

NATIONAL BANK OF THE KYRGYZ REPUBLIC

ANNUAL REPORT

2014



Bishkek 2015

Annual Report of the National Bank of the Kyrgyz Republic for 2014

The report of the National Bank of the Kyrgyz Republic for the year of 2014 is prepared in accordance with Articles 8 and 10 of the Law “On the National Bank of the Kyrgyz Republic.”

The report of the National Bank of the Kyrgyz Republic for 2014 is approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No 18/1 of March 20, 2015.

The financial statements for the year ended 31 December 2014 are approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No 18/2 of March 20, 2015.

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Dear Readers,

The National Bank of the Kyrgyz Republic presents you the annual report for 2014, prepared in line with the Law “On the National Bank of the Kyrgyz Republic”. The annual report contains information about activities on implementation of the main tasks assigned to the National Bank and aimed at achieving and maintaining stability of the general price level.

In the reporting year, the National Bank of the Kyrgyz Republic made a transition to a new monetary policy framework. A change in the framework has been made for the first time since launch of an independent monetary policy by the National Bank and was dictated by a need for a timely response to macroeconomic developments both in the country and in the global economy. A medium-term objective of the transition to the new framework is to strengthen an operation of an interest rate channel of a transmission mechanism and its impact on the real economy.

The implementation of the monetary policy was directed to fulfill tasks defined in the National Sustainable Development Strategy of the Kyrgyz Republic for 2013-2017. To this end, the National Bank applied monetary policy tools and macroprudential measures, which made it possible to keep the average annual rate of inflation in 2014 within the stated interval.

In 2014, basic indicators of banking and microfinance systems demonstrated progressive development, while maintaining stability and capacity for improving the level of mediation and performance. In order to identify problems in commercial banks at an early stage in the context of development of financial system and use of new tools by the banks, activities of the National Bank in the period under review were directed to examination and practical use of individual elements of supervision, based on risk prevention.

Taking into account risks inherent in activities of nonbank financial-credit institutions and for the purposes of further qualitative development of the sector, the National Bank increased minimum capital requirements for NFCIs and put into practice a methodology of risk-based supervision. As a result of these actions, the whole sector demonstrated an enhancement of efficiency of risk management, an improvement in quality of rendered services, and growth of competition.

Special attention was paid to issues of improving financial literacy of the population, and the implementation of a number of projects started in 2014.

The national payment system of the Kyrgyz Republic functioned in the period under review in stable and sustainable mode. One of the most significant events was that of an adoption by the Jogorku Kenesh of the Kyrgyz Republic of the Law “On the Payment System of the Kyrgyz Republic”, aimed at strengthening measures for increasing transparency and controllability of cash flows in the economy.

In line with the principles of transparency and completeness of information provision, the Annual Report of the National Bank includes financial statements prepared in accordance with international standards and confirmed by an independent audit.

Sincerely,

Chairman



T. Abdygulov



ECONOMIC SITUATION
IN THE KYRGYZ REPUBLIC
IN 2014



CHAPTER 1. ECONOMIC DEVELOPMENT OF THE KYRGYZ REPUBLIC IN 2014

1.1. Real Sector of Economy¹

A slowdown was observed in the economy of the Kyrgyz Republic in 2014. According to the preliminary data of the National Statistics Committee of the Kyrgyz Republic (NSC), the gross domestic product (GDP) in real terms increased in 2014 by 3.6 percent as against growth of the same indicator in 2013 by 10.9 percent. The slowdown in GDP growth was caused by mainly a drop in production in industry due to lower production volumes at the Kumtor gold mining enterprises and a loss of crop production. The effect of a high statistical database of 2013 had also an impact on the relatively low rate of economic growth in 2014. In this regard, the main contribution to GDP growth in 2014 was observed to have been made by construction and services sectors. Excluding the Kumtor gold mining enterprises, growth of Kyrgyzstan's GDP was 4.6 percent (in 2013, an increase was 6.1 percent). In nominal terms, the GDP amounted to KGS 397.3 billion. The GDP deflator was 7.9 percent as against 3.2 percent in 2013.

Table 1.1.1.
Gross Domestic Product Sector Composition

	2013			2014		
	Share, percent	Growth rate, percent	Contribution to growth, percentage points	Share, percent	Growth rate, percent	Contribution to growth, percentage points
GDP	100,0	10,9	10,9	100,0	3,6	3,6
Agriculture, forestry and fishery	14,6	2,7	0,4	14,8	-0,6	-0,1
Industry	18,5	35,9	5,7	15,5	-1,7	-0,3
<i>Mining</i>	0,7	-6,3	-0,1	0,6	-0,5	-0,004
<i>Manufacturing</i>	15,8	47,5	5,7	13,1	-3,0	-0,5
<i>Provision (supply) of electricity, gas, steam, and conditioned air</i>	1,8	-1,8	-0,05	1,6	7,8	0,1
<i>Water supply, purification and treatment of waste and generation of secondary materials</i>	0,3	7,5	0,02	0,2	7,1	0,02
Construction	6,3	16,4	1,1	7,4	24,9	1,6
Wholesale and retail trade; repair of motor vehicles and motorcycles	16,5	7,3	1,2	17,4	8,3	1,4
Transport activity and storage of goods	3,9	6,1	0,3	4,2	2,9	0,1
Information and communication	4,4	15,7	0,8	4,2	5,0	0,2
Other	21,7	0,5	0,1	22,3	1,1	0,2
<i>Activity of hotels and restaurants</i>	1,6	13,3	0,2	1,7	9,6	0,2
<i>Financial intermediation and insurance</i>	0,8	2,7	0,02	0,8	0,8	0,01
<i>Real estate activities</i>	2,3	-1,2	-0,03	2,3	2,9	0,1
<i>Professional, scientific and technical activities</i>	1,5	-2,6	-0,04	1,7	-0,3	-0,01
<i>Administrative and supporting activities</i>	0,4	1,7	0,01	0,4	5,3	0,02
<i>Public administration and defense; compulsory social security</i>	5,0	-1,6	-0,1	5,4	-2,5	-0,1
<i>Education</i>	5,3	0,4	0,02	5,1	1,3	0,1
<i>Health care and social services to the population</i>	3,1	1,6	0,1	3,2	0,6	0,02
<i>Arts, entertainment and recreation</i>	0,6	1,5	0,01	0,7	2,3	0,01
<i>Other service activities</i>	1,1	-1,3	-0,01	1,0	1,0	0,01
Net (net-of-subsidies) taxes on products	13,9	10,9	1,4	14,1	3,6	0,5

Source: NSC

¹ According to preliminary data.

A decline in industrial production was one of the main reasons for the slowdown in GDP growth in 2014, which was mainly due to lower production at the manufacturing sector enterprises (by 3.0 percent) in connection with a cutback in production at the Kumtor minefield enterprises (by 6.8 percent). As a result, the volume of industrial production fell by 1.7 percent, amounting to KGS 167.6 billion. The contribution of industrial production to economic growth was negative and amounted to 0.3 percentage points (the contribution of the similar indicator in 2013 was positive and amounted to 5.7 percentage points).

*Industrial
production*

Excluding the Kumtor gold mining enterprises, industrial production increased by 3.4 percent at the end of 2014. Growth was observed in production of refined petroleum products (by 2.3 times), in provision and supply of steam and conditioned air (by 52.7 percent), and in production of pharmaceutical outputs (by 28.3 percent).

The share of industry in the GDP sector composition was 15.5 percent in 2014.

The decline in agricultural production in 2014 was due to unfavorable natural-climatic conditions that influenced the cutback in crop production by 4.6 percent. Gross agricultural output amounted to KGS 194.4 billion in 2014, having decreased by 0.6 percent in real terms. The contribution of this sector to GDP growth was negative and amounted to 0.1 percentage points, down by 0.5 percentage points compared with the year of 2013.

Agriculture

The drop in gross agricultural output was mainly conditioned by the decline in grain crop production (excluding legumes, rice and buckwheat) by 21.9 percent, including wheat – by 30.1 percent.

Growth in market services in 2014, compared with 2013, was 6.5 percent. As before, the contribution of this sector to GDP growth was positive being 1.9 percentage points at the end of 2014.

*Trade and sphere
of services*

The total volume of wholesale and retail trade, repair of motor vehicles and motorcycles in 2014 increased by 8.3 percent compared to the same period in 2013. In the period under review, there was growth in all sectors of this industry, in particular, a turnover of “retail trade, excluding motor vehicle and motorcycle business” increased by 9.4 percent; “sales of motor vehicles and motorcycles, motor vehicle parts and accessories” – by 7.3 percent. The volume of services rendered by hotels and restaurants grew by 9.6 percent. Freight transportation by all types of transport rose by 3.6 percent for the reporting year.

Gross output in construction totaled KGS 96.9 billion in 2014, having increased by 24.9 percent in real terms against growth of the similar indicator by 16.4 percent in 2013. The construction sector made the positive contribution to GDP at the level of 1.6 percentage points. The increase in the volume of construction works was due to a speedup of growth of fixed asset formation.

Construction

Fixed asset formation amounted to KGS 105.8 billion, having increased by 21.6 percent (in comparable prices). In 2013, growth of the similar indicator was 7.6 percent. Actual fixed asset formation increased at objects of provision (supply) of electricity, gas, steam and conditioned air supply, of the manufacturing industry and in the sphere of services. A structure of sources of financing fixed asset formation demonstrated the increase in investment from both the external (by 35.6 percent) and domestic sources (by 13.7 percent). The increase in investments from the external sources of financing was due to growth of foreign loans (by 2.5 times). In this regard, the increase in investment from the domestic sources of financing was due to increased investment under “funds of the population and charity of residents of the Kyrgyz Republic” (by 15.2 percent), and due to the funds of enterprises and organizations (by 15.0 percent).

Investment

1.2. Public Finance Sector¹

Fiscal Policy

The fiscal policy was aimed in 2014 at ensuring macroeconomic stability by strengthening a fiscal discipline and enhancing efficiency in public spending. Execution of budget revenue was achieved through the implementation of targets on collection of tax and non-tax revenue. As before, most of the budget funds were allocated to finance secured commitments, in particular, the increase was noted in labor costs, subsidies and social benefits. In the reporting year, the budget deficit decreased and made, according to the Central Treasury, KGS 1.9 billion or 0.5 percent of GDP (in 2013 the budget was executed with a deficit of 0.7 percent of GDP).

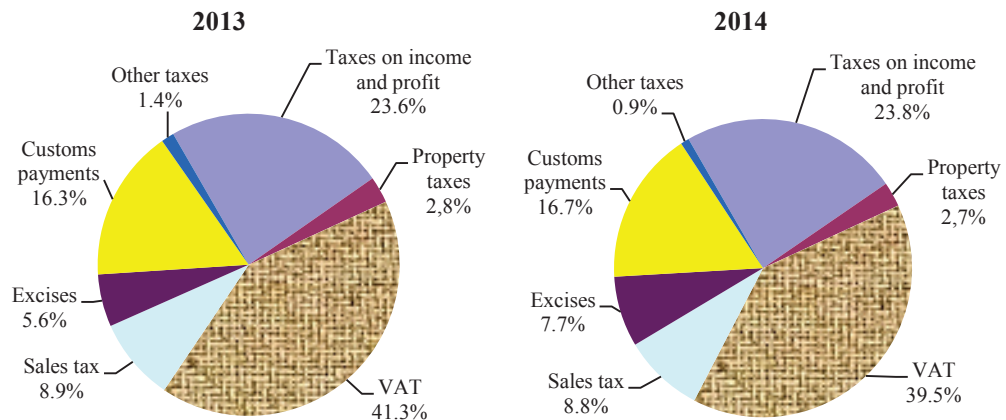
In 2014, revenue of the state budget from operating activities amounted to KGS 119.4 billion or 30.0 percent of GDP, having increased by 17.3 percent compared to the same period of 2013 (in 2013 revenue also increased by 17.3 percent).

Tax receipts, whose share is the major one in the revenue structure, amounted to KGS 82.6 billion, having increased by 13.4 percent compared to the similar indicator for 2013. Tax revenue were secured by 48.5 percent by returns from the State Tax Service of the Kyrgyz Republic and by 51.5 percent – from the State Customs Service of the Kyrgyz Republic (in 2013, this ratio was 49.3 and 50.7 percent, respectively).

In 2014, in accordance with the Law “On the National Bank of the Kyrgyz Republic”, the National Bank transferred to the state budget 70 percent of its profit, which amounted to KGS 310.9 million.

Chart 1.2.1.

State Budget Tax Revenue Structure



Total state budget expenditure for operating activities amounted to KGS 95.6 billion in 2014, having increased by 10.4 percent (in 2013, the slowdown by 13.4 percent was registered in expenditure). In relation to GDP, expenditure decreased from 31.9 percent in 2013 to 24.1 percent in 2014.

The structure of expenditure, allocated in accordance with an economic classification, did not change significantly. 2014 state budget expenditure for wages increased by 11.5 percent (in 2013 – by 3.1 percent), amounting to KGS 35.1 billion or 36.7 percent of total expenditure for operating activities.

According to the functional classification of budget expenditure, growth of expenditure was observed in the reporting period in the following groups: defense, public order and security – by 19.1 percent, environmental protection – by 16.8 percent, general public services – by 15.7 percent economic issues – by 14.7 percent, social security – by 14.4 percent, housing and communal services – by 11.8 percent, recreation,

¹ The preliminary data of the Ministry of Finance of the Kyrgyz Republic.

culture and religion - by 6.5 percent, education – by 3.3 percent, and health care – by 1.7 percent. Net acquisition of non-financial assets amounted to KGS 25.7 billion in 2014 or 6.5 percent of GDP (in 2013 – 4.9 percent of GDP).¹

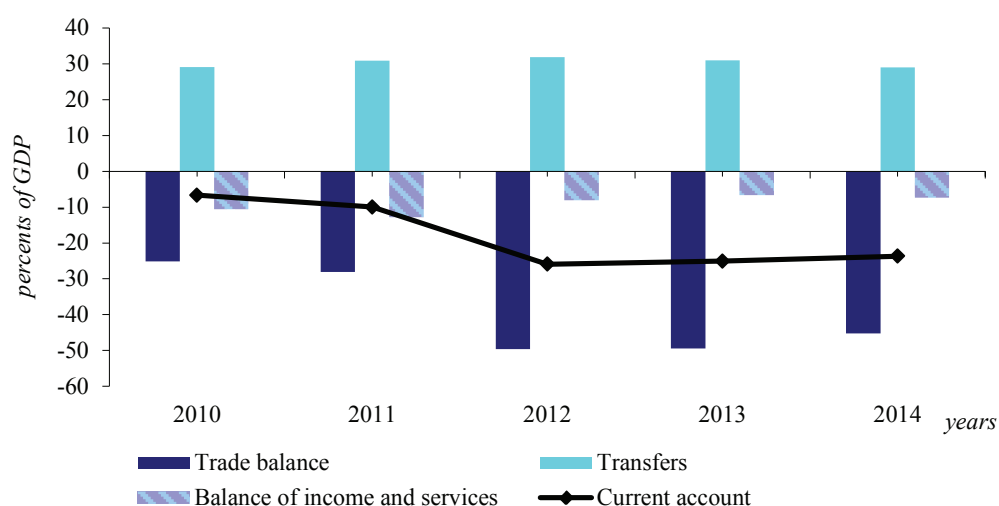
According to the data of the Ministry of Finance of the Kyrgyz Republic, the public external debt at the end of 2014 was USD 3.4 billion or 50.9 percent of GDP (in 2013 – USD 3.2 billion or 43.8 percent of GDP), the domestic debt – KGS 12.4 billion or 3.1 percent of GDP (in 2013 – KGS 11.9 billion or 3.3 percent of GDP). Public debt service expenditure was KGS 13.7 billion or 3.5 percent of GDP, of which interest payments were KGS 3.5 billion or 0.9 percent of GDP (in 2013 public debt expenditure was KGS 13.9 billion or 3.9 percent of GDP).

1.3. Balance of Payments of the Kyrgyz Republic²

In 2014, the decrease was noted in the current account deficit – from 25.1 percent of GDP to 23.7 percent of GDP (USD 1.8 billion).

Chart 1.3.1.

Current Account



The leading decline in import receipts of goods in comparison with export supply led to a reduction of the trade deficit by 4.7 percent (to USD 3.4 billion).

Foreign trade

Export of goods in the reporting year fell by 7.7 percent and developed at a rate of USD 1.9 billion. The largest export item is still that of gold, whose value decreased by 2.7 percent due to the drop in the average contract prices of supplies. In this case, exports excluding gold fell by 10.4 percent and amounted to USD 1.2 billion. The decrease was noted in the supplies of jet fuel³ (by 21.6 percent), vegetables (by 21.3 percent), electric current (by 99.2 percent), iron and steel (by 50.4 percent), fruits and nuts (by 32.5 percent) and of a number of other goods.

The volume of imports (FOB) in the reporting year amounted to USD 5.3 billion – down by 5.8 percent. The main factor of the reduction in the volume of imports was that of the decrease in the volume of deliveries and import prices of petroleum products, whose value developed, as a result, below the level of 2013 by 11.5 percent. There was also the reduction in the deliveries of iron, steel and aluminum structures (by 64.8 percent), vehicles for transportation of goods and special-purpose vehicles (by 45.7

¹ The summary GDP indicator for 2013 was used for calculations.

² Preliminary data.

³ Export of on-board stock.

percent), clothing and clothing accessories (by 17.7 percent), electric transformers (by 64.6 percent), wheat flour (by 60.9 percent) and of a number of other goods.

During the year, the 16.8 percent decline was observed in export of services, while import of services increased by 8.9 percent. In this case, a dynamics of services was formatively influenced by the item “travel” that demonstrated the decline in exports by 20.3 percent and growth of import by 11.1 percent. As a result, the balance of services deficit increased 5.1 times (to USD 340.6 million).

Money transfers

A net inflow of current transfers amounted to USD 2.2 billion, having decreased by 2.8 percent compared to the same period of 2013. In the structure of current transfers the significant volume of foreign exchange receipts was provided by remittances of migrant workers. For the year of 2014, the net inflow of remittances amounted to USD 2.0 billion (including the net inflow of transfers of individuals through the money transfer system – USD 1.8 billion), that is by 5.1 percent lower than in the previous year.

The negative balance of income decreased by 48.4 percent (to USD 213.7 million), which was, mainly, due to the reduction of income from investment activity in the Kyrgyz Republic to be paid to direct foreign investors.

Capital account

The balance of the capital and financial account developed positive at the end of 2014 and amounted to USD 810.3 million, which is lower than the corresponding figure in 2013 by 28.5 percent.

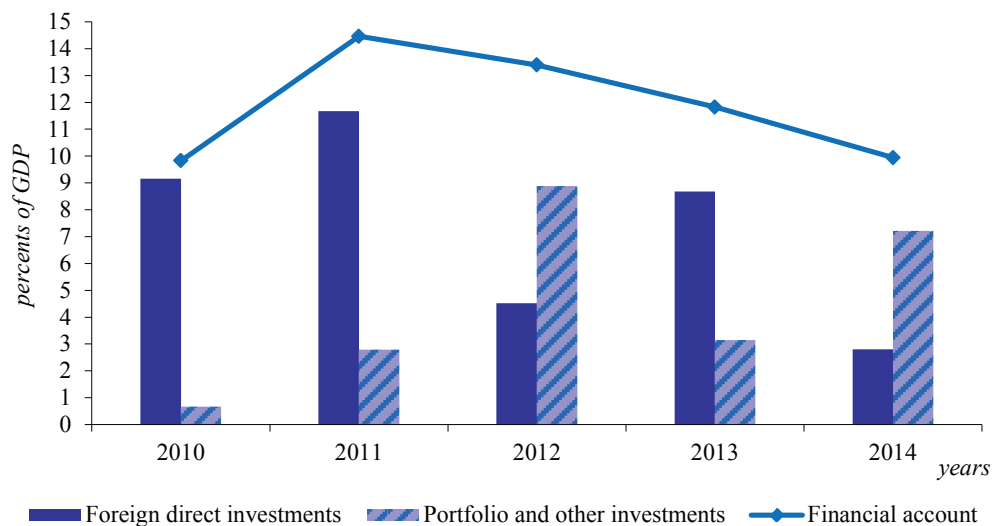
The main receipts on the financial account were provided by the inflow of capital under the items “Other Investment” and “Direct Investment”.

The balance of the item “Other Investment” remained positive and amounted to USD 536.2 million, which is 2.4 times higher than the level of 2013. The change in the composition of other investments is, primarily, due to the increase in the net capital inflow from loans received by the government¹ and private sectors.

The net inflow of direct investment in the reporting year fell by 66.4 percent, amounting to USD 210.5 million. The main volume of direct investment was provided by the net inflow of reinvested earnings in direct investment enterprises.

Chart 1.3.2.

Financial Account



¹ In 2013, formation of the net inflow of loans of the government sector was affected by an accounting of a write-off by the Russian Federation of the debt in the amount of USD 188.9 million in accordance with the Agreement between the Governments of the Russian Federation and the Kyrgyz Republic on a settlement of the debt of the Kyrgyz Republic to the Russian Federation on the previously provided loans.

By the end 2014 the balance of the item “Errors and Omissions” was positive at the rate of USD 838.4 million, which indicates the incomplete statistical registry of transactions related to the inflow of capital into the country.

Errors and omissions

Thus, according to the results of 2014 the balance of payments was negative at the rate of USD 128.4 million as against a surplus of USD 288.0 million in 2013.

Gross international reserves at the end of the year approached the level of USD 2.0 billion. The size of the reserve assets of the National Bank of the Kyrgyz Republic corresponded to 4.0 months of coverage of the future volume of imports of goods and services.

International reserves

1.4. Banking Sector¹

Growth of basic indicators of the banking sector was observed by the end of 2014, in particular, growth of assets, a loans portfolio, a resource base, and a net profit.

Basic banking sector trends

The level of capital adequacy of the banking sector is high, suggesting that there is some potential to further improve financial intermediation, enhance efficiency of the banking sector, and ensure a “safety cushion” in the future.

Systemic risks in the banking sector are moderate. The banking sector is still poorly integrated into international financial markets.

24 commercial banks, including the Bishkek Branch of the National Bank of Pakistan, operated in 2014 in the Kyrgyz Republic.

Number of banks

Among the operating commercial banks, 16 banks are noted for foreign participation in capital. At the end of 2014, the share of foreign capital accounted for 35.8 percent of banks’ capital (in 2013 – 36.5 percent).

During the reporting period the total assets of the banking sector increased by 23.9 percent and amounted to KGS 137.6 billion. The main share of the banks’ assets – 57.2 percent – accounted for the loans issued.

Banking sector assets

Table 1.4.1.

Pattern of Assets of Commercial Banks (end-of-period)

Asset category	2013		2014	
	millions of KGS	Share, percents	millions of KGS	Share, percents
Loans and financial lease to clients	53,961.6	48.6	78,756.3	57.2
Correspondent accounts and deposits with other banks	16,807.5	15.1	16,899.3	12.3
Cash	8,705.2	7.8	11,482.9	8.3
Correspondent account with the NBKR	6,685.5	6.0	7,935.4	5.8
Fixed assets	6,033.8	5.4	6,546.6	4.8
Securities portfolio	10,285.0	9.3	6,444.5	4.7
Loans to financial-credit institutions	3,724.6	3.4	3,779.4	2.7
Securities purchased under repurchase (REPO) agreements	584.4	0.5	209.1	0.2
Investments and financial participation	149.4	0.1	208.9	0.2
Special LLP*	-3,013.3	-2.7	-4,011.8	-2.9
Other assets	7,168.3	6.5	9,370.4	6.8
Total	111,092.0	100.0	137,621.0	100.0

* *Special LLP refers to reserves to cover potential losses on non performing loans (substandard, doubtful, loss).*

¹ The data of regulatory reporting of commercial banks are used based on adjustments made by the banks for prior periods.

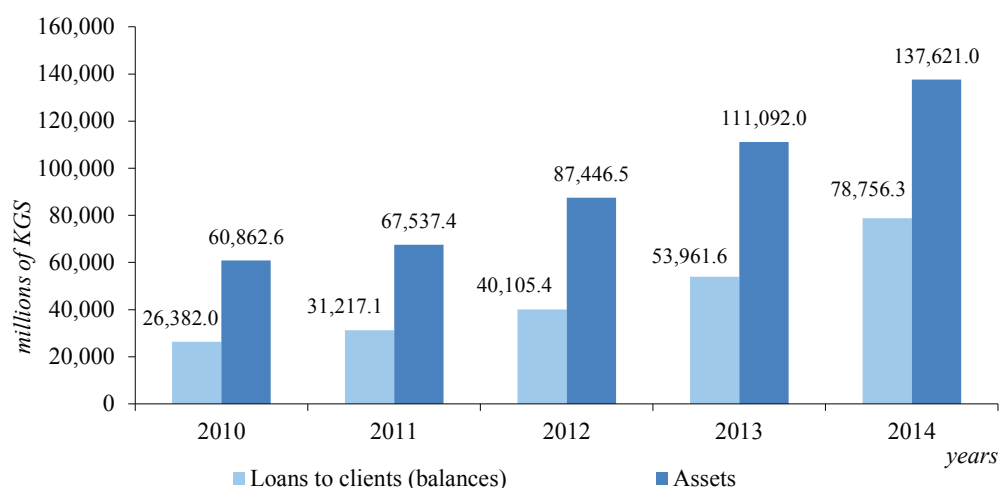
Loan portfolio

The volume of highly liquid funds placed by the commercial banks in cash, short-term assets and on correspondent accounts with the National Bank of the Kyrgyz Republic increased for the accounting period by 12.7 percent, having reached the level of KGS 36.3 billion or 26.4 percent of the total assets at the end of 2014.

The loan portfolio¹ grew by 45.9 percent and reached KGS 78.8 billion. The share of the loan portfolio in the assets of the banking sector increased by 8.6 percentage points compared with 2013 and made up 57.2 percent. The number of borrowers of banks at the end of 2014 increased in comparison with 2013 by 35.6 percent to 226,881 people.

Chart 1.4.1.

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



The volume of “performing”² assets was 95.4 percent of total assets and that of “nonperforming”³ assets – 4.6 percent. The share of nonperforming loans decreased to 4.5 percent thereby indicating the reduction of the share of bad loans.

In the context of a permanent positive trend of quality changes in the loan portfolio, allocations to the LLP for 2014 amounted to KGS 545.0 million.

Table 1.4.2.

Classification of Assets, Off-Balance Sheet Liabilities and Lending to Clients

(In percent, unless stated otherwise)

Category	Assets and off-balance liabilities		Loans to clients	
	2013	2014	2013	2014
Total performing	95.6	95.4	94.5	95.5
<i>including:</i>				
Standard	42.1	30.4	1.4	0.9
Satisfactory	50.7	59.8	88.3	86.8
Under watch	2.8	5.2	4.8	7.8
Total nonperforming	4.4	4.6	5.5	4.5
<i>including:</i>				
Substandard	1.5	1.6	1.8	1.5
Doubtful	1.1	1.1	1.8	1.4
Losses	1.8	2.0	1.9	1.5
Total	100.0	100.0	100.0	100.0

¹ Hereinafter excludes loans to the banks and other financial-credit institutions.

² A category “performing assets” (loans) includes the assets (loans) categorized as “normal”, “satisfactory” and “under watch”.

³ The category “nonperforming assets” (loans) comprises the assets (loans) categorized as “substandard”, “doubtful” and “losses”.

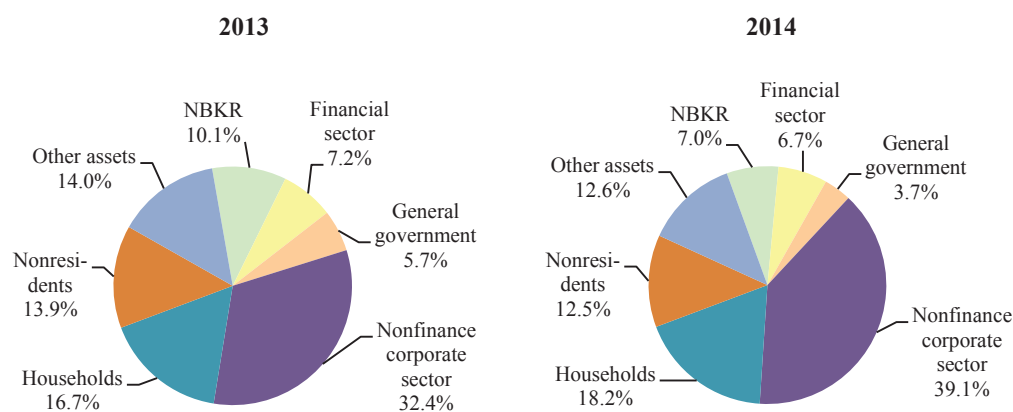
By the end of 2014, the level of “dollarization” of the loan portfolio made up 57.6 percent.

In the reporting period, the structure of banking assets was institutionally well diversified. The banks’ assets placed in the corporate sector accounted for 39.1 percent of total assets of banks, in the household sector – 18.2 percent.

Institutional structure of assets

Chart 1.4.2.

Institutional Structure of Assets of Banks

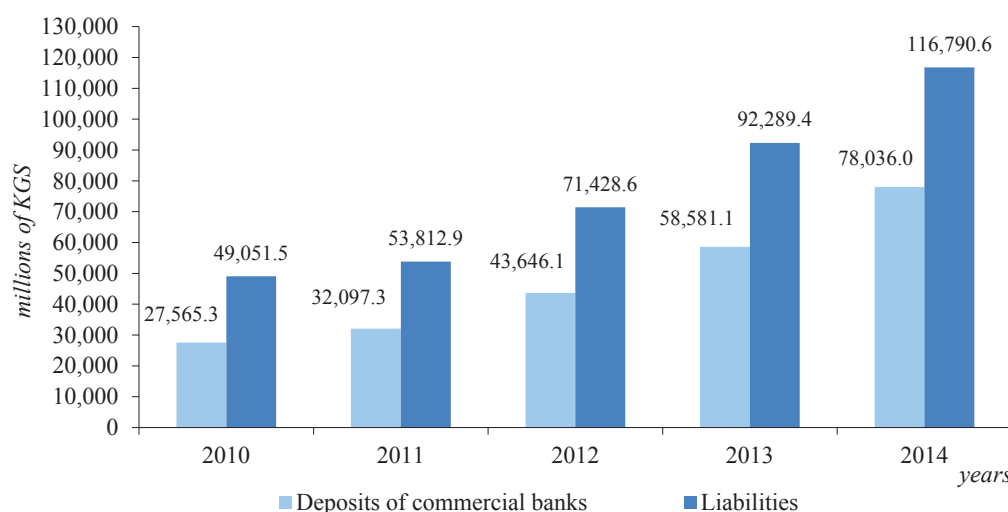


By the end of 2014, the volume of liabilities of commercial banks increased by 26.5 percent to KGS 116.8 billion. The share of the deposit base¹ in the gross volume of liabilities developed at the rate of 66.8 percent. For the reporting period, growth of the deposit base of the banking sector amounted to 22.3 percent.

Banking sector liabilities

Chart 1.4.3.

Pattern of Liabilities and Deposit Base of Banks



The share of liabilities to nonresidents in the structure of banks’ liabilities amounted to 16.9 percent. In this regard, the liabilities in foreign currency amounted to 58.2 percent of the gross volume of liabilities.

¹ The data excluding the deposits and loans of the Government of the Kyrgyz Republic and the deposits of banks and nonresidents.

Table 1.4.3.

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

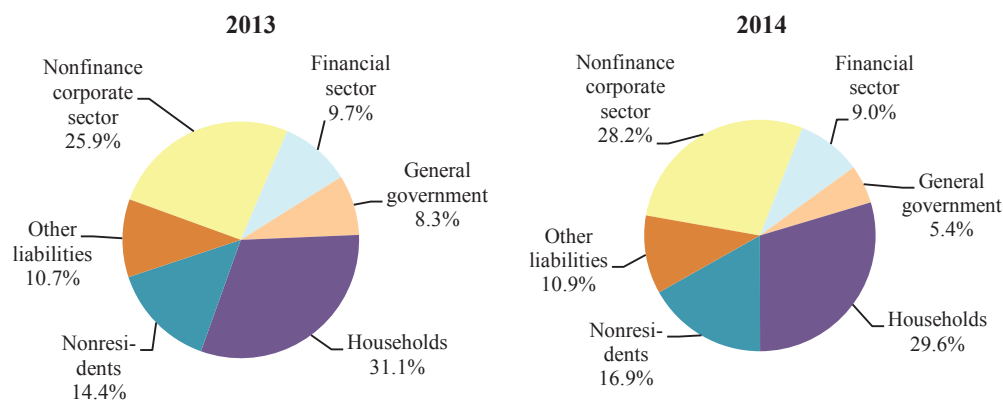
Liability category	2013		2014	
	millions of KGS	Share, percents	millions of KGS	Share, percents
Time deposits	22,048.6	23.9	31,059.8	26.6
Settlement accounts	21,309.9	23.1	24,941.3	21.4
Demand deposits	15,222.6	16.5	16,115.8	13.8
Other liabilities	9,516.1	10.3	12,821.1	11.0
Loans received	9,113.7	9.9	12,374.4	10.6
Government deposits	6,033.3	6.5	6,252.8	5.4
Settlement accounts and deposits of banks	3,908.6	4.2	3,611.5	3.1
Deposits of nonresidents	2,719.8	2.9	4,165.0	3.6
Government loans	1,566.6	1.7	1,504.7	1.3
Liabilities to the NBKR	850.2	0.9	3,735.1	3.2
Securities sold under repurchase (REPO) agreements	0.0	0.0	209.1	0.2
Total	92,289.4	100.0	116,790.6	100.0

Institutional structure of liabilities

Institutionally, the liabilities of banks were concentrated in the nonfinance corporate and households sectors. At the end of 2014, these sectors accounted for more than half (57.8 percent) of total liabilities of banks.

Chart 1.4.4.

Institutional Structure of Liabilities of Banks

*Deposit base*

The structure of the deposit base remained virtually unchanged. Thus, at the end of 2014, the share of settlement accounts and demand deposits was 52.7 percent, while the time deposits accounted for 39.8 percent. In general, the volume of deposits of commercial banks¹ amounted to KGS 78.0 billion. The corporate deposits increased over the reporting period by KGS 6.3 billion or 23.7 percent. The deposits of individuals also increased by KGS 6.3 billion or 22.1 percent. The level of «dollarization» of the deposit base amounted to 56.3 percent.

Capital of commercial banks

Regulatory total capital² of commercial banks increased by 16.6 percent and amounted to KGS 21.8 billion in 2014. Paid-up authorized capital³ increased by 7.7 percent to KGS 11.2 billion.

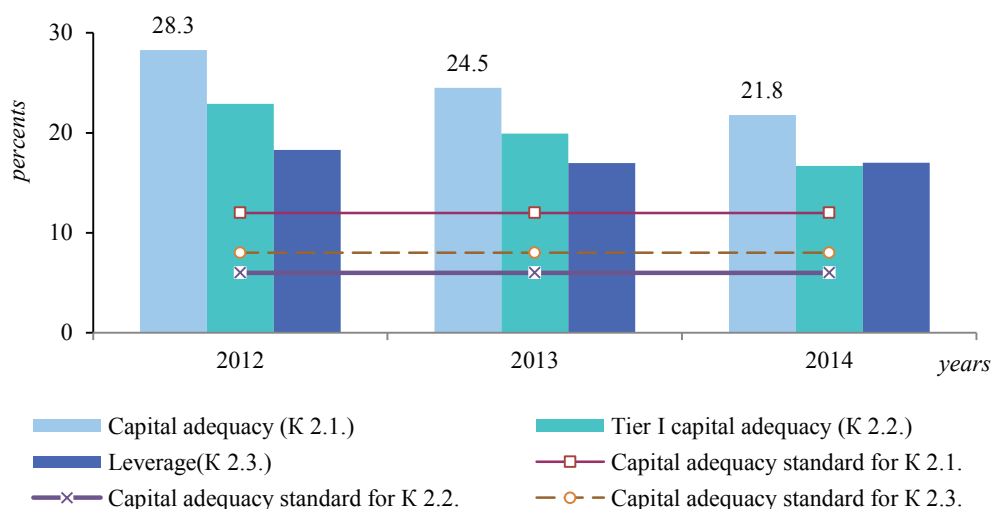
¹ Excluding the deposits and loans of the Government of the Kyrgyz Republic and the deposits of banks and nonresidents.

² Total regulatory capital of the Bank includes authorized capital, reserves, retained earnings (losses) of previous years, the reporting year profit (loss), and general provisions formed in the bank for the performing assets.

³ This category comprises ordinary and preference shares.

Chart 1.4.5.

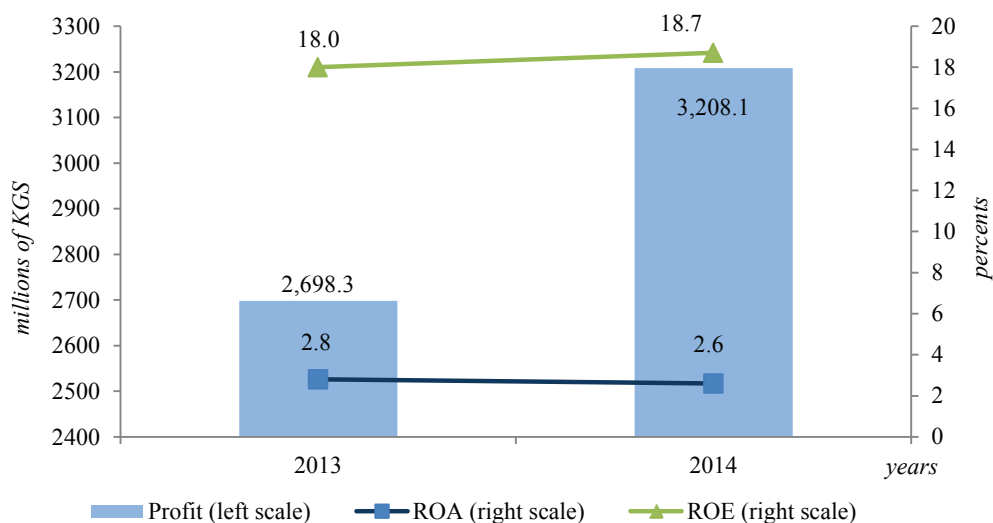
Pattern of Capital-Based Indicators



The level of capital adequacy of the banking sector reflects a contingency of further expansion of active operations of banks.

Chart 1.4.6.

Changes in Net Profit and ROE and ROA Indicators



By the end of 2014, the net profit of the banking system amounted to KGS 3.2 billion, having increased by KGS 0.5 billion or by 18.5 percent compared to the previous year.

Table 1.4.4.Composition of Income and Expenses
(millions of KGS)

Category	2013	2014
Total interest income	9,902.3	13,381.5
Total interest expense	3,400.6	5,088.6
Net interest income	6,501.6	8,292.9
Allocations to LLP	166.7	545.0
Net interest income after allocations to LLP	6,334.9	7,747.9
Total noninterest income	4,852.7	4,336.9
Total noninterest expenses	1,312.9	17.4
Total other operating and administrative expenses	6,877.3	8,216.0
Net operating income (loss)	2,997.4	3,851.4
Allocations to LLP (on other assets)	-2.9	244.4
Net income (loss) before tax	3,000.3	3,606.9
Profit tax	302.0	398.9
Net income (loss)	2,698.3	3,208.1

The rate of return on assets (ROA) declined in 2014 from 2.8 percent to 2.6 percent and the rate of return on equity (ROE) increased by 0.7 percentage points and developed at the rate of 18.7 percent.

1.5. Sector of Nonbank Financial-Credit Institutions¹

Microfinance Development Strategy

Implementation of the Microfinance Development Strategy of the Kyrgyz Republic for 2011-2015 continued during the reporting year and is aimed at ensuring access for the population of Kyrgyzstan to quality financial services for development of their own businesses, creation of new jobs, development of business mainly in rural areas and an improvement of living standards of the whole population of the republic.

A new version of an Action Plan on the Strategy was adopted by a joint Resolution of the Government of the Kyrgyz Republic and the National Bank in July 2014. It optimized a process of the Strategy implementation, in particular, revised are the dates of implementation of measures, the wording of certain points of the Action Plan, and responsible persons.

Basic NFCI sector trends

At the end of 2014, growth was observed with regard to the basic indicators of the sector of nonbank financial-credit institutions (NFCI), in particular, assets, loan portfolio, resource base, as well as the indicators of financial intermediation. The systemic microcredit risks are moderate, since at this stage the NFCIs have a limited range of financial services.

The basic indicators of the sector of nonbank financial-credit institutions (NFCI) demonstrated growth during 2014. In particular, it's related to the assets, loan portfolio, resource base, as well as the indicators of financial intermediation. The systemic microcredit risks are moderate, since at this stage the NFCIs have a limited range of financial services.

NFCI number

In 2014, 351 nonbank financial-credit institutions, including the OJSC "Financial Company of Credit Unions" (OJSC "FCCU"), microfinance institutions and credit unions operated in the territory of the Kyrgyz Republic.

NFCI assets

According to regulatory reporting, the total NFCI assets increased by 23.0 percent for the reporting year and amounted to KGS 28.9 billion as of December 31, 2014.

¹ The NFCI data of regulatory reporting are used taking into account the adjustments made by the NFCI for the prior periods.

Loans to customers and financial-credit institutions (FCI) formed the main share in the assets of nonbank financial-credit institutions (79.3 percent).

Table 1.5.1.

Pattern of NFCI Assets (end-of-period)

Asset category	2013		2014	
	millions of KGS	Share, percents	millions of KGS	Share, percents
Loans and financial lease to clients	18,063.3	76.9	21,780.0	75.3
Correspondent accounts and deposits with other banks	2,001.1	8.5	2,841.2	9.8
Other assets	909.4	3.9	1,620.5	5.6
Loans to financial-credit institutions	1,043.6	4.4	1,165.7	4.0
Fixed assets	920.0	3.9	977.0	3.4
Investments and financial participation	631.9	2.7	861.1	3.0
Cash	304.4	1.3	175.7	0.6
Securities portfolio	92.2	0.4	12.7	0.0
Special LLP*	-469.5	-2.0	-528.6	-1.8
Total	23,496.4	100.0	28,905.4	100.0

* Special LLP refers to reserves to cover potential losses on nonperforming loans (substandard, doubtful, loss).

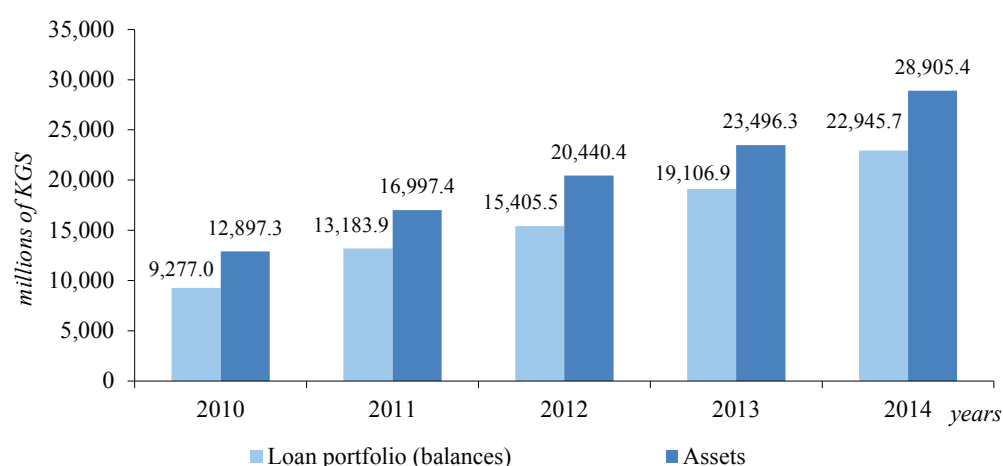
The volume of liquid assets placed by the NFCIs in cash, short-term assets, and on the settlement accounts with the commercial banks increased during the reporting period by 0.6 percentage points, having amounted to KGS 3.0 billion or 10.4 percent of total assets at the end of 2014.

The loan portfolio of NFCIs¹, compared with 2013, grew by 20.1 percent and amounted to KGS 22.9 billion. The share of the loan portfolio in the NFCI assets decreased by 2.0 percentage points and totaled 79.3 percent compared with 2013. The number of NFCI borrowers at the end of 2014 amounted to 445,675 people, having increased by 3892 people or by 0.9 percent compared with 2013. In this regard, coverage of financial services amounted to 7.6 percent.

Loan portfolio

Chart 1.5.1.

Pattern of Assets and NFCI Loan Portfolio (end-of-period)



¹ The NFCI sector data are presented excluding the loan portfolio of the OJSC “FCCU”, because the loans were extended to the credit unions, which reissued these loans thereafter.

The volume of “performing” loans was 96.8 percent of the loan portfolio, with that of the “nonperforming” loans making 3.2 percent. In this case, the share of nonperforming loans increased by 0.3 percentage points for the year then ended.

Table 1.5.2.
NFCI Loan Portfolio Quality

Category	millions of KGS		%	
	2013	2014	2013	2014
Total loan portfolio	19,106.9	22,945.7	100.0	100.0
<i>including:</i>				
undue loans	18,567.8	22,267.3	97.2	97.0
overdue loans	539.1	678.4	2.8	3.0
Nonperforming loans				
<i>including:</i>				
Substandard	135.7	268.8	0.7	1.2
Doubtful	101.5	141.5	0.5	0.6
Losses	311.1	311.0	1.6	1.4
Total	548.3	721.3	2.9	3.2

*Structure of NFCI
loan portfolio*

The share of microfinance organizations increased in the aggregate NFCI loan portfolio from 92.4 percent (KGS 17.6 billion) to 95.0 percent (KGS 21.8 billion), while the share of credit unions decreased from 7.6 percent (KGS 1.5 billion) to 5.0 percent (KGS 1.1 billion).

The share of microfinance organizations increased in the aggregate NFCI loan portfolio from 92.4 percent (KGS 17.6 billion) to 95.0 percent (KGS 21.8 billion), while the share of credit unions decreased from 7.6 percent (KGS 1.5 billion) to 5.0 percent (KGS 1.1 billion).

Activity of the OJSC “FCCU” is directed to issue loans to maintain the financing system of in the rural areas as part of lending to the credit unions. The loan portfolio of the OJSC “FCCU” at the end of the reporting period amounted to KGS 399.3 million, which is higher by 1.3 percent than the similar figure in 2013.

The aggregate loan portfolio of credit unions (CUs) decreased by 20.9 percent due to the reduction in the number of credit unions and amounted to KGS 1.1 billion at the end of 2014. In the structure of the loan portfolio the main share of loans falls on lending to agriculture – 46.9 percent, and trade and services – 34.6 percent (in 2013 – 43.3 and 37.0 percent, respectively). The number of CU borrowers decreased for the year then ended by 25.0 percent and totaled 11 376 people as at 31 December 2014.

11 credit unions had deposit licenses by the end of 2014. The volume of deposits attracted from the CU participants fell by 82.4 percent and amounted to KGS 14.2 million and liabilities to other FCIs decreased by 21.9 percent and totaled KGS 539.9 million.

The aggregate loan portfolio of microfinance institutions (MFIs) increased by 23.5 percent and at the end of 2014 amounted to KGS 21.8 billion. In general, the MFI loan portfolio consists of short- and medium-term loans. The main sectors of lending by the MFIs were those of agriculture, which accounted for 36.7 percent (at the end of 2013 – 41.7 percent) of the total loan portfolio, as well as trade and services – 26.1 percent (at the end of 2013 – 27, 0 percent).

The main sources of lending to the MFIs were the funds obtained from the international financial institutions and foreign organizations. The number of borrowers increased by 1.8 percent and totaled 434,299 people as at 31 December 2014.

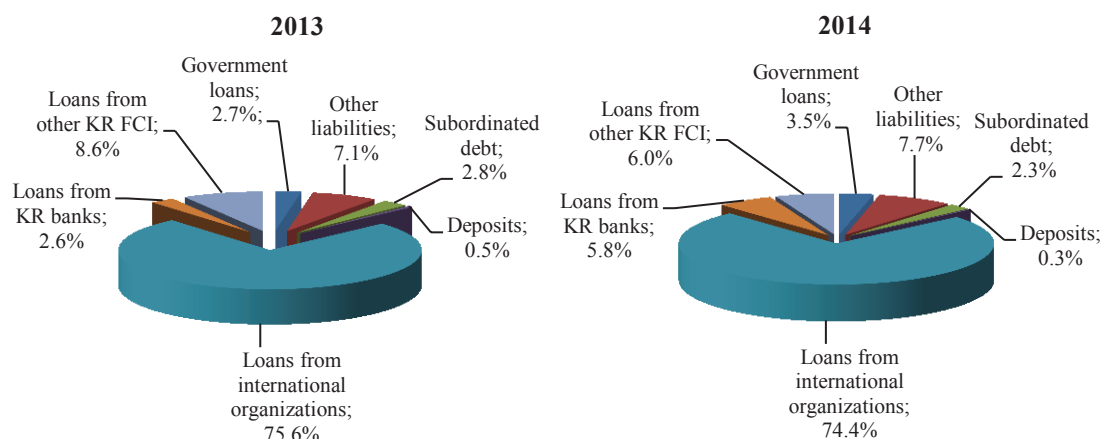
NFCI liabilities

At the end of 2014 the volume of NFCI liabilities increased by 30.8 percent, to KGS 19.3 billion. The share of the deposit base¹ in the gross volume of liabilities developed at the rate of 0.3 percent or KGS 50.1 million. A contraction of the NFCI deposit base by 38.0 percent was observed in the reporting period.

¹ MFC and CU deposits.

Chart 1.5.2.

Structure of NFCI Liabilities (end-of-period)
(millions of KGS)



The share of liabilities to foreign entities in the structure of NFCI liabilities was 74.4 percent. This being the case, the liabilities in foreign currency amounted to 57.8 percent of the total of liabilities.

Table 1.5.3.

Structure of NFCI Liabilities (end-of-period)

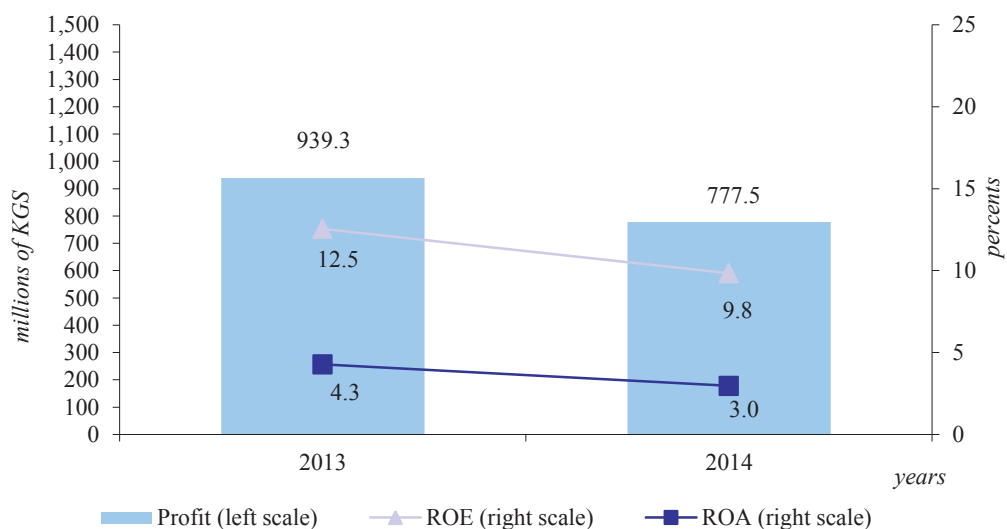
Liability category	2013	2014
	millions of KGS	millions of KGS
Loans received, including:	13,220.2	17,319.8
from KR banks	610.5	1,118.7
from other KR FCIs	1,043.6	1,165.7
from international financial organizations and donors	5,522.8	7,951.9
from international FCIs	5,641.5	6,407.4
Government loans	401.7	676.1
Other liabilities	1,050.4	1,494.0
Subordinated debt	415.5	447.3
Time deposits	79.7	49.6
Demand deposits	1.1	0.4
Total	14,766.8	19,311.2

The total amount of paid-up share capital of nonbank financial-credit institutions amounted to 5.3 billion KGS. The overall size of NFCI authorized capital increased by 11.4 percent or by KGS 0.5 billion (in 2013 – KGS 4.8 billion). In this regard, NFCI equity capital amounted to KGS 8.3 billion, having thus increased by 11.6 percent or by KGS 0.9 billion.

NFCI capital

Chart 1.5.3.

Changes in Net Profit and ROE and ROA Indicators



Having decreased by KGS 0.2 billion or by 17.2 percent as against the previous year, the net profit of the NFCI system totaled KGS 0.7 billion at the end of 2014.

Table 1.5.4.

Composition of Income and Expenses

(millions of KGS)

Category	2013	2014
Total interest income	5,915.8	6,761.9
Total interest expenses	1,710.9	2,435.5
Net interest income	4,204.9	4,326.4
Allocations to LLP	323.1	365.4
Net interest income after allocations to LLP	3,881.8	3,961.0
Total noninterest income	250.2	134.4
Total noninterest expenses	38.5	35.9
Total other operating and administrative expenses	3,051.1	3,171.0
Net operating income (loss)	1,042.5	888.5
Allocations to LLP (on other assets)	5.8	14.4
Net income (loss) before tax	1,036.6	874.1
Profit tax	97.3	96.7
Net profit (loss)	939.3	777.5

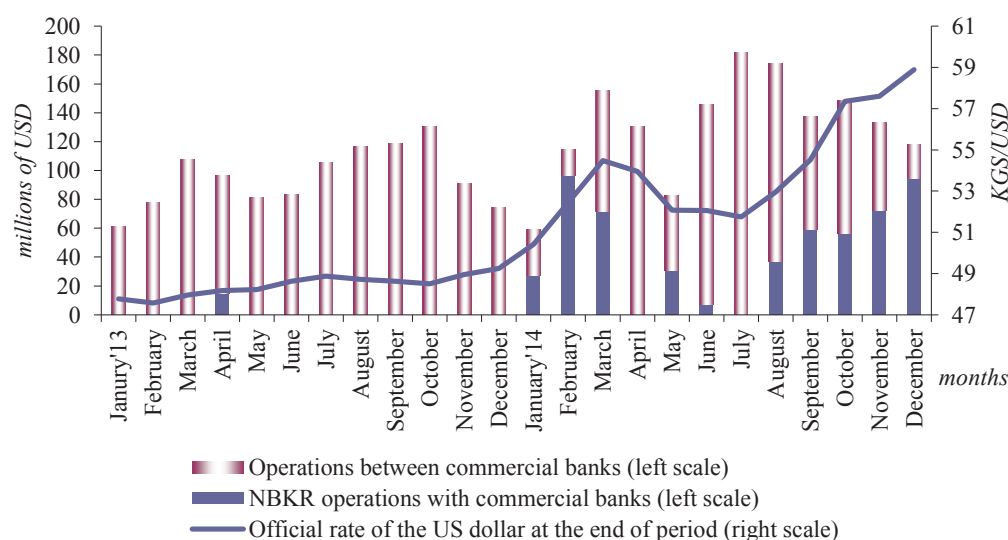
The rate of return on assets (ROA) declined in 2014 from 4.3 percent to 3.0 percent, the rate of return on equity (ROE) decreased from 12.5 percent to 9.8 percent.

1.6. Financial Markets

1.6.1. Foreign Exchange Market

Exchange rate movement

In 2014, the domestic foreign exchange market situation was affected by a number of external factors, including the US dollar appreciation in the global financial markets, a significant depreciation of national currencies in some countries-main trading partners. At the end of the accounting year, the US dollar rose by 19.6 percent, from KGS 49.2470 to KGS 58.8865 for per 1 USD.

Chart 1.6.1.1.**Exchange Rate Movement and Volume of Interbank Foreign Exchange Auction Operations**

In the period under review, the National Bank conducted foreign currency sale and purchase operations in order to smooth sharp exchange rate fluctuations in the interbank foreign exchange market. Net sales on these operations amounted to USD 516.3 million.

National Bank interventions

The total volume of spot-operations on purchase/sale of foreign currency on the foreign exchange market amounted to KGS 593.5 billion, having increased by 56.3 percent. In particular, the amount of USD operations increased over the past year by 64.4 percent, with their share in the total volume of operations having increased up to 62.9 percent (+3.4 percentage points) as a result of growth of demand for this currency. The operations with the Euro increased by 4.4 percent, while their share decreased by 1.0 percentage points to 2.2 percent. The share of operations in Russian rubles decreased from 28.8 to 28.4 percent, with the volume of operations in this currency having increased by 54.0 percent. The share of operations in Kazakh tenge decreased to 6.5 percent (-2.0 percentage points), but the volume of operations increased by 26.0 percent. The volume of operations with other currencies¹ decreased by 17.0 percent, while their share decreased to 0.02 percent (-0.01 percentage points).

Foreign exchange market structure by currencies

In 2014, the volume of noncash foreign exchange spot-operations of commercial banks amounted to 109.6 billion in KGS terms, having increased by 76.9 percent versus the same indicator for 2013. In the noncash segment of the foreign exchange market, the prevailing part of inter-bank currency auction² operations was conducted in US dollars.

The total volume of swaps conducted by the commercial banks both in the domestic market and with the nonresident banks totaled 16.8 billion in KGS terms, having increased four times in comparison with the same indicator for 2013. In the period under review, the National Bank had one swap operation in the amount of KGS 85.0 million in Euro.

Swaps

At the end of 2014, the weighted average selling rate of cash US dollar in exchange offices increased by 19.9 percent and amounted to 59.2205 KGS/USD by the end of December. This being the case, the weighted average selling rate of the Euro in the exchange offices grew by 5.9 percent for the year and amounted to 71.5211 KGS/EUR, the Kazakh tenge – by 0.9 percent to 0.3198 KGS/KZT. The Russian ruble, by contrast, fell by 31.7 percent to 1.0176 KGS/RUB.

Exchange rate movement at exchange bureaus

¹ British pound, Swiss franc, Turkish lira, Uzbek sum, Canadian dollar, Chinese Yuan and Japanese yen.

² The auctions are conducted by the National Bank through the Automated Trading System (ATS).

1.6.2. Interbank Credit Market

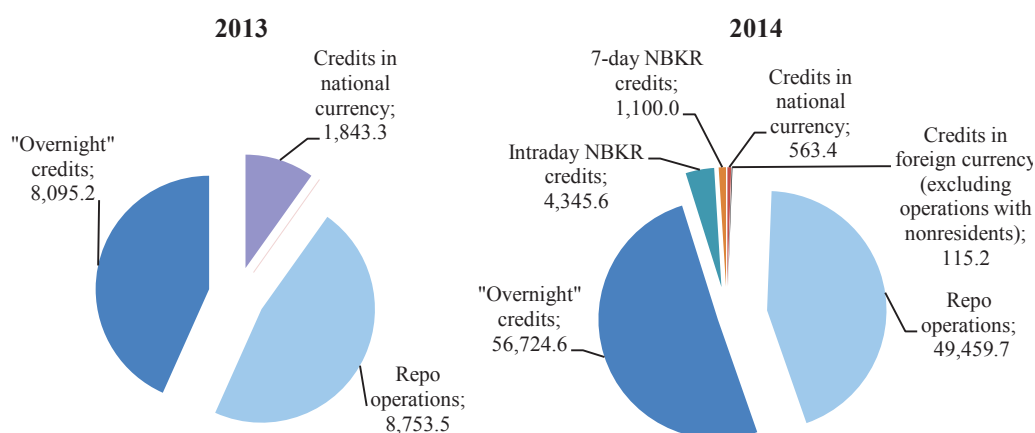
In 2014, marked growth of activity in the interbank market of credit resources was observed due to the transition to the new monetary policy framework and an introduction of new tools. During the year, the interbank market rates were, as a rule, within an interest rate corridor determined by the National Bank.

Operations in national currency

As a result, the total volume of KGS operations in the interbank credit market (including the “overnight” credits, 7-day and intraday credits) amounted to KGS 112.2 billion, having increased six times in comparison with the same indicator for 2013. With growth of quantitative indicators of operations in all market segments, the great bulk of operations in KGS fell on the “overnight” credits and the repo-operations.

Chart 1.6.2.1.

Volume of Domestic Interbank Credit Market Operations
(millions of KGS)



At the end of the period under review, the weighted average interest rate of interbank credits in national currency, issued on standard terms, was 18.5 percent (12.5 percentage points in annual terms), while that of the repo operations was 9.8 percent (+5,9 percentage points). The weighted average rate of foreign currency credits developed at the rate of 0.5 percent.

Weighted average maturity of repo operations decreased from four to three days, while that of the credits in national currency fell from 166 to 59 days.

Table 1.6.2.1.

Weighted Average Domestic Interbank Credit Market Interest Rates (Period average)
(percents)

	2013	2014
Rates of credits in national currency	6.9	10.5
Rates of credits in foreign currency	-	0.5
Rates of repo operations	3.8	6.8
Rates of "overnight" credits	4.1	9.1
Rates of 7-day credits	-	7.3

1.6.3. Securities Market

1.6.3.1. Government Securities Market

The market for government securities (GS) in 2014 was presented to the following types of securities:

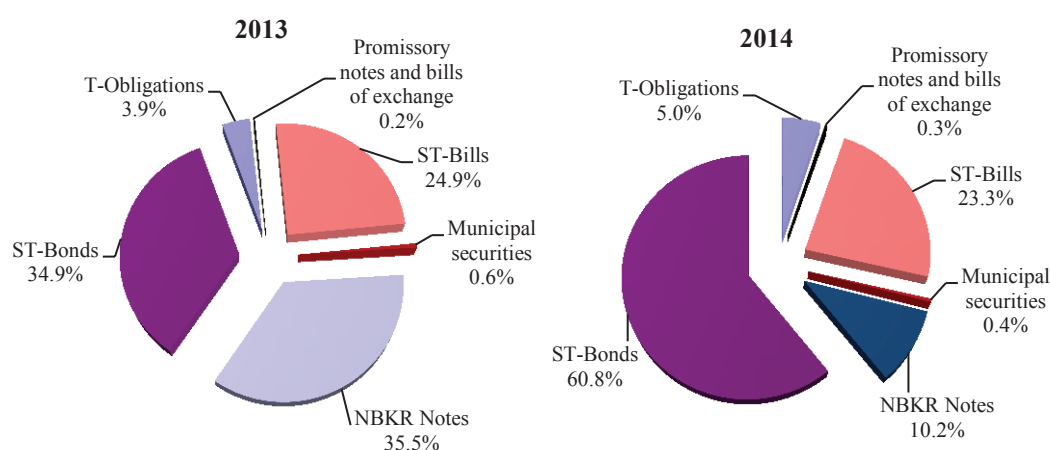
- State Treasury Bills (ST-Bills);
- State Treasury Bonds (ST-Bonds);
- Notes of the National Bank;
- Treasury Obligations (T-Obligations);
- Bills of Exchange;
- Municipal Bonds.

Having decreased by 30.1 percent over the year, the total volume of outstanding government securities amounted to KGS 13.1 billion at the end of the reporting period. The decrease was mainly due to the reduction of the volume of outstanding of Notes of the National Bank.

*Outstanding
of Government
Securities*

Chart 1.6.3.1.1.

Structure of Outstanding Government Securities

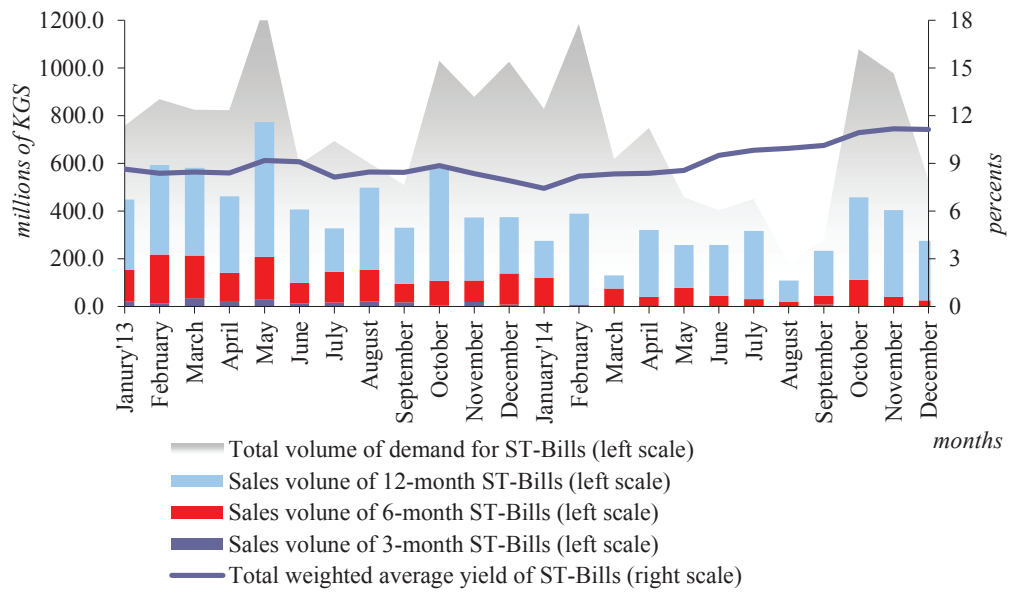


1.6.3.1.1. State Treasury Bills

In the period under review, the State Treasury Bills were put into circulation by the Ministry of Finance for a period of 3, 6, and 12 months to finance the current state budget deficit. The auctions on a primary placement of ST-Bills are held weekly at the National Bank, an agent for their placement and settlement.

Chart 1.6.3.1.1.1.

Demand and Placement of ST-Bills

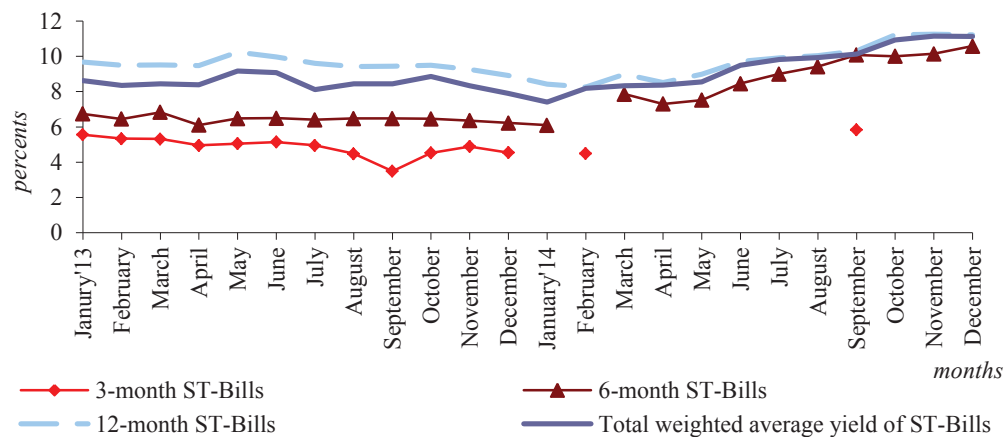


Some reduction in excess liquidity in the banking system promoted the decline in activity in the market of government debt securities, including the segment ST-Bills. The total annual volume of announced issue was also reduced compared with the previous year.

The total weighted average yield of ST-Bills was 9.5 percent according to the results in 2014 (in 2013 – 8.5 percent). In this regard, the 12-month ST-Bills, holding the largest share in the total volume of these outstanding securities, the average monthly yield increased by 0.2 percentage points to 9.7 percent.

Chart 1.6.3.1.1.2.

Weighted Average Yield by All Types of ST-Bills



ST-Bills issue volume

The total volume of the announced issue of State Treasury Bills amounted to KGS 5.4 billion, having decreased as compared to the same indicator for 2013 by 9.1 percent and total sales of ST-Bills amounted to KGS 3.4 billion, having thus decreased by 40.5 percent.

Table 1.6.3.1.1.1.

Total Volume of Issue and Average Annual Yield of ST-Bills

	2013			2014		
	Sales volume, millions of KGS	Share, percents	Yield, percents	Sales volume, millions of KGS	Share, percents	Yield, percents
Total	5,746.3	100.0	8.5	3,419.9	100.0	9.5
including:						
3-month ST-Bills	208.5	3.6	4.9	15.0	0.4	5.2
6-month ST-Bills	1,566.6	27.3	6.5	615.5	18.0	8.8
12-month ST-Bills	3,971.2	69.1	9.5	2,789.4	81.6	9.7

The structure of holders of ST-Bills was dominated by the commercial banks with the 57.7 percent share in the total volume of outstanding ST-Bills, which is 18.2 percentage points lower than the similar indicator for 2013. In nominal terms, the volume of bills in the portfolios of banks developed at the end of 2014 at the rate of KGS 1.8 billion. The share of ST-Bills in total assets of commercial banks amounted to 2.2 percent.

Structure of ST-Bills market

The number of banks holding the ST-Bills fell to 14, and the concentration index of the banking portfolio of these securities rose from 0.14 to 0.23, which is equivalent to a division of the market between four banks with equal shares. The reduction of the share of banks accompanied with the decrease in the share of resident legal entities from 9.8 to 1.0 percent was due to increased activity of institutional investors, which resulted in the increase in their share over the year by 27.0 percentage points to 41.3 percent. Nonresidents did not participate in the auctions in the period under review.

In the secondary market, the commercial banks actively used the ST-Bills in the operations on REPO terms. In the reporting year, the volume of these operations as compared to the same indicator for 2013 increased 2.2 times, to KGS 12.1 billion. The volume of interbank operations on purchase and sale of ST-Bills prior to their maturity (on “outright” terms) in the secondary market increased 1.7 times, amounting to KGS 83.1 million. The weighted average term ST-Bills prior to their maturity amounted in these operations to 298 days, while the average rate was 8.5 percent.

ST-Bills secondary market operations

1.6.3.1.2. State Treasury Bonds

The State Treasury Bonds are placed by the Ministry of Finance since October 2009. In the period under review, the issuer offered ST-Bonds with maturities of two, three, and five years.

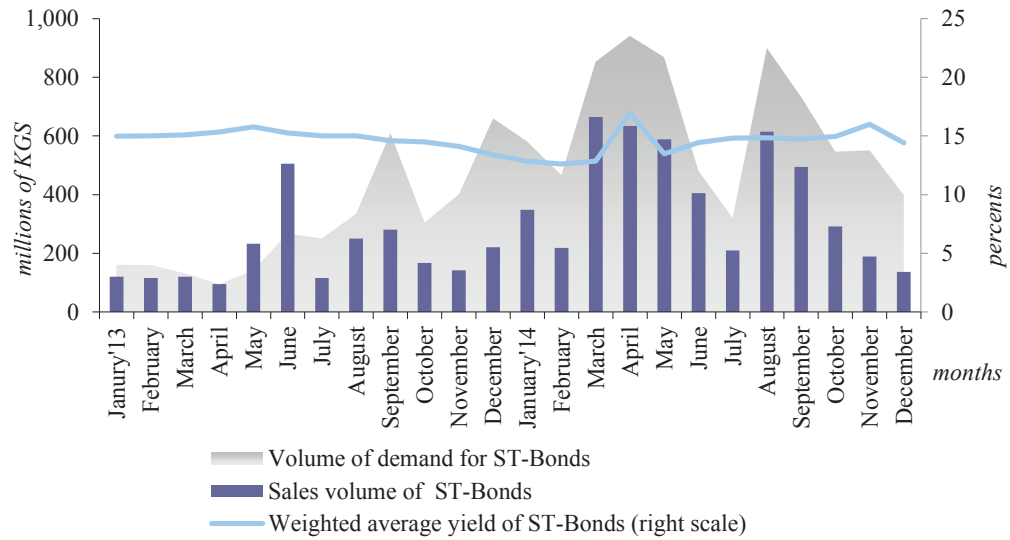
Demand and supply in ST-Bonds market

The total level of supply of ST-Bonds was increased by the Ministry of Finance 2.1 times compared to the year of 2013. Thus, in the reporting year, the rate of sales of ST-Bonds amounted to KGS 4.8 billion, having thus doubled, which eventually led to the 25 percent increase in the volume of these outstanding securities, to KGS 7.2 billion. The sales of the larger part were formed by the four market participants, having altogether provided for 91.9 percent of the total volume of placement, thereby indicating the permanent high level of ST-Bond market concentration. The sluggish demand on the part of the majority of banks was due to the low levels of excess liquidity.

In the reporting period, the total average weighted yield of T-bills amounted to 14.4 percent, down by 0.4 percentage points compared to the similar indicator for 2013.

Chart 1.6.3.1.2.1.

Demand and Placement of ST-Bonds



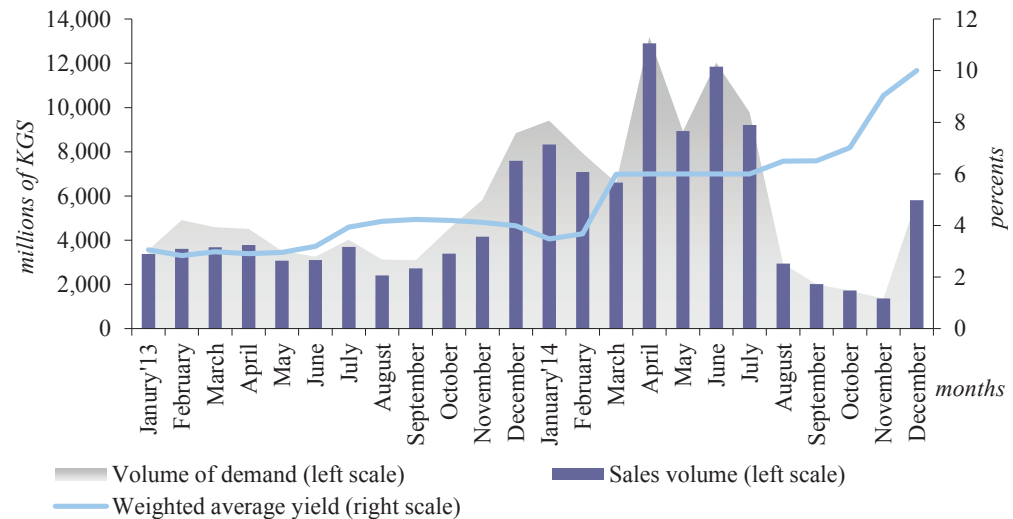
1.6.3.1.3. Notes of the National Bank

In 2014, the 7- and 28-day notes were placed in the market. Upon the transition to the new monetary policy framework, only 7-day notes were placed in the market. The National Bank continued using notes as a tool to absorb excess liquidity by regulating the volume of their supply depending on monetary policy objectives and the level of liquidity in the banking system.

Overall for the year then ended, the Notes of the National Bank were placed in the amount of KGS 78.8 billion, whereas in 2013 this figure was KGS 44.6 billion.

Chart 1.6.3.1.3.1.

Demand and Placement of Notes of the National Bank



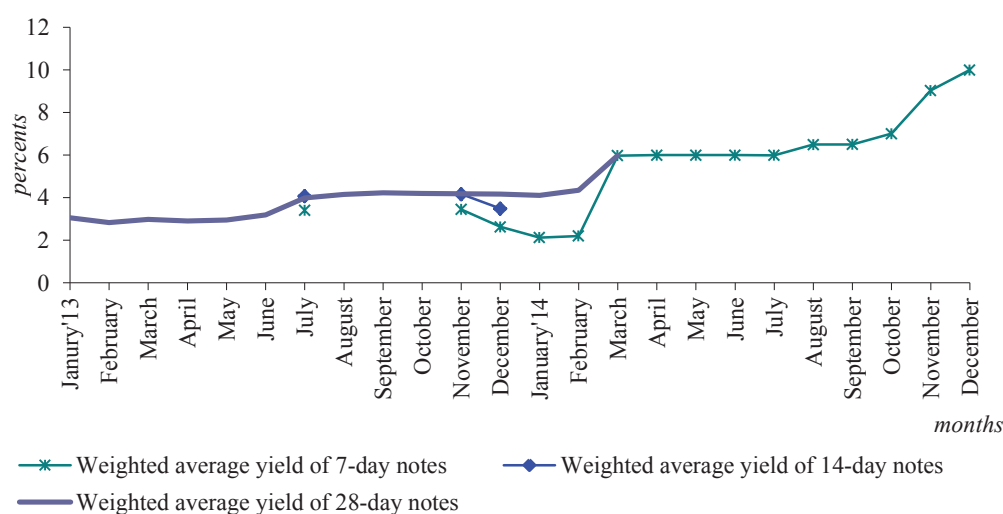
Demand and supply in market of Note of the National Bank

Over the year of 2014, in accordance with the strategic and tactical monetary policy objectives to curb inflation, the National Bank increased the annual volume of offer of notes 2.7 times to KGS 137.5 billion compared with the previous year. The overall placement of all types of notes increased by 76.7 percent compared to the previous year.

The weighted average yield on all types of notes compared with the index of 2013 increased by 2.8 percentage points to 6.3 percent.

Chart 1.6.3.1.3.2.

Weighted Average Yield by Types of Notes of the National Bank



The outstanding notes of the National Bank amounted to KGS 1.3 billion at the end of 2014. In the structure of holders of notes, the share of commercial banks reached the level of 96.1 percent. The share of resident legal entities was 0.3 percent, with that of the institutional investors being 3.6 percent. The notes of the National Bank were in assets of six banks.

1.6.3.1.4. Other Government Securities

In 2014, the share T-Obligations in the structure of government securities increased to 11.1 percent (+7.3 percentage points). As a result, the amount of outstanding T-Obligations decreased over the past year by 8.9 percent and amounted to KGS 658.9 million.

The volume of outstanding bills of exchange, issued by the Ministry of Finance in the process of reregistering debts of banks and other financial institutions to depositors, did not change, remaining at the level of KGS 34.9 million, with their share accounting for 0.6 percent.

At the end of the reporting period, the volume of municipal securities¹ placed by the Bishkek municipality, developed at the rate of KGS 55.0 million, having decreased for the year then ended as a result of redemption of securities, with their share in the overall structure of government securities amounting to 0.9 percent.

1.6.3.2. Corporate Securities Market²

In 2014, the number of concluded securities operations increased by 5.7 percent compared to the same period of the previous year. 56 issues of securities totaling KGS 16.4 million were registered in the reporting year.

At the end of the year, 21 issuers were listed at the Kyrgyz Stock Exchange. The largest number of listed companies carried out their activities in the service and financial sectors. In the stock market, the total volume of securities operations amounted to KGS 3.9 billion, of which KGS 2.3 billion were in the over-the-counter market. The total trading volume increased by 72.7 percent in comparison with the previous year.

The main indicators of the corporate securities market indicate the relatively low level of its development.

¹ According to the Bishkek municipality data.

² According to the data of the State Service for Financial Market Regulation and Supervision under the Government of the Kyrgyz Republic.

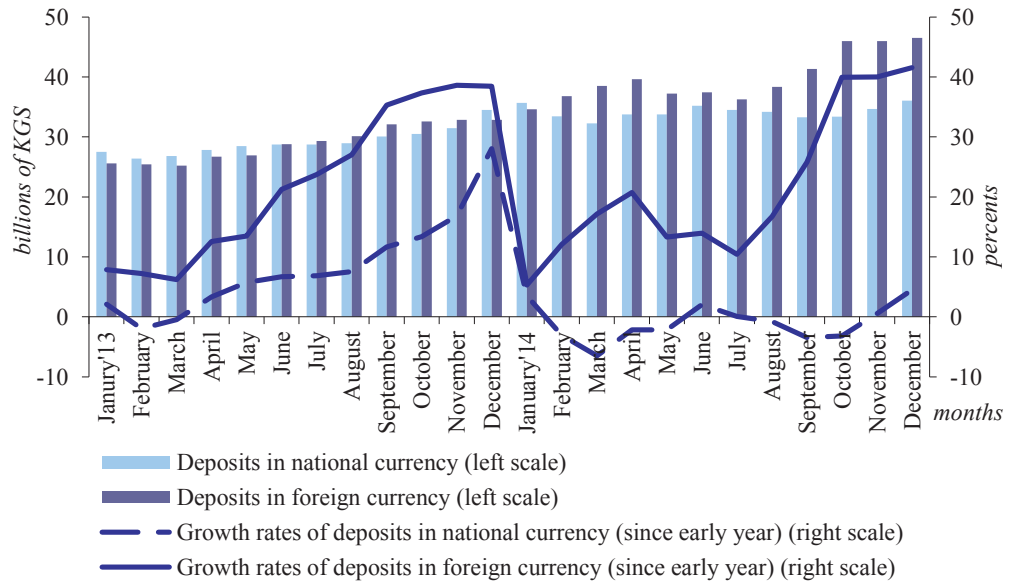
1.6.4. Deposit and Loan Market

Deposit base

Without regard to the exchange rate changes, the deposit base increased by 11.3 percent since the beginning of the year. Having increased by 22.6 percent since the beginning of the year, the deposit base¹ of commercial banks amounted to KGS 82.5 billion at the end of 2014. The deposits in national currency increased by 4.5 percent to KGS 36.0 billion, the volume of deposits in foreign currency – by 41.6 percent, to 46.5 billion in terms of KGS.

Chart 1.6.4.1.

Volume of Deposit Base (end-of-period)



Deposit base structure

The share of deposits of legal entities in the deposit base remained significant and was 53.0 percent. The KGS deposits of legal entities increased by 11.0 percent over the year, with growth of the volume of deposits of enterprises in foreign currency having increased by 32.0 percent. The share of deposits of the population decreased from 42.1 to 41.9 percent. The visible increase in the deposits in foreign currency – by 49.1 percent – was noted in the currency structure of deposits of individuals. The deposits in national currency decreased by 3.6 percent for the year then ended.

The time structure of the deposit base changed because of the changes in the exchange rate. Shares of funds on the current and demand accounts decreased from 35.7 to 33.2 percent and from 25.2 to 21.9 percent, respectively. In this regard, the balances on term deposits of clients of banks increased by 41.0 percent, with their share having increased over the year from 39.1 to 44.9 percent. The structure of term deposits changed towards the increase in the share of long-term deposits (over one year) by 1.8 percentage points to 11.0 percent in the total deposit base (or up to 24.6 percent in the volume of term deposits), while the share of short-term deposits grew by 4.1 percentage points to 33.9 percent (or up to 75.4 percent in the volume of term deposits). As a result, the duration of time deposits remained at the previous year level of 11.4 months, while the same indicator for the entire deposit base lasted for 5.1 months.

As a result, the concentration index of the deposit market remained at the level of 0.10, reflecting the low level of concentration in this market.

¹ Including the government deposits and the deposits of other financial institutions and excluding the loans of the Government and local authorities of the Kyrgyz Republic.

The volume of new deposits¹ by the banks amounted to KGS 392.8 billion in 2014, having thus increased by 36.5 percent compared to the same indicator in 2013. Growth was observed with regard to the deposits both in national currency – by 22.8 percent to KGS 179.5 billion and in foreign currency – by 50.7 percent to KGS 213.2 billion. At the same time, the main inflow of deposits was provided by receipt of funds on the term deposits in foreign currency.

New deposits

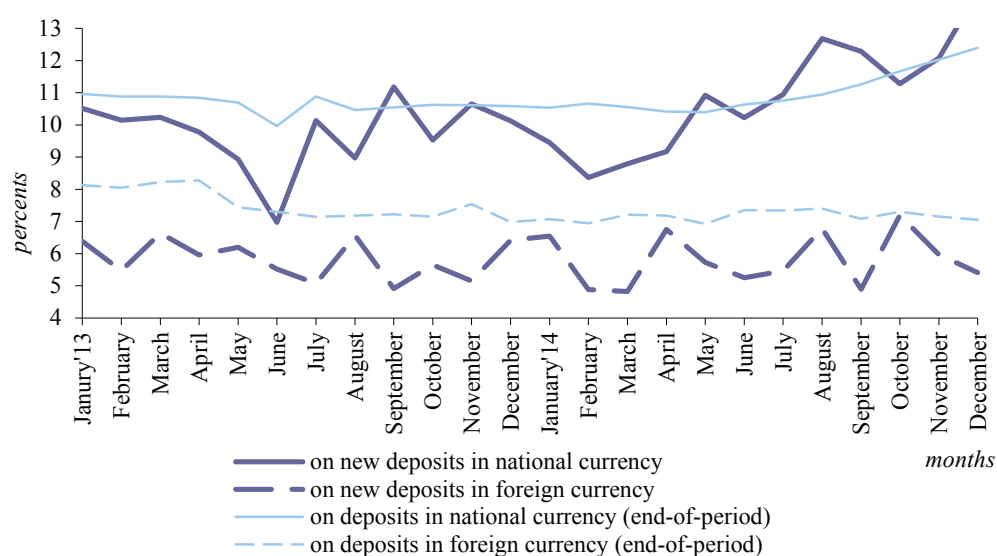
The weighted average interest rate of the deposit base in national currency was 6.9 percent by the end of 2014, having increased over the year by 1.3 percentage points. The rate of deposits in foreign currency increased to 3.2 percent (+0.4 percentage points).

Deposit interest rates

As compared with the corresponding figures of 2013, the weighted average interest rate of the new deposits in national and foreign currencies changed slightly, having reached the rates of 2.5 and 0.9 percent respectively. In this regard, the value of new time deposits in national currency increased by 1.1 percentage points to 10.9 percent, while the value of new in foreign currency remained at the 2013 level of 5.8 percent. The interest rates of time deposits in national currency increased by 0.3 percentage points to 11.0 percent; in foreign currency remained at the level of the previous year, amounting to 6.4 percent.

Chart 1.6.4.2.

Time Deposit Interest Rate Developments



In 2014, the upward trend was noted in volumes of lending by the commercial banks to the real sector of the economy.

Basic loan market trends

The quantitative changes were accompanied with an improvement in quality characteristics of the banking system loan portfolio as determined by shares of overdue debts and extended loans. The interest rate of bank loans in national and foreign currencies decreased by the end of the year.

The total loan portfolios² of banks grew by 45.9 percent, amounting to KGS 78.8 billion by the end of the year. Without regard to the changes in the exchange rate, growth of the loan portfolio of banks was 32.2 percent. The increase in the loan portfolio resulted from growth of loans in national currency by 33.3 percent, to KGS 33.4 billion, and in foreign currency – by 56.9 percent, to KGS 45.4 billion. As a result, the rate of “dollarization” of the loan portfolio increased from 53.6 to 57.6 percent.

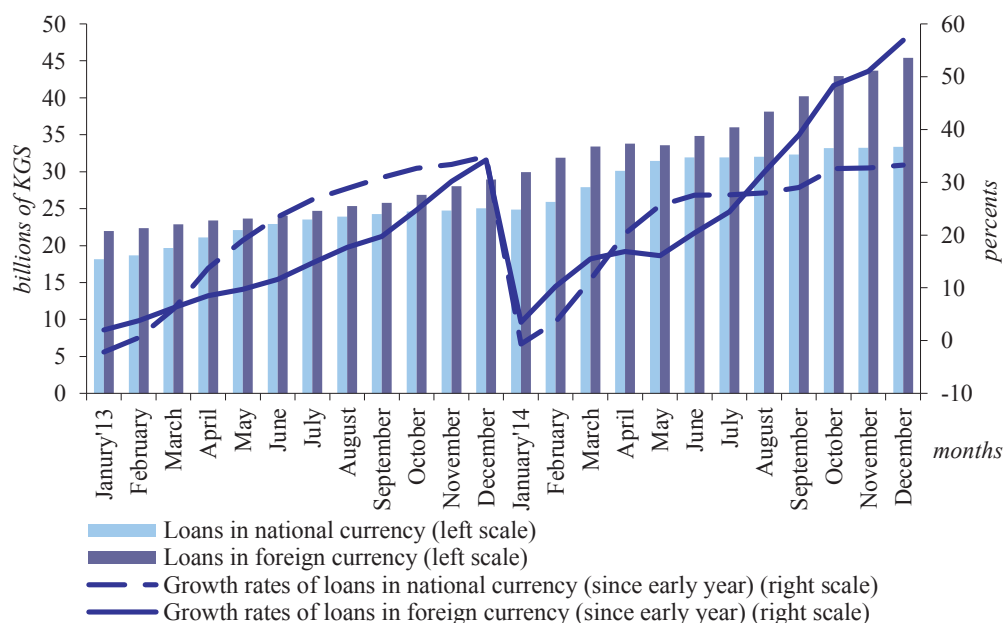
Loan portfolio of banks

¹ The receipt of funds on the settlement accounts was not considered in the volume of newly attracted deposits.

² Excluding the accrued discount.

Chart 1.6.4.3.

Volume of Bank Loans (end-of-period)



*Time structure
of loan portfolio
of banks*

The positive upward trend in the long-term lending was still there in 2014, with the share of loans with maturity from three months to three years having decreased, thereby leading to the slight increase in the duration of the loan portfolio from 29.6 to 30.6 months.

The concentration of the loan market remained at a relatively low level of 0.10, whereas the sectoral concentration index of the loan portfolio at the rate of 0.40 testifying, on the contrary, pointing to a distribution of loans of a majority of banks between the two sectors – trade and agriculture.

Table 1.6.4.1.

Loan Portfolio of Commercial Banks by Sectors of Economy

(millions of KGS)

Sector	2013	2014
Industry	4,356.2	6,462.8
Agriculture	9,360.5	14,424.1
Transport and communication	1,224.8	1,518.5
Trade and commercial operations	19,840.1	27,991.4
Procurement and processing	116.5	461.3
Construction and mortgage	8,660.1	13,207.7
Consumer loans	4,861.6	6,645.5
Other	5,541.7	8,045.0
Total	53,961.6	78,756.3

The volume of loans newly given by the commercial banks increased by 34.1 percent and amounted to KGS 79.5 billion compared to the similar indicator of 2013. The increase resulted from growth of both KGS loans by 31.0 percent amounting to KGS 34.9 billion, and the foreign currency loans – by 36.7 percent to 44.6 billion in KGS terms.

*Sectoral structure
of loans issued
by banks*

Growth of the volume of newly issued loans was observed in virtually all the sectors of the economy (excluding the loans for communication). By the end of the year, the share of loans to trade increased by 3.0 percentage points, to the level of 45.1 percent. The share of lending to agriculture amounted to 11.6 percent (-5.3 percentage

points), industry – 11.4 percent (3.5 percent), as the consumer loans – 9.3 percent (+0.6 percentage points), as the mortgage lending – 5.3 percent (-0.7 percentage points), and for construction – 4.3 percent (-1.5 percentage points). The share of loans for social services amounted to 3.4 percent of total loans (2.1 percentage points), transport – 2.0 percent (+1.0 percentage points), and for procurement and processing – 0.2 percent (+0.1 percentage points). The share of other loans was 7.4 percent (-2.5 percentage points).

Table 1.6.4.2.

Behavior of KR Banking Sector Loan Portfolio by Regions (end-of-period)*

	2013		2014	
	millions of KGS	Share, percents	millions of KGS	Share, percents
Bishkek city	30,679.3	57.0	46,417.3	59.1
Osh city and Osh oblast	6,951.7	12.9	9,437.3	12.0
Jalal-Abad oblast	5,227.3	9.7	7,091.9	9.0
Chui oblast	3,436.7	6.4	5,111.9	6.5
Issyk-Kul oblast	2,953.1	5.5	3,953.1	5.0
Talas oblast	1,710.4	3.2	2,436.7	3.1
Batken oblast	1,536.9	2.9	2,193.2	2.8
Naryn oblast	1,337.2	2.5	1,880.2	2.4
Total	53,832.5	100.0	78,521.6	100.0

* The loan portfolio is given including the accrued discount

In the period under review, the bulk of the loan portfolio by regions was issued in the city of Bishkek (59.1 percent), in the city of Osh and in the Osh oblast (12.0 percent).

The weighted average interest rate of newly issued loans in national currency was 20.1 percent for the year as a whole, having decreased by 1.2 percentage points as against the year of 2013. The reduction in the interest rates was recorded in such sectors of the real economy as industry, agriculture, trade, construction, mortgage, as well as in the segment of communications and procurement and processing. The weighted average interest rate of new loans in foreign currency was 15.0 percent for the period, having decreased by 2.7 percentage points. The lowest interest rates of loans in local and foreign currencies are those of interest rates of loans to industry, and the highest interest rates were noted with regard to the consumer loans.

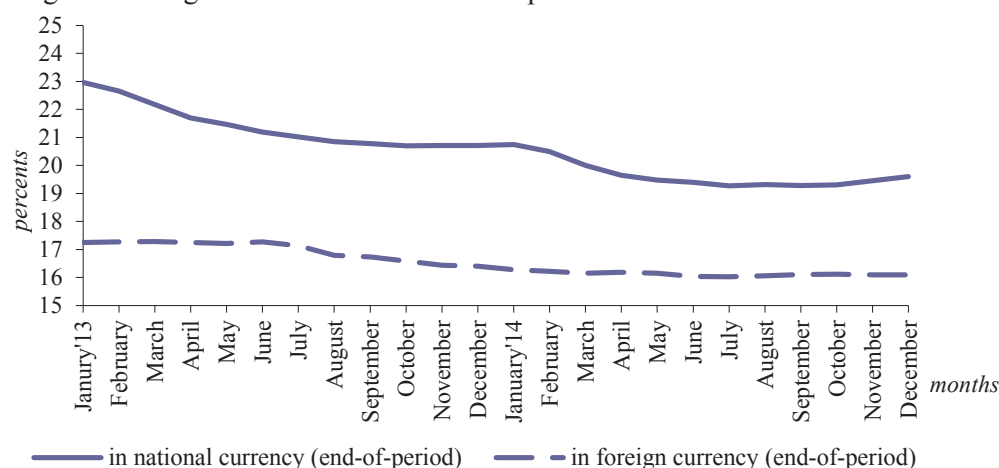
*Interest rates
of loans newly
issued by banks*

The weighted average interest rate of loans, forming the portfolio of operating commercial banks, was at the end of the year in national currency 19.6 percent (-1.1 percentage points) and in foreign currency – 16.1 percent (-0.3 percentage points).

*Interest rates
of loans of banks*

Chart 1.6.4.4.

Weighted Average Loan Interest Rate Developments



Having increased over the year by 39.2 percent, the total volume of loans of banks and NFCIs amounted to KGS 101.7 billion by the end of 2014 (in 2013, the increase was 31.6 percent).

Chart 1.6.4.5.

Volume of Loans to Economy Including NFCI Loans (end-of-period)

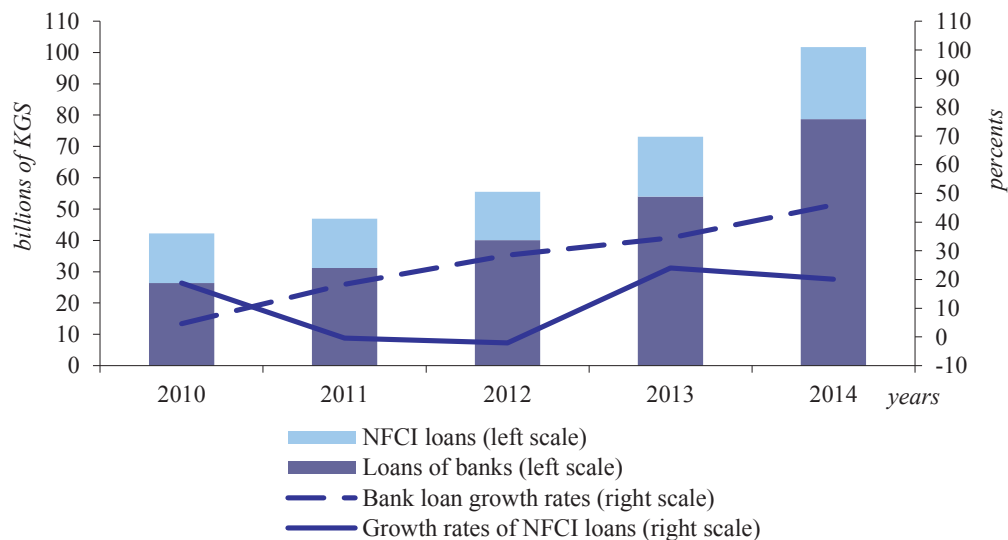


Table 1.6.4.3.
NFCI Loan Portfolio Behavior by Regions (end-of-period)
(millions of KGS)

	2013	2014
Bishkek city	3,806.6	4,745.4
Batken oblast	1,795.9	2,033.0
Jalal-Abad oblast	2,982.7	3,718.1
Issyk-Kul oblast	1,762.2	2,211.9
Naryn oblast	1,308.7	1,565.6
Osh oblast and Osh city	3,316.7	4,048.4
Talas oblast	1,318.0	1,334.2
Chui oblast	2,649.0	3,179.0
Outside KR	167.1	110.1
Total	19,106.9	22,945.8

The bulk of NFCI loans in the period under review were issued in Bishkek, an increase of 24.7 percent, with a share of 20.7 percent.

Table 1.6.4.4.

NFCI Loan Portfolio by Sectors of Economy (end-of-period)

Sector	2013	2014
Industry	188.4	208.5
Agriculture	7,983.2	8,532.8
Transport and communication	192.2	362.6
Trade and services	5,365.2	6,232.2
Procurement and processing	17.3	19.4
Construction and purchase of property (mortgage)	626.9	914.0
Loans to individuals	1,534.1	2,953.3
Other	3,199.6	3,722.9
Total	19,106.9	22,945.8

The largest volume of loans issued by the NFCIs is falls on agriculture (KGS 8.5 billion), having thus increased by 6.9 percent and on the sector of trade and services (KGS 6.2 billion) (16.2 percent).

Table 1.6.4.5.

Weighted Average Interest Rates of Loans
(percents)

*Interest rates of
NFCI loans*

	2013	2014
Microfinance organizations	31.0	30.0
Credit unions	27.3	25.6

The weighted average rates of loans to the microfinance institutions decreased to the level of 30.0 percent (-1.0 percentage points), loans to the credit unions – to 25.6 percent (-1.7 percentage points).



ACTIVITY
OF THE NATIONAL BANK
OF THE KYRGYZ REPUBLIC
IN 2014



CHAPTER 2. MONETARY POLICY

In 2014, the National Bank of the Kyrgyz Republic made the transition to the new monetary policy framework. An intermediate monetary policy target was changed from monetary aggregates to interest rates. The medium-term task of the change in the new framework is to strengthen the operation of the interest rate channel of the transmission mechanism and its impact on the real economy. The goal of the monetary policy remains the same – to achieve and maintain price stability.

In the reporting year, the impact of external factors both on the economy, in general, and on the price situation, in particular, intensified. The monetary policy of the National Bank was directed to restrict a monetary component of inflation and to, consequently, reduce pressure on the exchange rate. To this end, the National Bank applied the monetary policy tools and macro-prudential measures. The average inflation rate was 7.5 percent in 2014, which is within the stated monetary policy guidelines.

Within the new monetary policy framework and in order to improve the applied instruments, the National Bank introduced the new monetary policy tools – “overnight” deposits, and 7-day credits, with the changes made in the ways and terms of holding credit auctions.

The volume of gross international reserves amounted at the end of the year to the equivalent of about USD 2.0 billion. The structure of international reserves included the currency portfolio, SDRs and assets in gold. In the reporting year, to replenish the international reserves, the National Bank purchased gold on the domestic market. The international reserves were used, mainly, for the monetary policy purpose, as well as for servicing the external liabilities of the Government of the Kyrgyz Republic and the National Bank.

2.1. Monetary Policy Framework

Monetary policy goal

In accordance with the Law “On the National Bank of the Kyrgyz Republic”, the main goal of the National Bank is to achieve and maintain price stability through the appropriate monetary policy implementation. The National Bank determines the monetary policy proceeding from this objective, the current macroeconomic situation, and forecasts of changes in the key economic parameters.

The monetary policy elaboration and implementation were aimed at performing tasks as defined in the National Sustainable Development Strategy of the Kyrgyz Republic for 2013-2017.

The monetary policy was conducted in accordance with the Basic Monetary Policy Guidelines for 2014-2017¹, which determined the monetary policy strategic objectives and targets. The quantitative monetary policy target remains the same – to restrain inflation at the level of about 7 percent in the medium term.

New monetary policy framework

Since early-2014, the National Bank of the Kyrgyz Republic changed the monetary policy framework by moving to the interest rates targeting. The goal of this move is to strengthen the impact of the discount rate (the National Bank policy rate) on the market interest rates.

Several monetary policy instruments were adapted as a result of the transition to the targeting of interest rates. In particular, the “corridor” of interest rates was set around the discount rate: the rate of the “overnight” deposit determined the lower level of the corridor, while the rate of the “overnight” credit – its top level.

As part of the new monetary policy framework, the discount rate was determined

¹ Approved with the Resolution of the NBKR Board No 48/2 on 4 December 2013.

by the Board of the National Bank on a monthly basis. A decision-making was based on the results of modeling and forecasting, obtained with the use of the macroeconomic forecasting and policy analysis system (FPAS). In order to inform of and form adequate inflationary expectations, the yearly schedule of meetings of the Board of the National Bank on the monetary policy issues and press releases were issued regularly. The tactical decision-making was done by the Monetary Regulation Committee (MRC) on the weekly basis. The National Bank and the Ministry of Finance held regular meetings for operational coordination of monetary and fiscal policies within the Interagency Coordination Council.

The exchange rate policy was conducted in accordance with the floating exchange rate regime selected by the Kyrgyz Republic. The National Bank participated in the interbank foreign exchange market in order to limit sharp exchange rate fluctuations of the US dollar towards the Kyrgyz Som. With the increased demand for foreign currency in the domestic foreign exchange market, the National Bank increased the volume of sales of US dollars.

*Exchange rate
policy*

The dominant share in the consumer price index (CPI) is still that of the imported products. In this regard, high dependence of domestic consumer prices on price development in the world commodity markets and on the changes in the US dollar exchange rate persisted.

Inflation factors

Inflation during 2014 developed on impact of a number of external and internal factors that led to an advance in the prices of basic goods and services consumed by the population. The main of such factors were the decline in agricultural production of the country; the worldwide strengthening of the US dollar, including in the financial markets of main trading partners; the increase in the POL disbursing prices; the increase in a cost of imported wheat; and the increase in tariffs for housing and utilities.

Taking into account inflationary pressures, during 2014, the National Bank took a number of measures aimed at restricting a monetary component of inflation.

*Monetary policy
measures*

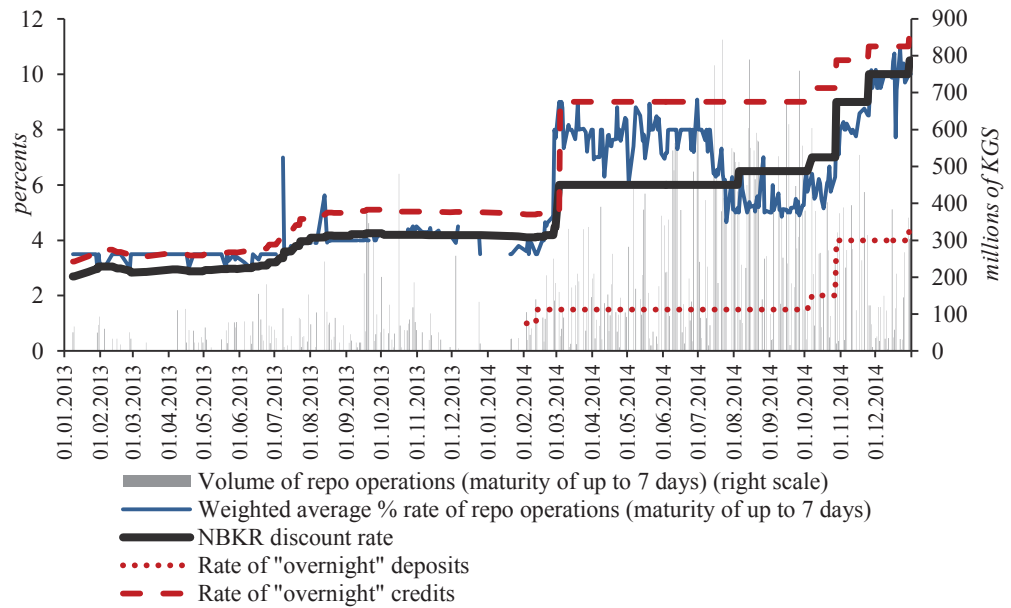
For these purposes, the Board of the National Bank regularly reviewed the discount rate, which was increased during the year to 10.50 percent (at the beginning of 2014 – 4.17 percent). The rates of other monetary policy instruments were raised accordingly: the “overnight” credit – up to 11.50 percent (at the beginning of 2014 – 5.00 percent), of the “overnight” deposit – up to 4.50 percent (at the beginning of 2014 – 1.00 percent).

To limit the monetary component of inflation and reduce pressure on the foreign exchange market, the National Bank also carried out sterilization of excess liquidity through the open market operations (issue of notes of the National Bank and reverse repos) and the deposit operations. The volume of notes in circulation on average for 2014 was KGS 2.4 billion (in 2013 – KGS 3.1 billion), and the volume of government securities sold on REPO terms – KGS 200.1 million (in 2013 – KGS 515.5 million). The average daily volume of “overnight” deposits was KGS 768.4 million. Overall, in 2014 the volume of sterilization operations in the form of sales of notes of the National Bank amounted to KGS 78.8 billion, in the form of “overnight” deposits – KGS 137.8 billion.

In 2014, activity of commercial banks in the interbank credit market grew substantially. The total volume of operations in the interbank repo market for the year increased 5.7 times compared to the same period of the previous year. The interest rates in the interbank market consistently varied within the interest rate corridor set by the National Bank indicating the increasing influence of the discount rate of the National Bank.

Chart 2.1.1.

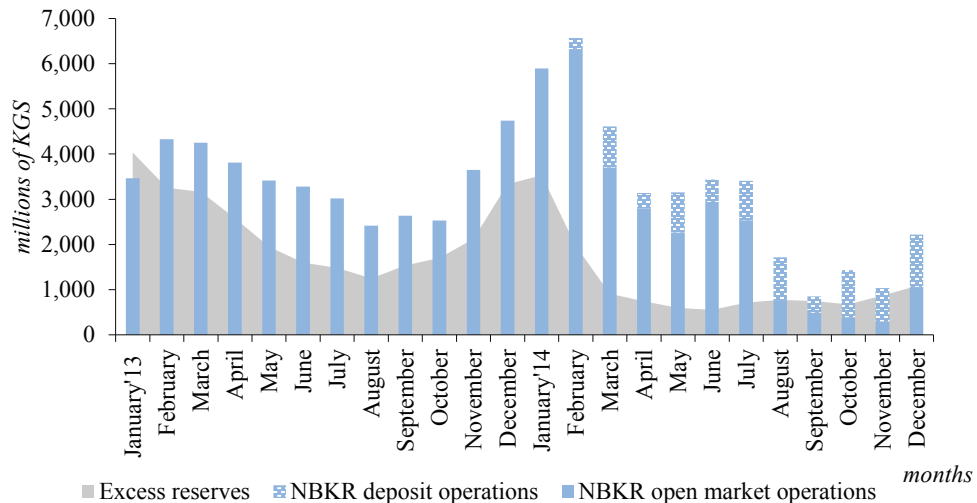
Changes in Rates of National Bank and Interbank Repo Operations
(for up to 7 days)



In 2014, as a result of the monetary policy conducted by the National Bank and revitalization of the interbank market, the average daily volume of excess reserves of the banking system fell from KGS 2.3 billion in 2013 to KGS 1.1 billion in 2014. Reserve money decreased for the year by 11.9 percent, with the main contribution to its reduction made by the National Bank operations in the foreign exchange market.

Chart 2.1.2.

National Bank Excess Reserves and Operations



2.2. Monetary Policy Implementation

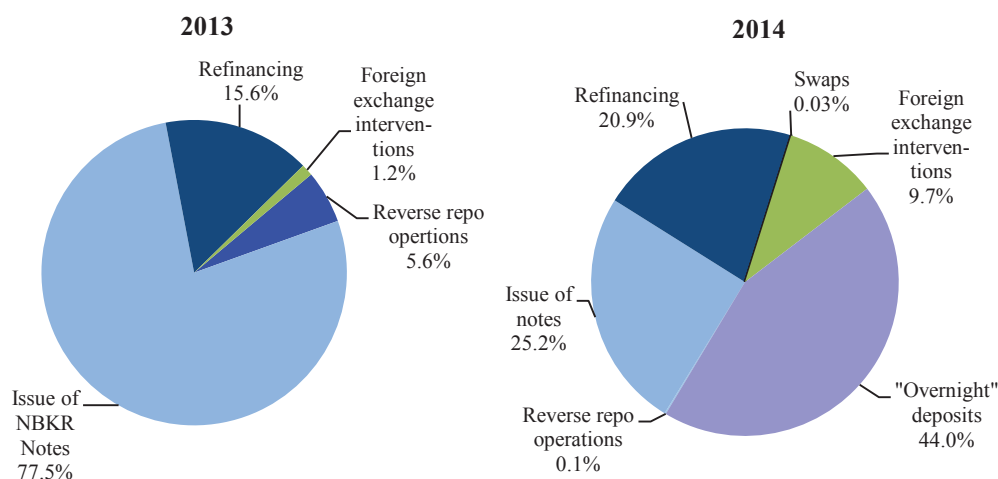
The transition in the reporting year by the National Bank to the new monetary policy framework, coupled with the actions to reduce pressure on the foreign exchange market, determined the changes in the structure of its operations.

In 2014, the National Bank conducted the operations on sterilization of excess liquidity of the banking system by the “overnight” deposits and the auctions of notes. At the end of the reporting year, the share of “overnight” deposits in the structure of National Bank operations was 44.0 percent; the share of issue of notes of the bank fell from 77.5 percent in 2013 to 25.2 percent in the reporting year.

Due to growth of demand for borrowed resources on the part of commercial banks, the National Bank increased its refinancing operations. In addition to the “overnight” and intraday credits, the National Bank provided the resources to the commercial banks through the credit auctions. Overall, in the total volume of operations of the bank, the share of refinancing operations increased by 5.3 percentage points to 20.9 percent in 2014 compared with the year of 2013.

Chart 2.2.1.

Structure of National Bank Operations



During the year, the increased demand for foreign currency was observed in the domestic market, thereby increasing the degree of participation of the National Bank in the interbank foreign exchange market. The share of foreign exchange intervention in the structure of National Bank operations rose in 2014 to 9.7 percent from 1.2 percent in 2013. The net sales by the National Bank of noncash US dollars amounted to USD 516.3 million (in 2013 – USD 14.7 million).

The National Bank also conducted the operations on purchase of gold in the domestic market, whose volume in 2014 amounted to KGS 714.7 million.

2.2.1. Domestic Foreign Exchange Market Operations

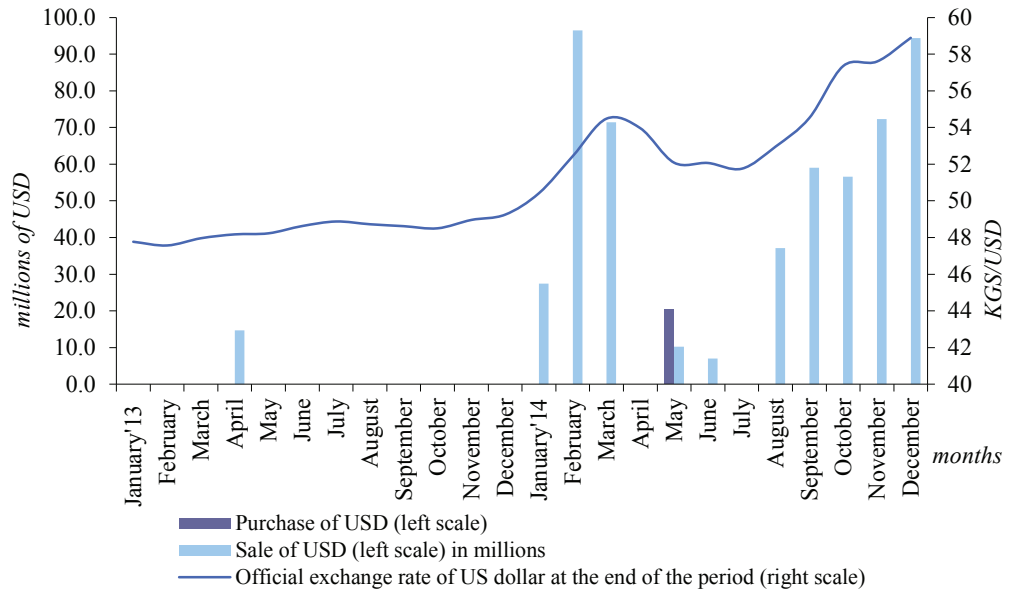
In 2014, the behavior of the exchange rate was multidirectional. Participation of the National Bank in the foreign exchange auctions depended on the market situation and was determined by the need to smooth the sharp exchange rate fluctuations.

In the first quarter, the situation in the domestic foreign exchange market was characterized by growth of the US dollar exchange rate. This growth was conditioned by a predominance of demand over supply of foreign exchange against the background of the impact of external shocks (a continued phasedown of the program of quantitative easing (QE3) by the US Federal Reserve System), a deterioration of the geopolitical situation, and one-stage devaluation of the Tenge in Kazakhstan) and the seasonal

factor. Thus, in order to avoid the sharp fluctuations in the exchange rate, the National Bank performed the foreign exchange sale operations, which amounted to USD 198.1 million in the first quarter. At the end of the first quarter, the exchange rate increased by 10.8 percent and amounted to KGS 54.4813 for one US dollar.

Chart 2.2.1.1.

Foreign Exchange Operations of National Bank in 2014



The inverse situation – the strengthening of the som – was observed in the second quarter of the reporting year. This was due to the increase in the supply of foreign exchange currency over its demand, typical for the seasonal factor, due to the increase in inflows of remittances and a startup of a tourist season. During this period, the National Bank conducted the operations both on sale and on purchase of US dollars. At the same time, the net purchase by the National Bank amounted to USD 3.3 million. In the second quarter of the reporting year, the exchange rate of the US dollar against Kyrgyz som decreased by 4.5 percent and totaled KGS 52.0649 for one USD.

In the third quarter, the US dollar strengthened its position in the domestic market of the Kyrgyz Republic. The reason for this was that of external factors (a global tendency towards appreciation of the US dollar, the worsening of the economic situation in Europe and in the countries-trading partners of Kyrgyzstan, and the imposition of tougher sanctions against Russia by the individual countries, and the decline in the world oil prices) and of a number of domestic factors. With the increased demand for foreign exchange, the National Bank performed the US dollar sale operations. As a result, for the third quarter, the National Bank sold USD 96.1 million. The exchange rate of the US dollar increased by 4.7 percent and amounted to KGS 54.5202 for one US dollar.

The impact of external and internal factors on the exchange rate persisted in the fourth quarter. As a result, in the fourth quarter, the National Bank sold USD 225.3 million. The exchange rate of the US dollar increased by 8.2 percent and amounted to KGS 58.8865 for one US dollar.

Overall, in 2014, the total volume of US dollars purchased by the National Bank in the domestic foreign exchange market amounted to USD 20.5 million; that of the sales – USD 536.7 million. The net sales totaled USD 516.3 million. The official US dollar-Kyrgyz som exchange rate increased by 19.6 percent in the reporting period.

2.2.2. Operations with Notes of the National Bank

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

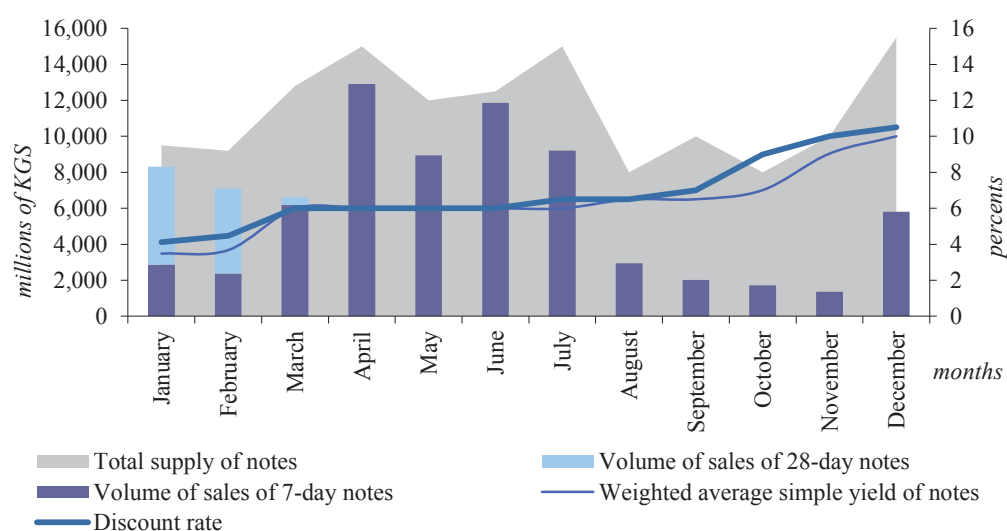
In March 2014, in order to enhance the effectiveness of monetary policy instruments, the National Bank moved to issuing notes with single maturity of 7 days, thereby making issues of 14- and 28-day notes exceptional.

From the monetary policy perspective, and taking into account the level of liquidity in the banking system, total sales of Notes of the National Bank increased from KGS 44.6 billion in 2013 to KGS 78.8 billion in 2014.

The share of Notes of the National Bank with maturity of 7 days (86.56 percent) was most significant in their sales, while the sales of NBKR Notes with maturity of 28 days amounted to 13.44 percent. In 2014, the National Bank did not issue the notes with maturity of 14 days.

Chart 2.2.2.1.

Sales Volume of Notes of National Bank and Discount Rate Developments in 2014



2.2.3. Repo Operations

In order to regulate liquidity in the banking system, the National Bank conducted the operations on sale of government securities on REPO terms (reverse repo) in early 2014. The State Treasury Bonds as part of the portfolio of the National Bank served as an object of sale.

The total volume of repo operations of the National Bank amounted to KGS 421.4 million in 2014, with the weighted average term of 21 days and the average yield of 4.0 percent.

Table 2.2.3.1.

National Bank Repo Operations

(millions of KGS)

	Q1	Q2	Q3	Q4	Total
2013, total	1,892.4	749.0	0.0	584.4	3,225.8
<i>including:</i>					
direct repo operations	-	-	-	-	-
reverse repo operations	1,892.4	749.0	-	584.4	3,225.8
2014, total	421.4	0.0	0.0	0.0	421.4
<i>including:</i>					
direct repo operations	-	-	-	-	-
reverse repo operations	421.4	-	-	-	421.4

In 2014, the repo operations of the National Bank decreased to KGS 421.4 million from KGS 3.2 billion in 2013, which was caused by the use of 7-day notes of the National Bank as the main instrument of sterilization of excess liquidity as part of the transition to the new monetary policy framework and the introduction of the new monetary policy instrument – the “overnight” deposits.

2.2.4. Refinancing of Banks

Refinancing of banks is one of the instruments designed to maintain liquidity of commercial banks and smooth its current fluctuations.

In 2014, the National Bank used the following types of refinancing of commercial banks:

- the “intraday” credit provided in national currency on the interest-free basis during the trading day for a few hours on collateral, to enhance efficiency of the payment system;
- the “overnight” credit, provided in national currency for one day on the repayment basis on collateral, to maintain short-term liquidity of banks;
- the 7-day credits provided in national currency for 7 days on the repayment basis on collateral, to maintain short-term liquidity;
- the credit auctions aimed at refinancing and maintaining liquidity to provide the commercial banks with the three and six months credits in national currency on the repayment basis to maintain liquidity and at lending to certain sectors of the economy.

In 2014, the amount of extended intraday credits totaled KGS 4.3 billion, of which KGS 3.2 billion was rescheduled into the “overnight” credit. In 2014, the volume of “overnight” credits reached the level of KGS 56.7 billion, with the 2013 volume of “overnight” credits being KGS 8.1 billion.

In order to provide the commercial banks with short-term liquidity, the National Bank introduced in 2014 the new monetary policy instrument – the 7-day credit for liquidity purposes. Since June 2014, the National Bank provided the commercial banks, on the auction basis, with the 7-day credits totaling KGS 1.1 billion.

During 2014, the National Bank continued improving the tool to accommodate the commercial banks with the credit funds through the credit auctions. In particular, methods and conditions of their implementation were enhanced.

Overall, in 2014, within the framework of credit auctions of the National Bank, the commercial banks were accommodated with the credit funds in the amount of KGS 3.3 billion, including KGS 249.0 million obtained by the NFCIs through the commercial banks.

Table 2.2.4.1.

Credits Accommodated by National Bank

(millions of KGS)

	Q1	Q2	Q3	Q4	Total
Intraday credits*:					
2013	-	-	-	-	0.0
2014	153.3	3,664.7	527.5	-	4,345.6
"Overnight" credits:					
2013	297.4	4,480.8	2,947.0	370.0	8,095.2
2014	4,196.5	35,336.5	11,583.2	5,608.4	56,724.6
7-day credits:					
2013	-	-	-	-	0.0
2014	-	400.0	700.0	-	1,100.0
Credit auctions**:					
2013	95.0	337.0	298.8	170.1	900.9
2014	360.0	1,200.0	990.0	710.0	3,260.0

*Including intraday credit, redesigned into the “overnight” credit

**Amount of credits actually issued for the indicated period



2.2.5. Reserve Requirements

Reserve requirements (RR) are one of the monetary policy tools, and represent the amount of money which the operating banks are bound to hold in accordance with the established requirements on the correspondent accounts with the National Bank. The amount of required reserves is established with the decision of the National Bank proceeding from the current monetary policy objectives.

In 2014, the reserve requirements for the banks stood at the level of 9.0 percent of the calculation base, which has not changed since 2011.

In the reporting year in order to improve this monetary policy instrument, the base period of compliance with the RR was extended from two working weeks to four calendar weeks. A norm was introduced, according to which one single level was determined for the whole four-week base period, whereas previously the level would change weekly depending on the change in the calculation base. These improvements in the instrument allowed neutralizing the effect of seasonality in the payments and increasing flexibility when managing liquidity of commercial banks.

During 2014, the Board of the National Bank addressed four times the issue of the minimum threshold level of funds on the correspondent account of each commercial bank with the National Bank set for compliance with the RR. At the end of the year, the daily amount of funds on the correspondent account with the National Bank established for compliance with the RR was not less than 90 percent of the bank's required reserves defined for the corresponding period.

In addition, to reduce pressure on the exchange rate and help reduce the level of "dollarization" of deposits in the economy, the norm for the use of foreign currency deposits placed by the commercial banks with the National Bank was removed in November 2014 to reduce the RR calculation base.

Owing to growth of deposits, the volume of required reserves amounted to KGS 6.7 billion at the end of 2014, having thus increased by 25.8 percent.

During 2014, one of the commercial banks did not meet the reserve requirements because in 2011 this bank was subject to a conservatorship regime. Besides, with regard to eight cases of a failure by five banks to comply with the minimum level of the volume of required reserves were recorded on the daily basis during the reporting year with the corresponding penalties applied to these eight banks.

Table 2.2.5.1.

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

	Q1	Q2	Q3	Q4
2013, total	7,591.1	6,340.8	5,993.7	7,362.6
<i>including:</i>				
required reserves	4,106.2	4,298.4	4,572.1	4,976.3
excess reserves	3,484.9	2,042.4	1,421.6	2,386.3
2014, total	7,904.0	6,388.5	6,542.3	7,076.0
<i>including:</i>				
required reserves	5,768.1	5,759.7	5,798.6	6,202.0
excess reserves	2,135.8	628.8	743.7	874.0

* average values for the period

2.3. Management of International Reserves

According to the Law “On the National Bank of the Kyrgyz Republic”, maintenance of liquidity and safety of reserve assets are the priorities of the National Bank in the area of management of international reserves in accordance with the key principles.

Management of international reserves was regulated by the Investment Policy, the Risk Management Policy when managing the international reserves, Regulations “On the Benchmark Portfolio of International Reserves of the National Bank of the Kyrgyz Republic for 2014” and “On Limits in Management of Investment Asset of International Reserves.”

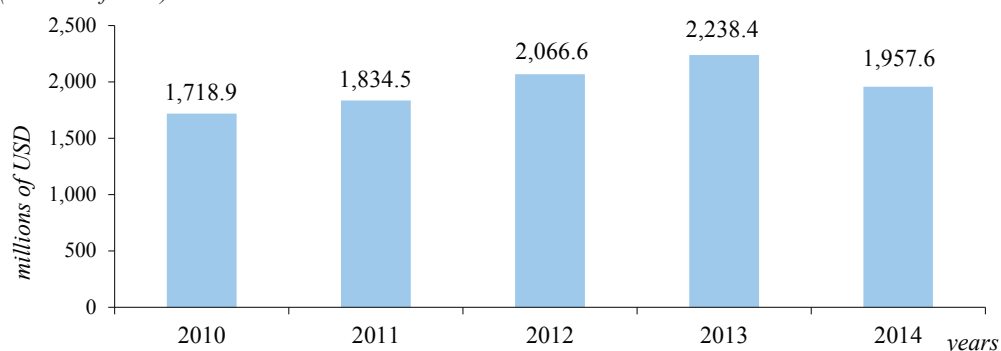
The decision-making in the part of defining the bank’s investment strategy, the portfolio structure of international reserves, the ratio of risk and the return on investment instruments, as well as a choice of the bank counterparties was made by the Board and the Investment Committee of the National Bank. In 2014, the Investment Committee held 22 meetings on management of international reserves. To minimize the risks emerging in management of reserve assets, criteria were established, as well as the requirements and restrictions imposed on counterparties, types of instruments, and the size and maturity of investment.

Gross reserves at the end of 2014 amounted to the equivalent of about USD 2.0 billion, having decreased for the year by USD 280.8 million or 12.5 percent. The international reserves of the National Bank comprise the assets in gold, SDRs and the currency portfolio.

Volume and structure of international reserves

Chart 2.3.1.

Development of National Bank Gross International Reserves
(millions of USD)



During 2014, the volume of gross international reserves was influenced by: the National Bank foreign exchange operations conducted in the domestic market; the payments on the external liabilities of the Kyrgyz Republic; the changes in the exchange rates of currencies, which are part of international reserves; the changes in the prices of precious metals; income from management of international reserves; the purchases of gold in the domestic market of Kyrgyzstan; and receipt of foreign currency in favor of the Government of the Kyrgyz Republic.

Table 2.3.1.

Pattern of National Bank Reserve Assets (end-of-period)
(percents)

	2013	2014
Currency portfolio	84.9	83.0
Gold	6.2	7.8
Special Drawing Rights (SDR)	8.8	9.2
Total	100.0	100.0

In 2014, the currency portfolio of international reserves included: the US dollars, Euros, Swiss francs, British pounds, Australian and Canadian dollars, Japanese yens, Russian rubles, Chinese yuans, Singapore dollars, and Norwegian kroner and Swedish kronas.

Structure of the currency portfolio of international reserves

Table 2.3.2.

Structure of Allocation of National Bank International Reserves (end-of-period)
(percents)

	2013	2014
Central banks	37.5	37.2
International financial institutions	19.3	17.5
Commercial banks	41.1	42.0
NBKR	2.0	3.2
Total	100.0	100.0

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

The working capital assets were placed in the most liquid instruments and were used for the operations in the domestic interbank foreign exchange market and for the payments of the National Bank and the Government of the Kyrgyz Republic in foreign currency (including for the external debt service).

Working capital placement

The investment portfolio was managed in accordance with the approved benchmark portfolio of international reserves. The National Bank placed the international reserves in securities, time deposits, as well as in one-day repo operations. The securities portfolio included the government securities of individual countries, as well as the short-term and medium-term investment instruments of international financial institutions. The time deposits were placed in international financial institutions, foreign central and commercial banks with high international ratings.

Investment management

During the year of 2014, management of the investment policy was influenced by: the state of leading economies and the monetary policy conducted by their central banks, as well as geopolitical tension in the world that became one of the key factors influencing the financial markets.

2.4. Monetary Policy Results

The monetary base decreased by 11.9 percent at the end of 2014, from KGS 73.1 billion to KGS 64.5 billion. The supply of money in the economy was provided mainly by the public finance sector, which contributed to the increase in the monetary base by KGS 10.1 billion. The operations on sterilization of excess liquidity and foreign exchange interventions by the National Bank reduced the monetary base by KGS 18.8 billion.

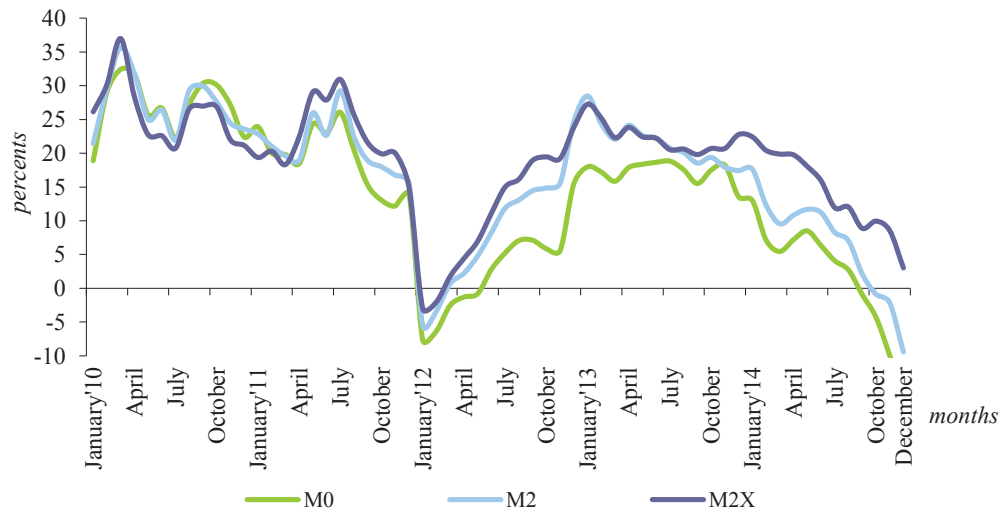
Monetary base

During 2014, the M0 monetary aggregate (money outside banks) decreased by KGS 10.0 billion or by 16.2 percent and totaled KGS 51.9 billion at the end of 2014 (in 2013, the increase was 13.5 percent). The M2 monetary aggregate (M0 + the deposits, including the settlement accounts, in national currency) fell by 9.4 percent to KGS 82.4 billion (in 2013, the increase was 17.4 percent), with the deposits in national currency having increased by 4.9 percent.

Monetary aggregates

Chart 2.4.1.

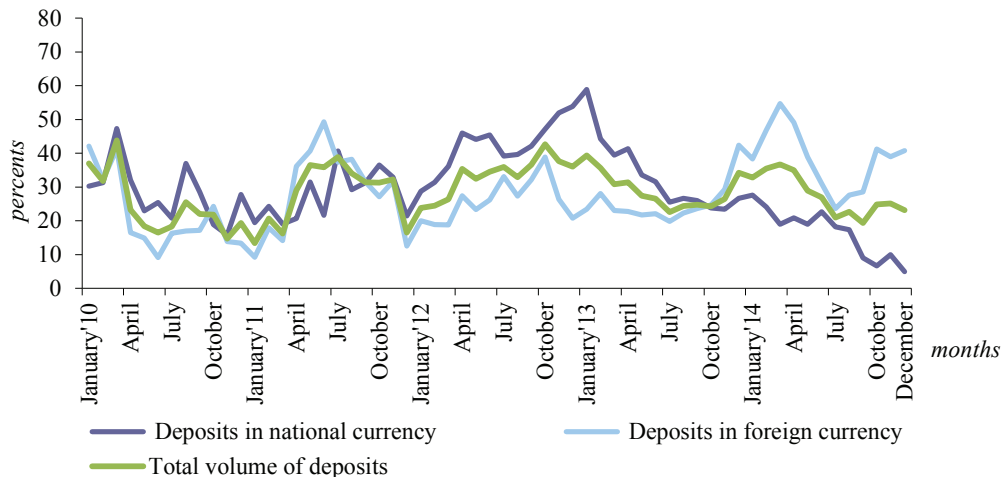
Annual Rates of Change of Monetary Aggregates (end-of-period)



Broad money M2X (M2 + the deposits, including the settlement accounts, in foreign currency) amounted to KGS 124.5 billion at the end of December 2014, having increased by KGS 3.6 billion or 3.0 percent during the year of 2014 (in 2013 – by 22.8 percent). Growth of broad money M2X was due to the increase in the deposits¹ of the banking system, whose growth in the reporting period was 23.1 percent, or KGS 13.6 billion, including the deposits in foreign currency, which increased by 40.8 percent. Excluding the effect of the exchange rate change, the M2X decreased by 2.2 percent; the deposits, included in M2X, increased by 12.7 percent.

Chart 2.4.2.

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

*Factors affecting the M2X*

The increase in the net foreign assets of the banking system made the main contribution (2.4 percentage points) to growth of M2X broad money. State budget revenue in foreign currency in the amount of USD 489.6 million became the main factor of growth of net foreign assets. The contribution of net domestic assets (0.6 percentage points) to growth of M2X broad money was due to the increase in claims to other sectors, namely, of the credit to the economy, by 43.6 percent.

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

Table 2.4.1.

Sources of M2X Broad Money Formation (end-of-period)
(millions of KGS)

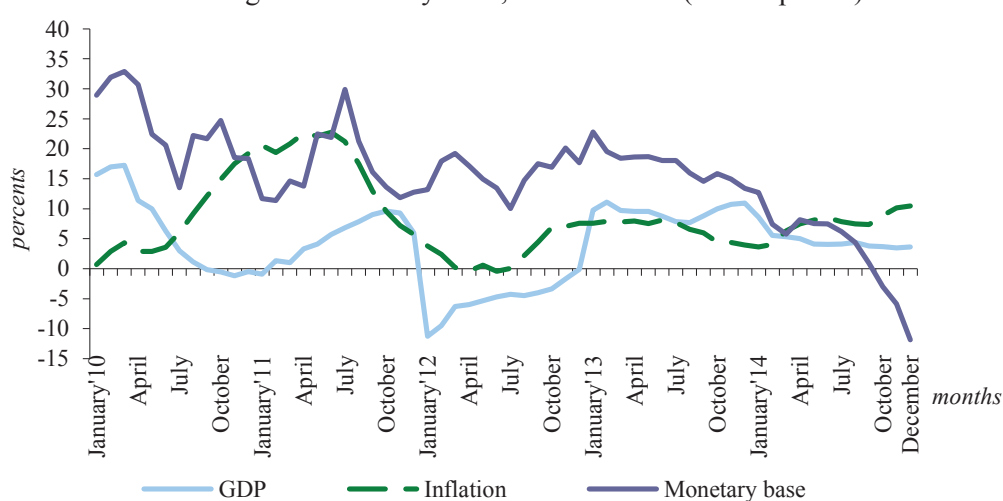
	2013	2014	Growth, in millions of KGS	Growth rates, in percent	Impact on M2X, p.p.
Net foreign assets	105,723.8	108,589.6	2,865.8	2.7	2.4
Net international reserves	110,241.4	109,754.8	-486.6	-0.4	-0.4
Other foreign assets	1,908.6	6,067.6	4,159.0	217.9	3.4
Distribution of SDR	-6,426.3	-7,232.9	-806.6	12.6	-0.7
Net domestic assets	15,179.7	15,954.8	775.1	5.1	0.6
Net claims to general government	-8,307.8	-20,830.9	-12,523.1	150.7	-10.4
Net claims to Government	-6,627.8	-19,150.9	-12,523.1	188.9	-10.4
Net claims to special funds	-1,680.0	-1,680.0	0.0	0.0	0.0
KR Development Fund	-1,680.0	-1,680.0	0.0	0.0	0.0
Claims to other sectors	57,191.1	82,148.3	24,957.2	43.6	20.6
Other items	-1,377.0	-1,352.0	24.9	-1.8	0.0
Capital account	-32,326.6	-44,010.6	-11,683.9	36.1	-9.7
Broad money M2X	120,903.4	124,544.4	3,640.9	3.0	3.0
Money outside banks	61,907.2	51,904.1	-10,003.1	-16.2	-8.3
Deposits of other deposit corporations	58,996.2	72,640.2	13,644.0	23.1	11.3
Deposits in national currency	29,055.4	30,482.3	1,426.8	4.9	1.2
Deposits in foreign currency	29,940.8	42,158.0	12,217.2	40.8	10.1

According to the National Statistics Committee, in 2014, the consumer price index, characterizing the inflation rate for 2014 was 10.5 percent (December 2014 to December 2013), with inflation standing at the single-digit level during the greater part of the year. Formation of inflation in 2014 was influenced by both the domestic and external factors. The significant contribution to the CPI was made by such domestic factors, as the increase in the tariffs for electricity and heat and hot water, as well as the increase in the consumer prices caused by poor harvest as a result of unfavorable climatic conditions.

Overall, in 2014, the average inflation rate was 7.5 percent (January-December 2014 to January-December 2013), which was within the stated medium term quantitative monetary policy target.

Chart 2.4.3.

Annual Rate of Changes in Monetary Base, CPI and GDP (end-of-period)



*REER &
NEER*

According to the preliminary data, the index of the nominal effective exchange rate (NEER) of the Som increased by 9.4 percent since in early-2014 and amounted to 122.6 at the end of December 2014. Growth was due to the strengthening¹ of the som in December 2014 compared with the average rate for December 2013 in relation to the Russian ruble by 39.6 percent, which is connected with the greater devaluation of the Russian ruble against the US dollar compared with the depreciation of the Kyrgyz som against the US dollar. Along with this, the depreciation was observed in the case of the Kyrgyz som against the US dollar by 15.3 percent, the Chinese yuan – by 13.8 percent, and the Euro – by 6.0 percent.

The increase in the NEER index of the Som, along with higher rate of inflation² in the Kyrgyz Republic, led to growth of the index of the real effective exchange rate (REER), which increased since December 2013 by 13.7 percent and amounted to 128.8 at the end of December 2014.

¹ The data on the nominal bilateral exchange rate of the som, as the base period used to calculate the index in 2000.

² Inflation in the Kyrgyz Republic was 10.5 percent in January to December 2014, while average inflation in major trading partners was 6.4 percent according to the preliminary estimates.

CHAPTER 3. SUPERVISION AND REGULATION OF FINANCIAL-CREDIT INSTITUTIONS

In order to ensure stability of the banking system and to protect interests of depositors and creditors, the National Bank exercises supervision and regulation of banks and nonbank financial-credit institutions, in accordance with the legislation of the Kyrgyz Republic.

The main instrument to perform functions of supervision and regulation is a combination of the off-site supervision with comprehensive and specialized (if necessary) inspections of financial-credit institutions.

In 2014, the main indicators of the banking and microfinance systems demonstrated progressive development, while maintaining stability and capacity to increase the level of intermediation and effectiveness of operation.

The work continued in the reporting period on the improvement of quality and enhancement of efficiency of banking supervision, on the development and improvement of regulatory and legal acts of the National Bank, in particular, on the issues of reducing the risks in activities of financial-credit institutions.

In 2014, the work continued on the implementation of the Interagency Action Plan for 2012-2015 to improve the national system in the sphere of anti-money laundering and combating the financing of terrorism (AML/CFT), and, the Progress Report of the Kyrgyz Republic was prepared together with the interested government agencies. Based on the results of consideration of the report at the regular plenary meeting of the Financial Action Task Force (FATF) on the development and implementation of international standards to combat money laundering and terrorism financing, the decision was taken on a removal of the Kyrgyz Republic from the FATF “gray list”. At the end of the plenary session of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG) it was also decided to remove the Kyrgyz Republic from the EAG monitoring procedures.

3.1. Bank Supervision

3.1.1. Licensing

24 commercial banks operated at the end of 2014 in the territory of the Kyrgyz Republic. The total amount of paid-up authorized capital of commercial banks was KGS 11.2 billion, with the share of foreign capital in authorized capital of the banking system being 35.8 percent or KGS 4.0 billion. During 2014, the total amount of authorized capital of banks increased by KGS 0.7 billion or by 7.0 percent.

On August 13, 2014, a prior permission was issued to the CJSC MCC “FINCA” to obtain a license to conduct the banking operations by transforming it into the bank.

On November 5, 2014, the additional license was issued to the CJSC “KICB” for the right to render the payment services with the use of electronic money in the form of prepaid cards.

In accordance with the legislation of the Kyrgyz Republic, the National Bank considered applications for the purchase of shares of commercial banks and the procedures were carried out to approve bank officials.

A series of restrictions with regard to the banking license of the “Ayil Bank” were removed in the reporting period in order to expand the range of services of the bank, thereby creating an opportunity of crediting the manufacturing industry. At the request of the bank, the restrictions were removed in terms of service and issue of international payment cards.

During the year, the OJSC “Kyrgyzdyikanbank” was renamed into the CJSC “Kyrgyz-Swiss Bank” (KSB).

*Authorized capital
of banks*

Branches, savings associations and field cash offices

Table 3.1.1.1.

Development of Network of Branches, Savings Associations and Field Cash Offices

	Number of branches		Number of Savings Associations ^c		Number of Field Cash Offices	
	2013	2014	2013	2014	2013	2014
Bishkek city	56	60	241	254	26	29
Batken oblast	19	21	56	55	1	1
Jalal-Abad oblast	46	43	126	136	4	7
Issyk-Kul oblast	38	40	40	44	10	11
Naryn oblast	20	18	13	16	1	1
Osh oblast	53	55	142	163	14	15
Talas oblast	15	15	12	17	1	1
Chui oblast	40	41	51	57	8	10
Total:	287	293	681	742	65	75

During 2014, the commercial banks in different regions of the country opened 14 branches, 67 savings associations, and 17 field cash offices. At the same time, eight branches, six savings associations, and seven field cash offices of various commercial banks were closed.

3.1.2. Off-Site Supervision

In 2014, off-site (distant) supervision of commercial banks was exercised within the framework of approved supervision strategies for each commercial bank and the common strategy of supervision of commercial banks of the Kyrgyz Republic.

Supervision and regulation were oriented to ensuring stability of the banking system and protecting the interests of depositors and creditors of commercial banks.

The main banking supervision efforts were aimed at assessing the bank risks, using for this the CAMELS rating system indicators; analyzing activities of commercial banks, and submitting them to stress tests, including an identification of exposure of commercial banks to credit risk through the impact of the direct and indirect exchange risk.

In order to identify problems of commercial banks at an early stage, taking into account development of the financial system and use by the banks of new tools, activity of the National Bank in 2014 was also aimed at studying and applying certain elements of risk-based supervision in practice.

Within the framework of off-site supervision, appeals of consumers of financial services and bank shareholders were considered on various issues, including the legal ones, as well as the issues of banking, credit management, and consumer protection. Consultations were given to bank depositors, borrowers, and pledges of banks to protect their legal rights; seminars and lectures aimed at improving financial literacy were held.

In 2014, the main results of development of the banking sector of the Kyrgyz Republic were: enhancement of the role of the banking sector in the economy – indicators of financial intermediation (the ratio of assets to GDP) rose from 31.3 percent at the end of 2013 to 34.6 percent for the year of 2014; achievement of financial stability and transparency of the banking sector; maintenance of the banking sector investment attractiveness.

In 2014, “net” total capital¹ increased by KGS 3.2 billion, while the “net” risk assets² increased by KGS 23.8 billion.

¹ An estimate, which includes the bank stock, the financial results in the reporting and previous years, the reserves formed, excluding investments in subsidiaries, and capital of other financial-credit institutions. This estimate is used when calculating the values of economic standards set by the National Bank of the Kyrgyz Republic.

² The risk assets include the loans to clients leasing, corporate securities, cash assets held in the foreign banks, other assets and off-balance sheet liabilities assessed by the degree of the credit risk inherent in them.



Despite the slight decline, the ratio of adequacy of total capital significantly exceeded its determined level, indicating that there is a certain potential in the banking system to increase the supply of financial services.

Capital indicators

Table 3.1.2.1.

Indicators of Capital of Commercial Banks (end-of-period)

	2013	2014
"Net" total capital, <i>millions of KGS</i>	18,657.0	21,836.5
"Net" risk assets, <i>millions of KGS</i>	76,216.7	100,006.7
Total capital adequacy ratio, <i>percents</i>	24.5	21.8
Total capital adequacy ratio (not less), <i>percents</i>	12.0	12.0

The credit risk is assessed on the basis of the classification of assets and off-balance sheet commitments¹. The risk of nonrepayment, calculated as the ratio of the loan loss provisions to the total assets bearing the risk of credit losses decreased at the end of 2014 compared to its value at the end of 2013 (3.3 percent) and made 2.6 percent.

Credit risk

By the end of 2014, the amount of overdue credits totaled KGS 3.7 billion or was 4.7 percent of assets bearing the risk of credit losses. At the end of 2013 this figure was 5.4 percent.

The exchange risk is considered from the point of view of a contingency of suffering losses by the bank due to the re-assessment of its assets and liabilities in foreign currency in the case of exchange rate changes. This risk is assessed based on the ratio of assets and liabilities in foreign currency, and their share in the total assets and liabilities of commercial banks. At the end of 2014, the foreign currency assets of the banking system amounted to KGS 71.2 billion or 51.8 percent of total assets. The liabilities of commercial banks in foreign currency totaled KGS 67.9 billion, with their share being 58.2 percent of total liabilities. Given the overall foreign exchange reserves of KGS 978.3 million, as well as the funds equivalent to the liabilities in foreign currency in the amount of KGS 1.1 billion, the total net open foreign currency position of the banking system was long at the end of 2014, having reached the amount of KGS 1.2 billion or being 5.6 percent of net total capital of the banking system.

Exchange risk

Table 3.1.2.2.

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

	2013	2014
Assets of foreign currency, <i>millions of KGS</i>	51,455.4	71,222.9
Assets of foreign currency, <i>percents</i>	46.3	51.8
Liabilities of foreign currency, <i>millions of KGS</i>	48,990.5	67,943.3
Liabilitie of foreign currency, <i>percents</i>	53.1	58.2

* Source: Periodic Regulatory Bank Reporting, Section 36

The liquidity risk is considered in terms of coverage for the liabilities by the assets in each maturity periods, which makes it possible to assess the need for the funds given a gap by maturities and liabilities. The analysis of the liquidity risk of commercial banks in 2014 showed that the negative gap by maturities of assets and liabilities was observed in the periods from 0-30 days to the period of 181-365 days, with the presence of positive gaps by maturity for over 365 days showing that the banks have the long-term sources of funds to cover their own liabilities.

Liquidity risk

¹ The data are given in section 1.4. "Banking Sector", Table 1.4.2. "Classification of Assets, Off-Balance Sheet Liabilities and Lending to Clients".

Table 3.1.2.3.**Assets and Liabilities by Maturity (end-of-period)***(In millions of KGS)*

2014*	Maturity in days					Total
	0-30	31-90	91-180	181-365	more than 365	
Financial assets	44,653.5	7,383.3	6,661.4	14,046.9	65,571.1	138,316.2
Financial liabilities	52,690.1	11,766.1	9,536.3	15,484.6	22,481.9	111,959.0
"Amount of excess of financial assets over financial liabilities" in percent of the total volume of financial assets	-8,036.6	-4,382.8	-2,874.8	-1,437.8	43,089.1	26,357.1
	-5.8%	-3.2%	-2.1%	-1.0%	31.2%	19.1%

* data as of December 31, 2014, inclusive.

2013**	Maturity in days					Total
	0-30	31-90	91-180	181-365	more than 365	
Financial assets	41,199.3	6,148.2	8,225.5	12,540.9	45,004.6	113,118.5
Financial liabilities	49,231.3	6,165.0	7,993.3	10,273.3	16,651.1	90,314.0
"Amount of excess of financial assets over financial liabilities" in percent of the total volume of financial assets	-8,032.0	-16.7	232.2	2,267.6	28,353.5	22,804.5
	-7.1%	0.0%	0.2%	2.0%	25.1%	20.2%

** data as of December 31, 2013, inclusive.

The values of economic standards, restricting the considered risks, evidenced the presence of a safety margin and remained at the level well above the regulatory one.

Taking into account the progressive advance of the banking sector, accompanied by growth of risks inherent in activities of commercial banks, the National Bank improves on a regular basis the methods of supervision. In this context, in 2014, under the World Bank project, the National Bank started developing and testing risk-based supervision.

3.1.3. Inspection

In 2014, as part of inspections (on-site supervision), the National Bank conducted the comprehensive and targeted inspections of commercial banks. The comprehensive inspections were carried out within the framework of the plan of inspections in accordance with a methodology developed on the basis of the CAMELS rating system, according to which the total (complete) inspection of the commercial bank is carried out. The targeted inspections are conducted for a detailed study of certain operations of any commercial bank, which led to significant changes in one or more of its parameters, as well as based on appeals of citizens.

In the reporting year, 18 commercial banks underwent the scheduled comprehensive inspections and 235 target inspections were carried out. The object of targeted inspections of commercial banks was that of the study and evaluation of certain banking operations for compliance with the banking legislation: foreign exchange and cash operations; authorized capital formation; allowances for assets; calculation of prudential norms established by the National Bank; the use of government subsidies provided for the project "Agriculture Financing"; the operations to combat the financing of terrorism and anti-money laundering, and other.

As a result of inspections, the meetings were held with the management of commercial banks, with their shortcomings and risks discussed and the measures taken as a supervisory response aimed at reducing the risks and bringing activities of banks in conformity with the requirements as established by law.

The results of inspections of the past period indicate an overall satisfactory financial

status of commercial banks. At the same time, there were breaches of the law in terms of operations with insiders and affiliated entities, operations in foreign currency, credit risk management, credit management, classification of assets and creation of adequate reserves, recording of other property violations when calculating certain prudential standards and ratios, incorrect filling of PRBR sections, as well as a violation of the AML/CFT legislation in the part of compulsory control. The shortcomings in the systems of internal control and banking risk management were revealed in some banks.

As part of the work to improve the quality and effectiveness of the oversight function of the National Bank, in particular, in the transition to risk-based supervision, the test inspection was conducted in 2014 in one of the commercial banks to test approaches to risk-based supervision.

Active interaction with the State Financial Intelligence Service of the Kyrgyz Republic continued in 2014. As part of a bilateral agreement to regularly exchange information on activities and observance by the commercial banks of the legislation on anti-money laundering and combating the financing of terrorism. As a result of information provided by the National Bank on findings of comprehensive and targeted inspections, the State Financial Intelligence Service took the administrative measures with regard to the officials of eight commercial banks.

3.1.4. Enforcement Actions

In order to protect the interests of depositors and creditors of commercial banks, the supervisory measures were taken in the reporting year, as well as the restrictions of activities of some commercial banks. At the same time, with regard to certain commercial banks, the National Bank revised and lifted the previously imposed restrictions because these banks met the requirements.

During 2014, direct banking supervision was still effective at the OJSC “FinanceCreditBank KAB” and the CJSC “BTA Bank”. These banks functioned normally and provided the full range of banking services.

To ensure safety of assets and protect the interests of depositors and other creditors, in accordance with the requirements of the Law “On Conservation, Liquidation and Bankruptcy of Banks”, the conservation regime was still effective with regard to the OJSC “Issyk-Kul” and the CJSC “Manas Bank”. Due to the change of shareholders, the conservation regime was terminated at the OJSC “KyrgyzCredit Bank” and temporary administration to manage the bank was introduced there and was effective till December 22, 2014.

With regard to the commercial banks operating in a normal mode, the corrective actions applied as part of the off-site supervision, as well as based on the findings of targeted inspections and licensing.

In 2014, the Supervision Committee of the National Bank held 47 meetings and discussed 72 issues relating to activities of commercial banks. The restrictions on mobilization of deposits from the individuals and legal entities were imposed on the three banks.

On the basis of materials resulting from the inspections, in the reporting year the National Bank reduced the value of limits on the open currency position for 10 commercial banks, penalties were imposed on two commercial banks, and three administrative actions were applied in the form of an administrative fine on officials of commercial banks.

The corrective actions were mainly of a preventive nature and were taken to ensure the reliability, stability and to enhance efficiency in activities of banks, in accordance with the Law of the Kyrgyz Republic “On Banks and Banking in the Kyrgyz Republic.”

3.2. Supervision over Nonbank Financial-Credit Institutions

NFCI Licensing

As at 31 December 2014, the system of nonbank financial-credit institutions, subject to licensing and regulation by the National Bank, comprised the specialized financial-credit institution – the OJSC “Financial Company of Credit Unions: (OJSC “FCCU”), 135 credit unions, 215 microfinance organizations (including five microfinance companies, 154 microcredit companies, and 56 microcredit agencies) and 309 exchange bureaus.

Activity of the OJSC “FCCU”, microfinance companies, credit unions, and exchange bureaus, are carried out on the basis of the license of the National Bank, while the microcredit companies and microcredit agencies operate on the basis of a certificate of account registration.

In 2014, the National Bank issued 79 licenses to the exchange bureaus, nine certificates of account registration to the MCC, one license to the MFC and one license to the CU.

For the failure to comply with the legislation of the Kyrgyz Republic and the regulatory and legal acts of the National Bank, three MCC certificates and five licenses of credit unions were withdrawn. Due to a termination of activity, 14 licenses of credit unions, 60 MCC certificates, and nine MCA certificates were canceled.

Table 3.2.1.

Changes in Number of NFCIs and Exchange Bureaus

Title	2013	2014
OJSC "FCCU"	1	1
Microfinance organizations (MFC, MCC and MCA)	277	215
Credit unions	153	135
Exchange bureaus	334	309
Total NFCI	765	660

Off-site supervision

In 2014, as in the previous periods, supervision over activities of nonbank financial-credit institutions was directed to further qualitative growth of the sector, the increase in the availability of microfinance services, capitalization of MFOs, which ultimately contribute to financial stability and stability of nonbank financial-credit institutions. Off-site supervision based on periodic regulatory reporting and on-site inspections that resulted in the enforcement measures as established by law, remained to be the supervision tools.

Thus, based on the off-site supervision findings connected with the revelation of breaches of the law in activities of nonbank financial-credit institutions, the following actions were applied:

- Microfinance institutions were sent 424 orders, 59 warnings, and the certificates of 26 MFOs were suspended;
- Credit unions were sent 217 orders, 12 warnings, and the licenses of three credit unions were suspended;
- The OJSC “FCCU” was sent two prescriptions and the restriction was imposed with regard to certain types of operations.

In February 2014, the National Bank introduced temporary administration regime at the OJSC “FCCU” because of uncoordinated activities of the management of the OJSC “FCCU”. During the regime of temporary administration, activities of the OJSC “FCCU” were brought in according with the legislative requirements, the shareholders elected the new Board of Directors and temporary administration regime was discontinued in August of the reporting year.

Inspections

In 2014, the National Bank conducted 108 inspections of activities of microfinance



organizations, 208 credit unions; twice the inspections were conducted with regard to activity of the OJSC “FCCU” and 1280 inspections of exchange bureaus for compliance with the requirements of the legislation of the Kyrgyz Republic by the nonbank financial-credit institutions. In the course of inspections of microfinance institutions, the targeted use of credit resources, obtained at the credit auctions of the National Bank, was also monitored, while in the course of the inspection of the OJSC “FCCU” the counter inspections were conducted with regard to the credit unions in arrears to the OJSC “FCCU”. The violations in credit activity, asset quality evaluation, and completeness and accuracy of reporting were the main violations of the law in activities of nonbank financial-credit institutions in 2014. For noncompliance with the legislation of the Kyrgyz Republic and the regulatory and legal acts of the National Bank, the inspections resulted in such corrective actions, as prescriptions, warning, temporary suspension, and revocation of certificates/licenses, as well as the administrative penalties on the officials of microfinance institutions (KGS 160.0 thousand was credited to the republican budget).

During the reporting period, serious attention was paid to a prevention of unlicensed activity of exchange bureaus, as well as the removal of systematic violations by the foreign exchange bureaus of the legislative requirements of the Kyrgyz Republic, including the requirements of regulatory acts in the AML/CFT field. In order to suppress activities of unlicensed foreign exchange bureaus, the National Bank, jointly with the public authorities, adopted the Joint Action Plan on control of compliance by the business entities engaged in foreign exchange operations. In the course of implementation of this plan in 2014, the actions were taken on a regular basis, including the actions to bring to administrative responsibility: 304 protocols of administrative offenses were compiled; 208 offenders were imposed administrative fines totaling KGS 317.5 thousand in favor of the republican budget.

To increase responsibility of individual engaged in unlicensed activities, the National Bank initiated a bill on amendments to the Code of the Kyrgyz Republic on Administrative Responsibility in terms of increasing the amount of fines for unlicensed activities for the exchange of foreign currency in cash.

During 2014 we continued improving the methods and approaches of regulation and supervision of NFCIs. Taking into account the international practice and with assistance of the Asian Development Bank, the methodology to assess activities of microfinance organizations was developed and implemented on the basis of risk-based supervision, whose improvement and fine-tuning will continue in view of specificity of the microfinance sector of the Kyrgyz Republic. Given the persisting high level of demand for the services of the microfinance sector, particularly, in the remote regions of the country, the National Bank will continue to improve supervision of NFCI activities, and this, in turn, will ensure protection of rights of consumers and a stable functioning of microfinance institutions.

3.3. Supervision and Regulation Methodology

The work continued in 2014 to improve the legal framework that governs activities of financial-credit institutions. In this regard, particular emphasis was placed on the issues of risk management in activities of banks and nonbank financial-credit institutions, as well as on the issues of bringing the regulatory and legal acts in line with the amendments made in the national legislation.

In order to minimize the exchange risks of the microfinance companies and credit unions licensed to conduct the operations in foreign currency, instructions on the procedures for compliance with the open currency position limits by these financial-credit institutions were adopted. The amendments and addenda were also made in some regulatory legal acts regarding the calculation of ownership capital of microfinance companies.

Basic directions of improving the legal regulatory framework

NFCI Regulation

The amendments and addenda were approved with regard to several regulatory legal acts on regulation of activities of nonbank financial-credit institutions on the issues of determining sources of origin funds in authorized capital of microfinance companies and working capital of exchange bureaus.

As part of the work to bring the regulatory legal acts of the National Bank in conformity with the legislation of the Kyrgyz Republic, including the one on combating the financing of terrorism and anti-money laundering, the amendments and addenda to several legal acts were adopted concerning activities of exchange points and exchange bureaus.

In order to introduce additional grounds for the corrective actions to be applied against the microfinance institutions and credit unions, as well as to optimize the procedure for applying the corrective actions against the nonbank financial-credit institutions, the amendments and addenda were approved for a number of regulatory legal acts of the National Bank.

Bank Regulation

To minimize the indirect currency risks of banks in the foreign currency lending to the clients, whose income is generated in national currency, the National Bank toughened the requirements on the classification of the aforementioned credits and formation of additional reserves to cover potential losses and damages.

The amendments were adopted with regard to the regulatory legal acts relating to the terms of determining the connected uniform cumulative debt of various borrowers of banks in the calculation of the maximum risk exposure per borrower.

The amendments and addenda were introduced into the regulatory and legal act of the National Bank in order to grant the right to the microfinance and microcredit companies, which are converted into banks, to open the foreign currency accounts with the resident banks.

*Islamic Principles
of Financing*

As part of further development of principles of Islamic banking and financing in the Kyrgyz Republic, the amendments and addenda were introduced in some legal acts concerning the calculation of capital adequacy, as well as the interbank financing to be obtained by the bank. In addition, the requirements were established on submission to the National Bank of periodic regulatory reporting by the microfinance institutions and credit unions engaged in operations on the Islamic principles of banking and financing, as well as on the implementation of prudential norms.

CHAPTER 4. PAYMENT SYSTEM

In 2014, the payment system of the Kyrgyz Republic functioned in the stable and sustainable mode.

In the reporting period as main directions of payment systems development for 2015-2017 the National Bank defined optimization and improvement of the regulatory and legal framework conducive to enhancement of reliability and efficiency of existing payment systems; the strengthening of supervision over new participants in the market of payment services and their systems; expansion of the sphere of coverage of retail noncash payments and development of innovative technologies.

One of the major events was an adoption of the Law of the Kyrgyz Republic “On the Payment System of the Kyrgyz Republic” (hereinafter – the Law) by the Jogorku Kenesh of the Kyrgyz Republic. This Law is directed to strengthen the measures for increasing transparency and manageability of cash flows in the economy, reduce a shadow turnover of cash and protect the rights of final consumers (the population) when working with the electronic payment systems. The Law establishes the legal and organizational framework of the payment system of the Kyrgyz Republic, including innovative technologies; appoints the National Bank as supervisor of payment systems operators, payment organizations and their payment systems.

As part of the work on minimization of risks in the systems of money transfers, the amendments were made in “Rules for Remittances through Money Transfer Systems in the Kyrgyz Republic”. According to the requirements, the operator system of money transfers should be registered with the National Bank of the Kyrgyz Republic and ensure security of financial obligations through the placement of the security deposit with the commercial banks or guarantees of banks with international loan ratings of the investment level, or provide insurance of systems of money transfers.

The requirement was introduced to ensure safety when working with systems of money transfers. A registration of operators providing services relating to the systems of money transfers in the Kyrgyz Republic was started in August 2014; the internal procedure for registration was developed and a register of organizations was created. Thus, 14 operators and five international systems operators of local systems of money transfers were registered at the end of 2014.

In 2014, the systematic work continued on the implementation of the State Program of Measures to Increase the Share of Noncash Payments and Settlements in the Kyrgyz Republic for 2012-2017 (hereinafter – the State Program). The ministries and departments of the Kyrgyz Republic, local government bodies, the CJSC “Interbank Processing Center” and the commercial banks of the republic took an active part in this process, along with the National Bank. As part of the work of the Interagency Commission to increase the share of noncash payments and settlements in the Kyrgyz Republic, the implementation of the Action Plan of the State Program was coordinated and monitored; mechanisms were identified to encourage the noncash payments for goods and services, including the use of bank payment cards, and to discuss the problems and their solutions.

In the reporting period, there was started developing, and discussing, with the commercial banks and business communities, the regulations on the development of new types of payment instruments and innovative technologies (e-money, mobile payments, etc.) to increase the noncash payments and settlements and to facilitate population access to the bank services, especially in the remote regions of the country.

To satisfy the needs of the economy for the required denominations of banknotes and coins of the national currency, the National Bank permanently monitored the structure of cash in circulation.

4.1. Payment System Development

4.1.1. Noncash Payments

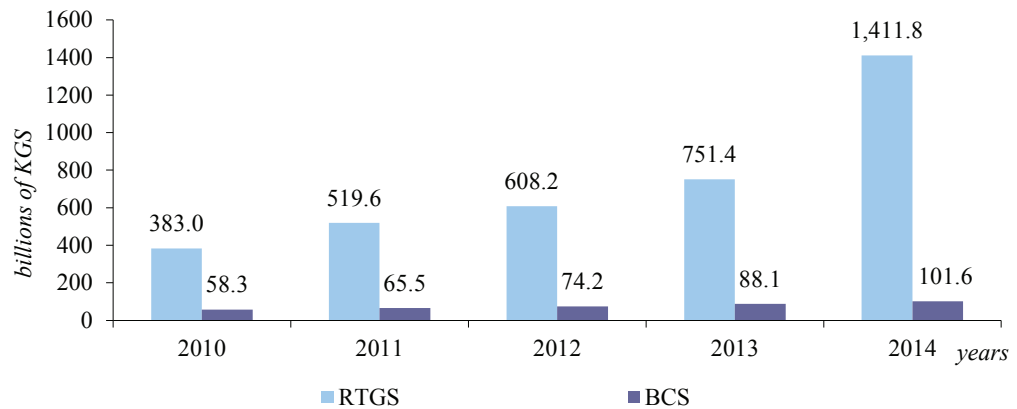
Payment system

The payment system of the Kyrgyz Republic comprises the Real Time Gross Settlement System (RTGS), the Bulk Clearing System (BCS), the systems of payments with the use of payment cards, and the money transfers systems and cross-border payments. The National Bank of the Kyrgyz Republic; the commercial banks, including their branches; the Central Treasury of the Ministry of Finance of the Kyrgyz Republic; the Interstate Bank and the CJSC “Interbank Processing Center”, as special participant, were the participants in these payment systems in the Kyrgyz Republic.

In 2014, the payments made through the interbank payment systems amounted to 3.7 million payments totaling KGS 1,513.4 billion and, as compared with 2013, these indicators increased by 31.3 percent and 80.3 percent, correspondingly.

Chart 4.1.1.1.

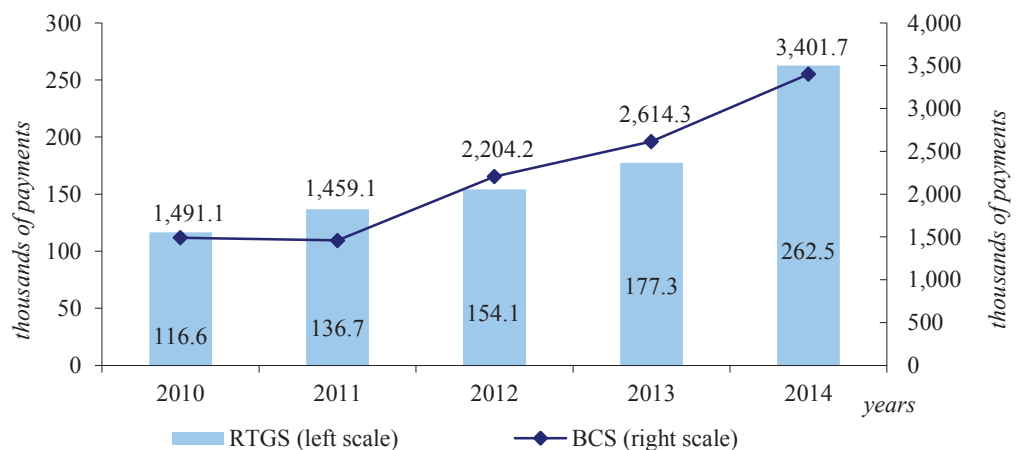
Volume of Payments via Payment Systems (RTGS and BCS)



The number of payments via the RTGS and BCS increased in the reporting period by 48.1 percent and 30.1 percent compared with 2013, while the volume of payments – by 87.9 and 15.3 percent, respectively. Growth was due to the increase in the number and volume of payments in the financial markets through the Automated Trading System of the National Bank, and due to the incoming and outgoing budget payments, the payments of the Social Fund of the Kyrgyz Republic, and the payments of nonbudgetary organizations.

Chart 4.1.1.2.

Number of Payments via Payment Systems (RTGS and BCS)

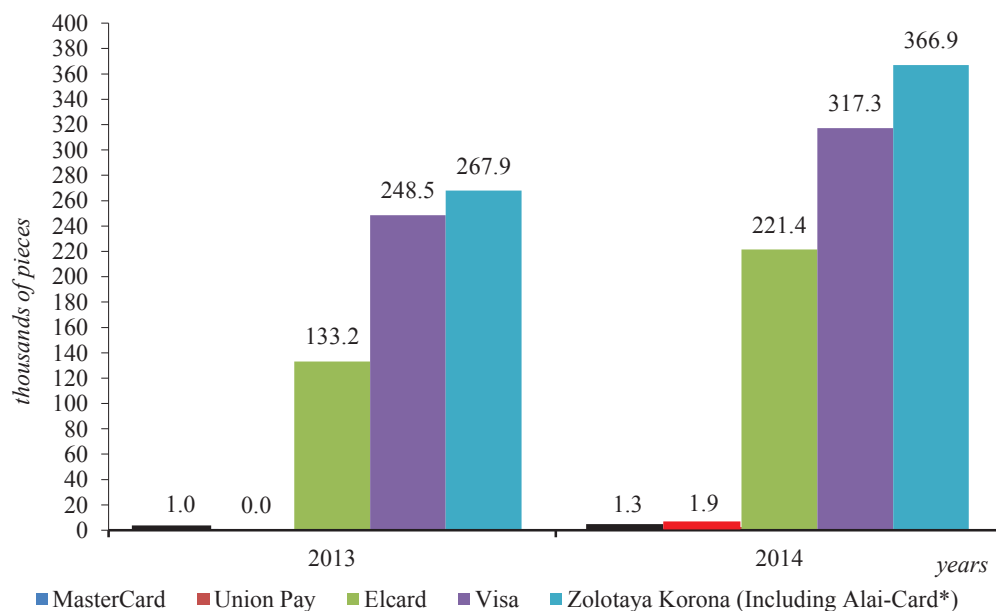


The total number of issued payment cards amounted to 908.9 thousand, having thus increased by 39.7 percent, of which the number of cards of the national payment card system “Elcard” amounted to 221.4 thousand. The noticeable growth rates of the number of payment cards are largely due to the increase in the number of bank cards issued under salary projects.

Bank payment cards

Chart 4.1.1.3.

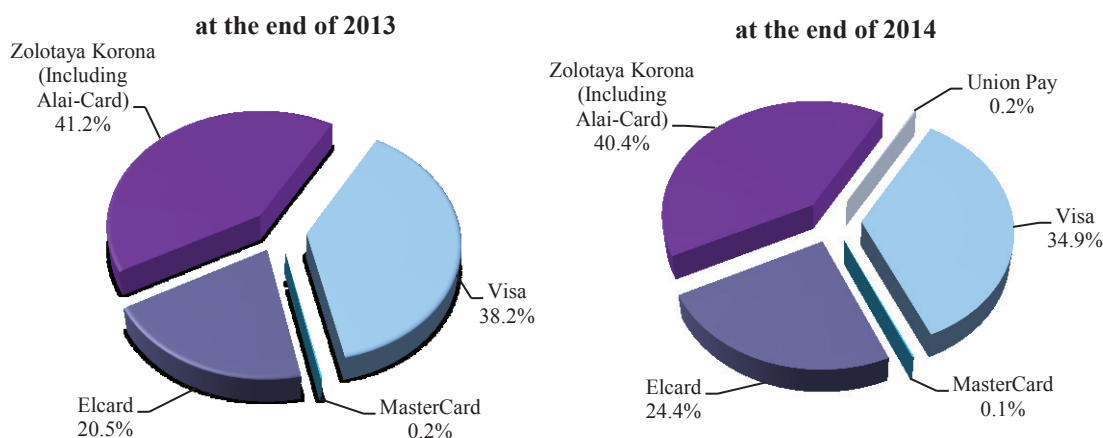
Dynamics of Number of Bank Payment Cards (end-of-period)



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

Chart 4.1.1.4.

Ratio of Number of Bank Payment Cards



Totally in 2014, 15.4 million operations were conducted with the use of payment cards, which is by 38.7 percent more than in 2013.

Operations with the use of cards

The total volume of payment card operations was KGS 83.8 billion for 2014, having increased by 61.4 percent compared with the same indicator of 2013. This demonstrates further activities of commercial banks in the bank card market within the framework of the State Program, as well as the use by the public of banking products, such as the money transfers from card to card, Internet banking, and other.

The value of transactions of trade and service enterprises with the use of cards increased by 31.8 percent – from KGS 2.2 billion in 2013 to KGS 2.9 billion in 2014.

*Card acceptance-
servicing
infrastructure*

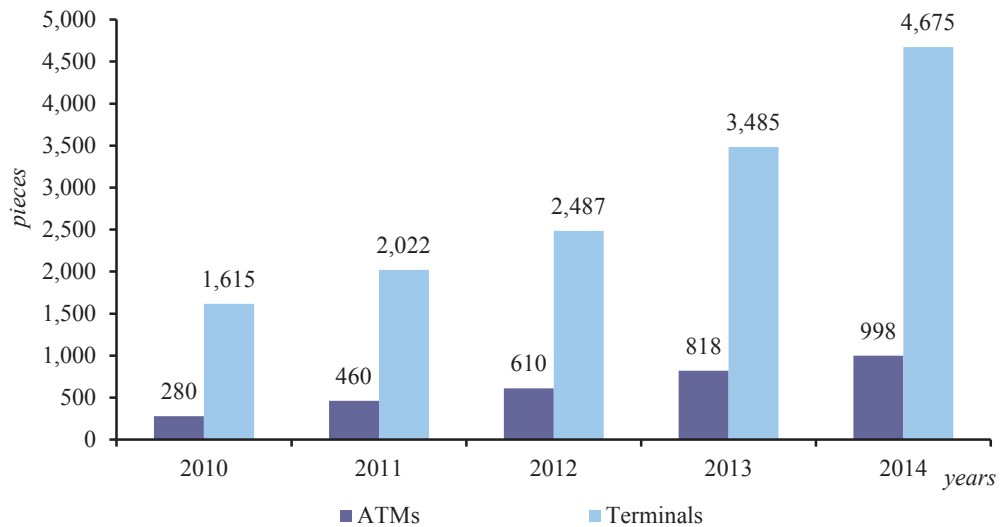
A breakdown by systems shows the total number of operating terminals and ATMs as at the end of the reporting period:

- The national system “Elcard” – 428 ATMs and 1,498 terminals. The cards of the “Elcard” national system were also accepted for servicing by 154 ATMs and 662 terminals of international payment systems;
- The international system “Zolotaya Korona” – 318 ATMs and 1,180 terminals;
- The international systems “Visa&MasterCard” – 252 ATMs and 1,997 terminals.

Thus, at the end of 2014, the bank payment cards were accepted for servicing by 998 ATMs and 4,675¹ terminals (of which 3,526 terminals were installed at trade and service points and 1,149 terminals were installed in the branches and savings offices of commercial banks) throughout the territory of the Kyrgyz Republic.

Chart 4.1.1.5.

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



4.1.2. Payment System Oversight

As part of the work on oversight of the payment system of the Kyrgyz Republic, during 2014, an emphasis was put on the stable functioning of payment systems, important for the financial system of the country, and on their modernization.

According to the monitoring results, the systemically important systems (RTGS, BCS) operated in the normal mode, the level of availability of systems remained high and amounted to the average of 99.6 percent. The level of financial risks in the system remained minimal (the liquidity ratio was 2.4, and the turnover ratio – 0.4) due to the sufficiently high level of the indicator of liquid assets in relation to turnovers in the system.

A matter of no small importance for the stable financial system is the smooth operation of retail payment systems that process a large number of transactions. These systems comprise the systems of settlements with payment cards and the systems of money transfers. During the reporting period, these systems functioned in mainly the stable mode. The level of accessibility of the national payment card system “Elcard” was 99.9 percent.

With the increase in the number and value of card payments, growth of fraud was registered, in, mainly, the international payment systems. There were facts of installation of skimming devices on the ATMs and the unauthorized payments made through the Internet. Thus, in 2014, 316 suspicious operations with the use of 165 payment cards were revealed, as well as fraud with regard to the international money transfer systems.

¹ Excluding the cash-in terminals.

Internal investigations were conducted and the law enforcement agencies of the Kyrgyz Republic were attracted with regard to each case of address by clients and suspicious operations in the banks. The main reasons for the fraudulent operations were those of noncompliance by cardholders and trade-service enterprises with the safety rules, unauthorized copying and use of payment card details by swindlers in the Internet.

At the beginning of 2014, an assessment was made as to an extent of impact of country and political risks in the countries-trade partners on the payment system of the Kyrgyz Republic, on the cross-border transfers, and on the correspondent accounts of commercial banks with the foreign banks and their participation in the systems of money transfers. The assessment results showed that the country risks do not affect the RTGS, BCS and the national payment card system “Elcard”. Concerning other systems, the National Bank developed the preventive measures to minimize the financial risks.

The measures were taken during 2014 to implement the recommendations resulting from the assessment under the FSAP of the systemically important payment systems and the national payment card system “Elcard” for conformity to the Core Principles for the systemically important payment systems (hereinafter – the Core Principles). Thus, BCS and RTGS equipment was upgraded, thereby significantly increasing productivity of these systems. The analysis of the implementation of recommendations demonstrated that the systemically important payment systems and the national payment card system “Elcard” were broadly observed of the Core Principles.

Conformity of the payment system to the international standards

The tasks of the National Bank, as central bank to apply the Core Principles to the systemically important payment systems, are also largely performed: the payment systems goals are defined clearly and their role and basic policies were publicly disclosed, as well as oversight over the functioning of the payment system of the Kyrgyz Republic is ensured. In October 2014 the agreement was reached with the Central Bank of Russia on close cooperation in the area of oversight of the payment system and the payment system operators.

4.1.3. Measures to Increase the Share of Noncash Payments

In the course of implementation of the Action Plan on the State Program (hereinafter – Action Plan) and during the work of the Interagency Commission on increasing the share of noncash payments and settlements, the National Bank, ministries and departments, and the local authorities carried out the works on the following projects:

- 90.5 percent of employees of budgetary institutions, except for the remote regions of the country, get their wages posted on the bank payment cards, while at the beginning of the reporting year this indicator was 73.8 percent; social benefits were paid to 27.5 thousand people through the bank payment cards, while at the beginning of the year the social payments to the bank cards were received by 13.4 thousand people; pensions through the commercial banks were paid to 197.6 thousand people, accounting for 33.4 percent of the total number of pensioners and compared with 29.9 percent at the beginning of year;
- 92 “Budget Funds Recipient Cards” were issued for the budgetary organizations as a modern alternative to checkbooks and manual handling was replaced by automated accounting. The operations with these cards totaled 365, with their volume being KGS 31.9 million;
- Penalties to the number of 4,382 payments totaling KGS 1.6 million were made through the mobile POS-terminals installed in the traffic police patrol cars of the Ministry of Internal Affairs of the Kyrgyz Republic;
- The project of noncash payment for patent for private entrepreneurs was implemented.

As part of measures to increase the level of financial literacy of consumers of retail payment services as well as to clarify the goals and objectives of the State Program, it was continued to conduct the seminars for budgetary institutions in the regions.

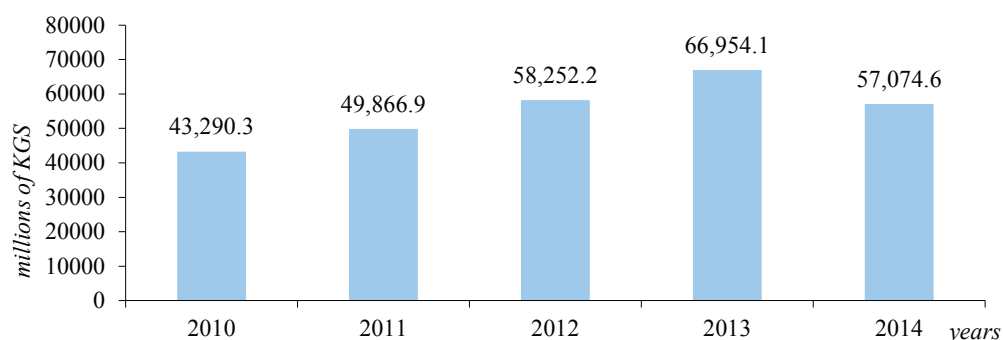
In order to develop the expansionary actions on noncash payments for goods and services, including the use of bank payment cards, the Interagency working group was established in February 2014 with the Order of the Government of the Kyrgyz Republic. The work of this group resulted in the development of the draft Resolution of the Government of the Kyrgyz Republic “On the Draft Law of the Kyrgyz Republic “On Amendments and Addenda to Several Legislative Acts of the Kyrgyz Republic”, which aims to improve the procedure of noncash payments in the Kyrgyz Republic and to stimulate noncash payment for goods and services, including the use of bank payment cards. In November 2014 the Government of the Kyrgyz Republic approved the draft law “On Amendments and Addenda to Several Legislative Acts of the Kyrgyz Republic” and forwarded it to the Jogorku Kenesh of the Kyrgyz Republic for consideration.

4.2. Cash Circulation

The National Bank regulates the structure of cash in circulation and exercises control over the need of the economy for cash through the commercial banks. The commercial banks allocate the funds according to the needs of the financial market.

Chart 4.2.1.

Developments in Cash in Circulation (end-of-period)



The total amount of money in circulation in 2014 decreased by 14.8 percent and amounted to KGS 57.1 billion.

*Receipt, issue
of cash from
cash desks of
commercial banks*

Receipt of cash in cash departments of commercial banks totaled KGS 1,018.5 billion in 2014 and increased by 26.6 percent in comparison with 2013. Disbursement of cash from the cash desks of commercial banks increased by 23.5 percent and amounted to KGS 1,012.9 billion. Recoverability of cash in the cash departments of commercial banks in 2014 made 100.6 percent and increased by 2.5 percentage points compared to the year of 2013 (in 2013 – 98.1 percent).

Table 4.2.1.

Movement of Cash via Cash Desks of Commercial Banks

(millions of KGS)

	Receipt, millions of KGS		Disbursement, millions of KGS		Recoverability, percents	
	2013	2014	2013	2014	2013	2014
Total	804,192.4	1,018,480.4	820,074.0	1,012,865.0	98.1	100.6
Bishkek city	431,565.6	518,455.7	419,985.4	489,261.6	102.8	106.0
Batken oblast	31,994.0	51,451.3	33,554.2	52,410.6	95.4	98.2
Jalal-Abad oblast	77,915.3	102,174.3	89,249.7	114,415.2	87.3	89.3
Issy-Kul oblast	33,323.1	44,727.2	37,490.4	48,455.2	88.9	92.3
Naryn oblast	12,850.7	18,014.2	16,604.9	20,675.0	77.4	87.1
Osh city	116,460.5	139,538.4	115,993.6	137,769.2	100.4	101.3
Osh oblast	36,065.3	44,038.8	37,733.0	45,505.5	95.6	96.8
Talas oblast	13,681.7	19,908.8	19,197.6	24,218.6	71.3	82.2
Chui oblast	50,336.2	80,171.7	50,265.2	80,154.1	100.1	100.0

In 2014, the work continued on issuance of banknotes and coins, withdrawal and destruction.

The cash turnover in 2014 was represented by 329.4 million sheets of banknotes and 235.8 million coins. Of the total amount of money in circulation in 2014, the share of banknotes account for 98.8 percent, and the share of coins – for 1.2 percent. The structure of banknotes by denomination and coins is presented in Table 4.2.2.

Table 4.2.2.

Shares of Banknotes and Coins in Total Cash in Circulation

(In percent of total cash in circulation)

Denomination	up to 5 soms	10 soms	20 soms	50 soms	100 soms	200 soms	500 soms	1 000 soms	5 000 soms	Total
2013	0.8	0.5	0.6	1.2	2.4	4.7	12.1	46.1	31.6	100.0
2014	0.9	0.6	0.7	1.3	2.4	4.7	11.5	46.4	31.5	100.0

In 2014 the number of detected counterfeit banknotes totaled 225 pieces (in 2013 – 106 pieces), amounting to KGS 214 000. Criminal proceedings were initiated in each case of counterfeiting, with the search operations conducted by the law enforcement agencies.

Each year, the National Bank of the Kyrgyz Republic issues collection commemorative banknotes devoted to the historical events and dates, fauna, architectural monuments and other interesting topics.

In 2014, five types of collection commemorative coins were issued: the silver color pad printed coin “Eagle-Owl” of the “Red Book of Kyrgyzstan” series; silver and copper-nickel coins “Manas Kumbetz” of the series “Monuments of History and Architecture of Kyrgyzstan”; silver, minted by an oxidation method, and copper-nickel coins “Barsbek – Kyrgyz Khagan” of the series “The Age of the Kyrgyz Khaganate”.

In 2014, the coin “Saimaluu Tash” of the series of “Historical and Architectural Monuments of Kyrgyzstan” took the third place in the nomination “Silver Coin of the Year” in the international contest “Coin Constellation – 2014” organized by the publishing house “Water Mark” (Russia).

*Issue of
commemorative
coins and
banknotes into
circulation*



In 2014, two types of commemorative banknotes were issued with a limited circulation: the 200-som commemorative banknote, dedicated to the 100th anniversary of Kyrgyz Poet Alykul Osmonov and the 100-som commemorative banknote, dedicated to the 150th anniversary of great Kyrgyz Akyn Toktogul Satylganov.

CHAPTER 5. FOREIGN ECONOMIC RELATIONS

Development and strengthening of foreign economic relations with the central banks and international organizations, as well as establishment of new bilateral and multilateral relations of cooperation were one of the main lines of activity of the National Bank of the Kyrgyz Republic in 2014.

5.1. Cooperation with International Organizations

Interaction of the National Bank of the Kyrgyz Republic with the international financial institutions was realized in 2014 within the framework of joint technical assistance projects, provision of advisory services, exchange of information, and the improvement of the regulatory and legal framework.

As part of the work on the implementation of the economic program for 2011-2014, supported by an Extended Credit Facility (ECF), cooperation continued with the International Monetary Fund (IMF). This program was directed to ensure sustainable economic development of the country in the medium term and was completed in June 2014.

The annual meetings of the Executive Board of the IMF and the World Bank were held in the reporting year in Washington (USA) and were attended by the Chairman of the National Bank, Governor in the IMF from the Kyrgyz Republic. The issues of the progress in the ongoing programs and projects, implemented in the Kyrgyz Republic with the help of the World Bank and the IMF, were discussed during these meetings, and promising areas for further cooperation were considered, as well as the bilateral meetings with the international financial institutions and central banks were held.

Within the framework of cooperation with the European Bank of Reconstruction and Development (EBRD), in July 2014, the EBRD mission visit took place, during which the meetings were held with representatives of the National Bank, the private sector, financial institutions, non-government and international organizations to discuss the macroeconomic and political situation in the country, an investment climate, as well as the EBRD priorities in the Kyrgyz Republic for the next four years. As a result of this meeting, the strategic priorities were agreed in the EBRD Country Strategy Concept for the Kyrgyz Republic for 2015-2018.

In December, employees of the National Bank took part in the meeting with the representatives of the World Bank Group in Istanbul (Turkey), during which a presentation was made on a subject “Cooperation of the National Bank of the Kyrgyz Republic with the World Bank Group”.

In February, the joint mission of the IMF and the EBRD visited the National Bank to discuss the main issues on the use of monetary instruments, short-term forecasting and the communication policy. As a result of the mission, a short-term forecasting model of inflation and GDP was presented, with the regulations on management of communications on the monetary policy issues developed and approved. Also, the Bank provided advice on the issues of developing the strategy of mobile banking in the Kyrgyz Republic, and made proposals to improve the regulatory and legal acts on the payment system.

In the reporting year the regular visit of the IMF mission to the National Bank of the Kyrgyz Republic took place in order to discuss further cooperation in the field of technical assistance in banking supervision, macroeconomic modeling and forecasting when developing the monetary policy.

In November 2014, the management of the National Bank took part in the IMF seminar on the monetary policy for heads of financial institutions of the Caucasus and

Central Asia countries. Achievements in the area of the exchange rate policy, inflation rate reduction, and financial sector development were presented and discussed during the seminar.

As part of cooperation with the International Monetary Fund, the IMF Executive Director made the official visit to the National Bank of the Kyrgyz Republic in November 2014. During this visit, the meetings were held with the representatives of the Government of the Kyrgyz Republic and its agencies. Within the framework of technical cooperation, the National Bank discussed the contingency of the IMF advice on banking supervision and monetary policy issues.

In 2014, the IMF assisted in training the employees of the National Bank on a number of issues, including the macroprudential policy tools, financial programming, the main components of monetary and financial statistics, ways of overcoming a financial crisis and its consequences, the balance of payments statistics, and other issues.

During the reporting year, the National Bank continued cooperation with the World Bank under the Financial Sector Development Project of the Kyrgyz Republic financed by the State Secretariat for Economic Affairs (SECO). The National Bank held the meetings and seminars with the World Bank mission, during which they discussed the issues of applying the proposed model for stress testing of the banking system of the Kyrgyz Republic, the current operating results, as well as the further actions on the project development.

As a result of these meetings, the National Bank and the World Bank reached the agreement on further cooperation on the project implementation.

Within the framework of cooperation of the National Bank with the SECO, in July 2014, the management of the National Bank held the meeting with the Federal Councilor, Minister of Finance of Switzerland. During the meeting, they discussed the issues concerning activity of the National Bank, including the monetary policy issues.

In 2014, the IMF regional project “External Sector Statistics Improvement” was launched with the SECO financial support. This project assumes provision of consultative aid, as well as the training seminars for the employees of the National Bank. As part of this project, in November 2014, in Bishkek, the first practical seminar was held and attended by the representatives of the National Bank, the Ministry of Finance, and the Statistics Committees of Azerbaijan, Tajikistan, and Kyrgyzstan.

In cooperation with the Asian Development Bank, a Memorandum of Technical Assistance was signed in April 2014 to assess the financial vulnerability of the financial sector of the Kyrgyz Republic. The objective of this assistance is to help form the macroprudential policy of the National Bank. Through the second Program on Investment Climate Improvement (PICI), in September 2014 technical assistance was approved to provide advice to the Government of the Kyrgyz Republic in this area.

In 2014, a series of meetings of the employees of the National Bank were held with the ADB consultants on the issues of introducing the new financial instruments, improving the payment systems and the investment climate, and registering movable collateral.

In the reporting year, the National Bank continued working under its membership in integration associations. In 2014, the 30th and the 31st meetings of the Boards of Governors of Central (National) Banks of EurAsEC Member States were held. The topical issues of banking activity, financial stability of the banking sector of the states-participants, development of payment systems, and other were discussed during these meetings. As a result of the meetings, the recommendations were developed on the improvement of the regulatory and legal framework of the Council member states on the above issues. In order of precedence, the National Bank of the Kyrgyz Republic was an organizer of the 30th meeting of the Council. The meeting was attended by the members of the Council – the heads of central (national) banks of Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan, representatives of the Secretariat of the Council and

the Interstate Bank, as well as guests of the Council – the Secretariat of the EurAsEC Integration Committee and representatives of the Interstate Bank in the Kyrgyz Republic.

In 2014, the representatives of the National Bank of the Kyrgyz Republic participated in the meetings of the Interstate Bank (MGB). The meeting considered a wide range of issues concerning the activities of the MGB, the results of its operations, financial position and other matters.

During the year, work has been done on the accession of the Kyrgyz Republic to the Customs Union and the Common Economic Space (CES). Representatives of the National Bank of the Kyrgyz Republic participated in the activities of the Eurasian Economic Commission (EEC), meetings and meetings of working groups, the talks with the representatives of EEC and public authorities of the States Parties on the implementation of the CES road map for the accession of the Kyrgyz Republic to the Customs Union and the Common Economic Space, as well as the Treaty of Accession of the Kyrgyz Republic to the Eurasian Economic Union (EAEC). This agreement was signed on 23 December 2014. According to him in the future will be undertaken on the harmonization of the legal framework of the Kyrgyz Republic in accordance with the requirements of the EAEC.

In 2014, the Chairman of the National Bank took part in the regular meetings of the Advisory Council on the monetary policy of Member States of the Customs Union and the Common Economic Space. During the meetings, the sides discussed the current economic situation and the progress in the monetary policy implementation in the Republic of Belarus, the Republic of Kazakhstan, the Russian Federation, the Republic of Armenia, and the Kyrgyz Republic.

In 2014, the management of the National Bank took part in the regular meetings of the Club of Governors of Central Banks of Central Asia, the Black Sea region and the Balkans. Managers of more than twenty central banks are currently the members of the Club.

The work continued in 2014 within the framework of cooperation with the IMF to strengthen the supervisory capacity of the National Bank and a number of regulations governing activities of commercial banks were developed.

Under the financial sector development program and with the SECO financial support, in September 2014, the World Bank mission visited the National Bank in order to discuss the implementation of risk-based supervision. In the course of the meetings, the additional working group issue was discussed with regard to the issue of developing the indicators based on financial performance of commercial banks.

With the financial support of the World Bank, the German Society for International Cooperation, and the Association of Microfinance Institutions, the National Bank arranged in June 2014 an international conference on the subject “Microfinance: Success, Challenges and Solutions”. The conference discussed the role of the government and the regulatory framework of the microfinance sector, access to finance – the main issues and the key challenges of regulating the interest rate – international experience, as well as other issues.

During the year under review, the Turkish Agency for Cooperation and Coordination under the Office of the Prime Minister of Turkey (TIKA) rendered assistance to the employees of the National Bank in their professional development in the following areas: banking supervision development, standards and regulation, investment and corporate communications, and development of payment systems.

During the reporting year, collaboration continued with the Eurasian Group (EAG) on anti-money laundering and combating the financing of terrorism. In November 2014, in Dushanbe (Tajikistan), the 21st plenary meeting of the Eurasian Group on was held on anti-money laundering and combating the financing of terrorism, which reviewed the report of the Kyrgyz Republic on the progress of the national AML/CFT and discussed the issues of technical cooperation.

In 2014, the World Bank experts conducted the diagnostic review of the structure of Consumer Protection and Financial Literacy (CPFL), which is the detailed assessment of the institutional, legal and regulatory framework for consumer protection in the banking and microfinance sectors. During the review, the experts also presented the recommendations on how to improve consumer protection in financial services and financial literacy in the country.

The European Bank for Reconstruction and Development provided guidance on improving financial literacy of the population, the development of affordable types of deposit products and the capacity of the banking system to provide the services to hedge foreign exchange risks.

In 2014, the National Bank continued its cooperation with the German Society for International Cooperation (GIZ). The management of the National Bank took part in the Third Regional Meeting for Europe and Central Asia, organized by the Central Bank of the Republic of Macedonia, together with the GIZ in October 2014 in Skopje (Macedonia). The meetings addressed the issues of financial literacy and access to the financial services.

In November 2014 in London (United Kingdom), the representatives of the National Bank took part in the EBRD regional conference on financial penetration, which gave the opportunity to study experience of regulators from different countries.

In December 2014 in Bangkok (Thailand), a workshop was held on financial literacy and financial accessibility in Asia and a round table on financial literacy, organized by the Organization for Economic Cooperation and Development (OECD). At the invitation of and with the financial support of the GIZ, the National Bank experts participated in these activities as well.

As part of the grant agreement between the Alliance for Financial Inclusion (AFI) and the National Bank of the Kyrgyz Republic, in 2014, the project “Financial Literacy in Support of Financial Accessibility” was developed. Based on this project, the concept of financial literacy will be developed.

In September 2014, the representatives of the National Bank took part in the Annual Forum of AFI in Trinidad and Tobago. This forum served as a platform to study international experience in the field of consumer protection and financial literacy.

In the reporting year, the National Bank of the Kyrgyz Republic continued its cooperation with the Islamic Development Bank (IDB) and the Joint Vienna Institute as part of staff development.

5.2. Cooperation with Central (National) Banks

Relations between the National Bank and other central (national) banks in 2014 were maintained on the issues of conducting the monetary policy, organizing banking supervision, developing the payment system, ensuring security, and other issues.

In 2014, cooperation continued with the Central Bank of Armenia. As part of the agreement on cooperation in the field of vocational training of EurAsEC member states, the Central Bank of Armenia assisted in training the employees of the National Bank of the Kyrgyz Republic on the issues of implementing the electronic document, accession of the Kyrgyz Republic to the Customs Union, and the Common Economic Space of Belarus, Kazakhstan and Russian Federation.

*Cooperation
with the Central
Bank of Armenia*

Within the framework of cooperation with the National Bank of the Republic of Belarus, in September 2014 in Minsk (Belarus), the employees of the National Bank of the Kyrgyz Republic and the Central Treasury of the Ministry of Finance were consulted on the mechanism of enrollment and distribution of import customs duties. The National Bank of the Republic of Belarus organized various seminars, which were attended by the employees of the National Bank of the Kyrgyz Republic. During these workshops,

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

*Cooperation with
the Public Develop-
ment Bank of China
Cooperation
with the Deutsche
Bundesbank*

the following issues were reviewed and discussed: organizational and legal aspects of interbank settlements, the price policy of the National Bank in the area of payment and settlement services, the practical aspects of supervision of the payment system of the National Bank of Belarus, management of the process of continuous operation and rehabilitation of participants in the payments systems.

During the visit of the President of the State Development Bank of China to the Kyrgyz Republic, the issues of cooperation and investment activities were discussed.

In the reporting year, the National Bank continued its active cooperation with the Deutsche Bundesbank (Germany) as part of the work to obtain advice and share experience. In April 2014, the Director of the Center for Technical Cooperation visited the National Bank of the Kyrgyz Republic. Following the visit, the technical cooperation program between the Deutsche Bundesbank and the National Bank of the Kyrgyz Republic for 2014 was approved.

In May and October 2014, the consultants of the Deutsche Bundesbank conducted a series of seminars on risk-based banking supervision in the National Bank of the Kyrgyz Republic. The workshop made the recommendations for oversight activities in relation to the commercial banks on the issue of inspection and off-site supervision.

The Deutsche Bundesbank also assisted in the training of employees of the National Bank on the issues of anti-money laundering, instruments of control over financial crises, and financial stability. During these workshops, the methods of dealing with the financial crisis were presented; the expert recommendations for improvement of the “Report on Stability of the Financial Sector of the Kyrgyz Republic” were received.

Within the framework of strengthening and developing the relations, in 2014, a delegation of the National Bank of the Kyrgyz Republic visited the National Bank of Georgia for the exchange of experiences on risk-based supervision, development of payment systems, and an arrangement of a cash center and auditing. Also, in 2014, the employees of the National Bank of the Kyrgyz Republic had the opportunity to examine the issues of improving the issues of managing the international reserves of the National Bank of Georgia.

*Cooperation
with the National
Bank of Georgia*

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

In the year under review, cooperation of the National Bank of the Kyrgyz Republic and the National Bank of the Republic of Kazakhstan developed and strengthened. The exchange of experiences on the Islamic Financing Principles and implementation of Islamic banking took place.

In 2014, the working group of the National Bank of the Kyrgyz Republic visited the National Bank of the Republic of Kazakhstan on accession of Kyrgyzstan to the Customs Union of Belarus, Kazakhstan and the Russian Federation; the Eurasian Economic Space and the EAEC in order to study the experience of the Republic of Kazakhstan on the implementation of the agreement on establishment and application in the customs union of the procedure for entering and distributing the import customs duties.

*Cooperation
with the Central
Bank of the Russian
Federation*

During 2014, the employees of the National Bank participated in the seminars held by the Central Bank of Russia. The issues of supervision by the central (national) banks over the payment and settlement systems, anti-money laundering and combating the financing of terrorism were addressed during these workshops.

The issues of developing the procedures for the operations of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic on the transfer and distribution of import customs duties with the National Bank of the Kyrgyz Republic were also discussed within the framework of cooperation with the Central Bank of the Russian Federation.

In 2014, the draft Memorandum was agreed between the National Bank of the Kyrgyz Republic and the Bank of Russia on the joint oversight of the payment systems,

as well as the round table was held to exchange experience between the members of the National Bank of the Kyrgyz Republic and the representatives of central banks of EurAsEC countries on the international standards in the field of payment systems.

In 2014, the National Bank of the Kyrgyz Republic continued its active cooperation with the Swiss National Bank, within which a number of projects were implemented. During the consultations held in March 2014, the Swiss National Bank consultants gave the assessment of the effective work of the Automated Trading System (ATS) and the recommendations on the monetary policy instruments. The Swiss National Bank expert rendered advisory assistance in the development of the macroeconomic model of the Kyrgyz Republic, which resulted in an update of the draft macro-economic model of the country.

In addition, the Swiss National Bank helped the National Bank of the Kyrgyz Republic to train the specialists on financial risks, payment systems and business processes; optimization of business processes related to the payments and settlements; on introduction of new accounting books as well as on roles for each department involved in the overall process.

In order to discuss further cooperation, in the November 2014, the Chairman of the National Bank of the Kyrgyz Republic visited the Swiss National Bank.

In 2014, cooperation also continued with the National Bank of central (national) banks within the framework of vocational training of specialists of central (national) banks-members of the EurAsEC, as well as with the Central Bank of the Republic of Turkey and the Bank of the Netherlands as part of bilateral and multilateral agreements.

*Cooperation
with the Swiss
National Bank*

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

6.1. Structure of the National Bank of the Kyrgyz Republic

In 2014, the organizational structure of the National Bank included 26 structural units of the central office, five regional offices, and the representative office in the Batken oblast.

During 2014, the organizational structure of the National Bank underwent the following changes.

The Center for Economic Research was separated from the Economic Department in the status of an independent unit.

The International Cooperation Department was established in the status of the independent unit.

The Educational and Recreation Center was separated from the Administrative and Logistics Department in the status of the independent unit.

The Division for Construction and Repair Works was separated from the Administrative and Logistics Department and transformed into the Capital Repairs Division in the status of the independent unit.

The Banking and Microfinance Services Consumer Rights Division was established in the Legal Department.

The Group on Operators and Payment Organizations was established as part of the Payment Systems Methodology and Policy Division of the Payment Systems Department.

The inspectors were removed from the Security and Information Protection Department.

The internal changes were also made in a number of structural units and were aimed at implementing the established goals and objectives.

Basic Functions of Structural Units of the National Bank of the Kyrgyz Republic

<i>Economic Department</i>	develops the proposals on the monetary policy and its implementation; analyzes monetary, real, financial, and fiscal sectors of the economy; and implements macroeconomic modeling and forecasting;
<i>Monetary Operations Department</i>	implements the monetary policy; conducts the operations in the financial markets, assesses and analyzes them; and identifies the trends and reasons for the changes in the financial markets in order to effectively coordinate the open market operations;
<i>Financial Statistics and Review Department</i>	maintains statistics on monetary indicators, financial market performance indicators, statistics on the banking sector and nonbank financial-credit institutions; compiles the balance of payments; provides expert support in matters of external debt; analyzes and assesses financial stability of the Kyrgyz Republic; and releases official publications of the National Bank;
<i>Off-site Supervision Department</i>	exercises off-site (distant) supervision of banks and nonbank financial-credit institutions in order to protect the interests

	of depositors and other creditors, as well as to ensure fair competition;
<i>Supervision Methodology and Licensing Department</i>	develops the methodological framework of supervision and regulation of banks and nonbank financial-credit institutions and is responsible for licensing their activity;
<i>On-site Supervision Department</i>	conducts the on-site inspections of banks and nonbank financial-credit institutions regarding compliance in their activities with the laws;
<i>Organizational-Budget Department</i>	provides planning, budgeting and financial control, staffing of structural units; develops the proposals on the improvement of the organizational structure of the National Bank;
<i>Cash Management Department</i>	meets the demand of the economy of the Kyrgyz Republic for the banknotes and coins, maintaining their optimal inventory, storage, and transportation of banknotes, coins, and valuables; and carries out a complex of measures for the destruction of worn-out banknotes and coins;
<i>Bank Settlements Department</i>	ensures the functioning of interbank settlement systems; makes settlements on the financial market operations and transactions;
<i>Banking Automation Department</i>	ensures the timely provision of reliable and safe solutions in the field of information technologies and the optimization of information flows;
<i>Payment Systems Department</i>	develops the methodological framework, regulation, control and supervision (oversight) to ensure the effective operation of the payment system, its reliability and safety; and promotes development of the payment system;
<i>Accounting and Reporting Department</i>	keeps records of operations and compiles the financial statements; develops the regulatory acts governing the accounting of the National Bank; and exercises internal control over the operations;
<i>Legal Department</i>	provides comprehensive legal support of the National Bank, development and improvement of the banking legislation, as well as develops, coordinates, and implements the measures regarding the rights of consumers of services of commercial banks and nonbank financial-credit institutions supervised by the National Bank;
<i>Documentation Management and Communications Department</i>	organizes the centralized flow of documents and the follow-up action; ensures the implementation of the requirements of the Law “On the State Language of the Kyrgyz Republic”; and ensures the organization and implementation of protocol events; development of public relations;

<i>Internal Audit Service</i>	conducts the independent assessment of adequacy and effectiveness of the internal control system of the National Bank and develops the measures for its improvement;
<i>International Cooperation Division</i>	provides for the establishment, strengthening, and development of international cooperation of the National Bank with the external organizations;
<i>Economic Research Center</i>	conducts the applied research on macroeconomic issues, and coordinates the work with domestic and foreign research institutions on macroeconomic issues;
<i>Risk Control Division</i>	manages the financial risks in the operations of the National Bank on the foreign markets; develops the proposals on the strategy and policy of risk management in the bank; and coordinates the work of departments on risk management;
<i>Project Implementation Division</i>	provides support for the projects of international financial institutions and donor countries implemented by the National Bank or with its involvement, as well as organizes the centralized procurement system at the National Bank;
<i>Board Secretariat</i>	provides organizational support for the work of the National Bank and exercises control over execution of its decisions;
<i>Security and Information Protection Department</i>	ensures safe activity of the National Bank and its information resources;
<i>Press Service</i>	informs the public about activities and policies of the National Bank through the mass media;
<i>Administrative and Logistics Department</i>	provides servicing of the National Bank facilities and their maintenance in good condition in accordance with the rules and standards of safety technique and production sanitation, the rational use of budget and resources for household purposes;
<i>Capital Construction Division</i>	provides for capital construction and reconstruction of buildings of the National Bank;
<i>Educational and Recreation Center (Tolkun Rest House)</i>	provides for the good rest of employees of the National Bank and the members of their families; contributes to the high level of seminars, roundtables and other training activities involving the employees of the National Bank;
<i>Regional Departments and the Representative Office of the National Bank</i>	provides the branches of commercial banks with cash; participates in activities for supervision over observance of the banking legislation by the financial-credit institutions, whose activities are licensed and regulated by the National Bank, as well as implements the measures within the framework of the payment system.

At the end of the year under review, the payroll number of employees of the National Bank amounted to 645 people, including 568 people – in the central office and 77 people – in the regional departments and the Batken Representative Office. Of these, the number of women amounted to 282 people – in the central office and 35 – in the regional departments and the Batken Representative Office. The number of women percentagewise was 49.0 percent and men – 51.0 percent.

Payroll number of employees of the National Bank

In 2013, the number of employees of the National Bank amounted to 595 people, including 517 people – in the central office and 78 people – in the regional departments and the Batken Representative Office. Of these, the number of women amounted to 263 people – in the central office and 34 people – in the regional departments and the Batken Representative Office. The number of women percentagewise was 50.0 percent and men – 50.0 percent.

The change in the payroll number in 2014 compared with 2013 was due to the need for temporary workers to do special and urgent work. Availability of temporary workers is one of the tools to ensure the continuity, succession and safety of structural units.

For reasons of transparency and fair treatment in employment, the system of a competitive selection of civil servants that allows to select the most qualified specialists in view of their professional training. Announcement of competitions for vacancies are published on the website of the National Bank and in the media.

Competitive selection

In 2014, 104 competitions were held, including in the regional offices – 15 contests. Totally, 414 people took part in the contest. As a result of these competitions, 60 people were recruited.

The staff turnover was 13.4 percent in 2014 and in 2013 – 12.3 percent.

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

Chart 6.1.1.

Structure of Specialists by Record of Work

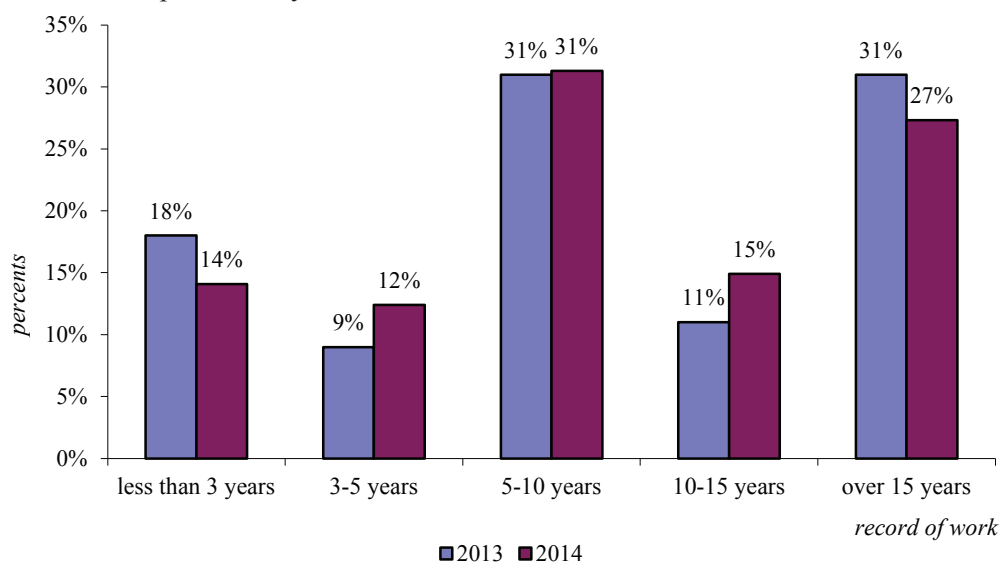
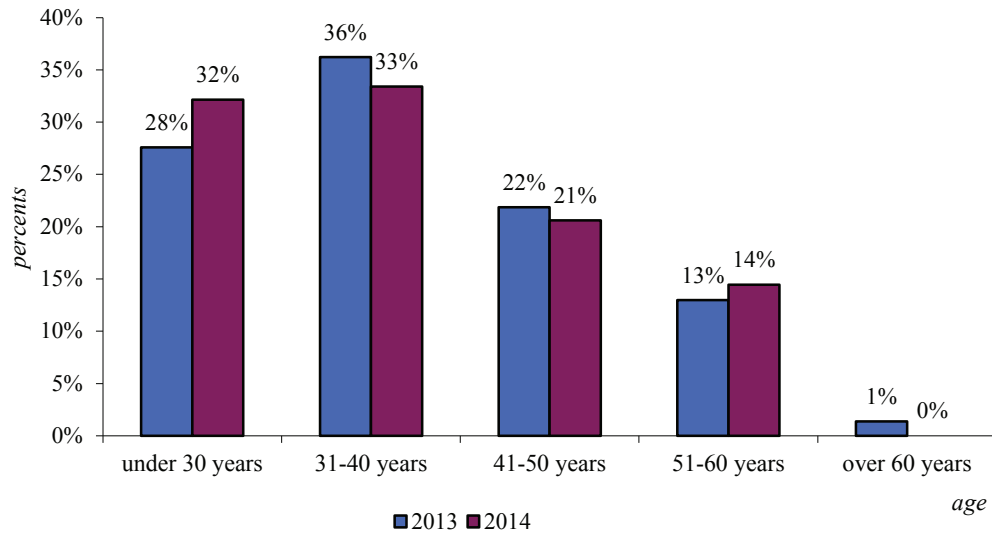


Chart 6.1.2.**Structure of Specialists by Age**

The committees and commissions operate at the National Bank on the regular basis. Seven committees, eleven commissions, six editorial boards for publications of the National Bank, the scientific advisory council, and the supervisory board operated as at the end of 2014. The order and procedures for the committees, commissions, and editorial boards are regulated by the relevant provisions. Activity of committees and commissions contributes to the improvement of corporate governance at the National Bank.

Goals and Objectives of Main Committees and Commissions of the National Bank of the Kyrgyz Republic

Monetary Regulation Committee

develops and implements the operational decision-making on current liquidity management.

The main objectives are to evaluate and select open market options, analyze the possible consequences of the chosen options, make the decisions and create the conditions for the use of monetary policy instruments;

Investment Committee

develops and makes the decisions on international reserves management within the established powers.

The main objectives are to review, approve and monitor the implementation of the investment strategy; to assess the effectiveness of investment, taking into account the situation in the financial markets, and to develop the tactical decisions under the approved strategy, to recommend and propose the Board on investment activities;

Supervision Committee

decides on the regulation and supervision of commercial banks and other financial-credit institutions licensed by the National Bank within the established competence;

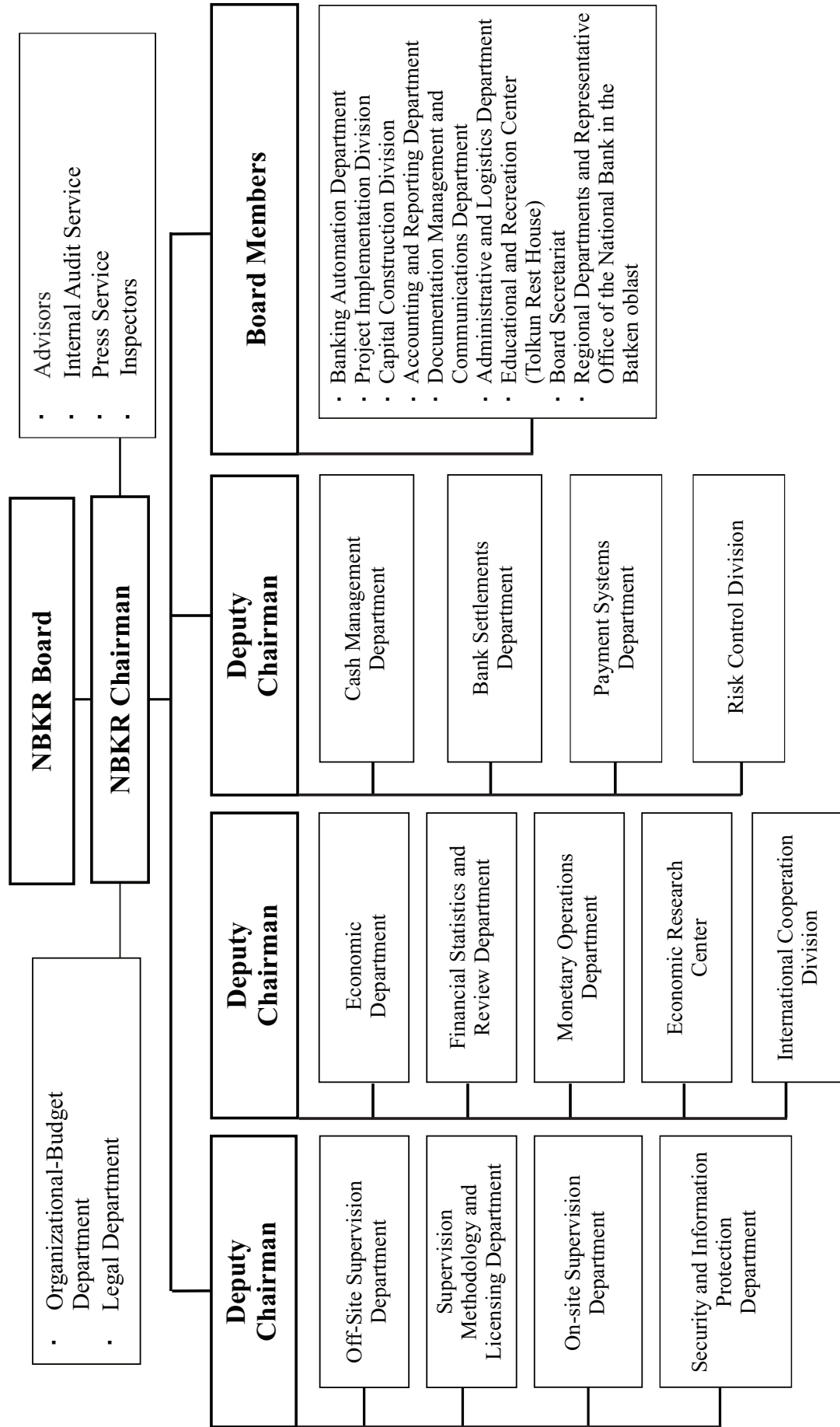
Payment System Committee

coordinates the work of structural units to ensure efficiency, reliability and security of the payment system.

The main task is to make the decisions, to develop and present the recommendations (conclusions) on the payment system;

<i>Risk Committee</i>	develops the recommendations on minimization of risks by coordinating operations of structural units in the area of identification, evaluation, and constraints of risks inherent in activities of the National Bank;
<i>Coordination Committee on Information Systems</i>	elaborates the decisions and exercises control over measures for implementation of the Information System Development Strategy and the Long-term Information Systems Development Plan in accordance with the goals and objectives of the National Bank;
<i>Audit Committee</i>	assists in ensuring proper control over the completeness and accuracy of the financial statements of the National Bank, the reliability and effectiveness of the internal control system, and independence of the external and internal audit;
<i>Assessment Commission</i>	establishes the employee's adequacy for the job. The work of the commission is directed to the improvement of the selection and placement of personnel, motivation of the personnel to effective activity, identification of prospects for the use of the worker's potential;
<i>Disciplinary Commission</i>	examines the labor discipline violation cases, as well as the Code of Ethics of employees of the National Bank;
<i>Commission on Prevention of Corruption</i>	is established to prevent and combat corruption through the implementation and monitoring of anti-corruption measures;
<i>Commission on Labor Disputes</i>	considers individual labor disputes in the National Bank in accordance with the Labor Code of the Kyrgyz Republic;
<i>Methodological Commission</i>	considers drafts of individual regulatory acts with a view to their methodological elaboration; approves terms and their explanations, used in the regulatory acts of the National Bank;
<i>Commission for Comprehensive Development of the National Bank</i>	considers the results of activities to describe business processes and elaborate the recommendations for comprehensive development of the National Bank in order to implement the process approach in administration;
<i>Central Expert Commission</i>	organizes and conducts the examination of the documents of the National Bank and their selection for storage or destruction.

Organizational Structure of the National Bank of the Kyrgyz Republic
as of December 31, 2014



6.2. Activity of the Board of the National Bank of the Kyrgyz Republic in 2014

In accordance with the Law “On the National Bank of the Kyrgyz Republic”, the Board is the supreme governing body of the National Bank and approves its main activity. Powers of the Board are determined by the Law “On the National Bank of the Kyrgyz Republic.” The Board is chaired by the Chairman of the National Bank, elected by the Jogorku Kenesh of the Kyrgyz Republic as advised by the President of the Kyrgyz Republic. The Board members are appointed by the President of the Kyrgyz Republic as advised by the Chairman of the National Bank of the Kyrgyz Republic.

General information

The Board defines the monetary policy, the policy in the area of bank supervision and development of the payment system; approves the regulatory acts, the annual report; establishes the procedure for issue of new samples and denominations of banknotes and the procedure for redeeming the banknotes and coins, as well as the main directions of development of the National Bank of the Kyrgyz Republic, the commercial banks, and the NFCI. According to the Regulations of the Board of the National Bank, the Board also considers other issues attributed to its powers.

During the reporting period, the Board of the National Bank of the Kyrgyz Republic is carried out in accordance with the approved annual and quarterly activity plans. In 2014, it held 60 meetings and examined 395 issues, with 229 resolutions adopted based on these issues. In addition, it held 15 information sessions, during which 89 issues were considered.

In connection with the transition of the National Bank to the new monetary policy framework, the role of the National Bank in monetary policy development was strengthened. Since March 2014, the size of the discount rate of the National Bank is set by the decisions of the Board of the National Bank. The meetings of the Board of the National Bank on the size of the discount rate were held on the monthly basis, and the schedule of these meetings was published on the website of the National Bank of the Kyrgyz Republic.

Consideration of monetary policy issues

In order to implement the new monetary policy framework, the Board decided to implement the new monetary instrument – the 7-day credits.

As part of the transition of the National Bank to a targeting of interest rates, the Board of the National Bank of the Kyrgyz Republic made the decision to change the structure of the document “Monetary Policy Report” and merge it with the publication “Review of Inflation in the Kyrgyz Republic” into one edition “Monetary Policy Report (Inflation Report in the Kyrgyz Republic)”. This document was considered by the Board on the quarterly basis. The report contained the monetary policy implementation results, the factors that determined the dynamics of inflation; the analysis and the medium-term forecast of key macroeconomic indicators. The document also included the review materials on Development trends in the economies of major trading partners of the Kyrgyz Republic and the situation in the world food markets, and the energy markets. Information contained in the document serves as the basis for the decision-making in the field of the monetary policy.

In December 2014, the Board of the National Bank approved the document “Medium Term Monetary Policy Guidelines”. The structure and the content of the approved document were changed and standardized in accordance with the new monetary policy framework. The “Medium Term Monetary Policy Guidelines” describe the goal of activity of the National Bank, its legal framework; and the system used by the bank to achieve the main goal.

At the end of the reporting year, the Board approved the Statement of the National Bank of the Kyrgyz Republic on the monetary policy for 2015. The statement is part of the Joint Statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic on the Basic Economic Policy Guidelines for the coming period.

As part of the communication policy of the National Bank, the schedule of meetings of the Board of the National Bank for 2015 on the issue of the discount rate of the National Bank, which is posted on the official website of the Bank, was approved in December 2014.

In order to expand and improve the monetary policy instruments of the National Bank, the Board discussed the draft of amendments and addenda to the regulatory acts on the monetary policy instruments.

In accordance with the Law “On the National Bank of the Kyrgyz Republic”, the key objectives of the National Bank in the area of international reserves management are those of maintenance of liquidity and safety of reserve assets. In order to realize the established objectives, the Board of the National Bank of the Kyrgyz Republic annually reviews and approves the investment policy and the benchmark portfolio for the coming period. To evaluate the effectiveness of management of international reserves, the Board annually reviews the report on management of international reserves.

To increase the international reserves, the Board of the National Bank reviews on the annual basis and approves the volume of purchase of monetary gold in the domestic market of the Kyrgyz Republic in national currency.

The Board also considered the reports on financial stability of the Kyrgyz Republic. These reports reflect the analysis of risks in the financial system of the Kyrgyz Republic, as well as their impact on stability of the financial sector as a whole. The results of the monitoring and analysis of financial stability by the National Bank were taken into account when forming the basic monetary policy guidelines of the National Bank of the Kyrgyz Republic.

Totally, on the issues of the monetary policy and management of international reserves, 43 issues were considered in 2014, of which with regard to 40 of them the Resolutions were adopted.

The Board permanently addressed the issues aimed at ensuring safe, reliable, and stable operation of the banking system and nonbank financial-credit institutions; safety of assets to protect the interests of depositors and other creditors of banks; increase public confidence in the financial-credit institutions.

The Board of the National Bank considered the reports on supervisory activities on the quarterly basis.

During the reporting period, the Board adopted a number of resolutions, mainly relating to the issues of minimizing the currency and credit risks of banks, microfinance organizations and credit unions.

The documents, approved by the Board, were aimed at bringing the regulatory legal acts of the National Bank in conformity with the amendments in the legislation of the Kyrgyz Republic, as well as at regulating the issues providing for the order of the banks with real estate; creating the conditions for the continuous operation of microfinance and microcredit companies, transformed into the bank; applying the enforcement actions to the nonbank financial-credit institutions licensed and regulated by the National Bank. The requirements were established for furnishing of information regarding the source of funds for working capital of exchange bureaus and in authorized capital of microfinance institutions; strengthening internal control in the exchange offices in order to combat the financing of terrorism and money laundering.

As part of the work to implement the legislation envisaging creation of conditions that promote the Islamic banking and financing in the Kyrgyz Republic, the regulatory legal acts were adopted on the issues of regulating the banks, microfinance institutions, and credit unions, and carrying out operations in accordance with the Islamic principles of banking and financing.

The results of monitoring of achievement of banking system targets as envisaged in the “Banking Sector Development Guidelines till the End of 2014” were considered by the Board of the National Bank on the semi-annual basis.

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

Overall for the year, concerning activities of individual commercial banks and other financial institutions licensed by the National Bank of the Kyrgyz Republic 98 issues were considered and 58 resolutions were adopted, of which 29 resolutions were adopted on the regulatory framework governing their activities. These were both the new regulatory acts and the addenda to the previously adopted regulatory acts.

In order to develop the policy regarding the general structure and practical operations of the payment system of the Kyrgyz Republic, the Board of the National Bank took decisions aimed at regulation and development of the payment system of the country.

*Consideration
of payment
system issues*

A promotion of the draft Law of the Kyrgyz Republic “On the Payment System of the Kyrgyz Republic” is one of the important tasks of the National Bank.

In order to improve the classification of indicators for the analysis of flows of noncash resources in national currency and to ensure their transparency, the Board of the National Bank approved the relevant amendments and addenda to the State Classifier of Payment Transactions.

In order to effectively and safely make payments through the systems of money transfers without opening any bank account, the amendments were introduced to the corresponding “Rules for Money Transfer through Money Transfer Systems in the Kyrgyz Republic”.

Pursuant to the Law “On the Licensing System in the Kyrgyz Republic”, the Board of the National Bank approved the Regulation “On Licensing of Activity of Operators of Payment Systems and Payment Organizations”.

Reports on the status of the payment system of the Kyrgyz Republic and the oversight findings for the payment system are considered by the Board on the quarterly basis.

During the banking year, with regard to the payment system issues, the Board considered 14 issues, with the relevant resolutions adopted on eight issues, aimed at further development of the payment system, expansion of the range of used payment instruments, and the reduction of risks in the payment system.

During the banking year, the Board also discussed the issues of organizing activity of the National Bank of the Kyrgyz Republic and other issues, on which 101 resolutions were adopted.

Other issues

6.3. Improvement of Banking Legislation

In 2014, the National Bank worked to improve and develop the legal framework governing banking activities in the Kyrgyz Republic.

During the reporting period, within the framework of improvement of the banking legislation, the amendments were introduced to the Law “On the National Bank of the Kyrgyz Republic”, envisaging clarification and specification of a possibility of participation of the National Bank in capital of legal entities.

*Improvement
of laws*

In order to improve the banking legislation, on December 17, 2014, the Jogorku Kenesh of the Kyrgyz Republic adopted the Law “On the Payment System of the Kyrgyz Republic”. This law is aimed at regulating activities of the national payment system in line with the government policy of arranging effective money circulation.

Also, in 2014, the Law “On Exchange of Credit Information”, aimed at reducing over-indebtedness and parallel loans in the financial sector, was adopted by the Jogorku Kenesh of the Kyrgyz Republic and signed by the President of the Kyrgyz Republic. The law envisages mandatory provision of information to the credit bureaus by all financial-credit institutions that will help improve access to the financial resources, reduce the credit risk, increase volumes of lending by increasing the collection rate of credits, and strengthen financial discipline.

During the year, the National Bank continued its work on the further promotion of the draft Banking Code of the Kyrgyz Republic, as well as the draft Law “On Implementation of the Banking Code of the Kyrgyz Republic.” The draft Banking Code of the Kyrgyz Republic was submitted to the Jogorku Kenesh of the Kyrgyz Republic for consideration.

In order to improve discipline of individuals and entities, banks, other financial-credit institutions and their officers and to ensure the effectiveness of supervisory measures and performance of the National Bank in the sphere of banking relations, the National Bank initiated in the reporting period the draft Law “On Amendments and Addenda to the Code on Administrative Responsibility”, providing for the significant increase and specification of sizes of fines for administrative violations in the field of banking legislation. The draft Law was submitted to the Government of the Kyrgyz Republic for consideration.

*Improvement
of regulatory
legal acts*

In 2014, the work continued to improve the regulatory framework in the field of the monetary policy, regulation of banks and other financial-credit institutions, whose licensing and supervision are carried out by the National Bank, as well as the regulation of the payment system. On these issues, the Board and the Supervisory Committee of the National Bank adopted more than 220 resolutions, including those of:

- January 29, 2014 – “On Amendments and Addenda to Several Resolutions of the National Bank of the Kyrgyz Republic” (to the Regulation “On the Procedure for Exchange Operations with Cash Foreign Currency in the Kyrgyz Republic” and the Regulation “On Minimum Requirements for Internal Control in Exchange Offices in the Kyrgyz Republic Aimed at Anti-Money Laundering and Combating the Financing of Terrorism (extremism)”; “On Approval of the Regulation “On the 7-day Credit of the National Bank of the Kyrgyz Republic”, “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of the Regulation “On the Procedure of the National Bank of the Kyrgyz Republic for Deposit Banking in National Currency” of March 28, 2013, No 10/11”, “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of Issuance, Placement, Circulation and Redemption of Notes of the National Bank of the Kyrgyz Republic” dated March 28, 2013, No 10/6”;
- February 17, 2014 – “On Limits of Open Currency Positions of Commercial Banks of the Kyrgyz Republic”; “On Amendment and Addendum to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of the Regulation “On Reserve Requirements” of March 19, 2010, No 8/2”;
- February 19, 2014 – “On Amendments and Addendum to Several Regulatory Legal Acts of the National Bank of the Kyrgyz Republic” (to the Regulation “On Enforcement Actions Applied to Banks and Several Other Financial-Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”, to the Regulation “On the Definition of the Dominant Position on the Market of Banking Services”, and to the Policy and basic principles of anti-monopoly regulation, development of competition and consumer protection in the market of banking services of the Kyrgyz Republic, rendered by the commercial banks and other financial-credit institutions, licensed and regulated by the National Bank);
- February 25, 2014 – “On Amendment to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On the Discount Rate of the National Bank of the Kyrgyz Republic and on the Interest Rate of the “Overnight” Credit of September 30, 2008, No 36/20”;
- March 26, 2014 – “On Amendments and Addenda to Several Regulatory Legal Acts of the National Bank of the Kyrgyz Republic” (to the Regulation “On Periodic Regulatory Bank Report” and to the Regulation “On the Periodic Regulatory Consolidated Reporting”);

- April 23, 2014 – “On Approval of the Regulation “On Classification of Assets and Corresponding Allocations to Loan Loss Provisions in Credit Unions, Conducting Operations in Accordance with the Islamic Principles of Banking and Financing”; “On Amendments to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of the Regulation “On Required Reserves” dated March 19, 2010, No 8/2”;
- May 30, 2014 – “On Approval of the Provisional Regulation “On Payment Cards of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic”; “On Approval of the “Rules of Regulating Activities of Microfinance Companies Conducting Operations Based on Islamic Principles of Banking and Financing”; “On Approval of the “Instruction on the Procedure for Compliance with the Limits of Open Currency Positions of Credit Unions”; “On Approval of the “Instruction on the Procedure for Compliance with the Limits of Open Currency Positions by Microfinance Companies”;
- June 11, 2014 – “On Amendment to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On the Regulation “On Implementation of Islamic Principles of Financing in the Kyrgyz Republic under the Pilot Project” of October 30, 2006, No 32/2”;
- June 12, 2014 – “On Approval of Policy Advice on Arrangement and Maintenance of Accounting for Microfinance Institutions and Credit Unions Conducting Operations in accordance with the Islamic Principles of Banking and Financing”;
- July 16, 2014 – “On Implementation for Microfinance Companies, Not Attracting Savings (deposits), of Instruction on the Procedure for Compliance with Limits of Open Currency Positions by Microfinance Companies, approved by the Board of the National Bank of the Kyrgyz Republic “On Approval of the Instruction “On the Procedure for Compliance with Limits of Open Currency Positions by Microfinance Companies” of May 30, 2014, No 24/8”; “On Approval of the “Rules of Regulating Activities of Credit Unions Conducting Operations Based on the Islamic Principles of Banking and Financing”, “On Amendments to Several Regulatory Legal Acts of the National Bank of the Kyrgyz Republic” (to the Instructions on Setting Capital Adequacy Standards for Banks Conducting Operations Based on the Islamic Principles of Banking and Financing”, to the Regulation “On Implementation of Islamic Principles of Financing in the Kyrgyz Republic under the Pilot Project”);
- July 31, 2014 – “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of the Rules of Money Transfers through the Money Transfer Systems in the Kyrgyz Republic”;
- September 24, 2014 – “On Approval of the Regulation “On Classification of Assets and Corresponding Allocations to Loan Loss Provisions by Microfinance Organizations Conducting Operations Based on the Islamic Principles of Banking and Financing”;
- October 17, 2014 – “On Approval of the Regulations of the National Bank of the Kyrgyz Republic” (Regulation “On Periodic Regulatory Report of Microfinance Companies Operating in accordance with the Islamic Principles of Banking and Financing”, the Regulation “On Periodic Regulatory Report of Microcredit Companies and Microcredit Agencies Conducting Operations Based on the Islamic Principles of Banking and Financing” and the Regulation “On Periodic Regulatory Report of Credit Unions Conducting Operations Based on the Islamic Principles of Banking and Financing”);
- October 30, 2014 – “On Amendments to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of the “Rules of Determining Official Exchange Rates of Foreign Currencies in Relation to the Kyrgyz Som” of March 28, 2013, No 10/15”, “On Introduction of Amendments to the Resolution

- of the National Bank of the Kyrgyz Republic “On Approval of the Regulation “On Procedure for Placement, Resupply, Additional Placement, Repurchase and Settlements with State Securities of the Government of the Kyrgyz Republic through the National Bank of the Kyrgyz Republic” of June 26, 2013, No 20/1”);
- November 27, 2014 – “On Amendments to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of the Temporary Procedure of Conducting Operations on the Domestic Interbank Foreign Exchange Market by the National Bank of the Kyrgyz Republic through the Trade and Information Electronic System of the National Bank of the Kyrgyz Republic” of February 24, 2010, No 3/3”;
 - December 8, 2014, “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of the State Classifier of Payment Transactions” of November 30, 2007, No 51/4”;
 - December 24, 2014 – “On Licensing of Activity of Operators of Payment Systems and Payment Institutions”; “On Approval of the Payment System Guidelines for the Kyrgyz Republic for 2015-2017”; “On Amendments to Several Resolutions of the Board of the National Bank of the Kyrgyz Republic” (the Regulation “On Prudential Norms and Requirements, Mandatory for Implementation by Commercial Banks of the Kyrgyz Republic” and the Instruction “On the Procedure for Compliance with the Limits of Open Currency Position by Commercial Banks in the Kyrgyz Republic”);
 - December 26, 2014 – “On Guidelines of Filling the Periodic Regulatory Report of Microfinance Companies and Microcredit Agencies, Credit Unions Conducting Operations Based on the Islamic Principles of Banking and Financing”;
 - Of December 31, 2014 – “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of the Regulation “On the Procedure of Conducting by the National Bank of the Kyrgyz Republic of Credit Auctions for the Purposes of Refinancing and Maintenance of Liquidity” of November 27, 2013, No 45/13” and other.

6.4. Performance of Duty of Financial Adviser

To perform the duty of a financial adviser to the President, the Jogorku Kenesh, and the Government of the Kyrgyz Republic, in 2014, the National Bank carried out the following activities:

- Regularly provided information and analytical materials on the issues of implementing the monetary policy, on the status of the banking system, and on the status of the payment system to the President, the Jogorku Kenesh, and the Government;
- Examined the draft laws and other regulatory legal and decisions affecting the financial and banking issues or the area of authority of the National Bank;
- Provided advice to the Government when considering the draft of the republican budget;
- Consulted and made the recommendations on the financial and banking system issues to the President, the Jogorku Kenesh, and the Government (including the ministries and departments).

Analytical information, regularly provided to the President, the Jogorku Kenesh, and the Government, included the main monetary policy guidelines of the National Bank, the forecast of key macroeconomic indicators, the situation in the external sector of the economy, the status of the banking system, the system of nonbank financial-credit institutions, and the situation in the foreign exchange market of the republic. In particular, information letters were sent on the outcome of social and economic development; on the balance of payments; urgent measures to mitigate the negative impact of external

and internal factors affecting the economy; the dynamics of indicators of the bank and nonbank financial and credit system; the implementation and monitoring of loans received by the Government of the Kyrgyz Republic; and on the foreign loans. The recommendations were given on economic diversification and development of import-substituting production, as well as on the reduction of the trade deficit.

The National Bank provided the recommendations and proposals on the issues of projecting macroeconomic development under the economic program for 2011-2014, supported by the International Monetary Fund with the help of the Extended Credit Facility. Information was provided on the work with the missions of the International Monetary Fund and the World Bank under the Financial Sector Assessment Program.

In total, as part of the financial advisor duty, the National Bank sent more than 700 letters and opinions to the public authorities during the reporting period.

The National Bank examined 35 bills in the reporting year, including:

- On the Republican Budget of the Kyrgyz Republic for 2015 and the Forecast for 2016-2017;
- The draft of the Budget Code;
- On Amendments and Addenda to Several Legislative Acts of the Kyrgyz Republic (the Laws “On Banks and Banking”, “On Bank Secrecy”);
- On Amendments and Addenda to the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic”;
- On Prohibition for Certain Categories of Officials to Have Assets outside the Kyrgyz Republic;
- On Nationalization;
- On Amendments and Addenda to Several Legislative Acts of the Kyrgyz Republic (the Land Code, the laws “On Pledge”, “On Agricultural Land Management”, “On Banks and Banking in the Kyrgyz Republic”);
- On Addendum to the Criminal Code of the Kyrgyz Republic;
- The draft Code “On Nontax Payments”;
- On Amendments and Addenda to the Law of the Kyrgyz Republic “On Basic Principles of Budget Law in the Kyrgyz Republic”;
- On Mortgage Securities;
- On Amendments and Addenda to the Law of the Kyrgyz Republic “On Protection of Bank Deposits”;
- On Lombard Activity;
- On Amendments and Addenda to the Civil Code of the Kyrgyz Republic;
- On Amendments and Addenda to the Law of the Kyrgyz Republic “On Pledge”;
- On Exchange of Credit Information;
- On Ratification of the Financing Agreement between the Kyrgyz Republic and the Asian Development Bank;
- On Actuarial Activity in the Kyrgyz Republic;
- On Indexation of Income of the Population cum Inflation;
- On Amendments to Several Legislative Acts of the Kyrgyz Republic (Civil Code, the laws “On State Social Insurance”, “On State Registration of Legal Entities, Branches (Representations)”);
- On Amendments and Addenda to Several Legislative Acts of the Kyrgyz Republic (the Code of Administrative Responsibility, the Criminal Code);
- On Amendments and Addenda to Several Legislative Acts of the Kyrgyz Republic (the Criminal Code, the laws “On Bank Secrecy”, “On Anti-Money Laundering and Combating the Financing of Terrorism”, “On Transactions in Foreign Currency”);
- On the State Strategic Planning System in the Kyrgyz Republic;
- On Amendments and Addenda to Several Legislative Acts of the Kyrgyz Republic “On Political Parties”, “On the Chamber of Accounts of the Kyrgyz Republic”, the Code of Administrative Responsibility);

*Examination of
draft laws*

- On Amendments and Addenda to Several Legislative Acts of the Kyrgyz Republic (the laws “On Competition”, “On Protection of Consumer Rights”, “On Domestic Trade”);
- On Amendments and Addenda to Several Legislative Acts of the Kyrgyz Republic (the laws “On Political Parties”, “On Postal and Electrical Communication”);
- On Amendments and Addenda to the Tax Code of the Kyrgyz Republic;
- on Amendments to the Law of the Kyrgyz Republic “On Implementation of the Tax Code”;
- On Appraisal Activity;
- On Ratification of the Memorandum of Understanding between the Kyrgyz Republic and the European Union, of the Agreement on Macrofinancial Assistance Grant between the Kyrgyz Republic and the European Union, the Credit Agreement between the Kyrgyz Republic, as Borrower, and the European Union, as Lender;
- On Amendments and Addenda to Several Legislative Acts of the Kyrgyz Republic (the laws “On Protection of Consumer Rights”, “On the Licensing System in the Kyrgyz Republic”) and other.

In 2014, the National Bank also examined and prepared the proposals for more than 70 draft resolutions and orders of the Government, including:

- On the Forecast of Social and Economic Development of the Kyrgyz Republic for 2015 and 2016-2017;
- On Licensing of Special Types of Activity;
- On Approval of the State Program “Affordable Housing by 2030”;
- On Creation of the OJSC “State Mortgage Company”;
- On Approval of the Concept of Development of the Pension Fund Scheme of the Kyrgyz Republic by 2020;
- On the Regulation “On the Requirements for Compliance with Measures for Anti-Money Laundering and Combating the Financing of Terrorism in Activities of Payment System Operators and Payment Organizations”;
- On Approval of the Regulation “On the Procedure for Placement, Accounting and Provision for Repayment of State Loans”;
- On Improvement of Mechanisms of Placement, Accounting and Provision for Repayment of State Loans;
- On Administrators of Revenues in the Republican and Local Budgets of the Kyrgyz Republic;
- On the New Principles of Formation and Use of Reserve Personnel for the Board of Directors, Audit Commissions and Secretaries of Economic Societies with State Shares;
- On the Committees of the Board of Directors of Economic Societies with State Shares;
- On the Authorized Person for Protection of Subjects of Entrepreneurial Activity;
- On the Construction Sector Development Strategy, 2014-2017;
- On the Assessment of Members of the Board of Directors of Companies with State Shares;
- On Approval of the Customs System Development Strategy and Promotion of Foreign Trade Activity in the Kyrgyz Republic for 2014-2017;
- on Approval of the Modernization Program for the State Enterprise “Kyrgyz Pochtasy” under the Ministry of Transport and Communications and Postal Savings System Development of the Kyrgyz Republic;
- On Creation of a Joint Venture in the Area of Technical Maintenance of Cash Registers (computer systems) Used in the territory of the Kyrgyz Republic to Strengthen Cash Discipline;
- On Amendments to the Resolution of the Government of the Kyrgyz Republic

of March 27, 2012, No 208 “On the Transfer of Placement and Circulation of Government Securities of the Kyrgyz Republic to the Trading Floor of the Licensed Auction Organizer”.

During 2014, the National Bank participated in the development and implementation of a number of state programs and plans, including:

- The National Sustainable Development Strategy of the Kyrgyz Republic for 2013-2017;
- The Program of Transition of the Kyrgyz Republic to Sustainable Development for 2013-2017;
- The economic program of the Kyrgyz Republic for 2011-2014, Supported by the International monetary Fund under the Extended Credit Facility (ESF);
- The State Program of Measures for Increasing the Share of Noncash Payments and Settlements in the Kyrgyz Republic for 2012-2017;
- The Microfinance Development Strategy for 2011-2015;
- The National Security Concept of the Kyrgyz Republic;
- The Social and Economic Development Forecast for the Kyrgyz Republic for 2013 and 2014-2015;
- The Action Plan of the Government of the Kyrgyz Republic on Combating Corruption for 2012-2014;
- The Action Plan for the Year of State-Building in the Kyrgyz Republic;
- The Draft Program of Financing of Export-Oriented Production;
- The Draft State Fiscal Policy Program for 2014-2020;
- The Draft Export Development Program of the Kyrgyz Republic for 2014-2017.

Development and implementation of state programs

Within the framework of participation of the Kyrgyz Republic in international and interstate organizations, the National Bank examined international treaties and agreements affecting the financial and banking system of the Kyrgyz Republic, including:

- The draft Agreement on Free Trade in Services of CIS Participant-States;
- The draft Agreement on Coordinated Approaches to Regulation of Currency Relations and Adoption of Liberalization Measures of the Eurasian Economic Commission;
- The draft Agreement on the EDB ACF Investment Loan;
- The draft Protocol of the 17th Meeting of the Kyrgyz-Russian Intergovernmental Commission on Trade-Economic, Scientific-Technical, and Humanitarian Cooperation;
- The draft Agreement on Establishment of the Bank of Commerce and Development of the Organization of Economic Cooperation;
- The draft Protocol of the Fifth Meeting of the Kyrgyz-Kazakh Intergovernmental Council;
- The draft Agreement on Technical and Financial Cooperation between the Government of the Kyrgyz Republic and the Government of the Federal Republic of Germany;
- The draft Agreement on Protection and Promotion of Investments between the Government of the Kyrgyz Republic and the Government of the Republic of Austria;
- The draft Treaty and the Program of Economic, Scientific-technical, and Humanitarian Cooperation for 2014-2017 between the Kyrgyz Republic and the Republic of Uzbekistan;
- The draft Agreement on Protection and Promotion of Investments between the Government of the Kyrgyz Republic and Estonia;
- The Agreement between the Government of the Kyrgyz Republic and the Government of the Russian Federation on Development of Economic Cooperation in the Context of the Eurasian Economic Integration and the draft of the Charter of the Russian-Kyrgyz Development Fund.

Examination of international agreements

Based on the findings of the examination of the draft laws, draft resolutions and orders of the Government of the Kyrgyz Republic, the international treaties and agreements and other draft regulatory legal acts, conclusions were given, as well as comments and proposals on the issues falling within the competence of the National Bank.

During the reporting period, the National Bank participated in the work of intergovernmental commissions on trade-economic, cultural, scientific-technical and humanitarian cooperation with the countries such as Russia, Kazakhstan, China, Switzerland, Austria, Iran, Turkey, Azerbaijan and other.

In the reporting year, the representatives of the National Bank participated in more than 15 interagency working groups and commissions on the following issues:

- coordination of monetary and fiscal policies within the framework of the Interagency Coordination Council between the Ministry of Finance and the National Bank;
- implementation of the Action Plan (“Roadmap”) within the framework of accession of the Kyrgyz Republic to the Customs Union and the Common Economic Space;
- assessment of consequences of Kyrgyzstan’s joining the Customs Union and the Common Economic Space and the increase in the share of noncash payments and settlements in the Kyrgyz Republic;
- expansion of the Deposit Protection System and the increase in the guarantee amount in order to implement the recommendations of the Jogorku Kenesh of the Kyrgyz Republic and the FSAP;
- preparation and approval of interstate interaction mechanisms aimed at minimizing the risks to finances of CIS Participant-States in modern conditions;
- development of draft regulatory legal acts in the sphere of registration of pledges of movables;
- development and implementation of long-term mortgage lending mechanisms;
- development of the draft of the regulatory legal act regulating the mobile payments;
- development of the draft Law regulating Lombard activities;
- implementation of the Resolution of the Government of the Kyrgyz Republic of March 27, 2012, No 208 “On the Transfer of Placement and Circulation of Government Securities to the Trading Floor of the Licensed Auction Organizer”;
- introduction of amendments and addenda to the Tax Code within the framework of the Concept of Creation and Development of Bank Precious Metals Market in the Kyrgyz Republic;
- development of the draft Code on Nontax Payments;
- on the development of the draft Law of the Kyrgyz Republic “On Appraisal Activity”;
- on the issues of the US Law “On Taxation of Foreign Accounts of US Taxpayers” (FATCA);
- inventory of legal acts of the Kyrgyz Republic.

As part of participation in the intergovernmental committees and interagency working groups, information was furnished and the proposals were made on the issues within the competence of the National Bank.

6.5. Internal audit and internal control system

Legal framework

In accordance with the Law “On the National Bank of the Kyrgyz Republic”, internal audit of the National Bank is conducted by the Internal Audit Service.

The main objectives of internal audit is the independent assessment of adequacy and effectiveness of the internal control system, risk management, and corporate

governance at the National Bank, interaction with the external auditors on the audit of the National Bank Financial Statements and with the Audit Committee of the National Bank.

Activity of the Internal Audit Service of the National Bank is implemented according to the International Standards of Internal Audit, the Standards for Professional Practice of Internal Audit, and the Code of Ethics.

The audits in 2014 were conducted in compliance with the annual work plan of the Internal Audit Service. The audits in the reporting period were carried out along the key lines of activity of the National Bank, including those on the issues of arranging and exercising external oversight of activities of financial-credit institutions, licensing the financial-credit institutions, arranging and conducting the operations on the interbank foreign exchange market, conducting the operations with government securities, exercising control over the risks, and automating activities of the National Bank. Based on the findings of audits by the internal auditors, the recommendations were made to improve the internal regulatory legal acts, the internal control system, and risk management. The findings of audits for compliance of activities of the units with their assigned tasks and functions were submitted to the management of the National Bank.

Implementation of activities

The results of the 2014 audits allow us to conclude that activities of the National Bank, in all essential aspects, are in conformity with the regulatory legal acts of the Kyrgyz Republic. The system of internal control is adequate in general to the assumed risks. The Internal Audit Service undertook the regular monitoring of the implementation by the structural units of the recommendations based on the results of audits.

Interacting with the external auditors, the Internal Audit Service coordinated the work with the international audit company – the LLC “Grant Thornton” – on the issue of conducting the independent audit of the National Bank Financial Statements for 2013 and 2014. This audit organization was selected based on the results of a tender and was approved by the Jogorku Kenesh of the Kyrgyz Republic in accordance with the legislation.

Interaction with external auditors

According to the external audit results, activities designed to implement the recommendations were developed and the Internal Audit Service carried out the monitoring of their implementation by the relevant structural units.

Interacting with the Audit Committee of the National Bank, the Internal Audit Service arranged and held the meetings of the Committee.

The Audit Committee comprises five members, three of whom are the independent experts not associated with activities of the National Bank; two members come from the National Bank, one of whom is the member of the Board of the National Bank.

Audit Committee

According to its functions, activity of the Audit Committee of the National Bank was to assess the quality of financial reporting of the National Bank, the independence of external auditors, and to ensure adequacy and efficiency of the internal control system.

Twelve meetings of the Committee were held in the reporting period to consider the issues falling under its competence. The Audit Committee received the internal audit reports, information on the monitoring conducted on the implementation of internal and external audit recommendations. The Committee analyzed the work on assessment of external and internal audit activities and the internal control system of the National Bank, with the recommendations made for the Board of the National Bank. The Audit Committee also submitted expert opinions as part of the work to provide advice to the management and structural units of the National Bank.

For the purpose of exchanging experience, implementing and using the best practices for internal audit, in June 2014, under the 30th meeting of the Council of Heads of Central (national) Banks of the EurAsEC States-Participants the decision was taken “On Creation of the Advisory Council on Auditing of Central (national) Banks of the EurAsEC States-Participants”. The Head of the Internal Audit Service was included as member of the Advisory Board on behalf of the National Bank.

6.6. Public Awareness

In order to improve transparency of its activities, the National Bank developed the Communication Policy in 2014. The document defines for the National Bank the main approaches and the basic principles of providing information to the public including the principles of accessibility, credibility, completeness of and equal access to information for the consumers. In 2014, the public awareness was ensured by a release of official publications, placement of information on the official website of the National Bank, the publication of information in the mass media, television and radio broadcasts, press conferences and briefings with the management of the National Bank, as well as other activities of an outreach orientation for different target groups.

Cooperation with media

The regular placement in the media of informative, educational, and analytical materials concerning all activities of the National Bank, its functions and objectives was one of the important lines of work of the National Bank in the area of public awareness in the reporting year. In this regard, urgency and relevance of the subject and the media specialization are taken into account.

Totally, during the reporting year, the National Bank initiated and prepared, taking into account requests of journalists, 162 publications both in the national and international media. 158 public statements of representatives of the National Bank were arranged, including individual interviews of employees, and participation in information and analytical television and radio programs and talk shows. The management of the National Bank participated in 12 press conferences and briefings, including those on the monetary policy issues and the situation on the currency market. During the reporting period, the National Bank received 380 written and oral requests from journalists, with the timely responses given.

News reports

In 2014, the website of the National Bank hosted more than 80 news reports in which the public was presented the official position of the National Bank on the topical issues, as well as information on performance of the organization.

Special events for the media

The National Bank continued outreach and educational activities for the media. In the reporting year, several special seminars “National Bank: Status, Functions, Mission” were arranged and attended by over 100 journalists from all over the country, covering the financial and economic subject. During the seminar, the journalists got information on various aspects of activity of the National Bank, as well as information on the main indicators of the banking system, the state of the market of payment systems, the procedure for the work of the National Bank with the media and the public, as well as on other issues. The journalists were invited to cover the raids, carried out by the National Bank inspectors when fulfilling their oversight duties. In particular, the representatives of the mass media took part in the raids on inspection of activity of exchange bureaus.

In 2014, in the course of the annual Republican competition for the media on the subject announced by the National Bank “Micro-financing: Opportunities and Risks” more than 40 works by 27 authors of electronic and printed media of the republic were collected. The data on the results of the competition are published on the website of the National Bank and in the media.

Telecasts and broadcasts

The issue of own media products is another important tool in the work of the National Bank on public awareness. In 2014, the NBKR continued producing telecasts and broadcasts “The National Bank reports” (“Uluttuk Bank Bildiret”). In this regard, the focus of the informative part of the program was placed on the explanation of activities of the Bank. In the reporting year, 22 TV programs were issued on the TV channel “EITR” and 83 radio programs on the “Birinchi Radio”. The educational issues were devoted to the role and functions of the National Bank; the issues in the area of bank legislation; the financial, foreign exchange markets, the market for payment services and securities and other current topics.

All of the publications issued at the initiative of the National Bank and TV and

radio programs “The NBKR Reports” are available on the website of the National Bank in the section “Press Center”.

In order to establish and expand a public feedback, the National Bank has a Public Chamber, which focuses on providing advice to the public on matters within the competence of the National Bank, the issues of arranging the public meetings with managers and specialists of the National Bank on actual problems of the financial-banking sector and on the work with written appeals and applications of citizens.

*Public Chamber
activity*

In 2014, the National Bank received 1 065 written applications (including the regional departments – 402). The answers were promptly prepared with regard to all of the requests. In particular, information was provided on the official exchange rate of foreign currencies against the Kyrgyz Som and the discount rate set by the National Bank; on activities of the Bank and nonbank financial-credit institutions of the republic; on the issues related to lending and other services rendered by the financial-credit institutions.

The National Bank held expert forums on the quarterly basis with the representatives from the public and private sectors, international organizations and higher educational institutions, with the monetary policy issues being the subject of these discussions. In June 2014, the expert forums on the monetary policy issues were conducted at all of regional departments and the representative office of the National Bank of the Kyrgyz Republic. The results of the discussions at the meetings of expert forums were regularly covered in the press releases of the National Bank, media materials and on the website of the National Bank of the Kyrgyz Republic.

Expert forums

The current banking sector issues, the objectives and the ways of their implementation were discussed during the traditional round tables with participation of heads of commercial banks, co-organized with the Union of Legal Entities “Union of Banks of Kyrgyzstan”.

*Roundtable
with heads of
commercial banks*

The National Bank continued active cooperation with the regional media. All its regional offices were involved in efforts to inform the public, the volume of published information increased significantly. In 2014, about 100 information materials were released through the regional departments in the regional media. Public speaking was arranged by the employees of the National Bank on the air of regional TV and radio companies on the subject of security features of banknotes, the procedure for the exchange of old banknotes for the fit ones, issuance of new numismatic coins, and the procedure for their purchase, with videos given on lease.

*Public awareness
in the regions*

The specialists of regional departments conducted lectures for secondary school pupils and students on careful treatment of the national currency, on security features of the national currency banknotes, on inflation and the monetary policy; the competition was announced for the best essay among high school students on the subject of “How and where can I exchange old banknotes for the fit banknotes?”

The round table was held for the managers and cashiers of the branches of commercial banks in the regions on the issues of observance of cash discipline, the removal of old money from circulation, and the transfer of old banknotes to cash desks of regional offices of the National Bank.

The staff of the regional offices regularly held meetings with borrowers and managers of microfinance institutions and branches of commercial banks on distressed lending.

Within the framework of the State Program on Increase in the Share of Noncash Payments and Settlements in the Kyrgyz Republic in a number of areas, the meetings were arranged with participation of representatives of branches of commercial banks, with the explanatory work carried out for the government organizations and representatives of regional aiylokmotu.

In 2014 for students of higher and secondary educational institutions excursions to the Numismatic Museum of the National Bank of the Kyrgyz Republic were arranged

*Numismatic
museum*

and during these excursions information was provided on the history of money, the manufacturing technology and the design features of modern banknotes and coins. In the Museum of the National Bank there are the exhibits in the form of coins and banknotes of different countries and historical periods, modern collection banknotes and coins issued by the National Bank, with the images of historical figures, architectural buildings, and flora and fauna.

*Financial literacy
of public*

In 2014 as part of a campaign for improving financial literacy, the National Bank launched a series of guest lectures for the students of secondary schools, professional schools and universities. Special attention was paid to the educational institutions, located on the outskirts of the capital and in the remote regions of the country. The experts of key departments of the National Bank held the training sessions, whose format was developed in the form of interactive presentations on relevant financial topics. During the course, the National Bank experts spoke on how to manage personal finances and rationally maintain the family budget; on the possibilities of keeping and increasing their savings; provided information on the features of the loan; on benefits and advantages of noncash payment systems; the security features of the national currency.

*Website of the
National Bank*

The official website of the National Bank, quickly providing open access to information for all the categories of users is one of the actively used tools in public awareness. During the year the work continued on creation of new subsections and expansion of information presented in the current sections of the website. For example, in the section “About the Bank” the new subsections were created: “Anti-Money Laundering and Combating the Financing of Terrorism”, the “Concept of Financial Literacy in Kyrgyzstan”. The subsection “Operators of Payment Systems” was created in the section “Payment System” featuring information on registration of operators of money transfer systems and the answers to the questions frequently asked by the operators of money transfer systems concerning the requirements under the rules of implementing money transfers via the money transfer systems in the Kyrgyz Republic.



FINANCIAL STATEMENTS
FOR 2014



CHAPTER 7. FINANCIAL STATEMENTS OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC FOR YEAR ENDED 31 DECEMBER 2014

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Independent auditor's report

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

We have audited the accompanying financial statements of the National Bank of the Kyrgyz Republic (the “National Bank”), which comprise the statement of financial position as of December 31, 2014, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management of the audited entity is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of preparation described in Note 2, which was established by the Management in order to meet the requirements of the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” and such internal control, as management determines, which is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the National Bank'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 financial statements give a true and fair view of the financial position of the National Bank as at 31 December 2014, and of its financial performance and cash flows for the year then ended in accordance with the basis of preparation described in Note 2, which was established by the Management in order to satisfy the requirements of the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic".

Grant Thornton LLC
20 March, 2015

7.2. Statement of Financial Position as at 31 December 2014

	Note	2014 KGS'000	2013 KGS'000
ASSETS			
Precious metals	5	8 991 957	6 885 077
Cash on hand, due from banks and other financial institutions	6	73 674 946	74 380 651
Loans extended	7	3 762 618	854 131
Investments available-for-sale	8	32 439 375	28 864 607
Investments held-to-maturity	9	1 453 614	755 502
Investments held-to-maturity, pledged under repurchase agreements	9	-	756 049
Property and equipment	10	1 146 559	1 065 042
Intangible assets		31 964	50 631
Other assets	11	1 156 994	1 038 057
Total assets		122 658 027	114 649 747
LIABILITIES			
Banknotes and coins in circulation	12	57 074 591	66 954 154
Due to banks and other financial institutions	13	8 900 285	6 707 152
Due to the Government of the Kyrgyz Republic	14	19 618 361	8 425 690
Amounts payable under agreements of sale and repurchase of securities		-	585 744
Debt securities issued	15	1 325 725	6 634 637
Loans received	16	3 357 486	4 029 843
Liabilities to the IMF in respect of SDR allocations	17	7 232 900	6 426 299
Other liabilities		58 406	35 046
Total liabilities		97 567 754	99 798 565
EQUITY			
Charter capital	18	1 000 000	1 000 000
Obligatory reserve		3 321 442	3 188 193
Precious metals and foreign currency revaluation reserve		15 368 404	10 207 689
Revaluation reserve for investments available-for-sale		4 687	11 135
Retained earnings		5 395 740	444 165
Total equity		25 090 273	14 851 182
Total liabilities and equity		122 658 027	114 649 747

Abdygulov T.S.
Chairman of the National Bank

20 March 2015

Bishkek
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

20 March 2015

Bishkek
Kyrgyz Republic

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

7.3. Statement of Profit or Loss for the year ended 31 December 2014

	Note	2014 KGS'000	2013 KGS'000
Interest income	19	1 349 246	1 018 119
Interest expense	19	(146 453)	(172 350)
Net interest income		1 202 793	845 769
Fee and commission income		41 735	25 875
Fee and commission expense		(4 741)	(9 211)
Net fee and commission income		36 994	16 664
Recoveries of impairment	20	18 342	14 563
Net gain on precious metals and foreign currencies operations	21	5 021 978	320 042
Other income		40 497	49 579
Net non-interest income		5 080 817	384 184
Operating income		6 320 604	1 246 617
Banknotes and coins production expenses		(224 060)	(239 986)
Administrative expenses	22	(685 971)	(552 414)
Other expenses		(14 833)	(10 052)
Operating expenses		(924 864)	(802 452)
Profit for the year		5 395 740	444 165

Abdygulov T.S.
Chairman of the National Bank

20 March 2015

Bishkek
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

20 March 2015

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Kyrgyz Republic

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

7.4. Statement of Comprehensive Income for the year ended 31 December 2014

	2014 KGS'000	2013 KGS'000
Profit for the year	5 395 740	444 165
Items that will be reclassified subsequently to profit or loss		
Revaluation reserve for foreign currency and precious metals:		
- Net gain/(loss) on revaluation of assets and liabilities in foreign currency and precious metals	9 891 524	(1 914 626)
- Net gain on foreign currency and precious metals transferred to profit or loss	(4 730 809)	(258 107)
Net loss on investments available-for-sale	(6 448)	(5 343)
Items that will not be reclassified subsequently to profit or loss	-	-
Other comprehensive income/(loss) for the year	5 154 267	(2 178 076)
Total comprehensive income/(loss) for the year	10 550 007	(1 733 911)

Abdygulov T.S.
Chairman of the National Bank

20 March 2015

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Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

20 March 2015

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Kyrgyz Republic

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

7.5. Statement of Cash Flows for the year ended 31 December 2014

	2014 KGS'000	2013 KGS'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and fee and commission received	1 758 928	1 129 914
Interest and fee and commission payments	(159 277)	(130 404)
Realized gain on foreign exchange operations	291 168	61 935
Other income	26 848	27 892
Payroll expenses	(402 054)	(351 538)
Expenses on banknotes and coins, issued into circulation	(294 314)	(239 986)
Administrative expenses	(174 684)	(308 886)
Cash flow from operating activities before changes in operating assets and liabilities	1 046 615	188 927
(Increase)/decrease in operating assets		
Precious metals	(714 827)	(1 198 781)
Due from banks and other financial institutions	11 142 888	(9 335 426)
Loans extended	(2 874 687)	(32 846)
Investments available-for-sale	(1 195 328)	2 599 838
Other assets	(25 738)	(55 361)
Increase/(decrease) in operating liabilities		
Banknotes and coins in circulation	(9 879 562)	8 701 986
Due to banks and other financial institutions	2 019 365	(694 365)
Accounts of the Government of the Kyrgyz Republic	10 096 753	2 609 978
Debt securities issued	(5 301 764)	3 583 083
Amounts payable under agreements of sale and repurchase of securities	(584 440)	(211 373)
Other liabilities	(3 126)	1 829
Net cash from operating activities	3 726 149	6 157 489

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

	2014	2013
	KGS'000	KGS'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and intangible assets	(126 026)	(166 447)
Proceeds on redemption of investments held-to-maturity	64 352	683 352
Increase of investments into associated companies	(51 000)	-
Interest received on investments held-to-maturity	82 753	101 400
Dividends received	13 029	22 075
Net cash from/(used in) investing activities	(16 892)	640 380
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loans	(1 127 118)	(872 468)
Net cash used in financing activities	(1 127 118)	(872 468)
Net increase in cash and cash equivalents	2 582 139	5 925 401
Effect of changes in exchange rates on cash and cash equivalents	4 823 270	759 732
Cash and cash equivalents as at the beginning of the year	34 142 001	27 456 868
Cash and cash equivalents as at the end of the year (Note 6)	41 547 410	34 142 001

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

7.6. Statement of Changes in Equity for the year ended 31 December 2014

KGS'000

	Charter capital	Obligatory reserve	Precious metals and foreign currency revaluation reserve	Revaluation reserve for investments available-for-sale	Retained earnings	Total
Balance as at 1 January 2013	1 000 000	2 953 496	12 380 422	16 478	782 323	17 132 719
Total comprehensive income	-	-	-	-	444 165	444 165
Profit for the year	-	-	-	-	-	-
Other comprehensive income	-	-	-	(5 343)	-	(5 343)
Net loss on investments available-for-sale	-	-	-	-	-	-
Net loss on revaluation of assets and liabilities in foreign currency and precious metals	-	-	(1 914 626)	-	-	(1 914 626)
Net gain on foreign currencies and precious metals transferred to profit or loss	-	-	(258 107)	-	-	(258 107)
Total other comprehensive loss	-	-	(2 172 733)	(5 343)	-	(2 178 076)
Total comprehensive income/(loss) for the year	-	-	(2 172 733)	(5 343)	444 165	(1 733 911)
Transactions recorded directly in equity	-	-	-	-	-	-
Distribution of prior year profit to the state budget	-	-	-	-	(547 626)	(547 626)
Transfer to obligatory reserve	-	234 697	-	-	(234 697)	-
Total	-	234 697	-	-	(782 323)	(547 626)
Balance as at 31 December 2013	1 000 000	3 188 193	10 207 689	11 135	444 165	14 851 182

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

	Charter capital	Obligatory reserve	Precious metals and foreign currency revaluation reserve	Revaluation reserve for investments available-for-sale	Retained earnings	Total
<i>KGS'000</i>						
Balance as at 1 January 2014	1 000 000	3 188 193	10 207 689	11 135	444 165	14 851 182
Total comprehensive income						
Profit for the year	-	-	-	-	5 395 740	5 395 740
Other comprehensive income						
Net loss on investments available-for-sale	-	-	-	(6 448)	-	(6 448)
Gains on revaluation of assets and liabilities in foreign currencies and precious metals	-	-	9 891 524	-	-	9 891 524
Net gain on foreign currencies and precious metals transferred to profit or loss	-	-	(4 730 809)	-	-	(4 730 809)
Total other comprehensive income	-	-	5 160 715	(6 448)	-	5 154 267
Total comprehensive income for the year			5 160 715	(6 448)	5 395 740	10 550 007
Transactions recorded directly in equity						
Distribution of prior year profit to the state budget	-	-	-	-	(310 916)	(310 916)
Transfer to obligatory reserve	-	133 249	-	-	(133 249)	-
Total		133 249			(444 165)	(310 916)
Balance as at 31 December 2014	1 000 000	3 321 442	15 368 404	4 687	5 395 740	25 090 273

Abdygulov T.S.
Chairman of the National Bank

20 March 2015

Bishkek
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20 March 2015

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

7.7. Notes to the Financial Statements for the year ended 31 December 2014

1 BACKGROUND

(a) Organisation and operations

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

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

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

As at 31 December 2014 and 2013 the National Bank has 5 branches and one representative office operating in regions of the Kyrgyz Republic.

As at 31 December 2014 and 2013 the number of the National Bank’s employees is 645 and 595, respectively.

As at 31 December 2014 and 2013 the National Bank controls the State Enterprise “Republic Administration of Money Collection”. Besides, the National Bank has associate company CJSC “Interbank processing centre”. The financial statements of the State Enterprise “Republic Administration of Money Collection” and CJSC “Interbank processing centre” are not consolidated in the financial statements of the National Bank and the impact of this subsidiary is not material.

These financial statements were authorised for issue by the Management Board of the NBKR on 20 March 2015.

(b) Business environment

In recent years, the Kyrgyz Republic has undergone significant political, economic and social changes. As an emerging market, the Kyrgyz Republic does not possess a well-developed business and regulatory infrastructure that would generally exist in more developed market economies. As a result operations in the Kyrgyz Republic involve risks that are not typically associated with those in developed markets. In addition, the economy of the Kyrgyz Republic is subject to influence of the still unstable situation on capital markets and slowdown of economic growth in other countries. These financial statements do not include any adjustments that may result from the future clarification of these uncertainties. Such adjustments, if any, will be reported in the National Bank’s financial statements in the period when or if they become known and estimable.



2 BASIS OF PREPARATION

(a) Statement of compliance

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

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

These financial statements have been designed to present fairly the financial position of the National Bank and the results of its operations and have been prepared in accordance with the accounting policy of the National Bank which was approved by the Management Board of the National Bank on 10 December 2003 with all amendments last of which was made on 30 October 2014 and which the National Bank considers to be appropriate to the nature of central bank activities.

(b) Basis of measurement

The financial statements are prepared on the historical cost basis except that 1) precious metals, 2) financial instruments at fair value through profit or loss and 3) investments available-for-sale are stated at fair value.

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgments

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Precious metals

Precious metals comprise gold and other precious metals on deposits with foreign banks and gold bullion in the National bank vaults with a good delivery status. Precious metals in the financial statements are measured at market price which is determined by reference to the London Bullion Market Association

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(a) Precious metals, continued

AM fixings at the day preceding the reporting date. Gains on revaluation of gold are recorded as other comprehensive income in equity. Losses resulting from revaluation are recognised in the statement profit or loss in the amount exceeding any previously accumulated gains on accounts of other comprehensive income in equity. Realised gains and losses on gold are recorded in the statement profit or loss.

(b) Foreign currency transactions

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

Rates of exchange

The exchange rates used by the National Bank in the preparation of the financial statements as at 31 December 2014 and 2013 are as follows:

	<u>31 December 2014</u>	<u>31 December 2013</u>
- Som/US Dollar	58,8865	49,2470
- Som/Euro	71,6943	67,7048
- Som/Special drawing rights	85,3499	75,8250
- Som/Canadian Dollar	50,7256	46,4262
- Som/Australian Dollar	47,8563	44,0387
- Som/Swiss Franc	59,7393	55,5010
- Som/Great British Pound Sterling	91,6190	81,3383
- Som/troy ounce of gold	71 017,12	59 318,01

(c) Cash and cash equivalents

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

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

(d) Financial instruments

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

- acquired or incurred principally for the purpose of selling or repurchasing in the near term;
- part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking;

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial instruments, continued

- derivative financial instruments (except for derivative financial instruments that are designated and effective hedging instruments) or,
- upon initial recognition, designated as at fair value through profit or loss.

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

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

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

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

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

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

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

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

(i) Recognition

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

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial instruments, continued

(ii) Measurement

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

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

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

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

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

(iii) Fair value measurement principles

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

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

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial instruments, continued

(iii) *Fair value measurement principles, continued*

recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

(iv) *Gains and losses on subsequent measurement*

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

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

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

(v) *Derecognition*

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

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

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

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

If the National Bank purchases its own debt, it is removed from the statement of financial position and

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(d) Financial instruments, continued

(v) *Derecognition, continued*

the difference between the carrying amount of the liability and the consideration paid is included in gains or losses arising from early retirement of debt.

The National Bank writes off assets deemed to be uncollectible.

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

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

Securities purchased under agreements to resell (reverse repo) are recorded as amounts receivable under reverse repo transactions, are included in loans and advances to banks, or loans to clients, depending on the situation. The difference between the purchase and resale prices represents interest income and is recognised in the statement of profit or loss over the term of the repo agreement using the effective interest method.

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

(vii) *Derivative financial instruments*

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

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

Changes in the fair value of derivatives are recognised immediately in the statement of profit or loss.

(e) Property and equipment

(i) *Owned assets*

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

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

(ii) *Depreciation*

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

- Buildings	50 years;
- Constructions	20 years;
- Furniture and equipment	5 years;
- Computer equipment	3 to 5 years;
- Motor vehicles	7 years.

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(f) Intangible assets

Acquired intangible assets are stated in the financial statement at cost less accumulated amortisation and impairment losses.

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

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

(g) Impairment

(i) *Financial assets carried at amortised cost*

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

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

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

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

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

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

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(g) Impairment, continued

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

National Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) *Financial assets carried at cost*

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

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

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

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

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

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

(iv) *Non financial assets*

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

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

(h) *Banknotes and coins in circulation*

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

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(h) Banknotes and coins in circulation, continued

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

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

(i) Charter capital and reserves

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

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

(j) Taxation

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

(k) Income and expense recognition

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

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

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

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

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

(l) Fiduciary assets

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

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

m) Offsetting

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

Income and expenses are presented on a net basis only when permitted under IFRS.

(n) New and revised IFRSs

While preparing the financial statements the National Bank has adopted all of the new and revised standards that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2014. The new standards have not had material effect on the financial statements of the National Bank.

(o) New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2014, and are not applied in preparing these financial statements. Of these pronouncements, potentially the following will have an impact on the financial position and performance. The National Bank plans to adopt these pronouncements when they become effective.

- IFRS 9 “*Financial Instruments*” is effective for annual reporting periods beginning on or after 1 January 2018. The final version of the new standard was published on 23 July 2014. The new standard contains revised guidance on the classification and measurement of financial assets, including impairment losses, and complements the new principles of hedge accounting. The National Bank recognizes that the new standard introduces significant changes in the process of accounting for financial instruments and is likely to have a significant impact on the financial statements. The National Bank does not intend to adopt this standard early.
- Amendments to IAS 27 “*Separate Financial Statements*”. The amendments will allow enterprises to use the equity method in accounting for financial investments in subsidiaries, joint ventures and associates in its separate financial statements, with the method of accounting for these investments must be specified in the accounting policies of the organization.

The amendments also clarify that, when the parent company ceases to be an investment, it should take into account the investments in subsidiaries at cost, using the equity method or in accordance with IFRS 9.

- Amendments to IFRS 10 “*Consolidated Financial Statements*” and IAS 28 “*Investments in Associates*” relate to the sale or contribution of assets between the investor and its joint venture or affiliate. In a transaction involving associate or joint venture size to recognize a gain or loss depends on whether sold or invested assets constitute separate business.
- IFRS 15 “*Revenue from Contracts with Customers*”. IFRS 15 presents new requirements for the recognition of revenue, replacing IAS 18 “*Revenue*”, IAS 11 “*Construction Contracts*”, and several revenue-related Interpretations. The new standard establishes a control-based revenue recognition model and provides additional guidance in many areas not covered in detail under existing IFRSs, including how to account for arrangements with multiple performance obligations, variable pricing, customer refund rights, supplier repurchase options, and other common complexities. IFRS 15 is effective for reporting periods beginning on or after 1 January 2017. The National Bank’s management have not yet assessed the impact of IFRS 15 on these financial statements.

The following new or amended standards are not expected to have a significant impact of the National Bank’s financial statements:

3 SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(o) New standards and interpretations not yet effective, continued

- IFRS 14 Regulatory Deferral Accounts.
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).
- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19).
- Annual Improvements to IFRSs 2010–2012 Cycle.
- Annual Improvements to IFRSs 2011–2013 Cycle.

4 RECLASSIFICATIONS

In the financial statements as of December 31, 2013 have been made reclassifications for bringing it in line with the reporting form as of December 31, 2014 in connection with the fact that this form gives a better view of the financial position of the National Bank.

Nature of reclassification	Reclassification <u>amount</u>	Before <u>reclassification</u>	After <u>reclassification</u>
Cash on hand, due from banks and other financial institutions	298 577	74 082 074	74 380 651
Other assets	(298 577)	1 336 634	1 038 057

5 PRECIOUS METALS

	2014 KGS'000	2013 KGS'000
Gold and other precious metals in accounts with foreign banks		
Gold in deposits	5 900 938	4 928 839
Silver in deposits	-	352
	5 900 938	4 929 191
Gold bullion in the National Bank depository	3 091 019	1 955 886
	8 991 957	6 885 077

Gold bullion in vaults represents gold with “good delivery” status.

Concentration of gold and precious metals in accounts with foreign banks

As at 31 December 2014 the National Bank placed all gold deposits with two banks with rating from AA- to A+ (31 December 2013: two banks with rating from AA- to A+).

6 CASH ON HAND, DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	2014 KGS'000	2013 KGS'000
Placements with foreign banks and other financial institutions		
Nostro accounts with foreign banks		
- rated AAA	20 619 795	19 478 565
- rated from A to AA +	7 564 978	3 011 952
- rated from BBB- to BBB+	7 076	5 918
- not rated	8 092	44 463
Total nostro accounts with foreign banks	28 199 941	22 540 898
Term deposits with foreign banks		
- rated from AA- to AA+	14 055 289	24 977 985
- rated from A- to A+	16 633 866	12 621 183
- not rated	227 657	190 391
Total term deposits with foreign banks	30 916 812	37 789 559
Accounts with the Bank for International Settlements (BIS)		
- BIS Nostro	2 036 720	1 550 098
- BIS Deposit	1 438 381	2 639 482
Accounts with the International Monetary Fund	10 654 592	9 752 428
Total due from banks and other financial institutions	73 246 446	74 272 465
Cash on hand in foreign currency	656 157	298 577
Impairment allowance	(227 657)	(190 391)
	73 674 946	74 380 651

As at 31 December 2014 and 2013 an impaired overdue term deposit denominated in USD of KGS 227 657 thousand and 190 391 thousand placed with the Central Asian Bank of Cooperation and Development was overdue for more than 360 days, and the National Bank created an impairment reserve for the full outstanding amount in 1999 year.

Concentration of due from banks and other financial institutions

As at 31 December 2014 the National Bank has balances with nine banks and other financial institutions, (2013: eleven banks and other financial institutions rated from AAA to AA-) rated from AAA to A whose amounts exceed 10% of equity. The gross value of these balances as at 31 December 2014 is KGS 67 022 158 thousand (2013: KGS 70 753 593 thousand).

Movement in the allowance for impairment losses is disclosed in Note 20.

Cash and cash equivalents

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

	2014 KGS'000	2013 KGS'000
Nostro accounts with international banks	28 199 941	22 540 898
Nostro accounts with the Bank for International Settlements	2 036 720	1 550 098
Accounts with the IMF	10 654 592	9 752 428
Cash on hand in foreign currencies	656 157	298 577
Cash and cash equivalents in the statement of cash flows	41 547 410	34 142 001

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

7 LOANS EXTENDED

	2014 KGS'000	2013 KGS'000
Unimpaired loans to resident commercial banks	3 762 618	863 186
Impaired loans to resident commercial banks	460 355	431 344
	4 222 973	1 294 530
Impairment allowance	(460 355)	(440 399)
Net loans	3 762 618	854 131

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

The objective indicators of loan impairment include the following:

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

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

As at 31 December 2014 and 2013 impaired loans represent loans to resident commercial banks, which are under special administration since 1999 and are all overdue more than 360 days. The National Bank recognised 100% impairment allowance in respect of these loans and as at 31 December 2014 and 2013 the impairment allowance amounted to KGS 460 355 thousand and KGS 431 344 thousand, respectively. Movements in the impairment allowance are disclosed in Note 20.

Analysis of collateral

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

	2014 KGS'000	% of unimpaired loan portfolio	2013 KGS'000	% of unimpaired loan portfolio
Government securities	295 800	8	411 624	48
Loans to customers	3 466 818	92	433 664	50
Real estate	-	-	17 898	2
	3 762 618	100	863 186	100

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

Concentration of loans extended

As at 31 December 2014 and 2013, the Bank does not have loans to commercial banks, whose balances exceed 10% of equity.

8 INVESTMENTS AVAILABLE-FOR-SALE

	2014 KGS'000	2013 KGS'000
Debt instruments		
Government bonds		
Australian Government Treasury bills	15 110 240	14 569 143
Canadian Government Treasury bills	5 952 656	2 324 167
British Government Treasury bills	3 537 475	2 468 779
French Government Treasury bills	771 389	2 311 341
German Government Treasury bills	433 497	-
Russian Government Treasury bills	376 487	-
US Government Treasury bills	355 545	-
Total government bonds	26 537 289	21 673 430
Debt securities of international governmental and non-governmental financial institutions		
- rated AAA	5 902 086	7 191 177
Total debt instruments	32 439 375	28 864 607

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

9 INVESTMENTS HELD-TO-MATURITY

	2014 KGS'000	2013 KGS'000
Held by the National bank		
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	1 453 614	755 502
Pledged under repurchase agreements		
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	-	756 049
	1 453 614	1 511 551

As at 31 December 2014 there weren't any debt securities held to maturity which were pledged under sale and repurchase agreements with commercial banks (2013: KGS 756 049 thousand, two commercial banks).

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

During the year ended 31 December 2014 there were no redemptions of Treasury bills of the Ministry of Finance of the Kyrgyz Republic classified as held-to-maturity investments that were settled through offset against balances due to the Government of the Kyrgyz Republic(2013: KGS 100 000 thousand).

10 PROPERTY AND EQUIPMENT

KGS'000	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/ equipment not yet installed	Total
Cost						
Balance at 1 January 2014	544 250	134 417	145 958	17 661	400 546	1 242 832
Additions	2 024	17 745	78 329	21 827	48 628	168 553
Disposals	(899)	(18 428)	(24 961)	(968)	-	(45 256)
Transfers	23 143	28 721	-	-	(51 864)	-
Balance at 31 December 2014	568 518	162 455	199 326	38 520	397 310	1 366 129
Depreciation and impairment losses						
Balance at 1 January 2014	(70 901)	(61 483)	(38 349)	(7 057)	-	(177 790)
Depreciation for the year	(15 926)	(30 786)	(33 019)	(6 883)	-	(86 614)
Disposals	496	18 409	24 961	968	-	44 834
Balance at 31 December 2014	(86 331)	(73 860)	(46 407)	(12 972)	-	(219 570)
Carrying amount						
At 31 December 2014	482 187	88 595	152 919	25 548	397 310	1 146 559

10 PROPERTY AND EQUIPMENT, CONTINUED

KGS'000	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/ equipment not yet installed	Total
Cost						
Balance at 1 January 2013	537 457	130 168	73 308	32 557	408 428	1 181 918
Additions	8 776	26 095	72 797	2 529	66 339	176 536
Disposals	(10 150)	(24 145)	(19 819)	(17 425)	(38)	(71 577)
Transfers	8 167	2 299	19 672	-	(74 183)	(44 045)
At 31 December 2013	544 250	134 417	145 958	17 661	400 546	1 242 832
Depreciation and impairment losses						
Balance at 1 January 2013	(58 910)	(59 172)	(40 443)	(20 475)	-	(179 000)
Depreciation for the year	(13 314)	(26 449)	(17 725)	(4 007)	-	(61 495)
Disposals	1 323	24 138	19 819	17 425	-	62 705
Balance at 31 December 2013	(70 901)	(61 483)	(38 349)	(7 057)	-	(177 790)
Carrying amount						
At 31 December 2013	473 349	72 934	107 609	10 604	400 546	1 065 042

There are no capitalised borrowing costs related to the acquisition or construction of plant and equipment during 2014 and 2013.

11 OTHER ASSETS

	2014 KGS'000	2013 KGS'000
Other receivables	264 987	246 006
Impairment allowance	(25 836)	(35 349)
Total other financial assets	239 151	210 657
Inventories	726 254	674 781
Other investments	112 005	61 005
Prepayments	16 547	69 725
Other assets	63 351	21 889
Impairment allowance	(314)	-
Total other non-financial assets	917 843	827 400
	1 156 994	1 038 057

Movements in impairment allowance on other assets for the years ending 31 December 2014 and 2013 are disclosed in Note 20.

12 BANKNOTES AND COINS IN CIRCULATION

As at 31 December 2014 and 2013 banknotes and coins in circulation comprise:

	2014 KGS'000	2013 KGS'000
Banknotes and coins in circulation	59 846 830	68 931 212
Less banknotes and coins on hand and in vaults	(2 772 239)	(1 977 058)
	57 074 591	66 954 154

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

13 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2014 KGS'000	2013 KGS'000
Current accounts of commercial banks	8 878 352	6 692 487
Current accounts of other financial institutions	21 933	14 665
	8 900 285	6 707 152

As at 31 December 2014 and 2013 the National Bank has no banks whose balances exceed 10% of equity.

14 DUE TO THE GOVERNMENT OF THE KYRGYZ REPUBLIC

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

	2014 KGS'000	2013 KGS'000
In national currency	13 097 458	7 942 026
In foreign currency	6 520 903	483 664
	19 618 361	8 425 690

15 DEBT SECURITIES ISSUED

As at 31 December 2014 debt securities issued (notes of the National Bank) comprise the following issues:

Emissions	Carrying amount KGS'000	Issue date	Maturity date	Effective interest rate
BD001150107	1 325 725	31 Dec. 14	07 Jan.15	10,69%
	1 325 725			

As at 31 December 2013 debt securities issued (notes of the National Bank) comprise the following issues:

Эмиссии	Carrying amount KGS'000	Issue date	Maturity date	Effective interest rate
BD004140101	535 937	4-Dec-13	1-Jan-14	4,38%
BD004140108	999 075	11- Dec -13	8- Jan -14	4,32%
BD004140115	1 297 754	18- Dec -13	15- Jan -14	4,30%
BD002140108	299 780	25- Dec -13	8- Jan -14	3,41%
BD004140122	1 496 201	25- Dec -13	22- Jan -14	4,30%
BD001140107	1 199 508	31- Dec -13	7- Jan -14	2,16%
BD004140128	806 382	31- Dec -13	28- Jan -14	4,32%
	6 634 637			

16 LOANS RECEIVED

	2014 KGS'000	2013 KGS'000
Loans received from the International Monetary Fund (the “IMF”)	3 331 377	3 970 121
Loans received from the MFKR	26 109	59 722
	3 357 486	4 029 843

16 LOANS RECEIVED, CONTINUED

As at 31 December 2014 and 2013 terms and conditions of loans received are as follows:

Issuer	CCY	Interest rate	Issue date	Maturity date	2014 KGS'000	2013 KGS'000
IMF, PRGF	SDR	0%	19-Dec-01	31-May-18	915 548	1 445 148
IMF, ESF	SDR	0%	24-Dec-08	7-Jun-19	2 415 829	2 524 973
MFKR	USD	1,50%	19-Oct-04	15-Jul-16	26 109	59 722
					3 357 486	4 029 843

Borrowings in relation to the Poverty Reduction and Growth Facility (“PRGF”) are denominated in SDR and are part of the IMF poverty reduction program. The aims of the loans are support of fiscal reforms and national currency. PRGF borrowings carry a zero interest rate and have a maturity of 10 years from the beginning of the facility. As at 10 December 2014 IMF prolonged 0% interest rate till the end of 2016. Conditions of PRGF credits are standard for all credit receivers. Under the PRGF borrowings, the National Bank has accepted certain obligations and requirements to meet specific performance criteria and to complete structural reforms in fiscal policy.

Borrowing in relation to the Exogenous Shocks Facility (“ESF”) is denominated in SDR and is given to support the Kyrgyzstan authorities in addressing several exogenous shocks. The loan bears 0% interest rate. As at 10 December 2014 IMF prolonged 0% interest rate till the end of 2016. This condition was declared for all recipients of ESF credits around the globe. Under the ESF borrowing, the National Bank of the Kyrgyz Republic has accepted certain obligations and requirements to meet specific performance criteria and to complete certain structural reforms.

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

During the years ended 31 December 2014 and 2013 the National Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities.

17 LIABILITIES TO THE IMF IN RESPECT OF SDR ALLOCATIONS

	2014 KGS'000	2013 KGS'000
Liabilities to the IMF in respect of SDR allocations	7 232 900	6 426 299

Special Drawing Rights (SDR) allocation is a distribution of SDR amounts to IMF members by decision of the IMF. A general SDR allocation became effective 28 August 2009. The allocation is a cooperative monetary response to the global financial crisis by providing of significant unconditional financial resources to liquidity constrained countries, which have to smooth the need for adjustment and add to the scope for expansionary policies, where needed in the face of deflation risks, designed to provide liquidity to the global economic system by supplementing the IMF member countries’ foreign exchange reserves. The general SDR allocations were made to IMF members in proportion to their existing IMF quotas (Note 26). Separately, on 10 August 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one-time allocation of SDRs entered into force to boost global liquidity. According to the amendment, the special allocation was made to IMF members, which includes Kyrgyzstan, on 9 September 2009. Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Kyrgyz Republic received the right to use SDR

17 LIABILITIES TO THE IMF IN RESPECT OF SDR ALLOCATIONS, CONTINUED

allocations in the amount of SDR 84 737 thousand. In 2014 and 2013 this right has not yet been utilized. Interest is accrued on the amount that a country uses. The interest rate is determined weekly by the IMF, and is the same for all recipients of SDR allocations in the world.

18 CHARTER CAPITAL

Issued capital

As at 31 December 2014 and 31 December 2013 charter capital of the National Bank in accordance with the Law “On the National Bank of the Kyrgyz Republic” amounts to KGS 1 000 000 thousand.

Distribution to the state budget and obligatory reserve

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

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

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

On 26 March 2014 the net profit earned for 2013 and distributable to the state budget of the Kyrgyz Republic was approved in the amount of KGS 310 916 thousand (2013: KGS 547 626 thousand), and KGS 133 249 thousand (2013: KGS 234 697 thousand) was transferred to the obligatory reserve.

Profit for the year 2014, which will be distributed to the state budget of the Kyrgyz Republic amounts to KGS 3 777 018 thousand.

Capital management

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

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

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

19 NET INTEREST INCOME

	2014 KGS'000	2013 KGS'000
Interest income		
Investments available-for-sale	537 654	479 750
Due from banks and other financial institutions	482 880	368 880
Loans extended	231 715	62 206
Investments held-to-maturity	89 168	102 374
Other	7 829	4 909
	1 349 246	1 018 119
Interest expense		
Debt securities issued	(124 560)	(109 222)
Due to banks and other financial institutions	(11 730)	(392)
Liabilities to the IMF in respect of SDR allocations	(5 876)	(4 998)
Amounts payable under agreement of sale and repurchase of securities	(1 511)	(10 735)
Due to the Government of the Kyrgyz Republic	-	(45 547)
Other	(2 776)	(1 456)
	(146 453)	(172 350)
	1 202 793	845 769

No interest income was accrued on impaired assets (2013: nil).

20 ALLOWANCES FOR IMPAIRMENT

	Due from banks and other financial institutions KGS'000	Loans extended KGS'000	Other financial assets KGS'000	Total KGS'000
31 December 2012	183 255	426 116	37 819	647 190
Net recovery	-	(12 093)	(2 470)	(14 563)
Net recovery of previously written-off assets	-	14 461	-	14 461
Effect of foreign currency translation	7 136	11 915	-	19 051
31 December 2013	190 391	440 399	35 349	666 139
Net recovery	-	(9 143)	(9 199)	(18 342)
Effect of foreign currency translation	37 266	29 099	-	66 365
31 December 2014	227 657	460 355	26 150	714 162

21 NET GAIN ON PRECIOUS METALS AND FOREIGN CURRENCIES OPERATIONS

	2014 KGS'000	2013 KGS'000
Realised gain from operations with foreign currencies and precious metals	4 730 809	258 107
Income from spot transactions	291 169	61 935
	5 021 978	320 042

22 ADMINISTRATIVE EXPENSES

	2014 KGS'000	2013 KGS'000
Personnel expenses		
Employee compensation	341 860	292 084
Payments to the Social fund	58 974	49 914
	400 834	341 998
Depreciation and amortization	106 230	68 941
Repairs and maintenance	65 779	45 929
Security	34 637	28 744
Communications and information services	16 708	13 444
Staff training	10 604	9 609
Professional services	9 536	6 635
Publication and subscription	8 646	6 181
Travel expenses	8 271	6 056
Expenses for social and cultural events	6 047	4 857
Office supplies and stationery	4 522	4 000
Other	14 157	16 020
	685 971	552 414

23 ANALYSIS BY SEGMENT

The National Bank's operations comprise a single operating segment for the purposes of these financial statements. The National Bank is not required to report revenue and expenses by reference to the functions carried out by the National Bank, these activities do not constitute separate operating segments for the purposes of these financial statements.

24 RISK MANAGEMENT

Risk management is fundamental to the National Bank's activities and is an essential element of the National Bank's operations. The major risks faced by the National Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The National Bank's risk management policies aim to identify, analyse and manage the risks faced by the National Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The management of the National Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Board, committees, commissions and related working groups review regularly matters related to the monetary, investing and currency policies of the National Bank and set up limits on the scope of transactions, as well as requirements for the assessment of the National Bank's counterparties.

In accordance with Investment Strategy on International Reserve Management of the NBKR («the Investment Strategy») approved by the Board on 25 December 2013, the main goals of risk management

24 RISK MANAGEMENT, CONTINUED

(a) Risk management policies and procedures, continued

are safety and liquidity of the NBKR's assets and profitability growth. Operations are conducted within the limitations imposed by this strategy.

In accordance with these goals gold and foreign currency assets of the NBKR are separated into the following portfolios: working portfolio and investment portfolio.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The National Bank manages its market risk mainly by conducting regular assessment of all open positions. In addition, the National Bank continuously monitors open position limits in relation to financial instruments, interest rate, maturity and currency positions and balance of risks and profitability.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The National Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

24 RISK MANAGEMENT, CONTINUED**(b) Market risk, continued****(i) Interest rate risk, continued*****Interest rate gap analysis***

Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the interest gap position for major interest bearing financial instruments is as follows:

KG\$'000	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	No interest	Carrying amount
31 December 2014							
ASSETS							
Precious metals	5 900 938	-	-	-	-	-	5 900 938
Cash on hand, due from banks and other financial institutions	53 441 315	17 574 004	-	-	-	2 659 627	73 674 946
Loans extended	1 150 981	2 213 412	347 043	50 143	1 039	-	3 762 618
Investments available-for-sale	7 719 194	10 808 993	10 989 171	2 922 017	-	-	32 439 375
Investments held-to-maturity	12 181	1 733	60 147	1 253 137	126 416	-	1 453 614
	68 224 609	30 598 142	11 396 361	4 225 297	127 455	2 659 627	117 231 491
LIABILITIES							
Due to Government of the Kyrgyz Republic	19 618 361	-	-	-	-	-	19 618 361
Debt securities issued	1 325 725	-	-	-	-	-	1 325 725
Loans received	118 457	425 043	425 043	2 388 943	-	-	3 357 486
Liabilities to the IMF in respect of SDR allocations	7 232 900	-	-	-	-	-	7 232 900
	28 295 443	425 043	425 043	2 388 943	-	-	31 534 472
	39 929 166	30 173 099	10 971 318	1 836 354	127 455	2 659 627	85 697 019

24 RISK MANAGEMENT, CONTINUED

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate gap analysis, continued

	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years	No interest	Carrying amount
KG\$'000							
31 December 2013							
ASSETS							
Precious metals	4 928 839	-	-	-	-	352	4 929 191
Cash on hand, due from banks and other financial institutions	52 826 916	20 031 534	-	-	-	1 522 201	74 380 651
Loans extended	154 822	360 648	97 410	238 340	2 911	-	854 131
Investments available-for-sale	2 970 746	4 989 365	6 302 468	14 602 028	-	-	28 864 607
Investments held-to-maturity	4 481	1 980	59 680	500 768	188 593	-	755 502
Investments held-to-maturity, pledged under repurchase agreements	6 049	-	-	750 000	-	-	756 049
	60 891 853	25 383 527	6 459 558	16 091 136	191 504	1 522 553	110 540 131
LIABILITIES							
Due to Government of the Kyrgyz Republic	8 425 690	-	-	-	-	-	8 425 690
Amounts payable under agreements of sale and repurchase of securities	585 744	-	-	-	-	-	585 744
Debt securities issued	6 634 637	-	-	-	-	-	6 634 637
Loans received	253 708	251 360	550 951	2 847 576	126 248	-	4 029 843
Liabilities to the IMF in respect of SDR allocations	6 426 299	-	-	-	-	-	6 426 299
	22 326 078	251 360	550 951	2 847 576	126 248	-	26 102 213
	38 565 775	25 132 167	5 908 607	13 243 560	65 256	1 522 553	84 437 918

24 RISK MANAGEMENT, CONTINUED

(b) Market risk, continued

(i) Interest rate risk, continued

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2014 and 2013. These interest rates are an estimation of the yields to maturity of these assets and liabilities.

	2014 Weighted average effective interest rate, %	2013 Weighted average effective interest rate, %
Interest bearing assets		
Gold		
<i>Gold in accounts with foreign banks</i>	0,17	0,20
Due from banks and other financial institutions		
<i>Nostro accounts</i>		
- USD	0,09	0,01
- EUR	0,04	0,17
- CAD	0,01	0,67
- AUD	1,75	1,75
- GBP	0,27	0,08
-CNH	0,35	0,55
- NOK	1,05	1,20
- SEK	0,00	0,58
<i>Term deposits</i>		
- USD	0,26	0,27
- EUR	0,24	0,21
- CAD	1,10	1,08
- GBP	0,57	0,49
- AUD	2,76	2,64
- RUB	19,89	6,27
-CNH	3,28	1,96
- NOK	1,53	1,57
- SEK	0,16	1,18
Investments available-for-sale		
- EUR	- 0,10	0,14
- USD	0,52	0,19
- AUD	2,41	2,57
- CAD	0,97	0,88
- GBP	0,57	0,44
Loans extended		
- KGS	10,64	6,68
Investments held-to-maturity, including investments held-to-maturity, pledged under repurchase agreements		
- KGS	6,55	5,87
Interest bearing liabilities		
Amounts payable under agreements of sale and repurchase of securities	-	4,19
Debt securities issued		
- KGS	10,69	3,88
Loans received		
- USD	1,50	1,50
Liabilities to the IMF in respect of SDR allocations	0,05	0,13

24 RISK MANAGEMENT, CONTINUED

(b) Market risk, continued

(i) Interest rate risk, continued

Interest rate sensitivity analysis

The management of interest rate risk based on interest rate gap analysis is supplemented by monitoring the sensitivity of financial assets and liabilities. An analysis of sensitivity of profit or loss and equity to changes in interest rate (repricing risk) based on a simplified scenario of a 20 basis point (bp) symmetrical fall or rise in all yield curves and positions of interest-bearing assets and liabilities existing as at 31 December 2014 and 2013 is as follows:

	2014 KGS'000	2013 KGS'000
20 bp parallel fall	(131 450)	(101 528)
20 bp parallel rise	131 450	101 528

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2014 and 2013 and a simplified scenario of a 20 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2014		2013	
	Profit or loss KGS'000	Equity KGS'000	Profit or loss KGS'000	Equity KGS'000
20 bp parallel rise	-	(29 776)	-	(52 415)
20 bp parallel fall	-	34 147	-	55 295

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

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

(ii) Currency risk

The National Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the National Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

24 RISK MANAGEMENT, CONTINUED

- (b) Market risk, continued
 (ii) Currency risk, continued

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2014 is presented in the table below:

KGS'000	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other	Total
ASSETS												
Precious metals	-	5 900 938	-	-	-	-	-	-	-	-	-	5 900 938
Cash on hand, due from banks and other financial institutions	-	-	26 570 201	8 605 285	5 149 289	1 652 900	10 654 592	5 774 632	2 349 165	10 432 665	2 486 217	73 674 946
Loans extended	3 762 618	-	-	-	-	-	-	-	-	-	-	3 762 618
Investments available-for-sale	-	-	2 528 903	3 538 025	6 976 258	15 592 854	-	-	3 537 475	-	265 860	32 439 375
Investments held-to-maturity	1 453 614	-	-	-	-	-	-	-	-	-	-	1 453 614
Other financial assets	239 151	-	-	-	-	-	-	-	-	-	-	239 151
Total assets	5 455 383	5 900 938	29 099 104	12 143 310	12 125 547	17 245 754	10 654 592	5 774 632	5 886 640	10 432 665	2 752 077	117 470 642

24 RISK MANAGEMENT, CONTINUED

(b) Market risk, continued

(ii) Currency risk, continued

KGS'000	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other	Total
LIABILITIES												
Banknotes and coins in circulation	57 074 591	-	-	-	-	-	-	-	-	-	-	57 074 591
Due to banks and other financial institutions	8 293 754	-	606 531	-	-	-	-	-	-	-	-	8 900 285
Due to the Government of the Kyrgyz Republic	13 097 458	-	5 923 278	597 625	-	-	-	-	-	-	-	19 618 361
Debt securities issued	1 325 725	-	-	-	-	-	-	-	-	-	-	1 325 725
Loans received	-	-	26 109	-	-	-	3 331 377	-	-	-	-	3 357 486
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	-	7 232 900	-	-	-	-	7 232 900
Other financial liabilities	31 310	-	13 549	-	-	-	-	-	-	-	-	44 859
Total liabilities	79 822 838	-	6 569 467	597 625	-	-	10 564 277	-	-	-	-	97 554 207
Net balance sheet and off balance sheet positions	(74 367 455)	5 900 938	22 529 637	11 545 685	12 125 547	17 245 754	90 315	5 774 632	5 886 640	10 432 665	2 752 077	19 916 435

24 RISK MANAGEMENT, CONTINUED

- (b) **Market risk, continued**
 (ii) **Currency risk, continued**

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2013 is presented in the table below:

KGS'000	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other	Total
ASSETS											
Precious metals	-	4 928 839	-	-	-	-	-	-	-	352	4 929 191
Cash on hand, due from banks and other financial institutions	-	29 599 531	10 503 193	8 607 174	1 772 713	9 752 429	4 833 121	1 563 742	3 838 632	3 910 116	74 380 651
Loans extended	854 131	-	-	-	-	-	-	-	-	-	854 131
Investments available-for-sale	-	1 233 179	4 509 229	3 252 713	15 012 135	--	-	4 857 351	-	-	28 864 607
Investments held-to-maturity	755 502	-	-	-	-	-	-	-	-	-	755 502
Investments held-to-maturity, pledged under repurchase agreements	756 049	-	-	-	-	-	-	-	-	-	756 049
Other financial assets	210 657	-	-	-	-	-	-	-	-	-	210 657
Total assets	4 928 839	30 832 710	15 012 422	11 859 887	16 784 848	9 752 429	4 833 121	6 421 093	3 838 632	3 910 468	110 750 788

24 RISK MANAGEMENT, CONTINUED

(b) Market risk, continued

(ii) Currency risk, continued

KGS'000	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other	Total
LIABILITIES												
Banknotes and coins in circulation	66 954 154	-	-	-	-	-	-	-	-	-	-	66 954 154
Due to banks and other financial institutions	6 199 908	-	507 244	-	-	-	-	-	-	-	-	6 707 152
Due to the Government of the Kyrgyz Republic	7 942 026	-	3 880	479 784	-	-	-	-	-	-	-	8 425 690
Amounts payable under agreements of sale and repurchase of securities	585 744	-	-	-	-	-	-	-	-	-	-	585 744
Debt securities issued	6 634 637	-	-	-	-	-	-	-	-	-	-	6 634 637
Loans received	-	-	59 722	-	-	-	3 970 121	-	-	-	-	4 029 843
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	-	6 426 299	-	-	-	-	6 426 299
Other financial liabilities	13 549	-	11 953	-	-	-	-	-	-	-	-	25 502
Total liabilities	88 330 018	-	582 799	479 784	-	-	10 396 420	-	-	-	-	99 789 021
Net balance sheet and off balance sheet positions	(85 753 679)	4 928 839	30 249 911	14 532 638	11 859 887	16 784 848	(643 991)	4 833 121	6 421 093	3 838 632	3 910 468	10 961 767

24 RISK MANAGEMENT, CONTINUED

(b) Market risk, continued

(ii) Currency risk, continued

A weakening of KGS, as indicated in the table below, against following currencies as at 31 December 2014 and 2013 would have given a rise to the below increase (decrease) of equity and other comprehensive income. The given analysis is based on the change of exchange rates, which, according to the National Bank's opinion, are reasonably possible as at the end of reporting period. The given level of sensitivity is used within the National Bank for preparation of report on currency risk for the key management of the National Bank. The analysis implies that all other variables, especially interest rates, are constant.

	2014		2013	
	Profit or loss KGS'000	Equity KGS'000	Profit or loss KGS'000	Equity KGS'000
10% appreciation of USD against KGS	-	2 252 964	-	3 024 991
10% appreciation of AUD against KGS	-	1 724 575	-	1 678 485
10% appreciation of CAD against KGS	-	1 212 555	-	1 185 989
10% appreciation of EUR against KGS	-	1 154 569	-	1 453 264
10% appreciation of CHF against KGS	-	1 043 267	-	383 863
10% appreciation of GBP against KGS	-	588 664	-	642 109

A strengthening of the KGS against the above currencies at 31 December 2014 and 31 December 2013 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Limitations of sensitivity analysis

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

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

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the National Bank takes a long or short position in a financial instrument.

As at 31 December 2014 and 2013 the National Bank was exposed to price risk of gold and other precious metals in accounts with foreign banks.

An increase or decrease in prices in KGS equivalent of the following precious metals, as indicated below, at 31 December 2014 and 2013 would have increased or decreased equity and other comprehensive income by the amounts shown below. This analysis is based on precious metal pricing movements that the National Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables remain constant.

24 RISK MANAGEMENT, CONTINUED

(b) Market risk, continued

(iii) Other price risk, continued

	31 December 2014		31 December 2013	
	Profit or loss	Comprehensive income and equity	Profit or loss	Comprehensive income and equity
KGS'000				
10% appreciation of gold prices in KGS equivalent	-	590 094	-	492 884
10% depreciation of gold prices in KGS equivalent	-	(590 094)	-	(492 884)
10% appreciation of silver prices in KGS equivalent	-	-	-	35
10% depreciation of silver prices in KGS equivalent	-	-	-	(35)

(c) Credit risk

Credit risk is the risk of financial losses occurring as a result of default by a borrower or counterparty of the National Bank. The National Bank has developed policies and procedures for credit risk management, including guidelines to limit portfolio concentration. There is an Investment Committee, which is responsible for the monitoring of credit risk on management of international reserves.

In order to minimize the credit risk, the National Bank uses risk management policy, which sets out requirements for the counterparty of the National Bank. According to this policy, the counterparties of the National Bank can only be central banks, financial institutions or commercial banks with high rating classification of Moody's Investors Service and / or the same rating level classification of other leading rating agencies (Standard & Poor's Corporation, Fitch IBCA).

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to Baa. Financial assets which have ratings lower than Baa of Moody's Investors Service are classed as speculative grade. Taking into consideration the National Bank's status as a central bank the counterparties are divided into 2 categories:

Category A

- central banks of advanced develop industrial countries with stable economical and political situation and sovereign rating not less than A3 per Moody's Investors Service classification;
- international financial organizations, institutions and banks, such as IMF, BIS, EBRD, ADB, KfW, etc;
- foreign commercial banks with rating not less than A3 per Moody's Investors Service classification.

Category B

- central banks of countries with sovereign rating less than A3 per Moody's Investors Service classification;
- financial institutions indicated in international agreements signed by the Kyrgyz Republic;
- foreign commercial banks with rating less than A3 but not less than Baa2 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.

24 RISK MANAGEMENT, CONTINUED

(c) Credit risk, continued

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

The National Bank's maximum exposure to credit risk per one counterparty varies significantly and is dependent on both individual risks and general market economy risks. The National Bank's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2014 KGS'000	2013 KGS'000
ASSETS		
Precious metals	5 900 938	4 929 191
Cash on hand, due from banks and other financial institutions	73 674 946	74 380 651
Loans extended	3 762 618	854 131
Investments available-for-sale, except equity investments	32 439 375	28 864 607
Investments held-to-maturity	1 453 614	755 502
Investments held-to-maturity, pledged under repurchase agreements	-	756 049
Other financial assets	239 151	210 657
Total maximum exposure	117 470 642	110 750 788

24 RISK MANAGEMENT, CONTINUED

(c) Credit risk, continued

Geographical concentrations

The Investment Committee of the National Bank monitors the country risk of its counterparties. This approach allows the National Bank to minimize potential losses from investment climate fluctuations in those countries where the National Bank's currency reserves are placed.

The following table shows the geographical concentration of assets and liabilities at 31 December 2014:

KGS'000	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2014 Total
ASSETS					
Precious metals	-	5 900 938	-	-	5 900 938
Cash on hand, due from banks and other financial institutions	656 156	58 507 869	381 227	14 129 694	73 674 946
Loans extended	3 762 618	-	-	-	3 762 618
Investments available-for-sale	-	26 160 808	376 487	5 902 080	32 439 375
Investments held-to-maturity	1 453 614	-	-	-	1 453 614
Other financial assets	239 151	-	-	-	239 151
Total assets	6 111 539	90 569 615	757 714	20 031 774	117 470 642
LIABILITIES					
Banknotes and coins in circulation	57 074 591	-	-	-	57 074 591
Due to banks and other financial institutions	8 878 695	-	-	21 590	8 900 285
Due to the Government of the Kyrgyz Republic	19 618 361	-	-	-	19 618 361
Debt securities issued	1 325 725	-	-	-	1 325 725
Loans received	26 109	-	-	3 331 377	3 357 486
Liabilities to the IMF in respect of SDR allocations	-	-	-	7 232 900	7 232 900
Other financial liabilities	44 859	-	-	-	44 859
Total liabilities	86 968 340	-	-	10 585 867	97 554 207
Net balance sheet position	(80 856 801)	90 569 615	757 714	9 445 907	19 916 435

24 RISK MANAGEMENT, CONTINUED

(c) Credit risk, continued

Geographical concentrations, continued

The following table shows the geographical concentration of assets and liabilities at 31 December 2013:

KGS'000	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2014 Total
ASSETS					
Precious metals	-	4 929 191	-	-	4 929 191
Cash on hand, due from banks and other financial institutions	298 577	51 624 706	8 515 360	13 942 008	74 380 651
Loans extended	854 131	-	-	-	854 131
Investments available-for-sale	-	21 673 430	-	7 191 177	28 864 607
Investments held-to-maturity	755 502	-	-	-	755 502
Investments held-to-maturity, pledged under repurchase agreements	756 049	-	-	-	756 049
Other financial assets	210 657	-	-	-	210 657
Total assets	2 874 916	78 227 327	8 515 360	21 133 185	110 750 788
LIABILITIES					
Banknotes and coins in circulation	66 954 154	-	-	-	66 954 154
Due to banks and other financial institutions	6 692 503	-	-	14 649	6 707 152
Due to the Government of the Kyrgyz Republic	8 425 690	-	-	-	8 425 690
Amounts payable under agreements of sale and repurchase of securities	585 744	-	-	-	585 744
Debt securities issued	6 634 637	-	-	-	6 634 637
Loans received	59 722	-	-	3 970 121	4 029 843
Liabilities to the IMF in respect of SDR allocations	-	-	-	6 426 299	6 426 299
Other financial liabilities	25 502	-	-	-	25 502
Total liabilities	89 377 952	-	-	10 411 069	99 789 021
Net balance sheet position	(86 503 036)	78 227 327	8 515 360	10 722 116	10 961 767

(d) Liquidity risk

Liquidity risk is the risk that the National Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of financial institutions, including the National Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types.

The National Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The National Bank's liquidity policy is reviewed and approved by the Board.

The National Bank seeks to actively support a diversified and stable funding base in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

24 RISK MANAGEMENT, CONTINUED

(d) Liquidity risk, continued

Since the National Bank carries out the issue of national currency, the default risk on fulfillment its obligations in national currency is minimal, and liquidity risk is more applicable for obligations denominated in foreign currency.

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

24 RISK MANAGEMENT, CONTINUED

(d) Liquidity risk, continued

The maturity analysis for financial liabilities as at 31 December 2014 is as follows:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to banks and other financial institutions	8 900 285	-	-	-	-	8 900 285	8 900 285
Due to the Government of the Kyrgyz Republic	19 618 361	-	-	-	-	19 618 361	19 618 361
Debt securities issued	1 328 310	-	-	-	-	1 328 310	1 325 725
Loans received	26 109	92 348	425 043	425 043	2 390 129	3 358 672	3 357 486
Liabilities to the IMF in respect of SDR allocations	7 232 294	606	-	-	-	7 232 900	7 232 900
Other financial liabilities	13 111	4 195	6 839	6 423	14 291	44 859	44 859
Total liabilities	37 118 470	97 149	431 882	431 466	2 404 420	40 483 387	40 479 616

The maturity analysis for financial liabilities as at 31 December 2013 is as follows:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to banks and other financial institutions	6 707 152	-	-	-	-	6 707 152	6 707 152
Due to the Government of the Kyrgyz Republic	8 425 690	-	-	-	-	8 425 690	8 425 690
Amounts payable under agreements of sale and repurchase of securities	586 279	-	-	-	-	586 279	585 744
Debt securities issued	6 645 000	-	-	-	-	6 645 000	6 634 637
Loans received	171 697	82 043	251 360	551 200	2 983 919	4 040 219	4 029 843
Liabilities to the IMF in respect of SDR allocations	6 425 183	1 116	-	-	-	6 426 299	6 426 299
Other financial liabilities	10 498	478	2 471	12 055	-	25 502	25 502
Total liabilities	28 971 499	83 637	253 831	563 255	2 983 919	32 856 141	32 834 867

The tables above show the undiscounted cash flows of non-derivative financial liabilities.

24 RISK MANAGEMENT, CONTINUED

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2014:

KG\$'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Precious metals	2 485 664	3 415 274	-	-	-	-	5 900 938
Cash on hand, due from banks and other financial institutions	44 470 035	11 630 907	17 574 004	-	-	-	73 674 946
Loans extended	36 339	1 114 643	2 560 454	50 143	1 039	-	3 762 618
Investments available-for-sale	4 308 869	3 410 325	21 798 164	2 922 017	-	-	32 439 375
Investments held-to-maturity	11 132	1 049	61 880	1 253 137	126 416	-	1 453 614
Other financial assets	5 035	3 187	14 718	78 684	137 527	-	239 151
	51 317 074	19 575 385	42 009 220	4 303 981	264 982	-	117 470 642
LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	57 074 591	57 074 591
Due to banks and other financial institutions	8 900 285	-	-	-	-	-	8 900 285
Due to the Government of the Kyrgyz Republic	19 618 361	-	-	-	-	-	19 618 361
Debt securities issued	1 325 725	-	-	-	-	-	1 325 725
Loans received	26 109	92 348	850 086	2 388 943	-	-	3 357 486
Liabilities to the IMF in respect of SDR allocations	7 232 294	606	-	-	-	-	7 232 900
Other financial liabilities	13 111	4 195	13 262	14 291	-	-	44 859
	37 115 885	97 149	863 348	2 403 234	-	57 074 591	97 554 207
Net position	14 201 189	19 478 236	41 145 872	1 900 747	264 982	(57 074 591)	19 916 435

24 RISK MANAGEMENT, CONTINUED

(d) Liquidity risk, continued

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2013:

	KGS'000						
	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Precious metals	2 076 537	2 852 654	-	-	-	-	4 929 191
Cash on hand, due from banks and other financial institutions	39 797 994	14 551 123	20 031 534	-	-	-	74 380 651
Loans extended	13 380	141 442	458 058	238 340	2 911	-	854 131
Investments available-for-sale	879 435	2 091 311	11 291 833	14 602 028	-	-	28 864 607
Investments held-to-maturity	4 269	212	61 660	500 768	188 593	-	755 502
Investments held-to-maturity, pledged under repurchase agreements	5 413	636	-	750 000	-	-	756 049
Other financial assets	4 054	2 859	13 831	71 019	118 894	-	210 657
	42 781 082	19 640 237	31 856 916	16 162 155	310 398	-	110 750 788
LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	66 954 154	66 954 154
Due to banks and other financial institutions	6 707 152	-	-	-	-	-	6 707 152
Due to the Government of the Kyrgyz Republic	8 425 690	-	-	-	-	-	8 425 690
Amounts payable under agreements of sale and repurchase of securities	585 744	-	-	-	-	-	585 744
Debt securities issued	6 634 637	-	-	-	-	-	6 634 637
Loans received	171 665	82 043	802 311	2 847 576	126 248	-	4 029 843
Liabilities to the IMF in respect of SDR allocations	6 425 183	1 116	-	-	-	-	6 426 299
Other financial liabilities	10 498	478	14 526	-	-	-	25 502
	28 960 569	83 637	816 837	2 847 576	126 248	66 954 154	99 789 021
Net position	13 820 513	19 556 600	31 040 079	13 314 579	184 150	(66 954 154)	10 961 767

25 COMMITMENTS

(a) Insurance

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

(b) Litigation

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

(c) Taxation contingencies

The taxation system in the Kyrgyz Republic is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open for six calendar years.

Taking into consideration that the National Bank has exemption from income tax and several other taxes, tax liabilities origination is not obvious and their influence on the financial statements of the National Bank is not significant.

26 AGENCY FUNCTIONS

Membership quota of the Kyrgyz Republic in the International Monetary Fund (the “IMF”)

In 1992 the Kyrgyz Republic joined the IMF. A membership quota expressed in Special Drawing Rights (“SDRs”) is assigned to each member of the IMF. The membership quota is the basis for determining access of the country to the IMF financing. As at 31 December 2014 and 2013 the quota of the Kyrgyz Republic amounted to SDR 88,800 thousand.

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

The National Bank was designated as a depository for these securities and funds and as a financial agency authorised to carry out transactions with the IMF on behalf of the Government of the Kyrgyz Republic.

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:

	2014 KGS’000	2013 KGS’000
IMF membership quota	7 575 952	6 746 644
Securities in favor of the IMF	(7 556 586)	(6 729 398)
IMF current accounts	(19 366)	(17 246)
	(7 575 952)	(6 746 644)

26 AGENCY FUNCTIONS, CONTINUED

IMF loans issued to the Ministry of Finance of the Kyrgyz Republic

On 21 June and 12 December 2013 the IMF provided loans to the Ministry of Finance of the Kyrgyz Republic amounting to SDR 19 028 thousand for supporting the state budget. On 07 July 2014 IMF provided loans to the Ministry of Finance of the Kyrgyz Republic amounting to SDR 9 514 for the same aims. These loans are not accounted in the statement of financial position of the National Bank as a liability to the IMF as there is an agreement between the Ministry of Finance of the Kyrgyz Republic and the National Bank under which the Ministry of Finance of the Kyrgyz Republic is liable for rendering obligations under this loan agreement. As at 31 December 2014 the outstanding balance of this loan amounted to KGS 7 578 900 thousand (2013: KGS 6 011 709 thousand).

27 RELATED PARTY TRANSACTIONS

(a) Control relationships

In considering each possible related party, substance of the relationship is focused and not only the legal form.

In accordance with the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” the Bank is the central bank of the Kyrgyz Republic and is owned by the Kyrgyz Republic. The Bank independently manages its activities within the limits of authority determined by the Law.

Transactions with related parties are conducted at market prices.

According to IAS 24 transactions with the following parties are exempted from disclosures:

- a) The Government of the Kyrgyz Republic, and
- b) other entities that are controlled, jointly controlled or have a significant influence of the Government of the Kyrgyz Republic.

The Government of the Kyrgyz Republic is represented by the Ministry of Finance of the Kyrgyz Republic. Operations with the Ministry of Finance of the Kyrgyz Republic are investments in debt securities held to maturity (Note 9), as well as accounts of the Ministry of Finance of the Kyrgyz Republic (Note 14). Interest incomes on investments held to maturity are presented in Note 19.

(b) Transactions with the members of the Management Board

The remuneration to the members of the National Bank’s Management Board for the years ended 31 December 2014 and 2013 comprised KGS 13 277 thousand and KGS 12 022 thousand, respectively. The remuneration consists of salary and other payments. The outstanding balances of loans issued to the members of the Management Board as at 31 December 2014 and 2013 comprised KGS 2 298 thousand and KGS 11 979 thousand, respectively. The loans are in KGS and repayable by 2026. Interest income from loans to the Management Board for the years ended 31 December 2014 and 2013 comprised KGS 150 thousand and KGS 277 thousand respectively.

(c) Transactions with other related parties

Corresponding income and expense on transactions with other related parties for the year ended 31 December 2014 are as follows:

	Subsidiaries	Associates	Total KGS’000
Statement of profit or loss			
Other income	13 172	336	13 508
Other expenses	-	-	-

27 RELATED PARTY TRANSACTIONS, CONTINUED

(c) Transactions with other related parties, continued

Corresponding income and expense on transactions with other related parties for the year ended 31 December 2013 are as follows:

	Subsidiaries	Associates	Total KGS'000
Statement of profit or loss			
Other income	22 216	336	22 552
Other expenses	205	-	205

28 FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2014:

KGS'000	Held-to- maturity	Loans and receivables	Available- for-sale	Other amortised cost	Total carrying amount	Fair value
Cash on hand, due from banks and other financial institutions	-	73 674 946	-	-	73 674 946	73 674 946
Loans extended	-	3 762 618	-	-	3 762 618	3 762 618
Investments available-for-sale	-	-	32 439 375	-	32 439 375	32 439 375
Investments held-to-maturity	1 453 614	-	-	-	1 453 614	1 453 614
Other financial assets	-	239 151	-	-	239 151	239 151
	1 453 614	77 676 715	32 439 375	-	111 569 704	111 569 704
Banknotes and coins in circulation	-	-	-	57 074 591	57 074 591	57 074 591
Due to banks and other financial institutions	-	-	-	8 900 285	8 900 285	8 900 285
Due to the Government of the Kyrgyz Republic	-	-	-	19 618 361	19 618 361	19 618 361
Debt securities issued	-	-	-	1 325 725	1 325 725	1 325 725
Loans received	-	-	-	3 357 486	3 357 486	3 357 486
Liabilities to the IMF in respect of SDR allocations	-	-	-	7 232 900	7 232 900	7 232 900
Other financial liabilities	-	-	-	44 859	44 859	44 859
	-	-	-	97 554 207	97 554 207	97 554 207

28 FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

(a) Accounting classifications and fair values, continued

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2013:

KGS'000	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Cash on hand, due from banks and other financial institutions	-	74 380 651	-	-	74 380 651	74 380 651
Loans extended	-	854 131	-	-	854 131	854 131
Investments available-for-sale	-	-	28 864 607	-	28 864 607	28 864 607
Investments held-to-maturity	755 502	-	-	-	755 502	755 502
Investments held-to-maturity, pledged under repurchase agreements	756 049	-	-	-	756 049	756 049
Other financial assets	-	210 657	-	-	210 657	210 657
	1 511 551	75 445 439	28 864 607	-	105 821 597	105 821 597
Banknotes and coins in circulation	-	-	-	66 954 154	66 954 154	66 954 154
Due to banks and other financial institutions	-	-	-	6 707 152	6 707 152	6 707 152
Due to the Government of the Kyrgyz Republic	-	-	-	8 425 690	8 425 690	8 425 690
Amounts payable under agreements of sale and repurchase of securities	-	-	-	585 744	585 744	585 744
Debt securities issued	-	-	-	6 634 637	6 634 637	6 634 637
Loans received	-	-	-	4 029 843	4 029 843	4 029 843
Liabilities to the IMF in respect of SDR allocations	-	-	-	6 426 299	6 426 299	6 426 299
Other financial liabilities	-	-	-	25 502	25 502	25 502
	-	-	-	99 789 021	99 789 021	99 789 021

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or settlement of liabilities.

(b) Fair value hierarchy

The National Bank measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly

28 FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

(b) Fair value hierarchy, continued

(i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KGS'000	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
- Debt and other fixed income instruments	32 439 375	-	-	32 439 375
	32 439 375	-	-	32 439 375

The table below analyses financial instruments measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KGS'000	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				
- Debt and other fixed income instruments	28 864 607	-	-	28 864 607
	28 864 607	-	-	28 864 607

The table below analyses financial instruments not measured at fair value at 31 December 2014, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KGS'000	Level 1	Level 2	Level 3	Total
Cash on hand, due from banks and other financial institutions	-	73 674 946	-	73 674 946
Loans extended	-	3 762 618	-	3 762 618
Investments held-to-maturity	-	1 453 614	-	1 453 614
Other financial assets	-	239 151	-	239 151
Total	-	79 130 329	-	79 130 329
Banknotes and coins in circulation	-	57 074 591	-	57 074 591
Due to banks and other financial institutions	-	8 900 285	-	8 900 285
Due to the Government of the Kyrgyz Republic	-	19 618 361	-	19 618 361
Debt securities issued	-	1 325 725	-	1 325 725
Loans received	-	3 357 486	-	3 357 486
Liabilities to the IMF in respect of SDR allocations	-	7 232 900	-	7 232 900
Other financial liabilities	-	44 859	-	44 859
Total	-	97 554 207	-	97 554 207
NET VALUE	-	(18 423 878)	-	(18 423 878)

28 FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS, CONTINUED

(b) Fair value hierarchy, continued

The table below analyses financial instruments not measured at fair value at 31 December 2013, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KGS'000	Level 1	Level 2	Level 3	Total
Due from banks and other financial institutions	-	74 380 651	-	74 380 651
Loans extended	-	854 131	-	854 131
Investments held-to-maturity	-	755 502	-	755 502
Investments held-to-maturity, pledged under repurchase agreements	-	756 049	-	756 049
Other financial assets	-	210 657	-	210 657
Total	-	76 956 990	-	76 956 990
Banknotes and coins in circulation	-	66 954 154	-	66 954 154
Due to banks and other financial institutions	-	6 707 152	-	6 707 152
Due to the Government of the Kyrgyz Republic	-	8 425 690	-	8 425 690
Amounts payable under agreements of sale and repurchase of securities	-	585 744	-	585 744
Debt securities issued	-	6 634 637	-	6 634 637
Loans received	-	4 029 843	-	4 029 843
Liabilities to the IMF in respect of SDR allocations	-	6 426 299	-	6 426 299
Other financial liabilities	-	25 502	-	25 502
Total	-	99 789 021	-	99 789 021
NET VALUE	-	(22 832 031)	-	(22 832 031)

29 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As at December 31, 2014 and 2013 the National Bank did not have financial assets and financial liabilities in the statement of financial position which were presented in net amount or would have been offset due to presence of the master netting arrangements or similar agreements.

IV

APPENDICES



Chronology of Major Events in the Monetary Sphere in 2014

Date	Contents
December 4, 2013	The Board of the National Bank of the Kyrgyz Republic adopted the Resolution “On Basic Monetary Policy Guidelines for 2014-2017”.
January 28	The National Bank of the Kyrgyz Republic held the press conference with the Deputy Chairmen of the National Bank on the preliminary monetary policy results for 2013.
January 29	<p>The Board of the National Bank adopted the Resolution “On Amendments and Addenda to Several Resolutions of the National Bank of the Kyrgyz Republic”, according to which the amendments and addenda were approved to the following documents:</p> <ul style="list-style-type: none"> – The Regulation “On the Procedure of Exchange Operations with Cash Foreign Currency in the Kyrgyz Republic”; – The Regulation “On the Minimum Requirements for Internal Control in Exchange Bureaus in the Kyrgyz Republic for the purposes of combating the financing of terrorism (extremism) and anti-money laundering”.
February 1-15	The visit of the joint IMF and EBRD mission took place on the issues of using the monetary instruments, short-term forecasting, and the communication policy as part of technical assistance.
February 2	The meeting of the Expert Forum was held to discuss the monetary policy results in the Kyrgyz Republic for 2013.
February 12	The press conference with the Deputy Chairman was held on the situation in the foreign exchange market of the Kyrgyz Republic.
February 16	The Bank roundtable was held with the representatives of commercial banks and the management of the National Bank and the joint decisions on activity of financial-credit institutions were discussed and adopted.
February 17	<ul style="list-style-type: none"> • The Board of the National Bank adopted the following resolutions: <ul style="list-style-type: none"> – “On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of the Regulation “On Reserve Requirements”; – “On Limits of Open Currency Positions of Commercial Banks of the Kyrgyz Republic”. • A briefing was held with the Deputy Chairman of the National Bank on the issue of suspension by the National Bank of licenses of individual exchange bureaus that violated the law of the Kyrgyz Republic.
February 19	<p>The Board of the National Bank adopted the Resolution “On Amendments and Addenda to Several Regulatory and Legal Acts of the National Bank of the Kyrgyz Republic”, according to which the amendments and addenda were approved to the following documents:</p> <ul style="list-style-type: none"> – The Regulation “On Enforcement Actions Applied to Banks and Some



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	<p>Other Financial-Credit Institutions Licensed by the National Bank of the Kyrgyz Republic”;</p> <ul style="list-style-type: none"> – The Regulation “On the Definition of the Dominant Position in the Market of Banking Services”; – The policy and basic principles of anti-monopoly regulation, competition development and consumer protection in the market of banking services of the Kyrgyz Republic, provided by the commercial banks and other financial-credit institutions, licensed and regulated by the National Bank.
February 25	<p>The Board of the National Bank:</p> <ul style="list-style-type: none"> • Considered the Monetary Policy Report for 2013 and the medium-term forecast; • Decided to establish the discount rate of the National Bank of the Kyrgyz Republic at the level of 6.00 percent; • Adopted the Resolution “On Recognition of the Regulation of the National Bank of the Kyrgyz Republic “On the Discount Rate of the National Bank of the Kyrgyz Republic and on the Interest Rate of “Overnight” Credit” as Null and Void”.
February 27	The meeting of the Expert Forum was held to discuss the decision of the National Bank on the discount rate.
February 28	The Board of the National Bank approved the Joint Statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic on the Basic Economic Policy Directions for 2014.
March 3	The press conference with the Deputy Chairman was held on the situation in the foreign exchange market of the Kyrgyz Republic.
March 13	The regular meeting of the Interagency Commission to increase the share of noncash payments and settlements in the Kyrgyz Republic, with the reports of ministries and departments on the implementation of actions under the State Program on increasing the share of noncash payments in the regions.
March 14	The management of the National Bank took part in the annual International Economic Forum of CIS countries in Moscow (Russia).
March 19	The Board of the National Bank considered the report on the status of the payment system of the Kyrgyz Republic in the fourth quarter of 2013.
March 24	The Board of the National Bank took the decision to leave the discount rate of the National Bank of the Kyrgyz Republic at the level of 6.00 percent.
March 26	<p>The Board of the National Bank adopted the Resolutions:</p> <ul style="list-style-type: none"> – “On Amendments and Addenda to Several Regulatory and Legal Acts of the National Bank of the Kyrgyz Republic”, according to which the amendments and addenda were approved to the following documents: <ul style="list-style-type: none"> • The Regulation “On Periodic Regulatory Bank Report”; • The Regulation “On the Periodic Regulatory Consolidated Reporting”. – “On Amendments to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of the New Edition of the Regulation

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March 28	<p data-bbox="528 248 1406 315">“On the Payment System Committee of the National Bank of the Kyrgyz Republic”.</p> <ul style="list-style-type: none"> <li data-bbox="453 353 1406 517">• As part of the work to increase financial literacy of consumers of retail payment services, the seminar was held in Naryn for the representatives of public institutions on execution and implementation of the Action Plan under the State Program on the increase in the share of noncash payments in the regions. <li data-bbox="453 555 1406 689">• The meeting of the Interbank Payment System Council was held with the representatives of commercial banks and the CJSC “Interbank Processing Center”, during which the issues of developing the payment systems and noncash payments were discussed.
March 29	The meeting of the Expert Forum was held to discuss the monetary policy results of the Kyrgyz Republic for 2013 and the preliminary results for the 1st quarter of 2014.
April 23	<p data-bbox="453 860 1134 889">The Board of the National Bank adopted the Resolutions:</p> <ul style="list-style-type: none"> <li data-bbox="491 898 1406 996">– “On Amendments to the Resolution of the Board of the National Bank of the Kyrgyz Republic “ On Approval of the Regulation “On Reserve Requirements”; <li data-bbox="491 1005 1406 1137">– “On Approval of the Regulation “On Classification of Assets and Corresponding Allocations to the LLP in Credit Unions Conducting Operations in accordance with the Islamic Principles of Banking and Financing”.
April 25	The management of the National Bank participated in the 48th session of the Council of the Interstate Bank in Moscow (Russia).
April 28	The Board of the National Bank took the decision to leave the discount rate of the National Bank of the Kyrgyz Republic at the level of 6.00 percent.
April 29	<ul style="list-style-type: none"> <li data-bbox="491 1375 1406 1509">• The Board of the National Bank adopted the Resolution “On the Regulation “On Arrangement and Issue of the Publication of the National Bank of the Kyrgyz Republic “Monetary Policy Report (Inflation Report in the Kyrgyz Republic)”; <li data-bbox="491 1541 1406 1608">• The meeting of the Expert Forum was held to discuss the monetary policy results for the 1st quarter of 2014.
May 6-16	The visit of the IMF mission took place to conduct the sixth review of the economic program supported by the IMF under the Extended Credit Facility (ECF).
May 14	The meeting with the representatives of the payment system “Zolotaya Korona” was held on options to integrate the “Zolotaya Korona” to the national system “Elcard”.
May 22-23	As part of the work to increase financial literacy of consumers of retail payment services for the representatives of budgetary institutions in Suzak and Kara-Suu rayons of the Jalal-Abad and Osh oblasts held the seminar on the implementation in the regions of the Action Plan on the State Program to Increase the Share of Noncash Payments.



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May 26	<p>The Board of the National Bank:</p> <ul style="list-style-type: none"> • reviewed “Monetary Policy Report (Inflation Report in the Kyrgyz Republic) for the 1st quarter 2014”; • decided to leave the discount rate of the National Bank of the Kyrgyz Republic at the level of 6.00 percent.
May 28	<p>The press conference was held and the results of the meeting of the Board of the National Bank on the discount rate were announced.</p>
May 30	<ul style="list-style-type: none"> • The Board of the National Bank considered the report “On the Status of the Payment System of the Kyrgyz Republic for the First Quarter of 2014”. • The Board of the National Bank adopted the following Resolutions: <ul style="list-style-type: none"> – On approval of Provisional Regulations “On Payment Cards of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic”; – On addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of the New Edition of the Regulation “On Classification of Assets and Corresponding Allocations to Loan Loss Provisions”; – On approval of the “Rules Regulating Activity of Microfinance Companies Conducting Operations on Islamic Principles of Banking and Financing”; – On amendments and addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of the Regulation “On Operations Conducted by Microfinance Institutions and Credit Unions in accordance with the Islamic Principles of Banking and Financing”; – On approval of the “Instruction on the Procedure for Compliance with the Limits on Open Foreign Currency Positions of Credit Unions”; – On approval of the “Instruction on the Procedure for Compliance with the Limits on Open Currency Positions of Microfinance Companies”; – On amendments to several Resolutions of the National Bank of the Kyrgyz Republic, according to which the amendments and addenda were approved to the following documents: <ul style="list-style-type: none"> ▪ The temporary rules regulating activity of microfinance companies in the territory of the Kyrgyz Republic; ▪ The Regulation “On Preventive Measures and Sanctions Applied by the National Bank of the Kyrgyz Republic to Microfinance Organizations”; ▪ The Regulation “On Minimum Requirements for Credit Risk Management in Credit Unions”; ▪ The Regulation “On Periodic Regulatory Report of Microfinance Companies”; ▪ The Regulation “On Periodic Regulatory Report of Microcredit Company/Microcredit Agency”.
June 3	<p>The expanded meeting with the representatives of commercial banks and the ULE “Union of Banks of Kyrgyzstan” was held to discuss the situation in the market of money transfer systems and the proposal of the commercial banks on the risk reduction when dealing with the operators of remittance systems.</p>
June 6	<p>The training seminar “National Bank: Status, Functions, Mission” was held for journalists of Osh, Jalal-Abad, and Batken oblasts in the city of Osh, during which information was provided on trends in the banking system and the current situation in the foreign exchange market of the republic.</p>

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June 11	<ul style="list-style-type: none"> The Rules to arrange communications in the monetary policy were approved. The Board of the National Bank adopted the Resolution “On Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On the Regulation “On Implementation of Islamic Principles of Financing in the Kyrgyz Republic within the Framework of the Pilot Project”.
June 12	The Supervisory Committee of the National Bank adopted the Resolution “On Approval of Policy Advice on Organization and Managing the Accounting for Microfinance Institutions and Credit Unions Conducting Operations in accordance with the Islamic Principles of Banking and Financing”.
June 13	The meeting of the Retail Payments Council was held to discuss the regulatory and legal acts on development of the payment system and the issues of regulating the new instruments and the payment system market participants.
June 15-21	The IMF and EBRD mission visit took place as part of technical assistance on the improvement of the monetary policy framework with the help of the forecasting models, introduced as part of the system of forecasting and analyzing the monetary policy (Forecasting Policy Analysis System – FPAS).
June 19	The regular meeting of the Interagency Commission was held to hear the reports of ministries and departments on the implementation of the State Program on increasing the share of noncash payments and settlements in the Kyrgyz Republic.
June 23	The Board decided to leave the discount rate of the National Bank of the Kyrgyz Republic at the level of 6.00 percent.
June 25-26	The National Bank, with the financial support of the World Bank, GIZ, and the Association of Microfinance Institutions, held the international conference “Microfinance: Success, Challenges and Solutions”.
June 27	The management of the National Bank of the Kyrgyz Republic participated in the 30th meeting of heads of central (national) banks of EurAsEC member states, Bishkek (Kyrgyz Republic).
June 30-July 2	The management of the National Bank participated in the XXIII International Banking Congress “Banking Business: New Realities”, held in St. Petersburg (Russia).
July 3	In order to increase financial literacy of consumers of retail payment services for the representatives of public institutions in the Manas rayon of the Talas oblast, the seminar was held on the implementation and enforcement of the Action Plan of the State Program on increasing the share of noncash payments in the regions.
July 4-6	The management of the National Bank participated in the meeting of the Swiss constituency of IMF and World Bank member countries, held in Baku (Azerbaijan).
July 8	The meeting of the Chairman of the National Bank with the representatives of commercial banks was held to discuss the issues of developing the interbank market and the monetary policy instruments.



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July 16	<p>The Board of the National Bank adopted the following Resolutions:</p> <ul style="list-style-type: none"> – On implementation for the microfinance companies that do not attract savings (deposits) of Instructions on the procedure for compliance with the limits on open foreign currency positions by the microfinance companies, approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of the “Instruction on the Procedure for Compliance with the Limits on Open Foreign Currency Positions by the Microfinance Companies”; – On approval of the “Rules to Regulate Activity of Credit Unions, Carrying out Operations on Islamic Principles of Banking and Financing”; – On amendments and addenda to several regulatory and legal acts of the National Bank of the Kyrgyz Republic, according to which the amendments were introduced to the following documents: <ul style="list-style-type: none"> ▪ Instructions to determine the standards of capital adequacy of banks conducting operations in accordance with the Islamic principles of banking and financing; ▪ Regulation “On Implementation of Islamic Financing Principles in the Kyrgyz Republic under the Pilot Project”.
July 30	<p>The Board of the National Bank decided to raise the discount rate of the National Bank of the Kyrgyz Republic by 50 basis points to 6.50 percent.</p>
July 31	<ul style="list-style-type: none"> • The Board of the National Bank adopted the following Resolutions: <ul style="list-style-type: none"> – On Amendments and Addenda to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of the Regulation “On the Individual Transactions/Operations of Commercial Banks and Microfinance Companies of the Kyrgyz Republic with Real Estate”; – On Amendments and Addenda to the Resolution of the Board of the National Bank “On Approval of the “Rules of Money Transfers via Money Transfer Systems in the Kyrgyz Republic”. • The round table was held with the representatives of commercial banks and other interested parties, which discussed the draft Regulation “On Electronic Money in the Kyrgyz Republic”.
August 8	<p>The press conference on issuance of new collector coins of the National Bank.</p>
August 19-21	<p>The representatives of the National Bank took part in the international round table “Combating Cybercrime and Money Laundering”, Issyk-Kul oblast (Kyrgyz Republic).</p>
August 25	<p>The Board of the National Bank:</p> <ul style="list-style-type: none"> • reviewed “Monetary Policy Report (Inflation Report in the Kyrgyz Republic) for the 2nd quarter of 2014”; • took the decision to leave the discount rate of the National Bank of the Kyrgyz Republic at the level of 6.50 per cent (unchanged).
August 28	<p>The Board of the National Bank considered the report “On the State of the Payment System of the Kyrgyz Republic for the Second Quarter of 2014”.</p>
September 3	<p>The press conference was held with the representatives of the National Bank on</p>

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	the issues of the discount rate, inflation, and the monetary policy of the National Bank.
September 4	The meeting of the Advisory Forum was held to discuss the results of the monetary policy for the 2nd quarter of 2014.
September 5	The training seminar “National Bank: Status, Functions, Mission” was held for in Karakol for the journalists of Issyk-Kul, Naryn, and Talas oblasts, during which they were provided information on the trends in the banking system and the current situation in the foreign exchange market of the republic.
September 11-13	The management of the National Bank participated in the 32nd session of the Club of Governors of Central Banks, organized and conducted by the National Bank of Moldova in Chisinau (Moldova).
September 11-23	The visit of the Asian Development Bank mission took place on the issues managing and forecasting liquidity as well as developing the financial market as part of technical assistance.
September 13	The prior approval is issued to the CJSC “FINCA” to carry out banking activities.
September 19	The round table was held with the representatives of commercial banks and the management of the National Bank, during which the joint decisions were discussed and adopted on activity of financial-credit institutions in Kyrgyzstan.
September 19-20	The training seminar “National Bank: Status, Functions, Mission” was held for the journalists of the city of Bishkek and the Chui oblast, in which information on the trends in the banking system and the current situation in the foreign exchange market of the republic was provided.
September 24	<ul style="list-style-type: none"> • The Board of the National Bank adopted the Resolution “On Approval of the Regulation “On Approval of the Regulation “On Classification of Assets and Corresponding Allocations to the LLP by Microfinance Organizations Conducting Operations in accordance with the Islamic Principles of Banking and Financing”. • The license was issued to the CJSC MFC “Salym Finance” for the right to conduct the banking operations in foreign currency.
September 25	The meeting of the Retail Payments Council was held and during this meeting the regulatory and legal acts were discussed on development of the payment system and the issues of regulating the new instruments and participants in the payment system market.
September 28 - October 2	The representatives of the Swiss National Bank visited the country and consulted on the implementation of the communication policy when conducting the monetary policy.
September 29	The Board took the decision to raise the discount rate of the National Bank of the Kyrgyz Republic by 50 basis points to 7.00 percent.



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October 1	The press conference with the representatives of the National Bank was held on the issue of the discount rate.
October 2-3	The management of the National Bank took part in the Third Regional Meeting for Europe and Central Asia, held in Skopje (Macedonia).
October 2-4	The management of the National Bank took part in the 31st meeting of the Council of heads of central (national) banks of EurAsEC member states in Sochi (Russia).
October 7-10	The management of the National Bank participated as member of the government delegation of the Kyrgyz Republic in the Annual Meetings of IMF and World Bank Governors in Washington, DC (United States).
October 14	The regular meeting of the Interagency Commission was held and heard the reports of ministries and departments on the implementation of the State Program on increasing the share of noncash payments and settlements in the Kyrgyz Republic.
October 17	<p>The Board of the National Bank adopted the following Resolutions:</p> <ul style="list-style-type: none"> – On Amendments to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Approval of the “Temporary Order of Application of the Special Classification of Credits That Meet Certain Criteria”; – On Approval of the Regulations of the National Bank of the Kyrgyz Republic, according to which the following Regulations were approved: <ul style="list-style-type: none"> ▪ “On the Periodic Regulatory Report of Microfinance Companies Operating in accordance with the Islamic Principles of Banking and Financing”; ▪ “On the Periodic Regulatory Report of Microcredit Companies and Microcredit Agencies Conducting Operations in accordance with the Islamic Principles of Banking and Financing”; ▪ “On the Periodic Regulatory Report of Credit Unions Conducting Operations in accordance with the Islamic Principles of Banking and Financing”.
October 20	The license was issued to the CJCS MFC “ABN” to conduct certain banking operations in connection with the reorganization of the credit union into the microfinance company.
October 24	The press conference was held with the Deputy Chairman of the National Bank on the foreign exchange market.
October 28	<ul style="list-style-type: none"> • The Board of the National Bank made the decision to raise the discount rate of the National Bank of the Kyrgyz Republic by 200 basis points to 9.00 percent. • The management of the National Bank held the press conference on the issue of the discount rate of the National Bank of the Kyrgyz Republic.
October 29 - November 11	The visit of the IMF mission took place, during which the discussions were held on further cooperation with the IMF.

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November 5	<ul style="list-style-type: none"> • The meeting of the management of the National Bank was held with the representatives of commercial banks, during which they discussed the amendments to the individual RLA of the National Bank of the Kyrgyz Republic and the current situation in the foreign exchange market. • The ceremony of awarding the journalists – winners of the republican media competition on the following subject: “Microfinance: Opportunities and Challenges”, announced by the National Bank.
November 5-7	The management of the National Bank took part in the IMF Forum on the monetary policy in Zurich (Switzerland).
November 8-12	The President of the National Bank of the Kyrgyz Republic visited the Swiss National Bank.
November 13-14	<ul style="list-style-type: none"> • The meeting of the management of the National Bank of the Kyrgyz Republic was held with the representatives of the Payment Systems Department of the Bank of England, London (United Kingdom). • The management of the National Bank took part in the meeting of the Foreign Exchange Committee of the Eurasian Economic Commission, held in Minsk (Republic of Belarus).
November 13-16	The management of the National Bank took part in the International Conference “The Bank of the Future” in Madrid (Spain).
November 14	<p>The Board of the National Bank adopted the Resolutions governing the issues of required reserves of banks:</p> <ul style="list-style-type: none"> – “On the Daily Minimum Required Reserves of Banks”; – “On Several Resolutions of the Board of the National Bank of the Kyrgyz Republic”.
November 24	<p>The Board of the National Bank:</p> <ul style="list-style-type: none"> • reviewed the Report “Monetary Policy Report (Inflation Report in the Kyrgyz Republic). 3rd quarter of 2014”; • decided to raise the discount rate of the National Bank of the Kyrgyz Republic by 100 basis points to 10.00 percent.
November 26	The press conference was held on the issues of the monetary policy and the foreign exchange market.
November 27	<ul style="list-style-type: none"> • The Board of the National Bank adopted the following Resolutions: <ul style="list-style-type: none"> – On amendments and addenda to the Resolution of the National Bank of the Kyrgyz Republic “On Approval of the Instruction on the Work with Bank Accounts, Savings (deposit) Accounts”; – On amendments and addenda to several Resolutions of the National Bank of the Kyrgyz Republic, according to which the amendments and addenda were approved to the following documents: <ul style="list-style-type: none"> ▪ The Regulation “On Prudential Norms and Requirements, Mandatory for Implementation by the Commercial Banks of the Kyrgyz Republic”;



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	<ul style="list-style-type: none"> ▪ The Instruction “On Credit Crunch”; ▪ The Instruction “On Compliance with the Procedure for Compliance with the Limits on Open Foreign Currency Positions by the Microfinance Companies”; – On Amendments and Addenda to Several Resolutions of the National Bank of the Kyrgyz Republic, according to which the amendments and addenda were approved to the following documents: <ul style="list-style-type: none"> ▪ The Regulation “On Pre-trial Settlement of Disputes between the National Bank of the Kyrgyz Republic and Commercial Banks, Organizations Engaged in Certain Types of Banking Operations and Their Founders (participants), Legal Entities and Individuals”; ▪ The Regulation “On Enforcement Actions Applied to Credit Unions”; ▪ The Regulation “On Preventive Measures and Sanctions applied by the National Bank of the Kyrgyz Republic to Microfinance Organizations”; ▪ The Regulation “On Consolidated Supervision”; ▪ The Regulation “On Conservation of Commercial Banks and Microfinance Companies Attracting Deposits”; ▪ The Regulation “On the Procedure for Conducting Exchange Operations with Cash Foreign Currency in the Kyrgyz Republic”; ▪ The Regulation “On Licensing Activities of Banks”; – On Addenda and Amendments to the Resolution of the National Bank of the Kyrgyz Republic “On Approval of the Regulation “On the Procedure for Issuing Licenses to Conduct Exchange Operations with Foreign Currency”. ▪ The Board considered the report “On the Status of the Payment System of the Kyrgyz Republic in the Third Quarter of 2014”.
November 28	<ul style="list-style-type: none"> • The meeting of the Retail Payments Council was held to consider the issues relating to the regulatory and legal acts on development of the payment system and regulation of new instruments and participants in the market of the payment system. • The management of the National Bank participated in the 49th session of the Interstate Bank Council held in Moscow (Russia).
December 8	<p>The Board of the National Bank adopted the following Resolutions:</p> <ul style="list-style-type: none"> – “On the Schedule of Meetings of the Board of the National Bank of the Kyrgyz Republic for 2015 on the issue of the discount rate of the National Bank of the Kyrgyz Republic”; – “On Amendments to the Resolution of the Board of the National Bank of the Kyrgyz Republic “On Daily Minimum Required Reserves of Banks”.
December 9	<p>The meeting of the Interbank Payment System Council was held with the representatives of commercial banks and the CJSC “Interbank Processing Center”, during which the issues of development of payment systems and noncash payments were discussed.</p>
December 9-11	<p>The delegation of the National Bank of the Kyrgyz Republic visited the Central Bank of Georgia, during which the sides discussed the issues of organizing</p>

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	automation of the central bank, developing the retail payment systems, combating money laundering and financing of terrorism, and other.
December 12	The management of the National Bank took part in the meeting of the Regional Group of the CIS Council for Financial Stability held in Moscow (Russia).
December 17	<ul style="list-style-type: none"> • The Jogorku Kenesh of the Kyrgyz Republic approved the draft Law “On the Payment System of the Kyrgyz Republic”. • The Board of the National Bank adopted the following Resolutions: <ul style="list-style-type: none"> – “On the Monetary Policy Guidelines over the Medium Term”; – “On Recognition of Some Regulations of the Board of the National Bank of the Kyrgyz Republic as Null and Void”: <ul style="list-style-type: none"> ▪ The Resolution of the Board of the National Bank of the Kyrgyz Republic “On the Concept of “Transfer of Operator Functions of the Bulk Clearing System”.
December 18	The press conference was held with the Chairman of the National Bank on the situation in the foreign exchange market.
December 19	The Board of the National Bank adopted the Resolution “On the Statement of the National Bank of the Kyrgyz Republic “On Monetary Policy for 2015”.
December 22	The agreement was signed between the Ministry of Finance of the Kyrgyz Republic, the Ministry of Finance of the Russian Federation and the National Bank of the Kyrgyz Republic on the special account for formation of capital of the Kyrgyz-Russian Development Fund, Moscow (Russia).
December 24	<p>The Board of the National Bank adopted the following Resolutions:</p> <ul style="list-style-type: none"> – “On Approval of the Payment System Development Guidelines of the Kyrgyz Republic for 2015 -2017”. – “On Approval of the Regulation “On Licensing Activity of Operators of Payment Systems and Payment Institutions”; – On amendments to several Resolutions of the Board of the National Bank of the Kyrgyz Republic, according to which the amendments and addenda were approved to the following documents: <ul style="list-style-type: none"> ▪ The Regulation “On Prudential Norms and Requirements, Mandatory for Implementation by the Commercial Banks of the Kyrgyz Republic”; ▪ The Instruction “On the Procedure for Compliance with the Limits of Open Foreign Currency Position by the Commercial Banks in the Kyrgyz Republic”; – On Amendments and Addenda to Several Resolutions of the National Bank of the Kyrgyz Republic, according to which the amendments and addenda were approved to the following documents: <ul style="list-style-type: none"> ▪ The Regulation “On Licensing, Reorganization and Liquidation of the Specialized Financial Institution OJSC “Financial Company of Credit Unions”; ▪ The Regulation “On Licensing Credit Unions”; ▪ The Regulation “On Establishment and Activities of Microcredit Companies and Microcredit Agencies in the Kyrgyz Republic”; ▪ The Regulation “On Licensing, Reorganization and Liquidation of



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December 26	<p>Microfinance Institutions in the Kyrgyz Republic”;</p> <ul style="list-style-type: none"> ▪ The minimum qualification requirements to the officials of the specialized financial-credit institution – the successor of the LLC “FCCU” and the procedure for their approval by the National Bank of the Kyrgyz Republic. <p>The Supervisory Committee of the National Bank adopted the Resolution “On the Guidelines to Fill in the Periodic Regulatory Report of Microfinance Companies, Microcredit Companies and Microcredit Agencies, Credit Unions, Conducting Operations in accordance with the Islamic Principles of Banking and Financing”.</p>
December 29	<p>The Board of the National Bank decided to raise the discount rate of the National Bank of the Kyrgyz Republic by 50 basis points to 10.50 percent.</p>

Appendix 2
to the Report of the National Bank of the Kyrgyz Republic for 2014

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**Table 1.****Macroeconomic Indicators**

	unit of measurement	2010	2011	2012	2013	2014
Real sector¹						
Nominal GDP	millions of KGS	220,369.3	285,989.1	310,471.3	355,294.8	397,277.1*
Rate of growth of real GDP	percents	-0.5	6.0	-0.1	10.9	3.6*
Rate of growth of industrial output	percents	10.8	8.6	-20.3	35.9	-1.7*
Rate of growth of gross agricultural output	percents	-2.6	2.0	1.2	2.7	-0.6*
Retail turnover, including the turnover of catering enterprises by all sales channels	millions of KGS	135,815.6	172,110.4	202,207.4	232,416.8	277,274.5
Rendered market services	millions of KGS	267,633.0	335,393.0	386,400.1	442,590.5	515,204.1
Growth of CPI (in % December to December)		19.2	5.7	7.5	4.0	10.5
- food products		27.0	3.5	4.5	1.8	13.9
- alcoholic beverages and tobacco products		12.9	9.8	10.2	7.3	12.3
- nonfood products		14.2	9.2	9.8	6.3	6.8
- services		11.9	11.1	9.8	4.3	5.9
Growth of PPI ² (in % to the previous period)		22.8	22.0	5.3	-2.1	1.5
Unemployment rate	percents	2.6	2.5	2.4	2.3	2.4
Average nominal wage	KGS	7,142.0	9,352.0	10,891.0	11,426.0	12,435.0
Estimated minimum subsistence level	KGS	3,502.7	4,390.0	4,341.2	4,599.2	4,981.5
Financial sector³						
NBKR discount rate (end-of-period)	percents	5.50	13.61	2.64	4.17	10.50
State Treasury Bills Market (average yield for the period) with maturity of:						
- 3 months	percents	4.6	8.0	6.1	4.9	5.2
- 6 months	percents	7.4	13.0	8.5	6.5	8.8
- 12 months	percents	12.1	16.9	10.8	9.5	9.7
Interbank Market						
Credits in National Currency:						
- volume (for the period)	millions of KGS	451.1	905.0	1,357.6	1,916.3	563.4
- interest rate (average for the period)	percents	4.5	9.1	7.7	6.9	10.5
Credits in Foreign Currency:						
- volume (for the period)	millions of KGS	131.3	69.1	391.2	-	115.2
- interest rate (average for the period)	percents	2.9	3.5	1.6	-	0.5
REPO Operations						
- volume (for the period)	millions of KGS	4,597.9	5,116.8	5,942.0	8,753.5	49,459.7
- interest rate (average for the period)	percents	3.7	9.4	7.7	3.8	6.8
Foreign Exchange Market						
Transactions at Interbank Foreign Exchange Auctions	millions of USD	647.8	907.6	1,011.2	1,144.1	1,583.0
Deposit and Credit Market						
Credits in National Currency:						
- volume (for the period)	millions of KGS	11,947.3	15,162.3	17,051.1	26,672.4	34,929.0
- interest rate (average for the period)	percents	23.7	23.8	23.0	21.3	20.1
- interest rate (end-of-period)	percents	22.9	22.4	22.9	20.7	19.6
Credits in Foreign Currency:						
- volume (for the period)	millions of KGS	10,872.1	16,742.4	21,000.1	32,626.6	44,610.5
- interest rate (average for the period)	percents	19.8	19.6	19.1	17.7	15.0
- interest rate (end-of-period)	percents	19.3	17.8	17.3	16.4	16.1
Deposits in National Currency:						
- volume (for the period)	millions of KGS	56,034.1	95,086.1	120,031.0	146,229.3	179,549.2
- interest rate (average for the period)	percents	2.0	2.2	2.3	2.3	2.5
- interest rate (end-of-period)	percents	4.6	5.3	5.2	5.6	6.9
Deposits in Foreign Currency:						
- volume (for the period)	millions of KGS	73,429.2	108,083.6	114,824.2	141,539.3	213,238.3
- interest rate (average for the period)	percents	1.1	0.8	0.8	0.8	0.9
- interest rate (end-of-period)	percents	2.9	2.8	2.9	2.8	3.2
State Budget⁴						
Revenue	millions of KGS	57,384.5	77,344.4	86,768.4	101,786.4	119,376.3*
including the share of tax revenue	percents	68.6	68.5	73.7	71.6	69.2*
Expenditure	millions of KGS	61,583.2	82,393.8	100,019.0	86,600.7	95,577.5*
Net purchase of nonfinancial assets	millions of KGS	6,569.2	8,488.4	6,981.4	17,531.8	25,664.5*
Deficit (-) / Surplus (+)	millions of KGS	-10,767.9	-13,537.8	-20,232.1	-2,346.1	-1,865.8*
in percent of GDP	percents of GDP	-4.9	-4.7	-6.5	-0.7	-0.5*
External Economic Sector						
Export of goods and services	percents of GDP	49.8	52.6	45.2	42.9	37.5*
Import of goods and services	percents of GDP	79.2	82.4	100.3	93.2	88.3*
Current account balance ⁵ (including transfers)	percents of GDP	-6.6	-10.0	-25.9	-25.1	-23.7*
Reserve assets	months of imports of next year goods and services	4.2	3.4	3.7	4.1	4.0*

* preliminary data

¹ according to NSC data² The data were recalculated in accordance with the State Classifier "Economic activities" (SCEA, version 3).³ according to the NBKR data⁴ according to MFKR CT data⁵ - Positive balance - "+"; Negative balance - "-"

"- " - no operations available.

Table 2a.GDP Composition
(percents)

	2010	2011	2012	2013
Total	100.0	100.0	100.0	100.0
Agriculture, Hunting and Forestry	17.4	16.6	16.6	15.2
Mining industry	0.6	0.8	0.9	0.7
Processing industry	17.0	18.3	12.1	13.4
Electricity, gas, and water generation and distribution	3.1	3.4	2.7	2.0
Construction	5.5	4.9	6.5	6.8
Trade, repair of motor vehicles, household goods, and personal items	16.0	15.2	16.0	16.1
Hotels and restaurants	1.3	1.5	1.4	1.5
Transport and communications	8.6	8.1	9.2	9.5
Other	20.3	20.2	21.5	20.5
Net taxes on products	10.2	11.0	13.1	14.4

According to NSC data

Table 2b.GDP Composition
(percents)

	2012	2013	2014*
Total	100.0	100.0	100.0
Agriculture, Hunting and Forestry	16.7	14.6	14.8
Extraction of minerals	0.9	0.7	0.6
Processing industry	12.1	15.8	13.1
Provision (supply) of electricity, gas, steam, and conditioned air	2.6	1.8	1.6
Water supply, waste treatment and production of secondary raw materials	0.2	0.3	0.2
Construction	6.5	6.3	7.4
Wholesale and retail trade; repair of motor vehicles and motorcycles	15.9	16.5	17.4
Transport operations and storage of goods	4.7	3.9	4.2
Hotels and restaurants	1.4	1.6	1.7
Information and communication	4.8	4.4	4.2
Financial intermediation and insurance	0.6	0.8	0.8
Real estate transactions	2.3	2.3	2.3
Professional, scientific and technical activities	1.7	1.5	1.7
Administrative and support service activities	0.4	0.4	0.4
Public administration and defense, compulsory social security	5.1	5.0	5.4
Education	6.0	5.3	5.1
Health care and social services to the population	3.4	3.1	3.2
Arts, entertainment and recreation	0.6	0.6	0.7
Other service activities	1.1	1.1	1.0
Net (less subsidies) taxes on products	13.1	13.9	14.1

According to the NSC data

Note: NSC, since January 2014, develops and disseminates data in official statistical publications in accordance with the new edition of the State Classifier «Economic activities» (SCEA, version 3), harmonized with the International Standard Industrial Classification of the United Nations. Data for 2012 and 2013 were recalculated in accordance with the SCEA version 3.

* preliminary data

**Table 3.**
Composition of Capital Investment by Sources of Financing
(percents)

	2010	2011	2012	2013	2014*
Total	100.0	100.0	100.0	100.0	100.0
Domestic investment	76.6	71.3	67.4	64.1	59.4
including those financed through:					
Republican budget	7.3	9.5	5.8	3.4	3.0
local budget	1.5	1.3	1.0	0.8	0.8
funds of enterprises and organizations	36.3	34.9	37.0	38.2	33.6
bank loans	7.0	0.6	0.5	0.3	0.5
public funds, including charitable aid to residents of the Kyrgyz Republic	24.5	25.0	23.1	21.5	21.4
Foreign investment	23.4	28.7	32.6	35.9	40.6
including those financed through:					
foreign loan	12.6	18.5	19.8	24.0	31.1
foreign direct investment	7.3	6.8	9.0	9.5	7.2
foreign grants and humanitarian aid	3.5	3.4	3.8	2.4	2.2

According to the NSC data

* preliminary data

Table 4.
Monetary Base and Monetary Aggregates (end-of-period)
(millions of KGS)

	2010	2011	2012	2013	2014
Monetary base	48,597.3	54,803.2	64,488.8	73,139.4	64,471.9
Currency in circulation	43,290.3	49,866.9	58,252.2	66,954.2	57,074.6
Money outside banks (M0)	41,471.2	47,219.6	54,521.2	61,907.2	51,904.1
Monetary aggregate (M1)	50,092.8	56,946.3	70,220.7	79,707.6	69,264.5
Money supply (M2)	53,745.4	62,125.3	77,460.6	90,962.7	82,386.4
Monetary aggregate (M2X)	69,207.7	79,527.8	98,482.9	120,903.4	124,544.4
Multiplier M1	1.03	1.04	1.09	1.09	1.07
Multiplier M2	1.11	1.13	1.20	1.24	1.28
Multiplier M2X	1.42	1.45	1.53	1.65	1.93
Velocity M1	5.13	5.55	5.10	4.90	5.33
Velocity M2	4.75	5.11	4.61	4.35	4.58
Velocity M2X	3.71	3.95	3.52	3.29	3.23
Money outside banks/Deposits	1.50	1.46	1.24	1.05	0.71
Deposits/Monetary Aggregate (M2X)	0.40	0.41	0.45	0.49	0.58

Prior to 01.01.2010, Monetary base = currency in circulation + reserves and deposits of other depository corporations with the NBKR in national and foreign currencies + deposits of financial institutions with the NBKR in national and foreign currencies;
 Since 01.01.2010, Monetary base = currency in circulation + reserves of other depository corporations with the NBKR in national currency;

Currency in circulation = banknotes and coins issued by the NBKR minus banknotes and coins in circulating cash in vaults of the National Bank;

Money outside banks (M0) = currency in circulation less notes and coins in national currency in vaults of commercial banks; Monetary aggregate (M1) = M0 + settlement (current) accounts and demand deposits in national currency;

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

Monetary Aggregate (M2X) = M2 + settlement (current) accounts and deposits in foreign currency;

Multiplier = the ratio of monetary aggregate to the monetary base;

Velocity of money = the ratio of nominal GDP to the volume of the monetary aggregate.

Table 5.**Analytic Balance Sheet of the National Bank of the Kyrgyz Republic (end-of-period)***(millions of KGS)*

	2010	2011	2012	2013	2014
Net foreign assets	65,126.7	71,419.5	87,158.7	99,924.8	104,770.3
Net international reserves	73,474.9	79,629.0	93,046.0	106,115.8	105,935.6
Gold	5,500.4	6,139.8	7,721.1	6,885.7	8,992.4
Foreign currency (assets)	75,315.7	78,980.7	89,980.5	103,200.2	100,274.6
Foreign currency (liabilities)	-7,341.3	-5,491.5	-4,655.6	-3,970.1	-3,331.5
Other external assets	134.3	135.0	305.0	235.3	6,067.6
SDR allocation	-6,096.4	-6,030.1	-6,192.3	-6,426.3	-7,232.9
Long-term external liabilities	-2,386.1	-2,314.4	0.0	0.0	0.0
Net domestic assets	-16,529.4	-16,616.3	-22,669.9	-26,785.4	-40,298.4
<i>Net domestic credit</i>	-2,489.2	-1,712.7	-6,789.7	-13,496.8	-16,882.4
Net claims to General Government	-2,052.6	-1,158.3	-2,968.0	-6,973.9	-18,190.9
Net claims to Government	-1,982.5	-1,143.3	-2,968.0	-6,973.9	-18,190.9
Securities	3,026.8	3,121.1	2,311.2	1,511.6	1,453.6
Credit to Government in foreign currency	2,333.1	2,288.2	0.0	0.0	0.0
Deposits	-7,242.5	-6,479.7	-5,182.0	-8,425.7	-19,618.4
Budget accounts	-2,725.4	-5,082.8	-1,948.5	-6,015.0	-10,736.9
Counterpart funds	0.0	0.0	-141.2	0.0	0.0
Other Government accounts	-493.8	-289.4	-260.7	-1,927.1	-2,360.5
Government deposits in foreign currency	-4,023.3	-1,107.6	-2,831.7	-483.7	-6,520.9
Government credit	-99.8	-72.9	-97.2	-59.7	-26.1
Net claims to special funds	-70.2	-15.0	0.0	0.0	0.0
Net claims to other depository corporations	86.8	-398.0	-3,821.6	-6,522.9	1,308.8
Loans	342.7	1,664.8	1,150.2	1,204.7	4,115.6
including: overnight loans	0.0	0.0	0.0	0.0	0.0
loans in foreign currency	228.4	216.1	220.3	227.3	121.1
Securities	-738.7	-1,566.6	-3,843.6	-7,220.4	-1,325.7
including: notes issued by the NBKR	-667.9	-1,359.2	-3,046.9	-6,634.6	-1,325.7
securities under REPO agreements	-70.8	-207.4	-796.7	-585.7	0.0
Deposits	-207.2	-496.2	-1,128.1	-507.2	-1,481.0
including: deposits in foreign currency	-207.2	-496.2	-1,128.1	-507.2	-606.5
Derivatives	690.0	0.0	0.0	0.0	0.0
Net claims to other financial institutions	-523.3	-156.3	-0.2	0.0	-0.3
<i>Capital account</i>	-16,582.8	-15,595.7	-17,133.1	-14,851.2	-25,090.3
<i>Other items</i>	2,542.5	692.1	1,253.0	1,562.6	1,674.3
Monetary base	48,597.3	54,803.2	64,488.8	73,139.4	64,471.9
Currency in circulation	43,290.3	49,866.9	58,252.2	66,954.2	57,074.6
Reserves of other depository corporations in national currency	5,307.0	4,936.3	6,236.6	6,185.2	7,397.3
<i>Reference:</i>					
Monetary base - broad definition	48,804.5	55,299.5	65,617.0	73,646.6	65,952.9
Currency in circulation	43,290.3	49,866.9	58,252.2	66,954.2	57,074.6
Reserves of other depository corporations	5,514.2	5,275.6	6,653.8	6,692.5	8,003.9
Reserves of other depository corporations in national currency	5,307.0	4,936.3	6,236.6	6,185.2	7,397.3
Reserves of other depository corporations in foreign currency	207.2	339.3	417.1	507.2	606.5
Deposits in foreign currency	0.0	156.9	711.0	0.0	874.5

Source: NBKR General Ledger.

Note: 1. Methodology of the analytic balance sheet preparation complies with the concept and principles of the IMF Monetary and Financial Statistics Manual 2000

2. Starting from January 1st, 2010, the changes were made to the structure and methodology of calculating some indicators due to the approval of the new Regulation "On the Analytic Balance Sheet of the NBKR"

**Table 6.**

External Economic Indicators

	unit of measurement	2010	2011	2012	2013	2014*
Balance of Payments Indicators						
Total balance	<i>millions of USD</i>	110.5	136.2	218.7	288.0	-128.4
	<i>percents of GDP</i>	2.3	2.3	3.4	4.0	-1.7
Current account balance ¹	<i>millions of USD</i>	-317.1	-593.0	-1,675.1	-1,807.8	-1,777.1
	<i>percents of GDP</i>	-6.6	-10.0	-25.9	-25.1	-23.7
Export of goods (FOB)	<i>millions of USD</i>	1,778.7	2,267.0	1,954.4	2,048.4	1,891.6
	<i>percents of GDP</i>	37.2	38.1	30.2	28.4	25.7
Import of goods (FOB)	<i>millions of USD</i>	2,980.9	3,935.9	5,165.1	5,613.6	5,290.2
	<i>percents of GDP</i>	62.4	66.2	79.9	77.8	71.8
Reserve assets	<i>months of next year import of goods and services</i>	4.2	3.4	3.7	4.1	4.0
Public External Debt						
Public External Debt ²	<i>millions of USD</i>	2,615.7	2,802.6	3,031.9	3,158.7	3,437.1
	<i>percents of GDP</i>	54.7	47.1	46.9	43.8	46.7
	<i>percents of export of goods and services</i>	110.0	89.6	103.8	102.2	124.6
Public external debt servicing (actual)	<i>millions of USD</i>	91.1	96.5	94.9	95.1	115.5
	<i>percents of GDP</i>	1.9	1.6	1.5	1.3	1.6
	<i>percents of export of goods and services</i>	3.8	3.1	3.3	3.1	4.2

* - preliminary data

¹ - positive balance - "+", negative balance - "-"² - including IMF loans

Table 7.

Monetary Policy Instruments (for the period, unless indicated otherwise)

	unit of measurement	2010	2011	2012	2013	2014
NBKR Credits						
intraday credits	<i>millions of KGS</i>	-	129.0	680.0	-	4,345.6
"overnight" credits	<i>millions of KGS</i>	2,656.0	4,050.7	4,912.2	8,095.2	56,724.6
7-day credits	<i>millions of KGS</i>	-	-	-	-	1,100.0
credit auctions*	<i>millions of KGS</i>	-	-	-	900.9	3,260.0
"Overnight" Deposits						
volume	<i>millions of KGS</i>	-	-	-	-	137,629.5
NBKR Discount Rate (end of period)						
	<i>percents</i>	5.5	13.6	2.6	4.2	10.5
NBKR Notes						
<i>millions of KGS</i>						
maturity:						
7 days						
sales volume	<i>millions of KGS</i>	1,772.5	3,998.4	1,347.8	2,280.0	68,172.6
average yield	<i>percents</i>	1.9	6.2	5.6	3.2	6.1
14 days						
sales volume	<i>millions of KGS</i>	1,871.7	6,974.2	2,608.8	1,234.5	-
average yield	<i>percents</i>	2.3	7.7	6.2	3.9	-
28 days						
sales volume	<i>millions of KGS</i>	5,279.8	11,889.2	24,591.1	41,050.6	10,583.6
average yield	<i>percents</i>	2.8	10.9	6.7	3.6	4.8
Open Market Transactions						
Direct REPO transactions	<i>millions of KGS</i>	-	-	-	-	-
Reverse REPO transactions	<i>millions of KGS</i>	70.8	2,278.5	7,676.3	3,225.8	421.4
NBKR Deposit Operations in Foreign Currency						
volume	<i>millions of USD</i>	11.0	32.5	1,066.1	174.3	768.8
volume	<i>Euro</i>	-	-	-	0.4	1.2
NBKR Foreign Exchange Interventions						
Purchase	<i>millions of USD</i>	28.9	120.5	4.8	-	20.5
Sale		263.7	281.2	43.1	14.7	536.7
NBKR Foreign Exchange swaps						
Purchase	<i>millions of USD</i>	14.7	-	-	-	-
Sale		-	-	-	-	-
Reserve Requirements						
Reserve requirement ratio (end-of-period)	<i>percents</i>	8.0	9.0	9.0	9.0	9.0
Required reserves (annual average)	<i>millions of KGS</i>	2,744.7	2,802.1	3,513.9	4,488.3	5,882.1
Excess reserves (annual average)	<i>millions of KGS</i>	1,720.0	1,565.4	2,126.9	2,333.8	1,095.6

“-” - no transaction

* Volume of credits actually extended over the reporting period

**Table 8.**

Interest Rates of Deposits in National Currency (for the period)
(percents)

	2010	2011	2012	2013	2014
Deposits of Legal Entities					
<i>demand deposits</i> ¹	0.88	1.46	1.35	1.08	0.79
<i>time deposits:</i>	8.83	8.74	8.55	8.42	10.79
<i>of which:</i>					
up to 1 month	4.34	5.86	5.81	4.01	4.21
1-3 months	4.60	5.89	5.49	5.84	7.21
3-6 months	8.42	9.49	6.91	7.09	7.51
6-12 months	10.93	11.69	11.53	11.76	13.65
over 1 year	13.59	11.32	12.50	12.32	12.43
Deposits of Individuals					
<i>demand deposits</i>	0.79	1.00	1.38	1.56	1.63
<i>time deposits:</i>	11.10	11.49	11.29	10.70	11.03
<i>of which:</i>					
up to 1 month	4.75	4.62	4.06	3.76	3.48
1-3 months	5.74	6.26	6.29	5.76	6.00
3-6 months	9.52	9.54	9.74	9.10	8.87
6-12 months	12.28	12.50	12.52	11.90	12.02
over 1 year	13.98	14.27	14.27	13.41	13.37
Deposits on Nonresidents²					
<i>demand deposits</i>	0.02	0.01	0.11	0.18	0.05
<i>time deposits:</i>	10.58	10.60	10.43	10.66	10.96
<i>of which:</i>					
up to 1 month	6.07	6.79	5.40	5.68	7.04
1-3 months	6.24	6.48	6.74	6.23	5.75
3-6 months	8.98	9.33	9.32	8.45	8.62
6-12 months	11.68	11.25	12.13	11.48	11.80
over 1 year	13.93	14.25	14.09	13.06	12.92
Average Weighted Rate	1.96	2.20	2.32	2.33	2.49

¹ Starting from January 1st, 2010, demand deposits are shown as a separate category of deposits of legal entities.

² Starting from January 1st, 2010, deposits of nonresidents are shown as a separate item of deposits of legal entities and individuals.

Table 9.Interest Rates of Deposits in Foreign Currency (for the period)
(percents)

	2010	2011	2012	2013	2014
Deposits of Legal Entities					
<i>demand deposits</i> ¹	0.32	0.65	0.28	0.28	0.28
<i>time deposits:</i>	4.77	4.39	4.94	4.06	3.83
<i>of which:</i>					
up to 1 month	3.18	0.92	2.90	1.36	1.86
1-3 months	2.99	2.81	4.48	3.08	2.46
3-6 months	4.45	5.90	3.32	4.37	3.57
6-12 months	6.68	7.40	7.58	5.74	5.39
over 1 year	8.26	7.58	6.41	7.34	7.24
Deposits of Individuals					
<i>demand deposits</i>	0.03	0.01	0.10	0.07	0.11
<i>time deposits:</i>	8.05	7.16	6.96	6.41	6.43
<i>of which:</i>					
up to 1 month	1.99	2.04	1.69	1.54	1.44
1-3 months	4.30	4.01	4.02	3.32	2.94
3-6 months	6.96	6.29	6.40	5.75	5.39
6-12 months	9.85	8.94	8.71	7.97	7.42
over 1 year	11.21	10.53	10.23	9.82	8.86
Deposits on Nonresidents ²					
<i>demand deposits</i>	0.01	0.00	0.02	0.03	0.00
<i>time deposits:</i>	8.58	8.10	6.93	6.43	6.86
<i>of which:</i>					
up to 1 month	2.12	3.72	1.96	1.40	1.21
1-3 months	4.50	5.08	4.36	3.17	3.48
3-6 months	6.95	6.64	6.39	4.94	5.65
6-12 months	9.76	8.44	7.92	7.23	7.33
over 1 year	11.31	10.16	8.99	9.14	8.56
Average Weighted Rate	1.13	0.82	0.78	0.77	0.86

¹ Starting from January 1st, 2010, demand deposits are shown as a separate category of deposits of legal entities.² Starting from January 1st, 2010, deposits of nonresidents are shown as a separate item of deposits of legal entities and individuals.

**Table 10.**

Interest Rates of Credits of Commercial Banks in National Currency (for the period)

(percents)

	2010	2011	2012	2013	2014
Average Weighted Rate	23.7	23.8	23.0	21.3	20.1
Industry	24.8	22.0	22.8	16.9	14.3
Agriculture	23.0	20.2	21.6	19.6	19.2
Transport and communication	26.0	24.2	23.6	23.8	23.9
Trade	23.9	24.2	23.2	22.0	19.8
Procurement and processing	21.3	20.6	22.4	25.0	14.6
Construction	22.9	21.7	22.7	21.1	21.1
Mortgage	20.7	20.1	21.4	21.2	19.9
Consumer credits	26.8	29.9	27.0	26.5	26.6
Other	23.7	21.7	20.2	19.8	20.4
of which:					
up to 1 month	29.1	31.1	31.1	28.8	20.5
Industry	-	18.3	25.0	14.2	12.6
Agriculture	-	26.0	27.9	28.0	20.0
Transport and communication	-	-	-	-	-
Trade	32.0	34.2	33.5	27.4	15.1
Procurement and processing	-	-	-	-	-
Construction	32.5	-	20.0	13.0	18.0
Mortgage	-	-	-	-	-
Consumer credits	30.5	31.7	31.1	32.6	31.7
Other	26.6	26.9	22.3	23.5	23.0
1-3 months	29.4	33.9	28.4	20.9	16.9
Industry	27.7	29.7	28.0	18.8	14.8
Agriculture	31.5	28.3	28.9	31.1	29.7
Transport and communication	30.5	-	42.0	33.3	-
Trade	29.4	33.1	25.8	25.8	25.6
Procurement and processing	-	-	-	30.0	32.5
Construction	25.0	23.3	35.0	13.0	18.0
Mortgage	-	-	25.0	-	-
Consumer credits	33.7	40.9	36.0	32.0	27.4
Other	26.1	23.6	23.2	19.9	18.6
3-6 months	31.2	37.0	26.9	25.8	24.2
Industry	28.5	25.7	29.4	27.0	20.2
Agriculture	31.3	30.5	27.6	29.2	28.9
Transport and communication	31.4	30.7	29.8	29.7	29.7
Trade	30.5	33.3	28.2	25.1	24.5
Procurement and processing	30.2	20.0	35.0	33.1	28.7
Construction	28.9	29.9	22.5	23.9	24.1
Mortgage	28.0	-	34.0	32.5	29.3
Consumer credits	40.5	45.9	36.8	29.9	30.3
Other	25.5	26.3	21.9	26.7	25.5
6-12 months	27.5	28.1	26.3	25.3	22.2
Industry	27.2	26.8	27.7	21.4	20.6
Agriculture	29.4	24.7	26.5	25.3	20.3
Transport and communication	30.5	27.5	28.1	27.6	27.4
Trade	27.4	29.1	26.7	25.8	22.0
Procurement and processing	23.6	20.0	25.5	30.0	29.3
Construction	27.4	25.5	25.6	25.4	26.1
Mortgage	24.0	24.1	28.9	29.3	22.3
Consumer credits	29.6	34.1	29.9	29.2	29.5
Other	24.6	22.7	21.5	22.6	25.5
over 1 year	22.4	21.9	21.7	20.2	20.0
Industry	24.6	21.3	21.8	17.3	15.3
Agriculture	21.6	20.0	20.1	18.3	19.4
Transport and communication	24.8	24.2	23.4	23.4	23.6
Trade	22.6	22.1	22.4	21.4	20.9
Procurement and processing	21.1	20.8	21.9	24.5	15.0
Construction	22.5	21.5	22.5	21.6	21.1
Mortgage	20.7	20.0	21.3	21.0	20.0
Consumer credits	24.2	25.9	23.6	23.5	24.0
Other	23.9	21.6	21.4	19.8	20.8

“-” - no transaction

Table 11.**Interest Rates on Credits of Commercial Banks in Foreign Currency (for the period)***(percents)*

	2010	2011	2012	2013	2014
Average Weighted Rate	19.8	19.6	19.1	17.7	15.0
Industry	18.1	16.5	16.0	13.8	13.4
Agriculture	21.9	21.6	19.9	18.1	18.9
Transport and communication	21.6	22.1	21.5	17.9	17.5
Trade	20.0	20.8	20.6	18.9	14.5
Procurement and processing	21.4	17.2	20.8	20.2	15.8
Construction	19.1	18.2	13.9	13.2	13.5
Mortgage	19.9	18.1	17.9	17.6	17.6
Consumer credits	25.5	22.0	20.0	18.9	19.1
Other	18.4	16.5	16.2	15.7	14.9
of which:					
up to 1 month	29.9	30.5	26.6	25.5	12.9
Industry	14.3	18.0	-	17.0	13.9
Agriculture	-	-	-	-	-
Transport and communication	-	-	-	-	-
Trade	27.5	29.7	26.5	26.0	12.5
Procurement and processing	-	-	-	-	-
Construction	-	-	-	10.5	0.0
Mortgage	-	17.0	-	22.1	27.9
Consumer credits	33.4	32.1	23.4	22.7	19.0
Other	22.2	25.4	21.4	13.4	21.2
1-3 months	21.9	26.0	20.6	16.8	14.1
Industry	21.6	19.3	18.0	18.0	14.6
Agriculture	31.8	27.0	27.7	-	25.7
Transport and communication	-	25.0	-	-	14.5
Trade	24.1	26.2	20.7	15.9	14.3
Procurement and processing	-	-	-	-	-
Construction	14.0	17.0	11.9	23.0	7.6
Mortgage	17.3	18.0	17.1	22.6	-
Consumer credits	32.3	27.6	26.9	18.4	18.9
Other	26.2	22.7	14.7	14.6	16.0
3-6 months	19.4	19.4	16.2	15.0	12.4
Industry	21.3	26.4	18.1	13.3	13.7
Agriculture	26.5	22.4	25.7	24.8	22.9
Transport and communication	22.0	31.0	26.3	21.0	20.5
Trade	19.1	18.2	15.2	15.4	16.9
Procurement and processing	30.2	25.2	-	-	25.0
Construction	14.0	22.8	13.5	13.3	6.6
Mortgage	-	-	19.5	18.2	-
Consumer credits	28.1	31.0	19.6	19.8	22.0
Other	23.3	19.1	17.5	16.4	17.7
6-12 months	19.4	18.3	16.1	15.3	15.3
Industry	18.0	17.6	18.7	15.5	15.2
Agriculture	26.8	25.7	22.1	21.9	22.3
Transport and communication	26.1	24.9	23.0	21.2	20.7
Trade	20.1	18.2	16.4	15.9	16.2
Procurement and processing	-	22.0	24.6	17.9	15.0
Construction	24.3	24.1	13.5	12.3	7.4
Mortgage	20.6	18.2	17.5	17.7	19.0
Consumer credits	23.5	21.1	21.7	20.4	21.5
Other	18.9	19.0	15.7	15.8	18.6
over 1 year	19.8	17.9	17.4	16.3	15.6
Industry	19.1	16.5	15.9	13.8	13.4
Agriculture	20.8	20.7	19.1	17.9	18.8
Transport and communication	20.9	21.9	21.4	17.8	17.5
Trade	20.1	18.4	17.6	16.5	15.3
Procurement and processing	19.7	16.5	20.7	22.0	15.9
Construction	19.4	17.6	16.3	13.8	15.2
Mortgage	20.0	18.2	17.8	17.3	17.6
Consumer credits	23.4	20.6	19.6	18.7	19.4
Other	18.6	16.1	16.4	16.3	14.9

"-" - no transaction

**Table 12.****Interest Rates on Credits of Nonbank Financial-Credit Institutions (end-of-period)***(percents)*

	2010	2011	2012	2013	2014
Microfinance organizations	38.8	38.3	34.9	31.0	30.0
<i>of which lent to:</i>					
Industry	38.8	36.4	32.5	27.9	26.3
Agriculture	39.6	41.5	36.5	31.9	31.5
Transportation	29.3	28.3	26.8	25.2	25.6
Communication	39.5	32.1	30.0	28.0	30.0
Trade and commerce	40.6	37.2	35.7	31.1	29.6
Procurement and processing	27.0	26.4	12.3	13.3	23.7
Construction and mortgage	24.1	27.9	29.9	30.4	24.2
Services	-	41.0	39.2	34.7	32.4
Consumer credits	43.5	41.6	41.7	34.0	32.6
Credits to financial-credit institutions	21.4	18.9	17.5	18.4	18.9
Other	37.2	37.5	31.5	26.3	26.6
Credit Unions	30.7	29.0	29.1	27.3	25.6
<i>of which lent to:</i>					
Industry	30.4	31.2	31.1	29.2	29.0
Agriculture	28.4	27.7	28.3	25.8	25.7
Transport and communication	25.2	27.0	26.8	25.7	25.2
Trade and commerce	31.7	29.5	28.6	28.0	24.4
Procurement and processing	26.0	23.5	28.7	27.0	25.5
Construction and mortgage	27.8	25.2	26.0	25.1	24.0
Services	32.0	28.2	29.6	34.7	26.6
Other	35.9	34.4	33.7	28.7	28.7
GJSC "FCCU"	15.5	15.8	15.9	15.4	15.9
SFRB¹	6.7	-	-	-	-
<i>of which lent to:</i>					
Industry	7.0	-	-	-	-
Agriculture	-	-	-	-	-
Transport and communication	8.4	-	-	-	-
Trade and commerce	7.0	-	-	-	-
Procurement and processing	-	-	-	-	-
Construction and mortgage	7.0	-	-	-	-
Services	-	-	-	-	-
Other	6.6	-	-	-	-

Source: regulatory reporting of nonbank financial-credit institutions.

¹ The license was revoked with the Resolution of the Board of the NBKR No 40/5 of 27.07.2011.

Table 13.

Annual Average Interest Rate of Interbank Credits
(excluding transactions with nonresidents)
(percents)

	2010	2011	2012	2013	2014
Interbank REPO operations	3.7	9.4	7.7	3.8	6.8
up to 1 day	3.9	9.0	8.1	3.8	6.8
2 - 7 days	3.7	9.4	7.7	3.7	6.8
8 - 14 days	3.7	9.5	7.5	4.3	7.7
15 - 30 days	-	12.0	-	-	9.5
31 - 60 days	-	-	-	7.5	-
61 - 90 days	-	-	-	-	-
91 - 180 days	-	-	-	-	-
181 - 360 days	-	-	-	-	-
over 360 days	-	-	-	-	-
Interbank Credits in National Currency	4.5	9.1	7.7	6.9	10.5
up to 1 day	-	10.3	5.0	-	-
2 - 7 days	4.8	9.5	7.3	3.7	7.0
8 - 14 days	4.2	9.8	8.3	3.0	11.8
15 - 30 days	5.0	7.0	9.0	6.5	-
31 - 60 days	-	10.0	10.1	-	-
61 - 90 days	-	-	-	-	-
91 - 180 days	-	-	9.6	7.4	7.5
181 - 360 days	-	-	6.5	7.7	9.8
over 360 days	-	-	6.5	9.8	-
Interbank Credits in Foreign Currency	2.9	3.5	1.6	-	0.5
up to 1 day	-	3.0	3.0	-	-
2 - 7 days	2.9	1.0	1.2	-	0.5
8 - 14 days	-	-	0.0	-	-
15 - 30 days	-	-	0.0	-	-
31 - 60 days	3.5	5.0	-	-	-
61 - 90 days	-	-	-	-	-
91 - 180 days	-	5.0	-	-	-
181 - 360 days	-	-	-	-	-
over 360 days	-	-	-	-	-

"-" - no transaction

**Table 14.**
Balance of Payments of the Kyrgyz Republic
(millions of USD)

	2010	2011	2012	2013	2014*
Current Account	-317.1	-593.0	-1,675.1	-1,807.8	-1,777.1
Goods and services	-1,403.4	-1,772.6	-3,567.2	-3,631.7	-3,739.2
Trade balance ¹	-1,202.2	-1,669.0	-3,210.6	-3,565.2	-3,398.6
Export (FOB)	1,778.7	2,267.0	1,954.4	2,048.4	1,891.6
CIS	784.2	1,019.6	1,126.1	1,026.0	889.5
Non-CIS	994.5	1,247.4	828.3	1,022.4	1,002.1
Import (FOB)	2,980.9	3,935.9	5,165.1	5,613.6	5,290.2
CIS	1,590.2	2,018.3	2,689.4	2,787.1	2,580.4
Non-CIS	1,390.6	1,917.7	2,475.7	2,826.5	2,709.8
Balance of Services	-201.2	-103.6	-356.6	-66.6	-340.6
Transportation services	-266.6	-332.1	-461.7	-358.0	-442.0
Travels	11.5	109.5	84.5	179.2	33.1
Other services	74.6	140.9	41.6	132.9	88.3
Technical assistance	-20.7	-21.9	-21.0	-20.7	-20.0
Income	-305.1	-659.1	-169.3	-414.1	-213.7
Income from direct investment	-247.9	-610.7	-110.8	-348.1	-153.0
Income from portfolio investment	0.2	0.1	0.0	0.0	0.0
Income from other investment	-25.1	-19.2	-29.7	-44.0	-36.5
Interest on credits	-35.8	-39.7	-46.8	-61.0	-57.2
Other income on other investment	10.7	20.4	17.1	17.0	20.7
Labor remuneration	-32.3	-29.4	-28.8	-22.0	-24.2
Current transfers	1,391.3	1,838.7	2,061.5	2,238.0	2,175.7
Official transfers	78.2	83.3	63.2	84.1	133.7
Private transfers	1,313.1	1,755.4	1,998.3	2,153.9	2,042.0
Capital and Financial Account	458.4	923.6	1,032.5	1,133.1	810.3
Capital account	-11.1	64.1	166.1	280.3	64.2
Capital transfers	-11.1	64.1	166.1	280.3	64.2
Financial account	469.6	859.5	866.4	852.7	746.1
Other investment ¹	437.6	693.6	292.4	626.1	210.5
Portfolio investment	27.1	-0.3	5.7	4.8	5.4
Financial derivatives	0.0	0.0	-0.4	-0.1	-6.1
Other investment	4.9	166.2	568.6	222.0	536.2
Assets ("-" increase)	128.7	-232.1	138.1	-68.4	-411.0
Commercial banks	202.8	-19.1	-8.2	-81.5	-20.4
Accounts receivable	-65.1	-44.5	-28.2	-68.2	-285.8
Accounts of enterprises abroad	-10.8	-163.9	181.3	32.5	5.1
Other assets	1.8	-4.6	-6.7	48.7	-109.8
Liabilities ("+" increase)	-123.8	398.3	430.5	290.4	947.1
Commercial banks	-225.6	7.3	8.6	24.7	14.1
Credits	85.9	390.9	353.5	191.6	625.8
Credits to public sector	145.5	201.5	285.4	177.8	409.5
Credits to private sector	-59.6	189.4	68.1	13.8	216.3
Accounts payable	15.9	0.2	68.4	74.1	207.2
Other liabilities	0.0	0.0	0.0	0.0	100.0
Errors and omissions	-30.8	-194.4	861.3	962.7	838.4
Total balance	110.5	136.2	218.7	288.0	-128.4
Financing	-110.5	-136.2	-218.7	-288.0	128.4

* preliminary data

¹ including NBKR estimates

Table 15.

Structure of External Public and Government Guaranteed Debt of the Kyrgyz Republic by Creditors
(millions of USD)

	2010	2011	2012	2013	2014*
External Public and Government Guaranteed Debt (1+2+3):	2,615.7	2,802.6	3,031.9	3,158.7	3,437.1
1. Multilateral debt:	1,466.8	1,519.9	1,567.5	1,629.8	1,558.9
World Bank	649.4	660.5	674.8	697.1	671.5
Asian Development Bank	564.2	583.4	594.6	607.1	583.6
International Monetary Fund	176.7	181.8	190.5	202.7	185.2
Islamic Development Bank	52.2	61.1	61.7	64.0	59.0
European Bank for Reconstruction and Development	5.8	16.0	29.6	40.0	40.6
International Fund for Agricultural Development	9.6	9.2	8.9	9.0	9.4
Nordic Development Fund	6.2	6.0	5.9	6.1	5.2
OPEC	2.7	2.0	1.3	3.9	4.0
Eurasian Development Bank	-	-	-	-	0.4
2. Bilateral Debt:	1,148.9	1,282.7	1,464.4	1,528.9	1,878.2
2.1. CIS countries:	493.6	490.5	489.0	300.0	300.0
Russia	493.6	490.3	488.9	300.0	300.0
Belarus	-	0.1	0.1	-	-
2.2. other:	655.3	792.3	975.4	1,228.9	1,578.2
China	150.9	272.6	527.5	758.4	1,115.9
Japan	341.4	357.4	320.6	263.1	229.4
Germany	73.1	75.8	81.3	98.4	102.4
Korea	14.9	14.8	15.9	17.4	16.7
Kuwait Fund	16.1	13.3	10.7	9.3	8.6
Turkey	49.5	49.2	10.0	70.5	90.0
France	5.9	5.8	5.9	6.1	5.4
Denmark	3.3	3.3	3.3	3.3	3.3
Saudi Development Fund	-	-	0.2	1.3	3.9
UAE	-	-	-	1.1	2.6
3. Government guaranteed external debt	-	-	-	-	-

* - preliminary data

"-" - no transaction

**Table 16.**

Information on Authorized (Stock) Capital of Commercial Banks (end-of-period)
(millions of KGS)

Bank	2010			2011			2012			2013			2014		
	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c
Total	7,774.7	7,518.6	2,634.3	8,799.4	8,362.4	3,340.3	9,847.9	9,847.9	3,301.9	10,482.8	10,442.3	3,815.4	11,199.6	11,170.9	3,999.2
OJSC "Ayl Bank"	560.0	560.0	0.0	600.0	600.0	0.0	600.0	600.0	0.0	600.0	600.0	0.0	600.0	600.0	0.0
OJSC RK "AMANBANK"	300.0	300.0	0.2	300.0	300.0	0.2	372.0	372.0	0.1	372.0	372.0	0.1	600.0	600.0	0.1
CJSC "Bank of Asia"	202.1	146.0	108.8	202.1	201.6	150.2	230.4	230.4	179.0	271.0	230.4	179.0	299.7	271.0	210.5
OJSC "BAKAI BANK"	216.0	216.0	0.0	265.2	265.2	0.0	326.5	326.5	0.0	339.9	339.9	0.0	384.9	384.9	0.0
CJSC "BTA Bank"	1,000.0	1,000.0	0.0	1,000.0	1,000.0	0.0	1,000.0	1,000.0	0.0	1,000.0	1,000.0	0.0	1,000.0	1,000.0	0.0
CJSC "Demir Kyrgyz International Bank"	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5
OJSC "DOS-KREDOBANK"	270.7	270.7	0.0	270.7	270.7	0.0	270.7	270.7	0.0	270.7	270.7	0.0	304.4	304.4	0.0
OJSC IB "Issyk-Kul"	271.0	271.0	0.3	271.0	271.0	0.3	271.0	271.0	0.3	271.0	271.0	0.3	271.0	271.0	0.3
OJSC "Kazkommertsbank Kyrgyzstan"	153.5	153.5	147.0	153.5	153.5	147.0	153.5	153.5	147.0	153.5	153.5	147.0	153.5	153.5	147.0
OJSC "Capital Bank"	100.0	100.0	100.0	100.0	100.0	100.0	255.0	255.0	0.0	310.1	310.1	0.0	310.1	310.1	0.0
CJSC "Kyrgyz-Swiss Bank"	-	-	-	-	-	-	-	-	-	242.4	242.4	242.4	242.4	242.4	242.4
CJSC "Kyrgyz Investment Credit Bank"	471.0	471.0	423.9	813.5	813.5	732.1	829.5	829.5	746.6	861.8	861.8	775.6	1,030.5	1,030.5	927.5
OJSC "KyrgyzCreditBank"	300.0	300.0	0.1	300.0	300.0	0.1	300.0	300.0	0.1	300.0	300.0	119.9	300.0	300.0	119.9
OJSC "Commercial Bank KYRGYZSTAN"	160.9	160.9	3.3	420.2	420.2	0.0	521.1	521.1	0.0	622.2	622.2	0.0	782.0	782.0	0.0
CJSC "Manas Bank"	500.0	300.0	300.0	377.7	377.7	377.7	377.7	377.7	377.7	377.7	377.7	377.7	377.7	377.7	377.7
CJSC Bank "Bai-Tushum"	-	-	-	-	-	-	615.0	615.0	245.1	715.0	715.0	329.9	715.0	715.0	329.9
OJSC "Optima Bank"	700.0	700.0	680.0	700.0	700.0	680.0	700.0	700.0	680.0	700.0	700.0	680.0	700.0	700.0	680.0
OJSC "Rosinbank"	40.9	40.9	0.0	40.9	40.9	0.0	40.9	40.9	0.0	40.9	40.9	36.8	40.9	40.9	36.8
OJSC "RSK Bank"	844.0	844.0	0.0	1,244.0	844.0	0.0	1,244.0	1,244.0	0.0	1,244.0	1,244.0	0.0	1,244.0	1,244.0	0.0
CJSC JSCB "Tolubay"	144.0	144.0	2.5	200.0	163.5	2.9	200.0	200.0	3.4	235.0	235.0	3.9	268.0	268.0	4.4
OJSC "FinanceCreditBank KAB"	300.0	300.0	0.0	300.0	300.0	281.7	300.0	300.0	54.5	300.0	300.0	54.5	300.0	300.0	54.5
OJSC "Halyk Bank Kyrgyzstan"	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2
OJSC "EcolIslamicBank"	372.4	372.4	0.0	372.4	372.4	0.0	372.4	372.4	0.0	387.4	387.4	0.0	407.4	407.4	0.0
Bishkek Branch of the National Bank of Pakistan	201.5	201.5	201.5	201.5	201.5	201.5	201.5	201.5	201.5	201.5	201.5	201.5	201.5	201.5	201.5

According to commercial banks' data

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

Table 17.
Consolidated Regulatory Report of Commercial Banks of the KR
(millions of KGS)

	2010	2011	2012	2013	2014*
ASSETS					
Cash assets	3,870.5	6,305.3	8,114.2	8,705.2	11,482.9
Correspondent account with the NBKR	5,513.7	5,274.2	6,650.3	6,685.5	7,935.4
Correspondent accounts with other banks	7,437.9	7,905.6	7,691.7	11,157.9	12,923.6
Deposits in other banks	4,024.9	1,729.9	3,240.4	5,649.6	3,975.7
Securities portfolio	4,267.6	5,785.5	8,892.3	10,285.0	6,444.5
Securities purchased under REPO agreements	101.8	245.2	819.3	584.4	209.1
Net credit and financial lease	23,871.6	30,209.9	39,477.8	54,672.8	78,524.0
Credits and financial lease to finance and credits institutions ¹	1,064.5	1,596.7	2,124.9	3,724.6	3,779.4
Credits and financial lease to clients ²	26,382.0	31,217.1	40,105.4	53,961.6	78,756.3
(less) Special LLP for credits and financial lease	-3,574.9	-2,603.9	-2,752.5	-3,013.3	-4,011.8
Fixed assets	4,482.9	4,860.0	5,396.8	6,033.8	6,546.6
Investment and financial participation	77.2	70.4	88.8	149.4	208.9
Other assets	7,214.7	5,151.3	7,074.8	7,168.3	9,370.4
TOTAL: ASSETS	60,862.6	67,537.4	87,446.5	111,092.0	137,621.0
LIABILITIES					
Liabilities to the NBKR	31.0	905.2	739.0	850.2	3,735.1
Settlement accounts and deposits of banks	2,068.8	1,685.6	2,743.9	3,908.6	3,611.5
Resident banks	22.8	20.4	980.1	1,296.1	423.2
Nonresident banks	2,046.0	1,665.2	1,763.8	2,612.5	3,188.4
Settlement accounts	13,482.9	13,068.5	18,507.1	21,309.9	24,941.3
Settlement accounts of finance and credit institutions	282.7	463.7	988.3	1,129.8	1,233.5
Settlement accounts of clients ³	13,200.3	12,604.8	17,518.8	20,180.1	23,707.8
Demand deposits	5,417.9	8,225.0	11,138.2	15,222.6	16,115.8
Demand deposits of finance and credit institutions	708.2	1,028.5	1,164.0	1,860.4	1,384.3
Demand deposits of clients ³	4,709.8	7,196.5	9,974.2	13,362.2	14,731.5
Time deposits	8,664.5	10,803.8	14,000.8	22,048.6	31,059.8
Time deposits of finance and credit institutions	493.7	302.7	412.7	550.1	1,880.8
Time deposits of clients ³	8,170.8	10,501.1	13,588.1	21,498.5	29,178.9
Deposits of nonresidents ⁴	1,804.0	1,814.4	2,199.9	2,719.8	4,165.0
Government deposits	4,695.7	4,763.6	4,805.3	6,033.3	6,252.8
Government credits	1,234.7	1,510.5	1,629.6	1,566.6	1,504.7
Securities sold under REPO agreements	199.7	82.4	23.5	0.0	209.1
Loans received	3,690.1	4,691.6	8,403.1	9,113.7	12,374.4
Other liabilities	7,762.2	6,262.4	7,238.1	9,516.1	12,821.1
TOTAL LIABILITIES	49,051.5	53,812.9	71,428.6	92,289.4	116,790.6
CAPITAL					
Stock capital	7,792.1	8,680.2	9,756.7	10,848.4	11,642.4
Reserves for future needs of the bank	509.3	644.6	751.7	862.6	1,027.2
Undistributed profit of previous years	2,667.1	3,173.4	4,057.0	5,053.3	5,664.3
Current year profits/losses	143.5	559.8	900.2	1,327.1	1,910.2
Revaluation accounts	699.1	666.4	552.3	711.1	586.4
TOTAL: CAPITAL	11,811.2	13,724.4	16,017.9	18,802.5	20,830.5
TOTAL: LIABILITIES AND CAPITAL	60,862.6	67,537.4	87,446.5	111,092.0	137,621.0

* - preliminary data

¹ includes loans to banks and other finance and credit institutions, resident and nonresident.² includes loans to legal entities and individuals, resident and nonresident.³ includes accounts of legal entities and individuals.⁴ includes accounts of finance and credit institutions, legal entities and individuals.



Таблица 18.

Information on Head Offices and Branches of Commercial Banks as of the end 2014

Bank	Head Office Location	Total Branches	Bishkek	Batken oblast	Jalal-Abad oblast	Issyk-Kul oblast	Naryn oblast	Osh oblast	Talas oblast	Chui oblast
		293	60	21	43	40	18	55	15	41
Total branches		293	60	21	43	40	18	55	15	41
Branches of resident-banks										
OJSC "Aiyi Bank"	Bishkek	30	2	4	6	3	2	6	2	5
OJSC RK "AMANBANK"	Bishkek	17	2	1	1	3	1	5	1	3
CJSC "Bank of Asia"	Bishkek	8	3	-	1	2	-	1	-	1
OJSC "BAKAI BANK"	Bishkek	7	-	-	1	1	1	1	1	2
CJSC "BTA Bank"	Bishkek	14	2	1	2	3	-	4	-	2
CJSC "Demir Kyrgyz International Bank"	Bishkek	8	4	-	1	1	-	2	-	-
OJSC "DOS-KREDOBANK"	Bishkek	11	1	-	1	3	2	1	1	2
OJSC IB "Issyk-Kul"	Bishkek	6	2	-	1	2	-	1	-	-
OJSC "Kazkommertsbank Kyrgyzstan"	Bishkek	3	2	-	-	-	-	1	-	-
OJSC "Capital Bank"	Bishkek	2	-	1	-	-	-	1	-	-
CJSC "Kyrgyz Investment Credit Bank"	Bishkek	15	4	1	2	1	1	3	1	2
OJSC "KyrgyzCreditBank"	Bishkek	3	3	-	-	-	-	-	-	-
OJSC "Commercial Bank KYRGYZSTAN"	Bishkek	35	7	2	8	3	3	6	1	5
CJSC "Kyrgyz-Swiss Bank"	Bishkek	-	-	-	-	-	-	-	-	-
CJSC "Manas Bank"	Bishkek	1	-	-	-	-	-	1	-	-
CJSC Bank "Bai-Tushum"	Bishkek	7	1	1	1	1	1	1	1	-
OJSC "Optima Bank"	Bishkek	18	7	1	1	3	1	2	1	3
OJSC "Rosinbank"	Bishkek	28	7	3	4	4	1	4	1	4
OJSC "RSK Bank"	Bishkek	51	3	5	10	7	5	9	4	8
CJSC JSCB "Tolubay"	Bishkek	2	2	-	-	-	-	-	-	-
OJSC "FinanceCreditBank KAB"	Bishkek	6	-	-	1	1	1	2	-	1
OJSC "Halyk Bank Kyrgyzstan"	Bishkek	9	4	-	1	1	-	2	-	1
OJSC "EcoIslamicBank"	Bishkek	12	4	1	1	1	-	2	1	2
Branches of nonresident-banks										
Bishkek Branch of the National Bank of Pakistan ¹	Karachi	-	-	-	-	-	-	-	-	-

¹ the branch of the nonresident bank was entered into the "Register of Issued Banking Licenses" on April 24, 2000, with the right to conduct banking operations

"-" - no branch

Table 19.
Composition of Circulating Cash of Commercial Banks and Its Rate of Collection in 2014
(millions of KGS)

	Receipt				Issue				Excess of Issue (receipt) over Receipt (9-4) (issue) (+/-)	Collection Rate (%) (4/9)	
	"Taxes, customs duties and fees"	From sales of foreign exchange	Other	Total	To Treasury for salary payments	For payments of pensions and allowances	Purchases of foreign exchange	Other expenses			Total
	1	2	3	4	5	6	7	8	9	10	11
Total for the Republic	29,438.0	119,328.3	869,714.1	1,018,480.4	18,294.2	8,443.9	168,346.0	817,780.9	1,012,865.0	-5,615.4	100.6
Bishkek city	14,051.8	96,673.7	407,730.2	518,455.7	4,888.2	281.1	93,740.7	390,351.6	489,261.6	-29,194.1	106.0
Batken oblast	335.8	1,109.0	50,006.5	51,451.3	1,475.6	844.2	8,708.1	41,382.7	52,410.6	959.3	98.2
Jalal-Abad oblast	645.3	3,631.1	97,897.9	102,174.3	3,155.0	1,687.3	22,659.9	86,913.0	114,415.2	12,240.9	89.3
Issyk-Kul oblast	373.5	1,413.2	42,940.5	44,727.2	1,068.5	788.8	3,888.3	42,709.6	48,455.2	3,728.0	92.3
Naryn oblast	89.5	340.7	17,584.0	18,014.2	872.5	1,477.1	720.1	17,605.3	20,675.0	2,660.8	87.1
Osh city	1,807.9	10,470.8	127,259.7	139,538.4	926.4	476.7	20,730.1	115,636.0	137,769.2	-1,769.2	101.3
Osh oblast	1,953.9	2,064.9	40,020.0	44,038.8	2,618.2	1,389.1	10,218.2	31,280.0	45,505.5	1,466.7	96.8
Talas oblast	175.0	580.9	19,152.9	19,908.8	814.2	282.5	1,707.7	21,414.2	24,218.6	4,309.8	82.2
Chui oblast	10,005.3	3,044.0	67,122.4	80,171.7	2,475.6	1,217.1	5,972.9	70,488.5	80,154.1	-17.6	100.0
<i>NBKR data</i>											



Table 20.
Pattern of Payments in the Gross System of Settlements

	2010		2011		2012		2013		2014	
	Volume, millions of KGS	Number of payments	Volume, millions of KGS	Number of payments	Volume, millions of KGS	Number of payments	Volume, millions of KGS	Number of payments	Volume, millions of KGS	Number of payments
payments up to KGS 1 thousand	3	9,780	4	10,588	4	10,589	5	10,982	7	16,300
from 1 thousand to 100 thousand	1,333	47,662	1,419	52,575	1,607	60,838	1,797	70,277	2,947	116,444
from 100 thousand to 1 million	11,143	26,467	14,070	32,877	15,343	35,383	18,174	41,370	25,106	59,885
from 1 million to 10 million	84,306	25,878	103,549	32,045	119,019	37,599	137,931	43,872	162,910	54,235
from 10 million to 100 million	170,059	6,250	225,349	7,896	258,968	8,680	288,134	9,552	398,924	12,726
Payments of over 100 million	116,140	576	175,236	760	213,231	970	305,314	1,206	821,947	2,900
Total	382,985	116,613	519,628	136,741	608,171	154,059	751,355	177,259	1,411,841	262,490

Table 21.
Volume and Number of Clearing Payments by Regions

	2010		2011		2012		2013		2014	
	Volume, millions of KGS	Number of payments	Volume, millions of KGS	Number of payments	Volume, millions of KGS	Number of payments	Volume, millions of KGS	Number of payments	Volume, millions of KGS	Number of payments
Bishkek and Chui oblasts	40,712	1,028,101	44,244	1,053,947	50,725	1,680,954	60,661	1,988,223	70,620	2,435,059
Batken oblast	2,490	59,164	2,762	43,100	2,921	58,765	3,915	77,628	4,195	120,649
Jalal-Abad oblast	4,976	122,639	5,682	96,941	5,817	122,063	6,143	126,271	6,853	191,453
Issyk-Kul oblast	2,957	79,917	3,828	75,469	4,406	105,556	5,117	143,736	5,564	201,049
Naryn oblast	1,356	37,379	1,636	46,321	2,096	51,572	2,739	58,531	3,151	69,662
Osh and Osh oblast	4,864	125,901	6,180	118,889	6,982	160,910	7,883	181,981	9,042	306,371
Talas oblast	987	37,977	1,153	24,393	1,266	24,365	1,670	37,930	2,155	77,444
Total	58,341	1,491,078	65,484	1,459,060	74,213	2,204,185	88,127	2,614,300	101,579	3,401,687

According to the NBKR data

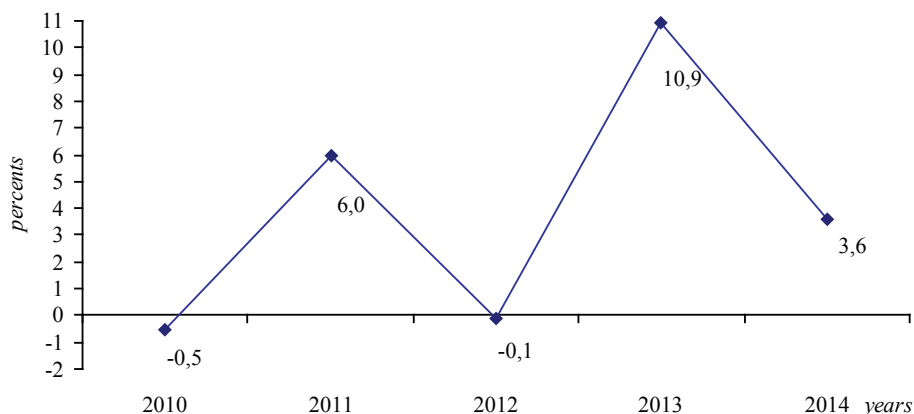
Table 22.
Information on Operations with Payment Cards at Trade Outlets

Type of Cards	2010		2011		2012		2013		2014	
	Number of transactions	Volume, thousands of KGS	Number of transactions	Volume, thousands of KGS	Number of transactions	Volume, thousands of KGS	Number of transactions	Volume, thousands of KGS	Number of transactions	Volume, thousands of KGS
Elcard	8,015	1,918	5,776	4,067	15,540	9,134	30,423	19,710	70,562	51,057
Zolotaya Korona (Alai Card)	28,442	15,009	40,821	21,634	99,879	40,455	299,006	52,987	361,468	70,047
Visa	66,935	345,435	242,881	884,107	393,377	1,228,983	671,377	1,877,463	975,746	2,529,638
Master Card	6,267	110,162	10,000	187,243	9,995	185,732	12,350	204,772	19,870	229,595
American Express	-	-	1,002	30,139	2,436	72,203	2,479	80,046	2,128	64,683
Union Pay	-	-	-	-	-	-	3	38	356	3,973

According to commercial banks data

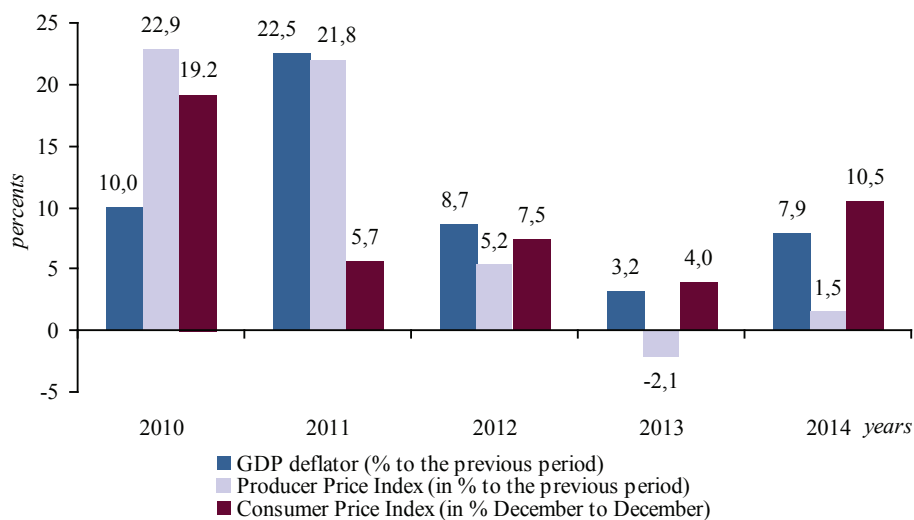
“-” - no transaction

Chart 1.
Rates of Growth of Real Gross Domestic Product



According to the NSC data

Chart 2.
Rates of Growth of Consumer and Producer Prices



According to the NSC data

Chart 3.
Monetary Aggregates M2X Structure

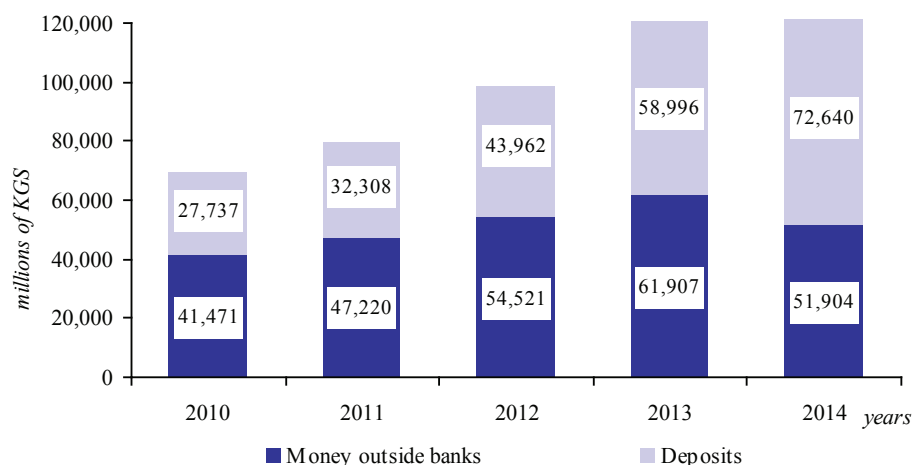
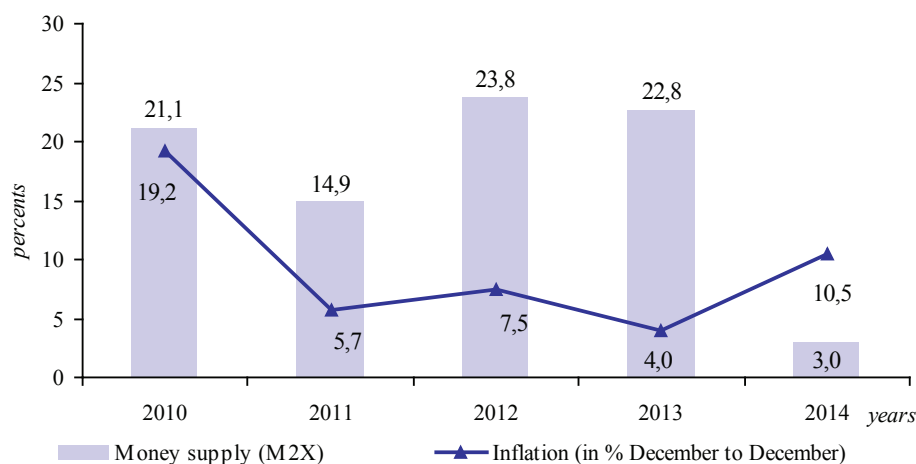


Chart 4.
Rates of Growth of Money Supply and Inflation



According to the NSC, NBKR and commercial banks' data

Chart 5.
Structure of Deposit Base of Commercial Banks (end-of-period)

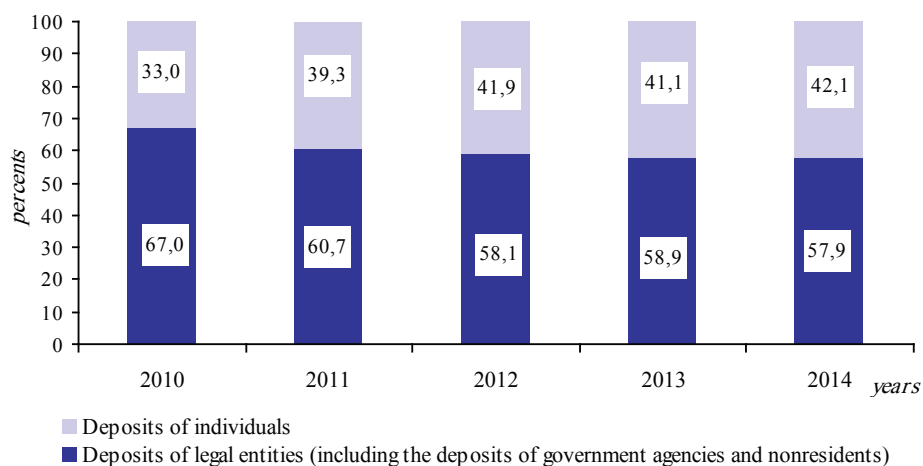
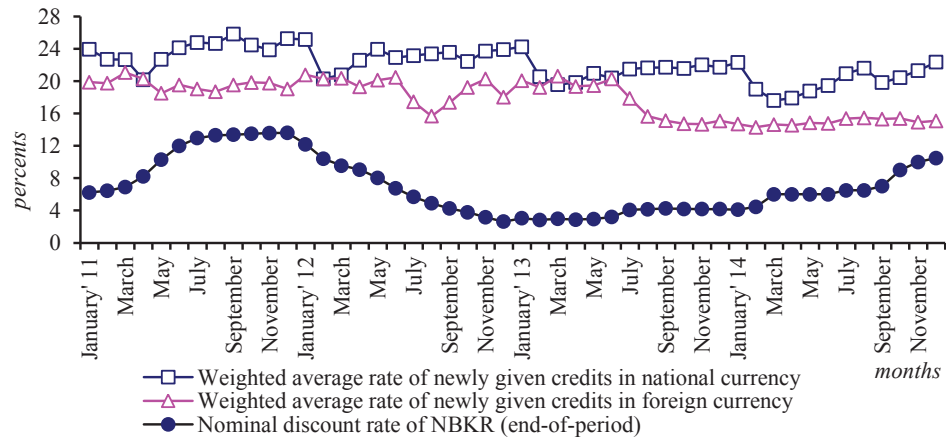


Chart 6.

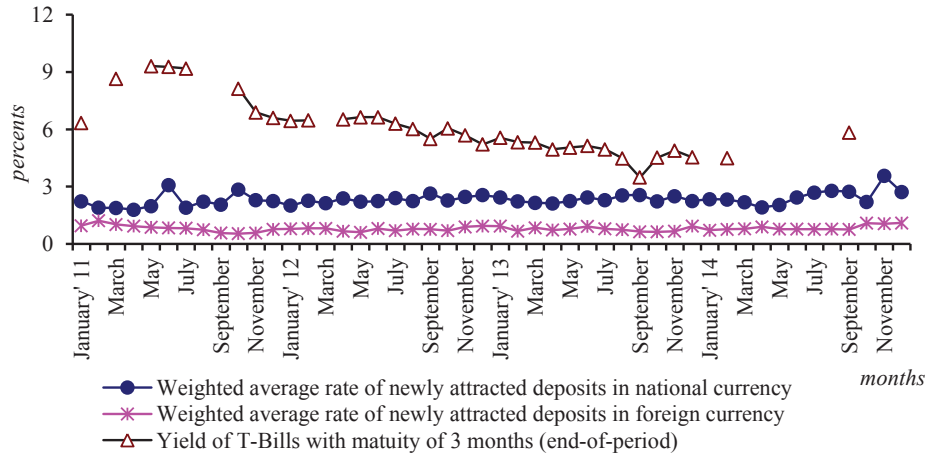
Interest Rates of Credits Granted by Commercial Banks and Discount Rate of the NBKR



According to monthly regulatory reporting by commercial banks

Chart 7.

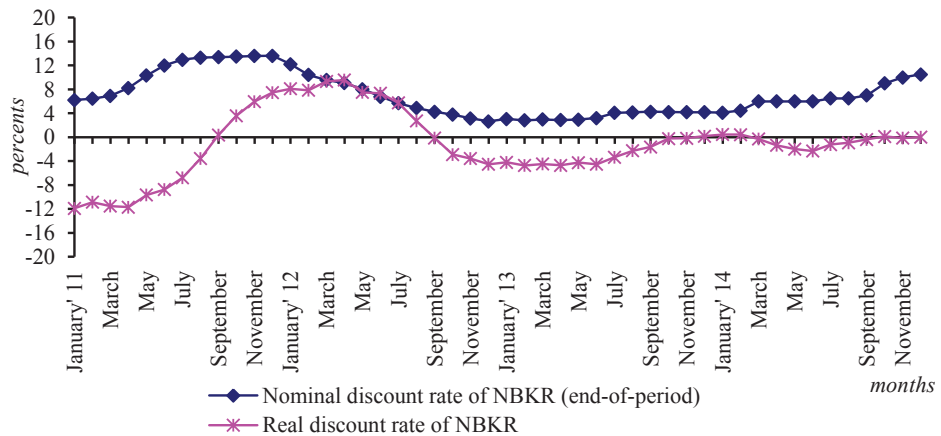
Interest Rates of Deposits and Yield of ST-Bills



According to NBKR data and monthly regulatory reporting of commercial banks

Chart 8.

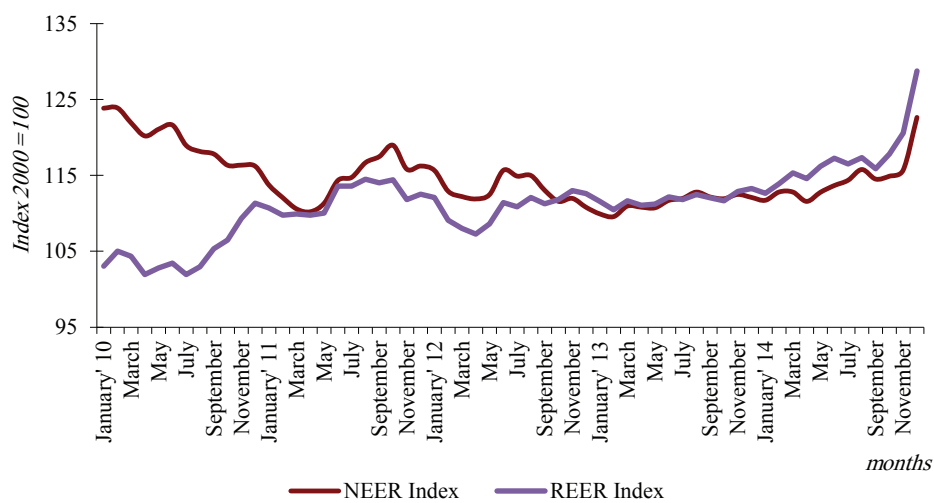
Nominal and Real Discount Rate Developments



According to NBKR data

Note: the following formula was used to calculate the real interest rate
 $r = (i - p) / (p + 100) * 100$, where i - the nominal interest rate,
 r - the real interest rate, p - annual rate of inflation

Chart 9.
Nominal and Real Effective Exchange Rate Indices



* According to NBKR data

Appendix 3
to the Report of the National Bank of the Kyrgyz Republic for 2014

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, English	Monthly	The publication provides the statistical data on basic economic and financial indicator. The data of the National Statistic Committee, Ministry of Finance, commercial banks, Financial Market Supervision and Regulation Service of the Kyrgyz Republic and the National Bank are used in preparation of the bulletin.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and departments, commercial banks, nonbank financial-credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic representative offices 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, English	Annually	It is the full report on the work of the National Bank for the reporting year, which contains a brief description of the outcome of developments in the real economy, the description of decisions and actions of the National Bank in the monetary sphere. It includes information on economic development, monetary policy, financial statements and general information on the National Bank, as well as the statistical appendices.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and departments, commercial banks, nonbank financial-credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic representative offices of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.



1	2	3	4	5	6
3.	Regulatory Acts of the NBKR	Kyrgyz, Russian	Monthly	These are the regulations, instructions, and other regulatory acts adopted by the NBKR.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, commercial banks, financial-credit institutions, courts of the Kyrgyz Republic, ministries and departments, higher educational institutions and libraries of the Kyrgyz Republic. It is published in the electronic format on the website of the National Bank.
4.	Monetary Policy Report (Inflation Report in the Kyrgyz Republic)	Kyrgyz, Russian, English	Quarterly	The objective of the publication is to regularly inform the public of main activities in the monetary policy area. The publication contains the analysis of external environment and macroeconomic development in the country, information on the dynamics and factors of inflation, inflation forecasts, real and external sector development in the economy of the Kyrgyz Republic, as well as development of countries-main trading partners.	It is published in the electronic format on the website of the National Bank.
5.	Financial Sector Stability Report of the Kyrgyz Republic	Kyrgyz, Russian, English	Biannually	The objective of the publication is to inform the public of the assessment of financial system stability and sustainability of the Kyrgyz Republic. The publication contains the findings of the financial stability monitoring and analysis, which are accounted for by the National Bank when forming the main monetary policy directions of the National Bank, regulating banking activities, designing the development strategy for financial and credit institutions of the Kyrgyz Republic.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, ministries and departments, commercial banks, nonbank financial-credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, diplomatic representative offices of the republic abroad, representative offices of international organizations, and embassies of countries accredited in the Kyrgyz Republic.

1	2	3	4	5	6
6.	The Balance of Payments of the Kyrgyz Republic	Kyrgyz, Russian, English	Quarterly	The publication describes the recent development trends in the external sector and contains the statistical data on the balance of payments, external trade, international reserves, external debt, and the international investment position, as well as the metadata and the information base of the balance of payments.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, higher educational institutions and libraries of the Kyrgyz Republic.
7.	Press Release of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian	Weekly	The live data on the official exchange rates set by the National Bank of the Kyrgyz Republic, the results of interbank foreign exchange auctions, the situation in the market of ST-Bills and NBKR Notes, the discount rate of the National Bank, brief analytical materials on basic NBKR activities, as well as the chronicle of events in the National Bank.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and departments, commercial banks, nonbank financial credit institutions, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, and mass media.
8.	Information brochures and instructions	Kyrgyz, Russian	According to work plans of structural units	Information brochures and manuals are published to cover various activities of the National Bank.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and departments, commercial banks and nonbank financial-credit institutions, higher educational institutions and libraries of the Kyrgyz Republic.



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9.	Official website of the National Bank www.nbkr.kg	Kyrgyz, Russian, English	It is updated online	Information on activity of the National Bank, including information on the banking legislation, regulatory and legal acts of the National Bank that regulate its monetary policy, activity of commercial banks and other FCIs, on the issue of organizing the payment system and the cash and money turnover, draft documents regularly submitted for discussion; the regularly updated list of commercial banks and NFCIs, licensed by the National Bank, the data on the tariffs for commercial banking services; the list of money transfer systems registered with the National Bank. The following information is also posted on the web-site: reviews on the commercial banking system and the nonbanking sector; the statistical data on monetary surveys, foreign economic indicators, balance of payments, international reserves, external debt, and on the international investment position of the Kyrgyz Republic; information on the history of the national currency; information and analytical materials and Internet versions of official publications: “Bulletin”, “Annual Report”, “Regulatory Acts”, “Monetary Policy Report (Inflation Report in the Kyrgyz Republic)”, “Financial Sector Stability of the Kyrgyz Republic”, “Balance of Payments of the Kyrgyz Republic”, and “Press Release”.	Free access to information

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5	<p>The data on the operations involving the National Bank; the official exchange rates and discount rate set by the National Bank; and the news block are updated in the real time mode.</p> <p>The special section is devoted to the issues of combating corruption, with the phone numbers of the “hot line” indicated therein.</p> <p>The special section “Information for Consumers of Financial Services”, which includes excerpts from the PPA on the requirements set for the financial and credit institutions and directed to protect the rights of consumers of financial and payment services; memos for the holder of electronic cards, the borrower, the depositor as well as the memo for cases of implementation of foreign exchange operations.</p> <p>The main page of the site contains operational information on the official rates of exchange, the discount rate of the National Bank, the rates of “overnight” credits and deposits, information on the average interest rate of credits of commercial banks and FCIs by sectors; direct links to sections on vacancies and other competitions held by the National Bank.</p>				
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10.	Broadcast “Uluttuk Bank Bildiret” (“The National Bank reports”)	Kyrgyz, Russian	Biweekly	Interviews of NBKR specialists on the current issues of monetary policy and banking legislation, on the progress in the implementation of strategic state programs on banking sector development, the payment system, and the microfinance market. The answers to the frequently asked questions of citizens are covered in the column “NBKR Public Chamber Answers Your Questions”.	Broadcast on the radio “Birinchi Radio”
11.	TV Program “Natsbank Soobschayet” (“The National Bank reports”)	Kyrgyz, Russian	Bimonthly	The basic aspects of NBKR activity are highlighted therein. The interviews of NBKR specialists on the current issues of monetary policy, banking and payment systems, and the banking legislation.	Broadcast on the TV channel: “E!TR”

List of Abbreviations

ADB	Asian Development Bank
AFI	Alliance for Financial Inclusion
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ATS	Automated Trade System
BCS	Bulk Clearing System
CAMELS	Rating System of Commercial Banks (capital adequacy, asset quality, management quality, earnings, liquidity, sensitivity of bank to market risk)
CES	Common Economic Space
CIFRS	Committee for International Financial Reporting Standards
CIIFRS	Committee for Interpretation of International Financial Reporting Standards
CIS	Commonwealth of Independent States
CJSC	Closed Joint Stock Company
CPI	Consumer Price Index
CPFL	Consumer Protection and Financial Literacy
CT MFKR	Central Treasury of the Ministry of Finance of the Kyrgyz Republic
CU	Credit Union
EB	Exchange Bureau
EBRD	European Bank for Reconstruction and Development
ECF	Extended Credit Facility of the IMF
ESAS	Electronic Statistical Database and Analytical Statements System
ESCAP	Economic and Social Commission for Asia and Pacific
EurAsEC	Eurasian Economic Community
EAEC	Eurasian Economic Commission
FAO	Food and Agricultural Organization of the United Nations
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FCCU	Financial Company of Credit Unions
FCI	Financial-Credit Institution
FOB	Price at the Frontier of Country-Exporter (free on board)
FPAS	Forecasting and Policy Analysis System
FSAP	Financial Sector Assessment Program
GDP	Gross Domestic Product
GIZ	German International Center
GS	Government Securities
IDB	Islamic Development Bank
IFC	International Finance Corporation
IFP	Islamic Financing Principles
IFRS	International Financial Reporting Standards
IIA	Institute of Internal Auditors
IMF	International Monetary Fund
IR	International Reserves
KR	Kyrgyz Republic
LLC	Limited Liability Company
LLP	Loan Loss Provision
MCA	Microcredit Agency
MCC	Microcredit Company
MFC	Microfinance Company
MFO	Microfinance Organization



MFKR	Ministry of Finance of the Kyrgyz Republic
MRC	Monetary Regulation Committee
NBKR	National Bank of the Kyrgyz Republic
NFCI	Nonbank Financial-Credit Institutions
NEER	Nominal Effective Exchange Rate
NSC	National Statistics Committee
OECD	Organization for Economic Cooperation and Development
OJSC	Open Joint Stock Company
OPEC	Organization of Petroleum Exporting Countries
PRBR	Periodic Regulatory Bank Reporting
PS	Payment System
REER	Real Effective Exchange Rate
ROA	Return on Assets
ROE	Return on Equity
RR	Reserve Requirement
RTGS	Real Time Gross Settlement System
SCO	Shanghai Cooperation Organization
SDR	Special Drawing Rights
SECO	Swiss Cooperation Office in the Kyrgyz Republic
SFCI	Specialized Financial-Credit Institution
SFRB	Specialized Fund for Refinancing of Banks
ST-Bill	State Treasury Bill
ST-Bill(s)	State Treasury Bill for Settlement
ST-Bond	State Treasury Bond
SWIFT	Society for Worldwide Interbank Financial Telecommunications
TIKA	Turkish Agency for Cooperation and Coordination
TO	Treasury Obligation
UAE	United Arab Emirates
ULE	Union of Legal Entities
UNDP	United Nations Development Program
USA	United States of America
VAT	Value Added Tax