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NATIONAL BANK OF THE KYRGYZ REPUBLIC

ANNUAL REPORT

2016

Bishkek, 2017

Annual Report of the National Bank of the Kyrgyz Republic for 2016

The report of the National Bank of the Kyrgyz Republic for the year of 2016 is prepared in accordance with Articles 8 and 10 of the Law “On the National Bank of the Kyrgyz Republic”.

The annual report of the National Bank for 2016 is approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No 11/2 of March 15, 2017.

The financial statements for the year ended 31 December 2016 are approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No 11/3 of March 15, 2017.

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CONTENTS

Foreword of the Governor of the National Bank of the Kyrgyz Republic	5
I. ECONOMIC SITUATION IN THE KYRGYZ REPUBLIC IN 2016	
CHAPTER 1. ECONOMIC DEVELOPMENT OF THE KYRGYZ REPUBLIC IN 2016.....	8
1.1. Real Sector of Economy.....	8
1.2. Public Finance Sector.....	10
1.3. Balance of Payments of the Kyrgyz Republic.....	11
1.4. Banking Sector.....	13
1.5. Sector of Non-Bank Financial Institutions.....	17
1.6. Financial Markets.....	21
1.6.1. Foreign Exchange Market.....	21
1.6.2. Interbank Credit Market.....	22
1.6.3. Securities Market.....	23
1.6.4. Deposit and Credit Market.....	27
II. ACTIVITY OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC IN 2016	
CHAPTER 2. MONETARY POLICY.....	34
2.1. Monetary Policy Framework.....	34
2.2. Monetary Policy Implementation.....	36
2.2.1. Domestic Foreign Exchange Market Operations...	37
2.2.2. Operations with Notes of the National Bank.....	38
2.2.3. Refinancing of Banks.....	39
2.2.4. Reserve Requirements.....	40
2.3. Management of International Reserves.....	41
2.4. Monetary Policy Results	43
CHAPTER 3. SUPERVISION AND REGULATION OF FINANCIAL CREDIT INSTITUTIONS.....	46
3.1. Banking Supervision.....	46
3.1.1. Licensing.....	46
3.1.2. Off-Site Supervision.....	47
3.1.3. Inspection.....	49
3.1.4. Enforcement Measures.....	50
3.2. Supervision over Non-bank Financial-Credit Institutions.....	51
3.3. Protection of Consumer Rights	52
3.4. Supervision and Regulation Methodology.....	53
CHAPTER 4. PAYMENT SYSTEM.....	56
4.1. Payment System Development.....	56
4.1.1. Non-cash Payments.....	56
4.1.2. Operators of Payment Systems and Payment Organizations.....	59
4.1.3. Payment System Oversight.....	59
4.1.4. Measures to Increase the Share of Non-cash Payments.....	60
4.2. Cash Circulation.....	61
CHAPTER 5. INTERNATIONAL COOPERATION AND PUBLIC RELATIONS.....	67
5.1. International Cooperation.....	67
5.2. Public Relations and Improvement of the Population Financial Literacy.....	69
CHAPTER 6. INFORMATION ON ACTIVITIES OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC.....	73
6.1. Structure of the National Bank of the Kyrgyz Republic.....	73
6.2. Activity of the Board of the National Bank of the Kyrgyz Republic in 2016.....	81
6.3. Improvement of Banking Legislation.....	82
6.4. Performance of Duty of Financial Adviser.....	83
6.5. Internal Audit and Internal Control System.....	86
III. FINANCIAL STATEMENTS OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC FOR 2016	
CHAPTER 7. FINANCIAL STATEMENTS OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC FOR THE YEAR ENDED 31 DECEMBER 2016.....	90
7.1. Independent Auditor's Report.....	91
7.2. Statement of Financial Position as at 31 December 2016	93
7.3. Statement of Profit or Loss for the year ended 31 December 2016	94
7.4. Statement of other Comprehensive Income for the year ended 31 December 2016	95
7.5. Statement of Cash Flows for the year ended 31 December 2016	96
7.6. Statement of Changes in Equity for the year ended 31 December 2016	98
7.7. Notes to the Financial Statements for the year ended 31 December 2016	100
IV. APPENDICES	
Appendix 1. Chronology of Major Events in the Monetary Sphere in 2016.....	146
Appendix 2. Statistical Information (tables and charts).....	157
Appendix 3. Periodical Publications and Other Information Tools of the National Bank.....	182
Appendix 4. List of Abbreviations.....	188

Dear Readers!

Last year has become a year of structural adaptation of the economy of the Kyrgyz Republic to the changing external environment. Against the restrained economic development in main trading partners of the Republic, the prudent macroeconomic policy allowed mitigating negative external shocks. Timely measures taken by the National Bank contributed to maintaining macroeconomic stability, ensuring financial stability and reliable functioning of the payment system.

In 2016, in the context of slowing inflation, the National Bank pursued a policy aimed at stimulating the economic activity. During the year, measures were taken to strengthen the transmission mechanism of the monetary policy aimed at improving the effectiveness of policy instruments. The National Bank continued providing long-term credit resources in national currency to support the real sector of economy. All these measures allowed increasing the economic activity and reducing the average interest rates on loans by the end of the year.

In the reporting year, within the framework of the National Bank's policy, a number of measures aimed at consumer protection and minimizing credit risks for borrowers of loans in foreign currency were implemented. Actions implemented in cooperation with the Government resulted in a significant improvement in reducing the overall level of economy dollarization.

Main indicators of the banking and non-banking system activities have identified a certain capacity to further increase the financial intermediation. Prudential actions taken in proper time allowed limiting systemic risks and ensuring financial stability and reliability of the banking system.

An important milestone in the development of banking legislation of the country was the Law of the Kyrgyz Republic "On the National Bank of the Kyrgyz Republic, Banks and Banking Activity" adopted in December 2016 and aimed at ensuring further sustainable economic development, including by strengthening the banking sector stability. Regulations to protect the rights and legitimate interests of the banks' clients, and the Islamic principles of financing are among the major innovations in the legal framework.

The national payment system operated in a stable and safe mode. The objectives to develop the payment system were successfully implemented in the reporting year. During the year, improvement of the regulatory framework, regulation and supervision over the new participants of the payment services market and their systems, expansion of the coverage sphere of retail non-cash payments and development of innovative technologies continued.

The Annual Report of the National Bank for 2016 prepared in line with the legislation of the Kyrgyz Republic reflects the information about activities of the Central Bank of the country in fulfilling its functions and includes financial statements confirmed by an independent international audit.

In preparing this Annual Report, the National Bank traditionally adhered to the principles of openness, reliability and completeness of the submitted information.

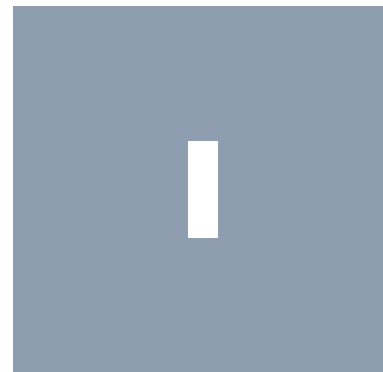
Sincerely,

Chairman



T. Abdygulov

**ECONOMIC SITUATION
IN THE KYRGYZ REPUBLIC
IN 2016**



CHAPTER 1. ECONOMIC DEVELOPMENT OF THE KYRGYZ REPUBLIC IN 2016

In 2016, the economic development of the Kyrgyz Republic continued its upward trend. At the end of the year, positive growth was recorded in all sectors of the economy. A significant contribution to the economic growth has been traditionally made by the industry and services sector. The increase in industrial production was mainly provided by the expansion of production at the enterprises involved in the Kumtor Mine development.

Inflationary background in the republic remained low throughout the year. Food prices continued to decline during 2016 amid favorable external conditions.

At the end of 2016, the KGS/USD exchange rate strengthened by 8.8 percent.

The situation in the financial sector as a whole was stable. The main indicators of financial intermediation showed positive dynamics, risks remained moderate, the transformation in the banking system continued. Owing to joint measures of the National Bank and the Government of the Kyrgyz Republic, the level of the economy's dollarization has reduced.

1.1. Real Sector of Economy¹

In 2016, the economy of the Kyrgyz Republic continued its upward trend. According to preliminary data of the National Statistics Committee of the Kyrgyz Republic (NSC), the gross domestic product (GDP) in real terms increased by 3.8 percent (in 2015, the

Table 1.1.1.

Structure of the Gross Domestic Product²

	2015			2016		
	Share, percent	Growth rate, percent	Contribution to growth, percentage points	Share, percent	Growth rate, percent	Contribution to growth, percentage points
GDP	100	3.9	3.9	100	3.8	3.8
Agriculture, forestry and fishery	14.1	6.2	0.9	13.2	3.0	0.4
Industry	16.7	-3.1	-0.5	17.5	5.2	0.9
Mining	0.8	50.5	0.3	1.0	20.1	0.2
Manufacturing (processing)	14.1	-6.2	-0.9	14.8	5.4	0.8
Provision (supply) of electricity, gas, steam and conditioned air	1.7	-0.1	-0.0	1.5	-3.5	-0.1
Water supply, purification and treatment of waste and generation of secondary materials	0.2	3.0	0.01	0.2	6.9	0.01
Construction	8.4	16.3	1.2	8.5	7.4	0.6
Services	49.1	3.7	1.7	49.8	3.0	1.5
Wholesale and retail trade; repair of motor vehicles and motorcycles	18.8	7.1	1.3	18.6	7.6	1.4
Transportation and storage of goods	3.9	0.7	0.02	3.9	-0.3	-0.01
Information and communication	4.3	3.2	0.1	3.9	-6.5	-0.3
Other	22.1	1.4	0.3	23.3	1.5	0.3
Net (les subsidies) taxes on products	11.8	3.9	0.5	11.0	3.8	0.4

Source: NSC of KR

¹ According to the preliminary data.

² Data are given according to the gross value added (GVA).

growth was 3.9 percent). The country's economic growth was supported by all major sectors of the economy. Excluding the enterprises involved in the Kumtor Gold Mine development, GDP growth reached 3.7 percent (in 2015, it was 4.9 percent). In nominal terms, the GDP amounted to KGS 458.0 billion. The GDP deflator was 2.5 percent as against 3.4 percent in 2015.

In 2016, the industrial sector showed growth. Industrial enterprises produced goods amounting to KGS 205.3 billion, its physical output increased by 4.9 percent as compared to the previous year. The share of the output of enterprises involved in the Kumtor Mine development in the industrial sector was about 56.5 percent. The contribution of industry to the economic growth was positive and amounted to 0.9 percentage points (for comparison, its contribution in 2015 was negative and made -0.5 percentage points).

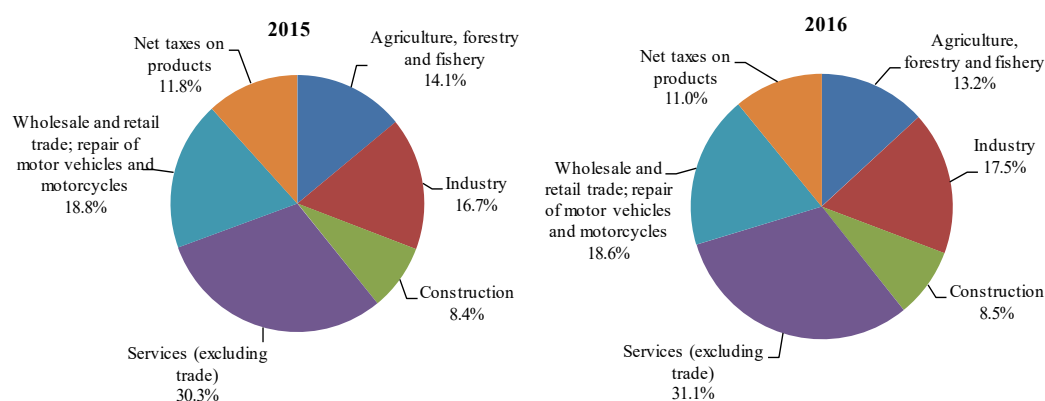
Industrial production

Excluding the enterprises involved in the Kumtor Gold Mine development, the physical output of industrial production increased by 4.8 percent at the end of the year. There was an increase in the production of refined petroleum products (44.4 percent), minerals (20.1 percent), food (including beverages) and tobacco products (12.1 percent). At the same time, the decline continued in the chemical production (by 39.6 percent), textile production, clothing manufacture and footwear industry, production of leather and other leather goods (by 22.2 percent).

The share of industry in the GDP structure was 17.5 percent in 2016.

Chart 1.1.1.

GDP Sector Composition by Types of Economic Activity¹



The prevailing favorable weather conditions, coupled with the policy of subsidizing agricultural loans, contributed to the growth of agricultural production of the Kyrgyz Republic. The volume of gross output in agriculture in 2016 amounted to KGS 197.1 billion in nominal terms, the real increase was 3.0 percent. The contribution of agriculture to GDP growth was positive and amounted to 0.4 percentage points, having decreased by 0.5 percentage points as compared to 2015.

Agriculture

Growth of gross agricultural output has been achieved due to increase in crop production (3.7 percent) and animal production (2.5 percent).

In 2016, the sector of services, compared to 2015, increased by 3.0 percent. The contribution of this sector to GDP growth was positive due to the growth in the wholesale and retail trade turnover, motor maintenance (1.4 percentage points) and amounted to 1.5 percentage points.

Trade and services sector

The growth of trade in 2016 amounted to 7.6 percent compared to the same period in 2015. The increase was recorded in all sectors of the industry, in particular, the

¹ Data are given according to GVA.

retail trade turnover increased by 8.3 percent, the wholesale trade – by 6.6 percent, the automobile business and trade of automobile parts – by 5.9 percent.

Construction

The total volume of gross output in the construction sector in 2016 amounted to KGS 128.6 billion in nominal terms, which is by 7.4 percent in real terms more than in 2015. This sector made a positive contribution to the GDP formation at the level of 0.6 percentage points, which was stipulated by the growth of investments in fixed assets.

Investment

The volume of investments in fixed assets in considered period amounted to KGS 133.4 billion, having increased by 3.8 percent in comparable prices (in 2015, the increase of the same indicator was 14.0 percent). The growth of investments was observed almost in all sectors, except the construction of processing industry facilities, education and public health services. A significant increase can be noted in the application of funds channeled to the construction of hotels and restaurants (by 3.4 times); facilities of art, entertainment and recreation (by 2.7 times); water supply, waste treatment and processing facilities (by 2.4 times), wholesale and retail trade facilities (by 1.8 times), transport activities and cargo storage facilities (by 37.8 percent).

In the structure of funding sources, the increase of capital investments financed by external sources was conditioned by the growth in foreign loans (by 9.0 percent) and grants (by 7.6 percent). Growth of investments from domestic funding sources was conditioned by increase in investments from the national (by 2.0 times) and local budgets (by 4.3 percent), as well as due to increased investments under the “Public funds and charitable assistance of the Kyrgyz Republic residents” item (by 7.7 percent).

1.2. Public Finance Sector¹

Fiscal Policy

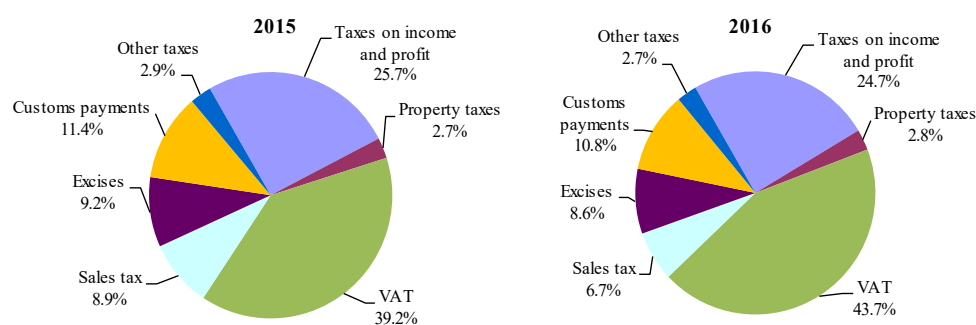
In 2016, the Government of the Kyrgyz Republic carried out a stimulating fiscal policy. The budget deficit amounted to KGS 20.9 billion, or 4.6 percent of GDP (in 2015, the budget was executed with a deficit of 1.5 percent of GDP).

In the period under review, the state budget revenues from operating activities amounted to KGS 130.6 billion, or 28.5 percent of GDP, having increased by 1.9 percent compared to the same period of 2015 (in 2015, the state revenues increased by 7.3 percent).

Tax revenues, which have the major share in the budget revenue structure, amounted to KGS 93.8 billion, having increased by 10.8 percent compared to the same period of 2015. 68.7 percent of tax revenues was provided by the State Tax Service of the Kyrgyz Republic and 31.3 percent – by the State Customs Service of the Kyrgyz Republic (in 2015, the ratio was 62.2 and 37.8 percent, respectively). In general, the structure of tax revenues has not undergone significant changes.

In accordance with the Law “On the National Bank of the Kyrgyz Republic”, 70 percent of the National Bank’s profit in 2016 was transferred to the state budget, which amounted to KGS 4.6 billion.

¹ Preliminary data of the Ministry of Finance of the Kyrgyz Republic.

Chart 1.2.1.**State Budget Tax Revenue Structure**

The total state budget expenditures for operating activities in 2016 amounted to KGS 115.9 billion, having increased by 10.2 percent (in 2015, the growth of expenditures amounted to 10.1 percent). In relation to GDP, expenditures increased from 24.4 percent in 2015 to 25.3 percent in 2016.

Despite the growth of budget expenditures, their structure, distributed in accordance with an economic classification, did not change significantly. In 2016, state budget expenditures for wages increased by 13.2 percent (by 12.5 percent in 2015), having reached KGS 44.7 billion, or 38.6 percent of total expenditures for operating activities. Expenditures for social security benefits and subsidies increased by 5.7 percent, having amounted to KGS 29.3 billion, or 25.3 percent of total expenditures for operating activities.

In accordance with the functional classification of budget expenditures, growth of expenditures was observed in the reporting period in the following groups: housing and communal services – by 21.8 percent, education – by 19.3 percent, recreation, culture and religion – by 18.7 percent, economic issues – by 15.3 percent, environmental protection – by 13.0 percent, general public services – by 10.9 percent, defense, public order and security – by 7.2 percent, public healthcare – by 4.8 percent, social security – by 0.7 percent.

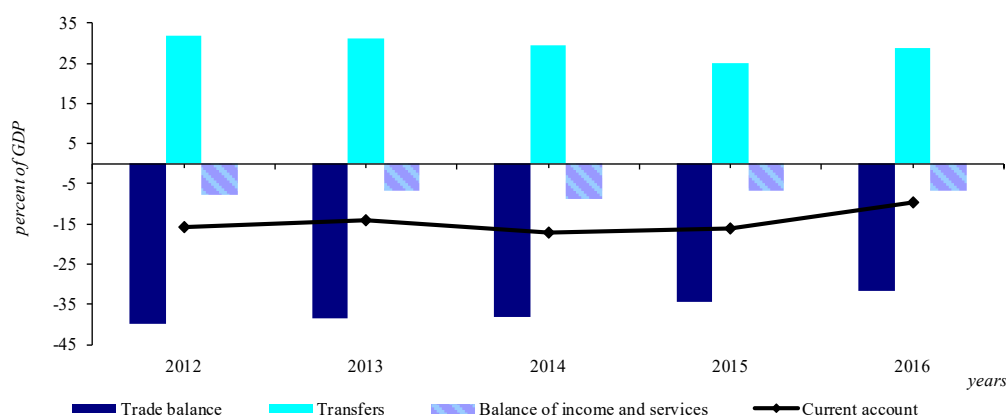
Net acquisition of non-financial assets in 2016 amounted to KGS 35.5 billion, or 7.8 percent of GDP (6.8 percent of GDP in 2015)¹.

According to the preliminary data of the Ministry of Finance of the Kyrgyz Republic, the public external debt at the end of 2016 amounted to USD 3.7 billion, or 56.6 percent of GDP (in 2015 – USD 3.6 billion, or 63.5 percent of GDP), the domestic debt amounted to KGS 22.3 billion, or 4.9 percent of GDP (in 2015 – KGS 15.5 billion, or 3.6 percent of GDP). Public debt service expenditures amounted to KGS 20.7 billion, or 4.5 percent of GDP, of which interest payments amounted to KGS 5.2 billion, or 1.1 percent of GDP (in 2015, public debt service expenditures amounted to KGS 14.4 billion, or 3.3 percent of GDP).

1.3. Balance of Payments of the Kyrgyz Republic

According to the preliminary data, in 2016 the current account deficit decreased by 40.2 percent and amounted to USD 633.2 million, or 9.6 percent of GDP (in 2015, the current account deficit was 16.2 percent of GDP).

¹ The summary GDP indicator for 2016 was used for calculations.

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

The reporting year was characterized by a decrease in foreign trade indicators. More significant decline in import of goods compared to export supplies led to a decrease of the trade deficit by 6.9 percent (to USD 2.1 billion).

Export of goods decreased by 1.5 percent in the reporting period and amounted to USD 1.6 billion¹. Gold remained the largest export item; its value increased by 5.4 percent due to the growth in average contract prices of supplies. At the same time, export excluding gold decreased by 6.4 percent and amounted to USD 892.6 million. The decrease was noted in the supplies of milk and milk products (by 50.5 percent), tobacco and cigarettes (by 50.7 percent), filament lamps (by 47.3 percent), and a number of other goods. At the same time, an increase in exports of fruits and vegetables (by 36.9 percent), rolled glass (by 35.0 percent) and a number of other goods was registered.

Import of goods (in FOB prices) for the reporting year amounted USD 3.7 billion, having decreased by 4.7 percent. The decrease in import was mainly caused by a 52.1 percent decline in volumes of imported oil products, which occurred due to a decrease in average contract prices and physical volume of supplies. The reporting period was also characterized by a reduction in supplies of iron and steel (by 22.7 percent), medicaments (by 28.9 percent), meat and meat products (by 63.9 percent) and a number of other goods.

In the reporting year the decrease was noted in export (by 2.7 percent) and import of services (by 2.2 percent). At the same time, "Travel" and "Transport Services" items had a determining influence on the dynamics of services. As a result, balance of services deficit amounted to USD 188.0 million (increase by 0.1 percent).

Money transfers

Net inflow of current transfers amounted to USD 1.9 billion, having increased by 16.9 percent compared to the same period of 2015. In structure of current transfers, a significant volume of income was provided by remittances of migrant workers. By the end of 2016, the net inflow of remittances of individuals through money transfer systems amounted to USD 1.6 billion against USD 1.3 billion in 2015.

The negative balance of income increased by 1.9 percent (up to USD 263.0 million). It was formed under the influence of growing incomes to pay on other investments.

Capital account

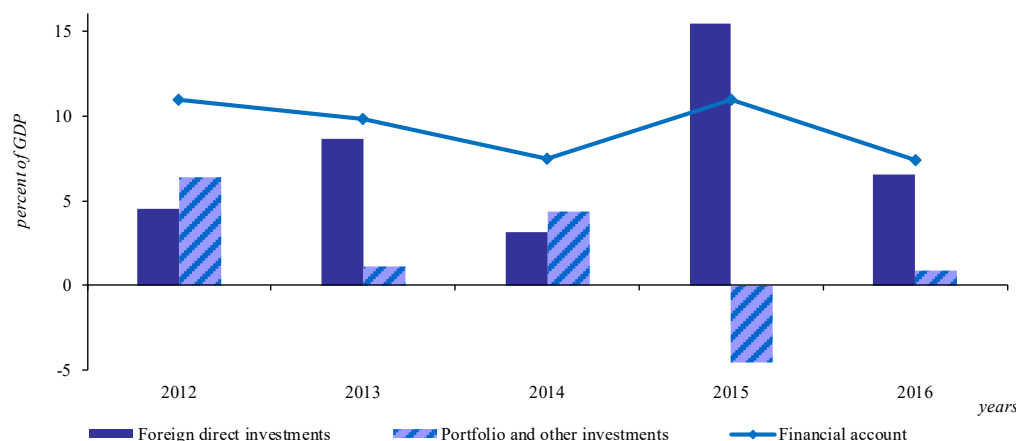
The balance of the capital and financial account in the reporting year decreased by 24.3 percent and amounted to USD 599.9 million. Despite the decrease in net capital inflows under the item "Direct Investments" by 57.4 percent (to USD 429.9 million), funds of foreign direct investors provided a significant share of receipts on the financial account (87.9 percent of net inflows on the financial account). The balance of the item "Other Investments" was positive and amounted to USD 49.7 million against the

¹ Including additional estimates of the National Bank.

negative balance of USD 171.7 million in 2015. The change in the volumes of “other investments” was caused mainly by a slowdown in the buildup of foreign assets of residents of the Kyrgyz Republic.

Chart 1.3.2.

Financial Account



By the end of 2016, the positive balance of the item “Errors and Omissions” amounted to USD 377.5 million, which points to the availability of statistical discrepancies related to the moment of transactions registry, incomplete coverage or using data from various sources.

Overall balance

The balance of payments was positive and amounted to USD 344.3 million against the negative balance of USD 41.4 million in 2015.

Gross international reserves at the end of the reporting year amounted to USD 1,969.1 billion, which corresponded to 4.6 months of coverage of the future volume of import of goods and services.

1.4. Banking Sector¹

At the end of 2016, the systemic risks in the banking sector are estimated as moderate. The banking sector has a high level of capital adequacy, suggesting that there is some potential to further improve the level of financial intermediation, enhance the banking sector’s efficiency, and ensure a sustainability in the future.

As of the end of 2016, 25 commercial banks, including the Bishkek Branch of the National Bank of Pakistan, operated in the Kyrgyz Republic.

Among the operating commercial banks, 17 banks had foreign capital. The share of foreign capital at the end of 2016 accounted for 44.0 percent of banks’ capital (42.8 percent in 2015).

During the reporting period, total assets of the banking sector increased insignificantly and amounted to KGS 178.2 billion. The main share of banks’ assets, 52.5 percent, accounted for the loans issued.

Banking sector assets

¹ The data of the periodic regulatory reporting of commercial banks were used taking into account adjustments made by the banks for prior periods.

Table 1.4.1.

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

Asset category	2015		2016	
	billions of KGS	Share, percents	billions of KGS	Share, percents
Loans and financial lease to clients	94.0	52.8	93.5	52.5
Correspondent accounts and deposits with other banks	36.7	20.6	23.5	13.2
Cash	10.7	6.0	13.3	7.5
Securities portfolio	7.7	4.3	13.0	7.3
Correspondent account with the NBKR	9.9	5.5	12.3	6.9
Fixed assets	7.7	4.3	9.2	5.1
Loans to financial-credit institutions	3.2	1.8	1.2	0.7
Investments and financial participation	0.2	0.1	0.3	0.2
Securities purchased under repurchase (REPO) agreement	0.3	0.2	0.0	0.0
Special LLP*	-6.3	-3.6	-7.6	-4.3
Other assets	14.0	7.8	19.4	10.9
Total	178.0	100.0	178.2	100.0

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

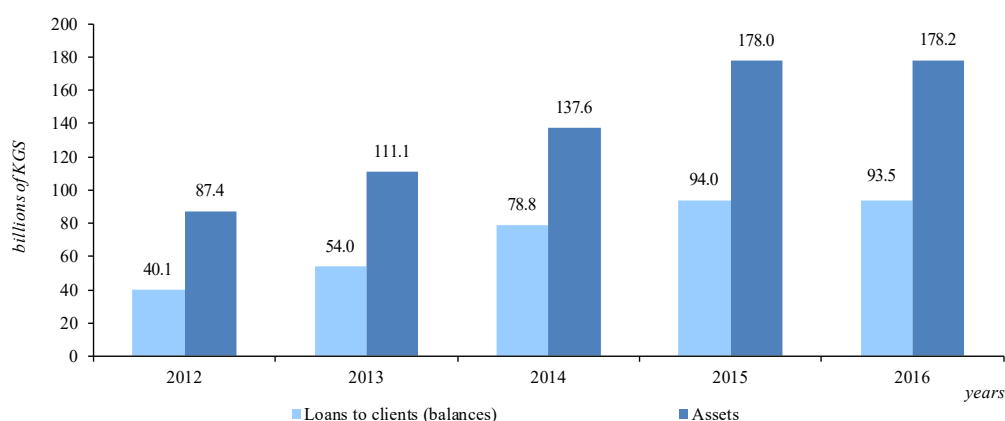
The volume of highly liquid funds placed by the commercial banks in cash, short-term assets and on correspondent accounts of the National Bank of the Kyrgyz Republic decreased by 14.3 percent during the reporting period, having amounted to KGS 49.1 billion, or 27.6 percent of the total assets at the end of 2016.

The credit portfolio¹ decreased by 0.5 percent and amounted to KGS 93.5 billion. The share of the credit portfolio in the assets of the banking sector decreased by 0.3 percentage points compared to 2015 and made up 52.5 percent.

The number of borrowers of banks at the end of 2016 amounted to 360,619 persons, having increased by 24.9 percent compared to 2015.

*Credit portfolio***Chart 1.4.1.**

Dynamics of Assets and Credit Portfolio of Banks (end-of-period)



The volume of “performing” assets was 92.2 percent of total assets (or KGS 146.8 billion) and that of “non-performing” assets was 7.8 percent (or KGS 12.4 billion). The share of “non-performing” loans in the credit portfolio reached 8.8 percent (or KGS 8.2 billion).

¹ Hereinafter, data are given excluding loans extended to banks and other financial institutions.

Amid some quality deterioration in the credit portfolio, the amount of allocations to the loan loss provision in the reporting period increased and amounted to KGS 1.4 billion.

Table 1.4.2.

Classification of Assets, Off-Balance-Sheet Liabilities and Loans to Clients
(In percent, unless stated otherwise)

Category	Assets and off-balance liabilities		Loans to clients	
	2015	2016	2015	2016
Total performing	94.2	92.2	92.9	91.2
<i>including:</i>				
Standard	48.0	57.8	16.9	35.8
Satisfactory	33.6	18.9	54.7	29.8
Under supervision	12.6	15.4	21.2	25.6
Total non-performing	5.8	7.8	7.1	8.8
<i>including:</i>				
Substandard	2.6	3.6	3.3	3.4
Doubtful	1.2	1.7	1.8	2.5
Losses	2.0	2.6	2.1	2.9
Total	100.0	100.0	100.0	100.0

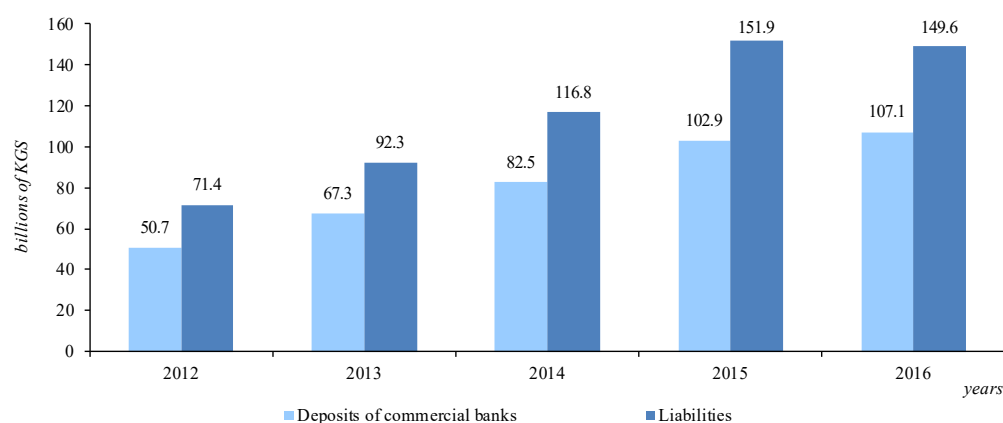
As a result of measures taken by the Government of the Kyrgyz Republic and the National Bank, the level of dollarization of the banking sector in 2016 fell to a record low. The level of dollarization of the banking sector's credit portfolio in 2016 declined by 10.5 percentage points compared to 2015 and amounted to 44.5 percent.

At the end of 2016, the volume of liabilities of the commercial banks decreased by 1.5 percent, down to KGS 149.6 billion. The share of the deposit base in the gross volume of liabilities was 71.6 percent. During the reporting period, the deposit base of the banking sector increased by 4.1 percent and amounted to KGS 107.1 billion.

Banking sector liabilities

Chart 1.4.2.

Dynamics of Liabilities and Deposit Base of Banks



Liabilities in foreign currency decreased by 13.9 percentage points compared to 2015 and amounted to 49.0 percent of total liabilities.

Table 1.4.3.

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

Liability category	2015		2016	
	billions of KGS	Share, percents	billions of KGS	Share, percents
Term deposits	38.3	25.2	34.9	23.3
Settlement accounts	29.2	19.2	34.5	23.1
Demand deposits	21.8	14.4	24.6	16.4
Loans received	21.6	14.2	19.3	12.9
Other liabilities	13.4	8.8	12.8	8.6
Government deposits	7.1	4.7	7.3	4.9
Deposits of non-residents	6.4	4.2	5.9	3.9
Liabilities to the NBKR	4.7	3.1	5.5	3.7
Government loans	1.9	1.3	2.6	1.7
Settlement accounts and deposits of banks	7.1	4.7	2.2	1.5
Securities sold under repurchase (repo) agreements	0.3	0.2	0.0	0.0
Total	151.9	100.0	149.6	100.0

Deposit base

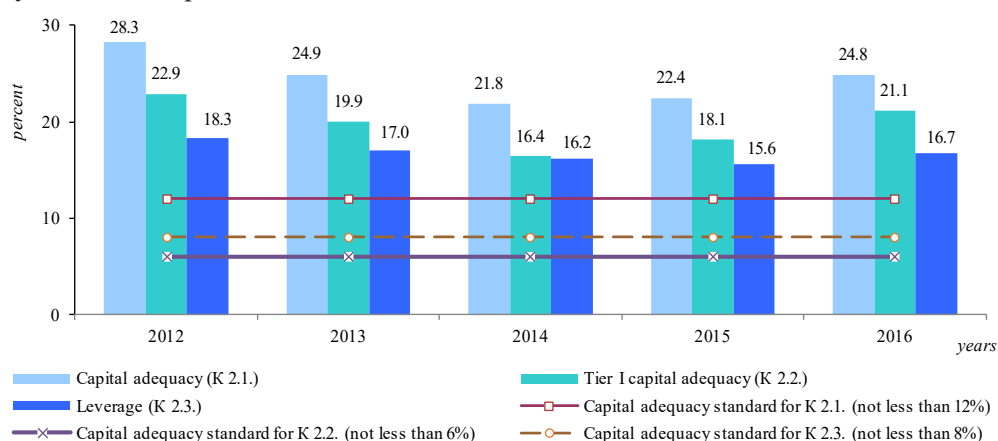
The structure of the deposit base has almost not changed. Thus, as of the end of 2016, settlement accounts and demand deposits amounted to 55.2 percent, term deposits – to 32.6 percent and deposits of the Kyrgyz Government and non-residents – to 12.3 percent. In general, the volume of deposits of the commercial banks reached KGS 107.1 billion. Deposits of legal entities decreased during the reporting period by 0.4 percent, or KGS 0.2 billion. Deposits of individuals increased by 11.7 percent, or KGS 5.5 billion. Measures taken by NBKR and aimed at de-dollarization of the economy also affected the level of dollarization of the deposit base, which decreased by 14.6 percentage points compared to 2015 and amounted to 51.0 percent.

Capital of commercial banks

Net total capital¹ of commercial banks increased during 2016 by 8.0 percent and amounted to KGS 29.7 billion. Paid-up authorized capital² increased by 18.0 percent, up to KGS 19.0 billion.

Chart 1.4.3.

Dynamics of Capital-Based Indicators



Indicators of capital adequacy of the banking sector reflect stability of the banking sector. The actual level of capital adequacy of the banking sector (K 2.1.), formed by the end of 2016, allows to further increase the volume of risk assets in compliance with the established standard level of capital adequacy.

¹ Net total capital of the bank includes authorized capital, reserves, undistributed earnings (losses) of previous years, earnings (losses) in the reporting year and general reserves formed in the bank for the performing assets.

² Ordinary and preference shares are included into this category.

Table 1.4.4.

Amounts of Income and Expenses
(Billions of KGS)

Category	2015	2016
Total interest income	19.3	19.6
Total interest expense	8.9	9.5
Net interest income	10.4	10.1
Allocations to LLP (loans)	1.4	1.4
Net interest income after allocations to LLP	8.9	8.7
Total non-interest income	11.4	14.6
Total non-interest expenses	7.1	10.6
Total other operating and administrative expenses	10.4	11.2
Net operating income (loss)	2.9	1.5
Allocations to LLP (on other assets)	0.2	0.4
Net income (loss) before tax	2.7	1.1
Profit tax	0.3	0.2
Net income (loss)	2.4	0.9

Net profit of the banking system in 2016 totaled KGS 893.5 million. Return on assets (ROA) declined from 1.5 percent to 0.5 percent, return on equity (ROE) reached 3.4 percent.

1.5. Sector of Non-Bank Financial Institutions

In 2016, systemic risks in the sector of non-bank financial institutions (NBFI) remained moderate. Due to transformation of “Financial Group Kompanion” CJSC MFC into a bank, there was a decrease in basic indicators of NBFIs sector in the reporting period, in particular, assets, credit portfolio and resource base.

As of December 31, 2016, 673 non-bank financial institutions, including specialized financial institution OJSC “Financial Company of Credit Unions”, microfinance institutions (hereinafter – MFIs), credit unions (hereinafter – CU) and exchange offices operated in the territory of the Kyrgyz Republic.

According to regulatory reporting, the total NBFI assets¹ decreased by 31.6 percent in the reporting year and amounted to KGS 13.6 billion as of December 31, 2016.

Main trends in the NBFI sector

Assets of NBFIs

Table 1.5.1.

Structure of NBFIs Assets (end-of-period)

Asset category	2015		2016	
	millions of KGS	Share, percents	millions of KGS	Share, percents
Loans and financial lease to clients	14,042.7	70.7	10,191.1	74.9
Correspondent accounts and deposits in other banks	3,029.1	15.2	1,486.2	10.9
Other assets	1,083.9	5.5	583.8	4.3
Loans to financial institutions	932.0	4.7	724.3	5.3
Fixed assets	576.5	2.9	293.9	2.2
Investments and financial participation	679.4	3.4	670.2	4.9
Cash	188.4	0.9	226.5	1.7
Securities portfolio	8.8	0.0	2.6	0.0
Special LLP*	-664.8	-3.3	-576.2	-4.2
Total	19,876.0	100.0	13,602.3	100.0

¹ NBFI sector data are presented without considering the credit portfolio of “FCCU” OJSC, because the loans were extended to the credit unions, which reissued these loans thereafter.

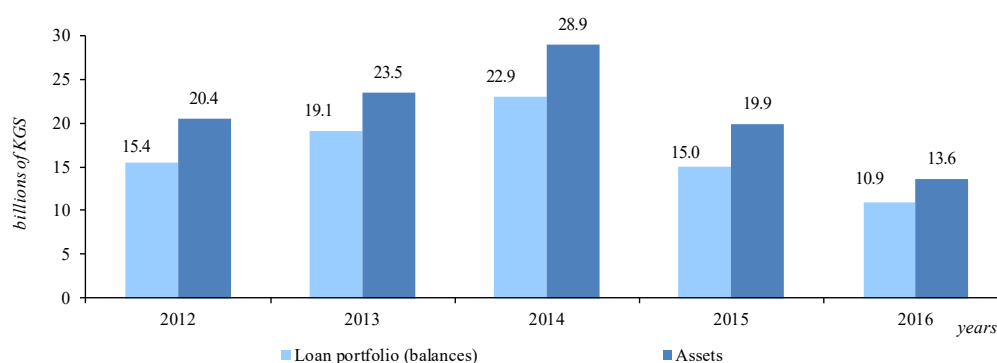
Credit portfolio

The volume of liquid assets placed by NBFIs in cash, short-term assets and in transaction accounts in the commercial banks increased during the reporting period by 1.4 percentage points, having amounted to KGS 1.7 billion by the end of 2016, or 12.6 percent of total assets.

Due to the transformation of “Financial Group Kompanion” CJSC MFC into the bank, the credit portfolio of non-bank financial sector, compared to 2015, decreased by 27.1 percent and amounted to KGS 10.9 billion. Excluding “Financial Group Kompanion” CJSC MFC, the credit portfolio of NBFIs, compared to 2015, increased by 3.3 percentage points. The share of the credit portfolio in the NBFI assets increased by 4.8 percentage points compared to 2015 and amounted to 80.2 percent. The number of NBFI borrowers at the end of 2016 amounted to 228,482 persons, having decreased compared to the same period of 2015, by 106,349 persons, or 31.8 percent. The coverage of financial services decreased by 1.8 percentage points, to 3.8 percent, which is also associated with the transformation of “Financial Group Kompanion” CJSC MFC into the bank.

Chart 1.5.1.

Dynamics of Assets and NBFI Credit portfolio (end-of-period)



The volume of “performing” loans was KGS 10.1 billion and that of “non-performing” loans was KGS 0.8 billion. The amount of “non-performing” loans decreased over the year by KGS 135.1 million.

Table 1.5.2.

NBFI Credit Portfolio Quality

Category	2015		2016	
	millions of KGS	percents	millions of KGS	percents
Total performing	14,016.3	93.6	10,092.2	92.5
Total non-performing	958.3	6.4	823.2	7.5
<i>including:</i>				
Substandard	309.8	2.1	322.6	3.0
Doubtful	122.4	0.8	126.6	1.2
Losses	526.1	3.5	374.0	3.4
Total loan portfolio	14,974.7	100.0	10,915.4	100.0

The share of MFIs (microfinance companies, microcredit organizations, microcredit agencies) in the aggregate credit portfolio of NBFIs decreased from 93.8 percent (KGS 14.0 billion) to 91.4 percent (KGS 10.0 billion), and the share of CU increased from 6.2 percent (KGS 0.9 billion) to 8.6 percent (KGS 0.9 billion).

Specialized financial institutions

Activities of specialized financial institutions (SFI) are directed at extension of loans to support finance systems in rural areas as part of moneylending to CU. SFI credit portfolio amounted to KGS 474.7 million by the end of 2016, which exceeds the same figure of 2015 by 0.4 percent.

The aggregate credit portfolio of credit unions (CUs) increased by 0.8 percent and amounted to KGS 0.9 billion by the end of 2016. In the structure of the credit portfolio the main share of loans falls on lending to agriculture – 47.5 percent, trade and services – 23.9 percent (in 2015 – 50.9 and 26.6 percent, respectively). The number of CU borrowers fell by 5.3 percent and totaled 9,396 people as of December 31, 2015.

Credit unions

Eight CUs had deposit licenses by the end of 2016. The volume of deposits attracted from CU participants increased by 1.3 percent and amounted to KGS 8.6 million, while liabilities to other FCIs decreased by 1.1 percent and amounted to KGS 447.4 million.

The aggregate credit portfolio of microfinance institutions (MFIs) decreased by 29.0 percent and amounted to KGS 10.0 billion by the end of 2016. In general, the MFI credit portfolio consists of short- and medium-term loans. The main sectors of MFI moneylending included agriculture, which accounted for 27.7 percent (38.8 percent by the end of 2015) of the aggregate credit portfolio, as well as trade and services – 28.3 percent (27.0 percent as of the end of 2015). The main sources of MFI lending include funds attracted from international financial institutions and international organizations. The number of borrowers has decreased by 32.6 percent and amounted to 219,086 persons by the end of 2016.

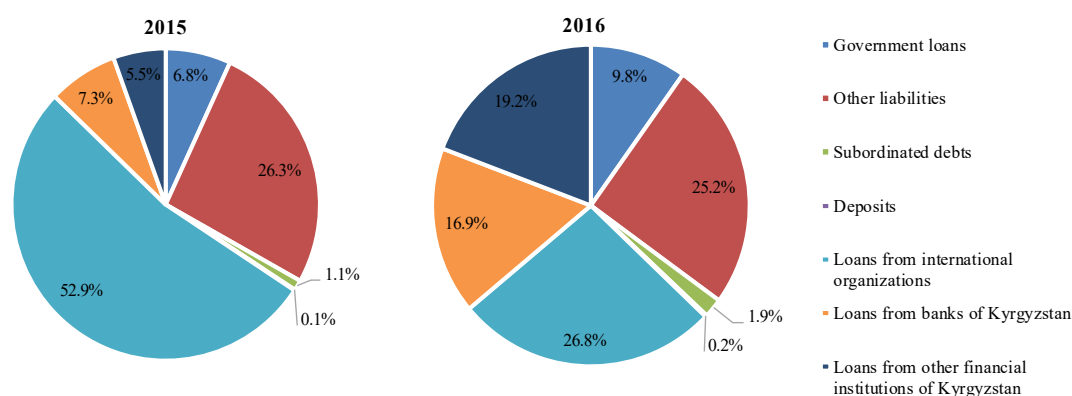
Microfinance institutions

At the end of 2016, the volume of NBFIs liabilities decreased by 51.7 percent to KGS 5.2 billion.

NBFI liabilities

Chart 1.5.2.

Structure of NBFI Liabilities
(percent)



In the structure of NBFI liabilities, the share of liabilities to foreign entities amounted to 26.8 percent. Liabilities in the foreign currency amounted to 33.1 percent of total liabilities.

Table 1.5.3.
Structure NBFi Liabilities (end-of-period)

Liability category	2015		2016	
	millions of KGS	Share, percents	millions of KGS	Share, percents
Loans received, including:	7,821.9	72.6	3,781.9	72.7
<i>from banks of Kyrgyzstan</i>	786.6	7.3	877.7	16.9
<i>from other financial institutions of Kyrgyzstan</i>	593.5	5.5	1,000.4	19.2
<i>from international financial organizations and donors</i>	958.8	8.9	88.1	1.7
<i>from international financial institutions</i>	4,744.9	44.0	1,303.8	25.1
<i>from the Government of Kyrgyzstan</i>	738.1	6.8	511.9	9.8
Other liabilities	2,832.9	26.3	1,311.8	25.2
Subordinated debts	114.5	1.1	100.8	1.9
Term deposits	8.3	0.1	8.1	0.2
Demand deposits	0.3	0.0	0.5	0.0
Total	10,777.9	100.0	5,203.0	100.0

Capital of NBFIs

The total amount of paid-up equity capital of non-banking financial institutions amounted to KGS 3.9 billion. The total amount of the authorized capital of NBFIs decreased by 17.0 percent, or KGS 0.8 billion (KGS 4.7 billion in 2015). The equity capital of NBFIs reached KGS 6.9 billion, having decreased by 8.0 percent, or KGS 0.6 billion.

The net profit of NBFIs in 2016 amounted to KGS 1.1 billion, having increased by KGS 0.4 billion, or 36.4 percent, compared to the previous year.

Table 1.5.4.
Structure of Income and Expenses
(millions of KGS)

Category	2015	2016
Total interest income	5,005.0	3,490.0
Total interest expenses	1,517.9	670.9
Net interest income	3,487.1	2,819.1
Allocations to LLP (loans)	356.2	172.8
Net interest income after allocations to LLP	3,130.9	2,646.3
Total non-interest income	92.2	306.7
Total non-interest expenses	1,528.9	1,496.1
Total other operating and administrative expenses	889.5	248.4
Net operating income (loss)	804.7	1,208.4
Allocations to LLP (on other assets)	9.7	15.7
Net income (loss) before tax	795.0	1,192.7
Profit tax	85.4	116.1
Net profit (loss)	709.6	1,076.6

Return on assets (ROA) increased from 2.9 percent to 6.4 percent in 2016, return on equity (ROE) increased from 9.1 percent to 15.2 percent.

1.6. Financial Markets

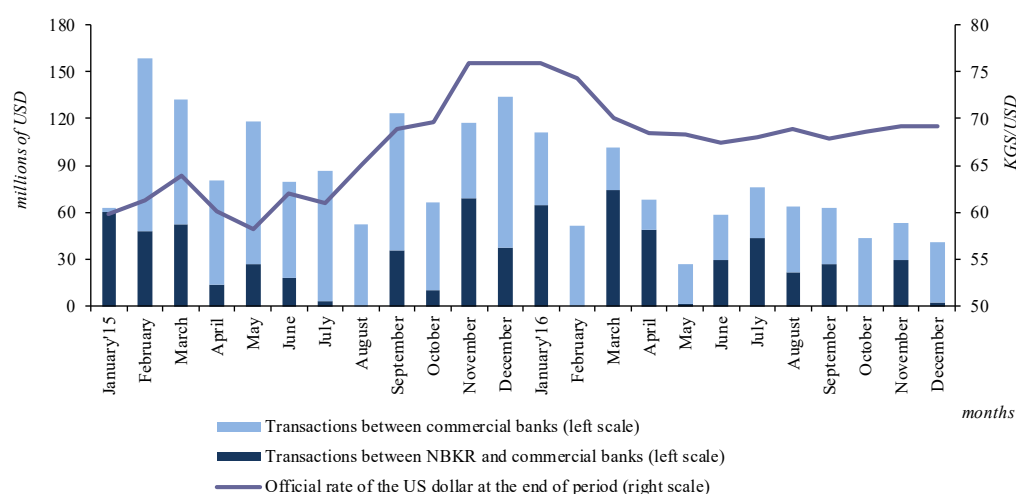
1.6.1. Foreign Exchange Market

In 2016, fundamental economic factors determined the trend of real and nominal strengthening of the national currency. Thus, the restrained domestic consumption and changing terms of trade resulted in sustainable excess of foreign currency supply over its demand, while the short-term factors affected the fluctuations in the nominal exchange rate within a year.

Following the results of 2016, the discount rate of the US dollar decreased by 8.8 percent, from KGS 75.8993 to 69.2301 per US dollar.

Chart 1.6.1.1.

Exchange Rate Movement and Volume of Interbank Foreign Exchange Auction Transactions



In the reporting period, in order to smooth sharp fluctuations of the exchange rate in the interbank foreign exchange market, the National Bank both sold and purchased the foreign currency. Net purchase on such transactions amounted to USD 29.1 million.

The total volume of spot-transactions on purchase/sale of foreign currency on the foreign exchange market¹ amounted to KGS 406.5 billion, having decreased by 9.9 percent. The volume of transactions with US dollars at year-end decreased by 14.2 percent along with their share in the total volume of transactions, which went down to 61.7 percent (-3.1 percentage points). The share of transactions in Russian rubles increased from 25.3 to 33.2 percent with simultaneous increase in the volume of transactions by 18.5 percent. The share of transactions in euros fell to 2.9 percent (-0.7 percentage points), with a reduction in the volume of transactions by 27.3 percent. The volume of transactions in Kazakhstani tenge also decreased by 69.0 percent with a share decreased by 4.2 percentage points, up to 2.2 percent. The volume of transactions with other currencies² increased by 39.3 percent, and their share – up to 0.04 percent (+0.01 percentage points).

The aggregate volume of swap-operations conducted by commercial banks, both in the domestic market and with non-resident banks, amounted to KGS 32.8 billion, having decreased by 11.4 percent compared to the same period of 2015. The National Bank did not conduct swap-operations in considered period.

¹ Excluding transactions with non-cash foreign currency conducted by commercial banks with their clients.

² British pound, Swiss franc, Turkish lira, Uzbek sum, Canadian dollar, Chinese yuan and Japanese yen.

Exchange rate movement

National Bank interventions

Foreign exchange market structure by currencies

Swap-operations

Exchange rate movement at exchange offices

Following the results of 2016, the weighted average selling rate of US dollars in cash in the exchange offices decreased by 8.9 percent and amounted to KGS 69.2446 per dollar as of the end of December. The average weighted selling rate of euro in the exchange offices decreased by 12.1 percent over the year and amounted to KGS 72.8166 per euro, and that of Kazakh tenge – by 6.6 percent, to KGS 0.2092 per tenge. Russian ruble, on the contrary, rose by 9.8 percent, up to KGS 1.1402 per ruble.

1.6.2. Interbank Credit Market

Foreign currency transactions

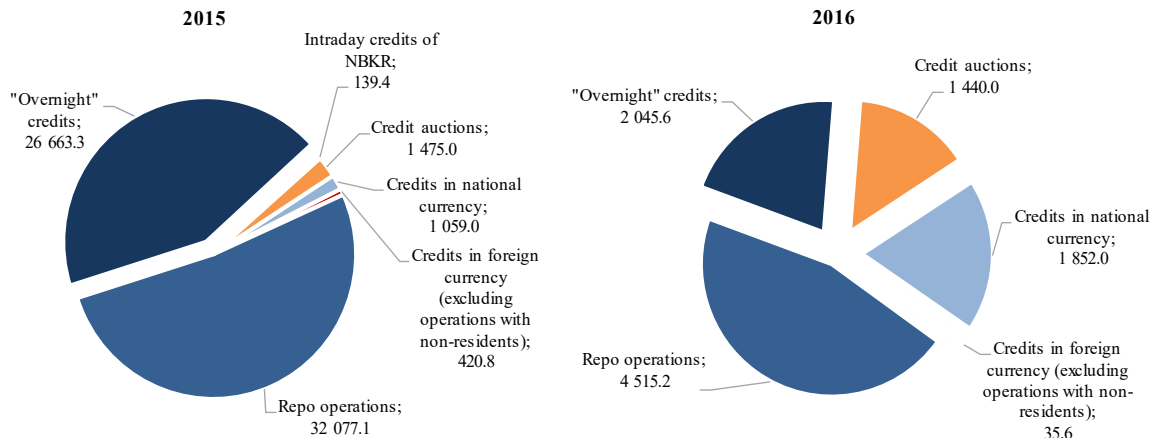
Amid the high level of excess liquidity in the banking sector during the considered period, the interbank borrowing market saw a decrease in the activities of the commercial banks. During the year, the interbank market rates on the transactions with the term up to 7 days fell within an interest rate corridor determined by the National Bank.

At year-end 2016, the total volume of KGS transactions in the interbank credit market (including loans given by the National Bank of the Kyrgyz Republic) amounted to KGS 9.9 billion, having decreased by 84.0 percent compared to the same period of 2015.

In 2016, a significant increase in the volume of “overnight” deposits was observed in the interbank market. It has increased by 6.1 times over the year, up to KGS 1,986.5 billion.

Chart 1.6.2.1.

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



In the reporting period, the weighted average interest rate of interbank credits in national currency fell down to 6.9 percent (-7.2 percentage points in annual terms); the weighted average interest rate of repo operations decreased to 4.0 percent (-5.3 percentage points). The weighted average rate of foreign currency credits was 2.0 percent, having increased by 0.6 percentage points compared to the same period of 2015. The average maturity of repo transactions increased from 4 to 7 days, while that of loans in national currency – from 44 to 49 days and the maturity of loans in foreign currency – from 3 to 10 days.

Table 1.6.2.1.

Weighted Average Interbank Market Interest Rates and the National Bank Rates (over the period)
(percent)

	2015	2016
Interbank market rates		
Rates of credits in national currency	14.1	6.9
Rates of credits in foreign currency	1.4	2.0
Rates of repo operations	9.3	4.0
National Bank operations rates		
"Overnight" credits rates	12.1	12.0
"Overnight" deposits rates	3.8	1.2
Credit auctions rates	10.9	8.7

1.6.3. Securities Market

1.6.3.1. Government Securities Market

The market for government securities (GS) in 2016 was represented by the following types of securities:

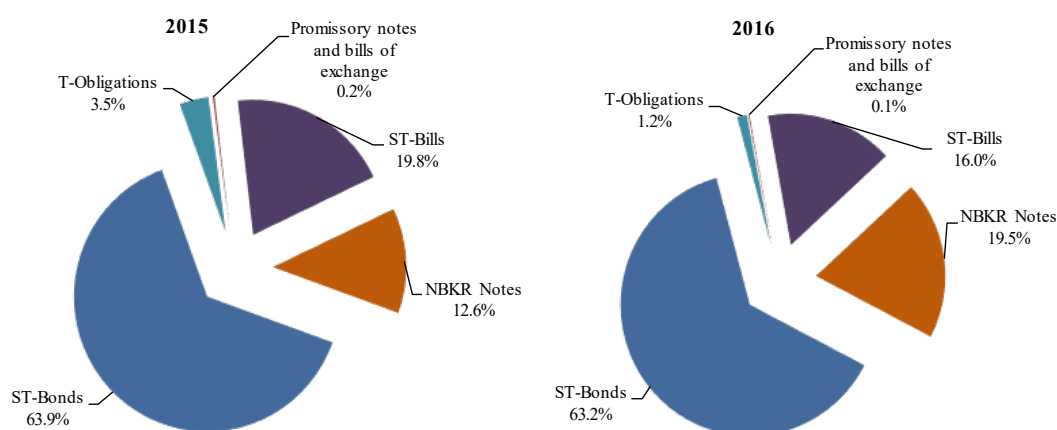
- State Treasury Bills (ST-Bills);
- State Treasury Bonds (ST-Bonds);
- Notes of the National Bank;
- Treasury Obligations (T-Obligations);
- Bills of Exchange.

Outstanding government securities

The total volume of the outstanding government securities at the end of the reporting period amounted to KGS 26.9 billion, having increased by 58.8 percent over the year. The increase was mainly due to the growth in the volume of ST-Bonds and notes of the National Bank in circulation.

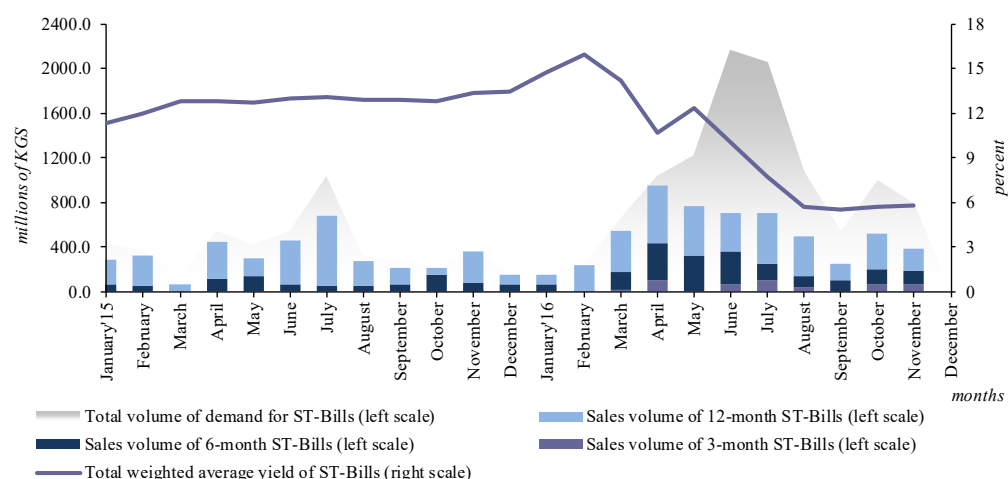
Chart 1.6.3.1.1.

Structure of Outstanding Government Securities

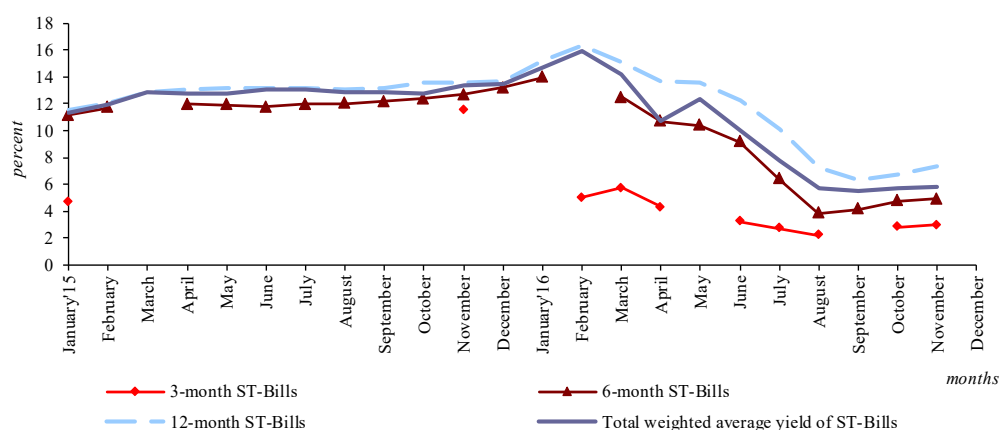


1.6.3.1.1. State Treasury Bills

In the period under review, the State Treasury Bills were put into circulation by the Ministry of Finance of the Kyrgyz Republic 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 were held weekly at the National Bank, which is the agent for their placement and settlement.

Chart 1.6.3.1.1.1.**Demand and Placement of ST-Bills**

The overall average monthly yield of ST-Bills was 9.9 percent at the end of 2016, having decreased by 2.9 percentage points compared to the same period of 2015.

Chart 1.6.3.1.1.2.**Weighted Average Yield by All Types of ST-Bills****Volume of ST-Bills issue**

Despite the decline in yield of ST-Bills in 2016, the volume of demand for ST-Bills increased by 2.3 times as compared to the same period of 2015, having made KGS 10.9 billion. The volume of actual sales of ST-Bills increased to KGS 5.7 billion (+51.4 percent).

Table 1.6.3.1.1.1.**Total Volume of Issue and Average Annual Yield of ST-Bills**

	2015			2016		
	Sales volume, millions of KGS	Share, percents	Yield, percents	Sales volume, millions of KGS	Share, percents	Yield, percents
Total	3,777.4	100.00	12.8	5,719.7	100.00	9.9
including:						
3-month ST-Bills	14.0	0.37	8.1	456.0	7.97	3.6
6-month ST-Bills	878.9	23.27	12.1	1,800.0	31.47	8.1
12-month ST-Bills	2,884.5	76.36	13.0	3,463.7	60.56	11.3

The total volume of ST-Bills in circulation increased by 28.5 percent in 2016, having amounted to KGS 4.3 billion. Commercial banks dominated in the structure of ST-Bills holders with a 65.8 percent share of the total volume of ST-Bills, which exceeded the same figure of 2015 by 11.4 percentage points. In nominal terms, the volume of bills in the bank portfolios amounted to KGS 2.8 billion at the end of 2016 (+55.3 percent). The share of institutional investors, on the contrary, decreased by 11.8 percentage points, to 33.3 percent. The volume of ST-Bills of institutional investors (at par value) also reduced to KGS 1.4 billion (-5.2 percent). The share of resident legal entities was 0.9 percent (+0.5 percentage points) and the volume increased by 2.8 times, to KGS 37.0 million. In the reporting period, non-residents did not participate in the auction.

*Structure of
ST-Bills market*

The concentration index of the banking securities portfolio increased from 0.28 to 0.17, which is equivalent to the division of market between six participants with equal shares.

In 2016, commercial banks and non-residents used ST-Bills in repo-transactions in the secondary market. In the reporting year, the volume of these transactions decreased by 82.2 percent compared to the same period of 2015, and amounted to KGS 1.8 billion. The volume of interbank transactions on purchase and sale of ST-Bills prior to their maturity (on “outright” terms) decreased by 47.6 percent in the secondary market, having amounted to KGS 130.8 million. The weighted average due date of ST-Bills in these transactions reached 171 days, while the weighted average bill rate was 8.1 percent.

*ST-Bills secondary
market operations*

1.6.3.1.2. State Treasury Bonds

During the period under review, the issuer offered ST-Bonds with maturities of 2, 3 and 5 years.

The Ministry of Finance reduced the overall supply of ST-Bonds by 12.8 percent compared to 2015. In the reporting period, the overall supply of ST-Bonds amounted to KGS 6.7 billion, having decreased by 12.8 percent compared to the same period of 2015. This segment, like the ST-Bills market, saw a significant increase in demand, by 83.0 percent.

*Demand
and supply in
ST-Bonds market*

Additional placement of ST-Bonds adjusted the overall sales volumes in 2016, and the volume of ST-Bonds in circulation increased by 36.5 percent, up to KGS 13.7 billion.

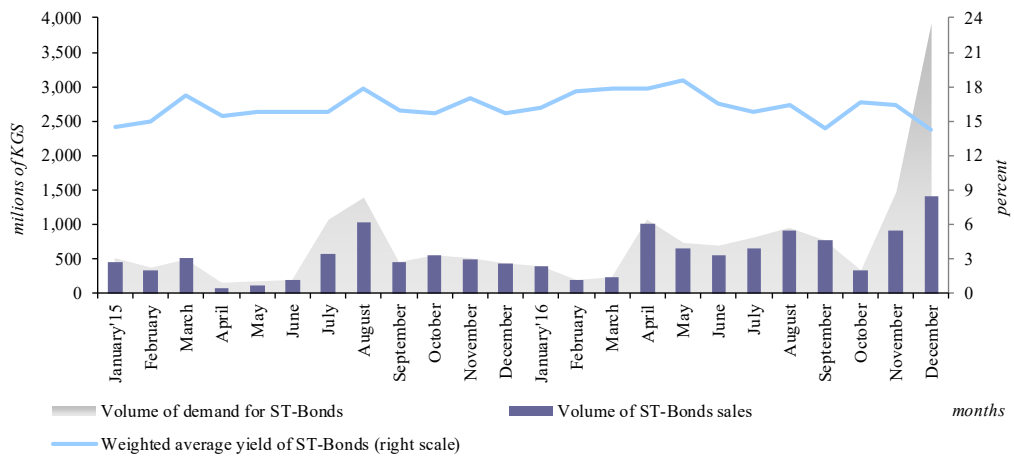
Sales formed mainly due to two market participants that provided 72.5 percent of the total volume of placement, which points to a continuing high level of concentration in the ST-Bonds market.

In the reporting period, the total weighted average yield of ST-Bonds amounted to 16.5 percent, having increased by 0.7 percentage points compared to 2015.

In 2016, the National Bank held an auction for foreign-currency-denominated ST-Bonds; the flotation value of 5-year ST-Bonds amounted to USD 49.4 million with a weighted average rate of 1.8 percent.

Chart 1.6.3.1.2.1.

Demand and Placement of ST-Bonds*



* excluding foreign-currency-denominated ST-Bonds

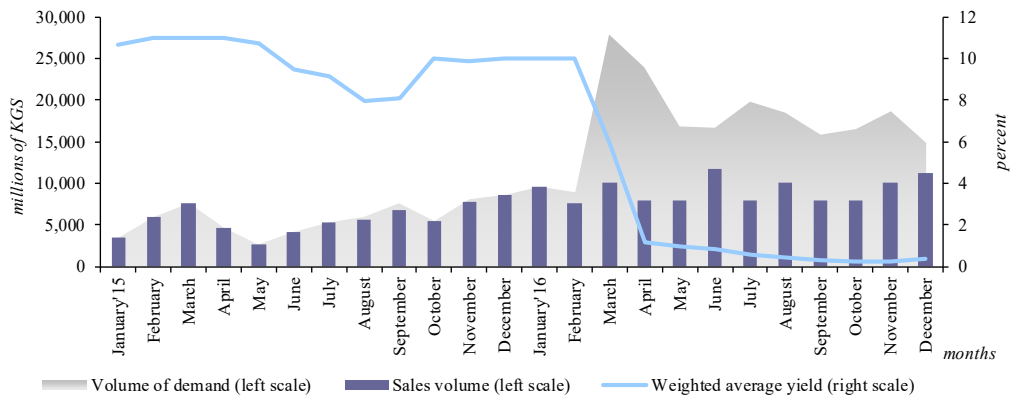
1.6.3.1.3. Notes of the National Bank

In the reporting period, the 7- and 14-day notes were placed in the market. The National Bank continued using notes as a tool to withdraw excess liquidity by regulating the volume of their supply depending on the goals of the monetary policy and the level of liquidity in the banking system.

During 2016, the amount of notes placed by the National Bank of the Kyrgyz Republic reached KGS 110.3 billion, while in 2015 this figure was KGS 67.9 billion.

Chart 1.6.3.1.3.1.

Demand and Placement of NBKR Notes

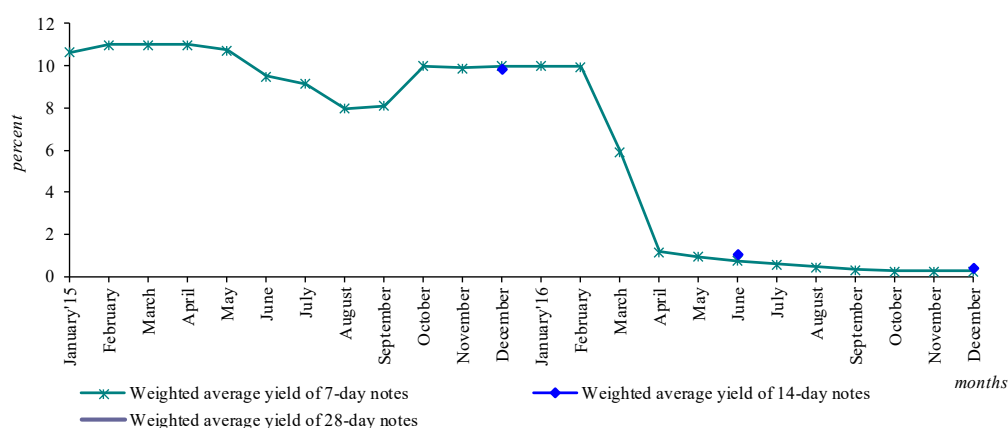


The National Bank decreased its annual supply of notes by 11.1 percent as part of its monetary policy, having reduced it to KGS 116.0 billion. The overall placement rate for all types of notes also increased by 62.3 percent compared to 2015, to KGS 110.3 billion.

The weighted average yield on all types of notes decreased by 7.3 percentage points compared to 2015, to 2.6 percent.

Chart 1.6.3.1.3.2.

Weighted Average Yield by Types of Notes of the National Bank

*Demand and supply in the NBKR notes market*

The volume of outstanding notes of the National Bank amounted to KGS 5.2 billion (having increased by 2.5 times) at the end of 2016. In the structure of notes holders, the share of commercial banks reached 98.1 percent (+0.4 percentage points) and that of institutional investors was 1.9 percent. The notes of the National Bank were in the assets of five banks.

1.6.3.1.4. Other Government Securities

As of the end of 2016, the share of outstanding T-Obligations reached KGS 321.9 million, having decreased by 45.9 percent. The share of T-Obligations in the structure of government securities decreased to 1.2 percent (-2.3 percentage points).

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, amounted to KGS 34.5 million, and their share made 0.1 percent.

In 2016, municipal securities¹, placed by the Bishkek Municipality, were not issued.

1.6.3.2. Corporate Securities Market²

In 2016, the overall volume of securities auctions in the stock market amounted to KGS 18.2 billion, having increased by 2.1 times compared to the same period of 2015. The number of securities transactions increased by 4.9 percent, up to 3,903 transactions, compared to the same period of 2015.

84 issues of securities totaling KGS 15.1 billion were registered in the reporting year. Of them, 27 were the founders' issues of securities (to the amount of KGS 1.1 billion), and 57 were additional issues (to the amount of KGS 14.0 billion).

As of the end of 2016, 26 issuers were listed on the Kyrgyz Stock Exchange.

1.6.4. Deposit and Credit Market

At the end of 2016, the deposit base³ of commercial banks amounted KGS 107.1 billion, having increased by 4.1 percent since the beginning of the year. Deposits in the national currency increased by 48.2 percent, up to KGS 52.4 billion, while the volume of deposits in foreign currency decreased by 19.0 percent, down to KGS 54.7 billion (in KGS equivalent). Deposits in US dollars (in nominal terms)

Deposit base

¹ According to the Bishkek municipality data.

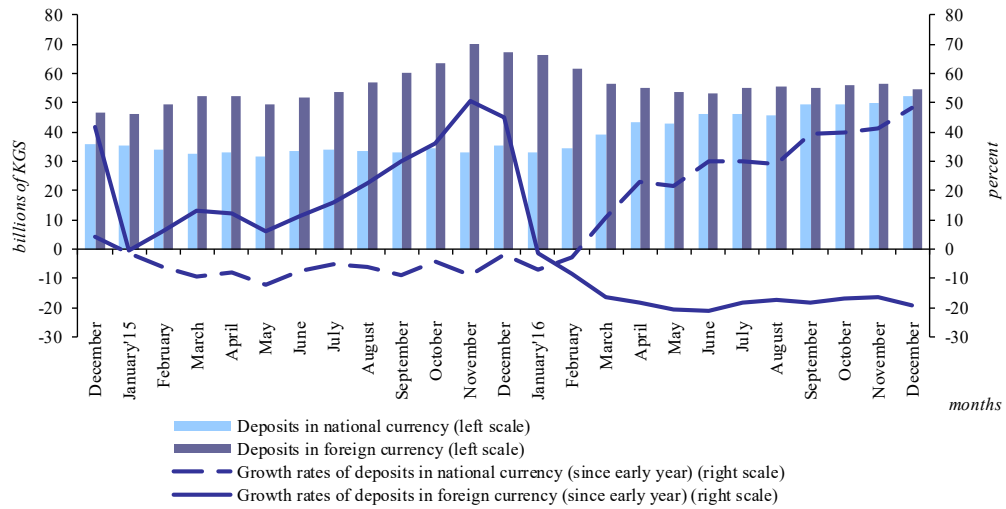
² According to the data of the State Service for Financial Market Regulation and Supervision under the Government of the Kyrgyz Republic.

³ Including the Government deposits and deposits of other financial institutions and excluding the loans of the Government and local authorities of the Kyrgyz Republic.

decreased by 14.6 percent over the year. Without regard to the exchange rate changes, the deposit base increased by 2.9 percent.

Chart 1.6.4.1.

Volume of Deposit Base (end of period)



Deposit base structure

The share of individuals deposits in the structure of the deposit base made 49.2 percent. Deposits of individuals in the national currency increased by 68.0 percent over the year, up to KGS 26.6 billion (in 2015, this figure amounted to KGS 15.9 billion), while deposits in foreign currency reduced by 16.8 percent, down to KGS 26.0 billion (KGS 31.3 billion in 2015). The share of deposits of legal entities decreased from 48.0 to 45.3 percent. In the currency structure of deposits of legal entities, deposits in foreign currency decreased by 22.3 percent. Deposits of enterprises in the national currency increased over the year by 31.2 percent up to KGS 25.1 billion (KGS 19.1 billion in 2015).

Temporal structure of the deposit base slightly changed due to exchange rate changes in 2016. The share of funds on current accounts increased from 31.6 to 35.7 percent, the share of demand deposits increased to 27.0 percent (+2.6 percentage points). The volume of balances on term deposits of bank customers fell by 11.8 percent; their share has declined by 6.7 percent over the year.

In the structure of term deposits, the share of short-term deposits (less than a year) increased by 1.6 percentage points, to 74.4 percent, while the share of long-term deposits, on the contrary, fell by 1.6 percentage points, to 25.6 percent. As a result, the duration of term deposits remained almost unchanged (from 12.2 months in 2015 to 12.1 months in 2016); the same figure for the whole deposit base was corrected more significantly, from 5.4 to 4.5 months.

At year-end, the deposit market concentration index remained unchanged (0.11). This indicates the average level of the market concentration, which is equivalent to nine participants present in the market.

Newly accepted deposits

The volume of deposits¹ newly accepted by the banks in 2016 amounted to KGS 463.9 billion, having increased by 15.9 percent compared to the same period in 2015. Deposits in the national currency increased by 31.0 percent, to KGS 249.0 billion, those in foreign currency – by 2.3 percent, to KGS 214.8 billion. At the same time, the main inflow of deposits was provided by the receipt of funds on term deposits in the national currency.

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

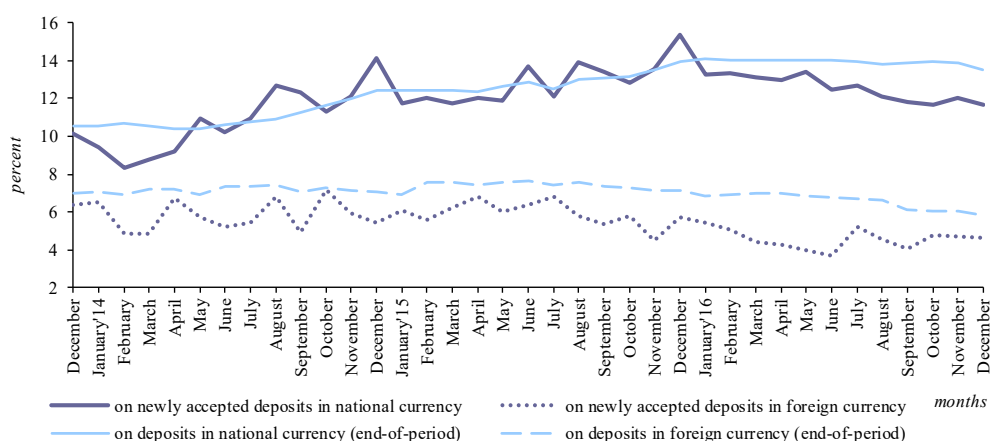
The weighted average interest rate of the deposit base in the national currency amounted to 6.5 percent at the end of 2016, having decreased over the year by 0.7 percentage points. The rate of remaining balances of deposits in foreign currency decreased to 2.7 percent (-0.9 percentage points).

Deposit interest rates

The weighted average interest rate on newly accepted deposits in foreign currency decreased by 0.5 percentage points as compared to 2015, having reached 0.6 percent, while the rate in the national currency was 2.4 percent, having not changed over the year. The value of the newly accepted term deposits in the national currency also declined by 0.3 percentage points, to 12.5 percent, while the value of deposits in foreign currency amounted to 4.6 percent (-1.4 percentage points).

Chart 1.6.4.2.

Dynamics of Interest Rates on Term Deposits

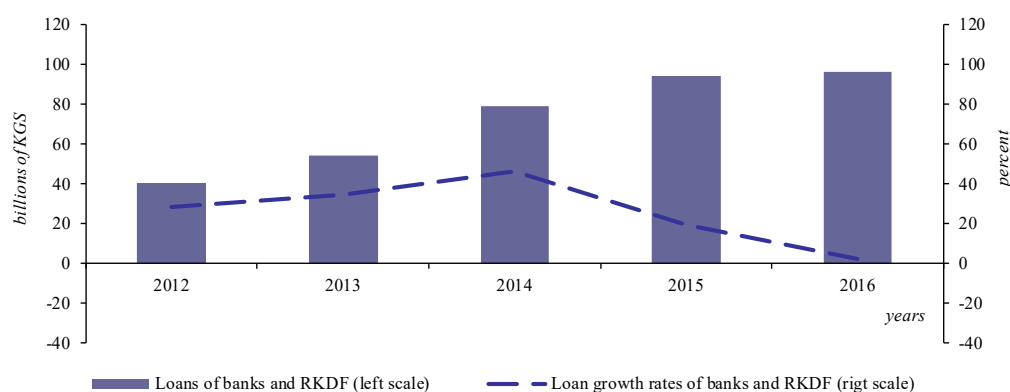


At the end of 2016, the total credit portfolio of commercial banks and funds placed by the Russian-Kyrgyz Development Fund (RKDF) amounted to KGS 96.0 billion, having increased by 2.1 percent over the year (in 2015, the increase was 19.3 percent). The largest volume of RKDF loans in 2016 was extended to the processing industries and agro-industrial sectors.

Business loans

Chart 1.6.4.3.

Volume of Loans of Commercial Banks Including Loans of the Russian-Kyrgyz Development Fund (end-of-period)

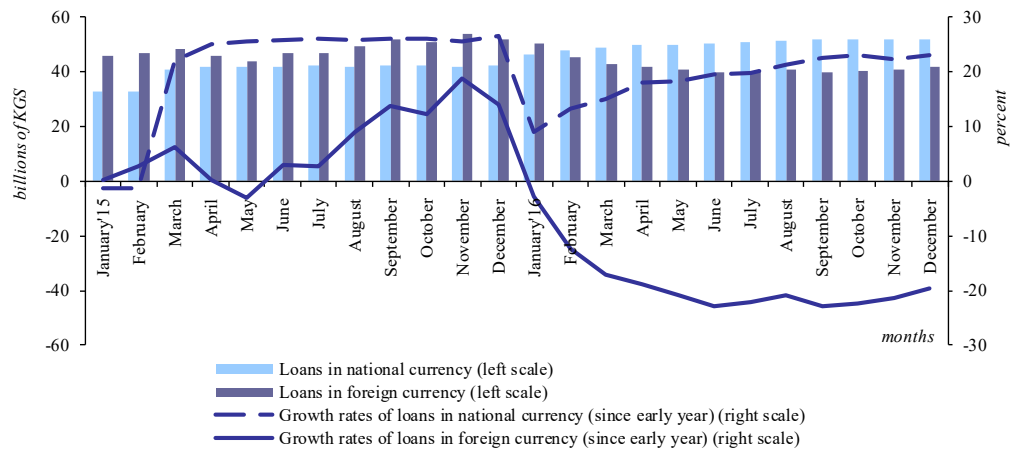


The aggregate credit portfolio of banks decreased over the year by 0.5 percent and amounted to KGS 93.5 billion as of the end of the year. Decrease in the credit portfolio was provided by the reduction of loans in foreign currency by 19.5 percent, down to KGS 41.6 billion, while those in the national currency increased by 22.9 percent, up to KGS 51.9 billion.

Credit portfolio of banks

Chart 1.6.4.4.

Volume of Bank Loans (end-of-period)



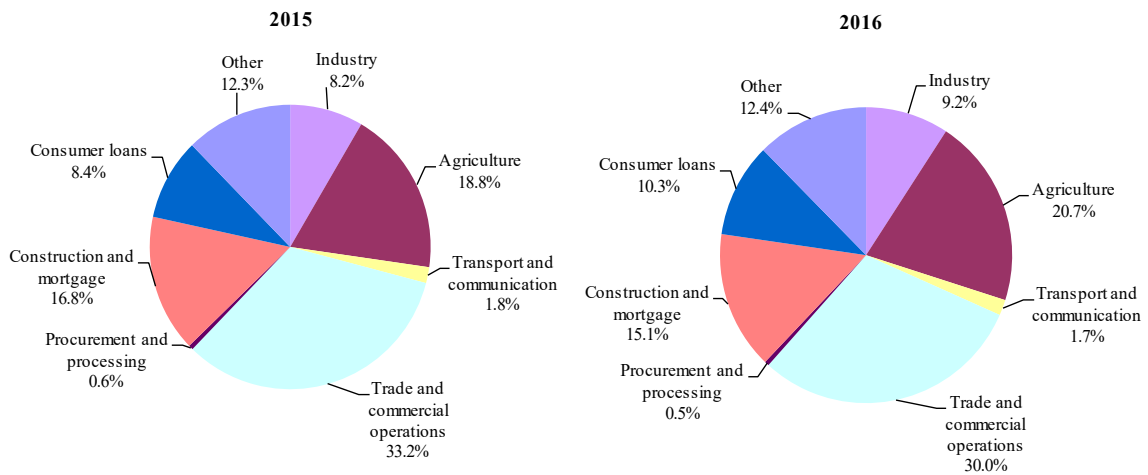
Temporal structure of credit portfolio of banks

At the end of 2016, the volume of short-term loans decreased while the volume of loans with a maturity of more than three years increased slightly, which resulted in a slight increase in the credit portfolio duration from 28.3 to 29.3 months.

The lending market concentration remained at a relatively low level of 0.08, while the sectorial index of credit portfolio concentration amounting to 0.32, on the contrary, spoke for the distribution of loans of the majority of banks among the three sectors: trade, agriculture and consumer lending.

Chart 1.6.4.5.

Credit Portfolio of Commercial Banks by Economic Sectors (millions of KGS)



The total volume of loans newly extended by the commercial banks increased by 22.3 percent compared to the same period of 2015, having amounted to KGS 95.9 billion. This growth resulted from a 51.5 percent increase in loan issue in the national currency and amounted to KGS 59.1 billion. The volume of loans in foreign currency decreased by 6.5 percent, to KGS 36.9 billion in KGS equivalent.

Sectorial structure of loans extended by banks

In the reporting period, the share of loans extended to trade, commanding the largest part of the entire credit portfolio, decreased by 10.5 percentage points, to 33.3 percent. The share of loans extended to agriculture amounted to 25.7 percent (+7.2 percentage points), consumer loans made 12.3 percent (+1.5 percentage points), loans extended to the industry – 9.5 percent (+0.7 percent), construction loans –

3.7 percent (-0.4 percentage points), mortgage loans – 3.1 percent (-0.3 percentage points). The share of loans extended to social services made up 2.9 percent of total loans (+0.2 percentage points), transport loans – 1.2 percent (-0.4 percentage points), loans for procurement and processing – 0.3 percent (-0.1 percentage points). The share of loans for communication was 0.1 percent, having not changed over the year, while the share of other loans amounted to 7.8 percent (+2.1 percentage points).

Table 1.6.4.2.

Behavior of KR Banking Sector's Credit Portfolio by Regions (end-of-period)*

	2015		2016	
	millions of KGS	Share, percents	millions of KGS	Share, percents
Bishkek city	54,122.1	57.8	51,216.5	54.9
Osh city and Osh oblast	10,922.2	11.7	11,797.8	12.7
Jalal-Abad oblast	8,705.0	9.3	9,509.3	10.2
Chui oblast	7,181.0	7.7	6,800.1	7.3
Issyk-Kul oblast	4,591.6	4.9	5,227.1	5.6
Batken oblast	3,207.9	3.4	3,457.4	3.7
Talas oblast	2,679.4	2.9	2,665.4	2.9
Naryn oblast	2,208.9	2.4	2,558.6	2.7
Total	93,618.1	100.0	93,232.2	100.0

* The credit portfolio is given including accrued discount

In the period under review the bulk of the banking sectors' loans by regions was extended in Bishkek (54.9 percent), Osh city and Osh oblast (12.7 percent) and Jalal-Abad oblast (10.2 percent).

The weighted average interest rate on newly issued loans in the national currency amounted to 22.2 percent at the end of 2016, having decreased by 2.0 percentage points compared to the same period of 2015. The highest interest rates were observed among the loans issued for consumer services, and the lowest ones – among the mortgage loans. The weighted average interest rate on newly issued foreign currency loans for the reporting period amounted 11.2 percent, having decreased by 2.4 percentage points. The lowest interest rates on foreign currency loans were registered among the loans for agriculture, and the highest ones – among the consumer loans.

Interest rates of banks on newly issued loans

The weighted average interest rate on national currency loans, included into the portfolio of operating commercial banks, amounted to 22.2 percent (-0.6 percentage points) at the year-end, and the weighted average interest rate on foreign currency loans reached 13.4 percent (-2.2 percentage points).

Interest rates on loans issued by banks

Chart 1.6.4.6.

Dynamics of Weighted Average Interest Rates on Loans

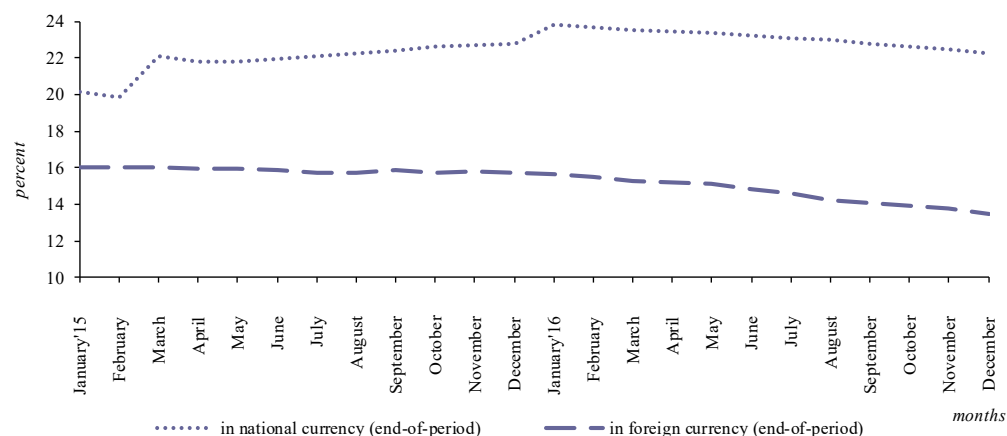


Table 1.6.4.3.

NBFI Credit Portfolio by Economic Sectors (end-of-period)
(KGS million)

<i>NBFI credit portfolio</i>	Sector	2015	2016
	Industry	160.5	106.0
	Agriculture	5,930.1	3,214.2
	Transport and communication	155.5	112.0
	Trade and services	4,042.5	3,043.5
	Procurement and processing	13.0	25.8
	Construction and purchase of property (mortgage)	864.7	801.8
	Consumer loans	2,446.2	2,346.0
	Other	1,362.2	1,266.1
	Total	14,974.7	10,915.4

In the reporting period, there was a decrease in NBFIs lending activities in all economic sectors. This reduction in figures is associated with the transformation of main international financial organizations into commercial banks in the previous years. Thus, the volume of loans extended to agriculture decreased by 45.8 percent. The volume of loans extended to trade and services decreased by 24.7 percent; loans to individuals – by 4.1 percent; construction and mortgage loans – by 7.3 percent, transport and communication loans – by 28.0 percent, loans extended to the industry – by 33.9 percent.

Table 1.6.4.4.

NBFI Credit Portfolio Behavior by Regions (end-of-period)
(millions of KGS)

	2015	2016
Bishkek city	3,494.6	3,180.4
Batken oblast	905.6	489.0
Jalal-Abad oblast	2,126.9	1,072.6
Issyk-Kul oblast	1,515.3	1,032.5
Naryn oblast	1,010.2	718.5
Osh oblast and Osh city	3,097.3	2,297.9
Talas oblast	652.2	330.3
Chui oblast	2,126.6	1,791.7
Outside Kyrgyzstan	46.0	2.6
Total	14,974.7	10,915.4

The bulk of the NBFIs credit portfolio in the period under review was extended in Bishkek, Osh and Osh oblast.

The weighted average rates on the credit portfolio of microfinance institutions at the end of 2016 decreased to 31.4 percent (-0.7 percentage points), those of credit unions – down to 27.8 percent (-0.1 percentage points).

**ACTIVITY OF THE
NATIONAL BANK
OF THE KYRGYZ REPUBLIC
IN 2016**



CHAPTER 2. MONETARY POLICY

In 2016, slowdown of the inflation rates was amid the impact of external and internal factors. In these circumstances the National Bank conducted the policy for easing the monetary conditions in respect of the interest rate policy in order to support the incentive measures for the real sector of the economy. During the reporting year, the policy rate of the National Bank was decreased four times from 10.00 (at the beginning of year) down to 5.00 percent (at the end of the year).

In 2016, besides decreasing its key interest rates, the National Bank continued providing the resources in national currency by means of the monetary policy tools in order to expand lending to the economy. The total volume of provided funds amounted to approximately KGS 6.0 billion.

Actions of the National Bank were focused on strengthening the operation of the monetary policy interest rate channel and improving the efficiency of the monetary policy transmission mechanism.

The National Bank continued to adhere to the floating exchange rate regime existing in the country. The exchange rate interventions conducted by the National Bank helped to smooth the sharp exchange rate fluctuations.

During the reporting year, the National Bank purchased gold in the domestic market in order to increase the amount of international reserves. International reserves were mainly used in order to smooth sharp fluctuations of the exchange rate in the domestic market, as well as to service external liabilities of the Government of the Kyrgyz Republic and the National Bank.

2.1. Monetary Policy Framework

Monetary policy goal

The 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 on the basis of the macroeconomic situation in the country, estimates of the external environment development trends and inflationary expectations.

The monetary policy was developed and conducted within the framework of the National Sustainable Development Strategy of the Kyrgyz Republic for 2013-2017 and the Main Directions of the Monetary Policy for the medium term¹. The quantitative monetary policy target is to restrain inflation rate within the range of 5-7 percent in the medium term.

The policy rate as the benchmark for the value of money in the economy remained the main operational monetary policy tool. Actions of the National Bank were focused on strengthening the transmission mechanism of the monetary policy through changes of the key interest rate.

The decisions on the policy rate were made by the National Bank regularly in accordance with the schedule of meetings posted on the official website of the National Bank. 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.

During the reporting year, the National Bank conducted active communication policy aimed at providing information to the public, formation of the economic entities' rational inflationary expectations and expectations about future decisions to be made by the National Bank in the monetary sphere.

¹ Approved with the Resolution of the National Bank of the Kyrgyz Republic Board No 55/3 on 17 December, 2014.

Within the existing regime of the floating exchange rate, the need to conduct the foreign currency interventions by the National Bank was determined by the market situation and was aimed at smoothing the sharp exchange rate fluctuations. The National Bank operated as a buyer of foreign currency under the conditions of prevailing foreign currency supply over its demand in the domestic foreign exchange market.

Exchange rate policy

During 2016, slowdown was observed in the inflation rates. Measures taken in the monetary sphere, as well as strengthened external and internal factors (unchanged low world and domestic prices for food products and commodities, growth in the volume of the domestic agricultural production) affected downward dynamics of the inflation rate. The slow rates of domestic demand recovery became the factors restraining the inflation rates in the Kyrgyz Republic.

Inflation factors

During the reporting period, the National Bank conducted the policy for easing the monetary conditions in respect of the interest rate policy in order to support measures for stimulation of the real economy amid slowdown of the economic activity in the country against weakened external demand and domestic consumption. In 2016, the policy rate of the National Bank was reduced in stages two times – from 10.00 to 5.00 percent (in early 2016, the policy rate was 10.00 percent, in March, it was reduced down to 8.00 percent, in May – down to 6.00 percent, in November – down to 5.50 percent and in December – down to 5.00 percent).

Monetary policy measures

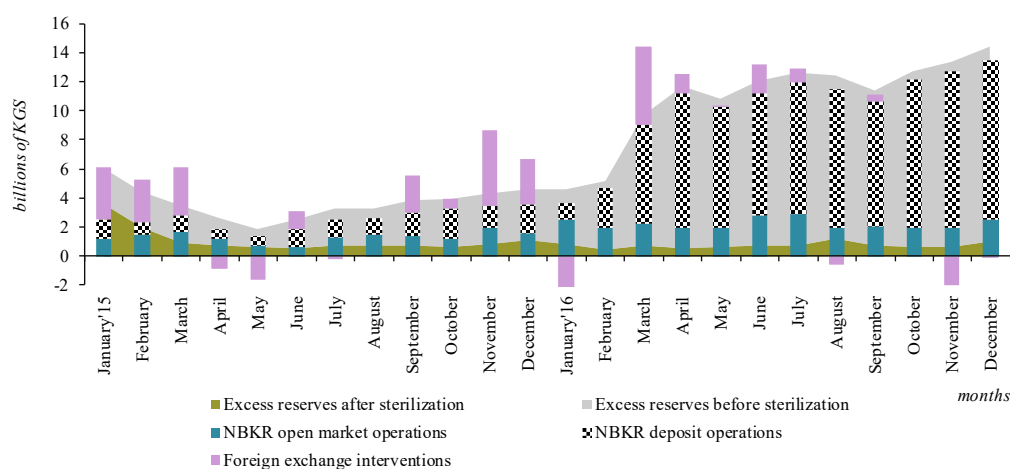
Change of the policy rate decreased the rates of the interest rate corridor set around it: the interest rate of “overnight” credit, which defines an upper limit (ceiling), was decreased down to 6.25 percent (at the beginning of the year – 12.00 percent), the interest rate of “overnight” deposit, which defines the lowest level (floor), was decreased down to 0.25 percent (at the beginning of the year – 5.00 percent).

An increase was observed in the excess liquidity in 2016. The average daily volume of the excess reserves in the banking system before the sterilization operations conducted by the National Bank was KGS 11.6 billion (in 2015 – KGS 3.3 billion), after sterilization operations – KGS 1.4 billion (in 2015 – KGS 743.0 million).

Under such circumstances, the National Bank absorbed excess liquidity in the banking system through the open market operations (issue of the National Bank notes) and the deposit operations. In 2016, the average daily volume of sterilization operations amounted to KGS 10.2 billion.

Chart 2.1.1.

Excess Reserves and NBKR Operations

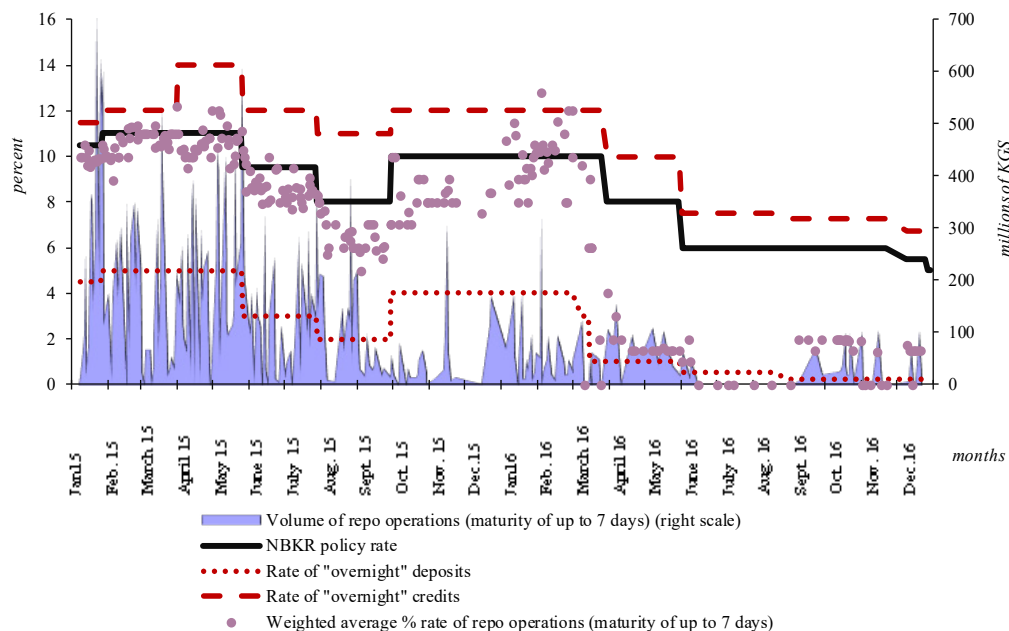


Accumulation of the adequate liquidity supply in the banking system affected the indicators of the credit resources interbank market. The decline of the volumes and the weighted average interest rates was observed since the beginning of 2016 due to decreased demand in the interbank market of credit resources. The total volume of repo

transactions in the interbank market decreased by 85.9 percent compared to 2015 and amounted to KGS 4.5 billion. Dynamics of the interbank market interest rates generally corresponded to the change in the main interest rates of the National Bank.

Chart 2.1.2.

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



2.2. Monetary Policy Implementation

In 2016, the monetary policy was implemented within the framework of the policy for reducing the key interest rates, on the one hand, and under the conditions of high level of excess liquidity in the banking system, on the other hand. Under such conditions, the structure of the National Bank's operations was slightly changed.

Increased demand for the National Bank's notes from the commercial banks resulted in a decrease of their yield down to 0.24 percent by the end of 2016 (by the end of 2015, the yield was 10.00 percent). Meanwhile, the average daily volume of notes in circulation in the reporting year amounted to KGS 2.3 billion (in 2015 – KGS 1.3 billion). The volumes of funds placed by the commercial banks on “overnight” deposits in the National Bank also increased, in 2016, the average daily volume totaled KGS 8.0 billion, having increased by six times compared to the same indicator of 2015, which was KGS 1.3 billion. According to the results of 2016, the gross volume of operations on the National Bank's notes sale amounted to KGS 110.3 billion (in 2015 – KGS 67.9 billion), on “overnight” deposits – KGS 2.0 trillion (in 2015 – KGS 325.6 billion).

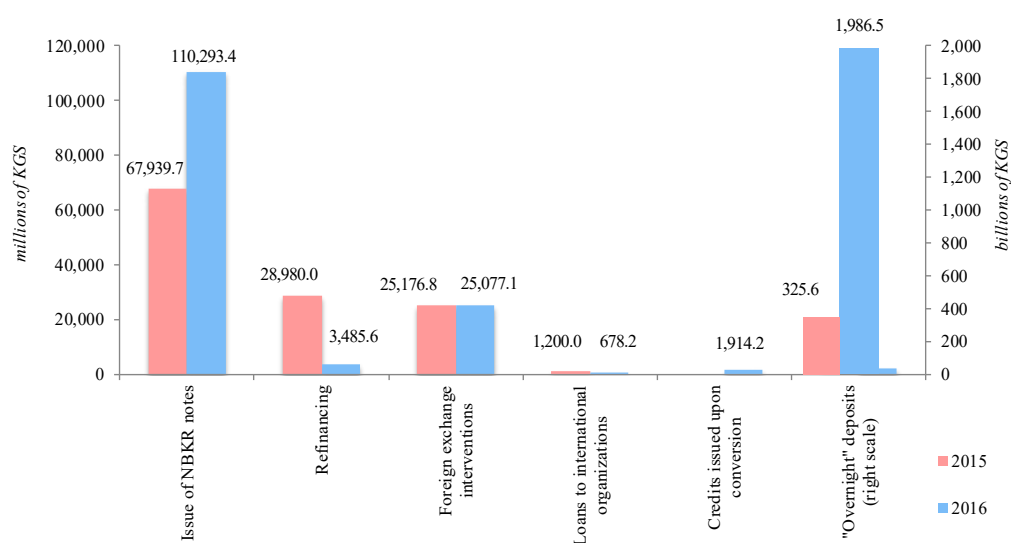
Thus, the share of “overnight” deposits in the structure of the National Bank operations was 93.4 percent, having increased by 72.5 percent in 2015; the share of the bank's notes issue fell from 15.1 percent in 2015 to 5.2 percent in 2016, respectively.

Amid slowdown of economic activity in the country, easing of the monetary conditions in respect of the interest rate policy also was accompanied by the credit operations conducted by the National Bank for the purpose of stimulating the real sector of the economy. In 2016, credit auctions, “overnight” credits and the credits within the framework of implementing the state program for conversion of mortgages loans in foreign currency into national currency remained the main tools of the banking sector refinancing. In addition, the resources were provided to the economy through the loans

to the international organizations established by the Kyrgyz Republic jointly with other states within the EAEU.

Chart 2.2.1.

Volumes of National Bank Operations



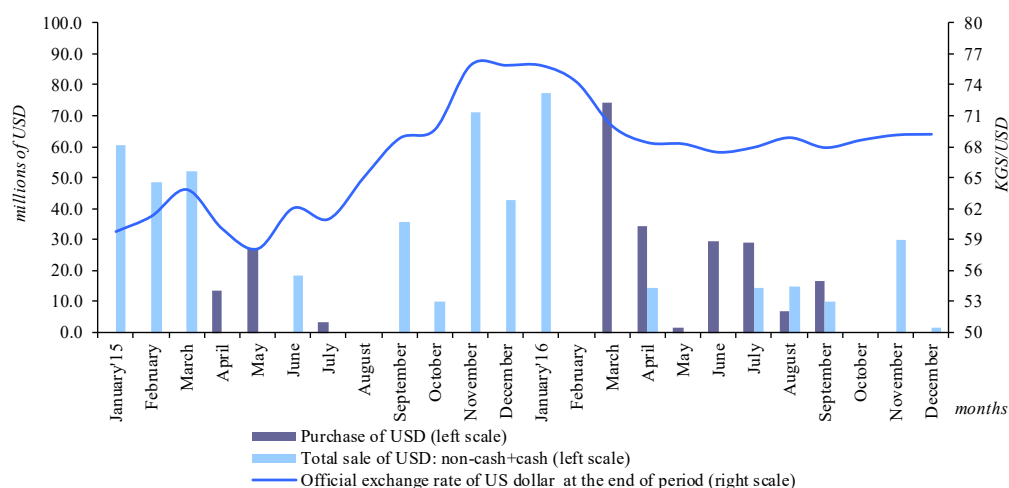
In 2016, the situation in the domestic foreign exchange market was stable. The share of operations on the foreign exchange interventions conducted in 2016 made 1.2 percent, having decreased by 4.4 percentage points compared to 2015. The National Bank participated in the foreign exchange auctions in order to smooth sharp fluctuations of the exchange rate. In the reporting year, the National Bank operated as a net buyer, net purchases of the US dollars amounted to USD 29.1 million (in 2015 – net sales amounted to USD 295.2 million).

The National Bank also continued conducting the operations on purchase of gold in the domestic market, which volume in 2016 amounted to KGS 982.2 million (in 2015 – KGS 689.6 million).

2.2.1. Domestic Foreign Exchange Market Operations

Within the framework of the existing regime of floating exchange rate, participation of the National Bank in the foreign exchange auctions depended on the market situation and was aimed at smoothing the sharp exchange rate fluctuations.

In early 2016, given continued volatility in the foreign markets, as well as taking into account the seasonal decline in the inflow of remittances, demand for foreign currency exceeded its supply in the domestic market. Thus, in January, the National Bank conducted operations on sale of foreign currency in order to smooth sharp fluctuations of the exchange rate, the volume of which amounted to USD 77.5 million. In February, demand for foreign currency was fully satisfied by its supply, therefore the National Bank did not participate in the foreign exchange auctions. In March, downward trends were observed in the exchange rate fluctuations due to prevailed supply of foreign currency. During this period, the National Bank conducted operations on purchase of foreign currency in order to smooth increased volatility, the volume thereof amounted to USD 79.8 million. At the end of the first quarter, net purchase of the National Bank totaled USD 2.3 million, the exchange rate decreased by 7.7 percent and amounted to KGS 70.0158 for one US dollar at the end of the first quarter.

Chart 2.2.1.1.**Foreign Exchange Operations of National Bank in 2016**

In the second quarter, the National Bank conducted operations on sale and purchase of US dollars. Meanwhile, the volume of operations on purchase on foreign currency conducted by the National Bank exceeded the volume of operations on its sale. As a result, net purchase totaled USD 45.4 million in the second quarter; the exchange rate of the US dollar decreased by 3.6 percent and amounted to KGS 67.4860 for one US dollar at the end of the second quarter.

In the third quarter of 2016, short-term fluctuations of the exchange rate were smoothed by the National Bank through the operations on purchase and sale of foreign currency. As a result, net purchase of the National Bank amounted to USD 12.9 million at the end of the third quarter; the exchange rate of the US dollar increased by 0.7 percent and amounted to KGS 67.9346 for one US dollar at the end of the third quarter.

US dollar strengthened against Kyrgyz som under the impact of external factors and increased demand for foreign currency in the fourth quarter of 2016. Pressure observed in the foreign exchange market was mitigated through the operations of the National Bank. As a result, the National Bank sold USD 31.5 million at the end of the fourth quarter; the exchange rate of the US dollar increased by 1.9 percent and amounted to KGS 69.2301 for one US dollar at the end of the reporting year.

Overall, in 2016, the National Bank sold USD 162.7 million, purchased USD 191.9 million. The net purchase totaled USD 29.1 million. The official US dollar-Kyrgyz som exchange rate decreased by 8.8 percent in the reporting period.

2.2.2. Operations with Notes of the National Bank

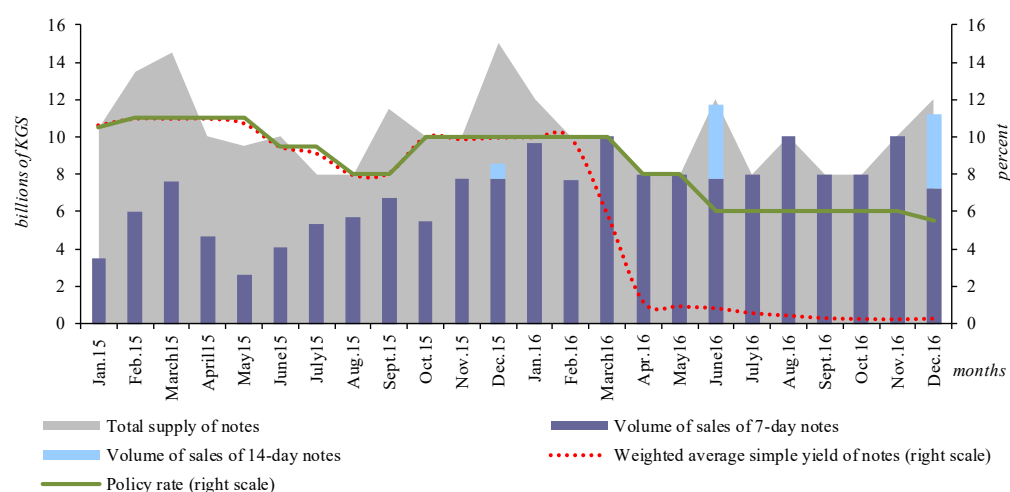
The Notes of the National Bank are the government securities with maturity of 7, 14 and 28 days, which the National Bank places on the auction basis to regulate the level of liquidity in the banking system.

Taking into account the level of demand for this tool in the banking system, total sales of the National Bank notes amounted to KGS 110.3 billion in 2016, having increased by 62.4 percent from KGS 67.9 billion in 2015.

The share of the National Bank Notes with maturity of 7 days (92.7 percent) was the most significant in their sales, the sales of notes with maturity of 14 days amounted to 7.3 percent. In 2016, the National Bank did not issue the notes with maturity of 28 days.

Chart 2.2.2.1.

Sales Volume of Notes of National Bank and Policy Rate Developments



2.2.3. Refinancing of Banks

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

The National Bank used the following types of refinancing instruments:

- the “intraday” credit provided in national currency on the interest-free basis during the trading day 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 credit 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 six months credits in national currency on the repayment basis to maintain liquidity and at lending to certain sectors of the economy;
- the credits for liquidity maintaining provided on the repayment basis on collateral to protect integrity of the banking system, to maintain liquidity of the bank and protect the interests of the depositors;
- the credits provided on the repayment basis on collateral to the international organizations established by the Kyrgyz Republic jointly with other states within the EAEU.

In 2016, the “intraday” credits was not demanded by the commercial banks (in 2015, the demand for intraday credits amounted to KGS 139.4 million).

The volume of issued “overnight” credits amounted to KGS 2.0 billion, whereas, in 2015, the volume of issued “overnight” credits amounted to KGS 26.7 billion.

In 2016, the National Bank issued credits to the commercial banks in the amount of KGS 1.4 billion (in 2015 – KGS 1.5 billion) through the credit auctions.

The National Bank supported the commercial banks involved in the conversion of credits by extending them credits in the amount of KGS 1.9 billion under the program of the Government of the Kyrgyz Republic on conversion of the credits in foreign currency into national currency.

In order to promote and support a long-term economic development in the Kyrgyz Republic the National Bank provided loans in the amount of KGS 678.2 million to the international organizations established by the Kyrgyz Republic jointly with other states within the EAEU (in 2015 the volume of loans amounted to KGS 1.2 billion).

Table 2.2.3.1.

Credits Accommodated by the National Bank of the Kyrgyz Republic
(millions of KGS)

	Q1	Q2	Q3	Q4	Total
Intraday credits*:					
2015	-	93.9	45.5	-	139.4
2016	-	-	-	-	0.0
"Overnight" credits:					
2015	12,422.1	6,420.0	7,011.9	809.3	26,663.3
2016	2,045.6	-	-	-	2,045.6
Credit auctions**:					
2015	300.0	1,175.0	-	-	1,475.0
2016	1,070.0	-	370.0	-	1,440.0
Credits for liquidity support:					
2015	-	-	702.3	-	702,3
2016	-	-	-	-	0.0
Credits upon conversion**:					
2015	-	-	-	-	0.0
2016	1,914.2	-	-	-	1,914.2
Loans to international organizations:					
2015	-	-	1,200.0	-	1,200.0
2016	350.0	130.0	61.0	137.2	678.2

* Including intraday credits, redesigned into the "overnight" credits

** Amount of credits actually issued for the indicated period

2.2.4. Reserve Requirements

Reserve requirements (RR) are one of the monetary regulation tools and along with other tools are used to achieve the targets of the monetary policy. Reserve requirements represent the amount of money, which the commercial banks are bound to deposit in the correspondent account with the National Bank in accordance with the established requirements. The ratio of the required reserves and the procedure of implementation thereof are established with the decision of the National Bank Board proceeding from the current monetary policy objectives.

During 2016, the National Bank continued to apply differentiated norms of the reserve requirements for the banks with regard to the liabilities in national and foreign currencies introduced at the end of 2015. During the reporting year, the norms of reserve requirements were not changed and remained at the level of 4.0 percent for the liabilities in national currency, the currencies of the EAEU member-states and CNY and 12.0 percent for the liabilities in other foreign currencies. The base period of compliance with the RR was four calendar weeks. The minimum daily threshold amount of money in the correspondent account with the National Bank to comply with the RR was kept at the level of 90 percent of the amount of the bank's required reserves allocated for the corresponding period.

In January 2016, within the framework of improving the obligatory reserve mechanism amendments were introduced in the regulations of compliance with reserve requirements by the commercial banks. The amendments allowed considering part of cash balances in national currency at ATMs of the commercial banks as compliance by the commercial banks with reserve requirements. This innovation was aimed at creating conditions for the commercial banks to release liquidity in KGS for subsequent expansion of lending in national currency, as well as development of the payment system.

Table 2.2.4.1.

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

	Q1	Q2	Q3	Q4
2015, total	7,433.7	7,506.7	7,871.2	8,549.5
<i>including:</i>				
required reserves	6,763.5	6,866.8	6,991.8	7,779.2
excess reserves	670.2	640.0	879.4	770.3
2016, total	8,742.6	8,640.8	8,583.7	8,845.5
<i>including:</i>				
required reserves	7,832.4	7,146.9	7,072.5	7,281.3
excess reserves	910.3	1,493.9	1,511.2	1,564.2

* average volume 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 and the Risk Management Policy.

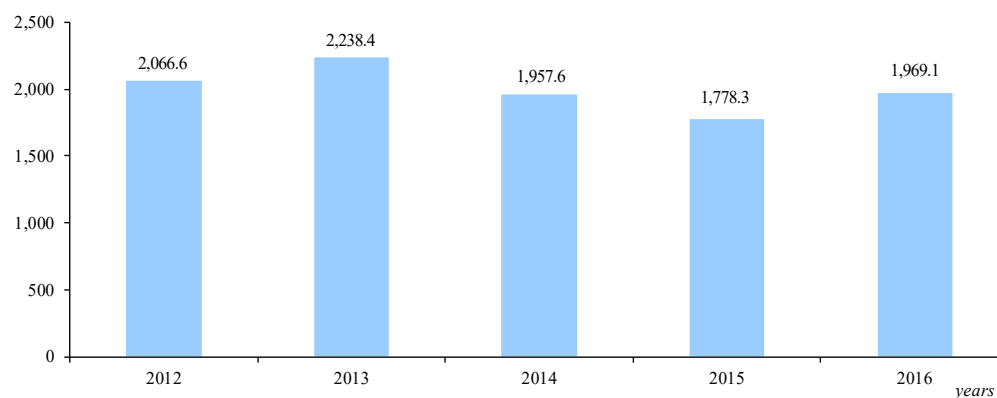
The decision-making in the part of defining the bank’s investment strategy, the portfolio structure of international reserves, the ratio of risk and the return on investment instruments, as well as a choice of the bank’s counterparties was made by the Board and the Investment Committee of the National Bank. In 2016, the Investment Committee held 15 meetings on management of international reserves. To minimize the risks emerging during 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 2016 amounted to the equivalent of about USD 1,969.1 million, having increased for the year by USD 190.9 million or 10.7 percent. The international reserves of the National Bank comprise the assets in gold, SDR and the currency portfolio.

Volume and structure of international reserves

Chart 2.3.1.

Dynamics of Gross International Reserves
(millions of USD)



During 2016, 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 and the National Bank.

Table 2.3.1.

Structure of Reserve Assets*

(percent)

	2015	2016
Currency portfolio	81.6	82.1
Gold	8.1	8.6
Special Drawing Rights	10.3	9.3
Total	100.0	100.0

* end-of-period

*Structure
of the currency
portfolio*

In 2016, the international reserves currency portfolio consisted of following currencies: the US dollars, Euros, Swiss francs, British pounds, Australian and Canadian dollars, Japanese yens, Russian rubles, Chinese yuans, Singapore dollars and Norwegian kroner.

Table 2.3.2.

Structure of Allocation of International Reserves*

(percent)

	2015	2016
Central banks	38.0	32.4
International financial institutions	17.8	16.6
Commercial banks	40.4	46.5
NBKR	3.8	4.5
Total	100.0	100.0

* end-of-period

*Working capital
placement*

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 in foreign currency (including the state external debt service).

*Investment
portfolio
management*

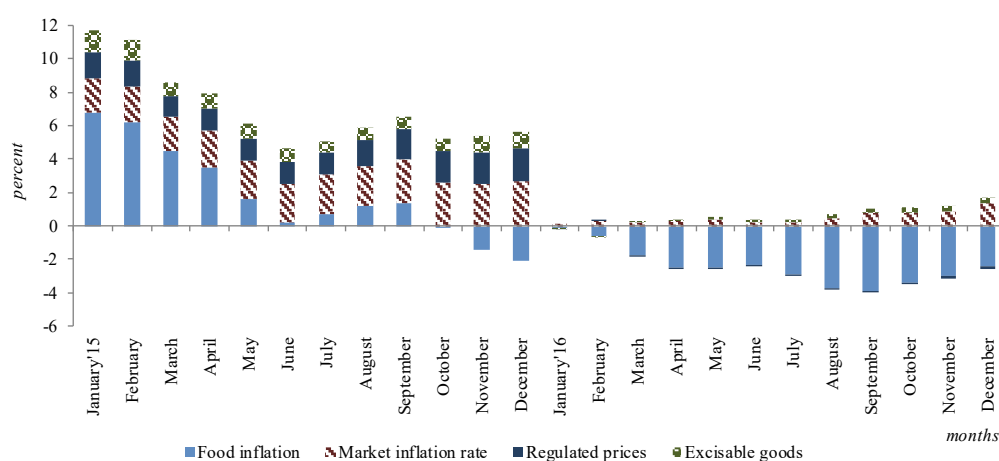
The investment portfolio was managed in accordance with the approved benchmark portfolio of international reserves. The National Bank placed the international reserves in securities, time deposits, as well as in one-day repo operations. The securities portfolio included the government securities of individual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

2.4. Monetary Policy Results

According to the National Statistics Committee, CPI decreased by 0.5 percent year-on-year in December 2016 (December 2016 to December 2015). In 2016, the annual average inflation rate reached 0.4 percent. Reduction of the annual price indices was observed in all major types of food; meanwhile, the decrease in prices for food products made the greatest contribution to the decline in the inflation rate.

Chart 2.4.1.

Contributions to Formation of Inflation¹



The monetary base amounted to KGS 85.6 billion at the end of 2016, having increased by 27.6 percent or KGS 18.5 billion (in 2015, the increase made 4.0 percent). The money was primarily supplied in the economy by the public authorities, which contributed to the increase of the monetary base by KGS 21.5 billion. The operations of the National Bank on sterilization of excess liquidity reduced the monetary base by KGS 3.0 billion.

Monetary base

During 2016, M0 monetary aggregate (money outside banks) increased by KGS 16.2 billion or 30.5 percent and totaled KGS 69.3 billion at the end of the year (in 2015, the increase was 2.3 percent). M2 monetary aggregate (M0 + deposits, including the settlement accounts in national currency) grew by 40.3 percent or KGS 33.2 billion, up to KGS 115.4 billion according to the results of the reporting year (in 2015, the decrease was 0.1 percent), mainly, due to the increase of the deposits in national currency by 58.2 percent.

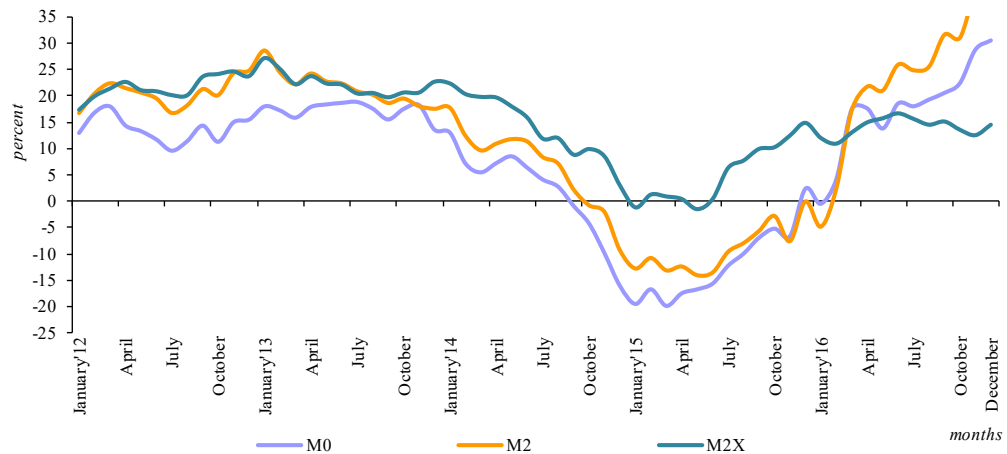
Monetary aggregates

¹ According to the NSC calculations CPI groups include the following:

- food inflation – the prices for all types of food and non-alcoholic beverages;
- regulated prices – the tariffs for the housing and communal services, electricity, gas, telephone, postal service, public transport and others;
- excisable goods – the prices for alcoholic beverages, tobacco products and fuels and lubricants;
- market inflation rate – the rest of CPI.

Chart 2.4.2.

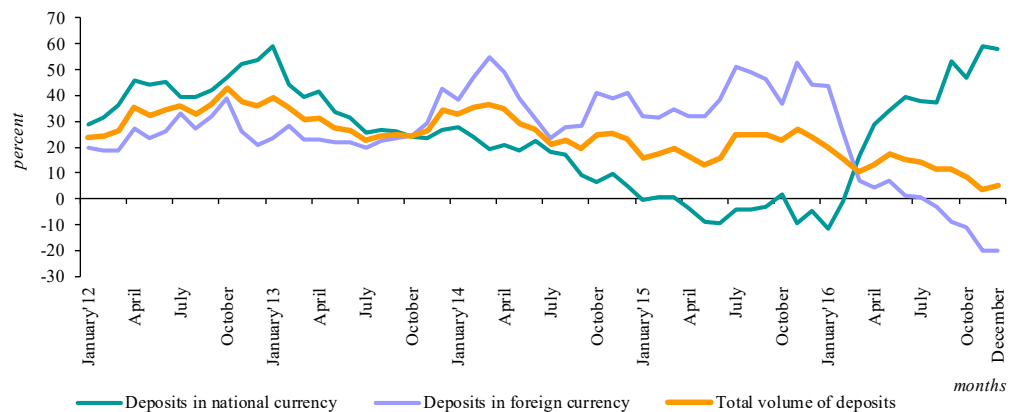
Annual Rates of Change of Monetary Aggregates (end-of-period)



Broad money M2X (M2 + deposits including the settlement accounts in foreign currency) amounted to KGS 164.0 billion, having increased by 14.6 percent or KGS 20.9 billion during the reporting year (in 2015, M2X increased by 14.9 percent). Growth of broad money M2X was mainly due to the increase in the deposits in national currency and M0 monetary aggregate. In general, in 2016, the total volume of deposits¹ in the banking system increased by 5.2 percent and amounted to KGS 94.7 billion. Excluding the effect of the exchange rate change, M2X growth rates made 20.6 percent, meanwhile, the deposits, included in M2X, increased by 13.8 percent.

Chart 2.4.3.

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



Factors affecting M2X

The net domestic and foreign assets of the banking system made the significant contribution to the growth of M2X broad money (13.4 and 1.2 percentage points, respectively). The capital accounts became among the main factors affecting the increase of these items due to the reduction of gold, foreign currency, and the IMF position revaluation reserve, and the state budget revenue in foreign currency in the amount of USD 295.6 million.

¹ Excluding deposits of the Government of the Kyrgyz Republic and non-residents.

Table 2.4.1.

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

(millions of KGS)

	2015*	2016	Growth, <i>in millions of KGS</i>	Growth rates, <i>in percent</i>	Impact on M2X, <i>p.p.</i>
Net foreign assets	134,276.1	136,028.4	1,752.3	1.3	1.2
Net international reserves	119,598.8	130,441.0	10,842.2	9.1	7.6
Other foreign assets	23,605.9	13,451.3	-10,154.6	-43.0	-7.1
Distribution of SDR	-8,928.6	-7,864.0	1,064.6	-11.9	0.7
Net domestic assets	8,866.9	27,989.1	19,122.2	215.7	13.4
Net claims to general government	-17,021.4	-10,019.5	7,002.0	41.1	4.9
Net claims to Government	-17,021.4	-10,019.5	7,002.0	41.1	4.9
Claims to other sectors	96,429.9	95,444.0	-985.9	-1.0	-0.7
Other items	-8,061.2	-5,532.1	2,529.2	-31.4	1.8
Capital account	-62,480.3	-51,903.4	10,576.9	-16.9	7.4
Broad money M2X	143,143.0	164,017.4	20,874.4	14.6	14.6
Money outside banks	53,118.0	69,338.8	16,220.8	30.5	11.3
Deposits of other deposit corporations	90,025.0	94,678.7	4,653.6	5.2	3.3
Deposits in national currency	29,149.3	46,105.3	16,956.0	58.2	11.8
Deposits in foreign currency	60,875.8	48,573.4	-12,302.4	-20.2	-8.6

* *accounting data*

CHAPTER 3. SUPERVISION AND REGULATION OF FINANCIAL CREDIT INSTITUTIONS

To ensure stability of the banking system and to protect interests of depositors and creditors, the National Bank exercised supervision and regulation of banks and non-bank 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 (distant) supervision with comprehensive and target (if necessary) inspections of the financial-credit institutions.

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

3.1. Banking Supervision¹

3.1.1. Licensing

Authorized capital of banks

At the end of 2016, 25 commercial banks operated in the territory of the Kyrgyz Republic, including the branch of the non-resident bank. The total amount of paid-up authorized capital of the commercial banks was KGS 19.0 billion, the share of foreign capital in authorized capital of the banking system amounted to 44.0 percent or KGS 8.3 billion. During 2016, the total amount of the authorized capital of the banks increased by KGS 2.9 billion or by 18.0 percent.

The requirements set to the minimum amount of the capital for existing commercial banks of at least USD 400 million were performed by all commercial banks except one.

Issue of license

During 2016, the licenses were issued to “Bank Kompanion” CJSC for carrying out bank operations in connection with reorganization of CJSC MFC “Kompanion Financial Group” into the bank.

During the reporting period, the National Bank issued additional licenses to OJSC “Kyrgyzkommertsbank”, OJSC “Aiyl Bank”, OJSC “Commercial bank KYRGYZSTAN”, OJSC “Bakai Bank”, CJSC “BTA Bank” and JSCB “Tolubai” for carrying out banking operations with precious metals in the form of refined bullions issued by the National Bank.

Additional licenses for the right to issue electronic money were issued to OJSC “Dos-Kredobank”, “FINCA Bank” CJSC, “Bank Kompanion” CJSC and CJSC “BTA Bank”.

During 2016, the existing restrictions in licenses of OJSC “Aiyl Bank” were removed, which in turn allowed the bank to provide a full range of banking services.

In 2016, OJSC “KyrgyzCredit Bank” was renamed to OJSC “Eurasian Savings Bank”.

In accordance with the legislation of the Kyrgyz Republic the National Bank examined applications for consent to acquire significant amount of shares of the commercial banks. In addition, harmonization of the banks officials was held for compliance with the requirements of the National Bank.

¹ Data on the banking system indicators are based on the Periodic Regulatory Bank Reporting (PRBR) of the commercial banks.

Table 3.1.1.1.

Dynamics of Network of Branches, Savings Offices and Field Cash Offices

*Branches,
associations and
field cash offices*

	Number of Branches		Number of Savings Offices		Number of Field Cash Offices	
	2015	2016	2015	2016	2015	2016
Bishkek city	64	65	250	260	36	33
Batken oblast	24	26	61	70	5	6
Jalal-Abad oblast	47	50	143	164	13	15
Issyk-Kul oblast	40	40	47	61	12	15
Naryn oblast	20	21	20	24	1	1
Osh oblast	57	60	175	197	16	19
Talas oblast	17	18	20	23	5	5
Chui oblast	45	44	64	75	20	24
Total	314	324	780	874	108	118

During 2016, the commercial banks opened 22 branches, 115 savings offices and 22 field cash offices in different regions of the country. At the same time, 12 branches, 21 savings offices, and 12 field cash offices of various commercial banks were closed.

3.1.2. Off-Site Supervision

In 2016, off-site supervision of the commercial banks was exercised within the framework of the supervision strategy of commercial banks of the Kyrgyz Republic and supervision strategies for each commercial bank. Supervision and regulation were oriented to timely identifying the risks inherent to the activity of commercial banks, ensuring stability of the banking system and protecting the interests of depositors and creditors of commercial banks.

At the end of 2015, indicators of financial intermediation (the ratio of assets to GDP) amounted to 38.9 percent. The ratio of credits¹ to GDP was 20.4 percent. The volume of deposits of commercial banks² was 21.4 percent of GDP.

In 2016, the net total capital³ increased by KGS 2.2 billion or 8.0 percent, while the net risk assets⁴ decreased by KGS 3.0 billion or 2.5 percent.

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

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

² Excluding the deposits received from the banks, FCIs and public authorities.

³ Estimate indicator, including authorized capital of the bank, the financial result of the activity implemented in the reporting and previous years, created reserves, except for investments in the subsidiaries and the capital of other financial and credit institutions. This indicator is applied when calculating the values of economic standards established by the National Bank of the Kyrgyz Republic.

⁴ Risk assets include the loans to the 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.

Table 3.1.2.1.

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

	2015	2016
Net total capital, <i>billions of KGS</i>	27.5	29.7
Net risk assets, <i>billions of KGS</i>	122.9	119.8
Total capital adequacy ratio, <i>percent</i>	22.4	24.8
Total capital adequacy ratio (not less), <i>percent</i>	12.0	12.0
Number of banks with capital adequacy ratio more than 30 percent, <i>units</i>	6	8
Number of banks with capital adequacy ratio from 20 to 30 percent, <i>units</i>	10	10
Number of banks with capital adequacy ratio under 20 percent, <i>units</i>	8	7

Credit risk The credit risk is assessed based on the classification of assets and off-balance sheet liabilities¹. The ratio of special reserves for classified loans, bearing the risk of defaulting on the loan portfolio made 5.0 percent, having increased from the beginning of the year by 1.2 percentage points. At the end of 2016, classified loans amounted to KGS 8.2 billion or 8.8 percent of all loans.

Exchange risk The exchange 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 2016, the foreign currency assets of the banking system amounted to KGS 77.2 billion or 43.3 percent of total assets. The liabilities of commercial banks in foreign currency amounted to KGS 73.2 billion or 49.0 percent of total liabilities.

Table 3.1.2.2.

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

	2015	2016
Assets in foreign currency, <i>billions of KGS</i>	99.9	77.2
Share of foreign currency assets in total assets structure, <i>percent</i>	56.1	43.3
Liabilities in foreign currency, <i>billions of KGS</i>	95.6	73.2
Share of foreign currency liabilities in total liabilities structure, <i>percent</i>	62.9	49.0

Liquidity risk 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. At the end of 2016, the negative gap by maturities of assets and liabilities was observed in all periods up to 365 days.

¹ Data are given in Section 1.4 Banking Sector“, Table 1.4.2. ”Classification of Assets, Off-Balance-Sheet Liabilities and Loans to Clients”.

Table 3.1.2.3.¹

Assets and Liabilities by Maturity (end-of-period)
(billions of KGS)

2015*	Maturity in days					Total
	0-30	31-90	91-180	181-365	more than 365	
Assets	68.6	10.9	11.2	22.8	68.6	182.1
Liabilities	71.0	9.9	16.1	18.4	32.6	148.0
Amount of excess assets over liabilities	-2.4	1.0	-4.9	4.4	36.0	34.1
in percent of the total volume of assets	3.5	9.3	43.9	19.2	52.5	18.7

* data as of 31 December 2015, inclusive

2016*	Maturity in days					Total
	0-30	31-90	91-180	181-365	more than 365	
Assets	68.8	9.2	10.0	18.3	77.7	184.1
Liabilities	74.7	9.9	15.1	18.5	27.6	145.7
Amount of excess assets over liabilities	-5.9	-0.7	-5.1	-0.1	50.2	38.4
in percent of the total volume of assets	8.5	7.5	51.3	0.7	64.6	20.9

* data as of 31 December 2016, inclusive.

The value of liquidity standard in the banking system was 75.4 percent with the standard established for the commercial banks at the level of at least 45.0 percent.

In 2016, the Supervision Committee established additional “instant” liquidity ratio (K3.3) for four banks in order to prevent the risks in respect of the large banks, as well as the requirement to support “capital buffer” for three commercial banks.

3.1.3. Inspection

In 2016, as part of inspections (on-site supervision), the National Bank conducted the comprehensive and target inspections of commercial banks.

Comprehensive inspections were carried out with a view to identify the risks in banks’ activities and compliance by the banks with the requirements of the legislation.

The target inspections were carried out for detailed study of separate directions in the banks’ activity or types of banking operations conducted by the commercial banks, and the citizens’ applications. The object of target 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, asset classification, individual loans in terms of protecting the rights of financial services consumers, the correctness of calculating the prudential standards established by the National Bank, individual operations in part of the established requirements on combating the financing of terrorism and anti-money laundering, etc. A number of target inspections of the commercial banks was held in order to examine the system of credit and operational risk management, and to assess compliance of the commercial banks with the requirements of the legislation in carrying out operations with foreign currency and to evaluate the destination of funds sold by the National Bank in the interbank foreign exchange market.

¹ Data are given on the basis of Section 12 PRBR.

The results of inspections of the reporting period indicate an overall satisfactory financial status of the commercial banks. At the same time, there were breaches of the law in terms of proper classification of assets and creation of adequate reserves, credit management, operations with insiders and affiliated entities, credit risk management, operations in foreign currency, deposit protection system, and violations of some requirements of legislation on combating the financing of terrorism or extremism and anti-money laundering (AML/CFT). The shortcomings in the systems of internal control and banking risk management were revealed in some banks.

According to the results of the comprehensive and target inspections of commercial banks in connection with the identified shortcomings or violation of separate requirements the instructions were sent in order to bring in conformity with the requirements of legislation and to reduce the high risks taken by banks, which resulted from separate operations. The results of individual target inspections were reviewed by the Supervision Committee of the National Bank.

In 2016, as part of a bilateral agreement with the State Financial Intelligence Service of the Kyrgyz Republic there was regular exchange of information on observance of the legislation on AML/CFT by commercial banks.

The National Bank of the Kyrgyz Republic actively participated in the work of the three inter-agency working groups in order to be ready for the second round of mutual evaluations of the national system of AML/CFT implemented by the experts of the Eurasian Group on combating money laundering and financing of terrorism (EAG).

Risk-based supervision

Taking into account development of the banking sector, accompanied by rising risks inherent to the activity of commercial banks, the National Bank implemented regular activities to improve the methods and tools of supervision. In 2016, the National Bank continued to develop the risk-based supervision system.

In 2016, the project group was created in order to test methods and tools for risk-based supervision. The group used the principles of risk-based supervision in respect of five commercial banks, both in the context of remote off-site supervision, and during on-site inspections.

3.1.4. Enforcement Measures

In 2016, enforcement measures were applied to the commercial banks within the framework of off-site supervision, as well as based on the results of on-site inspections. The measures taken were mainly precautionary and were implemented to ensure reliability, stability and efficiency of the activities implemented by the banks in accordance with the legislation of the Kyrgyz Republic.

In 2016, the Supervision Committee of the National Bank's (hereinafter – the Supervision Committee) held 52 meetings and discussed 138 issues on activities of the commercial banks.

During the reporting period, the Supervision Committee took supervisory response measures and measures to limit the activities of specific commercial banks. In particular, the Supervision Committee introduced direct banking supervision in OJSC Russian-Kyrgyz “AMANBANK” and OJSC “Eurasian Savings Bank” in order to protect the interests of depositors and other creditors, and for more detailed study and monitoring of the financial status.

In connection with the implementation of the requirements of the legislation of the Kyrgyz Republic, which were the basis for the supervisory regime introduction, in 2016, the Supervision Committee withdrew the regime of direct banking supervision in CJSC “BTA Bank” and OJSC “Rosinbank”.

Based on identified shortcomings, measure in the form of a fine was taken in respect of one commercial bank, and the requirement to change some officials of the commercial bank was set. Three employees of the commercial bank were brought to

administrative responsibility in the form of a monetary penalty for violations of the requirements of the legislation of the Kyrgyz Republic.

In the reporting year, a penalty was imposed on two banks for non-compliance with rules of the mandatory reserve requirements.

3.2. Supervision over Non-bank Financial-Credit Institutions

At the end of 2016, the system of non-bank financial-credit institutions, subject to licensing and regulation by the National Bank, comprised the specialized financial-credit institution – OJSC “Financial Company of Credit Unions” (SFCI), 116 credit unions, 162 microfinance organizations (including six microfinance companies, 103 microcredit companies, and 53 microcredit agencies) and 394 exchange bureaus.

Activity of the SFCIs, microfinance companies, credit unions, and exchange bureaus is carried out based on the license of the National Bank, the microcredit companies and microcredit agencies operate based on a certificate of accounting registration and are entitled to receive a license for carrying out certain operations specified in the license.

In the reporting year, the National Bank issued 119 licenses to the exchange bureaus (including expired previous licenses), one certificate of accounting registration to the MCC, one license to the MFC and two licenses to the CUs.

For the failure to comply with the legislation of the Kyrgyz Republic and the regulatory legal acts of the National Bank, two CU licenses and thirteen licenses of exchange bureaus were withdrawn. For the failure to comply with the legislation of the Kyrgyz Republic and the regulatory legal acts of the National Bank, two CU licenses and thirteen licenses of exchange bureaus were withdrawn. Due to a termination of activity, seven certificates of accounting registration to the MMC, four certificates of accounting registration to the MCAs, three MFC licenses, nine CU licenses, 41 licenses to the exchange bureaus, including 22 expired licenses were canceled.

Table 3.2.1.

Changes in Number of NFCIs and Exchange Bureaus

Title	2015	2016
SFCI	1	1
Microfinance organizations (MFC, MCC and MCA)	172	162
Credit unions	125	116
Exchange bureaus	329	394
Total NFCI	627	673

In 2016, supervision over activities of non-bank financial-credit institutions was aimed to ensure further qualitative growth of the sector, the increase in the availability of microfinance services and the decrease of credit risks, which ultimately contributed to financial stability and stability of non-bank financial-credit institutions.

The National Bank used off-site supervision based on periodic regulatory reporting and on-site inspections as the main tools for supervision over the NFCI activities.

Thus, based on the off-site supervision findings connected with revealing of the law breaches in activities of non-bank financial-credit institutions, the National Bank applied the following enforcement actions:

- 24 warnings, 91 instructions were sent to microfinance organizations, and the certificate of one MFO was suspended, an administrative fine was imposed on one MFO;
- 10 warnings, 58 instructions were sent to credit unions, the licenses of four CUs were suspended (thereafter, the license of two CUs was withdrawn);
- 129 warnings and 250 instructions were forwarded to exchange bureaus:

NFCI licensing

Off-site supervision

the licenses of nine exchange bureaus were suspended and thereafter resumed upon elimination of violations, the licenses of 11 exchange bureaus were withdrawn;

- the restrictions imposed on certain types of operations were eliminated by the SFCIs, temporary administration regime in the SFCIs was terminated in August 2016.

Inspections

In 2016, the National Bank conducted 79 targeted and 10 full-scope inspections of the MFOs, 31 targeted and 41 full-scope inspections of the CUs, and one targeted inspection of the SFCI for compliance with the requirements of the legislation of the Kyrgyz Republic, including the regulatory legal acts in the sphere of combating the financing of terrorism or extremism and anti-money laundering (AML/ CFT).

The National Bank carried out cross inspections of two microfinance organizations and six credit unions within the framework of the full-scope inspections of the microfinance organizations and the SFCIs. Based on the results of the identified violations of the legislation of the Kyrgyz Republic and the regulatory legal acts of the National Bank in the activities of inspected non-bank financial-credit institutions, the following measures have been applied:

- 604 prescriptions, 56 recommendations were sent to microfinance organizations, and the activity of certificate of one MFO was suspended, an administrative fine was imposed on the MFO officer;

- 695 prescriptions, 66 recommendations were sent to credit unions;

- 10 prescriptions and four recommendations were sent to SFCI according to the results of target inspection completed at the end of 2015.

During the reporting period, the National Bank carried out 201 inspections of exchange bureaus for compliance with the requirements of the legislation of the Kyrgyz Republic, including the requirements of AML/CFT. The following enforcement actions were applied to the exchange bureaus for disclosed violations of the requirements of the legislation of the Kyrgyz Republic and the regulatory legal acts of the National Bank: 14 warnings, 53 prescriptions and 21 suspended licenses and two revoked licenses.

69 offenders were brought to administrative responsibility in the form of penalty in the amount of KGS 101,0 thousand in accordance with the Code of the Kyrgyz Republic “On Administrative Responsibility” for carrying out unlicensed activities.

Work on improving supervision over the non-bank financial-credit institutions through the risk-based supervision (RBS) was continued during 2016.

3.3. Protection of Consumer Rights

In 2016, the National Bank implemented a number of activities under protecting the rights of consumers of the banking and microfinance services.

Measures to enhance consumers' rights protection

A separate chapter, aimed at protecting the rights and interests of the clients and regulating the requirements to provision of the basic banking services and information disclosure; the requirements to the contracts concluded with the clients; for responsible lending; commission fees, tariffs and interest rates; the order of consideration of complaints and petitions, was included in the new law “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity”.

A number of amendments and additions was introduced in the regulatory legal acts of the National Bank in part on consumer protection relating to the prohibition imposed on charging the fees, penalties and other payments for early repayment of loans, the ban on establishing arbitration clauses on collateral foreclosure, and on easing the requirements for creating the loan loss provision (LLP) of the banks.

Citizens' applications

The National Bank emphasizes great importance to communicating with the citizens and considering their applications to protect the rights of consumers of the banking and microfinance services. Each application was objectively considered: thus, in 2016, 653 citizens' applications were considered, moreover, 577 applications were considered by the head office and 76 – by the regional offices of the National Bank. The

meetings were regularly held with the people from the remote regions of the Republic with participation of the National Bank and the local subdivisions of the commercial banks.

The commissions to consider the applications of borrowers with participating representatives from the law enforcement agencies and the National Bank were established at the suggestion of the Interagency Commission in all regions of the Republic in order to increase the efficiency of work with troubled borrowers-applicants. The recommendations for operation of the regional commissions on considering the borrowers' applications, which include the procedure of accepting, considering of the borrowers' applications and operative settlement of organizational issues, were developed and sent in order to improve the work of this commission.

Totally, 3,129 borrowers' applications were considered in 2016 as part of the activities of the interagency and regional commissions.

*Interagency
Commission*

3.4. Supervision and Regulation Methodology

In 2016, the work was continued to improve the legal framework governing activities of the financial-credit institutions, including financial-credit institutions, which carry out operations in accordance with the Islamic principles of banking and financing. Meanwhile, special attention was focused on the issues of de-dollarization and stimulation of the economy in the country, reduction of the risks in activities of the financial-credit institutions, bringing the regulatory legal acts in line with changes in the legislation. The regulatory legal acts on regulation of the activities of new financial market entities were adopted.

The financial-credit institutions were prohibited to issue the mortgage and consumer loans in foreign currency to borrowers-individuals, except for the persons carrying out business activity, and overdrafts on the payment cards within the salary projects, in order to reduce dollarization of the economy and the credit risk arising from the currency risk.

*Economy
de-dollarization*

Amendments and addenda, related to the issues of asset classification and the corresponding allocations for loan loss provision were approved. According to the abovementioned conversion of the loan currency from foreign into national currency was excluded from the notion "restructured loans", if this conversion was not connected with the deteriorated financial condition of a borrower.

To expand access of the population to services of the financial-credit institutions and to improve the efficiency of the lending process in the commercial banks the National Bank eased the requirements to the documents to be provided for loan receiving in part of providing the borrower's business plan, financial statements of the guarantor and wage reference of the clients, as well as to the loans restructuring and write-off, formation of the borrowers' credit file. In addition, terms of collateral monitoring to be held by the banks were reduced.

*Economy
stimulation*

The regulatory legal acts concerning the licensing and regulation of the activities of the credit bureaus were approved in connection with the entry into force of the Law "On credit information exchange", adoption of which contributed to improved arrangement of activities on credit information sharing. Amendments and addenda were approved in some regulatory legal acts within the framework of implementing the aforementioned law and for further development of credit information sharing activity, which is one of the ways to minimize credit risk, as well as to assess borrowers' creditworthiness.

The amendments were adopted in the Recommendations on standardization of the credits granted for purchase of finished housing in order to create an enabling environment contributing to development of mortgage lending.

The National Bank introduced amendments and addenda into certain regulatory and legal acts providing for expanding the list of collateral in the form of precious

metals for development of the market of precious metals and increasing the access to credit resources.

The volumes of loan loss provision on loans issued in US dollars at the expense of international organizations were reduced to support lending to the free-standing projects in the priority sectors of the economy of the Kyrgyz Republic.

Risk management

Given the risks associated with the threat of the commercial banks' information security, the amendments and addenda were adopted in the Regulation "On minimum requirements to the external audit of banks and financial-credit institutions licensed by the National Bank of the Kyrgyz Republic". The amendments and addenda envisage carrying out external audit in the banks every three years in order to analyze and evaluate the conformity of information technologies and information security of the bank with the requirements of the National Bank and the internal documents of the bank.

Within the framework of risk management, amendments and addenda were introduced in the procedure for calculating the standard bank liquidity and the banks and microfinance organizations were prohibited to enter into agreements on the use of a trademark on a paid basis.

Additions introduced in the Regulation "On periodic regulatory bank report" contribute to improving the efficiency of providing the information by the banks.

Licensing of bank activities

During the reporting period, the National Bank revised the requirements to certain officials of the banks, including prohibition to combine work in audit organization with the position of the head of internal audit service and the chief accountant of the bank. In addition, the procedure and conditions for opening the representative offices of the banks were amended, as well as the procedure of microfinance organizations reorganization in the commercial banks was established.

Additions were introduced in the Regulation "On licensing of banks, reinforcing the requirements to the conditions of bank licensing issue in part of establishing and developing the network of peripheral devices for reception and servicing of bank payment cards and connecting the banks to the national payment system "Elcard".

The amendments and additions to be introduced to a number of regulatory legal acts were approved in order to bring them in conformity with the legislation of the Kyrgyz Republic on counteraction to legalization (laundering) of criminal proceeds and financing terrorist or extremist activities, and to improve the quality and accelerate the reporting by the exchange bureaus to the National Bank.

The amendments and additions related to application of enforcement measures to the banks and carrying out on-site inspections were adopted in order to bring them in conformity with the administrative legislation of the Kyrgyz Republic, as well as to further introduce the risk-oriented supervision over the commercial banks.

NBFI regulation

The National Bank adopted the regulatory legal acts on the issues of licensing and regulating the activities of specialized financial and credit institutions within the framework of improving the regulatory and legal framework governing the activities of non-bank financial-credit institutions. These regulatory legal acts contain prudential standards and requirements, mandatory for specialized financial-credit institutions, the requirements on the order and deadlines for the reporting to be submitted to the National Bank, as well as measures applied to data by the financial-credit institutions.

The requirements were set to the microfinance organizations in the part of the funds borrowing from the legal entities and shareholder individuals in order to exercise appropriate supervision over microfinance organizations, the definition was given for the wholesale credits and wholesale microfinance organizations.

The National Bank increased the size of microcredit issued by the microcredit agencies within the framework of further development of microcredit agencies and support to the small and medium-sized business.

The decision on suspension until December 31, 2016 the requirement to provide information on sources of exchange bureaus' working capital allowed to simplify the

procedure for obtaining a license for the right to conduct exchange operations with cash foreign currency in order to reduce the number of persons carrying out transactions on the exchange of foreign currency in cash without the corresponding license of the National Bank.

Amendments and addenda relating to the regulation of banks, operating using the Islamic principles of banking and financing, were adopted within the framework of further development of the Islamic principles of the banking and financing. The amendments were approved to minimize credit risk, to increase transparency and efficiency of operations with cash and non-cash foreign currency, to provide the Bank with an opportunity to sell other property through “Murabaha” transactions, as well as to bring it in conformity with the standards of Shariah.

The requirements related to the issues of periodic regulatory reporting were set as part of regulation of non-bank financial-credit institutions operating using the Islamic principles of banking and financing. The Regulation “On requirements to formation of financial statements and provision of information to the non-bank financial-credit institutions carrying out activities in accordance with the Islamic principles of banking and financing, or having “Islamic window” was adopted in order to enhance transparency of microfinance organizations and credit unions operating in accordance with the Islamic principles of the banking and financing.

*Islamic Principles
of Financing*

CHAPTER 4. PAYMENT SYSTEM

In 2016, the National Bank continued ensuring a reliable and stable operation of the payment system of the Kyrgyz Republic.

The main directions of payment systems development for 2016 was to optimize and improvement of the legal and regulatory framework conducive to enhancement of reliability and efficiency of existing payment systems; supervision over new participants in the market of payment services and systems; expansion of the coverage sphere of retail non-cash payments and development of innovative technologies.

A number of regulatory and legal acts on regulation and supervision over the activities carried out by the operators of payment systems and payment organizations, as well as on establishment of the registration procedure by the international payment systems operators was adopted in order to bring them in conformity with the Law “On Payment System of the Kyrgyz Republic” and new international standards in the sphere of payment systems.

In the reporting period, the systematically important payment systems were defined in the territory of the Kyrgyz Republic in accordance with the established criteria, and self-assessment of the systemically important payment systems operation was also conducted in order to verify compliance with the international standards.

As part of the work of the Interagency Commission to increase the share of non-cash payments and settlements in the Kyrgyz Republic, the implementation of the Action Plan of the State Program of Measures to Increase the Share of Non-cash Payments and Settlements in the Kyrgyz Republic for 2012-2017 (hereinafter – the State Program) was coordinated and monitored.

In the field of cash supply management in 2016, the National Bank continued its work to meet the demand for cash, to regulate the structure of money in circulation and satisfied the need of the economy in required denominations of banknotes and coins in the national currency.

4.1. Payment System Development

4.1.1. Non-cash Payments

Payment system

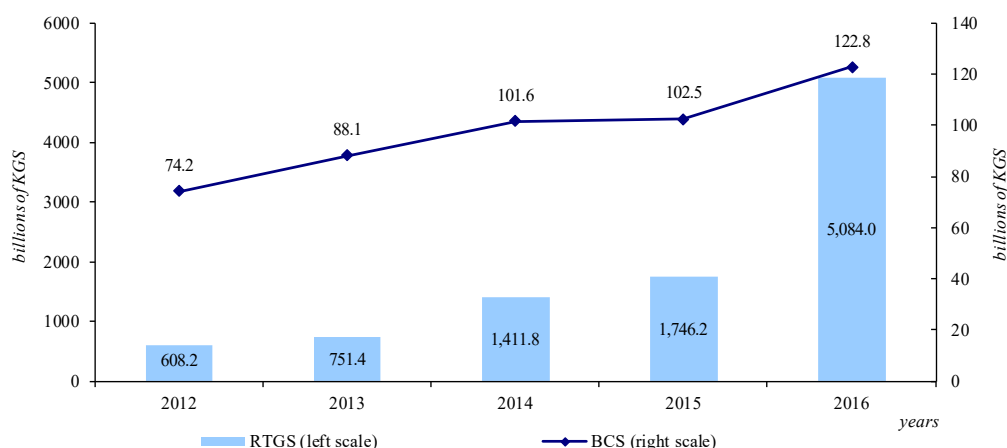
In the Kyrgyz Republic, non-cash payments were made in the payment system via the Real Time Gross Settlement System (RTGS), the Bulk Clearing System (BCS), the systems of payments with the use of payment cards, and the remittance systems and cross-border payments.

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, are the participants of the payment systems in the Kyrgyz Republic (RTGS and BCS).

In 2016, the payments made through the interbank payment systems (RTGS and BCS) amounted to 4.1 million payments totaling KGS 5,206.7 billion, these indicators increased by 13.9 percent and by 2.8 times respectively compared to 2015.

Chart 4.1.1.1.

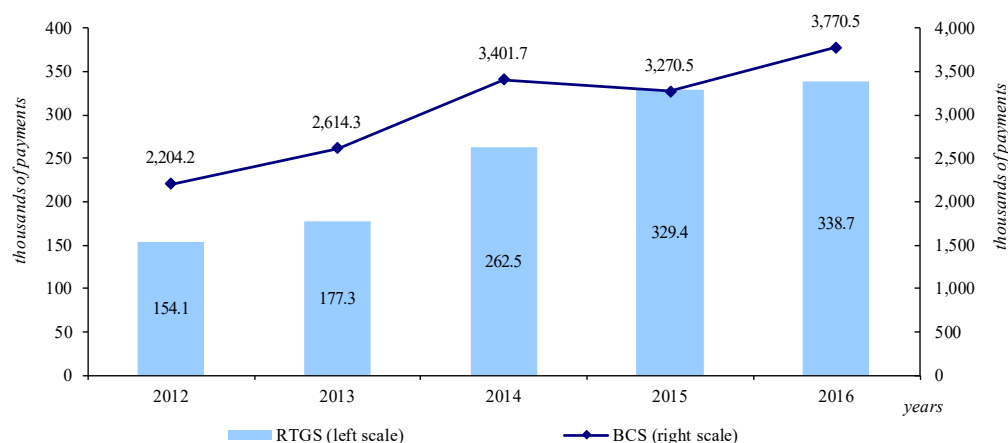
Volume of Payments via Interbank Payment Systems (RTGS and BCS)



In the reporting period, the volume of payments via the RTGS and BCS increased by 2.9 times and 19.8 percent, respectively. Growth of interbank payments was mainly due to the increase in the volume of payments on the banking operations, including the operations through the Automated Trading System of the National Bank (operations with securities, foreign currency, credit operations).

Chart 4.1.1.2.

Number of Payments via Interbank Payment Systems (RTGS and BCS)



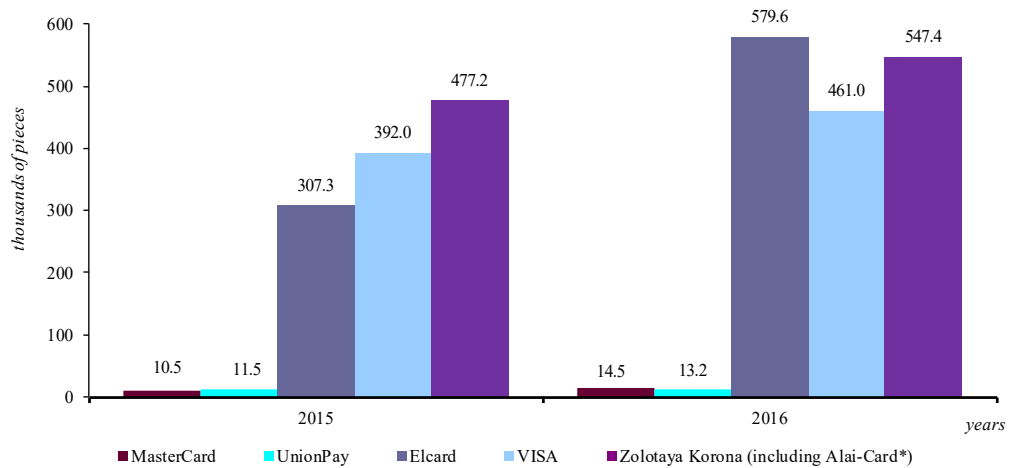
In the reporting period, the number of payments via the RTGS increased by 2.8 percent and the number of payments via the BCS increased by 15.3 percent compared with 2015.

Bank payment cards

The total number of issued payment cards amounted to 1.6 million, having thus increased by 34.8 percent, of which the number of cards of the national payment card system “Elcard” amounted to 579.6 thousand. The growth of the number of payment cards is largely due to the increase in the number of bank cards issued under salary projects.

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".

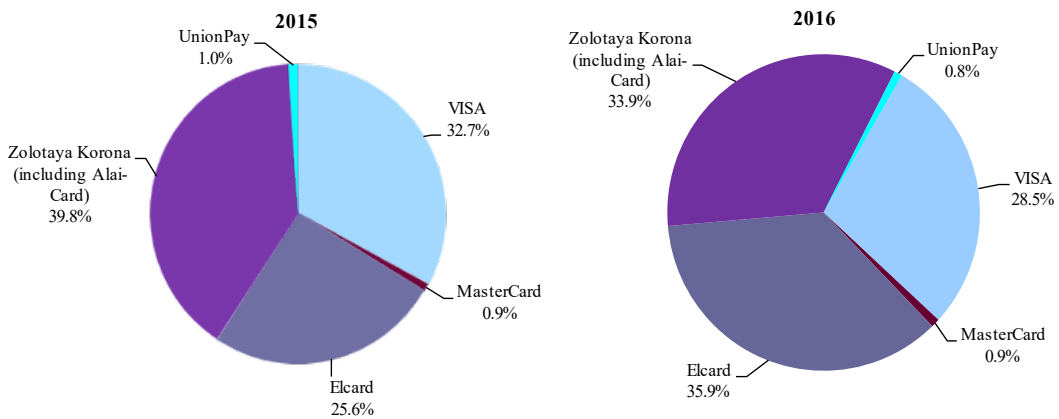
Operations with the use of cards

In the reporting period, 24.8 million operations were conducted with the use of payment cards, which is by 20.9 percent more than in 2015.

The total volume of payment card operations was KGS 120.5 billion for 2016, having increased by 19.9 percent compared with the same indicator of 2015. 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 remittances from card to card, Internet banking, and other.

Chart 4.1.1.4.

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



In 2016, the volume of transactions of merchants with the use of cards increased by 5.4 percent – from KGS 3.7 billion in 2015 to KGS 3.9 billion in 2016.

Card acceptance and servicing infrastructure

Thus, at the end of 2016, the bank payment cards were accepted for servicing by 1,300 ATMs and 7,101¹ terminals (of which 7,711 terminals were installed at merchants and 1,390 terminals were installed in the branches and savings offices of commercial banks) throughout the territory of the Kyrgyz Republic.

A breakdown by systems shows that:

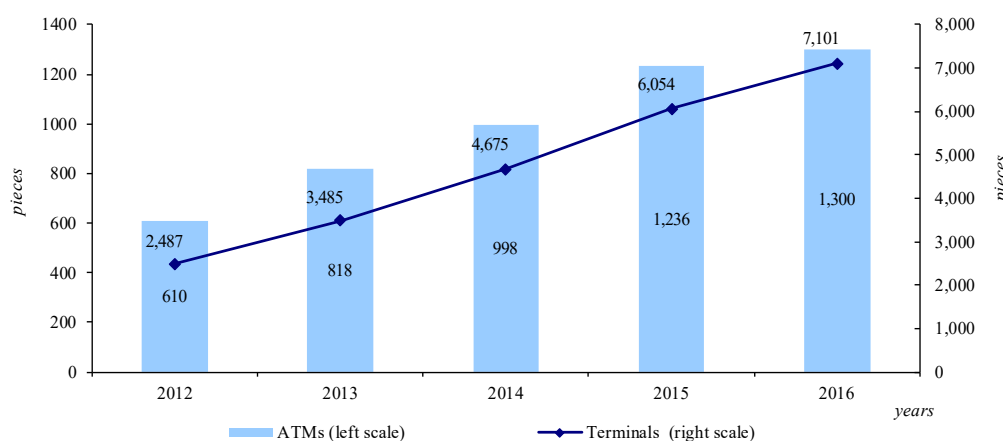
- the cards of the national payment card system "Elcard" were accepted for servicing by 1,300 ATMs and 7,101 terminals;

¹ Excluding automated self-service terminals (payment terminals or cash in).

- the cards of the international system “Zolotaya Korona” were accepted in 378 ATMs and 1,667 terminals;
- the cards of the international systems “Visa&MasterCard” were accepted in 537 ATMs and 3,540 terminals.

Chart 4.1.1.5.

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



4.1.2. Operators of Payment Systems and Payment Organizations

In 2016, the National Bank issued one license for carrying out activities of the payment system¹ operator and two licenses for carrying out activities of the payment organization² in order to reduce the risks of financial losses for the citizens due to development of electronic services in the market of retail payments. Generally, since the beginning of the licensing activities the National Bank issued 20 licenses for carrying out activities of the payment system operator and 21 licenses for carrying out activities of the payment organization. Moreover, in 2016, one license for carrying out activities of the payment system operator and one license for carrying out activities of the payment organization were revoked due to violation of the requirements of the regulatory legal acts of the National Bank.

The payment systems operators and payment organizations were inspected in order to assess their financial status, to analyze compliance with the legislation of the Kyrgyz Republic, as well as to ensure the smooth and secure functioning of the payment system.

The National Bank registered remittance system operators, international settlement systems with the use bank payment cards and e-money international systems functioning in the territory of the Kyrgyz Republic.

Five international payment systems with the use of payment cards, one e-money international system and three operators for local remittance systems were registered in 2016. Generally, in 2016, 36 operators of remittance systems were registered in the Republic, 19 thereof are the operators of local remittance systems, 17 – the operator of the international remittance systems.

4.1.3. Payment System Oversight

Within the framework of oversight over the payment system of the Kyrgyz Republic, according to the established criteria of importance, the payment systems of high relevance and priority for the financial system of the country were identified in

¹ Providing services for receiving, processing and issuing financial information (processing, clearing) on payments and settlements made by the third parties to the payment system participants (i.e. processing of financial information).

² Providing services for receiving and effecting payments and settlements in favor of the third parties (financial flows).

2016. Thus, RTGS and BCS were recognized as the systemically important payment systems, RTGS, BCS and “Elcard” – as the national payment systems.

During 2016, particular attention was paid to the smooth functioning of the national payment systems.

Operation of the systemically important payment systems

According to the monitoring results, the systematically important payment systems RTGS and BCS are operated in the normal mode, the level of availability of the systems remained high and amounted to the average of 99.9 percent. The level of financial risks in the RTGS remained minimal (the liquidity ratio was 0.87, and the turnover ratio – 1.15) due to the sufficiently high level of liquid assets on the correspondent accounts of the participants in the National Bank in relation to turnovers in the system.

Uninterrupted operation of the retail payment systems, which process a large number of regular and small payments of the population (card payment systems and remittances systems) is an important factor of the country financial system stability.

Operation of the national payment system “Elcard”

During the reporting period, the Common Interbank Processing Center (CIPC) – an operator of the national payment card system “Elcard” – generally functioned under normal conditions, except for selected modules updates in the system and maintenance works. Availability of the national payment card system “Elcard” in 2016 amounted to 99.2 percent.

Provision of security

In order to improve the security of payments and transfers, the National Bank conducted regular explanatory work among the citizens about possible risks when carrying out transfers, using payment tools and measures for their reduction.

The National Bank and the commercial banks promptly informed about cases of fraudulent/suspicious transactions within the framework of the Agreement on the exchange of information on suspicious and fraudulent activities in the payment system of the Kyrgyz Republic. In order to coordinate and consolidate efforts during the year, the National Bank organized profile trainings, involving representatives of the international payment system operators, for the employees of the commercial banks in Osh, Batken and Jalal-Abad oblasts, as well as for the payment systems operators and the mass media representatives in order to minimize fraudulent transactions and manage the payment system risks.

Integration of payment systems

In order to ensure the effective and safe functioning of the national payment systems within the EAEU, the National Bank entered the Agreement on establishing the working group to coordinate the development of the national payment systems. Agreement was achieved for cooperation in four priority areas: in integration of the national payment cards, in introduction of the international standards on the financial messaging formats (ISO 20022), the channels for financial communications and development of financial technologies.

Conformity of the payment system to the international standards

Within the framework of compliance with the international standards, the National Bank for the first time conducted self-assessment of the systemically important payment systems functioning in order to verify compliance with the Financial market infrastructures Principles, which confirmed the compliance of these systems with international standards.

4.1.4. Measures to Increase the Share of Non-cash Payments

In the reporting year, during the work of the Interagency Commission on increasing the share of non-cash payments and settlements in the Kyrgyz Republic, the National Bank continued coordinating and monitoring the implementation of the Action Plan on the State Program.

In 2016, in the course of implementation of the Action Plan on the State Program the following results have been achieved:

- all budgetary institutions, which employees get their wages posted on the bank payment cards within the framework of salary projects, were transferred to the national payment system “Elcard”;

- social benefits were paid to 59.1 thousand people through the bank payment cards (13.0 percent of the total number of recipients), while in 2015 the social benefits were received by 44.4 thousand people (9.3 percent of the total number of recipients);

- pensions through the accounts in the commercial banks were paid to 264.4 thousand people, accounting for 43.0 percent of the total number of pensioners and compared with 38.4 percent in 2015;

- 1,296 “Budget Funds Recipient Cards” (BFR card) were issued for the budgetary organizations as a modern alternative to checkbooks and manual handling replacement by automated accounting. The operations with these cards totaled 3,254, with their volume being KGS 670.5 million.

In compliance with the Law “On Amendments and Addenda to the Tax Code of the Kyrgyz Republic”, which provides for exemption of commercial banks from VAT, when they import bank equipment, within the framework of the Memorandum of Understanding signed between the Ministry of Economy, the National Bank and the Union of Legal Entities “Union of Banks of Kyrgyzstan”, as well as the agreement with commercial banks, during 2016, the commercial banks imported 168 ATMs, 1,576 terminals, 104 payment terminals into the Republic, which were mainly deployed in the regions. Generally, at the end of 2016, the commercial banks imported 386 ATMs, 2,965 terminals and 170 payment terminals.

To reduce the level of dollarization in the economy of the country by means of increasing non-cash payments in national currency within the framework of the implementation of the Resolution of the Government of the Kyrgyz Republic “On Measures to Protect Consumer Rights”, which provides for the mandatory installation of POS-terminals by the merchants to receive payment for goods and services in the non-cash form, at the end of 2016, the number of POS-terminals installed in the merchants amounted to 5,711, whereas at the beginning of the year, the number of POS-terminals was 4,613. Social videos have been filmed and launched for business entities to inform entrepreneurs about implementation of this resolution and about the right of the card holders to pay for goods and services in cashless form.

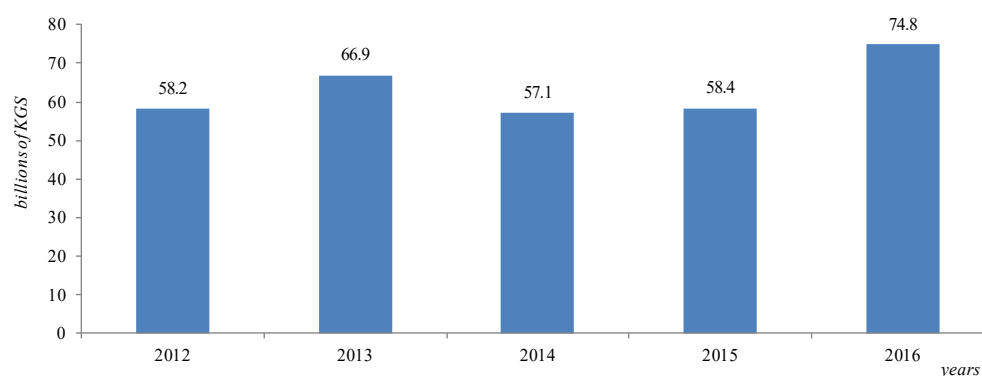
4.2. Cash Circulation

One of the main functions of the National Bank of the Kyrgyz Republic is the timely provision of the Republic economy with the cash. To achieve it, the National Bank regulates the structure of cash in circulation through commercial banks, and commercial banks distribute funds according to the needs of the financial market.

The total amount of cash in circulation in 2016 increased by 28.1 percent and amounted to KGS 74.8 billion.

Chart 4.2.1.

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



*Receipt, payment
of cash from cash
departments of
commercial banks*

Receipt of cash in cash departments of commercial banks totaled KGS 1,173.0 billion in 2016 and increased by 13.1 percent in comparison with 2015. Payment of cash from the cash departments of commercial banks increased by 14.6 percent and amounted to KGS 1,193.5 billion. Recoverability of cash in the cash departments of commercial banks in 2016 made 98.3 percent and decreased by 1.3 percentage points compared to the year of 2015.

Table 4.2.1.

Movement of Cash via Cash Departments of Commercial Banks by Regions

	Receipt, <i>billions of KGS</i>		Disbursement, <i>billions of KGS</i>		Recoverability, <i>percents</i>	
	2015	2016	2015	2016	2015	2016
Total	1,036.7	1,173.0	1,041.0	1,193.5	99.6	98.3
Bishkek city	489.5	532.7	475.6	524.8	102.9	101.5
Batken oblast	51.5	60.8	52.1	61.1	98.8	99.5
Jalal-Abad oblast	107.7	123.6	115.7	134.6	93.1	91.8
Issyk-Kul oblast	52.7	64.6	55.3	67.9	95.3	95.1
Naryn oblast	21.2	27.1	24.0	30.5	88.3	88.9
Osh city	138.4	149.4	138.3	154.7	100.1	96.6
Osh oblast	50.9	63.5	51.9	63.9	98.1	99.4
Talas oblast	23.2	28.8	26.5	33.6	87.5	85.7
Chui oblast	101.6	122.5	101.6	122.4	100.0	100.1

In 2016, the work was continued on issuance of banknotes and coins, withdrawal and destruction.

The cash turnover in 2016 was represented by 350.1 million sheets of banknotes and 278.8 million coins. Of the total amount of money in circulation in 2016, the share of banknotes accounts for 98.8 percent, and the share of coins – 1.2 percent. The structure of banknotes and coins by denomination in circulation 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
2015	1.0	0.6	0.7	1.1	2.3	4.5	11.6	46.9	31.3	100.0
2016	0.9	0.5	0.6	1.0	2.2	4.2	11.7	46.3	32.6	100.0

In 2016, the number of detected counterfeit banknotes totaled 288 pieces amounting to KGS 287.7 thousand (in 2015 – 77 pieces amounting to KGS 106.3 thousand). The level of counterfeiting amounted to 0.8 fakes per one million of the genuine banknotes, which is classified as a minimum 1st level (0-10 fakes/million)¹.

Criminal proceedings were initiated in each case of counterfeiting, with the search operations conducted by the law enforcement agencies.

*Selling of refined
gold measuring
bullions*

The National Bank continued selling the refined gold measuring bullions with the fineness of 999.9 and the weight of 1, 2, 5, 10 grams 31.1035 grams (1 ounce) and 100 grams within the framework of implementing the Concept on creation and

¹ The level of counterfeiting is determined by the ratio of the number of detected fake banknotes per one million of genuine banknotes in circulation (fakes/million). There are six levels of counterfeiting in the world practice.

development of the market of precious metals in the Kyrgyz Republic focused on forming the market of new savings and investment tools for the population and the enterprises of the republic, on attracting investments to the bank market, and on developing industrial potential of gold mining branch in Kyrgyzstan.

In order to ensure the availability of refined gold measuring bullions in all regions of the Republic, selling of these bullions was initiated on May 10, 2016 with the right of re-purchase by the regional offices of the National Bank.

Table 4.2.3.

Specifications of Refined Gold Measuring Bullions Issued by the National Bank

Weight, grams	Metal	Sample	Width, mm	Length, mm
1	gold	999.9°	8	13.8
2	gold	999.9°	11	18.9
5	gold	999.9°	14	24.1
10	gold	999.9°	15	25.8
31.1035	gold	999.9°	22	37.9
100	gold	999.9°	26	44



During the reporting year, there was a steady demand for the measuring bullions of the National Bank on the part of the population. Procedure of re-purchasing the gold measuring bullions provided them with high liquidity and made this product much-in-demand savings tool. In 2016, the volume of sold gold measuring bullions made 62.6 kg and amounted to KGS 185.1. In the reporting period, the volume of re-purchased refined gold measuring bullions made 40.8 kg and amounted to KGS 122.2 million.

Table 4.2.4.

Information About Sold and Re-purchased Gold Measuring Bullions

(pieces)

Weight (grams)	Sale		Re-purchase	
	2015	2016	2015	2016
1	154	155	8	52
2	122	108	17	40
5	215	565	19	413
10	176	76	50	63
31.1035	198	110	27	114
100	570	552	148	344
Total	1,435	1,566	269	1,026

Chart 4.2.2.

Number of sold Refined Gold Bullions
(pieces)

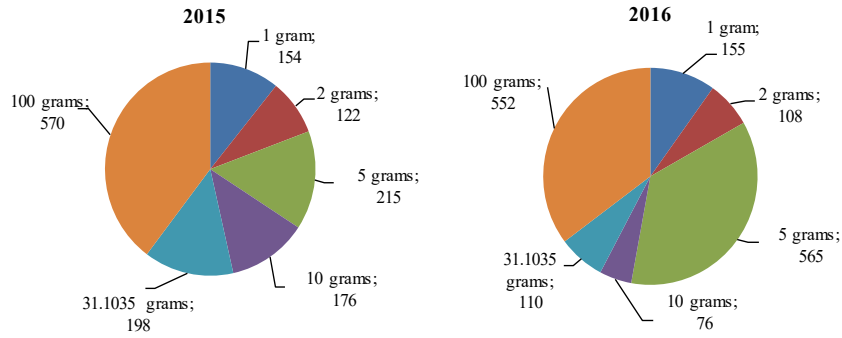


Chart 4.2.3.

Number of Re-purchased Refined Gold Bullions
(pieces)

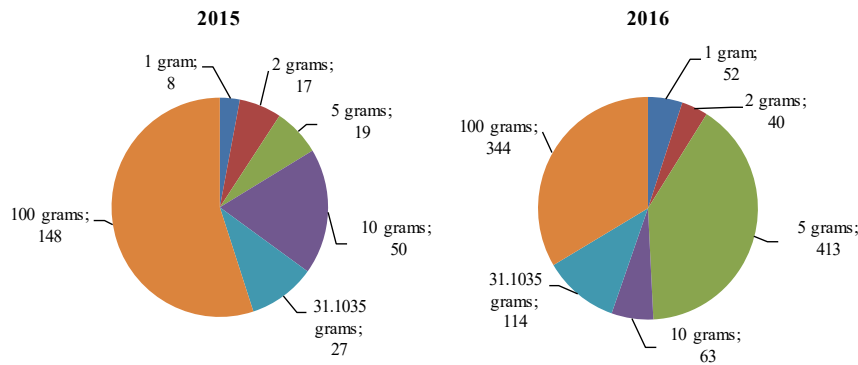
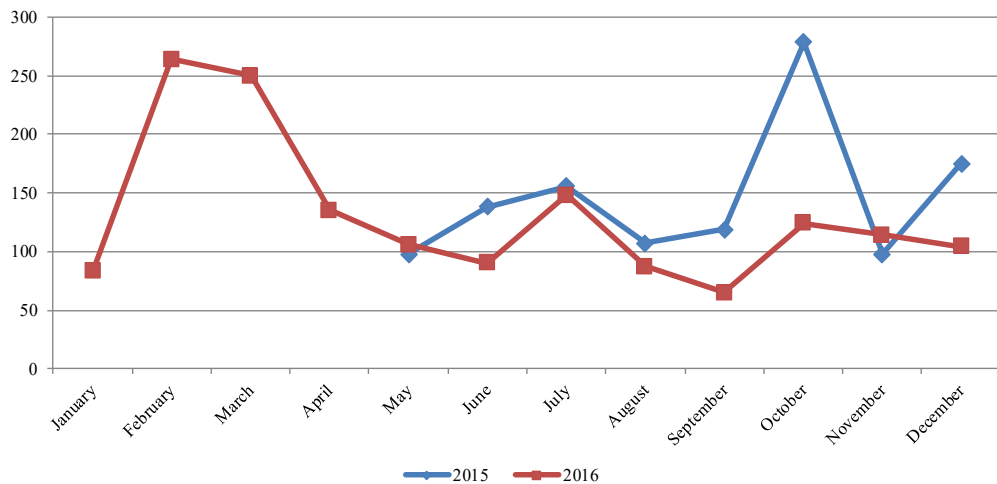


Chart 4.2.4.

Dynamics of Sales of Refined Gold Bullions by Months
(pieces)



The National Bank started to provide services for storage of refined gold measuring bullions weighing 31.1035 and 100 grams for individuals and legal entities in order to develop the market of bank precious metals, to expand the clients' base and the range of services.

To attract commercial banks of the Kyrgyz Republic to this project and make them more attractive as the holders of reliable investment assets, in the reporting period,

the National Bank conducted trainings for the employees of the commercial banks to receive additional license for conducting banking transactions with precious metals in the form of refined gold measuring bullions issued by the National Bank.

In order to constantly replenish the stock of refined gold measuring bullions, in the reporting period, the National Bank in accordance with the Law of the Kyrgyz Republic “On Precious Metals and Gems” purchased refined non-monetary gold from local companies producing gold for the national currency. In 2016, the National Bank purchased 247.8 kg of gold.

In 2016, the National Bank continued issuing collection commemorative coins devoted to the series “Historical events”, “Red book of Kyrgyzstan”, “Age of the Kyrgyz kaganat”. Six types of collection commemorative coins were issued into circulation:

Issue of commemorative coins into circulation

- Square-shaped silver coin “World Nomad Games” made with the use of pad printing technology;
- Classical round-shaped silver coin “25th year anniversary of independence of the Kyrgyz Republic” of the series “Historical events”;
- Octagonal-shaped silver coin “1000th year anniversary of Zhusup Balasagyn” made with the use local gilding technology;
- Oval-shaped silver coin “Fritillaria eduardii Regel (Aigul flower)” of the series “Red book of Kyrgyzstan” made with the use of pad printing technology;
- Classical round-shaped silver coin “Lightly armed warrior of the Kyrgyz kaganate” of the series “Age of the Kyrgyz kaganat” made with the use of local oxidation technology;
- Copper-nickel coin “Lightly armed warrior of the Kyrgyz kaganate” of the series “Age of the Kyrgyz kaganat”.

Figure 4.2.1.

Silver Coin “World Nomad Games”



Figure 4.2.2.

Silver Coin “25th year anniversary of independence of the Kyrgyz Republic”



Figure 4.2.3.

Silver Coin “1000th year anniversary of Zhusup Balasagyn”



Figure 4.2.4.

Silver Coin “Fritillaria eduardii Regel (Aigul flower)”



Figure 4.2.5.

Silver Coin “Lightly armed warrior of the Kyrgyz kaganate”



CHAPTER 5. INTERNATIONAL COOPERATION AND PUBLIC RELATIONS

5.1. International Cooperation

Cooperation of the National Bank with the central banks and international organizations in 2016 was generally conducted within the framework of the Kyrgyz Republic membership in integration and regional associations and the international financial institutions and was aimed at achieving the targets specified in the National Strategy for Sustainable Development in the Kyrgyz Republic for 2013-2017.

In 2016, the Kyrgyz Republic decided to increase the quota of the Kyrgyz Republic in the IMF from SDR 88.8 to 177.6 million. This increase will provide an opportunity to increase the overall amount of financial resources received from the IMF.

In the reporting year, implementation of the economic program supported by the IMF was continued within the framework of the Extended Credit Facility (ECF) aimed at ensuring macroeconomic stability and sustainable economic development of the Kyrgyz Republic in the medium term.

Work was continued within the framework of cooperation with the Islamic Financial Services Board (IFSB) on the development of standards for the institutions offering Islamic financial services.

The National Bank completed implementation of Subprogram 2 of the Investment Climate Improvement Program (ICIP) of the Asian Development Bank (ADB), which was focused on assisting in improvement of the payment systems and supervision over the commercial banks and non-bank financial-credit institutions. The Agreement between the Kyrgyz Republic and the ADB for funding under Subprogram 2 of the Investment Climate Improvement Program was signed in August 2016.

Participation in the integration processes of the financial sector in the territory of the CIS countries and the Eurasian Economic Union (EAEU) was one of the priority areas for international cooperation of the National Bank in 2016.

The National Bank continued its participation in various advisory and working bodies created under the Eurasian Economic Commission (EEC). In 2016, the work aimed at formulating the common positions for analysis, forecasting the macroeconomic indicators and defining the common policy was carried out within the framework of the Advisory Committee on the Macroeconomic Policy.

Work of the Advisory Committee on the Statistics was focused on improving the quality and content of provided statistical information in order to accelerate the implementation of international standards in the EAEU financial statistics through improved coordination of statistical activities at the national and supranational levels. Members of the Committee developed the EEC action plan within the framework of improving the provision of statistical data for 2017.

Harmonization of the EAEU member states laws in the financial sector (banking sphere, securities market, insurance), currency regulation and other issues were considered in the course of the work conducted by the Advisory Committee on the Financial Markets. In the course of work conducted by this Committee, the central banks of the EAEU member states held self-assessment of conformity of the national regulatory standards in the sphere of banking legislation with the basic principles of the Basel Committee on Banking Supervision. Work on development of the EAEU legal framework was continued, particularly on finalization of the draft Agreement on harmonized approaches to regulation of foreign exchange legal relations and adoption of measures on liberalization, the draft Agreement on harmonization of laws in the financial sphere of the EAEU member states, as well as on elaboration of the draft Agreement on sharing information within the credit histories.

Cooperation with international financial organizations

Cooperation with integration associations

The Advisory Council on the Monetary Policy of the Central (National) Banks of the EAEU member states is one of the most important platforms for integrated cooperation. The format of the Council meetings allows the representatives of the central banks to share information about the monetary policy conducted in the EAEU member states, about the situation in the foreign exchange market, as well as about other relevant issues. The draft Agreement on harmonized monetary policy of the EAEU member states were considered along with other issues in the course of the 13 Council meeting, which was held by the National Bank in Bishkek city on November 24-25, 2016.

The Eurasian Council of Central (National) Banks, which comprises the central (national) banks of the Republic of Belarus, the Republic of Kazakhstan, the Kyrgyz Republic, the Russian Federation and Tajikistan, is among the most effective tools of interaction between the central banks. In 2016, the Central Bank of the Republic of Armenia joined the Council.

The 35th regular meeting was held by the National Bank in Bishkek city on October 26-27, 2016, various issues of the banking sphere, including regulation of microcredit (microfinance) organizations and the activities of non-bank institutions, regulation of the payment systems operators' activities were considered in the course of this meeting.

In 2016, three documents were signed within the framework of the Council: the Protocol on entering by the central bank of the Republic of Armenia the Agreement of the Eurasian Council of the central (national) banks, the Protocol on amendments introduced in the Agreement on cooperation in the field of training the personnel of the central (national) banks in the EurAsEC member states, the Protocol on amendments introduced in the Memorandum between the central (national) banks on the recommendations for providing the transparency of the market for rendering the services on money transfer and consumer protection to the credit institutions carrying out money transfers for individuals to the foreign countries without opening a bank account.

During the reporting year, the National Bank participated in the 52nd and 53rd meetings of the Interstate Bank (ISB) Council, the work on clarifying the key international activities implemented by the ISB, taking into account the integration realities and the needs of the countries-founders, was carried out within the framework of these meetings.

Among the directions of the National Bank international cooperation in 2016 was cooperation within the Shanghai Cooperation Organization (SCO) member states, the Presidency of which was implemented by the Kyrgyz Republic during the reporting period.

The third meeting of the Ministers of Finance and the chairmen of the central (national) banks from the SCO member states was held in Bishkek city on September 29-30, 2016, in the course of this meeting the participants shared the information on current status and medium-term prospects for the social-economic development of the countries, measures taken to accelerate economic growth, shared their experience in the effective management of the public finances, discussed the creation of the SCO Development Bank and the Development Fund (Special account) – sustainable mechanisms of the project activities financial support within the framework of the SCO.

Bilateral cooperation

During 2016, the National Bank participated in the work of the bilateral intergovernmental commissions. Active interaction was implemented with the national banks of China, Iran, Kazakhstan, Switzerland and Germany. The focus was concentrated on improvement of the settlement and payment relations, increase of the mutual payments in national currencies, expansion of the commercial banks' correspondent network, as well as the assistance in establishment and development of direct ties between the banks of the partner countries.

The Memorandum of understanding and cooperation between the Central Bank of the Republic of Turkey and the National Bank of the Kyrgyz Republic was concluded and the Agreement on establishment of the working group to coordinate

the development of national payment systems with the Central Bank of the Russian Federation was signed to implement inter-bank bilateral cooperation.

The National Bank cooperated with the Joint Vienna Institute, the National Bank of Switzerland, the National Bank of Poland, the Deutsche Bundesbank, and the central banks of other countries and the international financial institutions within the framework of experience exchange, professional development programs and technical assistance.

*Technical
cooperation*

In the reporting year, long-term technical assistance rendered by the EBRD and the IMF was continued in the sphere of macroeconomic modeling as a basis for decision-making on the monetary policy and the communication policy of the National Bank.

In the reporting year, work on implementation of the risk-oriented banking supervision and the automated system of collection, processing and analysis of statistical data was continued within the framework of the joint project of the IMF and the Swiss State Secretariat for Economic Affairs (SECO) for development of the financial sector of the Kyrgyz Republic in the reporting year.

The IMF regional project “External Sector Statistics Improvement” was completed in 2016, in the course of which the advice was received during the transition to the new methodology of the Balance of Payments and International Investment Position Manual (6 BPM). Moreover, the IMF provided technical assistance for compilation of monetary and financial statistics in order to meet uniform standards of providing data and improving the quality and content of statistical information. The reporting forms were updated on the basis of received recommendations.

In 2016, the World Bank provided technical assistance to the National Bank in development of the payment system, promotion of electronic and digital financial services, in increasing the share of the non-cash payments and settlements, improving the financial literacy of the population in the Kyrgyz Republic. The regulatory and legal acts on licensing and regulation of the credit bureaus were developed on the basis of received technical assistance.

In May 2016, the Director of the Joint Vienna Institute (JVI) visited the National Bank. The results of cooperation were summarized and the prospects for future were discussed during this visit.

The delegation of the National Bank of Switzerland headed by its Chairman visited the Kyrgyz Republic in July 2016; as a result the Swiss side party expressed its readiness to render support in promotion of several joint projects.

In December of the reporting year, the Director of the Bundesbank's Center for Technical Central Bank Cooperation visited the National Bank. During the meetings, an agreement on development of further cooperation between the banks within the previously signed Memorandum of understanding was reached.

5.2. Public Relations and Improvement of the Population Financial Literacy

The public was informed about the activities of the National Bank by regular publications of information and analytical materials on the official website of the National Bank, in mass media, by holding press conferences and briefings, on the radio and by television broadcasts, video and audio clips, as well as other awareness raising activities.

In the course of 2016, the National Bank prepared more than 1,300 publications for the regional, national and international media. More than 200 public statements of the National Bank representatives were arranged, including interviews with representatives of the print and electronic media, radio and television, as well as participation in the information, analytical TV and radio programs.

*Cooperation
with media*

The Board of the National Bank participated in 18 press conferences and briefings on the issues of the monetary policy, the situation in the foreign exchange market, the

conversion of mortgage loans, as well as in the State Program for Improving Financial Literacy of the Population, on the release of new collection coins and modified banknotes of the national currency.

Moreover, press conferences on the results of the first year of selling the gold measuring bullions of the National Bank were held in Bishkek, Osh, Naryn, Jalal-Abad, Karakol and Talas in 2016.

The National Bank received 377 written, electronic and oral requests from mass media representatives, with the timely responses given.

During the reporting period, the National Bank continued cooperation with mass media through the regional departments and the representative office of the National Bank in Batken city. 105 information and analytical materials were published in the regional mass media. The excursions were organized for the representatives of local and foreign mass media, who visited an exhibition of the National Bank numismatic products, which was timed to coincide with the II World Nomad Games held in Cholpon-Ata.

Within the framework of the long-term educational project on improving the financial literacy, the National Bank continued to conduct training seminars on the topics: “How to read the communications of the central banks?” and “Non-cash payments”, which was attended by more than 40 journalists specializing in economics and finance.

The mass media representatives also participated in the monitoring of sales outlets and offices to verify availability of POS-terminals for servicing card holders, this monitoring was held by the National Bank in cooperation with the Antimonopoly Regulation Agency under the Government of the Kyrgyz Republic in order to verify execution of the Kyrgyz Republic Government order.

76 works from 30 nominees were received during the annual contest on the theme “Investing into the future” among electronic and print media, television and radio stations. The results of the contest were published on the website of the National Bank and in the mass media.

TV and radio programs

The releases of own media products is another important tool in the public awareness activities of the National Bank. In the reporting year, the National Bank continued producing the TV and radio program “The National Bank Reports” on “Birinchi radio” (totally: 85 radio broadcasts). These programs were devoted to the role and functions of the National Bank, funding of the financial and foreign exchange markets, questions of banking legislation, the market of payment services and securities and other currently relevant topics.

Moreover, within the framework of the program on improving financial literacy of the population, the section “Finsabat” was included in the TV program “Capital” on the First Public TV Channel (PTRC) with the assistance of the National Bank. In the reporting year, 26 programs were broadcasted in the state and official languages including the topics on the activity of the National Bank.

Official website of the National Bank

The official website of the National Bank is a tool for public awareness, which ensures timely access to information about activities of the central bank for all users.

In 2016, a series of special news reports, which contained information on the banking and non-banking sectors and the activities of the National Bank, was posted on the official website of the National Bank.

Work was continued on improving the official website, creating new subsections and expanding the information provided in the sections of the website.

In addition, a virtual “Numismatic museum” was created on the official website. It allows the site visitors to trace the history of monetary circulation in the territory of Kyrgyzstan from the ancient period until present days. A virtual “Gallery of the National Bank pictures” was created and photo images of the works of Kyrgyz painters in the Art Fund of the National Bank were exhibited there.

Improving the level of financial literacy of the population remains one of the priority directions in the activity of the National Bank. Taking into account the results of the sociological research, the National Bank developed the Program to Improve Financial Literacy of the population in the Kyrgyz Republic for 2016-2020. In 2016, a number of events were implemented by the National Bank under this program.

Improvement of the financial literacy

In March 2016, the annual Global Money Week was organized with the support of the National Bank. The objective of this campaign was to improve the financial literacy among children and youth and to develop savings culture among the population. During the World Money Week, the seminars were held in the general educational institutions and universities, the Open Days were organized in state and financial credit institutions.

The Kyrgyz Republic was nominated finalist among 50 European and Central Asian countries for a Country Award within the framework of the Global Inclusion Awards 2016, established by Child and Youth Finance International (CYFI). The nomination was awarded for successful organization of the World Money Week in 2015, as well as for significant achievements in the field of financial education in the country and the adoption of the Program to Improve Financial Literacy of the Population in the Kyrgyz Republic for 2016-2020.

In addition, the National Bank, in interaction with the Savings Banks Foundation for International Cooperation organized training on financial literacy for 18 teachers of secondary schools in Bishkek and Chui oblast (region). During this training, the participants studied the experience of Germany in the field of innovative methods of teaching financial literacy to school students and establishing a basic savings culture.

During the Savings Week held in October 2016, training lectures were held for students in four secondary schools of Bishkek. These lectures were devoted to the need for a culture of saving money. Moreover, special business games and excursions were organized to the National Bank and the commercial banks.

Within the framework of implementing the Program for Improving the Financial Literacy of the Population the National Bank elaborated and released the second and third series of the “Monetary ABC”, an illustrated children book in the state and official languages.

In 2016, work was continued on providing interaction of the National Bank with the population within the framework of the activities of the Public Information Service, which operates in Bishkek city, in all regional departments and the representative office of the National Bank in Batken. Public Information Service activity is focused on processing requests for information from the public, providing advice and informing the public on issues related to the activities of the National Bank and the banking sector.

Public Information Service activity

Totally, in 2016, the National Bank received 1,146 requests for information (including 415 at regional departments). The main part of the requests received by the National Bank were questions about official rates of foreign currencies to Kyrgyz som, policy rate set by the National Bank, inflation rate, payment of interest on deposits in the commercial banks, non-performing loans in the commercial banks and microfinance organizations (MFOs), the activities of non-bank institutions, as well as the procedure of purchasing the gold measuring bullions and numismatic coins of the National Bank.

Work on informing the population in the regions was carried out through the regional department and the representative office of the National Bank. In 2016, lectures for secondary school students and the students of higher educational institutions were conducted on the following topics: “Monetary Policy of the National Bank of the Kyrgyz Republic and Stages of National Currency Development”, “Protective Properties of National Currency”, “Careful Attitude towards the National Currency and Procedures for the Exchange of Unsuitable Banknotes” and “Regulation and Supervision of FCIs Activity”. Lectures were also held for private entrepreneurs and students of higher and secondary schools on the topic of financial literacy. During these lectures special attention was paid to the main objectives and tasks of the National Bank, financial

Work in the regions

planning skills, the role of the savings, bank payment services, lending procedures and the assessment of the borrower's solvency, the rights and obligations of the creditor and the borrower, as well as the careful attitude to the national currency and common culture of money treatment.

*Numismatic
Museum*

The excursions to the numismatic museums of the National Bank in Bishkek and Osh cities, where visitors could see designs and samples of banknotes and coins issued in different periods and stages of development and establishment of the national currency, collection coins issued by the National Bank, as well as monetary samples found on the territory of Kyrgyzstan since ancient times to the present days, collection gold and silver coins with different manufacturing technologies and interesting designs were organized in the context of work with the public during 2016 organized.

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

6.1. Structure of the National Bank of the Kyrgyz Republic

In order to optimize the organizational structure and efficiency of the National Bank activities in 2016, an extensive reorganization of the Bank's structural units was implemented; as a result two departments, four separate structural units and three groups were superseded.

In 2016, the organizational structure of the National Bank was amended as follows:

The following departments were reorganized:

- Accounting and Reporting Department was reorganized by superseding General Ledger Formation Division and Financial Reporting and Methodology Division;

- Payment Systems Department by removing the Operators and Payment Organizations Group from the Payment Systems Methodology and Policy Division and establishing on the basis thereof the Operators and Payment Organizations Division within the department. The Payment Systems Methodology and Policy Division and the Payment Systems Analysis and Development Division were superseded;

The following structural units were superseded:

- Document Management Department;
- Communications Department;
- Economic Research Center was organized as a separate structural unit;
- Press Office;
- Board Secretariat;
- Consumer Rights Protection and Financial Literacy Division was organized as a separate structural unit;
- Group for Optimization of the National Bank Activity was organized as a separate group;
- Credit and Loan Administration Group was organized as a separate group;
- Communication Policy Development Group of the National Bank was organized as a separate group;
- Statistical Database Technical Support Division within the Financial Statistics and Review Department;
- Building Maintenance Division, Power Engineers Service within the Administration and Logistics Department;
- Information and Service Support Group within the Banking Automation Department;

At the end of the reporting period the organizational structure of the National Bank included 24 structural units of the central office, five regional offices, and the representative office in the Batken oblast.

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. Conducts research work on macroeconomic issues, monetary policy, fiscal policy, exchange rate, and real sector;
<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 non-bank 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 non-bank 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 commercial banks and non-bank financial-credit institutions and is responsible for licensing their activity;
<i>Inspection Department</i>	carries out on-site inspections of banks and non-bank financial-credit institutions for compliance of their activities with the laws, contributes to the protection of banking and microfinance service consumers' rights and the strengthening of consumer confidence in financial institutions;
<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>	provides the National Bank with high-quality and up-to-date IT services, develops and introduces the operational risk assessment procedures in the National Bank transactions, describes and analyzes business processes, elaborates recommendations for their optimization;

<i>Payment Systems Department</i>	develops the methodological framework, regulation, analysis, control and supervision (oversight) to ensure the effective operation of the payment system, its reliability and safety; and promotes development of the payment system of the country, as well as implements licensing, regulation and supervision of payment system operators and payment organizations;
<i>Accounting and Reporting Department</i>	keeps permanent accounts and records of the NBKR transactions in accordance with the international accounting practice in order to provide the customers with financial statements reflecting the Bank's financial position, custodian accounting of the Government Securities, as well as provides asset recovery services on loans for refinancing and maintenance of liquidity of the commercial banks and international organizations established within the framework of the Eurasian Economic Union;
<i>Legal Department</i>	provides comprehensive legal support of the National Bank, development and improvement of the banking legislation;
<i>Security and Information Protection Department</i>	ensures safe activity of the National Bank and its information resources;
<i>Administration and Logistics Department</i>	ensures the vital activities of the National Bank, including logistics, transport support, building maintenance and power supply;
<i>State Language Development and Documentation Management Division</i>	promotes the implementation and development of paperwork and record keeping in the state language, carries out the centralized document management and controls the National Bank's documents execution, as well as the activities of the NBKR's Managing Board;
<i>Personnel Division</i>	meets the needs of the National Bank in the workforce required to fulfill the functions and objectives of the National Bank, and plans, organizes and controls the process of training the Bank employees;
<i>Finance and Monitoring Division</i>	organizes financial activities of the National Bank, aimed to ensure the financial resources for its development strategy, the safety and effectiveness of the use of fixed assets, working capital and financial resources of the Bank;
<i>International Cooperation Division</i>	provides for the establishment, strengthening, and development of international cooperation of the National Bank with the external organizations;
<i>Financial Risk Control Division</i>	manages the financial risks in the operations of the National Bank in the foreign markets;

<i>Public Relations Division</i>	raises public awareness about the National Bank's activities and policies through the media outlets in accordance with the Bank's communications policy and contributes to improvement of the financial literacy in the Kyrgyz Republic;
<i>Construction and Repair Division</i>	organizes construction and assembly operations, repair, design and survey works at the National Bank's facilities;
<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>Procurement Group</i>	organizes and makes procurement in accordance with the laws of the National Bank, as well as runs projects of international financial organizations and donor countries, implemented by the National Bank or with its direct participation;
<i>Educational and Recreation Center (recreation center "Tolkun")</i>	is intended for holding workshops, roundtable meetings and training events with the participation of the National Bank employees;
<i>Regional departments and Batken Representative Office</i>	provide branches of the commercial banks with cash; participate in the supervision of the financial institutions, whose activities are licensed and regulated by the National Bank, for compliance with the banking legislation; implement measures within the framework of the payment system development program.

Payroll number of employees of the National Bank

At the end of the year under review, the payroll number of employees of the National Bank amounted to 692 people (including probationary employees), including 610 people – in the central office and 82 people – in the regional departments and the Batken Representative Office. The number of women amounted to 293 people – in the central office and 35 – in the regional departments and the Batken Representative Office. The number of women percentagewise was 47.0 percent and men – 53.0 percent.

In 2015, the number of employees of the National Bank amounted to 698 people, including 615 people – in the central office and 83 people – in the regional departments and the Batken Representative Office. The number of women percentagewise was 49.0 percent and men – 51.0 percent.

Personnel training

The National Bank of the Kyrgyz Republic provides trainings for its specialists on an annual basis, in order to improve their qualification. In 2016, training was conducted for the specialists within the framework of the program of vocational training for the personnel of the central (national) banks of EAEU member states, training activities organized in the CIS and far-abroad countries, as well as in the Kyrgyz Republic, including the National Bank-based on technical assistance.

In accordance with the Memorandum of Long-Term Cooperation between the National Bank and the Savings Banks Foundation for International Cooperation (Germany), implementation of the educational project "Banking. Dual vocational training of bank officers" was continued. In the reporting year, according to the results of education 129 young specialists from the personnel of the National Bank and the commercial banks completed training.

In February 2016, the National Bank of the Kyrgyz Republic launched the Program

“Young professionals”; the objective thereof was to create conditions and opportunities for graduates and young specialists to acquire the skills of the banking profession through participation in the working process of the central bank in the country.

Competitive selection of young specialists was conducted in three phases, based on the results thereof 32 people from 122 candidates were taken for an internship at the National Bank within eight months.

The National Bank intends to continue the work on implementation of the Program “Young professionals” to ensure continuity and succession in the National Bank.

The system of a competitive selection of employees is used in order to implement an open, transparent, equal and fair approach to all participants of the competition; this system allows selecting the most qualified specialists in view of their professional training and ensuring fulfillment of an adequate level of objectives and functions entrusted to the National Bank.

Competitive selection

Announcement of competitions for vacancies were published on the official website of the National Bank and in the media.

In 2016, 19 competitions were held, including 6 competitions in the regional offices. In total, 316 people took part in the contests. As a result of these competitions, 43 people were recruited in the National Bank.

The staff turnover was 14.0 percent in 2016 and in 2015 – 10.0 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

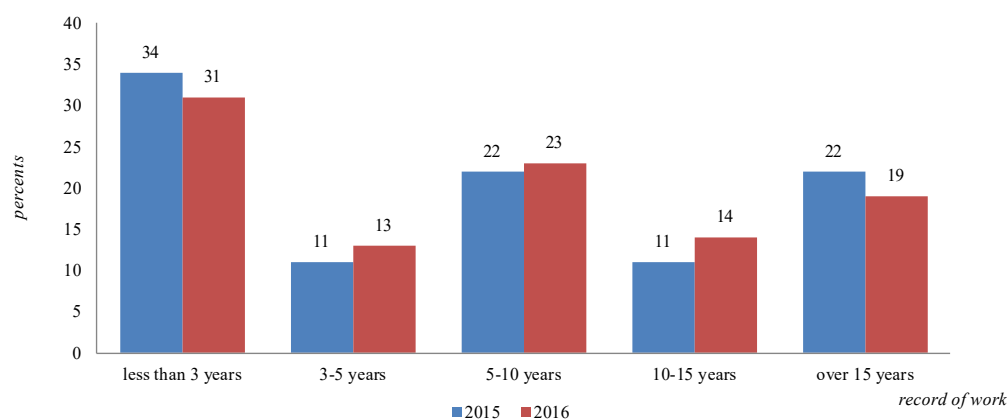
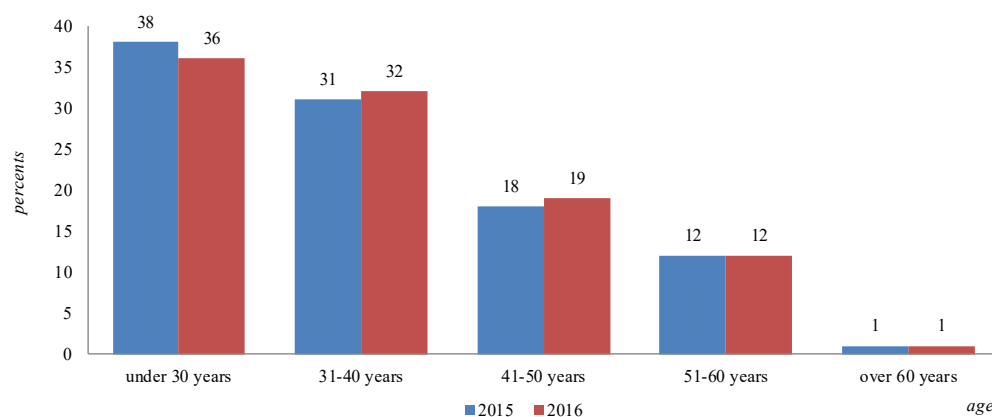


Chart 6.1.2.

Structure of Specialists by Age



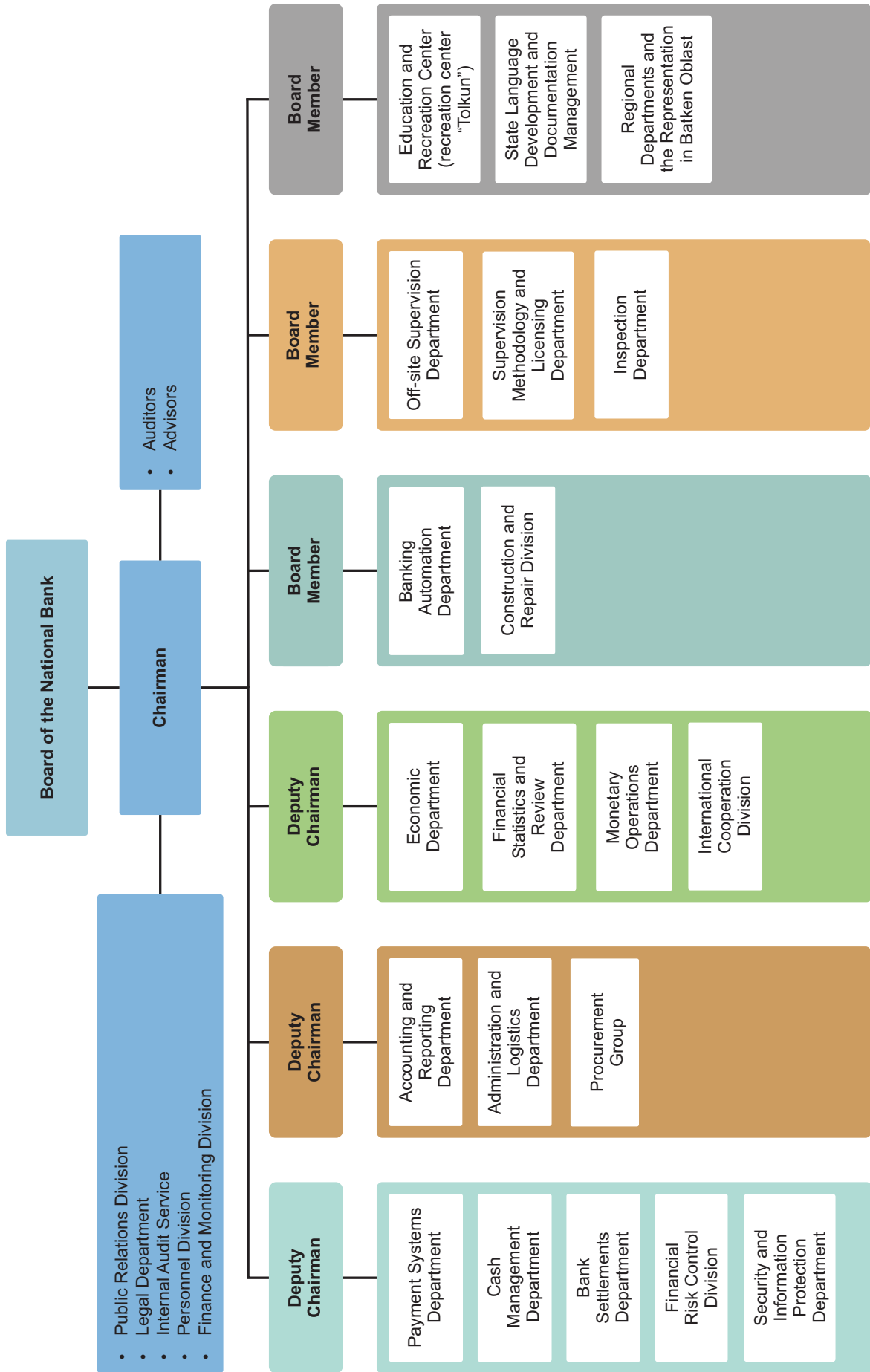
The committees and commissions operate in the National Bank on the regular basis. Seven committees, ten commissions, six editorial boards for publications of the National Bank and the scientific advisory council operated as of the end of 2016. The order and procedures for the committees, commissions, 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

<i>Monetary Regulation Committee</i>	<p>develops and implements the operational decision-making on current liquidity management.</p> <p>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, as well as develop recommendations to the National Bank Board and the Kyrgyz Republic Government on the monetary policy issues;</p>
<i>Investment Committee</i>	<p>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 National Bank Board on investment activities;</p>
<i>Supervision Committee</i>	<p>decides on the regulation and supervision of commercial banks and other financial-credit institutions licensed by the National Bank within the established competence;</p>
<i>Payment System Committee</i>	<p>makes decisions on the issues of its competence in the sphere of development, regulation and supervision (oversight) of the payment system in the Kyrgyz Republic, as well as licensing, regulation and prudential supervision over the payment systems operators and the payment organizations;</p>
<i>Risk Committee</i>	<p>develops the recommendations on minimization of risks by coordinating operations of the National Bank structural units in the area of identification, evaluation, and constraints of risks inherent in activities of the National Bank;</p>
<i>Coordination Committee on Information Systems</i>	<p>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;</p>
<i>Audit Committee</i>	<p>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;</p>

<i>Assessment Commission</i>	establishes the National Bank 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 compliance with the Code of Ethics by the employees of the National Bank;
<i>Commission of Prevention of Corruption</i>	was established in order to reduce corruption by developing proposals aimed at implementation of measures to prevent corruption, suppress and eliminate the reasons and conditions contributing to development of corruption in the National Bank;
<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 Organizational Development of the National Bank</i>	examines the organizational development of the National Bank and prepares proposals on these issues. The main objectives are to consider the proposals and elaborate recommendations for optimization, formalization of the processes, and for changing the organizational structure of the Bank; to coordinate and supervise the activities related to formalization and optimization of business processes carried out in the National Bank;
<i>Central Expert Commission</i>	organizes and conducts methodological and practical work on examination of the valuables and documents of the National Bank and their selection and preparation for state storage or destruction.

**Organizational Chart of the National Bank of the Kyrgyz Republic
as on December 31, 2016**



6.2. Activity of the Board of the National Bank of the Kyrgyz Republic in 2016

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”.

General information

The Board defines the monetary policy, the policy in the area of commercial banks and non-bank financial-credit institutions supervision and development of the payment system; establishes the procedure for issue of new samples and denominations of banknotes and the procedure for redeeming the banknotes and coins, approves the regulatory acts, the annual report; as well as determines the main directions of development of the National Bank of the Kyrgyz Republic, the banking sector, and the NFCI.

The Board of the National Bank activity is carried out in accordance with the approved annual and quarterly action plans. In 2016, it held 64 meetings (including 13 information exchange meetings), with 405 considered issues and 236 adopted resolutions.

The Board of the National Bank made decisions on the policy rate on a regular basis in accordance with the schedule of meetings to be held by the Board of the National Bank approved for 2016.

Consideration of monetary policy issues

In December 2016, the Board approved the Statement of the National Bank of the Kyrgyz Republic on the monetary policy for 2017. The statement is part of the Joint Statement of the Government of the Kyrgyz Republic and the National Bank on the Main Directions of Economic Policy for the coming period. The schedule of meetings of the Board for 2017 on the policy rate of the National Bank was approved and posted on the official website.

The Board of the National Bank reviewed quarterly Monetary Policy Reports (Inflation Report in the Kyrgyz Republic) in order to assess the results of conducted monetary policy. These reports were published on the official website of the National Bank and provide information on the outcome of implemented monetary policy, inflation factors, analysis and medium-term forecast of the key macroeconomic indicators.

The Board of the National Bank annually reviews and approves the investment policy of the coming period in the area of international reserves management and ensuring the safety of reserve assets. To assess the effectiveness of policy being conducted, the Board annually reviews the report on the international reserves management and approves the volume of monetary gold to be purchased in the domestic market of the Kyrgyz Republic for national currency.

The Board considered the Financial Sector Stability Report of the Kyrgyz Republic, which contains the results of analysis of risks in the financial system and their impact on the stability of the financial sector as a whole. The results of monitoring and analysis were taken into account in decision-making on the monetary policy.

The Board of the National Bank approved the relevant regulatory legal acts in order to implement the programme of the Kyrgyz Republic Government on conversion of loans to individuals denominated in foreign currency into the national currency to purchase housing.

In total, 21 issues were considered and 21 resolutions were adopted on the monetary policy issues and the international reserves management in 2016.

The Board of the National Bank adopted a series of regulations aimed at improving the regulatory framework for the licensing, supervision and regulation of banks and non-bank financial-credit institutions, including the institutions implementing operations in accordance with the Islamic principles of banking and financing, and the exchange bureaus.

Consideration of issues of bank and non-bank institutions supervision

Adopted regulations related to the issues of licensing and regulation of the activities

of the banks, microfinance organizations, credit unions, and exchange bureaus, credit risk mitigation, including those resulting from indirect monetary risk, these regulations were also adopted to reduce the level of dollarization, operational risk, risk associated with information technology and information security of the commercial banks, as well as to bring the regulatory legal acts of the National Bank in line with the amendments in the legislation of the Kyrgyz Republic. In addition, the regulatory legal acts approved by the Board of the National Bank were focused on licensing and regulation of new entities in the financial market: specialized financial-credit institutions and credit bureaus.

In order to simplify the procedure for obtaining a license for carrying out exchange operations with cash foreign currency and to reduce the number of persons carrying out operations on the exchange of cash foreign currency without a license of the National Bank, the Board decided to suspend the requirement to the exchange bureaus to provide information on the sources of origin of circulating assets until December 31, 2016.

In total, on the activities of the commercial banks and other financial-credit institutions licensed by the National Bank of the Kyrgyz Republic, 88 issues were considered, 74 resolutions were adopted, of which 50 regulations were adopted on the regulatory and legal framework governing their operations.

*Consideration of
payment system
issues*

In the field of the payment system the Board of the National Bank approved a number of regulatory and legal acts to harmonize the activities of the operators of payment systems and payment organizations, as well as the international payment systems and the financial innovations.

The Resolutions of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic “On Amendments to the Resolution of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic “On Approval of the State Program Measures for 2012-2017 to Increase the Share of Non-cash Payments and Settlements in the Kyrgyz Republic” and “On Amendments to the Resolution of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic “On Establishment of Interagency Commission to Increase the Share of Non-cash Payments and Settlements in the Kyrgyz Republic” were approved for further implementation of the State Program.

The Board also adopted the draft law on amendments to the Law “On Payment System of the Kyrgyz Republic” and the Code of the Kyrgyz Republic “On Administrative Responsibility”.

In the context of the EAEU joining by the Kyrgyz Republic, the Board approved the State classifier of Payment Transactions in accordance with the Budget Classification of the Kyrgyz Republic, moreover, amendments and addenda to the State Classifier of Payment Transactions were approved in order to improve systematization of indicators for analyzing the flows of cashless funds in national currency and ensuring their transparency. In total, the Board considered 23 issues and adopted 21 resolutions on the operation and management of the payments system.

In the reporting year, the Board of the National Bank also considered the issues on arranging bank activity and other issues, on which 120 resolutions were adopted.

6.3. Improvement of Banking Legislation

In 2016, the National Bank worked to improve and develop the legal framework governing banking activities in the Kyrgyz Republic.

Adopted laws

The Laws “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” and “On Enactment of the Law “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” were adopted in the reporting year.

Adopted laws were aimed at reforming the banking legislation in order to provide further sustainable economic development in the Kyrgyz Republic. These laws also

provide integration into the national legislation of the newest effective global banking practices in order to strengthen the banking sector sustainability.

Among significant innovations are the norms on protection of the rights and legitimate interests of the clients, and, above all, individuals, which are applied to all providers of banking services. The main requirements are established for provision of banking services and information disclosure.

The Law “On Amendments to the Code of the Kyrgyz Republic “On Administrative Responsibility”, which provides for significant increase and concretizing the penalty for administrative violation in the sphere of banking legislation, was adopted in the reporting period.

The purpose of these amendments is to increase the responsibility of individuals and legal entities, banks, financial-credit institutions and their officials for carrying out banking operations without a license and for violating banking, microfinance, payment legislation and the legislation on the exchange of credit information.

Amendments to the Law “On the Licensing System in the Kyrgyz Republic” and the Law “On Banking Secrecy” were adopted in 2016; these amendments were focused on implementation of Article 28 of the Law “On Exchange of Credit Information”. This article conditions enactment of the Law “On Exchange of Credit Information” from the date of entry into force of the amendments to the Law “On the Licensing System in the Kyrgyz Republic”, which envisage involving the credit bureaus’ operations in the list of activities subject to licensing, and amendments to the Law “On Banking Secrecy”, which provide for the right of credit information sharing in accordance with the Law “On Exchange of Credit Information”.

In the reporting period, the National Bank developed the draft Law “On Amendments to Several Legislative Acts of the Kyrgyz Republic on Payment Systems”, which provides for amendments to the Law “On the Payment System of the Kyrgyz Republic” and to the Code of the Kyrgyz Republic “On Administrative Responsibility”. These amendments are aimed at bringing the Law “On the Payment System of the Kyrgyz Republic” in line with the requirements of the Law “On the Licensing System in the Kyrgyz Republic” with regard to compulsory licensing of payments in favor of the third parties and activities for processing and clearing.

Draft Laws

Also amendments were proposed to be introduced in the Law “On the Payment System of the Kyrgyz Republic”; these amendments related to the enforcement actions applied by the National Bank to the payment system participants. The amendments proposed to be introduced in the Code of the Kyrgyz Republic on administrative responsibility are aimed at consolidating the rules on payment of fines in place of the offence and in cashless form.

In 2016, work was continued on improving the regulatory framework governing the banks and other financial-credit institutions and other persons affected by the supervision of the National Bank.

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 2016, 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 and payment systems to the President, the Jogorku Kenesh, and the Government of the Kyrgyz Republic;
- 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 of the Kyrgyz Republic when considering the republican budget;

- Consulted and made the recommendations on the financial and banking system issues to the President, the Jogorku Kenesh, and the Government of the Kyrgyz Republic (including the ministries and departments).

Analytical information, regularly provided to the President, the Jogorku Kenesh, and the Government of the Kyrgyz Republic, 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 non-bank financial-credit institutions, and the situation in the foreign exchange market of the republic.

The National Bank provided information on the outcome of social and economic development, on the prospects of the domestic economy development, on the balance of payments and on the exchange rate, on measures to strengthen the national currency, the conversion of loans, on the situation in foreign trade, including the EAEU countries, on the foreign loans, the establishment and operation of the state electronic payment system.

The National Bank also provided analyses and forecasts for economic growth, proposals on measures to reduce the level of economy dollarization, the recommendations on public external debt management, on establishment of the criteria for the selection of sustainable commercial banks providing services to the strategic objects of the Kyrgyz Republic.

In total, as part of the financial advisor duty, the National Bank sent more than 600 letters to the public authorities during the reporting period.

*Examination of
draft laws*

The National Bank examined 30 draft laws in the reporting year, including:

- On Amendments to the Law “On the Republican Budget of the Kyrgyz Republic for 2016 and the Forecast for 2017-2018”;
- On the Republican Budget for 2017 and the Forecast for 2017-2018;
- “On Referendum of the Kyrgyz Republic”;
- On Amendments to Several Legislative Acts of the Kyrgyz Republic on Strengthening of the National Currency;
- “On State Mortgage Housing Loans”;
- “On Budget Lending”;
- “On Amendments to the Law “On Protection of Bank Deposits”;
- On Amendments to the Law “On Audit Activity”;
- “On Trust Management of State Property”;
- “On Status of Court Officers and Enforcement Proceedings”;
- “On Ratification of Amendment to the Articles of the IMF Agreement on Reforming the Quotas and Voting Rights of the IMF” and other.

In 2016, the National Bank also examined and prepared the proposals for more than 50 draft resolutions and orders of the Government of the Kyrgyz Republic, including:

- On Joint Statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic on Main Directions of Economic Policy for 2016;
- On Action Plan of the Government of the Kyrgyz Republic for 2017;
- On Action Plan to Improve the Position of the Kyrgyz Republic in the Rating of the World Bank “Doing Business for 2016-2017”;
- On Conversion of Mortgage Loans;
- On Approval of the Regulation “On Procedure of Applying Special Administration for Failed Banks”;
- On Approval of Clarifications on Transformation of Liquidated Banks’ Credits;
- On the Project “Agriculture Financing-4”;
- On the Draft Agreement with the Asian Development Bank (ADB) on the Second Investment Climate Improvement Program in the Kyrgyz Republic (Sub-program 2);
- On Amendments to Several Decisions of the Kyrgyz Republic President on

Transformation of the System Regulating the Market of Precious Metals and Precious Stones, and others.

In 2016, 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 for Improving the Financial Literacy of the Population of the Kyrgyz Republic for 2016-2020;

- The State Program of Measures for Increasing the Share of Non-cash Payments and Settlements in the Kyrgyz Republic for 2012-2017;

- The Action Plan for Implementation of Memorandum on Economic and Financial Policy for 2015-2018;

- The Anti-crisis Action Plan of the Kyrgyz Republic Government for 2016;

- The Action Plan of the Kyrgyz Republic Government on Implementation of the Program of the Kyrgyz Republic Government “Trust and Unity for 2016”, and other.

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 of the Customs Code of the Eurasian Economic Union (EAEU)

- The draft Agreement on Free Trade in Services of CIS Participant-States;

- The draft Agreement on Harmonization of the Laws of the EAEU Member States in the Sphere of Financial Market;

- The draft Agreement on Exchange of Information in the Sphere of Counter-Terrorism Financing and Anti-Money Laundering (CTF/AML), when Transferring Cash Funds and/or Financial Instruments through the EAEU Customs Border;

- The draft Agreement on Cooperation between the EAEU Member States on Exchange of Information Comprising Credit Histories;

- The draft Framework Agreement between the Government of the Kyrgyz Republic and the UN World Food Program;

- The draft Order of the Eurasian Economic Commission (EEC) Council “On Development of the Draft Agreement on Issues Related to Accepting as a Security of Policies of the National Export Credit Agencies by the Banks of the Eurasian Economic Union Member States in Implementation of Export Lending”;

- The draft of EEC Proposals on Measures to Decrease the Debt of the State Administration Sector as a Percentage of GDP in the Kyrgyz Republic;

- The draft Memorandum on Cooperation with the UN Children's Fund (UNICEF) in Kyrgyzstan for Improving Financial Literacy of Children and Youth and other.

Based on the findings of the examination of the draft laws, draft resolutions and orders of the President and 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.

In the reporting year, the representatives of the National Bank participated in 16 interagency working groups and committees on the following issues:

- increase in the share of non-cash payments and settlements in the Kyrgyz Republic;

- implementation of the Action plan on improvement the poor’s standard of living in the Kyrgyz Republic for 2016-2017;

- development of the project on transformation of the system for microcredits issue to unemployed citizens;

- strengthening the national currency and de-dollarization of the economy;

- elaboration of proposals for establishment of the up-to-date model for state regulation of the financial market;

Development and implementation of state programs

Examination of international agreements

Work in interagency commissions

- assessing the technical conformity of the regulatory framework in the Kyrgyz Republic with 40 FATF recommendations in preparation of the Kyrgyz Republic for the mutual assessment of the CTF/AML national system to the FATF international standards;
- financial statistics, foreign and mutual trade statistics, external sector statistics;
- currency regulation and currency control in the EAEU territory;
- improving the Methods for calculation of macroeconomic indicators, determining the sustainability of economic development in the EAEU Member States;
- macroeconomic modeling and forecasting of the EEC;
- development of approaches to differentiated contributions of the banks to the Deposit Protection Agency (DPA);
- for the exchange of information within the credit histories, among the EAEU countries;
- development of the draft Law “On Collection”;
- development of the draft Law “On Warehouse Receipts”;
- analysis and improvement of laws regulating the issues of policy-making of the state bodies and self-government authorities;
- development of the draft regulatory legal acts related to the state importance documents.

Based on the results of participation in work of the interagency working groups and commissions, the National Bank provided information and made proposals 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 the Internal Audit Service are independent assessment of adequacy and effectiveness of the internal control system, risk management and corporate governance at the National Bank, interaction with 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 is implemented according to the International Professional Practice Framework.

Assessment of the internal audit

In 2016 within the framework of technical assistance High-level review of the Internal Audit activity was conducted by the qualified internal auditors of the the Swiss National Bank.

According to the International Professional Practice Framework external assessments must be conducted at least once every five years. Assessment was conducted in accordance with Quality assessment manual.

As a result of assessment the experts of the Swiss National Bank noted the significant progress of the Internal Audit Service activity, previous quality assessment recommendations fulfillment as well as that the Internal Audit Service activity generally conforms to the International Standards for the professional practice of internal auditing and Code of ethics.

Implementation of activities

The audits were conducted in accordance with the annual work plan of the Internal Audit Service. The audits in the reporting period were carried out on the main directions of activity of the National Bank, including monitoring of financial stability, the inspection of commercial banks, payment systems development methodology, the licensing of operators of payment systems as well as in other areas.

Based on the audit findings the recommendations on improvement of the internal control system, risk management and corporate governance were given.

The audit results regarding compliance of activities of the bank's structural units with their assigned tasks and functions, revealed failures and problem areas were submitted to the Board of the National Bank in the form of independent reports. The Internal Audit Service conducted regular monitoring of the recommendations implementation by the structural units based on the results of audits.

The Internal Audit Service coordinated interaction with the external auditors of the National Bank. In 2016 the independent audit of the National Bank was conducted by the audit organization – LLC “Deloitte and Touche” – 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. According to the results of the external audit, the action plan for recommendations implementation with obligatory fulfillment of the recommendations by the respective structural units was developed. This plan was approved by the Board of the National Bank.

Interaction with external auditors

The Internal Audit Service arranged and held the meetings of the National Bank Audit Committee.

Interaction with Audit Committee

The Audit Committee comprises five members: the member of the Board of the National Bank, the representative of the National Bank and independent experts not associated with activities of the National Bank.

The activity of the Audit Committee in accordance with its objective was to oversee the completeness and reliability of financial reporting of the National Bank, to ensure the reliability and efficiency of the internal control system, the independence of the external and internal audit, the compliance with the existing laws of the Kyrgyz Republic.

Fourteen meetings of the Audit Committee were held in 2016 to consider the issues and make decisions regarding its competence. The Audit Committee received the Internal Audit Service reports, information on the monitoring of the implementation of internal and external audit recommendations and on review of the internal control system. The Audit Committee on a semi-annual basis provided information on its activities for consideration by the Board of the National Bank.

Report of the Audit Committee of the National Bank

Independent member of the Audit Committee participated in the tender commission for selection of the external auditor together with the deputies of the Jogorku Kenesh of the Kyrgyz Republic and the representatives of the National Bank.

In order to guarantee the independence of the external auditors the Audit Committee members met with the senior representatives of LLC “Deloitte and Touche”. The results of the external audit of financial statements for 2015, the plans for the audit of the financial statements for 2016 and the results of the preliminary audit of the financial statements for eight months of the reporting year were discussed during these meetings.

**FINANCIAL STATEMENTS
OF THE NATIONAL BANK
OF THE KYRGYZ REPUBLIC
FOR 2016**



CHAPTER 7. FINANCIAL STATEMENTS OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC FOR THE YEAR ENDED 31 DECEMBER 2016

TABLE OF CONTENTS

	Page
Independent auditor's report	91-92
Statement of financial position	93
Statement of profit or loss	94
Statement of other comprehensive income	95
Statement of cash flows	96-97
Statement of changes in equity	98-99
Notes to the financial statements	100-143

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the accompanying financial statements of the National Bank of the Kyrgyz Republic, which comprise the statement of financial position as at 31 December 2016 and the statement of profit or loss, statement of 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.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the National Bank of the Kyrgyz Republic as at 31 December 2016, and its financial performance and cash flows for the year then ended in accordance with Financial Reporting Principles disclosed in Note 2 of the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in *the Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the National Bank of the Kyrgyz Republic in accordance with the ethical requirements that are relevant to our audit of the financial statements in the Kyrgyz Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other information

Management is responsible for the other information. The other information obtained as at date of the audit opinion comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with Financial Reporting Principles disclosed in Note 2 of the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing ability of the National Bank of the Kyrgyz Republic to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless going concern assumption is not applicable.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 of the Kyrgyz Republic's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the National Bank of the Kyrgyz Republic's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report provided that future events or conditions will not cause the National Bank of the Kyrgyz Republic to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

7.2. Statement of Financial Position as at 31 December 2016

(in thousands of Soms)

	Notes	31 December 2016	31 December 2015
ASSETS			
Gold	5	11 809 886	10 930 479
Cash on hand, due from banks and other financial institutions	6	89 974 925	91 219 392
Loans issued	7	7 438 576	5 931 612
Investments available-for-sale	8	34 359 544	32 628 860
Investments held-to-maturity	9	312 535	1 401 971
Property and equipment	10	1 809 043	1 596 567
Intangible assets		65 284	84 597
Other assets	11	1 945 210	1 239 077
Total assets		147 715 003	145 032 555
LIABILITIES			
Banknotes and coins in circulation	12	74 838 799	58 398 015
Due to banks and other financial institutions	13	25 724 792	19 494 411
Due to the Government of the Kyrgyz Republic	14	8 048 904	15 104 551
Debt securities issued	15	5 243 448	2 126 449
Loans received	16	1 718 629	2 960 600
Liabilities to the IMF in respect of SDR allocations	17	7 863 988	8 928 627
Other liabilities		97 992	91 759
Total liabilities		123 536 552	107 104 412
EQUITY			
Share capital	18	1 000 000	1 000 000
Obligatory reserve		6 902 942	4 940 164
Foreign currency and gold revaluation reserve		12 502 379	25 476 478
Revaluation reserve for investments available-for-sale		(4 007)	(31 090)
Retained earnings		3 777 137	6 542 591
Total equity		24 178 451	37 928 143
Total liabilities and equity		147 715 003	145 032 555

Abdygulov T.S.
Chairman of the National Bank

15 March 2017
Bishkek,
Kyrgyz Republic

Alybaeva S.K.
Chief Accountant

15 March 2017
Bishkek,
Kyrgyz Republic

The notes on pages 100-143 form an integral part of these financial statements.

7.3. Statement of Profit or Loss for the year ended 31 December 2016*(in thousands of Soms)*

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
Interest income	19	1 746 168	1 681 652
Interest expense	19	(188 833)	(396 410)
Net interest income		1 557 335	1 285 242
Commission income		50 385	47 153
Commission expense		(7 124)	(5 707)
Net commission income		43 261	41 446
Recovery of assets impairment provision	20	11 991	6 791
Net gain on foreign currencies and gold operations	21	3 250 599	6 184 839
Other income		335 504	219 291
Net non-interest income		3 598 094	6 410 921
Operating income		5 198 690	7 737 609
Expenses on production of banknotes and coins, issued into circulation		(277 962)	(127 301)
Administrative expenses	22	(931 741)	(901 375)
Other expenses		(211 850)	(166 342)
Operating expenses		(1 421 553)	(1 195 018)
Profit for the year		3 777 137	6 542 591

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7.4. Statement of other Comprehensive Income for the year ended 31 December 2016

(in thousands of Soms)

	Year ended 31 December 2016	Year ended 31 December 2015
Profit for the year	3 777 137	6 542 591
Items that may be reclassified subsequently to statement of profit or loss		
Revaluation reserve for foreign currency and gold:		
- net (loss)/gain on revaluation of assets and liabilities in foreign currency and gold	(10 158 958)	15 662 849
- net gain on foreign currency and gold transferred to profit or loss	(2 815 141)	(5 554 775)
Net gain/(loss) on investments available-for-sale	27 083	(35 777)
Other comprehensive financial result for the year	(12 947 016)	10 072 297
Total comprehensive (loss)/income for the year	(9 169 879)	16 614 888

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Kyrgyz Republic

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7.5. Statement of Cash Flows for the year ended 31 December 2016*(in thousands of Soms)*

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest and fee and commission received		2 083 518	1 402 057
Interest and fee and commission paid		(129 495)	(181 333)
Realised gain on foreign exchange operations		435 459	630 063
Other income		226 503	200 230
Payroll expenses		(522 226)	(473 153)
Expenses on production of banknotes and coins, issued into circulation		(229 198)	(114 874)
Administrative expenses		(439 312)	(505 042)
Cash flows from operating activities before changes in operating assets and liabilities		1 425 249	957 948
(Increase)/decrease in operating assets			
Gold		(976 369)	(692 327)
Due from banks and other financial institutions		(8 341 930)	2 206 635
Loans issued		(1 505 544)	(2 151 606)
Investments available-for-sale		(5 179 350)	3 915 033
Other assets		(736 129)	(196 833)
Increase/(decrease) in operating liabilities			
Banknotes and coins in circulation		16 440 784	1 323 424
Due to banks and other financial institutions		7 372 321	9 356 448
Due to the Government of the Kyrgyz Republic		(10 993 668)	(10 982 020)
Debt securities issued during operating activity		3 117 419	800 138
Other liabilities		(419)	2 824
Net cash inflow from operating activities		622 364	4 539 664

The notes on pages 100-143 form an integral part of these financial statements.

7.5. Statement of Cash Flows (continued) for the year ended 31 December 2016
(in thousands of Soms)

	Notes	Year ended 31 December 2016	Year ended 31 December 2015
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, equipment and intangible assets		(332 171)	(641 704)
Proceeds on redemption of investments held-to-maturity		1 072 800	64 351
Increase of investments into associated companies		-	(11 074)
Interest received on investments held-to-maturity		70 718	81 817
Dividends received		1 401	9 499
Net cash received/(used) in investing activities		812 748	(497 111)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of loans received		(906 123)	(1 045 092)
Net cash used in financing activities		(906 123)	(1 045 092)
Net increase in cash and cash equivalents		528 989	2 997 461
Effect of changes in exchange rates on cash and cash equivalents		(7 359 614)	11 429 761
Cash and cash equivalents as at the beginning of the year		55 974 632	41 547 410
Cash and cash equivalents as at the end of the year (Note 6)		49 144 007	55 974 632

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Kyrgyz Republic

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7.6. Statement of Changes in Equity for the year ended 31 December 2016
(in thousands of Soms)

	Share capital	Obligatory reserve	Foreign currency and gold revaluation reserve	Revaluation reserve for investments available-for-sale	Retained earnings	Total
Balance as at 1 January 2015	1 000 000	3 321 442	15 368 404	4 687	5 395 740	25 090 273
Total comprehensive income						
Profit for the year	-	-	-	-	6 542 591	6 542 591
Other comprehensive income						
Net loss on investments available-for-sale	-	-	-	(35 777)	-	(35 777)
Gain on revaluation of assets and liabilities in foreign currencies and gold	-	-	15 662 849	-	-	15 662 849
Net gain on foreign currencies and gold transferred to profit or loss	-	-	(5 554 775)	-	-	(5 554 775)
Total other comprehensive income	-	-	10 108 074	(35 777)	-	10 072 297
Total comprehensive income for the year			10 108 074	(35 777)	6 542 591	16 614 888
Transactions recorded directly in equity						
Distribution of prior year profit to the state budget	-	-	-	-	(3 777 018)	(3 777 018)
Transfer to obligatory reserve	-	1 618 722	-	-	(1 618 722)	-
Total amount of transactions recorded directly to equity		1 618 722			(5 395 740)	(3 777 018)
Balance as at 31 December 2015	1 000 000	4 940 164	25 476 478	(31 090)	6 542 591	37 928 143

The notes on pages 100-143 form an integral part of these financial statements.

7.6. Statement of Changes (continued) in Equity for the year ended 31 December 2016
(in thousands of Soms)

	Share capital	Obligatory reserve	Foreign currency and gold revaluation reserve	Revaluation reserve for investments available-for-sale	Retained earnings	Total
Balance as at 1 January 2016	1 000 000	4 940 164	2 547 648	(31 090)	6 542 591	37 928 143
Total comprehensive income						
Profit for the year	-	-	-	-	3 777 137	3 777 137
Other comprehensive income						
Net gain on investments available-for-sale	-	-	-	27 083	-	27 083
Loss on revaluation of assets and liabilities in foreign currencies and gold	-	-	(10 158 958)	-	-	(10 158 958)
Net gain on foreign currencies and gold transferred to profit or loss	-	-	(2 815 141)	-	-	(2 815 141)
Total other comprehensive income	-	-	(12 974 099)	27 083	-	(12 947 016)
Total comprehensive income for the year			(12 974 099)	27 083	3 777 137	(9 169 879)
Transactions recorded directly in equity						
Distribution of prior year profit to the state budget	-	-	-	-	(4 579 813)	(4 579 813)
Transfer to obligatory reserve	-	1 962 778	-	-	(1 962 778)	-
Total amounts of transactions recorded directly to equity		1 962 778			(6 542 591)	(4 579 813)
Balance as at 31 December 2016	1 000 000	6 902 942	12 502 379	(4 007)	3 777 137	24 178 451

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15 March 2017
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15 March 2017
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Kyrgyz Republic

The notes on pages 100-143 form an integral part of these financial statements.

7.7. Notes to the Financial Statements for the year ended 31 December 2016*(in thousands of Soms)***1 GENERAL INFORMATION****(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 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 addenda.

The primary role of the National Bank is achieving and maintaining 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 government; promote effective development of the settlement and interbank payment system; issue banknotes and coins for circulation; manage international foreign currency reserves; license, regulate and supervise commercial banks and financial institutions according to the legislation; and act as a financial agent of the Government of the Kyrgyz Republic.

The National Bank is located at 168 Chui Ave., Bishkek, Kyrgyz Republic, 720001.

As at 31 December 2016 and 2015 the National Bank has 5 branches and one representative office operating in regions of the Kyrgyz Republic.

As at 31 December 2016 and 2015 the number of the National Bank’s employees is 692 and 698, respectively.

CJSC Kyrgyz Money Collection is a subsidiary of the National Bank and the National Bank holds 100% of shares of the subsidiary. Also, the National Bank has an investment in associated company CJSC Interbank Processing Center. The financial statements of CJSC Kyrgyz Money Collection and CJSC Interbank Processing Center are not consolidated in the financial statements of the National Bank as the impact of these entities is not material.

These financial statements were authorised for issue by the Management Board of the National Bank on 15 March 2017.

1 GENERAL INFORMATION

(b) Operating 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 MAIN PRINCIPLES OF PREPARATION OF FINANCIAL STATEMENTS

(a) Statement of compliance with IFRS

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.

Gold is revalued based on the market value and the total net unrealised gain from the mark to market of gold 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 gold 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, the last of which was made on 16 November 2016, 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) gold, 2) financial instruments at fair value through profit or loss for the period 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 Som (KGS) as, being the national currency of the Kyrgyz Republic, it reflects the economic substance of the majority of underlying events and circumstances relevant to them. The KGS is also the presentation currency for the purposes of these financial statements.

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

2 MAIN PRINCIPLES OF PREPARATION OF FINANCIAL STATEMENTS (CONTINUED)

(d) Use of professional judgment, estimates and assumptions

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 professional judgment, estimate or assumptions 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) Gold

Gold comprises gold on deposits with foreign banks and gold bullion in the National bank vaults with a good delivery status. Gold in the financial statements is measured at market price which is determined by reference to the London Bullion Market Association PM fixings at the day preceding the reporting date. Gain on revaluation of gold is recognised in other comprehensive income in equity. Loss resulting from revaluation is recognised in the statement of profit or loss in the amount exceeding any previously accumulated gains on accounts of other comprehensive income in equity. Realised gain and loss on gold is recognised in the statement of 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. 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.

Exchange rates

The exchange rates used by the National Bank in the preparation of the financial statements as at 31 December 2016 and 2015 are as follows:

	31 December 2016	31 December 2015
- Som/US Dollar	69.2301	75.8993
- Som/Euro	72.8439	83.0073
- Som/Special drawing rights	92.7744	105.3599
- Som/Canadian Dollar	51.3139	54.9482
- Som/Australian Dollar	49.9703	55.2777
- Som/Great British Pound Sterling	85,0769	113.5511
- Som/Chinese Renminbi	9.9647	11.7107
- Som/Norwegian Krone	8.0189	8.7224
- Som/troy ounce of gold	80 244.6089	80 453.2580

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Cash and cash equivalents

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

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

(d) Financial instruments

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments (continued)

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

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

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

(i) Recognition of financial instruments in financial statements

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 contract date.

(ii) Measurement of financial instruments

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 and in case there is no active market, in a market, which is most advantageous for that asset or liability.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments (continued)

(iii) *Fair value measurement principles*

If a market for a financial instrument is not active, the National Bank establishes fair value using other 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 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.

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) *Gain or loss 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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Financial instruments (continued)

(v) *Derecognition (continued)*

control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the National Bank is recognised as a separate asset or liability in the statement of financial position. The National Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

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

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

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

The National Bank writes off assets deemed to be uncollectible.

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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	75 years;
- Constructions	20 years;
- Furniture and equipment	5 to 7 years;
- Computer equipment	7 years;
- Motor vehicles	7 years.

In 2016, as part of the ongoing annual review of property, plant and equipment and finite-life intangible assets, and to better reflect their useful lives, the lives of buildings were increased from 50 to 75 years and computer equipment from 5 to 7 years. The changes have been applied prospectively effective September 2016 for computer equipment and November 2016 for buildings and did not have a significant impact on the financial statements.

(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 5 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

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

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 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Impairment (continued)

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

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.

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.

Expenses on production of banknotes and coins issued into circulation include expenses for security, transportation, insurance and other expenses. Expenses on production of 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 National Bank 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.

3 SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(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.

(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.

4 ADOPTION OF NEW AND REVISED IFRSS

(a) New and revised standards

While preparing the financial statements the National Bank adopted all new and revised IFRSs applicable to its operations and effective for annual periods beginning from 1 January 2016. Adoption of new or revised standards had no material impact on the National Bank's financial statements.

(b) New and revised standards in issue but not yet effective

New and revised standards, amendments, and interpretations that are not yet effective as at 31 December 2016 have not been applied while preparing the given financial statements.

New and revised standards, amendments, and interpretations below might potentially have a material impact on activities of the National Bank. IFRS 9 Financial Instruments potentially can influence activity of the National Bank. The National Bank plans to adopt the standard from the date of its entry into force.

4 ADOPTION OF NEW AND REVISED IFRSS (CONTINUED)

(b) New and revised standards in issue but not yet effective (continued)

IFRS 9 Financial Instruments is effective for annual periods beginning from 1 January 2018 or later. Finalised version of IFRS 9 was issued on 23 July 2014. New standard comprises amended requirements for the classification and measurements of financial assets including impairment loss, amends accounting principles on hedging. The National Bank anticipates that the application of IFRS 9 in the future may have a significant impact on accounting of financial instruments and the financial statements, however, management has not completed its assessment of IFRS 9 impact on the National Bank's financial statements.

Other changes in IFRS

The IASB has published the following new or amended standards that are assessed to have no significant impact on the National Bank's financial statements in the period of initial application:

- IFRS 15 Revenue from Contracts with Customers (and the related Clarifications);
- IFRS 16 Leases;
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions;
- Amendments to IFRS 10 and IAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IAS 7 – Disclosure Initiative;
- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses;
- Amendments to IFRS 4 – Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- Amendments to IAS 40 – Transfers of Investment Property;
- Annual Improvements to IFRSs 2014-2016 Cycle.

5 GOLD

	31 December 2016	31 December 2015
Gold in accounts with foreign banks		
Gold in deposits	6 667 667	6 685 004
Gold bullion in the National Bank depository	5 142 219	4 245 475
	11 809 886	10 930 479

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

Concentration of gold in accounts with foreign banks

As at 31 December 2016 the National Bank placed all gold deposits with two banks with credit ratings of AA- and A+ (31 December 2015: two banks with credit ratings of AA- and A+).

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

	31 December 2016	31 December 2015
Placements with foreign banks and other financial institutions		
Nostro accounts with foreign banks		
- rated AAA	21 168 559	29 463 528
- rated from A- to AA +	8 537 381	8 210 253
- rated from B- to BBB+	81 527	37 217
- not rated	54 967	702 249
Total nostro accounts with foreign banks	29 842 434	38 413 247
Term deposits with foreign banks		
- rated from AA- to AA+	28 012 410	25 546 519
- rated from A- to A+	8 660 947	7 963 907
- not rated	267 536	293 430
Total term deposits with foreign banks	36 940 893	33 803 856
Accounts with the Bank for International Settlements (BIS)		
- BIS Nostro	5 583 513	2 599 066
- BIS Deposit	4 157 561	1 734 334
Accounts with the International Monetary Fund	12 706 257	13 996 060
Total due from banks and other financial institutions	89 230 658	90 546 563
Cash on hand in foreign currency	1 011 803	966 259
Impairment allowance	(267 536)	(293 430)
	89 974 925	91 219 392

As at 31 December 2016 and 2015 an impaired term deposit of KGS 267 536 thousand and 293 430 thousand was overdue, and the National Bank created an impairment reserve for the full outstanding amount.

Concentration of due from banks and other financial institutions

As at 31 December 2016 the National Bank has balances with ten banks and other financial institutions rated from AAA to A- (2015: nine banks and other financial institutions rated from AAA to A) whose amounts exceed 10% of equity. The gross value of these balances as at 31 December 2016 is KGS 59 957 101 thousand (2015: KGS 80 788 369 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 statement of cash flows are comprised of the following:

	31 December 2016	31 December 2015
Nostro accounts with international banks	29 842 434	38 413 247
Nostro accounts with the BIS	5 583 513	2 599 066
Accounts with the IMF	12 706 257	13 996 060
Cash on hand in foreign currencies	1 011 803	966 259
Cash and cash equivalents in the statement of cash flows	49 144 007	55 974 632

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

7 LOANS ISSUED

	31 December 2016	31 December 2015
Loans to resident commercial banks	5 838 757	5 253 968
Loans to international organisations	1 884 317	1 203 945
	7 723 074	6 457 913
Impairment allowance	(284 498)	(526 301)
Loans issued net of impairment allowance	7 438 576	5 931 612

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.

Movement in the allowance for impairment losses is 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 2016 and 2015, excluding the effect of overcollateralisation.

	31 December 2016	% of unimpaired loan portfolio	31 December 2015	% of unimpaired loan portfolio
Deposit in foreign currency	3 798 634	51	2 188 585	37
Loans to customers	3 156 825	42	3 303 153	56
State securities	483 117	7	264 175	4
Real estate	-	-	175 699	3
	7 438 576	100	5 931 612	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.

Concentration of loans extended

As at 31 December 2016, the Bank issued loans to one commercial bank, whose balances exceed 10% of equity (2015: nil).

8 INVESTMENTS AVAILABLE-FOR-SALE

	31 December 2016	31 December 2015
Debt instruments		
State bonds		
Treasury obligations of the Government of Australia	9 981 164	15 108 596
Treasury obligations of the Government of Canada	5 979 396	6 931 628
Treasury obligations of the Government of Russian Federation	141 355	247 034
Treasury obligations of the Government of Great Britain	-	4 561 058
Total state bonds	16 101 915	26 848 316
Debt instruments of agencies with credit ratings from AA to AAA	14 457 985	-
Debt securities of international financial institutions	3 799 644	5 780 544
Total debt instruments	34 359 544	32 628 860

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

9 INVESTMENTS HELD-TO-MATURITY

	31 December 2016	31 December 2015
Held by the National bank		
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	312 535	1 401 971
	312 535	1 401 971

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

10 PROPERTY AND EQUIPMENT

	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/ equipment not yet installed	Total
Cost						
Balance at 1 January 2016	575 564	207 731	342 741	38 112	740 968	1 905 116
Additions	23 366	54 627	12 731	36 934	248 045	375 703
Disposals	(46 537)	(47 275)	(2 306)	(968)	(100)	(97 186)
Transfers	60 966	53 632	11 866	-	(127 159)	(695)
Balance at 31 December 2016	613 359	268 715	365 032	74 078	861 754	2 182 938
Depreciation						
Balance at 1 January 2016	(97 262)	(100 365)	(92 447)	(18 475)	-	(308 549)
Depreciation for the year	(14 119)	(38 227)	(61 472)	(8 674)	-	(122 492)
Disposals	7 950	45 960	2 269	967	-	57 146
Balance at 31 December 2016	(103 431)	(92 632)	(151 650)	(26 182)	-	(373 895)
Carrying amount						
At 31 December 2016	509 928	176 083	213 382	47 896	861 754	1 809 043

10 PROPERTY AND EQUIPMENT (CONTINUED)

	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/ equipment not yet installed	Total
Cost						
Balance at 1 January 2015	568 518	162 455	199 326	38 520	397 310	1 366 129
Additions	14 005	45 968	120 490		443 861	624 324
Disposals	(6 999)	(10 368)	(7 533)	(408)	(3 787)	(29 095)
Transfers	40	9 676	30 458	-	(96 416)	(56 242)
Balance at 31 December 2015	575 564	207 731	342 741	38 112	740 968	1 905 116
Depreciation						
Balance at 1 January 2015	(86 331)	(73 860)	(46 407)	(12 972)	-	(219 570)
Depreciation for the year	(15 935)	(36 898)	(53 523)	(5 921)	-	(112 277)
Disposals	5 004	10 393	7 483	418	-	23 298
Balance at 31 December 2015	(97 262)	(100 365)	(92 447)	(18 475)	-	(308 549)
Carrying amount						
At 31 December 2015	478 302	107 366	250 294	19 637	740 968	1 596 567

There are no capitalised borrowing costs related to the acquisition or construction of plant and equipment during 2016 and 2015.

During 2016 property and equipment of KGS 695 thousand was transferred to intangible assets (2015: KGS 56 242 thousand).

11 OTHER ASSETS

	31 December 2016	31 December 2015
Other receivables	254 740	196 213
Impairment allowance	(8 443)	(19 429)
Total other financial assets	246 297	176 784
Non-monetary gold	720 648	55 193
Inventories	668 270	713 592
Other investments	185 079	123 079
Prepayments	16 109	48 073
Other assets	108 807	122 356
Total other non-financial assets	1 698 913	1 062 293
	1 945 210	1 239 077

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

Non-monetary gold is comprised of gold bullions that are not in compliance with standards of London Bullion Market Association. Non-monetary gold is recognised as inventory and measured at the lower of cost and net realisable value and is not subject to revaluation.

12 BANKNOTES AND COINS IN CIRCULATION

As at 31 December 2016 and 2015 banknotes and coins in circulation comprise:

	31 December 2016	31 December 2015
Banknotes and coins in circulation	77 013 316	60 164 552
Less banknotes and coins on hand and in vaults	(2 174 517)	(1 766 537)
	74 838 799	58 398 015

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

13 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2016	31 December 2014
Current accounts of commercial banks	22 213 517	13 854 786
Current accounts of other financial institutions	3 511 275	5 639 625
	25 724 792	19 494 411

As at 31 December 2016 and 2015 the National Bank has no banks and other financial institutions 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.

	31 December 2016	31 December 2015
In national currency	7 157 877	12 333 649
In foreign currency	891 027	2 770 902
	8 048 904	15 104 551

15 DEBT SECURITIES ISSUED

As at 31 December 2016 debt securities issued (notes of the National Bank) comprise the following issues:

Emissions	Carrying amount	Issue date	Maturity date	Effective interest rate
BD002170111	3 999 481	28 December 2016	11 January 2017	0.43%
BD001170104	1 243 967	28 December 2016	4 January 2017	0.24%
	5 243 448			

As at 31 December 2015 debt securities issued (notes of the National Bank) comprise the following issues:

Emissions	Carrying amount	Issue date	Maturity date	Effective interest rate
BD001160106	1 329 284	30 December 2015	6 January 2016	10.66%
BD002160113	797 165	30 December 2015	13 January 2016	10.68%
	2 126 449			

16 LOANS RECEIVED

As at 31 December 2016 and 2015 terms and conditions of loans received are as follows:

Issuer	CCY	Interest rate	Issue date	Maturity date	2016	2015
IMF, PRGF (Poverty Reduction and Growth Facility)	SDR	0%	19 December 2001	31 May 2018	317 845	668 508
IMF, ESF (Exogenous Shocks Facility)	SDR	0%	24 December 2008	7 June 2019	1 390 224	2 280 515
Accrued interest	USD				10 560	11 577
					1 718 629	2 960 600

16 LOANS RECEIVED (CONTINUED)

Borrowings in relation to the Poverty Reduction and Growth Facility (the “PRGF”) are denominated in SDR and are given to support 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 3 October 2016 IMF prolonged 0% interest rate till the end of 2018. Conditions of PRGF credits are standard for all credit receivers.

Borrowing in relation to the Exogenous Shocks Facility (the “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 3 October 2016 IMF prolonged 0% interest rate till the end of 2018. This condition was declared for all recipients of ESF credits around the globe.

During the years ended 31 December 2016 and 2015 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

	31 December 2016	31 December 2015
Liabilities to the IMF in respect of SDR allocations	<u>7 863 988</u>	<u>8 928 627</u>

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 the provision 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 and 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 allocations in the amount of SDR 84 737 thousand. In 2016 and 2015 this right has not yet been utilised. The interest rate is determined weekly by the IMF, and is the same for all recipients of SDR allocations in the world.

18 SHARE CAPITAL

Paid-in capital

As at 31 December 2016 and 2015 share 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 share 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;

18 SHARE CAPITAL (CONTINUED)

Distribution to the state budget and obligatory reserve (continued)

- 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 of the obligatory reserve.

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 30 March 2016 the net profit for 2015 was approved in the amount of KGS 6 542 591 thousand. KGS 4 579 813 thousand of the profit for 2015 was distributed to the budget of the Kyrgyz Republic (2015: KGS 3 777 018 thousand), and KGS 1 962 778 thousand was transferred to the obligatory reserve (2015: KGS 1 618 722 thousand).

Profit for the year 2016, distributable to the state budget of the Kyrgyz Republic is equal to KGS 2 643 996 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

	Year ended 31 December 2016	Year ended 31 December 2015
Interest income		
Loans issued	736 205	521 947
Due from banks and other financial institutions	574 368	608 787
Investments available-for-sale	366 599	443 698
Investments held-to-maturity	54 082	94 525
Other	14 914	12 695
	1 746 168	1 681 652
Interest expense		
Debt securities issued	(59 606)	(129 066)
Due to banks and other financial institutions	(49 471)	(41 444)
Liabilities to the IMF in respect of SDR allocations	(6 519)	(3 852)
Other assets discount recognition	(64 673)	(219 801)
Other	(8 564)	(2 247)
	(188 833)	(396 410)
	1 557 335	1 285 242

No interest income was accrued on impaired assets in 2016 and 2015.

20 ALLOWANCES FOR IMPAIRMENT

	Cash on hand, due from banks and other financial institutions	Loans extended	Other financial assets	Total
31 December 2014	227 657	460 355	26 150	714 162
Net recovery	-	(73)	(6 718)	(6 791)
Effect of foreign currency translation	65 773	66 019	(3)	131 789
31 December 2015	293 430	526 301	19 429	839 160
Net recovery	(109)	(865)	(11 017)	(11 991)
Write-off	-	(213 161)	-	(213 161)
Effect of foreign currency translation	(25 785)	(27 777)	31	(53 531)
31 December 2016	267 536	284 498	8 443	560 477

21 NET GAIN ON FOREIGN CURRENCIES AND GOLD OPERATIONS

	Year ended 31 December 2016	Year ended 31 December 2015
Realised gain from operations with foreign currencies and gold	2 815 141	5 554 775
Income from spot transactions	435 458	630 064
	3 250 599	6 184 839

22 ADMINISTRATIVE EXPENSES

	Year ended 31 December 2016	Year ended 31 December 2015
Personnel expenses		
Employee compensation	445 158	427 471
Payments to the Social fund	77 073	73 956
	522 231	501 427
Depreciation and amortization	147 579	151 460
Repairs and maintenance	125 748	117 945
Security	37 272	37 496
Communications and information services	22 509	20 437
Staff training	15 432	11 800
Travel expenses	10 005	11 266
Publication and subscription	9 927	10 477
Expenses for social events	9 167	7 007
Professional services	8 907	10 346
Office supplies and stationery	5 569	4 817
Other	17 395	16 897
	931 741	901 375

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, therefore, 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 Management Board of the National Bank, committees and commissions 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 National Bank ("the Investment Strategy") approved by the Board on 23 December 2015, the main goals of risk management are safety and liquidity of the assets and profitability growth of the National Bank. Operations are conducted within the limitations imposed by this strategy.

In accordance with these goals gold and foreign currency assets of the National Bank 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

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(i) Interest rate risk (continued)

may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2016 and 2015. These interest rates are an estimation of the yields to maturity of these assets and liabilities.

	2016 Weighted average effective interest rate, %	2015 Weighted average effective interest rate, %
Interest bearing assets		
Gold		
<i>Gold in accounts with foreign banks</i>	0.03	0.48
Due from banks and other financial institutions		
<i>Nostrro accounts</i>		
- USD	0.48	0.36
- EUR	(0.40)	(0.25)
- CAD	0.09	0.20
- AUD	0.35	0.94
- GBP	0.03	0.01
- CNH	0.35	0.35
- NOK	0.26	0.55
<i>Term deposits</i>		
- USD	0.94	0.48
- CAD	0.84	0.58
- GBP	0.39	0.66
- AUD	-	2.18
- RUB	6.90	7.03
- CNH	3.88	3.78
- NOK	0.90	0.96
- SGD	0.52	0.82
Investments available-for-sale		
- USD	0.83	0.61
- AUD	1.82	2.12
- CAD	0.53	0.68
- GBP	-	0.49
Loans issued		
- KGS	8.76	9.56
Investments held-to-maturity, including investments held-to-maturity, pledged under repurchase agreements		
- KGS	6.35	10.33
Interest bearing liabilities		
Debt securities issued		
- KGS	0.39	10.59
Liabilities to the IMF in respect of SDR allocations	0.244	0.05

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(i) Interest rate risk (continued)

Interest rate sensitivity analysis

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 2016 and 2015 and a simplified scenario of a 20 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	31 December 2016		31 December 2015	
	Profit or loss	Comprehensive income and Equity	Profit or loss	Comprehensive income and Equity
20 bp parallel rise	-	(18 484)	-	(38 405)
20 bp parallel fall	-	27 438	-	68 518

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 investment assets, 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 2016 is presented in the table below:

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other	Total 31 December 2016
ASSETS												
Gold	-	6 667 667	-	-	-	-	-	-	-	-	-	6 667 667
Cash on hand, due from banks and other financial institutions	-	-	56 016 905	2 606 624	1 385 194	124 976	12 706 257	2 086 226	3 697 868	9 048 569	2 302 306	89 974 925
Loans issued	7 438 576	-	-	-	-	-	-	-	-	-	-	7 438 576
Investments available- for-sale	-	-	18 398 984	-	5 979 396	9 981 164	-	-	-	-	-	34 359 544
Investments held-to-maturity	312 535	-	-	-	-	-	-	-	-	-	-	312 535
Other financial assets	246 297	-	-	-	-	-	-	-	-	-	-	246 297
Total assets	7 997 408	6 667 667	74 415 889	2 606 624	7 364 590	10 106 140	12 706 257	2 086 226	3 697 868	9 048 569	2 302 306	138 999 544

24 RISK MANAGEMENT (CONTINUED)**(b) Market risk (continued)****(ii) Currency risk (continued)**

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other	Total 31 December 2016
LIABILITIES												
Banknotes and coins in circulation	74 838 799	-	-	-	-	-	-	-	-	-	-	74 838 799
Due to banks and other financial institutions	18 350 546	-	7 374 246	-	-	-	-	-	-	-	-	25 724 792
Due to the Government of the Kyrgyz Republic	7 157 877	-	41 068	776 782	-	-	-	-	-	-	73 177	8 048 904
Debt securities issued	5 243 448	-	-	-	-	-	-	-	-	-	-	5 243 448
Loans received	-	-	10 560	-	-	-	1 708 069	-	-	-	-	1 718 729
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	-	7 863 988	-	-	-	-	7 863 988
Other financial liabilities	71 968	-	15 981	803	-	-	-	-	-	-	-	88 752
Total liabilities	105 662 638	-	7 441 855	777 585	-	-	9 572 057	-	-	-	73 177	123 527 312
Net balance sheet position	(97 665 230)	6 667 667	66 974 034	1 829 039	7 364 590	10 106 140	3 134 200	2 086 226	3 697 868	9 048 569	2 229 129	15 472 232

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 2015 is presented in the table below:

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other	Total 31 December 2015
ASSETS												
Gold	-	6 685 004	-	-	-	-	-	-	-	-	-	6 685 004
Cash on hand, due from banks and other financial institutions	-	-	42 139 153	2 672 272	4 917 705	1 271 230	13 996 060	4 878 237	2 787 338	16 442 361	2 115 037	91 219 392
Loans issued	5 931 612	-	-	-	-	-	-	-	-	-	-	5 931 612
Investments available-for-sale	-	-	3 143 571	-	6 931 628	15 108 595	-	-	7 350 919	-	94 147	32 628 860
Investments held-to-maturity	1 401 971	-	-	-	-	-	-	-	-	-	-	1 401 971
Other financial assets	176 784	-	-	-	-	-	-	-	-	-	-	176 784
Total assets	7 510 367	6 685 004	45 282 724	2 672 272	11 849 333	16 379 825	13 996 060	4 878 237	10 138 257	16 442 361	2 209 183	138 043 623

24 RISK MANAGEMENT (CONTINUED)**(b) Market risk (continued)****(ii) Currency risk (continued)**

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other	Total 31 December 2015
LIABILITIES												
Banknotes and coins in circulation	58 398 015	-	-	-	-	-	-	-	-	-	-	58 398 015
Due to banks and other financial institutions	11 340 838	-	8 141 890	11 683	-	-	-	-	-	-	-	19 494 411
Due to the Government of the Kyrgyz Republic	12 333 650	-	1 945 120	790 156	-	-	-	-	-	-	35 626	15 104 551
Debt securities issued	2 126 449	-	-	-	-	-	-	-	-	-	-	2 126 449
Loans received	-	-	11 577	-	-	-	2 949 023	-	-	-	-	2 960 600
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	-	8 928 627	-	-	-	-	8 928 627
Other financial liabilities	63 764	-	17 464	505	-	-	-	-	-	-	-	81 733
Total liabilities	84 262 715	-	10 116 051	802 344	-	-	11 877 650	-	-	-	35 626	107 094 386
Net balance sheet position	(76 752 348)	6 685 004	35 166 673	1 869 928	11 849 333	16 379 825	2 118 410	4 878 237	10 138 257	16 442 361	2 173 557	30 949 237

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(ii) Currency risk (continued)

Depreciation of KGS, as indicated in the table below, against following currencies as at 31 December 2016 and 2015 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.

	31 December 2016		31 December 2015	
	Profit or loss	Comprehensive income and Equity	Profit or loss	Comprehensive income and Equity
10% appreciation of USD against KGS	-	6 697 403	-	3 517 825
10% appreciation of AUD against KGS	-	1 010 614	-	1 637 983
10% appreciation of CNH against KGS	-	904 857	-	1 644 236
10% appreciation of CAD against KGS	-	736 459	-	1 184 933
10% appreciation of GBP against KGS	-	369 787	-	1 013 826
10% appreciation of EUR against KGS	-	182 904	-	186 993

Appreciation of the KGS against the above currencies at 31 December 2016 and 2015 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Limitations of sensitivity analysis

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

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

(iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Other price risk arises when the National Bank takes a long or short position in a financial instrument.

As at 31 December 2016 and 2015 the National Bank was exposed to price risk of gold in accounts with foreign banks.

An increase or decrease in prices in KGS equivalent of gold, as indicated below, at 31 December 2016 and 2015 would have increased or decreased equity and other comprehensive income by the amounts shown below. This analysis is based on gold 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

	31 December 2016		31 December 2015	
	Profit or loss	Comprehensive income and equity	Profit or loss	Comprehensive income and equity
10% appreciation of gold prices in KGS equivalent	-	666 767	-	668 500
10% depreciation of gold prices in KGS equivalent	-	(666 767)	-	(668 500)

(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, Fitch and other. 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 developed industrial countries with stable economic 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.

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.

24 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

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:

	31 December 2016	31 December 2015
ASSETS		
Gold	6 667 667	6 685 004
Cash on hand, due from banks and other financial institutions*	88 963 122	90 253 133
Loans issued	7 438 576	5 931 612
Investments available-for-sale, except equity investments	34 359 544	32 628 860
Investments held-to-maturity	312 535	1 401 971
Other financial assets	246 297	176 784
Total maximum exposure	137 987 741	137 077 364

* This amount does not include cash on hand in foreign currencies

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 2016:

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2016 Total
ASSETS					
Gold	-	6 667 667	-	-	6 667 667
Cash on hand, due from banks and other financial institutions	1 011 803	58 151 431	8 364 361	22 447 330	89 974 925
Loans issued	7 438 576	-	-	-	7 438 576
Investments available-for-sale	-	30 418 545	141 355	3 799 644	34 359 544
Investments held-to-maturity	312 535	-	-	-	312 535
Other financial assets	246 297	-	-	-	246 297
Total assets	9 009 211	95 237 643	8 505 716	26 246 974	138 999 544
LIABILITIES					
Banknotes and coins in circulation	74 838 799	-	-	-	74 838 799
Due to banks and other financial institutions	25 640 120	-	39 264	45 408	25 724 792
Due to the Government of the Kyrgyz Republic	8 048 904	-	-	-	8 048 904
Debt securities issued	5 243 448	-	-	-	5 243 448
Loans received	10 560	-	-	1 708 069	1 718 629
Liabilities to the IMF in respect of SDR allocations	-	-	-	7 863 988	7 863 988
Other financial liabilities	71 303	1 520	15 929	-	88 752
Total liabilities	113 853 134	1 520	55 193	9 617 465	123 527 312
Net balance sheet position	(104 843 923)	95 236 123	8 450 523	16 629 509	15 472 232

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 2015:

	Kyrgyz Republic	OECD countries	Non-OECD countries	International financial institutions	31 December 2015 Total
ASSETS					
Gold	-	6 685 004	-	-	6 685 004
Cash on hand, due from banks and other financial institutions	966 259	63 831 696	8 091 977	18 329 460	91 219 392
Loans extended	5 931 612	-	-	-	5 931 612
Investments available-for-sale	-	26 601 282	247 034	5 780 544	32 628 860
Investments held-to-maturity	1 401 971	-	-	-	1 401 971
Other financial assets	176 784	-	-	-	176 784
Total assets	8 476 626	97 117 982	8 339 011	24 110 004	138 043 623
LIABILITIES					
Banknotes and coins in circulation	58 398 015	-	-	-	58 398 015
Due to banks and other financial institutions	19 270 514	-	176 521	47 376	19 494 411
Due to the Government of the Kyrgyz Republic	15 104 551	-	-	-	15 104 551
Debt securities issued	2 126 449	-	-	-	2 126 449
Loans received	11 577	-	-	2 949 023	2 960 600
Liabilities to the IMF in respect of SDR allocations	-	-	-	8 928 627	8 928 627
Other financial liabilities	63 764	333	17 464	172	81 733
Total liabilities	94 974 870	333	193 985	11 925 198	107 094 386
Net balance sheet position	(86 498 244)	97 117 649	8 145 026	12 184 806	30 949 237

(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 Management Board.

The National Bank seeks to actively support a diversified and stable funding base in order to be able to respond quickly and smoothly to unforeseen liquidity requirements.

Since the National Bank is the emission bank (the National Bank carries out the issue of national currency – Som), the default risk on fulfillment its obligations in national currency is minimal, and liquidity risk is more applicable for obligations denominated in foreign currency.

24 RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The liquidity management policy of the National Bank for assets and liabilities in foreign currencies requires:

- projecting cash flows by foreign 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 2016 is as follows:

	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 cash outflow of financial liabilities	Carrying amount 31 December 2016
Non-derivative liabilities							
Due to banks and other financial institutions	25 724 792	-	-	-	-	25 724 792	25 724 792
Due to the Government of the Kyrgyz Republic	8 048 904	-	-	-	-	8 048 904	8 048 904
Debt securities issued	5 244 000	-	-	-	-	5 244 000	5 243 448
Loans received	10 560	-	426 669	414 887	866 679	1 718 795	1 718 629
Liabilities to the IMF in respect of SDR allocations	7 861 424	2 564	-	-	-	7 863 988	7 863 988
Other financial liabilities	34 505	6 725	2 281	29 000	16 241	88 752	88 752
Total liabilities	46 924 185	9 289	428 950	443 887	882 920	48 689 231	48 688 513

The maturity analysis for financial liabilities as at 31 December 2015 is as follows:

	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 cash outflow of financial liabilities	Carrying amount 31 December 2015
Non-derivative liabilities							
Due to banks and other financial institutions	19 494 411	-	-	-	-	19 494 411	19 494 411
Due to the Government of the Kyrgyz Republic	15 104 551	-	-	-	-	15 104 551	15 104 551
Debt securities issued	2 131 500	-	-	-	-	2 131 500	2 126 449
Loans received	11 577	-	511 311	497 931	1 945 069	2 965 888	2 960 600
Liabilities to the IMF in respect of SDR allocations	8 927 881	746	-	-	-	8 928 627	8 928 627
Other financial liabilities	37 679	2 460	1 451	22 201	17 942	81 733	81 733
Total liabilities	45 707 599	3 206	512 762	520 132	1 963 011	48 706 710	48 696 371

The tables above show cash outflows of financial liabilities, that are not equal to carrying amounts of those liabilities in current financial statements because these amounts include remaining interest payable, which is not yet recognised using the effective interest rate method.

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 2016:

	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 31 December 2016
ASSETS							
Gold	1 852 917	4 814 750	-	-	-	-	6 667 667
Cash on hand, due from banks and other financial institutions	64 298 820	9 714 905	15 961 200	-	-	-	89 974 925
Loans issued	245 517	4 593 479	2 596 075	3 505	-	-	7 438 576
Investments available-for-sale	7 950 178	11 068 779	13 827 508	1 513 079	-	-	34 359 544
Investments held-to-maturity	-	-	62 407	250 128	-	-	312 535
Other financial assets	40 552	3 093	13 018	67 122	122 512	-	246 297
	74 387 984	30 195 006	32 460 208	1 833 834	122 512	-	138 999 544
LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	74 838 799	74 838 799
Due to banks and other financial institutions	25 724 792	-	-	-	-	-	25 724 792
Due to the Government of the Kyrgyz Republic	8 048 904	-	-	-	-	-	8 048 904
Debt securities issued	5 243 448	-	-	-	-	-	5 243 448
Loans received	10 560	-	841 556	866 513	-	-	1 718 629
Liabilities to the IMF in respect of SDR allocations	7 861 424	2 564	-	-	-	-	7 863 988
Other financial liabilities	34 505	6 725	31 281	16 241	-	-	88 752
	46 923 633	9 289	872 837	882 754	-	74 838 799	123 527 312
Net position	27 464 351	30 185 717	31 587 371	951 080	122 512	(74 838 799)	15 472 232

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 2015:

	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 31 December 2015
ASSETS							
Gold	-	6 685 004	-	-	-	-	6 685 004
Cash on hand, due from banks and other financial institutions	61 269 389	14 219 261	15 730 742	-	-	-	91 219 392
Loans issued	172 804	2 619 870	3 132 772	6 166	-	-	5 931 612
Investments available-for-sale	1 815 124	3 273 242	15 091 526	12 448 968	-	-	32 628 860
Investments held-to-maturity	18 411	2 061	62 063	1 255 855	63 581	-	1 401 971
Other financial assets	4 710	2 961	10 594	54 701	103 818	-	176 784
	63 280 438	26 802 399	34 027 697	13 765 690	167 399	-	138 043 623
LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	58 398 015	58 398 015
Due to banks and other financial institutions	19 494 411	-	-	-	-	-	19 494 411
Due to the Government of the Kyrgyz Republic	15 104 551	-	-	-	-	-	15 104 551
Debt securities issued	2 126 449	-	-	-	-	-	2 126 449
Loans received	11 577	-	1 009 242	1 939 781	-	-	2 960 600
Liabilities to the IMF in respect of SDR allocations	8 927 881	746	-	-	-	-	8 928 627
Other financial liabilities	37 679	2 460	23 652	17 942	-	-	81 733
	45 702 548	3 206	1 032 894	1 957 723	-	58 398 015	107 094 386
Net position	17 577 890	26 799 193	32 994 803	11 807 967	167 399	(58 398 015)	30 949 237

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 partial coverage for its premises and equipment, and 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

In 1992 the Kyrgyz Republic joined the International Monetary Fund (the “IMF”). A membership quota expressed in Special Drawing Rights (“SDRs”) is assigned to each member of the IMF. The membership quota is the basis for determining access of the country to the IMF financing. As at 31 December 2016 and 2015 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 Kyrgyz Republic. Correspondingly, 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:

	31 December 2016	31 December 2015
IMF membership quota	8 284 819	9 339 631
Securities for benefit of the IMF	(8 261 171)	(9 315 757)
Current accounts of the IMF	(20 949)	(23 874)
	(8 282 120)	(9 339 631)

26 AGENCY FUNCTIONS (CONTINUED)

IMF loans issued to the Ministry of Finance of the Kyrgyz Republic

On 16 April and 14 December 2015 IMF provided loans to the Ministry of Finance of the Kyrgyz Republic amounting to SDR 19 028 thousand for supporting the state budget. On 28 June and 22 December 2016 IMF provided loans to the Ministry of Finance of the Kyrgyz Republic amounting to SDR 19 028 thousand for the same purposes. 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 2016 the outstanding balance of this loan amounted to KGS 11 268 620 thousand (2015: KGS 11 360 537 thousand).

27 RELATED PARTY TRANSACTIONS

(a) Control relationships

In considering each possible related party, substance of the relationship is considered 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 income on investments held to maturity is 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 2016 and 2015 comprised KGS 19 334 thousand and KGS 22 584 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 2016 and 2015 comprised KGS 19 837 and KGS 10 450 thousand, respectively. The loans are in KGS and repayable by 2031. Interest income from loans to the Management Board for the years ended 31 December 2016 and 2015 comprised KGS 274 thousand and KGS 207 thousand respectively.

(c) Transactions with other related parties

Corresponding income and expense on transactions with other related parties for the year ended 31 December 2016 are as follows:

	Subsidiaries	Associates	31 December 2016 Total
Statement of profit or loss			
Other income	1 561	220	1 781

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 2015 are as follows:

	Subsidiaries	Associates	31 December 2015 Total
Statement of profit or loss			
Other income	9 646	316	9 962

28 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES

(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 2016:

	Held-to-maturity	Loans and receivables	Available-for-sale	Other at amortised cost	31 December 2016 Total carrying amount	31 December 2016 Fair value
Gold deposits	-	-	6 667 667	-	6 667 667	6 667 667
Cash on hand, due from banks and other financial institutions	-	89 974 925	-	-	89 974 925	89 974 925
Loans issued	-	7 438 576	-	-	7 438 576	7 438 576
Investments available-for-sale	-	-	34 359 544	-	34 359 544	34 359 544
Investments held-to-maturity	312 535	-	-	-	312 535	312 535
Other financial assets	-	246 297	-	-	246 297	246 297
	312 535	97 659 798	41 027 211	-	138 999 544	138 999 544
Banknotes and coins in circulation	-	-	-	74 838 799	74 838 799	74 838 799
Due to banks and other financial institutions	-	-	-	25 724 792	25 724 792	25 724 792
Due to the Government of the Kyrgyz Republic	-	-	-	8 048 904	8 048 904	8 048 904
Debt securities issued	-	-	-	5 243 448	5 243 448	5 243 448
Loans received	-	-	-	1 718 629	1 718 629	1 718 629
Liabilities to the IMF in respect of SDR allocations	-	-	-	7 863 988	7 863 988	7 863 988
Other financial liabilities	-	-	-	88 752	88 752	88 752
	-	-	-	123 527 312	123 527 312	123 527 312

28 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (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 2015:

	Held-to-maturity	Loans and receivables	Available-for-sale	Other at amortised cost	31 December 2015 Total carrying amount	31 December 2015 Fair value
Gold deposits	-	-	6 685 004	-	6 685 004	6 685 004
Cash on hand, due from banks and other financial institutions	-	91 219 392	-	-	91 219 392	91 219 392
Loans issued	-	5 931 612	-	-	5 931 612	5 931 612
Investments available-for-sale	-	-	32 628 860	-	32 628 860	32 628 860
Investments held-to-maturity	1 401 971	-	-	-	1 401 971	1 401 971
Other financial assets	-	176 784	-	-	176 784	176 784
	1 401 971	97 327 788	39 313 864	-	138 043 623	138 043 623
Banknotes and coins in circulation	-	-	-	58 398 015	58 398 015	58 398 015
Due to banks and other financial institutions	-	-	-	19 494 411	19 494 411	19 494 411
Due to the Government of the Kyrgyz Republic	-	-	-	15 104 551	15 104 551	15 104 551
Debt securities issued	-	-	-	2 126 449	2 126 449	2 126 449
Loans received	-	-	-	2 960 600	2 960 600	2 960 600
Liabilities to the IMF in respect of SDR allocations	-	-	-	8 928 627	8 928 627	8 928 627
Other financial liabilities	-	-	-	81 733	81 733	81 733
	-	-	-	107 094 386	107 094 386	107 094 386

The estimates of fair value are intended to approximate the amount for which a financial instrument can be exchanged between knowledgeable, willing parties in an arm's length transaction. However, given the uncertainties and the use of subjective judgment, the fair value should not be interpreted as being realizable in an immediate sale of the assets or settlement of liabilities

(b) Fair value hierarchy

The National Bank measures fair values for financial instruments recorded on the statement of financial position using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

28 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

(b) Fair value hierarchy (continued)

- 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 2016, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2016 Total
Available-for-sale financial assets				
- Debt and other fixed income instruments	34 359 544	-	-	34 359 544
	34 359 544	-	-	34 359 544

The table below analyses financial instruments measured at fair value at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2015 Total
Available-for-sale financial assets				
- Debt and other fixed income instruments	32 628 860	-	-	32 628 860
	32 628 860	-	-	32 628 860

28 FINANCIAL ASSETS AND LIABILITIES: ACCOUNTING CLASSIFICATIONS AND FAIR VALUES (CONTINUED)

(b) Fair value hierarchy (continued)

The table below analyses financial instruments not measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorised:

	Level 1	Level 2	Level 3	31 December 2016 Total
Cash on hand, due from banks and other financial institutions	-	89 974 925	-	89 974 925
Loans issued	-	7 438 576	-	7 438 576
Investments held-to-maturity	-	312 535	-	312 535
Other financial assets	-	246 297	-	246 297
Total	-	97 972 333	-	97 972 333
Banknotes and coins in circulation	-	74 838 799	-	74 838 799
Due to banks and other financial institutions	-	25 724 792	-	25 724 792
Due to the Government of the Kyrgyz Republic	-	8 048 904	-	8 048 904
Debt securities issued	-	5 243 448	-	5 243 448
Loans received	-	1 718 629	-	1 718 629
Liabilities to the IMF in respect of SDR allocations	-	7 863 988	-	7 863 988
Other financial liabilities	-	88 752	-	88 752
Total	-	123 527 312	-	123 527 312
NET VALUE	-	(25 554 979)	-	(25 554 979)

The table below analyses financial instruments not measured at fair value at 31 December 2015, by the level in the fair value:

	Level 1	Level 2	Level 3	31 December 2015 Total
Cash on hand, due from banks and other financial institutions	-	91 219 392	-	91 219 392
Loans issued	-	5 931 612	-	5 931 612
Investments held-to-maturity	-	1 401 971	-	1 401 971
Other financial assets	-	176 784	-	176 784
Total	-	98 729 759	-	98 729 759
Banknotes and coins in circulation	-	58 398 015	-	58 398 015
Due to banks and other financial institutions	-	19 494 411	-	19 494 411
Due to the Government of the Kyrgyz Republic	-	15 104 551	-	15 104 551
Debt securities issued	-	2 126 449	-	2 126 449
Loans received	-	2 960 600	-	2 960 600
Liabilities to the IMF in respect of SDR allocations	-	8 928 627	-	8 928 627
Other financial liabilities	-	81 733	-	81 733
Total	-	107 094 386	-	107 094 386
NET VALUE	-	(8 364 627)	-	(8 364 627)

29 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As at 31 December 2016 and 2015 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.

30 SUBSEQUENT EVENTS

As of the date of issue of these financial statements Management have not identified any significant subsequent events which require disclosure.

APPENDICES

IV

Appendix 1
to the Report of the National Bank of the Kyrgyz Republic for 2016

Chronology of Major Events in the Monetary Sphere in 2016

Date	Contents
January 11	The licenses to conduct banking operations in the national and foreign currencies was issued to “Bank Kompanion” CJSC.
January 15	Regime of direct banking supervision was introduced in OJSC RK “AMANBANK”.
January 20	The Board of the National Bank adopted regulations: <ul style="list-style-type: none"> – concerning the RR issues, according to which in addition to the commercial bank correspondent account in the National Bank, a portion (30 percent) of cash balances at ATMs was included in the RR implementation; – on introduction of amendments and addenda in the periodic regulatory reporting of the MFOs and the CUs, including those operating on the Islamic principles of banking and financing; – on changing the standard of borrowing funds from founders (shareholders), MFO legal entities, as well as new standards for MFOs.
January 21	The license for implementation of microfinance activities was issued to CJSC “Microfinance Company “Altyn Finance”.
	The 23 rd meeting of the Interbank Payment System Council was held with participation of representatives of the commercial banks, as well as discussion of the resolution of the Kyrgyz Republic Government “On Measures for Consumers’ Rights Protection” No. 869 dated December 23, 2015 and implementation thereof.
January 28	Participation in the meeting of the Advisory Committee on the financial markets of the Eurasian Economic Union member states, Moscow, Russia.
January 29- February 4	Visit of the International Monetary Fund (IMF) Mission to discuss the latest trends in the monetary sphere and to implement the reforms envisaged by the three-year program supported by the Extended Credit Facility (ECF).
February 1	The Government of the Kyrgyz Republic adopted the Decree No. 33- <i>p</i> , which approved the program, developed in conjunction with the National Bank, for converting the mortgage loans issued by the commercial banks in the US dollars into the national currency.
February 5	The Board of the National Bank approved the Provisional Regulations “On granting loans by the National Bank of the Kyrgyz Republic to the commercial banks when converting the loans in foreign currency into the national currency” and the draft Provisional Regulations “On the procedure for carrying out swap-operations (excl. delivery) with commercial banks by the National Bank of the Kyrgyz Republic”, in order to implement the program of the Kyrgyz Republic Government on conversion of the individuals’ loans intended for housing purchase and denominated in foreign currency into the national currency.

Date	Contents
February 8	The Board of the National Bank approved the Joint Statement of the Government and the National Bank of the Kyrgyz Republic on the Main Directions of the Economic Policy for 2016.
February 10	The Board of the National Bank adopted the Resolution on approval of several regulatory legal acts in compliance with the Kyrgyz Republic Law “On Anti-Money Laundering and Counter-Terrorism (or Extremism) Financing”, as well as improvement of the quality and acceleration of the reporting provided by the exchange bureaus to the National Bank. The Board of the National Bank prohibited the financial-credit institutions to issue the consumer and mortgage loans in foreign currency to the borrowers-individuals, except for the persons carrying out business activity on the basis of a certificate or a patent, and the overdrafts on payment cards within the salary projects.
February 12	The license for carrying out banking operations with precious metals in the form of refined gold bullions issued by the National Bank was provided to OJSC “Kyrgyzkommertsbank”.
February 18-19	Visit of the consultants from the European Bank for Reconstruction and Development within the framework of the Project “Development Strategy of Mobile Financial Services”.
February 19	The license for carrying out activities of the payment system operator and payment organization was issued to LLC “ElMoney”. The National Bank participated as a shareholder at the general extraordinary meeting of the shareholders of CJSC “Inter-bank Processing Center (IPC) for consideration of additional shares issue.
February 22	The license for carrying out activities of the payment system operator and payment organization was issued to LLC “Instant Payments”.
February 24	The Board of the National Bank adopted: <ul style="list-style-type: none"> <li data-bbox="528 1480 1441 1552">– the Regulation “On measures applicable to operators of payment system/ payment organizations”; <li data-bbox="528 1554 1441 1648">– the Regulation “On pre-trial disputes settlement between the National Bank of the Kyrgyz Republic and the payment systems operators/payment organizations”.
February 29	The Board of the National Bank decided to keep unchanged the policy rate of the National Bank at 10.00 percent. Participation in the meeting of the Advisory Committee on macroeconomics of the Eurasian Economic Union member states, Moscow, Russia.
March 1	Press-conference held by the Chairman of the National Bank on the size of the policy rate, and on the monetary policy results for the fourth quarter of 2015. Regime of direct banking supervision was extended in OJSC “Rosinbank”.

Date	Contents
March 11	Holding of the 19 th meeting of the Interagency Commission on the increase of the share of non-cash payments and settlements in the Kyrgyz Republic and participation in it.
March 14-18	Visit of the World Bank Mission of the issues of the payment systems development.
March 14-23	Arrangement of events to improve the financial literacy of children and youth through participation of the Kyrgyz Republic in the Global Money Week.
March 16	<p>The Board of the National Bank approved the documents on licensing and regulation of activities implemented by the specialized financial-credit institutions.</p> <p>The license for electronic money issue was provided to OJSC “DOS-KREDOBANK”.</p> <p>Regime of conservation was extended OJSC “Ak Bank”.</p>
March 18	Regime of direct banking supervision was extended in CJSC “BTA Bank”.
March 23	The seminar entitled “Risks in the money transfer systems and payment card systems” was held together with the representatives of MoneyGram Company for representatives of the commercial banks of Osh and Batken regions in Osh city, Kyrgyz Republic.
March 28	The Board of the National Bank decided to decrease the policy rate of the National Bank by 200 basis points down to 8.00 percent.
March 29	Press conference held by the Chairman of the National Bank on the size of the policy rate and the situation in the foreign exchange market of the Kyrgyz Republic.
March 30	<p>The Board of the National Bank adopted:</p> <ul style="list-style-type: none"> – a new wording of the Regulation “On electronic money in the Kyrgyz Republic”; – the addenda and amendments to the Regulation “On licensing of banks’ activity”.
March 31	Participation in the meeting of the Advisory Committee on statistics of the the Eurasian Economic Union member states, Moscow, Russia.
April 5	The license for implementation of microfinance activities was issued to CJSC “Microfinance Company “Ayu finance”.
April 11	<p>The Board of the National Bank adopted the resolution on increase the size of microcredit for microcredit agencies.</p> <p>The Board of the National Bank Board approved the amendments and addenda related to applying enforcement actions to the banks and carrying out on-site inspections, taken with a view to bring the regulatory legal acts in line with the changes of the administrative legislation of the Kyrgyz Republic, as well as to further implement the risk-oriented supervision over the commercial banks.</p>

Date	Contents
	Regime of direct banking supervision was terminated in CJSC “BTA Bank”.
April 15	Regime of direct bank supervision was extended in OJSC RK “AMANBANK”.
April 15-17	The Chairman of the National Bank participated in the Spring Meetings of the World Bank and the International Monetary Fund.
April 20-28	Visit of the World Bank Mission within the framework of implementation of the Financial Sector Development Project.
April 21-May 4	Visit of the IMF Mission to carry out the second review of the economic program implementation supported by the Extended Credit Facility (ECF).
April 22	Participation in the 52 nd meeting of the Interstate Bank Council, Moscow, Russia.
April 27	The Board of the National Bank approved: <ul style="list-style-type: none"> – the addenda and amendments relating to applying the enforcement actions to the banks and direct banking supervision implementation; – the regulatory legal acts aimed at reducing the requirements for creating Loan Loss Provision (LLP). <p>The license to conduct banking operations with precious metals in the form of refined gold bullions issued by the National Bank was provided to OJSC “Aiyl Bank”.</p>
April 28	The National Bank participated as a shareholder at the annual general meeting of shareholders of CJSC “Interbank Processing Center”.
May 11	Press conference of the Chairman of the National Bank on the results of the project for selling of non-monetary gold bullions.
May 15-19	The representatives of the National Bank participated in the 41 st annual meeting of the IDB governing member states, Jakarta, Indonesia.
May 24-June 1	Visit of the IMF Mission within the framework of technical assistance on enhancing bank supervision.
May 25	The Board of the National Bank adopted: <ul style="list-style-type: none"> – the regulation on approval of the draft Law of the Kyrgyz Republic “On amendments to several legislative acts of the Kyrgyz Republic on payment systems”; – the amendments and addenda to the Regulation “On minimum requirements for the external audit of the banks and financial-credit institutions licensed by the National Bank of the Kyrgyz Republic”. <p>The Board of the National Bank reviewed the Financial Sector Stability Report of the Kyrgyz Republic for 2015.</p> <p>The license for electronic money issuance was provided to “FINCA Bank” CJSC.</p>

Date	Contents
May 27	Holding of the 20 th meeting of the Interagency Commission on the increase in the share of non-cash payments and settlements in the Kyrgyz Republic and participation in it.
May 30	The Board of the National Bank decided to decrease the policy rate of the National Bank by 200 basis points down to 6.00 percent.
	Participation in the meeting of the Advisory Committee on the financial markets of the Eurasian Economic Union member states, Tula, Russia.
May 30-June 3	Visit of the World Bank Mission to discuss the areas of cooperation in the field of developing the non-cash payment system of the Kyrgyz Republic and self-evaluation of the systemically important payment systems for compliance with international standards.
May 31	Press conference of the Chairman of the National Bank on the policy rate and the situation in the foreign exchange market of the Kyrgyz Republic.
June 1	The license for issue of electronic money was provided to “Bank Kompanion” CJSC.
	Participation in the 12th meeting of the Advisory Council on the monetary policy of the central (national) banks in the member states within the Eurasian Economic Union Agreement dated May 29, 2014, Almaty, Republic of Kazakhstan.
June 2	Regime of direct banking supervision was extended in OJSC “Rosinbank”.
June 8	The Jogorku Kenesh of the Kyrgyz Republic Adoption approved LLC “Deloitte and Touche” as an external auditor to audit the financial statements of the National Bank for 2016.
June 9	The training seminar entitled “Regulation and supervision over the payment systems in the Kyrgyz Republic. Electronic money. Fraud in the payment system” was held for the representatives of the commercial banks.
June 10	Holding the meetings of the Coordination Council for microfinance development, consideration of the report on fulfillment of the Action Plan for implementation of the Microfinance Development Strategy for 2011-2015 and the proposals for further prospects of microfinance development.
June 15	<p>The Board of the National Bank approved:</p> <ul style="list-style-type: none"> – the Risk Management Policy in the Payment System of the Kyrgyz Republic; – the resolution aimed at enhancing the effectiveness of the information provided by the commercial banks about 15 major sources of financing, interest rates, other property, as well as information on the funds balances on the accounts of public enterprises and public authorities, and the correspondent accounts in foreign currency within the Periodic Regulatory Bank Reporting (PRBO); – setting the addenda to the Periodic Regulatory Report (PRR) reflecting the data on the operations conducted by the MFOs as part of the “Islamic window”;

Date	Contents
	<ul style="list-style-type: none"> – the regulation on governing the microfinance companies in the territory of the Kyrgyz Republic. <p>The license to conduct banking operations with precious metals in the form of refined gold bullions issued by the National Bank was provided to OJSC “Commercial Bank KYRGYZSTAN” and OJSC “Bakai Bank”.</p> <p>Approval of the Program to improve the financial literacy of the population in the Kyrgyz Republic for 2016-2020, which was developed by the National Bank (Resolution of the Kyrgyz Republic Government No. 319).</p>
June 16-18	Participation in the 35 th meeting of the Club of Governors of Central Banks of Central Asia, the Black Sea region and the Balkans, Almaty, Republic of Kazakhstan.
June 23-24	Participation in the 34 th meeting of the Eurasian Council of Central (National) Banks, Brest, Republic of Belarus.
June 23-July 8	Visit of the World Bank Mission for implementation and further events on the Financial Sector Development Project.
June 27	The Board of the National Bank decided to keep unchanged the policy rate of the National Bank at 6.00 percent.
June 28	Introduction of direct banking supervision in OJSC “Eurasian Savings Bank”.
June 29	The Board of the National Bank adopted the addenda to the Regulation “On licensing of banks’ activity”.
June 30	Holding the 7 th meeting of the Retail Payments Council.
July 1	Automated system “Gathering information from the exchange bureaus”, which provided the receipt and processing of electronic reports from the exchange bureaus, was put into operation.
July 6	The licences for purchase and subsequent sale of debt instruments (factoring) was issued of LLC “MCC FRONTIERS”.
July 8-14	Visit of the IMF Mission to discuss the draft state budget for 2017 and to execute the reforms envisaged under the three-year program supported by the Extended Credit Facility (ECF).
July 9-11	The delegation of the National Bank of Switzerland headed by its Chairman visited the National Bank.
July 11	Holding of the 24 th meetings of the Interbank Payment System Council to discuss the issue of expanding infrastructure on receipt of the bank cards, and transfer of the budgetary organizations salaries to the national payment card “Elcard”.
July 12-13	Participation in the meeting of the Swiss group of IMF member states, Almaty, Republic of Kazakhstan.

Date	Contents
July 14	The Board of the National Bank adopted the Resolution “On suspending the validity of the requirement to provide information on the sources of working capital in the foreign exchange bureaus in order to simplify the procedure for obtaining a license for the right to conduct exchange operations with cash foreign currency until December 31, 2016”.
August 10	Termination of the interim governance regime on management of OJSC “Financial Company of Credit Unions”.
August 15	Presentation of the collection coins “World Nomad Games” and “25 th year anniversary of independence of the Kyrgyz Republic”.
August 19	The license for implementation of microfinance activities was issued to CJSC “Microfinance Company “Almaty Credit” due to reorganization of LLC MCC “Alma Credit” into the MFC.
August 24	<p>The Board of the National Bank approved of the amendments and addenda:</p> <ul style="list-style-type: none"> – to the Regulation “On minimum requirements for financial services rendering and consumers’ applications considering”; – to the Regulation “On licensing of the specialized financial-credit institutions’ activities relating to verification of the SFCIs for compliance with technical strengthening”; – to several regulatory legal acts in order to expand access to the financial-credit institutions, as well as to enhance the process of lending in the commercial banks, including carrying out operations in accordance with the Islamic principles of banking and financing, the microfinance organizations not attracting deposits and the credit unions. <p>The Board approved the Regulation “On licensing of credit bureaus”, which determines the order of the credit bureaus licensing in accordance with the Law of the Kyrgyz Republic “On exchange of credit information”.</p>
August 29	The Board of the National Bank decided to keep unchanged the policy rate of the National Bank at 6.00 percent.
August 30	The certificate of accounting registration was issued to CJSC “Microcredit Company “Raiffeisen.kg”.
September 5-9	The Bank of Lebanon participated in 3 rd conference 3 for issue and printing of coins and banknotes, Beirut, Lebanon.
September 14	The licenses to conduct banking operations with precious metals in the form of refined gold bullions issued by the National Bank and to issue electronic money was provided to CJSC “BTA Bank”.
September 15-28	Visit of the IMF Mission to carry out the third review of the economic program implementation supported by the Extended Credit Facility (ECF).
September 16	Regime of the direct banking supervision was extended in OJSC RK “AMANBANK”.

Date	Contents
September 19-26	Visit of the World Bank Mission for the payment systems development.
September 20	Press conference held by the National Bank management on introduction of chip cards for the national payment system “Elcard”.
September 26	The Board of the National Bank decided to keep unchanged the policy rate of the National Bank at 6.00 percent.
September 27-30	The third meeting of the Ministers of Finance and the heads of central banks of the SCO member states was held in Bishkek, Kyrgyz Republic.
September 28	<p>The Board of the National Bank approved:</p> <ul style="list-style-type: none"> – the regulation aimed at improving the effectiveness of information provided by the banks about 15 major funding sources, about other property, as well as the information on balances of monetary funds on the accounts of public enterprises and public authorities, and on the correspondent accounts in foreign currency; – the regulation within the framework of the pilot project aimed at providing opportunities to sell other property by the bank within the framework of financing and bringing it in conformity with the Shariah standards; – the rules regulating the activities of credit bureaus in the territory of the Kyrgyz Republic; – the documents related to the arrangement of activities on credit information sharing in the Kyrgyz Republic.
September 28-October 7	Visit of the World Bank Mission for implementation and further events within the framework of the Financial Sector Development Project.
	Visit of the World Bank Mission on the issues of counter-terrorism (extremism) financing and anti-money laundering.
September 29	Entry into force of the Law “On amendments to the Code of the Kyrgyz Republic on administrative responsibility” envisaging increased fines for violations of the banking law.
September 30	Holding the training seminar for the journalists entitled “Non-cash payments”.
	Participation in the meeting of the Advisory Committee on statistics of the Eurasian Economic Union member states, Minsk, Republic of Belarus.
October 1	Presentation of the collection coin “1000 th year anniversary of Zhusup Balasagyn”.
October 7	Holding the 21 st meeting of the Interagency Commission 21 to increase the share of non-cash payments and settlements in the Kyrgyz Republic and participation in it.
October 7-9	The representatives of the National Bank participated in the Annual meetings of the World Bank and the IMF.
October 10	Regime of direct banking supervision was terminated in OJSC “Rosinbank”.

Date	Contents
October 14	The Board of the National Bank approved amendments to the Regulation “On Periodic Regulatory Bank Report” and the Rules for remittances in the Kyrgyz Republic using money transfer systems.
October 17- November 2	Visit of the World Bank Mission for implementation and further events within the framework of the Financial Sector Development Project.
October 18-21	The Mission of the Asian Development Bank on the Investment Climate Improvement Program 2 (ICIP 2).
October 19	The seminar entitled “Risks in the money transfer systems and the payment card settlement systems” was held together with representatives of MoneyGram Company in Jalal-Abad, Kyrgyzstan, for the representatives of the commercial banks in Jalal-Abad oblast.
October 24	The license for carrying out activities of the payment system operator and payment organization was withdrawn from LLC “EPAY”.
October 26-27	Holding of the 35 th meetings of the Eurasian Council of Central (National) Banks, Bishkek, Kyrgyz Republic.
October 30- November 1	Participation in the 36 th meeting of the Club of Governors of Central Banks of Central Asia, the Black Sea region and the Balkans, Jerusalem, Israel.
November 9	Holding the 8 th meeting of the Retail Payments Council.
November 16	The Board of the National Bank approved the amendments to the Regulation “On periodic regulatory report of the banks implementing operations in accordance with the Islamic principles of banking and financing” No. 20/4 dated March 30, 2011;
November 17	The National Bank held the round-table meeting on the theme “Current status and further steps in implementing the Program for improving the financial literacy of the population in the Kyrgyz Republic for 2016-2020” with participation of the representatives from the Government Office, ministries and departments, as well as the civil society organizations and international organizations.
November 21	Participation in the 53 rd meeting of the Interstate Bank Council, Moscow, Russia.
November 22	The National Bank of the Kyrgyz Republic joined the working group for coordination of the national payment systems development and participation in the first meeting, Moscow, Russia.
November 24-25	Holding the 13 th meeting of the Advisory Council on the monetary policy of the central (national) banks in the member states within the Eurasian Economic Union Agreement dated May 29, 2014, Bishkek, Kyrgyz Republic.
November 28	The Board of the National Bank decided to decrease the policy rate of the National Bank by 50 basis points down to 5.50 percent.
November 29- December 1	Visit of the Director of the Center for Central Banks Technical Cooperation of the Deutsche Bundesbank.

Date	Contents
November 29	Press conference held by the Chairman of the National Bank on the policy rate.
November 30	<p>The Board of the National Bank adopted:</p> <ul style="list-style-type: none"> – the regulatory legal acts aimed at improving the quality of reporting on exchange operations with cash foreign currency carried out by the microfinance companies, microcredit companies, credit unions and exchange bureaus, as well as the amendments in the reporting procedure on the exchange operations to be provided to the National Bank; – the documents aimed at improving the procedures for funding, as well as ensuring the safety and security of credit information in the credit unions; – the Instruction “On carrying out inspections of the payment systems operators and payment organizations”. <p>The Board of the National Bank reviewed the Financial Sector Stability Report of the Kyrgyz Republic for the first half of 2016.</p> <p>The license for carrying out banking operations with precious metals in the form of refined gold bullions issued by the National Bank was provided to CJSC JSCB “Tolubay”.</p>
December 5	The license to carry out the activities of the credit union was issued to the Financial Cooperative “Credit Union “Nasyia Capital”.
December 6	Press conference on the banknotes with denomination of 200, 500 and 1000 soms to be put into practice since January 1, 2017.
December 8	Participation in the meeting of the Advisory Committee on the financial markets of the Eurasian Economic Union member states, Almaty, Kazakhstan.
December 14	<p>The Board of the National Bank adopted:</p> <ul style="list-style-type: none"> – the Statement of the National Bank of the Kyrgyz Republic on monetary policy for 2017; – the resolution, whereby amendments were introduced in the calculation of the liquidity norms, as well as the financial-credit institutions were prohibited to enter into the adopter agreement on a paid basis with an insider, affiliate and associated entity, as well as any other person/entity, who/which was the owner of the trademark, if the aforementioned persons/entities were partially or completely regarded as the beneficiaries under such agreement.
December 15	Holding of the 22 nd meeting of the Interagency Commission on the increase of the share of non-cash payments and settlements in the Kyrgyz Republic and participation in them.
December 16	The President of the Kyrgyz Republic signed by Laws of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” and “On Entry into Force of the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” aimed at reforming the banking legislation in order to provide further sustainable economic development of the Kyrgyz Republic. The laws were published in the “Erkin Too” newspaper on December 21, 2016 and will come into effect six months upon the day of official publication.

Date	Contents
December 19	The licenses to carry out the activities of the credit union was issued to the Financial Cooperative “Credit Union “Zhaiyl Finance”.
December 19-23	The Mission of the Asian Development Bank on the Investment Climate Improvement Program 2 (ICIP 2).
December 20	Presentation of the collection coins “Lightly armed warrior of the Kyrgyz kaganate” and “Fritillaria eduardii Regel (Aigul flower)”.
December 21	<p>The Board of the National Bank approved:</p> <ul style="list-style-type: none"> – the Regulation “On bank payment cards in the Kyrgyz Republic”; – the amendments and addenda to the following documents: <ul style="list-style-type: none"> • the Regulation “On operations of the commercial banks with precious metals”; • the Procedure of operations carried out by the commercial banks and other financial-credit institutions licensed and regulated by the National Bank of the Kyrgyz Republic with the collateral; • the Regulation “On licensing of banks’ activity”; • the regulations relating to the issues of money transfers in the form of a penalty to charities and entrusting the functions of control over the target use of these funds on the FCI Shariah Council; • the regulations establishing the requirements for forming the NFCI financial statements and submitting the reliable reporting by the non-bank financial-credit institutions for a wide range of users in order to increase the transparency of their activities.
December 22	<p>Regime of direct banking supervision was extended in OJSC “Eurasian Savings Bank”.</p> <p>The Chairman of the Central Bank of the Islamic Republic of Iran visited the National Bank.</p>
December 26	The Board of the National Bank decided to decrease the policy rate of the National Bank by 50 basis points down to 5.00 percent.
December 27	Press-conference held by the Chairman of the National Bank on the size of the policy rate.
December 28	<p>The Board of the National Bank approved:</p> <ul style="list-style-type: none"> – the amendments and addenda to the Resolution “On Instructions for considering the administrative offences in the sphere of banking legislation”; – the amendments and addenda to the Policy and the fundamental principles of antitrust regulation, development of competition and consumer right protection in the market of the Kyrgyz Republic on banking services provided by the commercial banks and other financial-credit institutions licensed and regulated by the National Bank of the Kyrgyz Republic; – the new edition of the Regulation “On enforcement actions applicable to the payment system operators/payment organizations”.

Appendix 2
to the Report of the National Bank of the Kyrgyz Republic for 2016

Statistical Information (tables and charts)

Tables

Table 1.	Macroeconomic Indicators
Table 2.	GDP Composition
Table 3.	Composition of Capital Investment by Sources of Financing
Table 4.	Monetary Base and Monetary Aggregates (end-of-period)
Table 5.	Analytical Balance of the National Bank of the Kyrgyz Republic (end-of-period)
Table 6.	External Economic Indicators
Table 7.	Monetary Policy Instruments
Table 8.	Policy rate of the National Bank of the Kyrgyz Republic (end-of-period)
Table 9.	Interest Rates of Deposits in National Currency (for the period)
Table 10.	Interest Rates of Deposits in Foreign Currency (for the period)
Table 11.	Interest Rates of Loans of Commercial Banks in National Currency (for the period)
Table 12.	Interest Rates of Loans of Commercial Banks in Foreign Currency (for the period)
Table 13.	Interest Rates of Loans of Non-bank Financial-Credit Institutions (end-of-period)
Table 14.	Annual Average Interest Rate of Interbank Credits
Table 15.	Balance of Payments of the Kyrgyz Republic
Table 16.	Structure of Public and Government Guaranteed External Debt of the Kyrgyz Republic by Creditors
Table 17.	Information of Authorized (Bank Stock) Capital of Commercial Banks (end-of-period)
Table 18.	Consolidated Regulatory Report of Commercial Banks of the Kyrgyz Republic
Table 19.	Information on Head Offices and Branches of Commercial Banks as at the end of 2016
Table 20.	Composition of Circulating Cash of Commercial Banks and Its Rate of Collection in 2016
Table 21.	Pattern of Payments in the Gross System of Settlements
Table 22.	Volume and Number of Clearing Payments by Regions
Table 23.	Information on Transactions with Payment Cards at Trade Outlets

Charts

Chart 1.	Rates of Growth of Real Gross Domestic Product
Chart 2.	Rates of Growth of Consumer and Producer Prices
Chart 3.	Monetary Aggregates M2X Structure
Chart 4.	Rates of Growth of Money Supply and Inflation
Chart 5.	Structure of Deposit Base of Commercial Banks (end-of-period)
Chart 6.	Interest Rates of Loans Issued by Commercial Banks and Policy Rate of the NBKR
Chart 7.	Interest Rates of Deposits of Commercial Banks and Yield of ST-Bills
Chart 8.	Nominal and Real Policy Rate Developments
Chart 9.	Nominal and Real Effective Exchange Rate Indices

Table 1.**Macroeconomic Indicators**

	unit of measurement	2012	2013	2014	2015	2016
Real sector						
Nominal GDP ¹	millions of KGS	310,471.3	355,294.8	400,694.0	430,489.4	458,027.4*
Rate of growth of real GDP ¹	percent	-0.1	10.9	4.0	3.9	3.8*
Rate of growth of industrial output ¹	percent	-20.3	35.9	-1.6	-3.1	5.2*
Rate of growth of gross agricultural output ¹	percent	1.2	2.7	-0.5	6.2	3.0*
Rate of growth of wholesale and retail trade; repair of motor vehicles and motorcycles ¹	percent	10.7	7.3	8.6	7.1	7.6*
Growth of CPI (in % December to December)		7.5	4.0	10.5	3.4	-0.5
- food products		4.5	1.8	13.9	-4.2	-5.0
- alcoholic beverages and tobacco products		10.2	7.3	12.3	12.4	4.3
- non-food products		9.8	6.3	6.8	12.3	1.6
- services		9.8	4.3	5.9	6.7	5.2
Growth of PPI ² (in % to the corresponding period of the previous year)		5.3	-2.1	1.5	8.8	6.4
Unemployment rate	percent	2.4	2.3	2.4	2.2	2.2
Average nominal wage	KGS	10,891.0	11,426.0	12,435.0	13,277.0	14,492.0
Estimated minimum subsistence level	KGS	4,341.2	4,599.2	4,981.5	5,183.0	4,794.3
Financial sector						
NBKR policy rate (end-of-period)	percent	2.64	4.17	10.50	10.00	5.00
State Treasury Bills Market (average yield for the period) with maturity of:						
- 3 months	percent	6.1	4.9	5.2	8.1	3.6
- 6 months	percent	8.5	6.5	8.8	12.1	8.1
- 12 months	percent	10.8	9.5	9.7	13.0	11.3
Interbank Domestic Market						
Credits in National Currency:						
- volume (for the period)	millions of KGS	1,357.6	1,843.3	563.4	1,059.0	1,852.0
- interest rate (average for the period)	percent	7.7	7.2	10.5	14.1	6.9
Credits in Foreign Currency:						
- volume (for the period)	millions of KGS	391.2	-	115.2	420.8	35.6
- interest rate (average for the period)	percent	1.6	-	0.5	1.4	2.0
Repo Operations						
- volume (for the period)	millions of KGS	5,942.0	8,680.6	49,459.7	32,077.1	4,515.2
- interest rate (average for the period)	percent	7.7	3.8	6.8	9.3	4.0
Foreign Exchange Market						
Non-cash Transactions at Interbank Foreign Exchange Auctions	millions of USD	1,010.8	1,144.1	1,583.0	1,212.1	757.3
Deposit and Credit Market						
Credits in National Currency:						
- volume (for the period)	millions of KGS	17,051.1	26,672.4	34,929.0	38,982.6	59,062.9
- interest rate (for December)	percent	23.9	21.7	22.4	24.2	22.2
- interest rate (end-of-period)	percent	22.9	20.7	19.6	22.8	22.2
Credits in Foreign Currency:						
- volume (for the period)	millions of KGS	21,000.1	32,626.6	44,610.5	39,454.9	36,881.4
- interest rate (for December)	percent	18.0	15.1	15.1	13.6	11.2
- interest rate (end-of-period)	percent	17.3	16.4	16.1	15.7	13.4
Deposits in National Currency:						
- volume (for the period)	millions of KGS	120,031.0	146,229.3	179,549.2	190,092.6	249,003.8
- interest rate (average for the period)	percent	2.3	2.3	2.5	2.5	2.4
- interest rate (end-of-period)	percent	5.2	5.6	6.9	7.2	6.5
Deposits in Foreign Currency:						
- volume (for the period)	millions of KGS	114,824.2	141,539.3	213,238.3	210,082.7	214,848.5
- interest rate (average for the period)	percent	0.8	0.8	0.9	1.1	0.6
- interest rate (end-of-period)	percent	2.9	2.8	3.2	3.5	2.7
State Budget						
Revenue	millions of KGS	86,772.1	101,802.1	119,378.7	128,100.3	130,569.6*
including the share of tax revenue	percent	73.7	71.6	69.2	66.1	71.8*
Expenditure	millions of KGS	100,023.1	86,599.7	95,584.6	105,252.9	115,948.1*
Net purchase of non-financial assets	millions of KGS	6,981.3	17,532.9	25,669.6	29,157.1	35,499.6*
Deficit (-) / Surplus (+)	millions of KGS	-20,232.3	-2,330.5	-1,875.5	-6,309.7	-20,878.1*
in percent of GDP	percent of GDP	-6.5	-0.7	-0.5	-1.5	-4.6*
External Economic Sector						
Export of goods and services	percent of GDP	55.3	54.0	45.9	37.9	36.7*
Import of goods and services	percent of GDP	100.3	93.2	88.6	75.1	71.2*
Current account balance ³ (including transfer)	percent of GDP	-15.8	-14.1	-17.2	-16.2	-9.6*
Gross international reserve assets	months of imports of next year goods and services	3.7	4.1	4.8	4.5	4.6*

* preliminary data

Source: NBKR, NSC KR, CT MF KR, Commercial banks of KR

¹ Indicators given by Gross Value Added² The data were recalculated in accordance with the State Classifier "Economic activities", version 3.³ - Positive balance – "+"; Negative balance – "-".

Table 2.
GDP Composition
(percents)

	2012	2013	2014	2015	2016*
Total	100.0	100.0	100.0	100.0	100.0
Agriculture, forestry and fishery	16.7	14.6	14.7	14.1	13.2
Extraction of minerals	0.9	0.7	0.7	0.8	1.0
Processing industry	12.1	15.8	13.7	14.1	14.8
Provision (supply) of electricity, gas, steam, and conditioned air	2.6	1.8	1.9	1.7	1.5
Water supply, waste treatment and production of secondary raw materials	0.2	0.3	0.3	0.2	0.2
Construction	6.5	6.3	7.4	8.4	8.5
Wholesale and retail trade; repair of motor vehicles and motorcycles	15.9	16.5	17.8	18.8	18.6
Transport operations and storage of goods	4.7	3.9	3.7	3.9	3.9
Hotel and restaurant activity	1.4	1.6	1.8	1.9	1.9
Information and communication	4.8	4.4	4.3	4.3	3.9
Financial intermediation and insurance	0.6	0.8	0.7	0.5	0.5
Real estate transactions	2.3	2.3	2.5	2.6	2.6
Professional, scientific and technical activities	1.7	1.5	1.7	1.6	1.4
Administrative and support service activities	0.4	0.4	0.5	0.4	0.4
Public administration and defense, compulsory social security	5.1	5.0	5.3	5.4	5.6
Education	6.0	5.3	4.9	5.3	6.2
Health care and social services to the population	3.4	3.1	2.8	2.8	3.0
Arts, entertainment and recreation	0.6	0.6	0.5	0.5	0.6
Other service activities	1.1	1.1	1.0	1.2	1.2
Net (less subsidies) taxes on products	13.1	13.9	14.0	11.8	11.0

* preliminary data

Source: NSC KR

The data were recalculated in accordance with the State Classifier "Economic activities", version 3.

Table 3.
Composition of Capital Investment by Sources of Financing
(percents)

	2012	2013	2014	2015	2016*
Total	100.0	100.0	100.0	100.0	100.0
Domestic investment	67.4	64.1	59.4	57.8	57.4
including those financed through:					
Republican budget	5.8	3.4	3.0	3.6	7.5
local budget	1.0	0.8	0.8	1.0	1.0
funds of enterprises and organizations	37.0	38.2	33.6	30.5	24.6
bank loans	0.5	0.3	0.5	0.9	0.04
public funds, including charitable aid to residents of the Kyrgyz Republic	23.1	21.5	21.4	21.8	24.4
Foreign investment	32.6	35.9	40.6	42.2	42.6
including those financed through:					
foreign loan	19.8	24.0	31.1	30.6	28.4
foreign direct investments	9.0	9.5	7.2	9.8	11.5
foreign grants and humanitarian aid	3.8	2.4	2.2	1.8	2.7

* preliminary data

Source: NSC KR

Table 4.**Monetary Base and Monetary Aggregates (end-of-period)***(millions of KGS)*

	2012	2013	2014	2015	2016
Monetary base	64,488.8	73,139.4	64,471.9	67,055.3	85,584.1
Currency in circulation	58,252.2	66,954.2	57,074.6	58,398.0	74,838.8
Money outside banks (M0)	54,521.2	61,907.2	51,904.1	53,118.0	69,338.8
Monetary aggregate (M1)	70,220.7	79,707.6	69,264.5	70,452.7	97,656.6
Money supply (M2)	77,460.6	90,962.7	82,386.4	82,267.2	115,444.1
Monetary aggregate (M2X)	98,482.9	120,903.4	124,544.4	143,143.0	164,017.4
Multiplier M1	1.09	1.09	1.07	1.05	1.14
Multiplier M2	1.20	1.24	1.28	1.23	1.35
Multiplier M2X	1.53	1.65	1.93	2.13	1.92
Velocity M1	5.10	4.90	5.37	6.45	5.58
Velocity M2	4.61	4.35	4.62	5.48	4.73
Velocity M2X	3.52	3.29	3.26	3.33	3.10
Money outside banks/Deposits	1.24	1.05	0.71	0.59	0.73
Deposits/Monetary Aggregate (M2X)	0.45	0.49	0.58	0.63	0.58

Source: NBKR, NSC KR, Commercial banks of KR;

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 residents' demand deposits in national currency; Money

supply (M2) = M1 + residents' 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)*

	2012	2013	2014	2015	2016
Net foreign assets	87,158.7	99,924.8	104,770.3	123,166.9	126,836.9
Net international reserves	93,046.0	106,115.8	105,935.6	108,489.7	121,249.6
Gold	7,721.1	6,885.7	8,992.4	10,932.2	11,810.1
Foreign currency (assets)	89,980.5	103,200.2	100,274.6	100,507.0	111,148.3
Foreign currency (liabilities)	-4,655.6	-3,970.1	-3,331.5	-2,949.5	-1,708.9
Other external assets	305.0	235.3	6,067.6	23,605.9	13,451.3
SDR allocation	-6,192.3	-6,426.3	-7,232.9	-8,928.6	-7,864.0
Long-term external liabilities	0.0	0.0	0.0	0.0	0.0
Net domestic assets	-22,669.9	-26,785.4	-40,298.4	-56,111.6	-41,252.8
<i>Net domestic credits</i>	-6,789.7	-13,496.8	-16,882.4	-20,283.0	-20,325.4
Net claims to General Government	-2,968.0	-6,973.9	-18,190.9	-13,714.2	-7,746.9
Net claims to Government	-2,968.0	-6,973.9	-18,190.9	-13,714.2	-7,746.9
Securities	2,311.2	1,511.6	1,453.6	1,402.0	312.5
Credits to Government in foreign currency	0.0	0.0	0.0	0.0	0.0
Deposits	-5,182.0	-8,425.7	-19,618.4	-15,104.6	-8,048.9
Budget accounts	-1,948.5	-6,015.0	-10,736.9	-11,620.9	-6,322.4
Counterpart funds	-141.2	0.0	0.0	0.0	0.0
Other Government accounts	-260.7	-1,927.1	-2,360.5	-712.8	-835.5
Government deposits in foreign currency	-2,831.7	-483.7	-6,520.9	-2,770.9	-891.0
Government Credit	-97.2	-59.7	-26.1	-11.6	-10.6
Net claims to special funds	0.0	0.0	0.0	0.0	0.0
Net claims to other depository corporations	-3,821.6	-6,522.9	1,308.8	-2,204.5	-10,993.1
Credits	1,150.2	1,204.7	4,115.6	5,119.5	5,718.6
including: "overnight" credits	0.0	0.0	0.0	0.0	0.0
credits in foreign currency	220.3	227.3	121.1	156.1	40.8
Securities	-3,843.6	-7,220.4	-1,325.7	-2,126.4	-5,243.4
including: notes issued by the NBKR	-3,046.9	-6,634.6	-1,325.7	-2,126.4	-5,243.4
securities under repo agreements	-796.7	-585.7	0.0	0.0	0.0
Deposits	-1,128.1	-507.2	-1,481.0	-5,197.5	-11,468.3
including: deposits in foreign currency	-1,128.1	-507.2	-606.5	-2,591.5	-3,910.8
Derivatives	0.0	0.0	0.0	0.0	0.0
Net claims to other financial institutions	-0.2	0.0	-0.3	-4,364.3	-1,585.3
<i>Capital account</i>	-17,133.1	-14,851.2	-25,090.3	-37,928.1	-24,178.1
<i>Other items</i>	1,253.0	1,562.6	1,674.3	2,099.5	3,250.7
Monetary base	64,488.8	73,139.4	64,471.9	67,055.3	85,584.1
Currency in circulation	58,252.2	66,954.2	57,074.6	58,398.0	74,838.8
Reserves of other depository corporations in national currency	6,236.6	6,185.2	7,397.3	8,657.3	10,745.3
<i>Reference:</i>					
Monetary base-broad definition	65,617.0	73,646.6	65,952.9	72,252.8	97,052.3
Currency in circulation	58,252.2	66,954.2	57,074.6	58,398.0	74,838.8
Reserves of other depository corporations	6,653.8	6,692.5	8,003.9	10,000.7	12,337.6
Reserves of other depository corporations in national currency	6,236.6	6,185.2	7,397.3	8,657.3	10,745.3
Reserves of other depository corporations in foreign currency	417.1	507.2	606.5	1,343.4	1,592.3
Deposits in foreign currency	711.0	0.0	874.5	3,854.1	9,876.0

Source: NBKR

Note: Methodology of the analytical balance sheet preparation complies with the concept and principles of the IMF Monetary and Financial Statistics Manual 200.

Table 6.

External Economic Indicators

	unit of measurement	2012	2013	2014	2015	2016*
Balance of Payments Indicators						
Total balance	<i>millions of USD</i>	184.3	101.2	-238.0	-41.4	344.3
	<i>percent of GDP²</i>	2.9	1.4	-3.2	-0.6	5.2
Current account balance ¹	<i>millions of USD</i>	-1,020.4	-1,016.1	-1,269.4	-1,058.6	-633.2
	<i>percent of GDP²</i>	-15.8	-14.1	-17.2	-16.2	-9.6
Export of goods (FOB)	<i>millions of USD</i>	2,588.3	2,833.2	2,482.7	1,619.0	1,594.2
	<i>percent of GDP²</i>	40.0	39.3	33.7	24.8	24.2
Import of goods (FOB)	<i>millions of USD</i>	5,165.1	5,613.6	5,290.2	3,859.8	3,680.0
	<i>percent of GDP²</i>	79.9	77.8	71.8	59.1	55.8
Gross international reserve assets	<i>months of next year import of goods and services</i>	3.7	4.1	4.8	4.5	4.6
Public External Debt						
Public External Debt ³	<i>millions of USD</i>	3,031.9	3,158.7	3,437.1	3,601.1	3,742.7
	<i>percent of GDP⁴</i>	47.0	44.4	50.9	64.5	56.6
	<i>percent of export of goods and services</i>	84.8	81.2	101.6	145.7	154.4
Public external debt servicing (actual)	<i>millions of USD</i>	94.9	95.1	115.5	130.0	144.8
	<i>percent of GDP²</i>	1.5	1.3	1.6	2.0	2.2
	<i>percent of export of goods and services</i>	2.7	2.4	3.4	5.3	6.0

* preliminary data

Source: NBKR, NSC KR, MF KR

¹ positive balance - "+", negative balance - "-".

² in the calculation of indicators dollar equivalent of GDP calculated on the average rate for the year was used.

³ including IMF loans.

⁴ according to NBKR estimates; in the calculation of indicators dollar equivalent of GDP calculated at the rate on the end of the year was used.

Table 7.
Monetary Policy Instruments

	unit of measurement	2012	2013	2014	2015	2016
NBKR Credits						
intraday credits	millions of KGS	680.0	-	4,345.6	139.4	-
"overnight" credits	millions of KGS	4,912.2	8,095.2	56,724.6	26,663.3	2,045.6
7-day credits	millions of KGS	-	-	1,100.0	-	-
credit auctions*	millions of KGS	-	900.9	3,260.0	1,475.0	1,440.0
maintaining liquidity to international organizations	millions of KGS	-	-	-	702.3	-
	millions of KGS	-	-	-	1,200.0	678.2
"Overnight" Deposits						
volume	billions of KGS	-	-	137.6	325.6	1,986.5
NBKR Policy Rate (end-of-period)	percent	2.6	4.2	10.5	10.0	5.0
NBKR Notes						
maturity:						
7 days						
sales volume	billions of KGS	1,347.8	2,280.0	68,172.6	67,139.7	102,293.4
average yield	percent	5.6	3.2	6.1	9.9	2.6
14 days						
sales volume	millions of KGS	2,608.8	1,234.5	-	800.0	8,000.0
average yield	percent	6.2	3.9	-	9.9	0.7
28 days						
sales volume	millions of KGS	24,591.1	41,050.6	10,583.6	-	-
average yield	percent	6.7	3.6	4.8	-	-
Open Market Transactions						
Direct repo transactions	millions of KGS	-	-	-	-	-
Reverse repo transactions	millions of KGS	7,676.3	3,225.8	421.4	-	-
NBKR Deposit Operations in Foreign Currency**						
volume	millions of USD	1,066.1	174.3	768.8	-	-
volume	thousands of Euro	-	0.4	1.2	-	-
NBKR Foreign Exchange Interventions						
Purchase	millions of USD	4.8	-	20.5	44.0	191.9
Sale	millions of USD	43.1	14.7	536.7	339.1	162.7
NBKR Foreign Exchange Swaps						
Purchase	millions of Euro	-	-	1.3	1.3	-
Sale	millions of Euro	-	-	-	-	-
Reserve Requirements						
Reserve requirement ratio (end-of-period)***	percent	9.0	9.0	9.0	-	-
in national currency	percent				4.0	4.0
in foreign currencies of the EAEU countries and the PRC	percent				4.0	4.0
in foreign currencies except for the EAEU countries and the PRC	percent				12.0	12.0
Required reserves (annual average)	millions of KGS	3,513.9	4,488.3	5,882.1	7,100.3	7,333.3
Excess reserves (annual average)	millions of KGS	2,126.9	2,333.8	1,095.6	740.0	1,369.9

Source: NBKR

* The amount of actually issued loans for a reporting period.

** The Regulation "On the Procedure of the National Bank of the Kyrgyz Republic for Deposit Banking in National Currency" of 28 March, 2013 No 10/12" was revoked by the Resolution of the Board of the National Bank of the Kyrgyz Republic of 14 November, 2014 No 50/2.

*** According to the Resolution of the Board of the National Bank of the Kyrgyz Republic dated 23 December, 2015 No 78/7 RR ratios are set separately by liabilities in national currency, in foreign currencies of the EAEU countries, the PRC and other countries.

Table 8.

Policy rate of the National Bank of the Kyrgyz Republic (end-of-period)
(percent)

	2012	2013	2014	2015	2016
January	12.20	3.05	4.11	11.00	10.00
February	10.41	2.83	4.47	11.00	10.00
March	9.56	2.98	6.00	11.00	8.00
April	9.07	2.88	6.00	11.00	8.00
May	8.04	2.96	6.00	9.50	6.00
June	6.77	3.20	6.00	9.50	6.00
July	5.69	4.09	6.50	8.00	6.00
August	4.89	4.16	6.50	8.00	6.00
September	4.25	4.25	7.00	10.00	6.00
October	3.78	4.20	9.00	10.00	6.00
November	3.16	4.18	10.00	10.00	5.50
December	2.64	4.17	10.50	10.00	5.00

Source: NBKR

Table 9.Interest Rates of Deposits in National Currency (for the period)
(percent)

	2012	2013	2014	2015	2016
Deposits of Legal Entities	2.15	2.02	2.54	2.47	2.15
<i>demand deposits</i>	<i>1.35</i>	<i>1.08</i>	<i>0.79</i>	<i>0.71</i>	<i>0.70</i>
<i>time deposits:</i>	<i>8.55</i>	<i>8.42</i>	<i>10.79</i>	<i>13.07</i>	<i>11.93</i>
<i>of which:</i>					
up to 1 month	5.81	4.01	4.21	7.68	6.26
1-3 months	5.49	5.84	7.21	7.65	6.59
3-6 months	6.91	7.09	7.51	11.10	10.39
6-12 months	11.53	11.76	13.61	16.23	13.42
over 1 year	12.50	12.32	12.55	15.01	14.46
Deposits of Individuals	2.42	2.49	2.44	2.41	2.51
<i>demand deposits</i>	<i>1.38</i>	<i>1.56</i>	<i>1.63</i>	<i>1.48</i>	<i>1.54</i>
<i>time deposits:</i>	<i>11.29</i>	<i>10.70</i>	<i>11.03</i>	<i>12.52</i>	<i>12.78</i>
<i>of which:</i>					
up to 1 month	4.06	3.76	3.48	4.75	5.51
1-3 months	6.29	5.76	6.00	6.96	6.30
3-6 months	9.74	9.10	8.87	9.77	9.65
6-12 months	12.52	11.90	12.02	13.21	13.42
over 1 year	14.27	13.41	13.37	14.30	15.09
Deposits on Non-residents	1.91	2.03	1.33	1.46	2.01
<i>demand deposits</i>	<i>0.11</i>	<i>0.18</i>	<i>0.05</i>	<i>0.01</i>	<i>0.08</i>
<i>time deposits:</i>	<i>10.43</i>	<i>10.66</i>	<i>10.96</i>	<i>11.31</i>	<i>13.31</i>
<i>of which:</i>					
up to 1 month	5.40	5.68	7.04	5.36	6.53
1-3 months	6.74	6.23	5.75	5.84	7.92
3-6 months	9.32	8.45	8.62	9.00	9.79
6-12 months	12.13	11.48	11.80	12.36	13.00
over 1 year	14.09	13.06	12.92	14.62	15.18
Average Weighted Rate	2.32	2.33	2.49	2.46	2.42

Source: Commercial banks of KR

Table 10.Interest Rates of Deposits in Foreign Currency (for the period)
(percent)

	2012	2013	2014	2015	2016
Deposits of Legal Entities	0.53	0.73	0.87	0.99	0.28
<i>demand deposits</i>	<i>0.28</i>	<i>0.28</i>	<i>0.28</i>	<i>0.17</i>	<i>0.09</i>
<i>time deposits:</i>	<i>4.94</i>	<i>4.06</i>	<i>3.83</i>	<i>4.84</i>	<i>3.16</i>
<i>of which:</i>					
up to 1 month	2.90	1.36	2.48	1.73	2.23
1-3 months	4.48	3.08	2.46	2.10	1.95
3-6 months	3.32	4.37	3.57	3.92	2.20
6-12 months	7.58	5.74	5.39	5.17	3.65
over 1 year	6.41	7.34	7.24	7.90	4.27
Deposits of Individuals	1.00	0.84	0.92	1.19	0.97
<i>demand deposits</i>	<i>0.10</i>	<i>0.07</i>	<i>0.11</i>	<i>0.10</i>	<i>0.27</i>
<i>time deposits:</i>	<i>6.96</i>	<i>6.41</i>	<i>6.43</i>	<i>6.53</i>	<i>4.99</i>
<i>of which:</i>					
up to 1 month	1.69	1.54	1.44	1.86	3.67
1-3 months	4.02	3.32	2.94	3.05	3.89
3-6 months	6.40	5.75	5.39	4.62	3.44
6-12 months	8.71	7.97	7.42	6.53	5.42
over 1 year	10.23	9.82	8.86	8.54	5.50
Deposits on Non-residents	0.36	0.51	0.53	1.06	0.64
<i>demand deposits</i>	<i>0.02</i>	<i>0.03</i>	<i>0.00</i>	<i>0.01</i>	<i>0.11</i>
<i>time deposits:</i>	<i>6.93</i>	<i>6.43</i>	<i>6.86</i>	<i>7.03</i>	<i>4.90</i>
<i>of which:</i>					
up to 1 month	1.96	1.40	1.21	2.54	6.81
1-3 months	4.36	3.17	3.48	2.62	3.44
3-6 months	6.39	4.94	5.65	4.50	2.50
6-12 months	7.92	7.23	7.31	6.85	5.63
over 1 year	8.99	9.14	8.64	8.09	5.36
Average Weighted Rate	0.78	0.77	0.86	1.09	0.63

Source: Commercial banks of KR

Table 11.Interest Rates of Loans of Commercial Banks in National Currency (for the period)
(percent)

	December 12	December 13	December 14	December 15	December 16
Average Weighted Rate	23.9	21.7	22.4	24.2	22.2
Industry	23.9	14.4	16.0	17.4	14.6
Agriculture	25.8	22.8	24.1	23.9	24.2
Transport and communication	23.3	22.9	25.4	22.1	22.5
Trade	22.7	21.2	20.4	23.3	20.0
Procurement and processing	25.8	28.4	17.1	13.1	18.1
Construction	24.5	17.8	21.4	23.2	20.1
Mortgage	24.1	19.6	19.2	20.1	14.5
Consumer loans	27.9	25.6	28.1	31.5	28.9
Other	16.9	19.0	19.9	25.4	22.4
of which:					
up to 1 month	32.7	25.8	20.6	21.4	20.9
Industry	-	15.0	13.8	17.0	16.1
Agriculture	-	-	-	-	-
Transport and communication	-	-	-	-	-
Trade	35.0	16.3	15.0	16.7	16.6
Procurement and processing	-	-	-	-	-
Construction	-	13.0	-	-	-
Mortgage	-	-	-	-	-
Consumer loans	32.1	31.7	30.2	30.1	28.2
Other	19.1	-	-	23.6	21.2
1-3 months	12.7	16.2	15.5	11.3	23.2
Industry	-	15.0	-	-	26.0
Agriculture	30.0	31.2	21.1	29.6	25.5
Transport and communication	-	30.0	-	-	-
Trade	20.7	29.6	26.3	22.2	20.1
Procurement and processing	-	-	-	-	-
Construction	-	13.0	-	-	-
Mortgage	-	-	-	0.0	15.0
Consumer loans	42.3	28.2	29.1	29.7	28.7
Other	9.4	25.9	14.8	27.3	25.6
3-6 months	28.3	19.4	24.4	26.3	29.3
Industry	30.0	-	-	10.3	13.5
Agriculture	26.7	28.8	28.7	19.2	32.7
Transport and communication	-	-	29.7	33.4	31.2
Trade	28.1	28.0	20.4	21.4	29.1
Procurement and processing	35.0	-	-	-	-
Construction	24.9	13.0	23.0	34.6	24.5
Mortgage	34.0	-	-	-	35.3
Consumer loans	30.1	29.8	31.1	33.9	32.8
Other	27.3	23.0	24.4	20.4	28.5
6-12 months	27.1	26.0	20.8	27.7	27.0
Industry	26.8	16.2	20.3	20.6	15.3
Agriculture	30.0	25.4	20.0	23.0	23.1
Transport and communication	27.9	25.6	28.8	33.3	28.5
Trade	24.8	25.3	18.0	27.7	25.9
Procurement and processing	30.7	28.8	34.3	27.9	28.0
Construction	29.6	27.3	28.1	33.0	21.0
Mortgage	33.2	30.4	25.4	24.0	25.8
Consumer loans	29.9	28.8	30.2	33.5	32.1
Other	19.5	25.4	26.3	28.7	27.6
over 1 year	22.8	20.9	23.8	24.1	21.2
Industry	23.4	14.1	17.2	17.5	14.3
Agriculture	24.3	22.1	26.2	24.3	24.5
Transport and communication	23.0	22.6	25.2	21.5	22.1
Trade	22.0	21.0	23.0	24.2	20.6
Procurement and processing	24.8	27.9	14.3	12.3	18.0
Construction	24.3	20.3	20.9	23.0	20.0
Mortgage	23.5	19.5	19.1	24.0	14.5
Consumer loans	24.6	22.3	25.9	30.6	26.8
Other	18.5	18.2	25.1	25.2	21.4

Source: Commercial banks of KR

Table 12.

Interest Rates on Loans of Commercial Banks in Foreign Currency (for the period)

(percent)

	December 12	December 13	December 14	December 15	December 16
Average Weighted Rate	18.0	15.1	15.1	13.6	11.2
Industry	13.6	14.2	12.8	13.6	9.8
Agriculture	17.8	17.6	20.4	13.2	8.1
Transport and communication	21.2	19.2	18.9	15.3	12.6
Trade	20.7	14.7	14.6	13.2	11.6
Procurement and processing	-	20.0	13.0	12.6	-
Construction	12.5	13.9	13.2	15.2	12.0
Mortgage	18.1	17.1	18.5	14.1	13.4
Consumer loans	20.0	18.0	19.1	16.1	16.8
Other	14.8	14.4	15.4	14.2	11.0
of which:					
up to 1 month	34.2	12.8	12.8	12.6	12.1
Industry	-	15.3	14.2	14.1	13.4
Agriculture	-	-	-	-	-
Transport and communication	-	-	-	-	-
Trade	36.0	12.7	12.4	12.4	11.9
Procurement and processing	-	-	-	-	-
Construction	-	-	-	-	-
Mortgage	-	29.5	26.0	10.6	-
Consumer loans	19.1	14.6	17.4	13.8	12.8
Other	0.0	-	-	-	-
1-3 months	15.6	14.4	12.1	13.0	16.7
Industry	-	22.1	18.0	13.0	-
Agriculture	-	-	-	-	-
Transport and communication	-	-	-	-	-
Trade	14.5	13.8	14.5	23.0	20.0
Procurement and processing	-	-	-	-	-
Construction	-	-	0.0	-	-
Mortgage	19.1	-	-	-	-
Consumer loans	21.0	14.0	22.9	16.0	14.0
Other	14.0	14.3	17.7	-	-
3-6 months	14.3	13.2	12.6	15.4	12.6
Industry	-	13.3	14.0	14.0	13.0
Agriculture	-	20.0	26.0	-	-
Transport and communication	34.0	-	-	-	-
Trade	15.5	15.0	12.3	15.4	12.3
Procurement and processing	-	-	-	-	-
Construction	-	10.5	-	-	-
Mortgage	20.3	-	-	23.0	-
Consumer loans	18.3	21.3	23.1	18.7	-
Other	13.2	-	27.0	15.6	17.4
6-12 months	15.1	15.7	16.9	15.2	14.6
Industry	12.6	14.3	15.3	14.2	14.8
Agriculture	27.3	21.7	23.3	26.9	16.0
Transport and communication	22.7	18.4	22.8	22.0	-
Trade	14.9	16.8	17.6	14.8	14.2
Procurement and processing	-	-	-	-	-
Construction	15.3	9.4	12.9	-	18.0
Mortgage	20.3	15.7	16.0	16.9	10.0
Consumer loans	21.6	19.5	21.6	22.0	25.5
Other	19.8	16.9	15.0	14.5	14.0
over 1 year	15.8	15.6	15.7	14.0	10.9
Industry	14.0	14.1	12.4	13.3	9.4
Agriculture	17.2	17.5	20.2	13.2	7.2
Transport and communication	21.0	19.2	18.8	15.3	12.6
Trade	16.3	15.4	15.5	13.7	11.4
Procurement and processing	-	20.0	13.0	12.6	-
Construction	12.4	14.7	14.8	15.2	11.9
Mortgage	17.5	17.1	18.5	15.1	13.5
Consumer loans	19.6	18.1	19.1	18.4	17.5
Other	16.6	14.4	15.4	14.2	11.0

Source: Commercial banks of KR

Table 13.Interest Rates on Loans of Non-bank Financial-Credit Institutions (end-of-period)
(percent)

	2012	2013	2014	2015	2016
Microfinance organizations	34.9	31.0	30.0	32.2	31.4
<i>of which lent to:</i>					
Industry	32.5	27.9	26.3	26.9	25.8
Agriculture	36.5	31.9	31.5	33.2	31.7
Transportation	26.8	25.2	25.6	24.6	26.7
Communication	30.0	28.0	30.0	35.3	39.7
Trade and commerce	35.7	31.1	29.6	32.6	31.0
Procurement and processing	12.3	13.3	23.7	20.5	13.7
Construction and mortgage	29.9	30.4	24.2	31.0	33.3
Services	39.2	34.7	32.4	34.0	33.8
Consumer loans	41.7	34.0	32.6	34.2	34.1
Loans to financial-credit institutions	17.5	18.4	18.9	21.2	21.0
Other	31.5	26.3	26.6	22.9	26.9
Credit Unions	29.1	27.3	25.6	27.9	27.8
<i>of which lent to:</i>					
Industry	31.1	29.2	29.0	30.0	31.7
Agriculture	28.3	25.8	25.7	27.7	28.3
Transport and communication	26.8	25.7	25.2	25.6	25.4
Trade and commerce	28.6	28.0	24.4	27.5	27.0
Procurement and processing	28.7	27.0	25.5	26.7	29.3
Construction and mortgage	26.0	25.1	24.0	22.8	23.4
Services	29.6	34.7	26.6	26.9	31.3
Other	33.7	28.7	28.7	31.1	29.8
SFCI OJSC "FC CU"	15.9	15.4	15.9	16.5	16.6

Source: Non-bank Financial-Credit Institutions of KR

Table 14.Annual Average Interest Rate of Interbank Credits
(percent)

	2012	2013	2014	2015	2016
Interbank Repo Operations	7.7	3.8	6.8	9.3	4.0
up to 1 day	8.1	3.8	6.8	8.9	4.8
2 - 7 days	7.7	3.7	6.8	9.2	3.7
8 - 14 days	7.5	4.3	7.7	10.1	4.6
15 - 30 days	-	-	9.5	10.7	1.5
31 - 60 days	-	7.5	-	-	-
61 - 90 days	-	-	-	-	-
91 - 180 days	-	-	-	-	-
181 - 360 days	-	-	-	-	-
over 360 days	-	-	-	-	-
Interbank Credits in National Currency	7.7	7.2	10.5	14.1	6.9
up to 1 day	5.0	-	-	-	-
2 - 7 days	7.3	3.9	7.0	11.0	8.3
8 - 14 days	8.3	3.0	11.8	13.0	3.3
15 - 30 days	9.0	6.5	-	-	6.7
31 - 60 days	10.1	-	-	13.0	2.0
61 - 90 days	-	-	-	-	10.0
91 - 180 days	9.6	7.4	7.5	-	12.0
181 - 360 days	6.5	7.7	9.8	18.0	10.6
over 360 days	6.5	9.8	-	-	-
Interbank Credits in Foreign Currency	1.6	-	0.5	1.4	2.0
up to 1 day	2.6	-	-	-	-
2 - 7 days	1.2	-	0.5	1.4	2.0
8 - 14 days	0.0	-	-	-	2.0
15 - 30 days	0.0	-	-	-	-
31 - 60 days	-	-	-	-	-
61 - 90 days	-	-	-	-	-
91 - 180 days	-	-	-	-	-
181 - 360 days	-	-	-	-	-
over 360 days	-	-	-	-	-

Source: Commercial banks of KR

Note: interest rates are specified without taking account the transactions with non-residents.

Table 15.
Balance of Payments of the Kyrgyz Republic
(millions of USD)

	2012	2013	2014	2015	2016*
Current Account	-1,020.4	-1,016.1	-1,269.4	-1,058.6	-633.2
Goods and services	-2,912.6	-2,831.1	-3,138.0	-2,428.7	-2,273.8
Trade balance	-2,576.8	-2,780.4	-2,807.5	-2,240.8	-2,085.8
Export (FOB) ¹	2,588.3	2,833.2	2,482.7	1,619.0	1,594.2
CIS	1,760.0	1,810.7	1,480.6	711.5	624.2
Non-CIS	828.3	1,022.4	1,002.1	907.4	970.0
Import (FOB)	5,165.1	5,613.6	5,290.2	3,859.8	3,680.0
CIS	2,689.4	2,787.1	2,580.4	2,078.7	1,574.4
Non-CIS	2,475.7	2,826.5	2,709.8	1,781.1	2,105.6
Balance of Services	-335.8	-50.7	-330.5	-187.9	-188.0
Transportation services	-461.7	-358.0	-450.4	-257.2	-233.5
Travels	84.5	179.2	32.6	26.4	-28.4
Other services	62.4	148.8	107.2	62.9	93.9
Technical assistance	-21.0	-20.7	-20.0	-20.0	-20.0
Income	-169.3	-423.0	-307.2	-258.0	-263.0
Income from direct investment	-110.8	-348.1	-223.2	-191.0	-183.9
Income from portfolio investment	0.0	0.0	0.0	0.0	0.0
Income from other investment	-29.7	-53.0	-60.6	-49.1	-63.1
Interest on credits	-46.8	-70.0	-78.6	-66.5	-67.5
Other income on other investment	17.1	16.9	18.0	17.4	4.4
Labor remuneration	-28.8	-21.8	-23.3	-18.7	-16.0
Current transfers	2,061.5	2,238.0	2,175.8	1,628.1	1,903.6
Official transfers	63.2	84.1	133.7	113.2	83.8
Private transfers	1,998.3	2,153.9	2,042.1	1,514.9	1,819.8
Capital and Financial Account	872.2	986.3	616.9	792.8	599.9
Capital account	166.1	280.3	65.8	79.1	111.1
Capital transfers	166.1	280.3	65.8	79.1	111.1
Financial account	706.1	706.0	551.1	713.7	488.8
Other investment ¹	292.9	626.1	232.9	1,009.1	429.9
Portfolio investment	5.7	4.8	0.1	-129.0	-10.0
Financial derivatives	-0.4	-0.1	-0.5	5.3	19.3
Other investment	407.9	75.2	318.7	-171.7	49.7
Assets ("-" increase)	98.7	-250.7	-472.5	-410.2	-42.0
Commercial banks	-8.2	-81.5	-21.7	-157.1	92.9
Accounts receivable	-33.1	-28.7	-184.0	-26.2	-109.0
Accounts of enterprises abroad	181.0	2.5	-24.6	-201.3	-193.5
Other assets	-40.9	-143.0	-242.2	-25.6	167.5
Liabilities ("+" increase)	309.2	325.9	791.2	238.5	91.7
Commercial banks	8.6	24.7	21.1	5.3	-36.6
Loans	353.5	191.6	699.1	232.6	101.7
Loans to public sector	285.4	177.8	442.6	260.5	263.1
Loans to private sector	68.1	13.8	256.5	-28.0	-161.3
Accounts payable	-53.0	109.6	71.0	0.6	26.5
Other liabilities	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	332.5	131.0	414.6	224.4	377.5
Total Balance	184.3	101.2	-238.0	-41.4	344.3
Financing	-184.3	-101.2	238.0	41.4	-344.3

* preliminary data

Source: NBKR, NSC KR, MF KR other organizations

¹ including NBKR additional estimates.

Table 16.

Structure of External Public and Government Guaranteed Debt of the Kyrgyz Republic by Creditors
(millions of USD)

	2012	2013	2014	2015	2016
External Public and Government Guaranteed Debt (1+2+3):	3,031.9	3,158.7	3,437.1	3,601.1	3,742.7
1. Multilateral debt:	1,567.5	1,629.8	1,558.9	1,531.3	1,523.8
World Bank	674.8	697.1	671.5	639.3	618.2
Asian Development Bank	594.6	607.1	583.6	575.4	567.9
International Monetary Fund	190.5	202.7	185.2	188.2	188.0
Islamic Development Bank	61.7	64.0	59.0	59.5	64.6
European Bank for Reconstruction and Development	29.6	40.0	40.6	41.0	42.5
International Fund for Agricultural Development	8.9	9.0	9.4	9.9	12.2
Nordic Development Fund	5.9	6.1	5.2	4.6	4.3
OPEC	1.3	3.9	4.0	4.5	4.8
Eurasian Development Bank	-	-	0.4	3.5	5.5
European Union	-	-	-	5.4	15.8
2. Bilateral Debt:	1,464.4	1,528.9	1,878.2	2,069.7	2,219.0
2.1. CIS countries:	489.0	300.0	300.0	300.0	270.0
Russia	488.9	300.0	300.0	300.0	270.0
Belarus	0.1	-	-	-	-
2.2. other:	975.4	1,228.9	1,578.2	1,769.7	1,949.0
China	527.5	758.4	1,115.9	1,296.4	1,482.8
Japan	320.6	263.1	229.4	229.0	236.0
Germany	81.3	98.4	102.4	100.1	81.7
Korea	15.9	17.4	16.7	15.6	15.1
Kuwait Fund	10.7	9.3	8.6	9.7	8.6
Turkey	10.0	70.5	90.0	97.0	97.0
France	5.9	6.1	5.4	4.8	4.7
Denmark	3.3	3.3	3.3	3.2	3.1
Saudi Development Fund	0.2	1.3	3.9	7.4	11.2
UAE	-	1.1	2.6	6.4	8.8
3. Government guaranteed external debt	-	-	-	-	-

Source: MF KR

Table 17.
Information on Authorized (Stock) Capital of Commercial Banks (end-of-period)
(millions of KGS)

	2012			2013			2014			2015			2016		
	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c
Total	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	16,188.4	16,088.4	6,885.7	19,047.2	18,977.2	8,349.0
1 OJSC "Ayl Bank"	600.0	600.0	0.0	600.0	600.0	0.0	600.0	600.0	0.0	1,797.5	1,697.5	0.0	1,922.3	1,922.3	0.0
2 OJSC RK "AMANBANK"	372.0	372.0	0.1	372.0	372.0	0.1	600.0	600.0	0.1	680.0	680.0	0.1	750.0	680.0	0.1
3 OJSC "Bank of Asia"	230.4	230.4	179.0	271.0	230.4	179.0	299.7	271.0	210.5	335.6	335.6	260.8	400.0	400.0	310.8
4 CJSC Bank "Bai-Tushum"	615.0	615.0	245.1	715.0	715.0	329.9	715.0	715.0	329.9	715.0	715.0	329.9	790.0	790.0	404.9
5 OJSC "BAKAI BANK"	326.5	326.5	0.0	339.9	339.9	0.0	384.9	384.9	0.0	475.9	475.9	0.0	482.8	482.8	0.0
6 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	710.0	1,000.0	1,000.0	710.0
7 CJSC "Demir Kyrgyz International Bank"	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	132.5	300.0	300.0	300.0	400.0	400.0	400.0
8 OJSC "DOS-KREDOBANK"	270.7	270.7	0.0	270.7	270.7	0.0	304.4	304.4	0.0	304.4	304.4	0.0	404.4	404.4	0.0
9 OJSC "Eurasian Savings Bank"	300.0	300.0	0.1	300.0	300.0	119.9	300.0	300.0	119.9	300.0	300.0	156.9	300.0	300.0	156.9
10 OJSC IB "Issyk-Kul" ¹	271.0	271.0	0.3	271.0	271.0	0.3	271.0	271.0	0.3	-	-	-	-	-	-
11 OJSC "Capital Bank"	255.0	255.0	0.0	310.1	310.1	0.0	310.1	310.1	0.0	382.6	382.6	0.0	432.9	432.9	0.0
12 CJSC "Bank Kompanion" ²	-	-	-	242.4	242.4	242.4	242.4	242.4	242.4	422.4	422.4	422.4	1,000.6	1,000.6	1,000.6
13 CJSC "Kyrgyz-Swiss Bank"	-	-	-	861.8	861.8	775.6	1,030.5	1,030.5	927.5	1,328.2	1,328.2	1,195.4	1,211.5	1,211.5	1,090.4
14 CJSC "Kyrgyz Investment Credit Bank"	829.5	829.5	746.6	153.5	147.0	153.5	153.5	153.5	147.0	300.0	300.0	0.1	400.0	400.0	0.1
15 OJSC "Kyrgyzkommertsbank" ³	153.5	153.5	147.0	622.2	622.2	0.0	782.0	782.0	0.0	921.3	921.3	0.0	1,080.8	1,080.8	0.0
16 OJSC "Commercial Bank KYRGYZSTAN"	521.1	521.1	0.0	377.7	377.7	377.7	377.7	377.7	377.7	-	-	-	-	-	-
17 CJSC "Manas Bank" ⁴	377.7	377.7	377.7	700.0	700.0	680.0	700.0	700.0	680.0	700.0	700.0	680.0	1,050.0	1,050.0	1,020.0
18 OJSC "Optima Bank"	700.0	700.0	680.0	40.9	40.9	36.8	40.9	40.9	36.8	647.2	647.2	582.5	647.2	647.2	356.4
19 OJSC "Rosinbank"	40.9	40.9	0.0	1,244.0	1,244.0	0.0	1,244.0	1,244.0	0.0	1,741.0	1,741.0	0.0	1,846.0	1,846.0	0.0
20 OJSC "RSK Bank"	1,244.0	1,244.0	0.0	235.0	235.0	3.9	268.0	268.0	4.4	322.0	322.0	5.2	412.0	412.0	6.3
21 CJSC JSCB "Tolubay"	200.0	200.0	3.4	300.0	300.0	54.5	300.0	300.0	54.5	1,353.8	1,353.8	1,353.8	550.0	550.0	0.0
22 OJSC "FinanceCreditBank KAB"	300.0	300.0	54.5	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2
23 CJSC "FINCA Bank" ⁵	-	-	-	387.4	387.4	0.0	407.4	407.4	0.0	427.3	427.3	0.0	512.3	512.3	38.3
24 OJSC "Halyk Bank Kyrgyzstan"	534.2	534.2	534.2	201.5	201.5	201.5	201.5	201.5	201.5	300.0	300.0	300.0	400.0	400.0	400.0
25 OJSC "Chang An Bank" ⁶	-	-	-	-	-	-	-	-	-	600.0	600.0	600.0	600.0	600.0	0.0
26 CJSC "EcolislamicBank"	372.4	372.4	0.0	201.5	201.5	201.5	201.5	201.5	201.5	201.5	201.5	201.5	201.5	201.5	201.5
27 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

Source: Commercial banks of KR

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

¹ After 3 June, 2015 banking license was revoked.

² Upon reorganization of CJSC MFC "Financial Group Kompanion", bank CJSC "Bank Kompanion" was established, which was provided with the licenses on 12 January, 2016 for carrying out banking operations in national and foreign currencies.

³ After 17 June, 2015 OJSC "Kazkommertsbank Kyrgyzstan" was renamed as OJSC "Kyrgyzkommerts".

⁴ After 23 June, 2015 banking license was revoked.

⁵ Upon reorganization of CJSC "Microcredit Company "Finca", bank "FINCA Bank" CJSC was established, which was provided with the licenses on 3 March, 2015 for carrying out banking operations in national and foreign currencies.

⁶ On 7 October, 2015 OJSC "Investment Bank "Chang An" was provided with the licenses for carrying out banking operations in national and foreign currencies.

Table 18.**Consolidated Regulatory Report of Commercial Banks of the Kyrgyz Republic***(millions of KGS)*

	2012	2013	2014	2015	2016*
ASSETS					
Cash assets	8,114.2	8,705.2	11,482.9	10,748.1	13,289.3
Correspondent account with the NBKR	6,650.3	6,685.5	7,935.4	9,852.1	12,303.3
Correspondent accounts with other banks	7,691.7	11,157.9	12,923.6	26,991.2	15,960.5
Deposits in other banks	3,240.4	5,649.6	3,975.7	9,719.1	7,571.3
Securities portfolio	8,892.3	10,285.0	6,444.5	7,710.7	13,044.9
Securities purchased under repo agreements	819.3	584.4	209.1	325.3	15.1
"Net" loans and financial lease	39,477.8	54,672.8	78,524.0	90,804.2	87,108.1
Loans and financial lease to finance and credits institutions ¹	2,124.9	3,724.6	3,779.4	3,179.8	1,245.3
Loans and financial lease to clients ²	40,105.4	53,961.6	78,756.3	93,953.5	93,499.0
(less) Special LLP for credits and financial lease	-2,752.5	-3,013.3	-4,011.8	-6,329.1	-7,636.2
Fixed assets	5,396.8	6,033.8	6,546.6	7,684.8	9,172.7
Investment and financial participation	88.8	149.4	208.9	228.0	291.6
Other assets	7,074.8	7,168.3	9,370.4	13,964.5	19,421.0
TOTAL: ASSETS	87,446.5	111,092.0	137,621.0	178,028.2	178,177.8
LIABILITIES					
Liabilities to the NBKR	739.0	850.2	3,735.1	4,686.8	5,515.0
Settlement accounts and deposits of banks	2,743.9	3,908.6	3,611.5	7,068.1	2,216.1
Resident banks	980.1	1,296.1	423.2	3,300.6	382.1
Non-resident banks	1,763.8	2,612.5	3,188.4	3,767.4	1,834.0
Settlement accounts	18,507.1	21,309.9	24,941.3	29,233.5	34,522.2
Settlement accounts of finance and credit institutions	988.3	1,129.8	1,233.5	841.8	687.7
Settlement accounts of clients ³	17,518.8	20,180.1	23,707.8	28,391.7	33,834.5
Demand deposits	11,138.2	15,222.6	16,115.8	21,805.7	24,574.6
Demand deposits of finance and credit institutions	1,164.0	1,860.4	1,384.3	719.7	368.0
Demand deposits of clients ³	9,974.2	13,362.2	14,731.5	21,086.0	24,206.6
Time deposits	14,000.8	22,048.6	31,059.8	38,315.3	34,865.1
Time deposits of finance and credit institutions	412.7	550.1	1,880.8	889.5	665.4
Time deposits of clients ³	13,588.1	21,498.5	29,178.9	37,425.8	34,199.7
Deposits of non-residents ⁴	2,199.9	2,719.8	4,165.0	6,415.1	5,862.0
Government deposits	4,805.3	6,033.3	6,252.8	7,108.1	7,255.3
Government loans	1,629.6	1,566.6	1,504.7	1,943.6	2,600.1
Securities sold under repo agreements	23.5	0.0	209.1	325.3	15.1
Loans received	8,403.1	9,113.7	12,374.4	21,630.7	19,325.0
Other liabilities	7,238.1	9,516.1	12,821.1	13,412.4	12,808.7
TOTAL LIABILITIES	71,428.6	92,289.4	116,790.6	151,944.6	149,559.4
CAPITAL					
Stock capital	9,756.7	10,848.4	11,642.4	16,132.1	19,189.5
Reserves for future needs of the bank	751.7	862.6	1,027.2	723.6	597.9
Undistributed profit of previous years	4,057.0	5,053.3	5,664.3	7,173.9	7,171.3
Current year profits/losses	900.2	1,327.1	1,910.2	1,531.4	893.2
Revaluation accounts	552.3	711.1	586.4	522.5	766.6
TOTAL: CAPITAL	16,017.9	18,802.5	20,830.5	26,083.6	28,618.5
TOTAL: LIABILITIES AND CAPITAL	87,446.5	111,092.0	137,621.0	178,028.2	178,177.8

* preliminary data

Source: Commercial banks of KR

¹ includes loans to banks and other financial-credit institutions, resident and non-resident.² includes loans to legal entities and individuals, resident and non-resident.³ includes accounts of legal entities and individuals.⁴ includes accounts of financial-credit institutions, legal entities and individuals.

Table 19.
Information on Head Offices and Branches of Commercial Banks as at the end of 2016

Bank	Head Office Location	Total Branches	Bishkek	Batken oblast	Jalal-Abad oblast	Issyk-Kul oblast	Naryn oblast	Osh oblast	Talas oblast	Chui oblast
Total branches		324	65	26	50	40	21	60	18	44
Branches of resident banks										
1	OJSC "Aiy! Bank"	32	3	4	6	3	2	7	2	5
2	OJSC RK "AMANBANK"	16	2	-	1	3	1	5	1	3
3	CJSC "Bank of Asia"	8	2	-	1	2	-	1	-	2
4	CJSC Bank "Bai-Tushum"	7	1	1	1	1	1	1	1	-
5	OJSC "BAKAI BANK"	9	1	1	1	1	1	1	1	2
6	CJSC "BTA Bank"	14	2	1	2	3	-	4	-	2
7	CJSC "Demir Kyrgyz International Bank"	13	6	1	1	1	1	2	1	-
8	OJSC "DOS-KREDOBANK"	10	2	-	1	2	1	1	1	2
9	OJSC "Eurasian Savings Bank"	3	1	-	1	-	-	1	-	-
10	OJSC "Capital Bank"	3	-	1	1	-	-	1	-	-
11	CJSC "Bank Kompanion"	16	2	2	4	2	2	2	1	1
12	CJSC "Kyrgyz-Swiss Bank"	-	-	-	-	-	-	-	-	-
13	CJSC "Kyrgyz Investment Credit Bank"	16	5	1	2	1	1	3	1	2
14	OJSC "Kyrgyzkommertsbank"	3	2	-	-	-	-	1	-	-
15	OJSC "Commercial Bank KYRGYZSTAN"	35	8	2	7	3	3	6	1	5
16	OJSC "Optima Bank"	18	7	1	1	3	-	2	1	3
17	OJSC "Rosinbank"	21	7	2	2	3	-	3	1	3
18	OJSC "RSK Bank"	51	3	5	10	7	5	9	4	8
19	CJSC JSCB "Tolubay"	2	2	-	-	-	-	-	-	-
20	OJSC "FinanceCreditBank KAB"	6	-	-	1	1	1	2	-	1
21	CJSC "FINCA Bank"	24	3	3	5	2	2	4	2	3
22	OJSC "Halyk Bank Kyrgyzstan"	9	4	-	1	1	-	2	-	1
23	OJSC "Chang An Bank"	-	-	-	-	-	-	-	-	-
24	CJSC "EcoIslamicBank"	8	2	1	1	1	-	2	-	1
Branches of non-resident banks										
25	Bishkek Branch of the National Bank of Pakistan ¹	-	-	-	-	-	-	-	-	-
	Karachi	-	-	-	-	-	-	-	-	-

Source: "Register of Issued Banking Licenses and Register of Branches of Banks, maintained in NBKR"

¹ The branch of the non-resident bank was entered into the "Register of Issued Banking Licenses" on 24 April, 2000, with the right to conduct banking operations.

Table 20.
Composition of Circulating Cash of Commercial Banks and Its Rate of Collection in 2016
(billions of KGS)

	Receipt				Issue				Deviation (+/-) (9-4)	Collection Rate (%) (4/9)	
	1	2	3	4	5	6	7	8			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		
Total for the Republic	38.5	71.8	1,062.7	1,173.0	10.2	9.0	127.6	1,046.7	1,193.5	20.5	98.3
Bishkek city	8.3	54.2	470.2	532.7	3.4	0.6	56.5	464.3	524.8	-7.9	101.5
Batken oblast	0.9	1.3	58.6	60.8	0.8	0.5	9.6	50.2	61.1	0.3	99.5
Jalal-Abad oblast	1.3	3.4	118.9	123.6	1.3	0.9	20.0	112.4	134.6	11.0	91.8
Issyk-Kul oblast	0.6	1.3	62.7	64.6	0.5	1.8	4.3	61.3	67.9	3.3	95.1
Naryn oblast	0.2	0.3	26.6	27.1	0.6	1.1	0.7	28.2	30.6	3.5	88.6
Osh city	2.0	6.2	141.2	149.4	0.7	0.6	17.5	135.9	154.7	5.3	96.6
Osh oblast	2.6	2.0	58.9	63.5	1.2	0.5	11.1	51.1	63.9	0.4	99.4
Talas oblast	0.2	0.5	28.1	28.8	0.4	0.6	1.9	30.6	33.5	4.7	86.0
Chui oblast	22.4	2.6	97.5	122.5	1.3	2.4	6.0	112.7	122.4	-0.1	100.1

Source: Commercial banks of KR

Table 21. Pattern of Payments in the Gross System of Settlements

	2012			2013			2014			2015			2016		
	Volume, millions of KGS	Number of payments	Volume 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	Volume, millions of KGS	Number of payments	
payments up to KGS 1 thousand	4	10,589	5	10,982	7	16,300	10	20,399	9	19,360					
from 1 thousand to 100 thousand	1,607	60,838	1,797	70,277	2,947	116,444	4,022	155,027	4,149	157,127					
from 100 thousand to 1 million	15,343	35,383	18,174	41,370	25,106	59,885	31,044	76,502	31,570	77,611					
from 1 million to 10 million	119,019	37,599	137,931	43,872	162,910	54,235	178,151	59,272	186,365	64,140					
from 10 million to 100 million	258,968	8,680	288,134	9,552	398,924	12,726	482,706	14,664	485,812	14,009					
payments of over 100 million	213,231	970	305,314	1,206	821,947	2,900	1,050,286	3,571	4,376,055	6,474					
Total	608,171	154,059	751,355	177,259	1,411,841	262,490	1,746,219	329,435	5,083,960	338,721					

Source: Gross Settlement System in Real Time Regime

Table 22. Volume and Number of Clearing Payments by Regions

	2012			2013			2014			2015			2016		
	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	Volume, millions of KGS	Number of payments	Volume, millions of KGS	Number of payments	
Bishkek city and Chui oblast	50,725	1,680,954	60,661	1,988,223	70,620	2,435,059	72,514	2,208,200	87,302	2,465,931					
Batken oblast	2,921	58,765	3,915	77,628	4,195	120,649	4,206	202,667	4,965	232,242					
Jalal-Abad oblast	5,817	122,063	6,143	126,271	6,853	191,453	6,618	200,343	7,503	280,840					
Issyk-Kul oblast	4,406	105,556	5,117	143,736	5,564	201,049	5,500	184,411	6,222	197,542					
Naryn oblast	2,096	51,572	2,738	58,531	3,151	69,662	2,486	55,923	2,964	68,752					
Osh city and Osh oblast	6,982	160,910	7,883	181,981	9,042	306,371	8,937	328,148	11,588	426,333					
Talas oblast	1,266	24,365	1,670	37,930	2,154	77,444	2,220	90,760	2,226	98,823					
Total	74,213	2,204,185	88,127	2,614,300	101,579	3,401,687	102,481	3,270,452	122,770	3,770,463					

Source: Bulk Clearing System

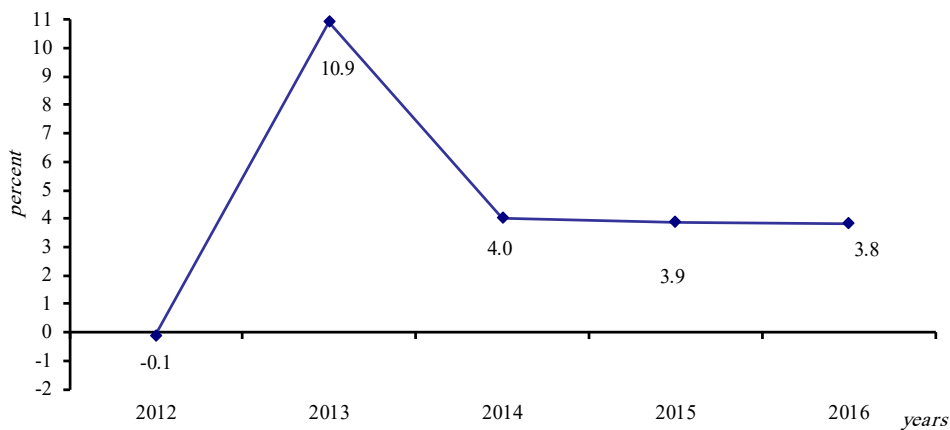
Table 23. Information on Transactions with Payment Cards at Trade Outlets

Type of Cards	2012			2013			2014			2015			2016		
	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	Number of transactions	Volume, thousands of KGS	Number of transactions	Volume, thousands of KGS	
Elcard	15,540	9,134	30,423	19,710	70,562	51,057	125,013	129,504	200,231	178,248					
Elcard-UPI	-	-	-	-	-	-	-	-	4,680	5,606					
Zolotaya Korona (Alai Card)	99,879	40,455	299,006	52,987	361,468	70,047	488,825	109,513	476,069	133,956					
Visa	393,377	1,228,983	671,377	1,877,463	975,746	2,529,638	1,341,213	3,097,967	1,841,129	3,964,267					
Master Card	9,995	185,732	12,350	204,772	19,870	229,595	44,098	340,141	79,643	413,775					
American Express	2,436	72,203	2,479	80,046	2,128	64,683	2,003	72,513	1,895	60,536					
Union Pay	-	-	3	38	356	3,973	3,772	7,546	12,667	11,741					

Source: Commercial banks of KR

Chart 1.

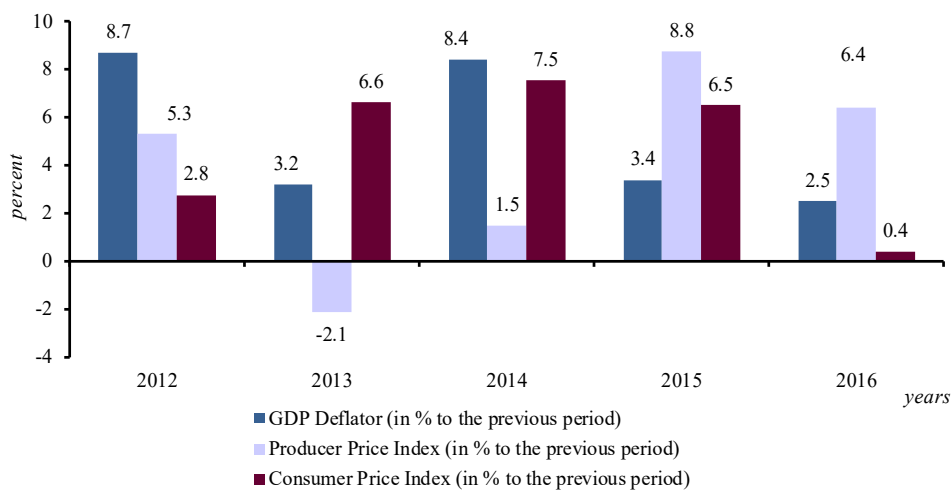
Rates of Growth of Real Gross Domestic Product



Source: NSC KR

Chart 2.

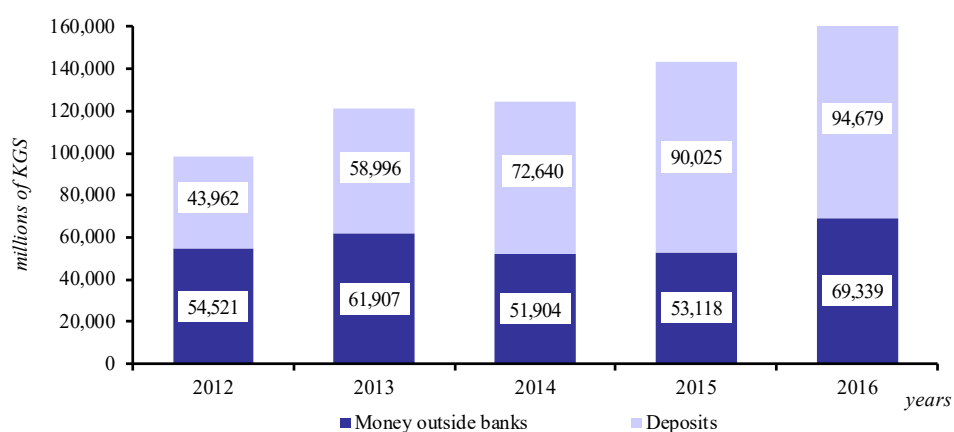
Rates of Growth of Consumer and Producer



Source: NSC KR

Chart 3.

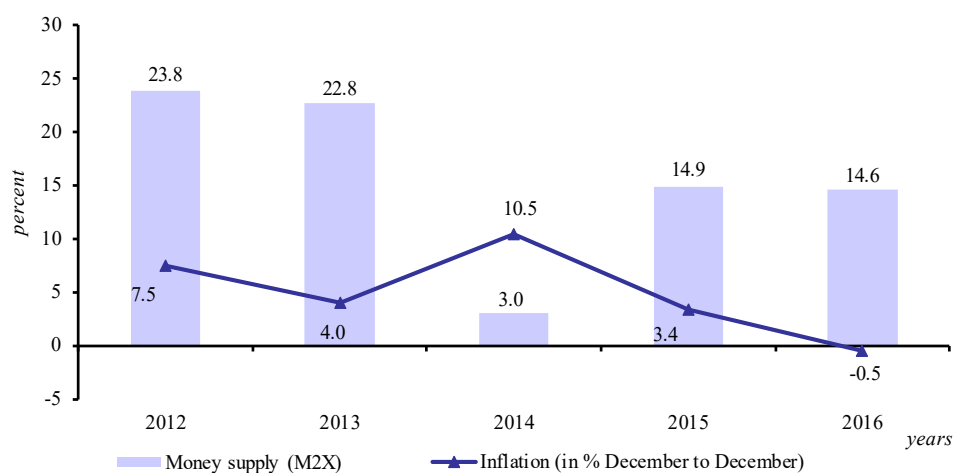
Monetary Aggregates M2X Structure



Source: NBKR

Chart 4.

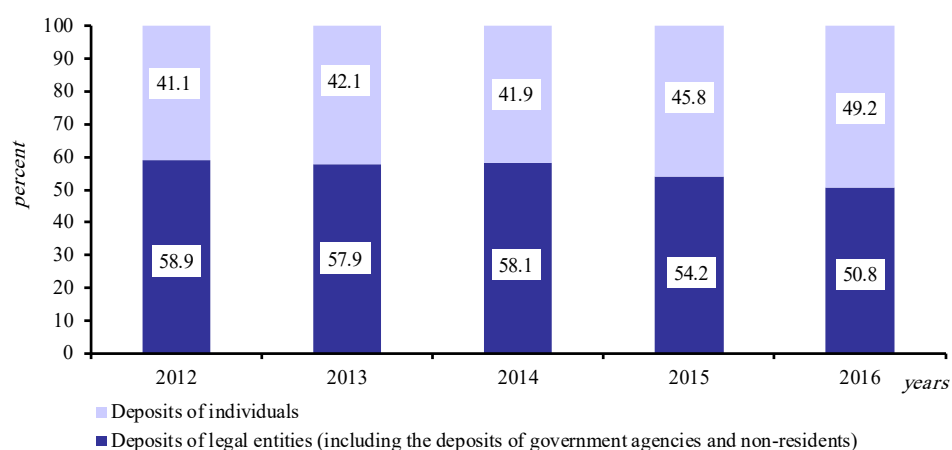
Rates of Growth of Money Supply and Inflation



Source: NBKR, NSC KR

Chart 5.

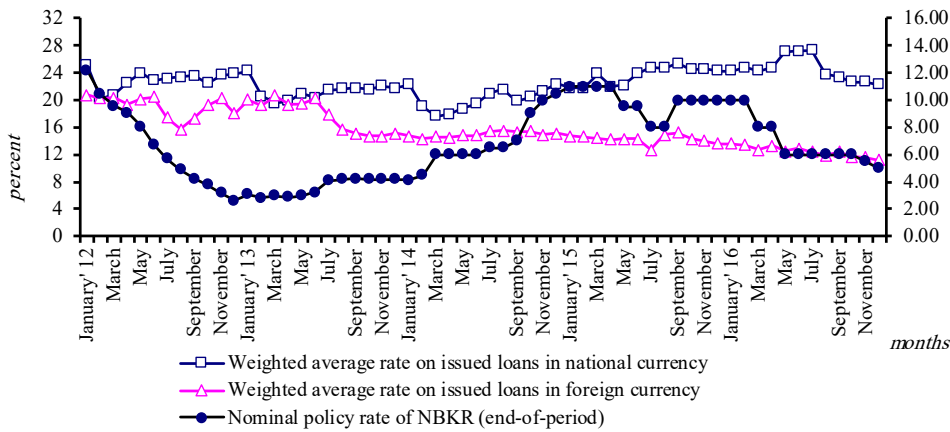
Structure of Deposit Base of Commercial Banks (end-of-period)



Source: Commercial banks of KR

Chart 6.

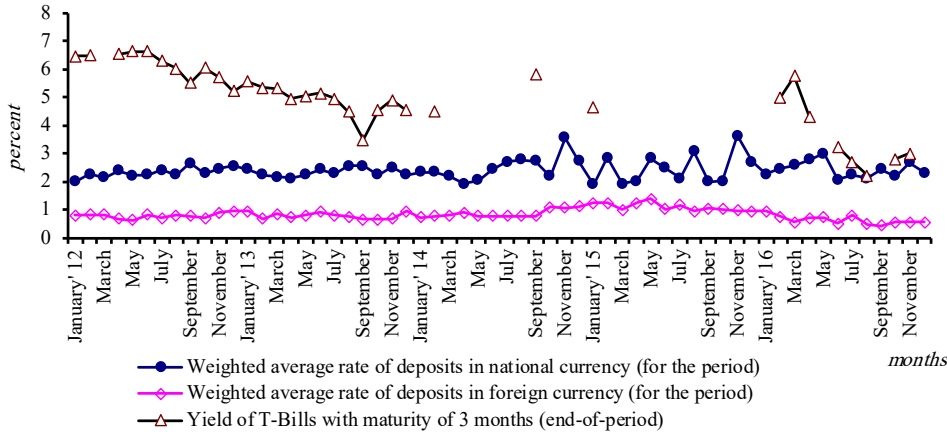
Interest Rates of Loans Issued by Commercial Banks and Policy Rate of the NBKR



Source: NBKR, Commercial banks of KR

Chart 7.

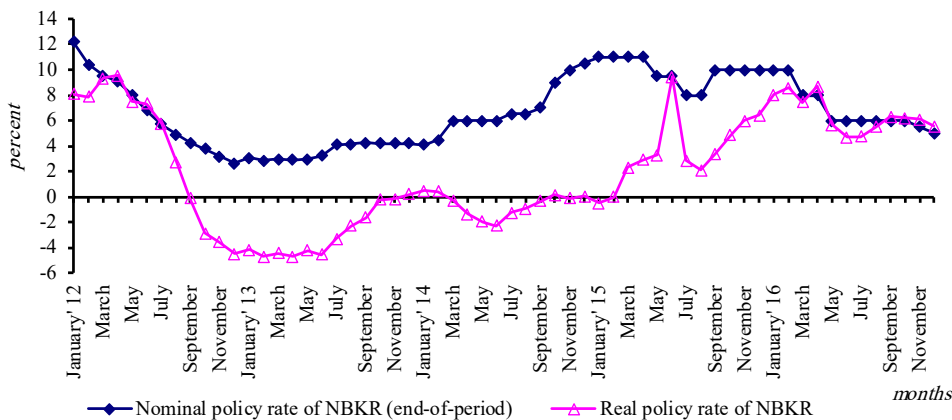
Interest Rates of Deposits Newly Attracted by Commercial Banks and Yield of ST-Bills



Source: NBKR, Commercial banks of KR

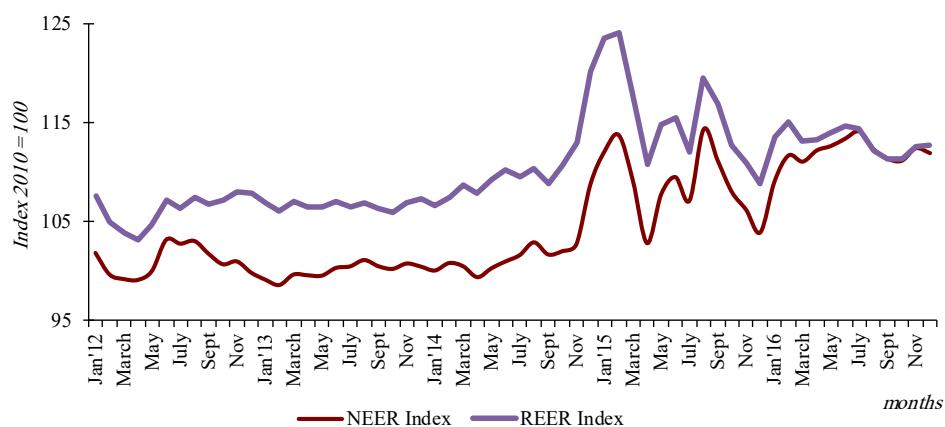
Chart 8.

Nominal and Real Policy Rate Developments



Source: NBKR

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 Indices¹

*According to NBKR data

¹ Data are given taking into account revised methods of REER calculation with the number of trading partner countries increased up to 12.

Appendix 3
to the Report of the National Bank of the Kyrgyz Republic for 2016

Periodical Publications and Other Information Tools of the NBKR

№	Title	Language of Publication	Periodicity	Contents	Distribution
1	2 Bulletin of the National Bank of the Kyrgyz Republic	3 Kyrgyz, Russian, English	4 Monthly	5 The publication provides the statistical data on basic economic and financial indicators. The data of the National Statistical Committee of the Kyrgyz Republic, Ministry of Finance of the Kyrgyz Republic, commercial banks, Financial Market Supervision and Regulation State Service under the Government of the Kyrgyz Republic and the data of the National Bank of the Kyrgyz Republic are used in preparation of the bulletin.	6 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, higher educational institutions and libraries of the Kyrgyz Republic, representative offices of international organizations accredited in the Kyrgyz Republic. Electronic version is published on the official website of the National Bank.
2.	Annual Report of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian, English	Annually	The report on the activity of the National Bank for the reporting year contains assessment of changes in the real, financial and external sectors of economy, the description of decisions and actions of the National Bank in the monetary sphere, about banking and payment systems; it includes 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, higher educational institutions and libraries of the Kyrgyz Republic, international financial institutions, CIS central banks, integration institutions, representative offices of international organizations and embassies of countries accredited in the Kyrgyz Republic. It is published in the electronic format on the website of the National Bank. Electronic version is published on the official website of the National Bank.

1	2	3	4	5	6
3.	Regulatory Acts of the National Bank of the Kyrgyz Republic	Kyrgyz, Russian	Monthly	These are the regulations, instructions and other regulatory acts adopted by 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, commercial banks, financial-credit institutions, courts of the Kyrgyz Republic, ministries and departments, higher educational institutions and libraries of the Kyrgyz Republic. Electronic version is published on the official 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 key trading partners.	Electronic version is published on the official 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 in 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, higher educational institutions and libraries of the Kyrgyz Republic, integration institutions. Electronic version is published on the official website of the National Bank.

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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, integration institutions. It is published in the electronic format on the website of the National Bank. Electronic version is published on the official website of the National Bank.
7.	Official website of the National Bank www.nbkr.kg	Kyrgyz, Russian, English	It is updated in the real time mode	Information on activity of the National Bank, including: - information on the banking legislation; - information on 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 submitted for discussion; - the regularly updated list of commercial banks and NFCIs, licensed by the National Bank; - documents on establishment of FCIs; - 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 website: - reviews on the commercial banking system and the non-banking financial sector;	Free access to information.

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5					<ul style="list-style-type: none"> - the statistical data on monetary surveys, foreign economic indicators, balance of payments, international reserves, external debt, and on the international investment; - position of the country; information on the history of the national currency; - position of the country; - 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 Report of the Kyrgyz Republic”, “Balance of Payments of the Kyrgyz Republic”. <p>The following data are updated in the real time mode:</p> <ul style="list-style-type: none"> - data on the operations involving the National Bank; - the official exchange rates and policy rate set by the National Bank; - the news block. <p>The special section is devoted to the issues of combating corruption, with the phone numbers of the “hot line” indicated therein.</p>	
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5	<p>The special section “Information for Consumers of Financial Services” was created, which includes:</p> <ul style="list-style-type: none"> - excerpts from the regulatory legal acts 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 holders of electronic cards, the borrower, the depositor as well as the memo for cases of implementation of foreign exchange. <p>The main page of the site contains operational information on:</p> <ul style="list-style-type: none"> - the official rates of exchange; - the policy rate of the National Bank; - the rates of “overnight” credits and deposits; - information on the average interest rate of loans of commercial banks and FCIs by sectors; - direct links to sections on vacancies and other competitions held by the National Bank. 				
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8.	Radio Program “Uluttuk Bank Bildiret” (“The National Bank reports”)	Kyrgyz, Russian	Biweekly	The basic aspects of the National Bank activity are highlighted therein in the form of the interviews of the Bank’s specialists on the current issues of monetary policy, banking and payment systems, banking legislation and other issues. Answers to popular questions of the citizens are covered under the heading “Public Information Service of the National Bank answers your questions”.	Broadcast on the radio “Birinchi Radio”
9.	TV Program “Natsbank Soobschayet” (“The National Bank reports”)	Kyrgyz, Russian	Bimonthly	The basic aspects of the National Bank activity are highlighted therein in the form of the interviews of the Bank’s specialists on the current issues of monetary policy, banking and payment systems, banking legislation and other issues.	Broadcast on the TV channel “EITR”

List of Abbreviations

ADB	Asian Development Bank
AFI	Alliance for Financial Inclusion
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ATM	Automatic Teller Machine
BCS	Bulk Clearing System
BFR	Budget Funds Recipient (cards)
CAMELS	Rating System of Commercial Banks (capital adequacy, asset quality, management quality, earnings, liquidity, sensitivity of bank to market risk)
CIS	Commonwealth of Independent States
CJSC	Close Joint Stock Company
CNY	Chinese yuan
CPI	Consumer Price Index
CT	Central Treasury
CU	Credit Union
CYFI	Child and Youth Finance International
EBRD	European Bank for Reconstruction and Development
ECF	Extended Credit Facility
EEC	Eurasian Economic Commission
EAEU	Eurasian Economic Union
EurAsEC	Eurasian Economic Community
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
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GS	Government Securities
GVA	Gross Value Added
ICIP	Investment Climate Improvement Program
IDB	Islamic Development Bank
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IPC	Interbank Processing Center
ISB	Interstate Bank
JSC	Joint Stock Company
JVI	Joint Vienna Institute
KGS	Kyrgyz som
KR	Kyrgyz Republic
KZT	Kazakh tenge
LLC	Limited Liability Company
LLP	Loan Loss Provision
MCA	Microcredit Agency
MCC	Microcredit Company
MEFP	Memorandum on Economic and Financial Policy
MFC	Microfinance Company
MF KR	Ministry of Finance of the Kyrgyz Republic
MFO	Microfinance Organization
MRC	Monetary Regulation Committee

NBKR	National Bank of the Kyrgyz Republic
NEER	Nominal Effective Exchange Rate
NFCI	Non-bank Financial-Credit Institutions
NPCS	National Payment Card System
NSC	National Statistics Committee
OFID	OPEC Fund for International Development
OJSC	Open Joint Stock Company
OPEC	Organization of Petroleum Exporting Countries
POS-terminal	Point-of-sale Terminal
PRBR	Periodic Regulatory Bank Reporting
PRC	People's Republic of China
RBS	Risk-Based Supervision
REER	Real Effective Exchange Rate
ROA	Return on Assets
ROE	Return on Equity
RR	Reserve Requirement
RTGS	Real Time Gross Settlement System
RUB	Russian ruble
SCEA	State Classifier “Economic activities”
SCO	Shanghai Cooperation Organization
SDR	Special Drawing Rights
SECO	State Secretariat for Economic Affairs, Switzerland
SFCI	Specialized Financial-Credit Institution
SIPC	Single Interbank Processing Center
ST-Bills	State Treasury Bills
ST-Bonds	State Treasury Bonds
T-Obligations	Treasury Obligations
UAE	United Arabian Emirates
USD	US dollar
VAT	Value Added Tax
WB	World Bank