversalBank”;
  - On the Regulation “On the Procedure for the National Bank of the Kyrgyz Republic to Consider Bank’s Applications for Participation in the Deposit Protection System”.
- June 10           The Board of the NBKR approved the amendments and addenda to the Tax Code, the Law “On State Duty” and the Law “On Banks and Banking in the Kyrgyz Republic”. The amendments and addenda were introduced in order to bring the Tax Code and the mentioned Laws in conformity with the Law of the Kyrgyz Republic “On Protection of Bank Deposits” adopted in May 2008.
- June 19           The press conference was held in the KABAR Information Agency with the NBKR Deputy Chairman and was devoted to the monetary policy effects for 5 months of 2008.
- June 23           The NBKR Chairman met with the Executive Directors representing the Swiss group of countries in the World Bank and International Monetary Fund in the context of their visit to the Kyrgyz Republic. In the course of the meeting, the parties discussed the current macroeconomic situation in Kyrgyzstan and the monetary policy issues. The NBKR Chairman also participated in the meetings of Executive Directors with the President and Prime Minister of the Kyrgyz Republic. Issues of further cooperation of Kyrgyzstan with the WB and IMF were discussed at these meetings.
- June 26           The meeting was held in the National Bank on the subject “Macroeconomic Policy/Mitigation of Inflationary Shocks” within the framework of the Conference “Management of Short-Term Risks and Acceleration of Long-Term Economic Growth” organized by the World Bank jointly with the Government of the Kyrgyz Republic. The representatives of the Administration of the President, Office of the Government, a number of ministries of the economic block, and the international financial organizations took

part in the Conference.

June 27

The Board of the NBKR adopted the Resolutions:

- On the Regulation “On the Structure of International Reserves of the National Bank Of the Kyrgyz Republic for Quarter III of 2008”;

- On the Regulation “On Financial Statements Formulation Requirements for OJSC “EcoBank” on Outcome of Operations Conducted under Pilot Project on Introduction of Islamic Principles of Financing in the Kyrgyz Republic”;

- On Amendments and Addenda to the Regulation “On Licensing of Activity of Banks”;

- On Amendments and Addenda to the Resolution of the Board of the NBKR “On the Regulation “On Minimal Requirements of External Audit of Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic” No 22/2 of 12 July 2005 ;

- On Amendments and Addenda to the Resolution of the Board of the NBKR:

- On the Regulation “On Minimal Internal Control Implementation Requirements for Commercial Banks and Other Finance and Credit Institutions Licensed by the NBKR, Aimed at Combating Financing of Terrorism and Anti-Money Laundering” No 26/1 of 15 May 2007 ;

- On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On the Interim Instruction “On the Work with Deposits” No 4/4 of 19 February 2003 ;

- On Candidacy from the NBKR for Membership in the Board of Directors of the Development Fund of the Kyrgyz Republic.

July 3

The press conference was held in the KABAR Information Agency with the head of the Economic Policy Sector, Economic and Social Policy Division of the Administration of the President of the Kyrgyz Republic, the NBKR Chairman and the Minister of Economic Development and Trade. The participants in the press conference informed the public of signing by the President of the Kyrgyz Republic of a number of orders concerning the bank deposit protection system, food security, and development and promotion of priority and strategic sectors of the economy of the country.

July 4

The 16<sup>th</sup> session of the working group was held in Bishkek to

discuss performance under the “Mid-Term Microfinancing Development Strategy in the Kyrgyz Republic for 2006-2010” for the 1<sup>st</sup> half of 2008, as well as the draft amendments and addenda to the Laws: “On Microfinance Organizations in the Kyrgyz Republic”, “On Credit Unions” and the procedure of registering collateral, as well as the issues relating to the measures for selection and use of software for credit unions.

July 17 The Board of the NBKR considered and approved the draft Banking Sector Development Strategy till End-2011.

July 18 The press conference was held in the KABAR Information Agency with the NBKR Deputy Chairman, devoted to the monetary policy effects for the 1<sup>st</sup> half of 2008.

from July 22 to August 1 The IMF mission visited the Kyrgyz Republic in order to prepare the draft program of cooperation for the forthcoming three year period. During its visit, the mission met with the Prime Minister of the Kyrgyz Republic, the management and staff of the National Bank, Ministry of Finance, Ministry of Economic Development and Trade, and other departments.

July 30 The Board of the NBKR adopted the Resolutions:

- On the Draft Law of the Kyrgyz Republic “On Amendments to the Law of the Kyrgyz Republic “On Public and Private Debt of the Kyrgyz Republic”;
- On the Draft Law of the Kyrgyz Republic “On Amendments and Addenda to the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic”;
- On the Draft Law of the Kyrgyz Republic “On Amendments and Addenda to the Law of the Kyrgyz Republic “On Banks and Banking in the Kyrgyz Republic”.

August 21-28 The representatives of the National Bank of Switzerland studied practices of development and implementation of NBKR’s monetary policy and held the seminar on the monetary policy issues for the Board Members of the NBKR.

August 27 The Board of the NBKR adopted the Resolutions:

- On the Monetary Policy Report for the 1<sup>st</sup> Half of 2008 and on the Monetary Program for the Forthcoming Period;
- On the Commercial Banking System Development Trends in the Kyrgyz Republic;
- On Approval of the Regulation “On Calculations of the

Effective Interest Rate when Disseminating Information on the Banking Services Fee Rate”.

- September 17 The Board of the NBKR adopted the Resolutions:
- On Amendments and Addenda to the Resolution Board of the National Bank of the Kyrgyz Republic “On Approval of the Regulation “On the Procedure for Exchange of Foreign Currency in Cash in the Kyrgyz Republic” No 42/1 of 30 November 2000 ;
  - On Amendments and Addenda to the Resolution Board of the National Bank of the Kyrgyz Republic “On Several Regulatory and Legal Acts of the National Bank of the Kyrgyz Republic” No 26/5 of 25 August 2005.
- September 19-20 The Issyk-Kul 2008 banking round table discussion was held with the NBKR representatives, heads of commercial banks of Kyrgyzstan, members of the Union of Banks of Kyrgyzstan, as well as with the representatives of the Financial Intelligence Service, Deposit Protection Agency, Jogorku Kenesh and other invitees.
- September 30 The Board of the NBKR adopted the Resolutions:
- On the US Dollar Exchange Rate Applied for Calculations of Reserve Requirements;
  - On Revision of Compensatory Payments to Commercial Banks for Observance of Reserve Requirements;
  - On the Regulation “On the Structure of International Reserves of the National Bank Of the Kyrgyz Republic for Quarter 4 of 2008”;
  - On Addenda to the Law of the Kyrgyz Republic “On Licensing”;
  - On the Discount Rate of the NBKR and the Overnight Credit Interest Rate.
- October 11-14 The NBKR Chairman as one of the members of the Kyrgyz delegation participated in the Annual Meetings of the IMF and the World Bank in Washington, USA.
- October 22 The Board of the NBKR adopted the Resolutions:
- On Amendments to the Regulation “On Issue, Placement, Circulation and Redemption of Notes of the National Bank of the Kyrgyz Republic”;
  - On Amendments to the Regulation “On the Procedure of Holding Auctions on Placement of Government Treasury Bills of the Kyrgyz Republic via the NBKR”.

- October 23 The press conference was held in the KABAR Information Agency with the NBKR Deputy Chairman on the monetary policy effects for 9 months of 2008.
- October 22-30 The IMF mission visited the Kyrgyz Republic to discuss recent developments in the area of macroeconomics, elaboration of the monetary program and the draft program of joint cooperation of the Kyrgyz Republic with the IMF. During this visit, the IMF staff met with the Prime Minister of the Kyrgyz Republic, the leadership of the Ministry of Finance and the Ministry of Economic Development and Trade, the National Bank and other key ministries and departments. The parties discussed the draft economic program of the country and the guidelines for further cooperation of the Kyrgyz Republic with the IMF.
- November 3 The Board of the NBKR adopted the Resolution “On the Merger of the OJSC “Kyrgyzpromstroibank” with the OJSC “AsiaUniversalBank”.
- November 5 The Board of the NBKR adopted the Resolutions:
  - On Amendments to Regulatory and Legal Acts on Activity of Credit Unions;
  - On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic No 5/7 of 2 March 2006 «On Approval of the Regulation “On Licensing of Activity of Banks”, registered with the Ministry of Justice of the Kyrgyz Republic No 34-06 of 7 April 2006 ;
  - On the Banking Sector Development Strategy till End-2011.
- November 26 The Board of the NBKR adopted the Resolutions:
  - On the Monetary Policy Report for 9 Months of 2008 and the Monetary Program for the Forthcoming Period;
  - On Amendments to the Resolution Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic of 27 March 2008 No 102/11/2 “On the Joint Statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic “On Basic Economic Policy Guidelines for 2008”;
  - On the New Version of the Regulation “On Reserve Requirements”. The changes are connected with the transfer of commercial banks on 1 January 2008 to the independent Chart of Accounts;

- On Approval of the Regulation “On the Procedure of Placement, Repeated Tender, Additional Placement, Repurchase, Settlements on Government Treasury Bonds of the Kyrgyz Republic via the NBKR”;
  - On the Commercial Banking System Development Trends of the Kyrgyz Republic for 9 Months of 2008.
- November 28 The Board of the NBKR considered and approved the paper “Basic Monetary Policy Guidelines for 2009-2011”.
- December 10 The IMF Executive Board approved the program of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic for 2008-2009 under the Exogenous Shock Facility (ESF).
- December 4 The Jogorku Kenesh adopted the Law “On Amendments and Addenda to Several Legislative Acts of the Kyrgyz Republic”, relating to activity of credit unions. This draft Law was prepared by the working group comprising the representatives of the NBKR and associations of credit unions as part of the work to implement the “Mid-Term Microfinancing Development Strategy in the Kyrgyz Republic for 2006-2010”.
- December 15 The meeting of the President of the Kyrgyz Republic was held on December 15, 2008, in the Government House with the representatives of the banking sector of Kyrgyzstan. The Prime Minister of the Kyrgyz Republic, the representatives of the Government of the Kyrgyz Republic, the National Bank and the commercial banks participated in the meeting. The meeting was targeted to discuss the most vexed questions of the banking sphere, connected with the current financial situation and the crisis phenomena in the world economy.
- December 17 The Board of the NBKR approved the following documents:
- The Statement of the National Bank of the Kyrgyz Republic on Monetary Policy for 2009 ;
  - The Resolution “On Amendments and Addenda to the Resolution Board of 30 October 2006 “On the Regulation “On the Pilot Project on Introduction of Islamic Principles of Financing in the Kyrgyz Republic”, registered with the Ministry of Justice of the Kyrgyz Republic No 120-06 of 30 November 2006”.

**Appendix 2**  
**to the NBKR Report for 2008**

**Statistical Information (tables & charts)**

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Chart 2.	Rates of Growth of Consumer & Producer Prices
Chart 3.	Monetary Aggregates
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Chart 5.	Interest Rates
Chart 6.	Nominal and Real Effective Exchange Rates

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**Table 1.**

## Macroeconomic Indicators

	Unit of Measurement	2004	2005	2006	2007	2008
<b>Real sector <sup>1</sup></b>						
Nominal GDP	<i>som million</i>	94 350,7	100 899,2	113 800,1	141 897,7	185 013,6 *
Rate of growth of real GDP	<i>in percent</i>	7,0	-0,2	3,1	8,5	7,6 *
Rate of growth of industrial output	<i>in percent</i>	4,6	-12,1	-10,2	7,3	14,9
Rate of growth of gross agricultural	<i>in percent</i>	4,1	-4,2	1,7	1,5	0,7
Retail turnover	<i>som million</i>	48 401,7	57 683,5	70 875,6	85 896,2	123 262,0
Paid services	<i>som million</i>	14 267,0	16 050,1	19 691,8	24 671,0	-
Consumer prices (in % to December of the previous year)		2,8	4,9	5,1	20,1	20,0
- food products		2,2	9,8	6,7	31,5	20,9
- alcoholic beverages and tobacco products		-	-	2,5	9,1	13,0
- non-food products		3,2	2,0	4,6	9,8	16,0
- services		2,5	3,2	7,5	10,6	34,4
Producer's price (in % to December of the previous year)		4,4	6,8	10,4	20,5	17,4
Unemployment rate	<i>in percent</i>	2,9	3,3	3,5	3,3	2,9
Average nominal wage	<i>som</i>	2 202,9	2 569,5	3 058,6	3 990,0	5 422,0
Estimated minimal consumer budget	<i>som</i>	1 725,9	1 836,6	2 377,2	2 795,9	3 571,0
<b>Financial sector <sup>2</sup></b>						
NBKR discount rate (end of period)	<i>in percent</i>	4,0	4,1	3,2	8,8	15,2
Government Treasury Bills Market (average yield for the period)	<i>in percent</i>					
Maturity Period:						
- 3 months		5,0	4,4	4,8	4,8	12,7
- 6 months		6,5	5,2	5,7	5,7	14,3
- 12 months		10,3	6,3	7,0	7,0	15,2
- 18 months		-	9,7	9,9	9,6	15,2
- 24 months		-	15,6	13,2	11,4	16,4
Interbank Market						
Credits in National Currency:						
- volume ( for the period)	<i>som million</i>	674,1	1 208,1	3 109,6	1 644,7	2 372,0
- interest rate (average for the period)	<i>in percent</i>	4,8	3,2	2,8	3,2	7,6
Credits in Foreign Currency:						
- volume ( for the period)	<i>som million</i>	331,9	592,9	862,7	824,4	1 088,7
- interest rate (average for the period)	<i>in percent</i>	5,8	4,3	5,7	6,7	5,7
REPO Transactions						
- turnover volume	<i>som million</i>	3 191,2	5 035,6	7 465,9	6 988,9	6 864,1
- interest rate (average for the period)	<i>in percent</i>	5,0	4,0	3,3	3,9	8,9
Foreign Exchange Market						
Transactions at Interbank Foreign Exchange	<i>US\$ thousand</i>	133 268,2	205 339,5	351 060,0	614 645,0	883 183,6
Deposit and Credit Market						
Credits in National Currency:						
- volume (for the period)	<i>som million</i>	2 559,2	3 025,2	4 671,3	8 367,2	9 082,7
- interest rate (average for the period)	<i>in percent</i>	24,5	25,4	25,6	23,2	25,9
Credits in Foreign Currency:						
- volume (for the period)	<i>som million</i>	5 864,2	7 578,2	11 547,2	16 145,2	15 280,9
- interest rate (average for the period)	<i>in percent</i>	18,9	16,8	17,3	18,5	20,3
Deposits in National Currency:						
- volume (for the period)	<i>som million</i>	5 902,1	7 976,2	12 647,1	21 973,3	31 446,2
- interest rate (average for the period)	<i>in percent</i>	2,0	2,0	1,9	2,1	2,5
Deposits in Foreign Currency:						
- volume (for the period)	<i>som million</i>	95 710,1	117 232,9	62 944,7	51 600,9	51 678,1
- interest rate (average for the period)	<i>in percent</i>	0,3	0,2	0,5	0,9	0,9
<b>State Budget <sup>3</sup></b>						
Revenues	<i>som million</i>	18 335,9	20 368,1	25 081,3	35 529,6	45 479,5

including taxes	<i>in percent</i>	76,3	80,3	79,7	74,7	79,0
Expenditures	<i>som million</i>	18 841,7	20 143,7	25 297,8	29 480,7	36 944,0
Deficit (-) / Surplus (+)	<i>som million</i>	-505,8	224,4	-216,5	130,0	1 564,7
in percent of GDP	<i>inpercent of GDP</i>	-0,5	0,2	-0,2	0,1	0,8
<b>External Economic Sector<sup>4</sup></b>						
Export of Goods and Services	<i>in percent of GDP</i>	42,5	38,5	45,1	53,6	56,2 *
Import of Goods and Services	<i>in percent of GDP</i>	50,8	56,8	79,1	85,4	93,3 *
Current Account (including transfers)	<i>in percent of GDP</i>	1,3	-1,6	-10,1	-6,1	-12,3 *
Reserve Assets						
	<i>months of imports of goods and services of the following year</i>	4,7	3,2	3,0	3,2	3,6 *

\* preliminary data.

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

<sup>2</sup> NBKR data.

<sup>3</sup> according to data MoF KR data excluding PIP and the data starting from January 2007 are given according to the new Budget Classification at the MoF KR Order No 254-P of December 27, 2006 and registered with the MoJ KR No 4 of January 11, 2007

<sup>4</sup> NSC KR, SCC KR and NBKR data

"-" - no transactions

***Table 2.*****GDP Structure***( in percent)*

	2004	2005	2006	2007	2008 *
Agriculture, hunting and forestry	29,9	28,5	28,7	26,9	25,8
Mineral resource industry	0,6	0,6	0,4	0,5	0,4
Processing industry	15,3	12,9	11,0	9,9	11,3
Production and distribution of electricity, gas, and water	3,3	3,9	3,5	2,7	2,2
Construction	2,5	2,7	2,7	3,6	3,1
Trade, repair of motor vehicles, household goods and personal use items	16,0	17,8	18,4	17,9	18,6
Hotels and restaurants	1,6	1,3	1,4	1,2	1,3
Transportation and communication	6,4	6,6	6,1	7,4	8,4
Other	24,4	25,8	28,0	29,9	28,8
<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***(in percent)*

	2004	2005	2006	2007	2008 *
<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>66,2</b>	<b>71,6</b>	<b>75,8</b>	<b>78,5</b>	<b>69,8</b>
including those financed by:					
Republican budget	8,0	6,3	5,4	8,8	11,1
of which funds for emergency relief:	2,0	1,9	0,8	-	-
Local budget	2,4	1,3	1,3	2,4	1,8
Funds of enterprises and organizations	27,0	37,5	47,1	40,8	27,8
Credit to banks	-	-	-	0,6	0,6
Funds of the population and others	28,7	26,6	22,0	25,9	28,5
<b>Foreign investments</b>	<b>33,8</b>	<b>28,4</b>	<b>24,2</b>	<b>21,5</b>	<b>30,2</b>
including those financed through:					
Foreign loans	6,2	11,2	14,6	10,7	14,0
Foreign direct investments	5,8	1,7	8,0	7,0	10,6
Foreign grants and humanitarian aid	21,9	15,6	1,6	3,9	5,6

*NSC KR data**\* preliminary data**"-" - no transactions*

**Table 4.****Monetary Aggregates (eop)***(in millions of soms)*

	2004	2005	2006	2007	2008
Base money	12 379,9	15 465,6	22 798,8	31 575,9	35 150,8
Currency in circulation	11 425,1	13 413,8	19 909,7	27 561,9	30 803,3
Currency outside banks (M0)	11 124,0	13 065,4	19 410,0	26 674,7	29 385,1
Monetary aggregate (M1)	12 891,6	15 014,1 <sup>1</sup>	22 690,0	31 555,2	34 270,2
Broad money (M2)	13 568,5	15 959,3 <sup>1</sup>	24 108,1	34 766,2	38 209,3
Monetary aggregate (M2X)	19 379,3	21 295,9 <sup>1</sup>	32 280,9	43 018,0	48 453,2
Multiplier M1 *	1,04	0,97	1,00	1,00	0,98
Multiplier M2 *	1,10	1,03	1,06	1,10	1,09
Multiplier M2X *	1,57	1,38	1,42	1,36	1,38
M1 Velocity**	8,12	7,37	6,37	5,44	5,71
M2 Velocity **	7,69	6,93	5,98	4,98	5,04
M2X Velocity**	5,72	4,82	4,49	3,95	4,08
Currency outside banks/Deposits	1,35	1,59	1,51	1,63	1,54
Deposits/Broad money (M2X)	0,43	0,39	0,40	0,38	0,39

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

\* multiplier indicates monetary units created by each monetary base unit

\*\* the velocity of circulation indicates the number of turnovers that each monetary aggregate makes in the process of servicing GDP production

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

**Table 5.****Analytic Balance Sheet of the National Bank of the Kyrgyz Republic (eop)***(in millions of soms)*

	2004	2005	2006	2007	2008
<b>Net foreign assets</b>	14 908,8	17 849,7	24 736,0	36 452,1	41 737,1
Net international reserves	14 072,9	17 742,1	24 679,4	37 112,4	41 699,9
Claims on nonresidents	22 633,2	25 129,7	31 041,8	42 374,1	48 185,5
Liabilities to nonresidents	-8 560,3	-7 387,7	-6 362,4	-5 261,8	-6 485,6
Other claims on nonresidents	891,4	160,9	110,3	-607,8	74,0
Settlements with CIS countries	-55,5	-53,3	-53,6	-52,4	-36,8
<b>Long-term foreign liabilities</b>	-2 335,7	-2 313,7	-2 179,2	-2 026,1	-2 099,4
<b>Net domestic assets</b>	-193,2	-70,3	242,0	-2 850,2	-4 486,9
Claims on Government (net)	388,0	999,4	1 545,0	216,3	354,6
Claims on Government	6 538,3	6 358,2	6 024,8	5 757,8	5 258,1
Government securities	4 650,2	4 447,3	4 179,3	4 007,0	3 285,2
Credit to Government in foreign currency	1 888,1	1 910,9	1 845,5	1 750,8	1 972,9
Liabilities to Government	-6 150,3	-5 358,8	-4 479,8	-5 541,5	-4 903,5
Government deposits	-6 150,3	-5 358,8	-4 479,8	-5 420,3	-4 769,8
Credit to Government	-	-	-	-121,3	-133,7
Claims on other deposit corporations	411,5	297,2	-192,0	98,1	304,6
Claims on other sectors-residents	43,3	40,3	46,3	51,8	52,8
Shares & other forms of participation in capital	-1 227,3	-1 462,7	-1 528,5	-2 405,4	-3 892,6
Other items	191,3	55,5	371,2	-810,9	-1 306,3
<b>Monetary base</b>	12 379,9	15 465,6	22 798,8	31 575,9	35 150,8
Currency in circulation	11 425,1	13 413,8	19 909,7	27 561,9	30 803,3
Liabilities to other deposit corporations	954,9	2 051,8	2 889,1	4 014,0	4 347,5

"- " - no transactions

**Table 6.**

## External Economic Indicators

	Unit of Measurement	2004	2005	2006	2007	2008 *
<b>Balance of payments indicators <sup>1</sup></b>						
Total balance	<i>US\$ million</i>	118,7	29,1	183,7	307,3	111,1
	<i>in percent of GDP</i>	5,4	1,2	6,4	8,2	2,2
Current account	<i>US\$ million</i>	28,4	-38,4	-287,2	-228,3	-625,7
	<i>in percent of GDP</i>	1,3	-1,6	-10,1	-6,1	-12,3
Export of goods (FOB)	<i>US\$ million</i>	733,2	686,8	906,0	1 337,0	1 854,0
	<i>in percent of GDP</i>	33,1	27,9	31,8	35,5	36,6
Import of goods (FOB)	<i>US\$ million</i>	903,8	1 105,5	1 792,4	2 635,5	3 721,5
	<i>in percent of GDP</i>	40,7	44,9	62,9	69,9	73,4
Reserve assets	<i>months of import of goods and services of the following year</i>	4,7	3,2	3,0	3,0	3,6
<b>Public External Debt</b>						
Public external debt <sup>2</sup>	<i>US\$ million</i>	1 959,2	1 859,3	1 977,6	2 068,2	2 052,5
	<i>in percent of GDP</i>	88,3	75,6	69,4	54,9	40,5
	<i>percent of export of goods and services</i>	207,8	196,5	153,9	102,3	72,0
Public external debt servicing (schedule) <sup>3</sup>	<i>US\$ million</i>	106,3	112,5	69,3	69,9	75,1
	<i>in percent of GDP</i>	4,8	4,6	2,4	1,9	1,5
	<i>percent of export of goods and services</i>	11,3	11,9	5,4	3,5	2,6
Public external debt servicing (fact)	<i>US\$ million</i>	61,1	60,6	62,7	66,3	73,8
	<i>in percent of GDP</i>	2,8	2,5	2,2	1,8	1,5
	<i>in percent of export of goods and services</i>	6,5	6,4	4,9	3,3	2,6

\* preliminary data

<sup>1</sup> - NSC KR, SCC KR and NBKR data<sup>2</sup> - including IMF loans<sup>3</sup> - excluding bilateral debt restructuring by the Paris Club of Creditors in 2002 and 2005.

**Table 7.**

## Monetary Policy Instruments

	<b>unit of measurement</b>	2004	2005	2006	2007	2008
<b>NBKR Credits (for the period)</b>						
Credits (overnight)	<i>som million.</i>	8 927,3	2 628,5	-	-	1 284,5
Last resort credits	<i>som million.</i>	-	-	-	-	-
<b>NBKR Discount Rate (end of period)</b>						
	<i>in percent</i>	4,0	4,1	3,2	8,8	15,2
<b>NBKR Notes</b>						
	<i>som million.</i>					
maturity:						
7 days						
sales (for the period)	<i>som million.</i>	-	-	-	-	2 504,8
yield (average for the period)	<i>in percent</i>	-	-	-	-	9,2
14 days						
sales (for the period)	<i>som million.</i>	-	-	72,0	1 773,7	8 323,5
yield (average for the period)	<i>in percent</i>	-	-	3,8	5,0	10,2
28 days						
sales (for the period)	<i>som million.</i>	163,5	146,5	100,0	2 417,4	7 794,1
yield (average for the period)	<i>in percent</i>	4,7	4,4	3,9	5,8	11,6
91 days						
sales (for the period)	<i>som million.</i>	-	-	-	38,1	482,2
yield (average for the period)	<i>in percent</i>	-	-	-	9,6	11,8
182 days						
sales (for the period)	<i>som million.</i>	-	-	-	-	20,0
yield (average for the period)	<i>in percent</i>	-	-	-	-	10,5
<b>Open Market Transactions (for the period)</b>						
Direct REPO	<i>som million.</i>	432,7	17,0	-	-	-
Reverse REPO	<i>som million.</i>	271,3	210,5	1 795,9	3 562,6	1 751,3
<b>NBKR Deposit Transactions</b>						
volume (for the period)	<i>som million.</i>	-	-	50,0	1 664,0	-
interest rate (average for the period)	<i>in percent</i>	-	-	2,0	1,9	-
<b>NBKR Foreign Exchange Interventions (for the period)</b>						
	<i>US\$ million</i>					
Purchase		41,9	83,2	186,2	282,3	228,5
Sale		2,7	12,0	-	43,0	175,6
<b>NBKR SWAP Foreign Exchange Transactions (for the period)</b>						
	<i>US\$ million</i>					
Purchase		5,0	1,6	-	-	-
Sale		-	-	8,4	48,9	69,0
<b>Reserve Requirements</b>						
Reserve requirement ratio (end of period)	<i>in percent</i>	10,0	10,0	10,0	10,0	10,0
Required reserves (annual average)	<i>som million</i>	534,9	869,2	1 366,7	1 779,4	2 290,1
Excess reserves (annual average)	<i>som million</i>	287,8	504,1	711,2	961,4	1 449,9

"-"- no transactions



**Table 8.**

## Interest Rates of Deposits in National Currency (eop)

(in percent)

	2004	2005	2006	2007	2008
<b>Deposits of Legal Entities</b>					
<i>demand deposits:</i>	<b>0,98</b>	<b>1,43</b>	<b>1,20</b>	<b>1,47</b>	<b>0,35</b>
<i>time deposits:</i>	<b>9,84</b>	<b>9,01</b>	<b>8,86</b>	<b>6,52</b>	<b>10,29</b>
<i>including:</i>					
up to 1 month	7,47	9,48	7,47	6,55	7,40
1-3 months	8,89	7,04	6,66	6,43	7,00
3-6 months	10,59	10,35	10,09	5,92	8,16
6-12 months	11,44	9,76	10,98	6,80	8,17
over 1 year	12,91	10,03	10,11	6,29	10,00
<b>Deposits of Individuals</b>					
<i>demand deposits:</i>	<b>1,69</b>	<b>2,21</b>	<b>2,15</b>	<b>1,42</b>	<b>1,32</b>
<i>time deposits:</i>	<b>10,36</b>	<b>10,65</b>	<b>10,79</b>	<b>11,10</b>	<b>11,48</b>
<i>including:</i>					
up to 1 month	8,87	9,59	9,10	9,12	10,18
1-3 months	8,65	8,52	9,18	9,33	10,83
3-6 months	9,56	9,76	10,19	10,55	10,97
6-12 months	11,14	10,98	11,54	12,10	12,39
over 1 year	13,80	14,04	12,67	11,82	11,88
<b>Average Weighted Rate</b>	<b>3,52</b>	<b>4,03</b>	<b>3,64</b>	<b>4,65</b>	<b>6,01</b>

**Table 9.**

## Interest Rates of Deposits in Foreign Currency (eop)

(in percent)

	2004	2005	2006	2007	2008
<b>Deposits of Legal Entities</b>					
<i>demand deposits:</i>	<b>0,47</b>	<b>0,16</b>	<b>0,11</b>	<b>0,17</b>	<b>0,01</b>
<i>time deposits:</i>	<b>4,55</b>	<b>5,80</b>	<b>5,69</b>	<b>6,90</b>	<b>3,58</b>
<i>including:</i>					
up to 1 month	3,74	4,09	3,93	5,82	3,46
1-3 months	4,79	5,44	6,24	3,49	2,80
3-6 months	6,21	6,87	3,59	6,80	3,09
6-12 months	7,06	9,54	9,19	7,67	6,47
over 1 year	4,34	4,79	6,45	7,15	3,69
<b>Deposits of Individuals</b>					
<i>demand deposits:</i>	<b>0,80</b>	<b>0,17</b>	<b>0,21</b>	<b>0,09</b>	<b>0,13</b>
<i>time deposits:</i>	<b>8,15</b>	<b>8,45</b>	<b>8,27</b>	<b>6,85</b>	<b>8,90</b>
<i>including:</i>					
up to 1 month	5,45	5,92	6,20	6,31	6,16
1-3 months	6,74	7,20	7,17	7,21	7,45
3-6 months	7,85	8,23	8,80	8,87	9,28
6-12 months	9,57	9,11	9,36	9,98	10,61
over 1 year	11,63	11,53	8,18	4,15	9,07
<b>Average Weighted Rate</b>	<b>2,12</b>	<b>1,64</b>	<b>1,51</b>	<b>2,19</b>	<b>1,64</b>

**Table 10.**Interest Rates on Credits of Commercial Banks in National Currency (debt as of end of period)  
(in percent)

	2004	2005	2006	2007	2008
<b>Average Weighted Rate</b>	<b>24,1</b>	<b>24,9</b>	<b>24,4</b>	<b>21,3</b>	<b>23,7</b>
<b>up to 1 month</b>	<b>29,1</b>	<b>24,9</b>	<b>27,8</b>	<b>23,3</b>	<b>25,0</b>
Industry	28,5	31,5	28,5	31,9	27,2
Agriculture	28,4	28,3	27,0	18,8	21,1
Transportation and communication	20,0	18,9	34,5	32,4	28,7
Trade	32,8	24,3	28,9	24,3	25,8
Procurement and processing	22,3	30,2	35,0	14,2	20,0
Construction	28,8	30,6	22,3	20,3	23,3
Mortgage	17,8	20,0	18,1	21,6	21,2
To individuals	30,9	33,0	31,0	27,7	27,6
Other	25,1	21,9	26,4	24,5	26,2
<b>1-3 months</b>	<b>27,2</b>	<b>27,5</b>	<b>27,9</b>	<b>24,9</b>	<b>23,1</b>
Industry	25,5	30,9	25,0	23,1	20,2
Agriculture	24,8	28,5	28,3	19,3	18,6
Transportation and communication	22,7	17,0	26,9	27,7	19,8
Trade	30,7	28,8	29,6	27,3	26,3
Procurement and processing	26,4	28,8	22,5	15,4	17,2
Construction	29,8	25,8	22,7	22,5	21,7
Mortgage	20,3	25,0	20,2	21,3	21,2
To individuals	30,9	28,5	29,3	27,8	28,5
Other	20,0	25,3	24,1	24,3	16,8
<b>3-6 months</b>	<b>22,9</b>	<b>24,1</b>	<b>25,6</b>	<b>24,5</b>	<b>25,7</b>
Industry	14,5	23,6	19,1	23,4	19,8
Agriculture	27,4	27,4	28,8	22,4	24,5
Transportation and communication	19,3	21,5	31,7	31,3	16,3
Trade	22,6	23,7	28,5	27,4	26,9
Procurement and processing	26,9	24,5	30,1	18,8	20,1
Construction	25,0	21,1	22,9	19,5	25,1
Mortgage	21,3	22,1	20,9	20,0	22,9
To individuals	30,8	29,2	28,8	29,2	28,6
Other	24,7	25,2	16,2	15,1	25,5
<b>6-12 months</b>	<b>24,5</b>	<b>27,3</b>	<b>27,8</b>	<b>24,7</b>	<b>26,1</b>
Industry	23,0	19,1	25,4	21,4	24,5
Agriculture	28,1	26,7	29,2	21,8	24,1
Transportation and communication	20,0	32,9	31,8	30,9	29,0
Trade	25,1	28,9	28,3	27,0	27,5
Procurement and processing	23,3	24,9	24,8	18,0	22,5
Construction	25,6	22,5	23,2	23,0	16,7
Mortgage	19,8	18,7	19,3	23,1	20,3
To individuals	29,0	28,4	27,6	30,1	28,5
Other	19,5	24,5	25,2	17,3	25,3
<b>over 1 year</b>	<b>21,5</b>	<b>21,3</b>	<b>19,7</b>	<b>18,7</b>	<b>22,6</b>
Industry	20,3	20,4	19,6	19,1	21,4
Agriculture	20,6	23,3	26,2	15,3	21,6
Transportation and communication	25,8	30,2	13,8	16,2	26,9
Trade	24,7	25,4	22,2	23,6	25,4
Procurement and processing	-	20,8	21,2	15,3	19,2
Construction	24,5	21,7	15,5	16,5	21,2
Mortgage	19,8	19,5	17,6	17,7	17,7
To individuals	17,4	23,4	23,1	21,9	24,6
Other	21,6	18,2	18,0	19,6	23,2
<b>Overdue debt</b>	<b>23,2</b>	<b>23,0</b>	<b>20,8</b>	<b>22,8</b>	<b>23,3</b>
Industry	24,0	13,6	22,9	19,1	9,4
Agriculture	29,0	29,7	21,6	20,9	24,2
Transportation and communication	-	27,0	-	-	23,0
Trade	23,1	24,0	20,7	27,8	27,2
Procurement and processing	25,9	23,9	29,8	23,7	24,7
Construction	21,9	22,2	15,4	19,9	7,6
Mortgage	29,4	39,6	19,3	6,4	28,5
To individuals	29,4	39,6	24,6	23,3	28,2
Other	17,1	16,6	15,7	16,6	16,8

"- " - no transactions

**Table 11.**

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

(in percent)

	2004	2005	2006	2007	2008
<b>Average Weighted Rate</b>	<b>18,0</b>	<b>18,7</b>	<b>18,0</b>	<b>18,1</b>	<b>19,5</b>
<b>up to 1 month</b>	<b>20,0</b>	<b>13,3</b>	<b>18,8</b>	<b>18,0</b>	<b>21,6</b>
Industry	18,8	12,9	13,8	15,7	16,1
Agriculture	19,2	21,2	24,8	23,6	30,1
Transportation and communication	11,7	25,8	24,5	22,1	22,9
Trade	19,8	22,0	24,9	19,3	22,5
Procurement and processing	10,9	12,8	-	-	-
Construction	19,0	7,9	19,1	24,2	18,1
Mortgage	-	20,0	20,9	15,0	20,5
To individuals	25,2	24,1	19,4	22,2	25,2
Other	21,1	11,9	27,1	20,0	20,3
<b>1-3 months</b>	<b>15,2</b>	<b>16,7</b>	<b>17,4</b>	<b>18,6</b>	<b>20,9</b>
Industry	16,8	15,5	15,6	14,7	17,2
Agriculture	22,1	23,8	23,6	24,2	23,1
Transportation and communication	16,0	20,6	24,3	22,8	21,1
Trade	13,3	20,3	19,9	18,5	22,3
Procurement and processing	22,0	24,0	22,0	13,3	-
Construction	18,4	20,7	24,2	18,1	19,7
Mortgage	-	19,2	17,4	15,9	21,5
To individuals	21,1	23,4	26,2	24,5	24,5
Other	19,8	10,5	12,6	18,9	18,2
<b>3-6 months</b>	<b>19,2</b>	<b>19,3</b>	<b>18,8</b>	<b>18,9</b>	<b>20,3</b>
Industry	15,9	17,3	15,2	14,6	17,1
Agriculture	19,3	22,0	21,0	18,8	23,7
Transportation and communication	16,2	23,9	17,4	23,0	21,2
Trade	20,1	20,2	19,2	18,7	20,7
Procurement and processing	20,6	22,8	24,9	20,5	14,8
Construction	20,4	18,2	18,0	18,3	19,1
Mortgage	-	16,1	18,9	20,0	20,2
To individuals	22,7	23,1	23,3	25,4	22,8
Other	20,4	18,7	22,7	18,9	18,5
<b>6-12 months</b>	<b>20,1</b>	<b>19,0</b>	<b>20,1</b>	<b>19,9</b>	<b>20,5</b>
Industry	17,0	16,1	16,3	15,1	16,7
Agriculture	22,3	24,7	23,8	25,4	17,5
Transportation and communication	19,7	22,8	23,1	20,9	24,5
Trade	21,7	21,0	20,9	21,1	21,7
Procurement and processing	19,6	18,1	14,1	17,0	-
Construction	18,9	21,0	19,7	18,2	17,9
Mortgage	-	19,0	17,9	18,4	17,8
To individuals	19,3	21,9	23,5	23,5	25,1
Other	20,4	13,2	19,8	18,8	19,2
<b>over 1 year</b>	<b>16,6</b>	<b>16,7</b>	<b>17,3</b>	<b>17,6</b>	<b>18,8</b>
Industry	15,1	15,3	14,8	15,6	16,6
Agriculture	23,9	20,7	18,8	18,7	20,6
Transportation and communication	19,0	16,2	19,4	19,9	18,7
Trade	16,4	16,7	19,1	19,5	20,9
Procurement and processing	16,9	18,4	14,9	14,5	14,9
Construction	18,3	15,9	15,8	15,6	16,7
Mortgage	-	17,5	16,4	16,5	17,1
To individuals	17,6	19,1	19,7	19,8	22,2
Other	16,9	17,5	17,7	17,3	18,3
<b>Overdue debt</b>	<b>22,8</b>	<b>48,8</b>	<b>16,2</b>	<b>19,3</b>	<b>40,0</b>
Industry	29,2	72,6	16,5	8,7	6,1
Agriculture	23,1	21,7	25,2	25,2	12,7
Transportation and communication	12,1	29,1	29,1	18,3	18,7
Trade	21,2	43,2	23,4	25,7	45,4
Procurement and processing	25,8	15,7	17,8	17,1	23,2
Construction	18,0	24,2	18,0	16,9	111,3
Mortgage	-	63,5	19,6	21,2	34,5
To individuals	24,6	36,9	20,4	22,5	26,8
Other	16,4	61,4	10,1	16,1	17,8

"- " - no transactions

**Table 12.**

Annual Average Interest Rate of Interbank Credits (excluding transactions with non-residents)  
(in percent)

	2004	2005	2006	2007	2008
<b>Interbank REPO Transactions</b>	<b>5,0</b>	<b>4,0</b>	<b>3,3</b>	<b>3,9</b>	<b>8,9</b>
up to 1 day	4,9	4,0	3,3	4,2	8,8
2 - 7 days	5,0	4,0	3,3	3,8	8,9
8 - 14 days	5,2	4,0	3,5	4,9	9,7
15 - 30 days	6,2	3,9	3,3	4,2	11,7
31 - 60 days	6,0	4,1	4,0	6,8	6,6
61 - 90 days	5,6	-	-	-	6,3
91 - 180 days	6,7	-	-	-	7,1
181 - 360 days	-	-	-	-	-
over 360 days	-	-	-	9,5	-
<b>Interbank Credits in National Currency</b>	<b>4,8</b>	<b>3,2</b>	<b>2,8</b>	<b>3,2</b>	<b>7,6</b>
up to 1 day	5,1	4,5	3,0	4,5	8,8
2 - 7 days	4,8	3,0	2,7	3,3	8,1
8 - 14 days	4,4	2,4	2,8	3,5	8,4
15 - 30 days	3,6	3,5	3,6	3,0	6,9
31 - 60 days	-	1,0	-	2,4	8,6
61 - 90 days	6,0	7,0	-	2,8	5,7
91 - 180 days	-	12,0	-	-	6,8
181 - 360 days	-	-	7,0	-	6,1
over 360 days	-	-	-	-	-
<b>Interbank Credits in Foreign Currency</b>	<b>5,8</b>	<b>4,3</b>	<b>5,7</b>	<b>6,7</b>	<b>5,7</b>
up to 1 day	5,2	-	5,1	7,0	5,8
2 - 7 days	4,3	3,7	4,7	5,5	3,9
8 - 14 days	7,8	3,4	4,7	3,5	6,1
15 - 30 days	5,4	3,6	6,4	5,5	3,9
31 - 60 days	5,5	2,8	6,9	6,1	4,3
61 - 90 days	8,5	-	5,0	6,8	3,9
91 - 180 days	6,4	7,1	7,8	8,5	10,2
181 - 360 days	-	6,0	7,8	8,2	4,4
over 360 days	-	-	-	-	-

"-" - no transactions

**Table 13.**
**Balance of Payments of the Kyrgyz Republic**  
*(In millions of US dollars)*

	2004	2005	2006	2007	2008*
<b>Current Account</b>	<b>28,4</b>	<b>-38,4</b>	<b>-287,2</b>	<b>-228,3</b>	<b>-625,7</b>
Goods and services	-184,3	-450,5	-968,5	-1 196,4	-1 878,3
Trade balance	-170,6	-418,7	-886,5	-1 298,5	-1 867,5
Export (FOB)	733,2	686,8	906,0	1 337,0	1 854,0
CIS	277,6	305,3	476,1	753,1	974,2
Non-CIS	455,5	381,5	429,9	583,9	879,8
Import (FOB)	903,8	1 105,5	1 792,4	2 635,5	3 721,5
CIS	554,4	641,0	925,8	1 417,0	2 060,4
Non-CIS	349,4	464,5	866,6	1 218,5	1 661,1
Balance of services	-13,7	-31,8	-82,0	102,1	-10,9
Transportation services	-36,0	-62,8	-119,1	-195,2	-279,6
Travels	25,3	14,6	75,3	255,8	210,1
Other services	17,8	37,3	-17,2	61,8	78,8
Technical assistance	-20,8	-21,0	-21,1	-20,4	-20,1
Income	-102,2	-88,2	-48,2	-52,4	-112,0
Income from direct investment	-57,6	-36,0	-39,8	-39,5	-83,0
Income from portfolio investment	0,1	-	0,1	0,2	0,5
Income from other investment	-30,5	-31,8	15,8	7,7	-7,4
Interests on credits (schedule)	-36,3	-36,2	-19,9	-25,7	-30,7
Other income from other investment	5,7	4,4	35,6	33,4	23,4
Remuneration of labor	-14,2	-20,4	-24,2	-20,8	-22,1
Current transfers	314,9	500,3	729,5	1 020,5	1 364,6
Official transfers	23,7	23,0	12,4	30,9	39,1
Private transfers	291,2	477,3	717,1	989,6	1 325,5
<b>Capital and Financial Account</b>	<b>114,5</b>	<b>0,9</b>	<b>283,8</b>	<b>259,4</b>	<b>-90,4</b>
Capital account	-19,9	-20,5	-43,9	-74,9	-59,8
Capital transfers	-19,9	-20,5	-43,9	-74,9	-59,8
Financial account	134,4	21,5	327,6	334,2	-30,5
Direct investment	131,5	42,6	182,0	208,1	206,7
Portfolio investment	-9,5	2,3	-3,0	-17,7	-31,8
Financial derivatives	-20,5	-	-	-	-
Other investment	32,8	-23,4	148,6	143,9	-205,4
Assets (- increase)	-35,8	-47,5	-24,0	19,5	-401,7
Commercial banks	-63,2	-15,1	-17,0	37,7	-115,9
Accounts receivable	8,4	-45,1	-13,5	-27,6	-273,2
Accounts of enterprises abroad	9,5	-6,3	5,2	-10,8	6,8
Other assets	9,6	19,0	1,3	20,3	-19,3
Liabilities (+ increase)	68,6	24,1	172,6	124,4	196,3
Commercial banks	42,2	-11,9	-26,6	66,6	48,4
Credits	49,3	18,4	66,5	44,4	64,2
Credits to public sector	56,3	17,2	54,4	28,1	36,3
Credits to private sector	-7,0	1,2	12,1	16,4	27,8
Accounts payable	-21,2	19,8	132,7	13,3	83,8
Other liabilities	-1,7	-2,1	0,0	0,0	0,0
<b>Errors and omissions</b>	<b>-24,2</b>	<b>66,6</b>	<b>187,2</b>	<b>276,3</b>	<b>827,1</b>
<b>Total Balance</b>	<b>118,7</b>	<b>29,1</b>	<b>183,7</b>	<b>307,3</b>	<b>111,1</b>
Financing	-118,7	-29,1	-183,7	-307,3	-111,1
NBKR reserves (- increase)	-160,6	-80,5	-169,9	-306,8	-121,3
IMF loans	-3,8	-12,5	-23,5	-20,7	-7,1
Other financing	45,7	63,9	9,7	20,1	17,3

\* preliminary data

<sup>1</sup> - including NBKR estimates

"- " - no transactions

**Table 14.****External Debt of the Kyrgyz Republic by Creditors<sup>1</sup>***(in millions of US dollars)*

	2004	2005	2006	2007	2008 <sup>*</sup>
<b>External Public &amp; Government Guaranteed Debt (1+2+3):</b>	<b>1 959,2</b>	<b>1 859,3</b>	<b>1 977,6</b>	<b>2 068,2</b>	<b>2 052,5</b>
<b>1. Multilateral debt:</b>	<b>1 350,4</b>	<b>1 281,4</b>	<b>1 376,4</b>	<b>1 455,1</b>	<b>1 432,1</b>
World Bank	579,0	562,8	612,8	656,5	650,2
Asian Development Bank	477,8	466,8	532,2	583,0	582,4
IMF	206,9	177,9	163,1	149,8	138,9
Islamic Bank of Reconstruction and Development	30,7	28,0	29,4	32,8	33,2
European Bank of Reconstruction and Development	32,7	24,7	16,6	10,4	6,0
International Fund for Agricultural Development	9,2	9,0	10,0	10,3	10,3
Nordic Development Fund	6,9	6,0	6,7	7,4	6,8
OPEC	7,0	6,3	5,6	4,9	4,2
<b>2. Bilateral debt:</b>	<b>599,8</b>	<b>574,8</b>	<b>598,8</b>	<b>611,4</b>	<b>619,4</b>
<b>2.1. CIS countries:</b>	<b>192,9</b>	<b>197,1</b>	<b>200,0</b>	<b>200,1</b>	<b>196,4</b>
Russia	181,8	186,0	188,9	191,5	193,6
Uzbekistan	11,1	11,1	11,1	8,6	2,9
<b>2.2. other:</b>	<b>406,9</b>	<b>377,7</b>	<b>398,8</b>	<b>411,3</b>	<b>423,0</b>
Japan	247,4	225,2	233,8	242,8	251,2
Germany	45,0	40,8	58,8	65,3	74,3
Turkey	46,3	46,3	48,4	49,3	50,1
Korea	16,5	16,7	18,4	18,2	13,6
Kuwait Fund	15,6	15,7	15,7	16,8	16,6
China	13,6	13,6	14,0	8,2	7,8
France	5,7	5,5	5,7	6,5	6,2
Denmark	5,9	3,0	3,0	3,2	3,3
India	1,0	1,0	1,0	1,0	–
Pakistan	10,0	10,0	–	–	–
<b>3. Government guaranteed public debt</b>	<b>9,1</b>	<b>3,1</b>	<b>2,4</b>	<b>1,7</b>	<b>1,0</b>

<sup>1</sup> - MOF KR data as of end of period (at the IMF exchange rate)

\* - preliminary data

"- " - no transactions

**Table 15.**

Information on Authorized (Shareholders') Capital of Commercial Banks, including the Bishkek Branch of the National Bank of Pakistan (end of period)

(in thousands of soms)

Bank	2004			2005			2006			2007			2008		
	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c
<b>Total</b>	<b>2 470 844,0</b>	<b>2 425 138,0</b>	<b>1 391 656,2</b>	<b>3 050 756,0</b>	<b>2 959 605,0</b>	<b>1 963 408,2</b>	<b>3 962 806,3</b>	<b>3 598 492,2</b>	<b>2 336 734,9</b>	<b>6 105 519,9</b>	<b>5 805 768,4</b>	<b>3 566 865,2</b>	<b>7 850 352,2</b>	<b>7 813 351,6</b>	<b>4 540 759,3</b>
OJSC "AsiaUniversalBank"	300 000,0	300 000,0	236 217,0	300 000,0	300 000,0	236 217,0	400 000,0	300 000,0	218 896,6	700 000,0	700 000,0	671 078,1	1 337 516,0	1 337 516,0	1 290 502,5
OJSC RK "Amanbank"	63 000,0	55 000,0	13 156,0	63 000,0	63 000,0	17 823,0	263 000,0	62 999,9	11 877,9	263 000,0	263 000,0	43 878,0	300 000,0	263 000,0	234,0
OJSC "Ak Bank" *	200 000,0	200 000,0	87 500,0	-	-	-	-	-	-	-	-	-	-	-	-
CJSC "Bank of Asia"	63 000,0	63 000,0	63 000,0	63 000,0	63 000,0	63 000,0	79 788,0	79 788,0	79 788,0	79 788,0	79 788,0	0,0	126 000,0	126 000,0	0,0
OJSC "Bakai Bank"	60 000,0	60 000,0	-	80 000,0	80 000,0	-	100 000,1	100 000,1	-	125 000,1	125 000,1	0,0	160 000,2	160 000,2	0,0
CJSC "Demir Kyrgyz International Bank"	132 540,0	132 540,0	132 540,0	132 540,0	132 540,0	132 540,0	132 540,0	132 540,0	132 540,0	132 540,0	132 540,0	132 540,0	132 540,0	132 540,0	132 540,0
OJSC "Dos-Credobank"	100 000,0	77 294,0	-	100 000,0	77 825,0	-	130 000,0	130 000,0	-	180 000,0	180 000,0	0,0	200 000,0	200 000,0	0,0
IJSCB "Issyk-Kul"	50 000,0	35 000,0	4 802,0	60 000,0	35 000,0	4 855,0	60 000,0	60 000,0	3 672,0	271 008,9	71 258,9	250,0	271 009,0	271 008,9	312,0
CJSC "BTA Bank"	230 000,0	230 000,0	163 300,0	480 000,0	480 000,0	340 800,0	480 000,0	480 000,0	340 800,0	800 000,0	800 000,0	568 000,0	1 000 000,0	1 000 000,0	710 000,0
OJSC "Halyk Bank Kyrgyzstan"	170 000,0	170 000,0	170 000,0	211 000,0	211 000,0	211 000,0	334 200,0	334 200,0	334 200,0	534 200,0	534 200,0	534 200,0	534 200,0	534 200,0	534 200,0
CJSC "Kyrgyz Investment Credit Bank"	291 372,0	291 372,0	262 234,8	289 108,0	289 108,0	260 197,2	266 866,6	266 866,6	240 179,9	354 998,0	354 998,0	319 498,2	394 181,0	394 181,0	354 762,9
OJSC "Kazkommertsbank Kyrgyzstan"	100 000,0	100 000,0	73 972,0	100 000,0	100 000,0	93 581,0	100 000,0	100 000,0	93 580,0	100 000,0	100 000,0	93 692,0	120 500,0	120 500,0	114 160,0
OJSC "KyrgyzCredit Bank"	40 000,0	40 000,0	35 480,0	100 000,0	100 000,0	80 795,0	110 000,0	110 000,0	49,4	200 000,0	199 999,5	61,5	300 000,0	299 999,5	61,5
OJSC "Kyrgyzpromstroibank"	100 000,0	100 000,0	-	100 000,0	100 000,0	-	100 000,0	100 000,0	-	110 000,0	110 000,0	0,0	-	-	-
OJSC "CB Kyrgyzstan"	120 912,0	120 912,0	-	138 912,0	120 912,0	-	160 912,0	138 912,0	-	160 912,0	160 911,0	0,0	160 912,0	160 912,0	0,0
Bishkek Branch of the National Bank of Pakistan	105 420,0	105 420,0	105 420,0	105 420,0	105 420,0	105 420,0	105 419,6	105 419,6	105 419,6	131 107,0	131 107,0	131 107,0	131 107,0	131 107,0	131 107,0
OJSC "Settlement Savings Company"	100 000,0	100 000,0	-	103 800,0	103 800,0	-	108 790,0	108 790,0	-	116 220,0	116 220,0	0,0	425 018,0	425 018,0	0,0
CJSC JSCB "Tolubai"	36 000,0	36 000,0	589,0	48 000,0	48 000,0	901,0	63 000,0	63 000,0	1 182,0	88 000,0	88 000,0	1 651,0	105 000,0	105 000,0	1 970,0
OJSC "Finance CreditBank KAB"	-	-	-	300 000,0	300 000,0	300 000,0	300 000,0	300 000,0	300 000,0	300 000,0	300 000,0	300 000,0	300 000,0	300 000,0	300 000,0
OJSC "EcoBank"	100 000,0	100 000,0	6 087,0	125 976,0	100 000,0	5 400,0	168 290,0	125 976,0	3 659,0	258 746,0	258 746,0	0,0	372 369,0	372 369,0	0,0
OJSC "ATFBank-Kyrgyzstan"	108 600,0	108 600,0	37 358,4	150 000,0	150 000,0	110 879,0	500 000,0	500 000,0	470 890,5	500 000,0	500 000,0	470 909,5	700 000,0	700 000,0	670 909,5
CJSC "Manas Bank"	-	-	-	-	-	-	-	-	-	300 000,0	300 000,0	300 000,0	300 000,0	300 000,0	300 000,0
OJSC "Ayil Bank"	-	-	-	-	-	-	-	-	-	400 000,0	300 000,0	0,0	480 000,0	480 000,0	0,0

Commercial banking data

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

\* Introduction of conservatorship regime on September 28, 2005. On November 1, 2005, the license was revoked.

**Table 16.****Monetary Survey\* (end of period)***(in millions of soms)*

	2004	2005	2006	2007	2008
<b>ASSETS</b>					
Cash assets	941,6	1 155,0	2 006,6	2 088,1	2 967,2
Correspondent account with NBKR	954,8	2 051,8	2 889,0	4 014,0	3 835,0
Correspondent accounts with other banks	6 710,8	6 961,8	5 638,4	3 694,8	8 280,0
Deposits with other banks	-	-	884,4	1 374,3	1 655,1
Securities portfolio	1 658,5	1 803,5	1 953,4	4 899,0	5 727,4
Short-term placements	270,5	346,5	323,1	149,1	684,2
Securities purchased on REPO agreements	48,9	50,0	505,4	334,2	257,7
Credits and financial lease to finance and credit institutions	232,3	215,4	718,3	1 515,3	1 770,3
Credits and financial lease to clients**	5 801,4	7 645,3	11 298,7	20 797,6	25 573,6
(minus) Special LLP on credits and financial lease	180,4	310,3	370,1	444,2	759,2
Net credit and financial lease***	5 853,3	7 550,4	11 646,9	21 868,6	26 584,8
Fixed assets	642,1	820,8	1 493,1	2 250,1	3 427,6
Borrower's real assets accepted as asset paydown	36,7	51,3	30,4	37,2	34,6
Other borrower's property accepted as asset paydown	8,7	3,1	2,2	15,1	46,9
Investment in nonconsolidated companies	0,4	0,2	6,1	1,1	115,0
Other assets	576,5	1 109,4	890,3	1 408,8	1 310,7
<b>TOTAL: ASSETS</b>	<b>17 702,9</b>	<b>21 904,0</b>	<b>28 269,3</b>	<b>42 134,3</b>	<b>54 926,1</b>
<b>LIABILITIES</b>					
Demand deposits of legal entities	4 750,7	7 888,8	9 717,6	10 244,8	13 946,9
Deposits of individuals	2 081,2	2 665,8	4 135,1	6 235,2	6 882,0
Time deposits of legal entities	1 143,9	1 536,2	1 122,9	2 563,4	2 371,6
Liabilities to the NBKR	55,2	33,3	20,1	13,3	8,2
Correspondent accounts	3 457,1	1 478,3	107,3	225,9	39,8
Deposits of other banks	-	-	2 293,2	3 619,7	4 878,6
Short-term placements	208,7	15,2	0,0	284,0	142,6
Government deposits and credits	225,5	919,9	1 492,6	3 781,6	4 931,1
Securities sold on REPO agreements	88,9	0,0	1,2	140,8	170,3
Received credits	2 057,2	2 279,5	2 673,6	3 756,4	6 619,9
Subordinated bonds	217,6	364,2	376,8	324,9	127,5
Other liabilities	724,3	1 261,6	1 282,3	1 946,6	1 985,3
<b>TOTAL: LIABILITIES</b>	<b>15 010,1</b>	<b>18 442,7</b>	<b>23 222,8</b>	<b>33 136,6</b>	<b>42 103,8</b>
<b>CAPITAL</b>					
Stock capital	2 471,1	3 197,6	4 669,4	8 464,3	11 694,0
Common shares	2 221,4	2 655,9	3 594,7	5 801,8	7 809,6
Privileged shares	3,8	3,8	3,8	3,8	2,6
Capital above the par	4,9	47,3	4,4	130,1	121,8
Retained profit, total	241,0	490,7	1 066,6	2 528,7	3 760,1
Total reserves	221,7	263,7	377,0	533,4	1 128,3
Reserve for revaluation of fixed assets	21,6	20,8	101,5	101,2	574,9
Reserve for revaluation of marketable securities	-1,2	9,7	1,5	4,6	-5,8
General LLP on credits and financial lease	200,1	232,6	271,9	427,1	557,6
General LLP on other classified assets	1,2	0,5	2,2	0,6	1,7
Other general reserves	0,0	0,0	0,0	0,0	0,0
<b>TOTAL: CAPITAL</b>	<b>2 692,9</b>	<b>3 461,3</b>	<b>5 046,5</b>	<b>8 997,7</b>	<b>12 822,3</b>
<b>TOTAL: LIABILITIES &amp; CAPITAL</b>	<b>17 702,9</b>	<b>21 904,0</b>	<b>28 269,3</b>	<b>42 134,3</b>	<b>54 926,1</b>

\* Excluding banks, whose licenses are revoked

\*\* Reduced by the amount of the discount and credits to banks and other FCI

\*\*\* Reduced by the amount of the discount and special LLP on credits



**Table 17.**

## Information on Head Offices and Branches of Commercial Banks as of end-2008

Bank	Head Office Location	Total Branches	Branches							
			Bishkek	Batken Oblast	Jalalabat Oblast	Issyk-Kul Oblast	Naryn Oblast	Osh Oblast	Talas Oblast	Chui Oblast
<b>Total branches</b>		<b>233</b>	<b>48</b>	<b>13</b>	<b>39</b>	<b>36</b>	<b>17</b>	<b>38</b>	<b>9</b>	<b>32</b>
<b>Branches of resident banks</b>										
OJSC "AsiaUniversalBank"	city of Bishkek	36	6	3	7	6	3	4	2	5
OJSC "Ayil Bank" <sup>3</sup>	city of Bishkek	18	1	2	4	2	2	4	1	2
OJSC RK "Amanbank"	city of Bishkek	6	1	-	1	2	-	1	-	1
OJSC "ATFBank-Kyrgyzstan"	city of Bishkek	14	6	-	1	3	-	1	1	2
CJSC "Bank of Asia"	city of Bishkek	3	2	-	-	1	-	-	-	-
OJSC "Bakai Bank"	city of Bishkek	5	-	-	1	1	-	1	-	2
CJSC "BTA Bank"	city of Bishkek	14	2	1	2	3	-	4	-	2
CJSC "Demir Kyrgyz International Bank"	city of Bishkek	5	4	-	-	-	-	1	-	-
OJSC "Dos-Credobank"	city of Bishkek	9	1	-	1	2	2	1	-	2
IJSCB "Issyk-Kul"	city of Bishkek	6	2	-	1	2	-	1	-	-
OJSC "Halyk Bank Kyrgyzstan"	city of Bishkek	7	3	-	1	1	-	1	-	1
CJSC "Kyrgyz Investment Credit Bank"	city of Bishkek	5	1	-	1	1	1	1	-	-
OJSC "Kazkommertsbank Kyrgyzstan"	city of Bishkek	3	1	-	1	-	-	1	-	-
OJSC "KyrgyzCredit Bank"	city of Bishkek	2	2	-	-	-	-	-	-	-
OJSC "CB Kyrgyzstan"	city of Bishkek	30	6	2	6	3	3	5	1	4
CJSC "Manas Bank"	city of Bishkek	-	-	-	-	-	-	-	-	-
OJSC "Settlement Savings Company"	city of Bishkek	51	3	5	10	7	5	9	4	8
CJSC JSCB "Tolubai"	city of Bishkek	2	2	-	-	-	-	-	-	-
OJSC "EcoBank"	city of Bishkek	9	3	-	1	1	-	1	-	2
OJSC "Finance CreditBank KAB" <sup>1</sup>	city of Bishkek	7	1	-	1	1	1	2	-	1
<b>Nonresident bank branches</b>										
CABCD Bishkek branch <sup>2</sup>	city of Almaty	-	-	-	-	-	-	-	-	-
Bishkek Branch of the National Bank of Pakistan	city of Karachi	1	1	-	-	-	-	-	-	-

<sup>1</sup> the banking license was issued on December 30, 2005 and the bank started its activity in January 2006

<sup>2</sup> The temporary administration regime was introduced on July 31, 2002. On July 15, 2002, the CABCD banking license was withdrawn in the city of Almaty  
The temporary manager (administrator) regime was introduced in the Bishkek branch of the CADCB CJSC.

"-" - no branches

**Table 18.****Movement of Cash in the Commercial Banking System and its Collectibility in 200***(in millions of soms)*

	Receipt				Issue					Excess of issue (receipt) over receipt (9-4) (issue) (+/-)	Collectibility (%) (4/9)
	Taxes, customs duties & fees	Sales of forex	Other	Total	To Treasury for salary payments	For payments of pensions and benefits	For purchases of forex	For other expenditures	Total		
	1	2	3	4	5	6	7	8	9	10	11
<b>Total for the republic</b>	<b>14 518,0</b>	<b>28 011,2</b>	<b>198 230,2</b>	<b>240 759,4</b>	<b>13 308,5</b>	<b>7 290,5</b>	<b>26 830,3</b>	<b>194 137,9</b>	<b>241 567,2</b>	<b>807,8</b>	<b>99,7</b>
city of Bishkek	8 637,6	21 468,7	128 490,7	158 597,0	5 361,1	486,6	16 563,4	126 790,6	149 201,7	-9 395,3	106,3
Batken oblast	149,1	178,0	2 615,1	2 942,2	700,7	556,7	1 510,2	3 528,6	6 296,2	3 354,0	46,7
Jalalabat oblast	626,0	685,5	14 853,7	16 165,2	1 809,7	1 282,5	2 796,0	17 104,7	22 992,9	6 827,7	70,3
Issyk-Kul oblast	285,3	229,4	6 722,2	7 236,9	788,6	748,6	644,9	6 641,5	8 823,6	1 586,7	82,0
Naryn oblast	122,0	31,3	1 956,0	2 109,3	807,5	585,2	102,6	1 927,1	3 422,4	1 313,1	61,6
city of Osh	3 266,9	4 528,1	28 633,3	36 428,3	1 288,6	431,5	3 290,5	24 747,8	29 758,4	-6 669,9	122,4
Osh oblast	541,7	672,0	3 572,6	4 786,3	959,2	1 522,3	1 329,0	4 578,4	8 388,9	3 602,6	57,1
Talas oblast	108,4	11,1	2 061,2	2 180,7	533,8	344,8	171,4	2 468,0	3 518,0	1 337,3	62,0
Chui oblast	781,0	207,1	9 325,4	10 313,5	1 059,3	1 332,3	422,3	6 351,2	9 165,1	-1 148,4	112,5

*NBKR data*

**Table 19.**

Volume &amp; Number of Payments in the Payment System

**Table 19.1.** Pattern of Payments in the Gross System of Settlements

	2004		2005		2006		2007		2008	
	Volume, million soms	Number	Volume, million soms	Number	Volume, million soms	Number	Volume, million soms	Number	Volume, million soms	Number
payments below Som 1 thousand	1	3 136	1	2 447	1	3 492	1	3 944	2	7 443
from Som 1 to 100 thousand	371	14 175	433	16 418	628	23 293	722	27 246	1 028	34 995
from Som 100 thousand to Som 1 million	4 231	11 887	4 347	12 868	5 644	17 251	6 493	19 147	9 469	22 232
from Som 1 million to Som 10 million	32 744	9 535	35 172	10 009	41 565	11 708	63 693	20 291	79 867	24 002
from Som 10 million to Som 100 million	50 147	2 327	51 853	2 370	77 300	3 598	146 999	6 002	201 449	7 327
payments above Som 100 million	5 901	47	7 144	31	6 062	41	24 487	160	83 717	500
<b>Total</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>	<b>242 395</b>	<b>76 790</b>	<b>375 532</b>	<b>96 499</b>

NBKR data

**Table 19.2.** Volume & Number of Clearing Transactions by Oblasts

	2004		2005		2006		2007		2008	
	Volume, million soms	Number	Volume, million soms	Number	Volume, million soms	Number	Volume, million soms	Number	Volume, million soms	Number
Bishkek and Chui Oblast	33 759	821 788	38 659	744 346	40 943	1 012 923	37 486	1 203 584	44 009	1 667 187
Issyk-Kul Oblast	733	29 549	977	35 296	1 135	94 645	2 321	103 609	2 113	125 602
Talas Oblast	303	41 293	432	44 576	745	81 035	797	30 637	4 510	254 025
Naryn Oblast	497	16 546	595	19 811	2 124	50 454	1 004	37 197	2 781	146 442
Jalalabat Oblast	1 500	51 680	1 912	53 307	1 379	156 219	3 515	205 419	1 116	51 893
Osh Oblast and Osh	2 842	88 835	3 951	73 072	3 856	236 308	4 345	80 454	5 783	170 494
Batken Oblast	0	0	148	7 548	1 229	118 170	2 050	72 324	913	79 702
<b>Total</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>	<b>51 518</b>	<b>1 733 224</b>	<b>61 225</b>	<b>2 495 345</b>

NBKR data

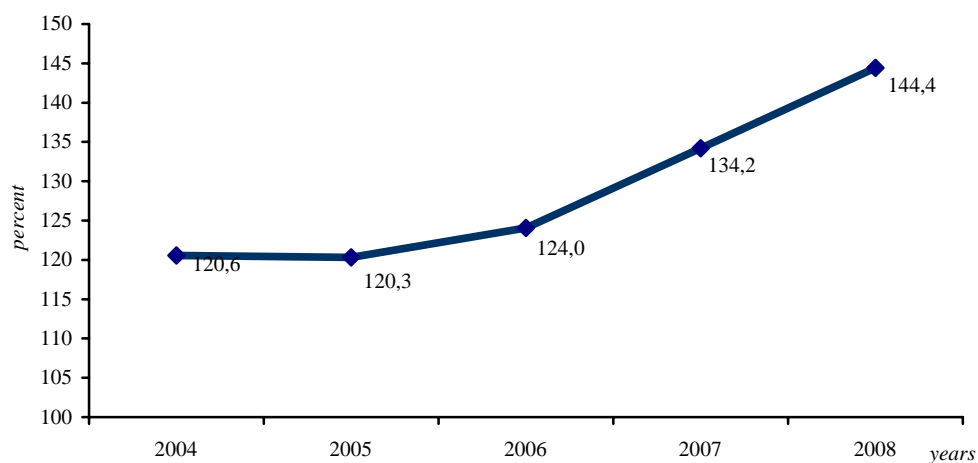
**Table 19.3.** Transactions with Plastic Cards in Sales Outlets

Вид карт	2004		2005		2006		2007		2008	
	Number of transactions	Volume, million soms	Number of transactions	Volume, million soms	Number of transactions	Volume, million soms	Number of transactions	Volume, million soms	Number of transactions	Volume, million soms
Visa	16 956	102 437	21 062	106 917	33 879	112 871	33 506	134 865	35 495	174 271
Europay/Master Card	7 827	44 671	8 920	46 923	6 238	50 280	13 078	59 185	7 539	59 028
Alay-Card	38 857	8 178	34 348	8 366	37 849	11 539	38 991	17 076	36 205	17 911
Demir 24	2 510	833	5 327	1 781	12 413	5 065	17 467	6 866	8 114	4 683
Elkart	-	-	-	-	10	3	3 152	882	9 423	3 280
Union Card	-	-	-	-	-	-	-	-	-	-

data of commercial banks

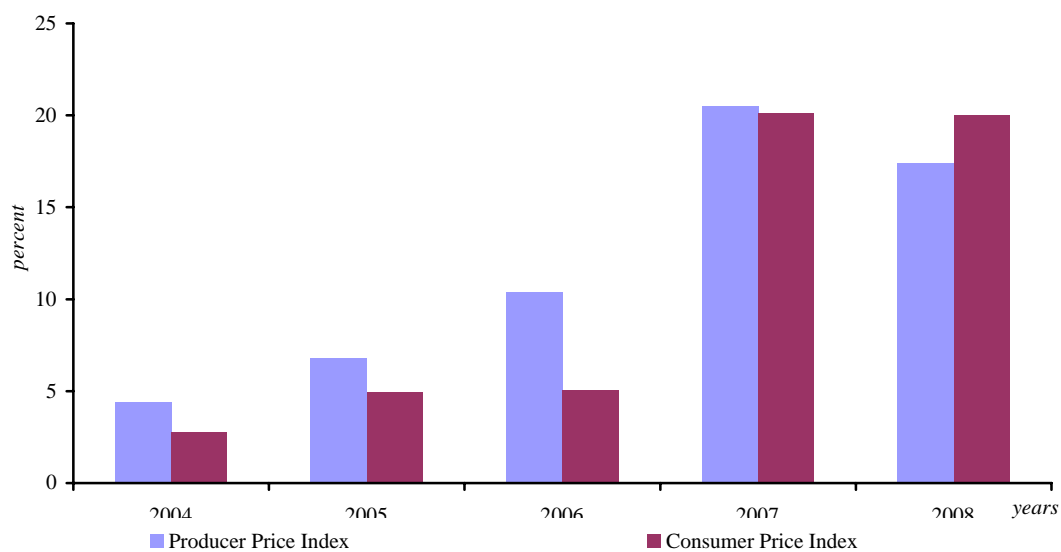
"- " - no transactions

**Chart 1: Rates of Growth of Real Gross Domestic Product  
(2000 = 100 percent)**



*NSC KR data*

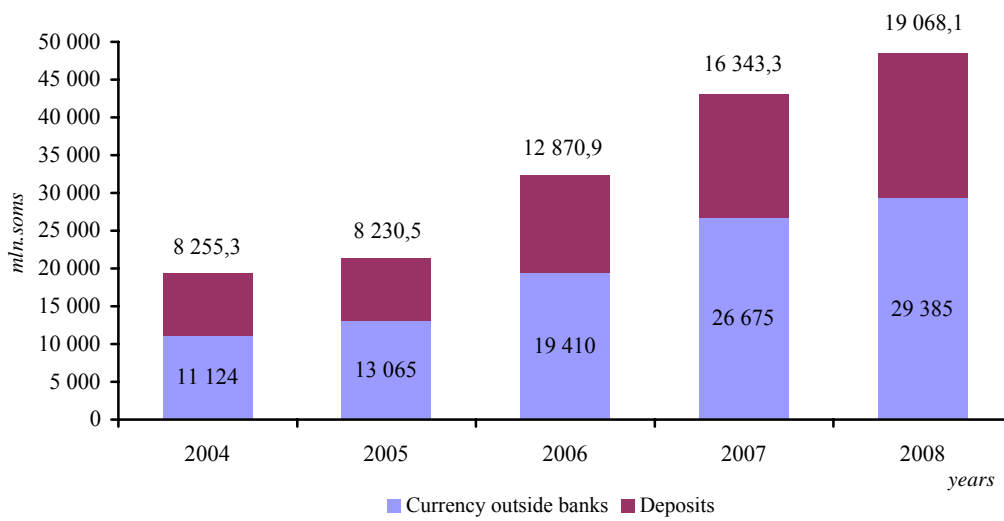
**Chart 2: Rates of Growth of Consumer & Producer Prices**



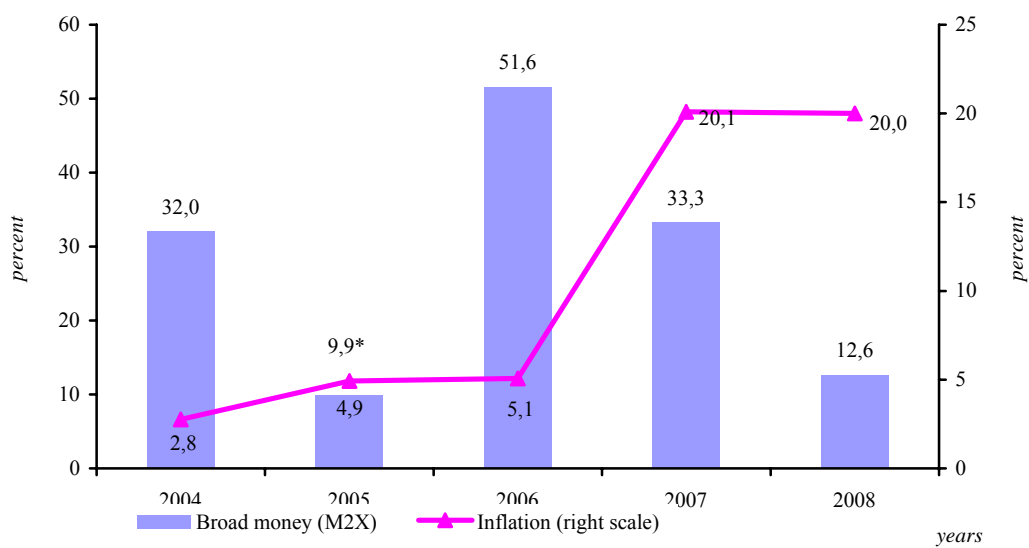
*NSC KR data*

### Chart 3: Monetary Aggregates

#### 3.1: Monetary Aggregate M2X Structure



#### 3.2: Rates of Growth of Money Supply & Inflation

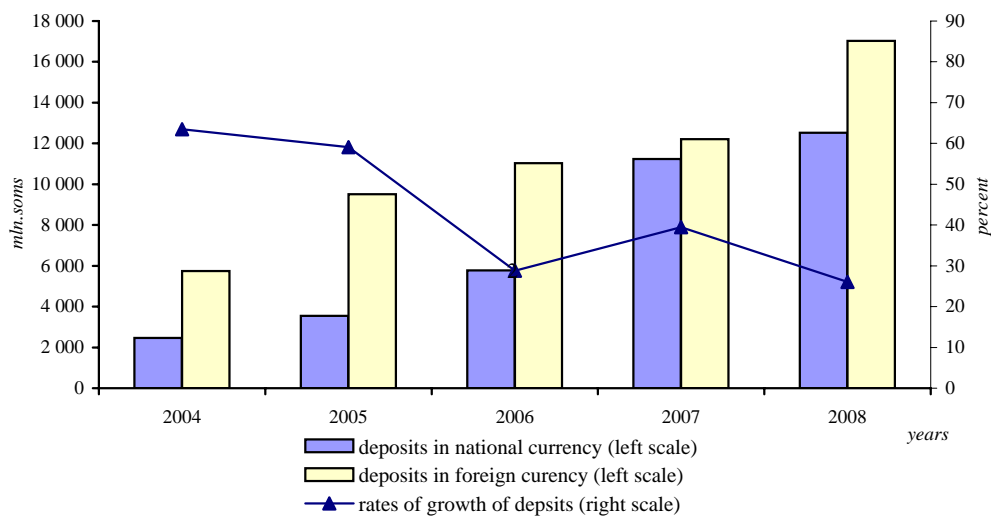


\* Low rates of growth of the estimated value of money supply in 2005 result from methodological changes: since October 1, 2005, the data on deposits and credits have been presented in conformity with the new Chart of Accounts for commercial banks

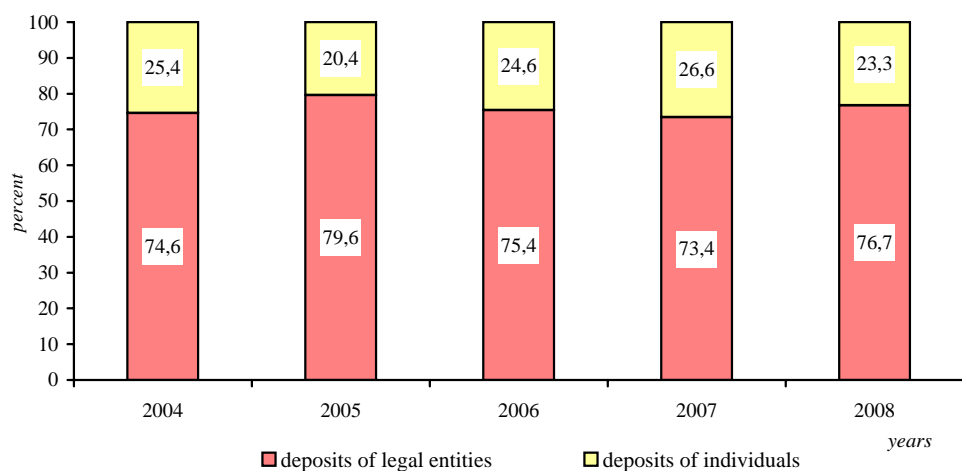
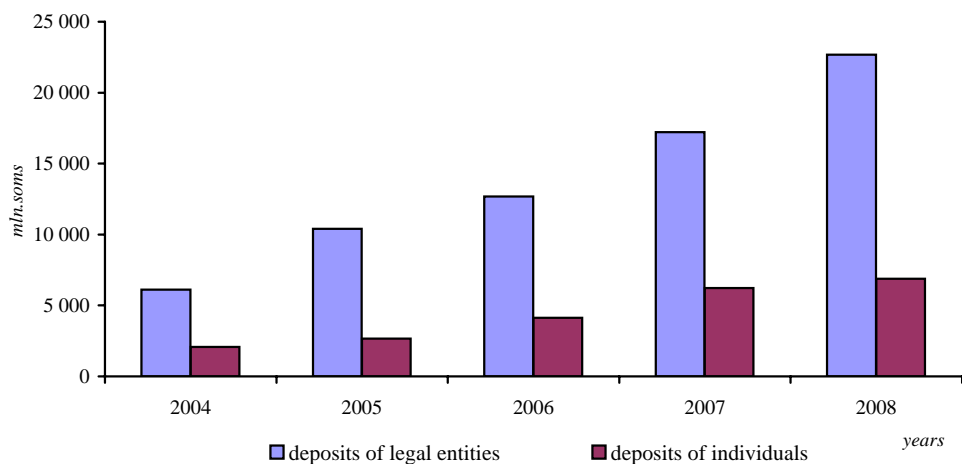
on NSC KR, NBKR and commercial banks data

## Chart 4: Deposits

### 4.1: Balances of Deposits with Operating Commercial Banks (end of period)



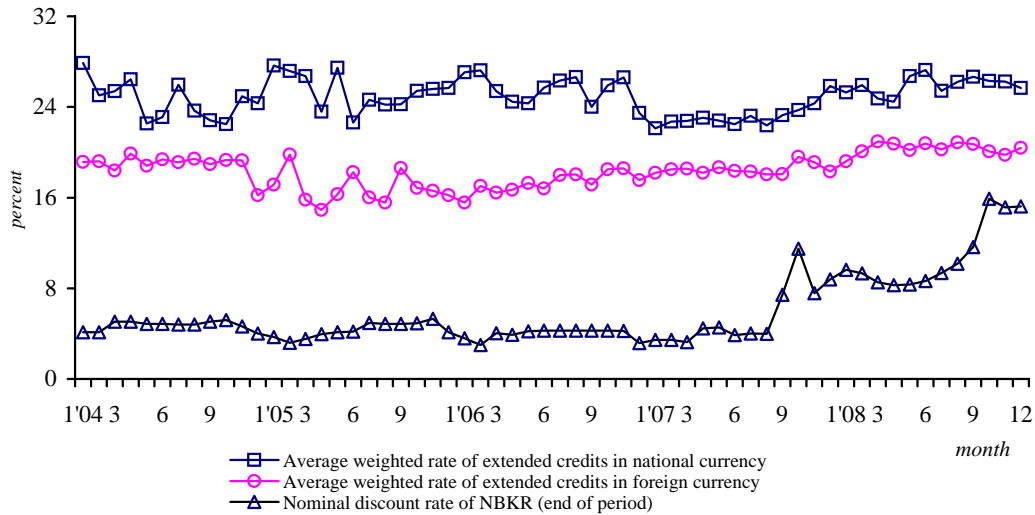
### 4.2: Structure of the Deposit Base of operating Commercial Banks (end of period)



Data from monthly regulatory reporting of commercial banks

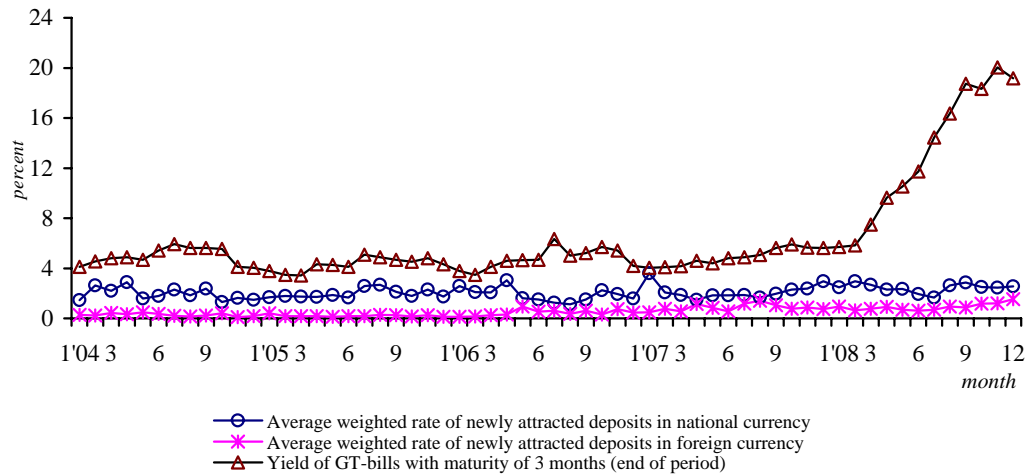
## Chart 5: Interest Rates

### 5.1: Interest Rates of Credits Extended by Commercial Banks



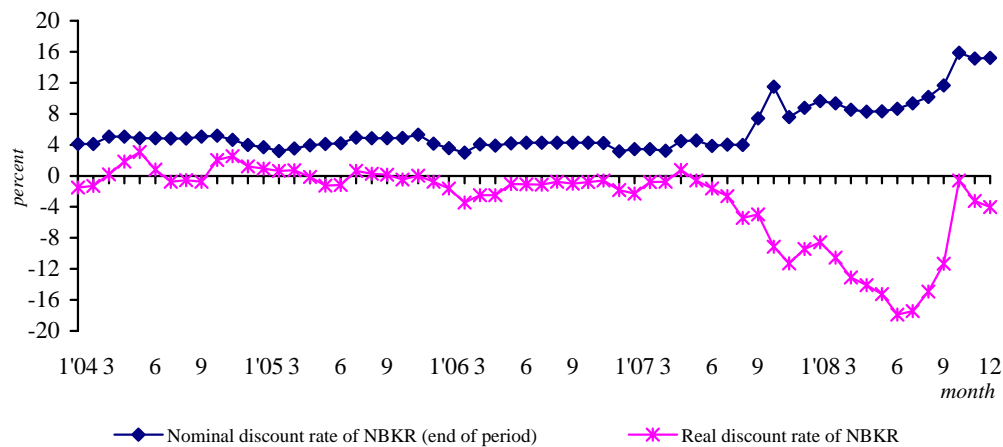
Data from monthly regulatory reporting of commercial banks.

### 5.2: Interest rates of Deposits and Yield of GT-bills



NBKR data and monthly regulatory reporting of commercial banks.

### 5.3: Nominal and Real Discount Rate Developments



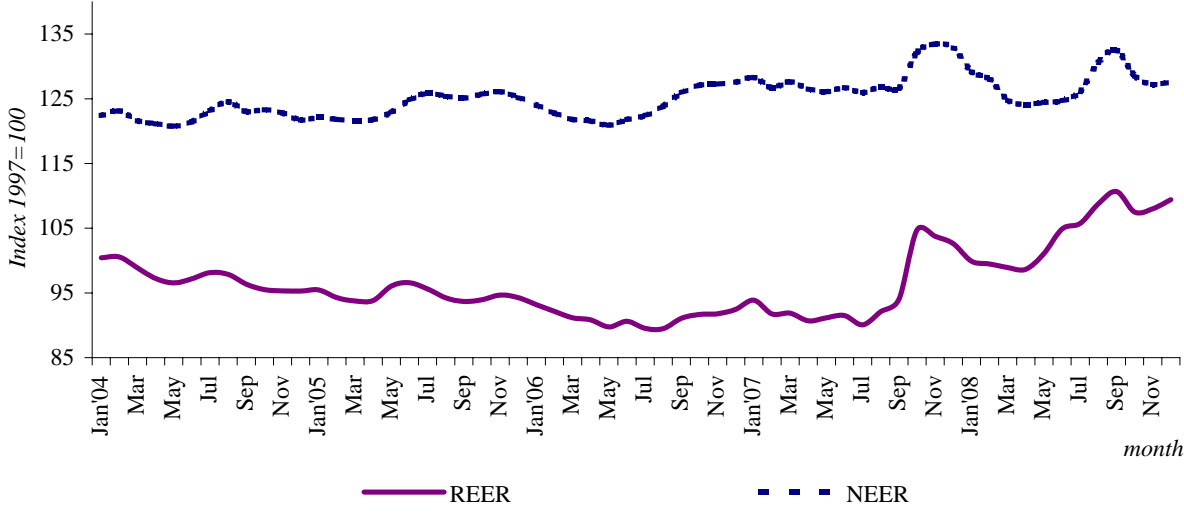
NBKR data

Note: The following formula was applied to calculate the real interest rate.

$r = (i - p) / (p + 100) * 100$ , with  $i$  being the nominal interest rate,

$r$  - real interest rate,  $p$  - annual rate of inflation.

**Chart 6: Nominal and Real Effective Exchange Rates \***



\* NBKR data



## Periodical Publications and Other Information Tools of the NBKR

No	Title	Language of Publication	Periodicity	Contents	Distribution
1	2	3	4	5	6
1.	Bulletin of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian and English	Monthly	Statistical data on basic macroeconomic indicators and sectors of the economy of the Kyrgyz Republic. The data of the National Statistic Committee, Ministry of Finance, commercial banks, Financial Market Supervision & Regulation Service of the Kyrgyz Republic and the NBKR are used when preparing the bulletin.	The Jogorku Kenesh of the Kyrgyz Republic, the Presidential Administration, the Office of the Government, courts, ministries and departments, commercial banks, local governments, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic missions of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
2.	Annual Report of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian and English	Annually	The comprehensive progress report of the National Bank for the reporting year containing the concise description of the outcome of developments in the real sector of the economy, of the decisions and actions of the National Bank in the monetary sphere. It comprises information on economic development, monetary policy, the financial statements and general information about the National Bank. The report also has the statistical appendices attached to it.	The Jogorku Kenesh of the Kyrgyz Republic, the Presidential Administration, the Office of the Government, courts, ministries and departments, commercial banks, local governments, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic missions of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
3.	Statutory Acts of the NBKR	Kyrgyz and Russian	Monthly	Regulations, instructions and other regulatory acts adopted by the NBKR.	The Jogorku Kenesh of the Kyrgyz Republic, the Presidential Administration, the Office of the Government, commercial banks, judicial agencies, ministries and departments, local governments, higher educational institutions and libraries of the Kyrgyz Republic.

4.	Inflation Report in the Kyrgyz Republic	Kyrgyz, Russian and English	Quarterly	The description of the consumer price behavior in the republic and its regions, and the analysis of basic inflation factors. The publication informs of monetary policy decisions of the NBKR, and presents the inflation forecast for the upcoming period.	The Jogorku Kenesh of the Kyrgyz Republic, the Presidential Administration, the Office of the Government, courts, ministries and departments, commercial banks, local governments, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic missions of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
5.	The Balance of Payments of the Kyrgyz Republic	Kyrgyz, Russian and English	Quarterly	The publication describes the recent development trends in the external sector, and contains statistical data on the balance of payments, external trade, international reserves, external debt, and the international investment position, as well as the description of techniques and the information base used to compile the balance of payments.	The Jogorku Kenesh of the Kyrgyz Republic, the Presidential Administration, the Office of the Government, courts, ministries and departments, commercial banks, local governments, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic missions of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
6.	Press Release of the National Bank of the Kyrgyz Republic	Kyrgyz and Russian	Weekly	The live data on the official exchange rates set by the National Bank of the Kyrgyz Republic, the results of inter-bank foreign exchange auctions, the situation in the market of GT-bills and NBKR Notes, the discount rate of the National Bank, brief analytical materials on basic lines of NBKR activity, as well as the chronicle of weekly events in the National Bank.	The Jogorku Kenesh of the Kyrgyz Republic, the Presidential Administration, the Office of the Government, courts, ministries and departments, commercial banks, local governments, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic missions of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.
7.	Banking System Development Trends	Kyrgyz, Russian and English	Semiannually	The analysis and assessment of banking system development, as well as the evaluation of stability components of the banking system of Kyrgyzstan.	The Jogorku Kenesh of the Kyrgyz Republic, the Presidential Administration, the Office of the Government, courts, ministries and departments, commercial banks, local governments, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic missions of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.

8.	Discount Rates of Foreign Currencies vis-à-vis the Kyrgyz Som , and the NBKR's Discount Rate	Kyrgyz and Russian	Annually	Information on discount exchange rates of foreign currencies vis-à-vis the Som set by the National Bank of the Kyrgyz Republic, and the NBKR's discount rate for the year.	The Jogorku Kenesh of the Kyrgyz Republic, the Presidential Administration, the Office of the Government, courts, ministries, departments and financial organizations, commercial banks, and commercial banks.
9.	Information Booklets and Instructions	Kyrgyz and Russian	Pursuant to the work plans of departments	Information booklets and guidelines are issued to cover various lines of NBKR activity.	The Jogorku Kenesh of the Kyrgyz Republic, the Presidential Administration, the Office of the Government, courts, ministries and departments, commercial banks and non-bank financial institutions, higher educational institutions and libraries, through the Public Chamber of the NBKR.
10.	Official NBKR's Web-Site  <a href="http://www.nbkr.kg">www.nbkr.kg</a>	Kyrgyz, Russian and English	Updated online	Full information on activity of the NBKR, including information on the banking legislation, regulatory and legal acts of the NBKR that regulate its monetary policy, activity of commercial banks and other FCI, on the issue of organizing the payment system and the cash and money turnover, as well as draft documents for discussion. In addition, the regularly updated list of commercial banks and nonbank institutions, licensed by the National Bank, as well as data on tariffs for commercial banking services. Also, the following information is posted on the web-site: reviews of the commercial banking system in and the nonbanking sector; statistical data of monetary surveys, on foreign economic indicators, balance of payments, international reserves, external debt, and on the international investment position of the Kyrgyz Republic; data on the history of national currency. Internet versions of official publications of the National Bank: NBKR Bulletin, Annual Report, Review of Inflation in the Kyrgyz Republic, The Balance of Payments of the Kyrgyz Republic, Press Release of the NBKR, and Banking System Development Trends in the Kyrgyz Republic are updated according to periodicity of each publication.	Free access to information

				<p>Forms of documents on employment, opening of the bank, pawn-shops, exchange bureaus, and microfinance organizations are placed in the special section.</p> <p>Financial market indicators updated in the real-time mode, information about transactions with NBKR involvement and official exchange rates of currencies and the discount rate established by the National Bank, and the chronicle of events taking place in the NBKR.</p>	
11.	“ <i>Uluttuk Bank Bildiret</i> ” Radio Program	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 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 in the column “<i>NBKR Public Chamber Answers Your Questions</i>”.</p>	Broadcast on the Kyrgyz Radio (GTRK) at 104.1 FM
12.	“ <i>Natsbank Soobshayet</i> ” TV Program (National Bank Information)	Russian	Monthly	<p>Highlighted are the basic aspects of NBKR activity and the weekly financial market review is given in this program; the public is informed about the official exchange rates set by the National Bank of the Kyrgyz Republic and overall macroeconomic indicators of the Republic; and interviews with NBKR specialists are on current issues of 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>	Broadcast on the National Channel (First National Channel)

**Appendix 4**  
to the NBKR Report for 2008

**List of Abbreviations**

ADB	Asian Development Bank
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
ATM	Automatic Teller Machine
AUD	Australian dollar
AUCA	American University of Central Asia
BCS	Bulk Clearing System
CAD	Canadian dollar
CB	Central Banks
CBRF	Central Bank of the Russian Federation
CIS	Commonwealth of Independent States
CHF	Swiss franc
CIF	Price at the Frontier of Country-Importer (cost, insurance, freight)
CJSC	Closed Joint Stock Company
CPI	Consumer Price Index
DPS	Deposit Protection System
EBRD	European Bank for Reconstruction and Development
EurAsEC	Eurasian Economic Community
EUR	Euro
ESF	Exogenous Shock Facility
FCI	Finance and Credit Institutions
FCSDCU	Financial Company for Support and Development of Credit Unions
FOB	Price at the Frontier of Country-Exporter (free on board)
FOREX	Foreign Exchange
FP IR	Forex Portfolio of International Reserves
FRS	Federal Reserve System
GBP	British pound
GDP	Gross Domestic Product

GS	Government Securities
GS (s)	Government Securities for Settlement
GT-Bills	Government Treasury Bills
GT-Bills (s)	Government Treasury Bills for Settlement
GT-Bonds	Government Treasury Bonds
GT Bonds (s)	Government Treasury Bonds for Settlement
GTZ	German TA Society
IFC	International Finance Corporation
IFCI	International Financial Institution
IMC	Interstate Monetary Committee
IMF	International Monetary Fund
IR	International Reserves
IsDB	Islamic Development Bank
ISB	Interstate Bank
JSCB	Joint Stock Commercial Bank
KAFC	Kyrgyz Agricultural Finance Corporation
KRSU	Kyrgyz-Russian Slavic University
LLC	Limited Liability Company
LLP	Loan Loss Provisions
MFC	Microfinance Company
MFCI	Microfinance and Credit Institution
MEDT	Ministry of Economic Development and Trade
MFKR	Ministry of Finance of the Kyrgyz Republic
MFO	Microfinance Organizations
MM	Mass Media
MP	Monetary Policy
MTMDS	Mid-Term Microfinancing Development Strategy
NBKR	National Bank of the Kyrgyz Republic
NBRB	National Bank of the Republic of Belarus
NBS	National Bank of Switzerland

NFCI	Nonbank Finance and Credit Institutions
NSC KR	National Statistics Committee of the Kyrgyz Republic
OJSC	Open Joint Stock Company
OECD	Organization for Economic Cooperation and Development
PIP	Public Investment Program
POS	Point of Sale
PRGF	Poverty Reduction and Growth Facility Program
RLA	Regulatory and Legal Framework
ROA	Return on Assets
ROE	Return on Equity
RTGS	Real Time Gross Settlement System
SCC KR	State Customs Committee of the Kyrgyz Republic
SCO	Shanghai Cooperation Organization
SDR	Special Drawing Rights
SIBOS	SWIFT International Banking Forum
SITC	Standard International Trade Classification
SSC	Settlement Savings Company
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TA	Technical Assistance
TIES	Trade and Information Electronic System
UIPC HSC	Integrated Interbank Processing Center Hardware and Software Complex
USAID	United States Agency for International Development
USA	United States of America
USD	US dollar
WB	World Bank