

National Bank of the Kyrgyz Republic

**BANKING SYSTEM
DEVELOPMENT TRENDS**

FIRST HALF OF 2011 (19)

BISHKEK 2011

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Development Trends of the Banking System

The purpose of the "Banking system development trends" is the analysis and assessment of the Kyrgyz banking system development as a financial mediator, detection of obstacles for achieving and supporting of stability, as well as the evaluation of stability components of the banking system of Kyrgyzstan. It is published at the date for January 1 and July 1 in Kyrgyz, Russian and English languages.

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The last tendencies in development of external sector are reflected in this edition, as well as tables with data by analytical and neutral forms of balance of payments, structure of external trade, international reserves, external debt and international investment position of the Kyrgyz Republic are contained in this edition. It is published every three months in January, May, July and October.

Inflation Report of the Kyrgyz Republic

Report contains description of dynamics of consumer prices in the Republic and its regions, analysis of main factors of inflation, information about decisions of the National Bank of the Kyrgyz Republic in the monetary policy and presents inflation forecast for the next period. It is published every three months in Kyrgyz, Russian, and English.

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Press-release of NBKR contains chronicle of events happening in the National Bank and bank system in general, operational information by financial market. It is published every week in the Kyrgyz and Russian languages.

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Regulatory acts of the National Bank are published officially in the indicated edition with the purpose of provision of commercial banks and general public with regulatory documents making bank legislation of the Kyrgyz Republic. Expected periodicity of the edition is once a month in the Kyrgyz and Russian languages.

All publications are distributed according to the enumerations approved by the orders of the Chairman of the National Bank of the Kyrgyz Republic and located on the Web-site: <http://www.nbkr.kg>

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INTRODUCTION

In the first half of 2011, the growth of the main banking system indicators, in particular, assets, obligations, profitability, credits and depository base of commercial banks was observed. The considerable supply of liquidity and high level of the commercial banks capital adequacy testifies to certain banking system stability to negative shocks, availability of the potential for the increase of financial intermediation level and efficiency of the banking system functioning.

The growth of volumes of lending to the real sector of economy was observed in the banking system. Herewith, the trend of increase of the share of long-term credits to the clients in the credit portfolio of the banking system was marked. The improvement of the credit portfolio quality of the banks is being noted as a whole by the system.

The positive growth rates of the individuals deposits volumes testify about persisting population's confidence in the banking system. Herewith, the growth of as a whole fixed deposits volume of the banking system indicates to the increase of banks' potential on the increase for medium- and long-term economy financing.

The credit portfolio growth continues in the sector of non-bank financial institutions, which testify about a high demand for credit resources of households, small and medium business, as well as the growth of profitability of non-bank financial institutions operations.

Thus, the positive trend of the financial system stabilization in the Kyrgyz Republic is being observed as a whole in the reporting period.

* * * * *

The information about the interbank payment system SWIFT is presented in section "Special Issues".

I. STATUS OF THE FINANCIAL AND CREDIT SYSTEM OF THE KYRGYZ REPUBLIC

By the end of first half of 2011, the aggregate assets of the financial and credit system¹ increased by 15.9 percent as compared to the corresponding period of 2010, while the increment of this indicator was provided by the banking system.

The financial intermediation indicator, which constitutes the ratio of the total credit portfolio to the gross domestic product (GDP)², increased against the comparable period of the previous year to make 19.2 percent (Diagram 1.1). As of the first half of 2011, the increment rates of the credit portfolio of the banking system and NBFIs made 11.0 and 36.3 percent, respectively, and as compared with the result of the second half of 2010 they made 8.4 and 26.0 percent, respectively.

The banks continued to hold a leading position in the financial and credit system (Diagram 1.2); according to the results of the first half of 2011, their share accounted for 68.6 percent³ in the aggregate credit portfolio of the financial and credit system⁴ that constituted 3.7 percentage points decrease against the comparable period of 2010, and 2.7 percentage point decrease as compared with the second half of 2010.

The ratio dynamics of the volume of special provision for losses (PL) to the volume of credits in the banking system and non-bank financial institutions (NBFIs) indicated some improvement in quality of the credit portfolio (Diagram 1.3). The share of special PL in the NBFIs credit portfolio decreased in the first half of 2011 to make 2.7 percent. In the banking system, this value decreased by 3.3 percentage points to make 7.4 percent as compared to the second half of 2010.

In the first half of 2011 there was a decrease in the weighted average interest rates for credits of the commercial banks and increase for credits of non-bank financial institutions against the comparable period of the previous year.

Diagram 1.4 demonstrates the weighted average rates on credits issued by the commercial banks (in the national and foreign currencies) and by the non-bank financial institutions;

Chart 1.1. Change in Loan Portfolio (LP) of Finance and Credit system (FCS) as percentage to GDP

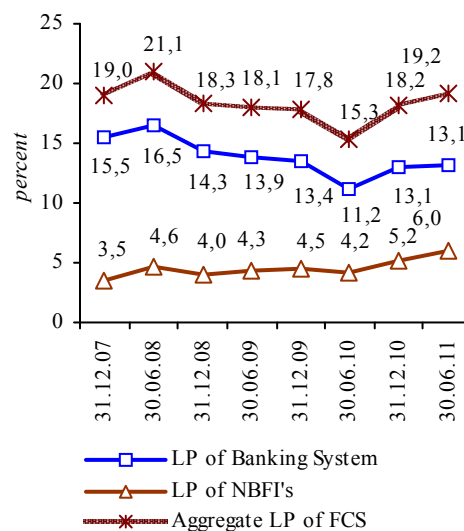
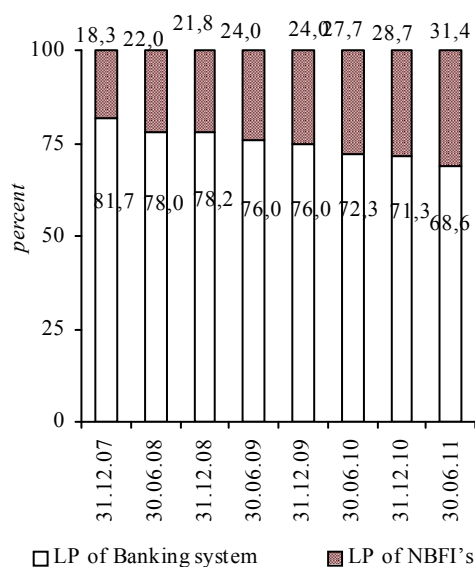


Chart 1.2. Aggregate Loan Portfolio (LP) Structure



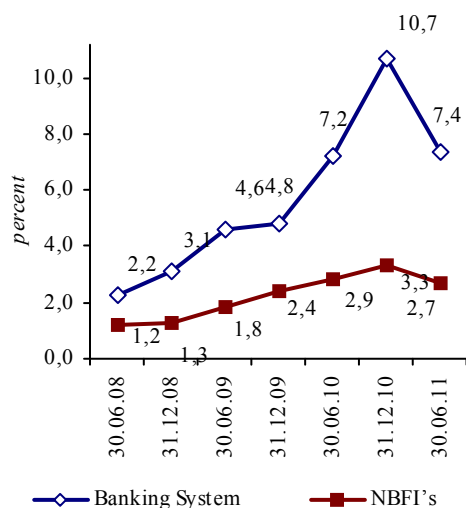
¹ The indicators of the commercial banks and non-banking financial institutions licensed by the NBKR are analyzed herein as the indicators of the financial credits system.

² The data on actual GDP for the recent 12 months is taken.

³ Credit portfolio of the banking system includes the credit portfolio of bankrupt banks.

⁴ According to the Periodic Regulatory Banking Report (PRBR).

Chart 1.3. Special ALL in Loan Portfolios of Banking System and NBFIs



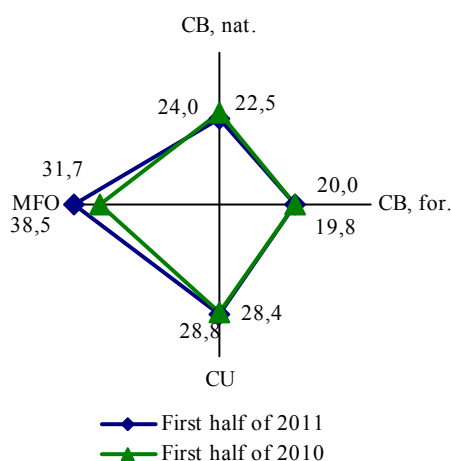
they enable, to some extent, to assess the level and the trend of change in the value of credit resources.

The level of weighted average interest rates for newly issued credits of the commercial banks decreased both in foreign and the national currencies. Thus, in the first half of 2011 the average level of interest rates for the credits in foreign and national currencies decreased by 0.2 percentage points and 1.5 percentage points, respectively, against the similar period of 2010. Herewith, there was an increase of weighted average interest rates for credits of non-bank financial and credit institutions, in particular, in the sector of microfinance organizations. Thus, in the first half of 2011 the average level of interest rates for credits of microfinance organizations increased by 6.8 percentage points against the comparable period of 2010.

Therefore, the status of Kyrgyzstan financial and credit system in the reporting period is defined by the:

- increase in the volume of assets of financial and credit system;
- growth of the financial intermediation indicator;
- increase of the share of NBFIs in the aggregate credit portfolio of the financial and credit system;
- improvement of qualitative characteristics of the credit portfolio of commercial banks and NBFIs.

Chart 1.4. 'Dispersion of Average Weighted Interest Rates on Loans of Various FCI's, percentages



Note: CBs, nat. - commercial banks, national currency; CBs, for. - commercial banks, foreign currency; CU - credit unions; MFO - microfinance organizations.

II. STATUS OF THE BANKING SYSTEM

2.1. Banking System Structure

As of June 30, 2011, 22 commercial banks, 248 branches, 493 savings departments and 25 field cash departments operated in the Republic; including 13 banks out of those 22 banks with foreign capital share. In 10 of them the foreign capital share accounted for more than 50 percent. All banking institutions of the Republic are universal by their type of activity.

The Temporary Closing-Down Regime was introduced in four problem banks: OJSC IJSCB "Akyl", CJSC "Manas Bank", OJSC "KyrgyzCreditBank", OJSC IB "Issyk-Kul".

The rest banks making the major part of the banking system operated in the normal mode and provided the population with the main set of the banking services and products.

In the first half of 2011, the key indicators of the banking system, in particular, assets, liabilities and deposit base of commercial banks demonstrated the growth as compared with the second half of 2010.

The analysis of the banking system structure in terms of the market segment occupied by the groups of 'large', 'medium' and 'small' banks¹ (Diagram 2.1.1) indicated an increase in the market share of 'large' and 'small' banks; their specific weight increased by 3.2 and 1.1 percentage points in the reporting period, correspondingly. The increase of the market share of 'large' and 'small' banks was observed due to the retirement from the banking system of one of the bank of the 'large' banks group.

The segment of 'large' banks comprised four banks that held 77.2% of the market share.

These banks were qualified as the 'large' ones due to the high

¹ For the purpose of the analysis herein, the term 'large' banks means the banks which share (d_i) in the banking market (average square of the share in aggregate assets, loans, deposits and liabilities) exceeds 10 percent; 'medium' banks have the share from 5 percent to 10 percent, and 'small' banks have the share less than 5 percent.

d_i is calculated in compliance with the following formula:

$$d_i = \frac{X_i}{\sum_{i=1}^N X_i} \quad \text{- the share of } i\text{-bank in the banking industry,}$$

where N is the number of the operating commercial banks;

$$X_i = \frac{d_A^2 + d_{kp}^2 + d_A^2 + d_{O\phi}^2}{4} \quad \text{- arithmetic mean of the following indicators: } (d_A^2) \text{ is the square of assets share of } i\text{-bank in the aggregate assets of banks, and, correspondingly, loans } (d_{kp}^2), \text{ deposits, } (d_A^2) \text{ and liabilities } (d_{O\phi}^2).$$

Chart 2.1.1. Change in Banking System Structure by Groups of Banks

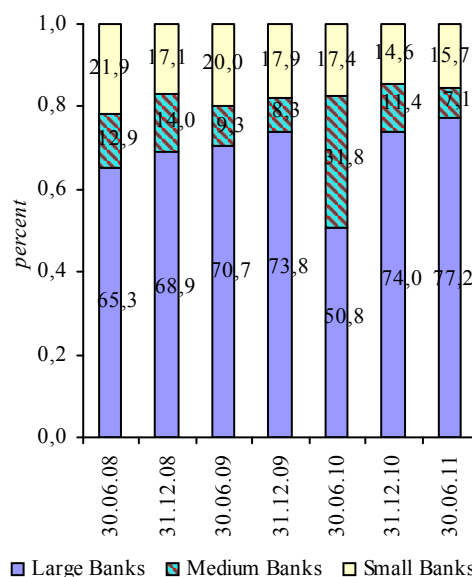
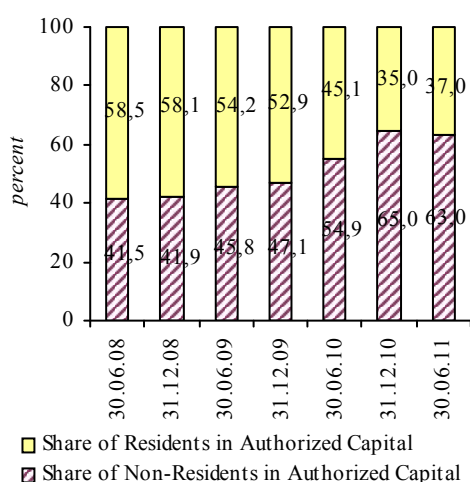


Chart 2.1.2. Change in Authorized Capital Structure of Banking System



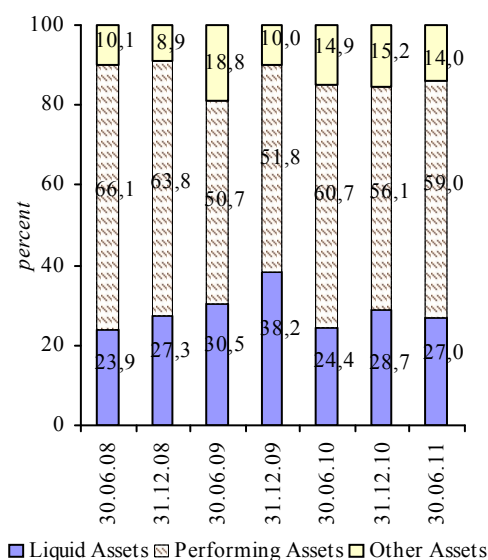
share values in the total credits of the banking system that accounted for 68.4 percent, in the total deposit base that accounted for 82.7 percent (exclusive of the deposits of banks and other NBFI as well of governmental authorities), and in the aggregate assets and liabilities that accounted for 76.4% and 80.5 % correspondingly.

Consolidated capital of the banking system decreased by 1.2 percent in the reporting period as compared to 31/12/2010.

The foreign capital share accounted for 37.0 percent in the total capital of the commercial banks (as of 31/12/2010 it accounted for 35.0 percent (Diagram 2.1.2).

The increase in the assets of the banking system amounted to 6.0 percent according to the results of the first half of 2011. It's noteworthy that regarding the change in the aggregate assets structure (Diagram 2.1.3), 59.0 percent of the banks' assets were operating², and their share increased by 2.9 percentage points as compared to 31/12/2010. The share of liquid assets³ in aggregate assets of the banking system decreased by 1.7 percentage points to make 27.0 percent (as of 31/12/2010 it made 28.7 percent) (Diagram 2.1.3).

Chart 2.1.3. Change in Asset Structure of Banking System



The available liquidity that surpasses the normative standards allowed banks to increase credits in economy in the reporting period.

The share of 'other' assets somewhat decreased in the first half of 2011 and amounted to 14.0 percent in the aggregate assets of the banking system (as of 31.12.2010 it made 15.2 percent).

The operations under the Islamic Financing Principles and Banking Business have been continued. According to the results of the first half of 2011, the volume of active operations in accordance with the Islamic Principles of the Business Banking (murabaha, mudaraba, sharika, etc.)⁴ amounted to Soms 991.4 million (Soms 697.4 million as of 31.12.2010), that is the increment made 42.2 percent.

With the purposes of more detailed consideration of the dynamics and structure of a deposit base⁵ as the major source of allocated

² 'Operating assets' means the balances on the credit and deposit accounts held with FI as well as securities and other bank placements yielding interest revenue.

³ Liquid assets' means the banks' monetary assets in cash departments and correspondent accounts.

⁴ Refer to Provisions on the operations implemented in accordance with the Islamic Financial Principles and Banking Business, approved by the Board of NBKR.

⁵ The deposits of the enterprises and population, as well as the deposits and credits from central government authorities, with the exception of deposits and credits from local governments and deposits of other banks are included in the "deposit base" with the purposes of this analysis.

resources and crediting of the real economy sector, the following is noted. In the first half of 2011 the deposit base increment of the banking system made 8.2 percent as compared to 31.12.2010, and the amount of deposits reached Soms 35.1 billion. In terms of deposits, the share of deposits held by individuals accounted for 40.2 percent (2.8 percentage points increase). Herewith, the increase in the amount of deposits held by individuals made 16.5 percent as compared to 31.12.2010.

The specific weight of deposits held by legal entities made 45.6 percent (2.2 percentage points decrease). Herewith, their volume increased by 3.1 percent as compared to 31.12.2010.

The rest share (14.2 percent) belonged to the deposits of the Kyrgyz Republic state agencies. The decrease in the specific weight of total deposit base of this category amounted to 0.6 percentage points.

The growth of the fixed deposits' share from 32.0 to 34.5 percent of total deposit base of the banks was observed during the reporting period (Diagram 2.1.4). It's noteworthy that the fixed deposits held by individuals increased by 13.8 percent and their absolute amount made Soms 8.51 billion in the first half of 2011.

In the first half of 2011, a in considerable increase in 'dollarization' level of the banking system's deposit base was observed (Diagram 2.1.5). This value amounted to 50.9 percent against 49.9 percent according to the results of 2010. The share of the deposits held by legal entities in the foreign currency increased by 2.6 percentage points (according to the results of the second half of 2010 it made 54.5 percent) and accounted for 57.1 percent of the total deposits held by legal entities as of the end of the reporting period. In the first half of 2011, the share of deposits held by individuals in the foreign currency decreased by 2.6 percentage points and accounted for 57.9 percent of the total deposits held by individuals (as of 31.12.2010 it accounted for 60.5 percentage points).

The total *credit portfolio*⁶ of the banking system increased by 8.4 percent in the first half of 2011 to make Soms 28.5 billion. However, 'dollarization' level of the commercial banks' credits decreased to make 52.1 percent as of 30.06.2011 (Diagram 2.1.6). It is noted that the steady trend for the decrease of the 'dollarization' level of credit portfolio of the banking system takes place in the reporting period.

Chart 2.1.4. Change in Deposit Structure of Banking System by Attraction Terms

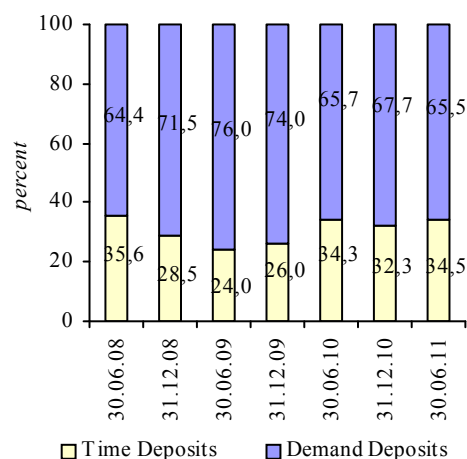


Chart 2.1.5. Change in Deposit Structure of Banking System by Types of Currencies

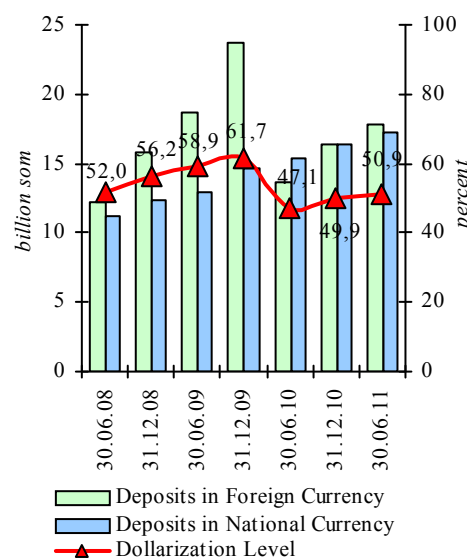
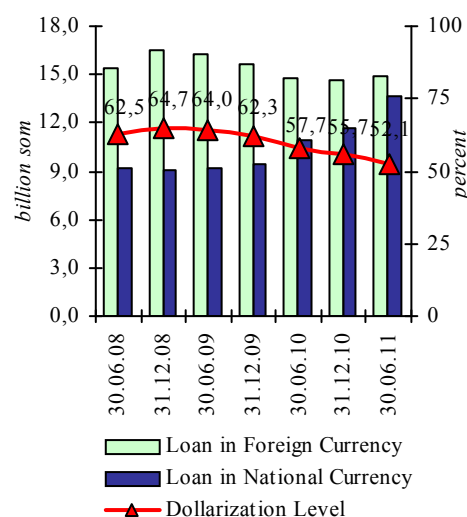
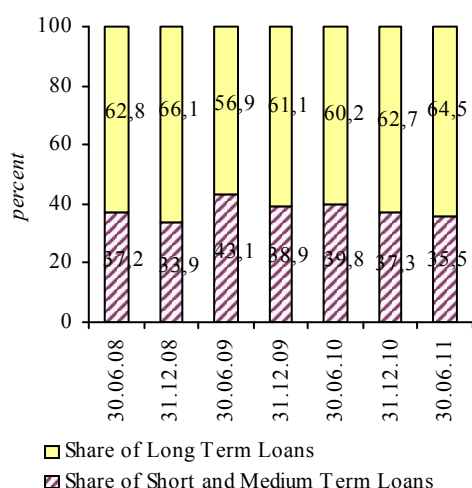


Chart 2.1.6. Change in Loan Portfolio Structure of Banking System by Types of Currencies



⁶ Hereinafter this category shall not include any appropriate discount for all credits as well as the credits issued to banks and other financial institutions. The credits are given with regard for PL.

Chart 2.1.7. Change in Loan Portfolio Structure of Banking System by Placement Terms

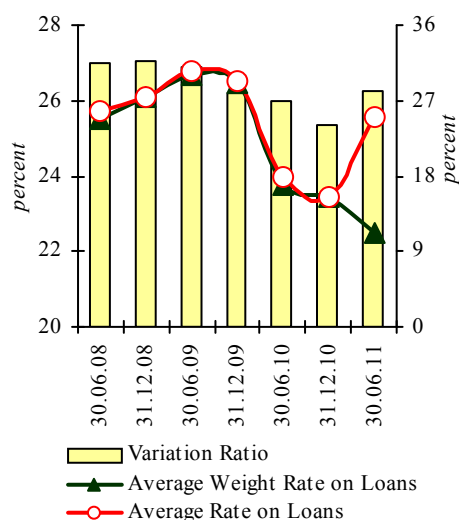


The share of long-term credits⁷ increased from 62.7 percent to 64.5 percent, and the increase in absolute amount made 11.6 percent. The specific weight of the credits with payment period of less than one year was gradually decreasing from the first half of 2009, but still made more than one third of the credit portfolio of the banking system (Diagram 2.1.7).

In order to assess the operating interest rates on credits, such behaviors as variation coefficient of interest rates as well as average and weighted average rates on credits were considered.

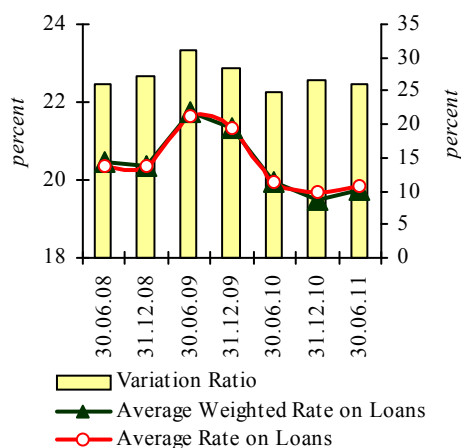
In the reporting period the interest rates in the national and foreign currencies amounted to 25.6 percent and 22.0 percent correspondingly. As compared with the second half of 2010, the interest rates on credits in the national currency increased by 2.1 percentage points, and those in the foreign currency also increased by 0.1 percentage points. The coefficient of variation that demonstrated the range of interest rates' spread in credit market showed uptrend of the spread of interest rates on credits in the national currency, whereas some decrease was noted in the foreign currency. In the first half of 2011, the average rate on credits in the national currency showed somewhat increase as compared with the data as of 31.12.2010 and considerable "spread" against the weighted average interest rate, which was associated with the demand on credit funds and large volume of credits issued at the low interest rate in some banks. It was observed that the dynamics of the weighted average interest rate on credits in the foreign currency continued to be at the average rate level (Diagrams 2.1.8, 2.1.9).

Chart 2.1.8. Change in Interest Rate on Loans in National Currency



Therefore, the trends observed in the banking sector in the first half of 2011 were as follows:

Chart 2.1.9. Change in Interest Rates on Loans in Foreign Currency



- growth of the aggregate assets;
- increment of the banks' deposit base on the whole;
- growth of the credit portfolio accompanied by the downtrend to its 'dollarization';
- increase in the share of the long-term credits to the clients in the aggregate credit portfolio of the banks;
- enhancement in credit portfolio quality.

⁷ The 'long-term credits' means the credits issued for a period of more than 1 year.

2.2. Risks

2.2.1. Credit Risk

Credit risk is one of the major risks, which goes with banking activity. This section covers the operations of the banks with a credit risk exposure.

To assess credit portfolio quality, the commercial banks use the credit classification scheme¹ that allows to define a potential degree of losses incurred due to credit defaults and to compensate for them on a timely basis by establishing appropriate provisions.

The classified and overdue credits, which are the first signs of deterioration in credit portfolio quality, claim the most attention when assessing the credit portfolio quality. In the first half of 2011 a decrease in the share of classified and overdue credits was observed in the credit portfolio (Diagram 2.2.1.1). The value of assets default risk (the ratio of special PL to credit portfolio) also decreased to make 7.4 percent (according to the results of 2010 the given value made 10.7 percent).

The dynamics of credits categorized as the credits 'under supervision' can be viewed as one of the factors that can influence an increase or a decrease in the credit risk level in future. The specific weight of such credits decreased by 3.0 percentage points to make 9.3 percent (Diagram 2.2.1.2) in the first half of 2011. Also the share of credits categorized as "losses" decreased significantly due to the approval of the corrected balance of newly established bank and its withdrawal from the balance of "bad" credits.

The aggregate volume of reserves created by commercial banks made 9.4 percent from the total credit portfolio (as of 31.12.2010 the given value made 12.8 percent).

In the first half of 2011, the specific weight of the 'net' credit portfolio (balances of debts on client credits less the established specific provision for potential losses) increased by 2.9 percentage points compared to 2010 and amounted to 43.0 percent of the aggregate assets of the banking system (Diagram 2.2.1.3) due to the decrease of PL and growth of the credit portfolio.

¹ In order to assess credit portfolio quality, it was accepted to mark out six categories subject to current opportunities of a client to discharge liabilities to a bank (in accordance with the order of classification declension): normal, satisfactory, under supervision, sub-standard, doubtful, and losses. The credits falling within the last three categories are used to be referred to the 'inoperative' or 'classified' ones as they have the most negative behaviors in terms of repayment of funds. For each of such six categories, a bank must assign a provision, which is specified as the percent of the amount of credits issued.

Chart 2.2.1.1. Change in Credit Risk in Banking System Loan Portfolio

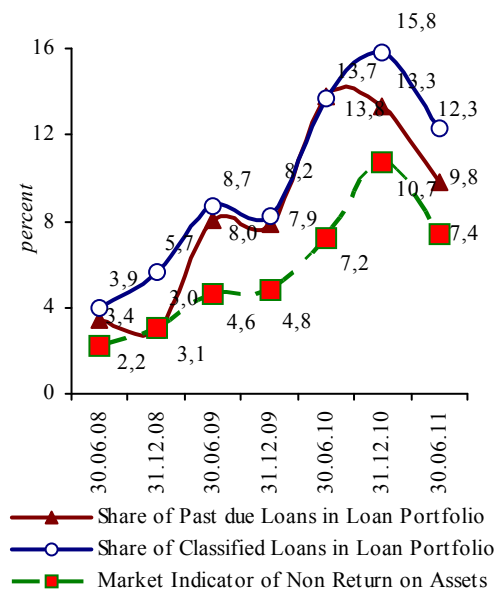


Chart 2.2.1.2. Change in Classification of Banking System Loan Portfolio

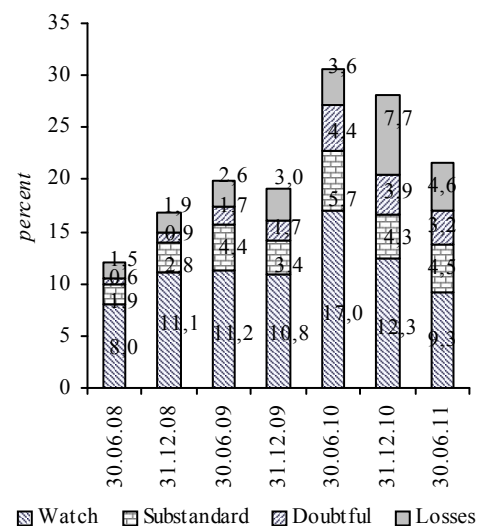
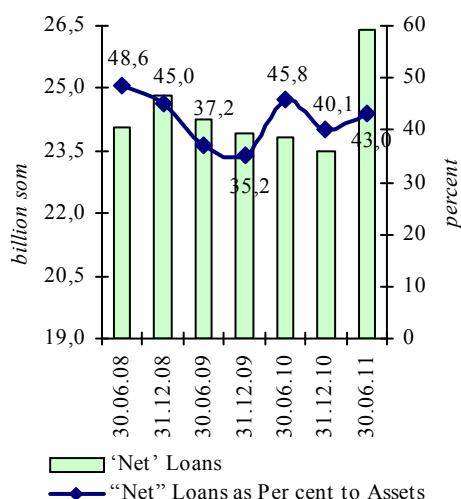


Chart 2.2.1.3. Change in 'Net' Loans



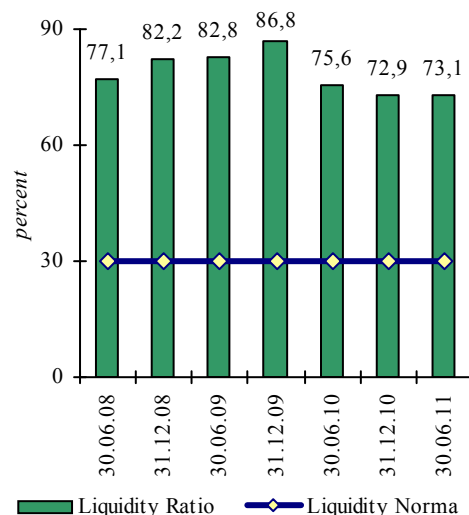
As a whole in the banking system there was the decrease of indicators characterizing the credit risk due to the decrease of the share of classified credits in the credit portfolio of the banking system and costs for PL.

2.2.2. Liquidity Risk

People's confidence in the banking system depends on banks' timely discharge of their commitments; this implies the availability of sufficient liquidity with banks. With the purpose of regulation, liquidity risk is estimated in accordance with the current liquidity prudential standard².

Actual level of the *liquidity index* maintained by the banking system remained rather high. On the average for the banking system, the calculated value of such index made 73.1 percent as of 30.06.2011 (Diagram 2.2.2.1).

Chart 2.2.2.1. Change in Calculated Value of Current Liquidity



The stability of deposits was characterized by the ratio of the maturity of deposits and credits as well as by the value of the stability coefficient for the sources of funds³.

During the reporting period (Diagram 2.2.2.2) the gap between the average terms for attracting deposits and for placing credits continued to increase and as of 30.06.2011 it made 22.4 percentage points, which suggests the latent disintermediation⁴ risks that can complicate under certain circumstances the process of liquidity management. It is also necessary to take into account that a certain part of credits is financed by banks from other long-term sources different from the deposits (capital, long-term borrowings from the financial institutions, etc). This fact may to some extent decrease the potentiality of the above mentioned risk exposures.

Chart 2.2.2.2. Change in Duration of Banking System Loans and Deposits

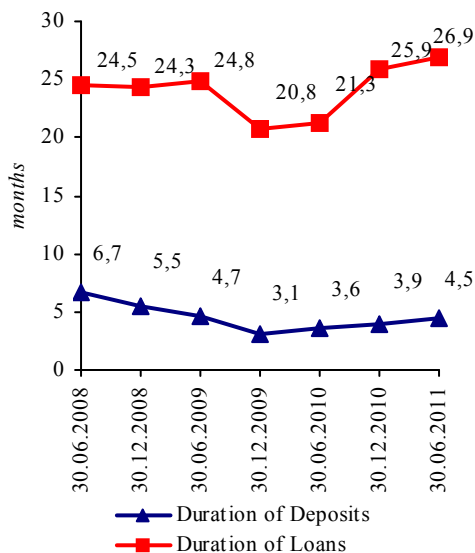


Diagram 2.2.2.3 demonstrates a change in stability coefficient for the sources of funds compared to the dynamic of the deposit base ratio to the 'net' credit portfolio.

In the first half-year, the share of time deposits was remarked to grow (from 32.0 as of 31.12.2010 to 34.5 percent according to the result of the first half of 2011) in the deposit base, which reflected the growth of the resource potential for increasing the terms of credits issued. Correspondingly, in the first half of

² Economic standard of current liquidity is one of the regulations specified by the NBKR, which is obligatory for meeting by banks; according to it, the liquid assets should be of at least 30 percent level of the short-term liabilities.

³ Stability coefficient for the sources of funds is defined by a share (as a percentage) of fixed deposits in the total amount of deposits of the banking system.

⁴ Disintermediation is a process of mass withdrawal of deposits by population prior to the specified time-limits due to the panic caused by escalation of inflationary expectations and/or other negative expectations.

2011 the duration of credits in the banking system increased from 25.9 to 26.9 months (refer to Diagram 2.2.2.2), which indicated some decrease of the risk when coordinating the terms between the sources and placing of funds.

Decrease of the ratio of the volumes of deposits and the level of 'net' credits with the value 1.2 according to the results of 2010 down to 1.1 according to the results of the first half of 2011 resulted in some increase of the attracted funds efficiency in the first half of 2011, although there was a certain liquidity stock for increasing credit operations (Diagram 2.2.2.3).

Table 2.2.2.4 shows data on the maturity of the financial assets and liabilities of banks as of 30.06.2011. As a whole, the financial liabilities of banks were covered by the financial assets; the "gap" (excess of assets over liabilities) amounted to Soms 15.3 billion, including Soms 12.6 billion for credits and deposits.

A negative gap was observed in the period of up to 90 days. Herewith, the calculations showed that the cumulative "gap" in the period of up to 180 days (that is till the end of the second half of 2011) can make 4.0 billion Soms or "minus" 6.3 percent) of the corresponding financial assets and require the banks to pay a special attention to assets and liabilities management for discharging their financial liabilities.

Chart 2.2.2.3. Assessment of Banking System Liquidity Factors

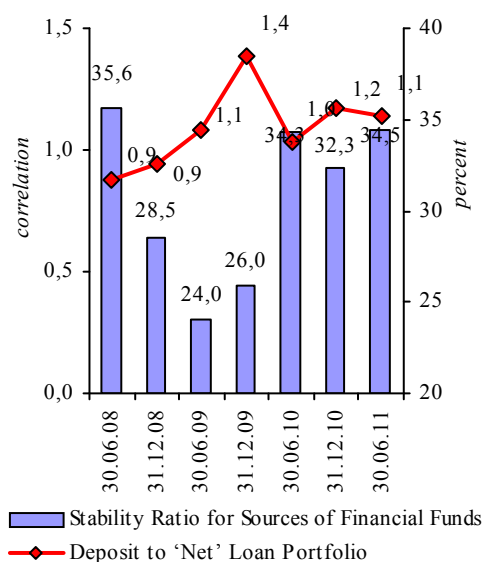


Table 2.2.2.4. Maturity of Financial Assets and Liabilities (mln.soms)

Name	Maturity					Total
	30 days	31-90 days	91-180 days	181-365 days	over 365 days	
1. Total Financial Assets	24 765,4	2 934,1	4 021,8	8 187,6	24 359,1	64 268,0
<i>including loans and financial lease to clients</i>	<i>1 097,4</i>	<i>1 279,7</i>	<i>2 413,1</i>	<i>5 329,9</i>	<i>18 407,0</i>	<i>28 527,1</i>
2. Total Financial Liabilities	28 316,8	4 977,4	2 476,7	4 901,6	8 334,5	49 006,9
<i>including deposits of natural persons and time deposits of legal entities</i>	<i>6 933,8</i>	<i>1 616,0</i>	<i>1 926,0</i>	<i>3 209,8</i>	<i>2 278,3</i>	<i>15 963,9</i>
3. Gap Total	-3 551,4	-2 043,3	1 545,1	3 286,1	16 024,6	15 261,1
<i>including gap on loans and deposits</i>	<i>-5 836,4</i>	<i>-336,3</i>	<i>487,1</i>	<i>2 120,0</i>	<i>16 128,7</i>	<i>12 563,2</i>

Chart 2.2.3.1. Change in Deposit Concentration

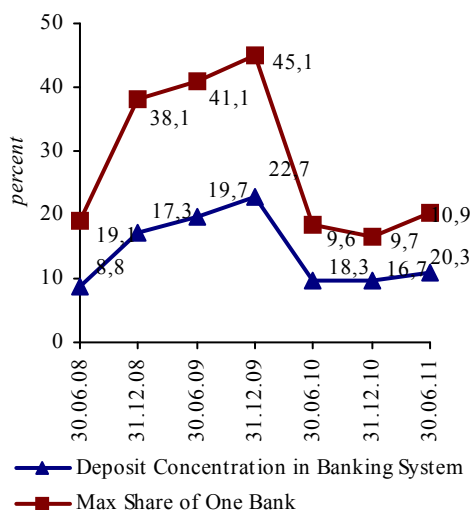


Chart 2.2.3.2. Deposit Concentration by Types of Currencies

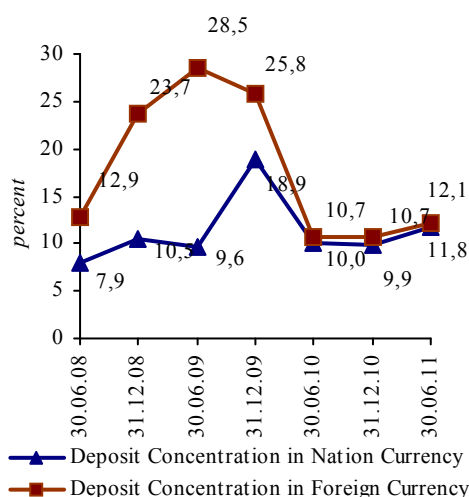
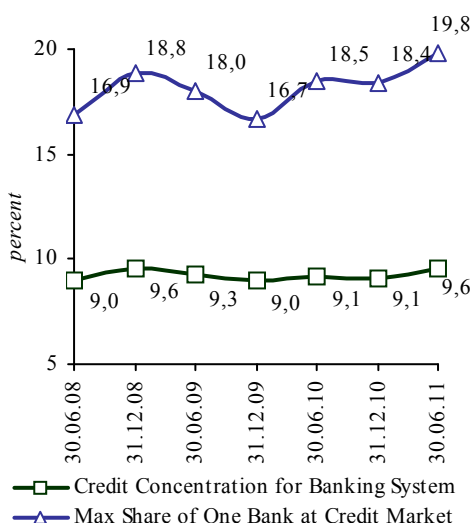


Chart 2.2.3.3. Change in Credit Concentration



2.2.3. Concentration Risk

Special Features of Deposits Concentration. Diagram 2.2.3.1 demonstrates that in the first half of 2011 the level of deposits concentration in the banking system and maximum share per bank in the deposit market increased. Concentration of deposit market among the participants⁵ became 'average' (higher than 10 percent) in terms of generally accepted gradation as compared to previous two periods (lower than 10 percent), and maximum share per bank increased from 16.7 to 20.3 percent.

Also the deposit concentration in the national and foreign currencies increased from 9.9 percent to 11.8 percent and from 10.7 to 58.1 percent correspondingly (Diagram 2.2.3.2).

Assessment of the concentration level in the banking system using another indicator - 'The share of four large banks' - also indicated the increase in deposit concentration from 55.6 percent to 58.1 percent; whereas the composition of these four large banks remained the same in the first half of 2011.

Special Features of Credits Concentration. In the first half of 2011 an increase in the credit portfolio of the banking system influenced the level of credits concentration. The maximum share of an individual bank in the credit market increased from 18.4 to 19.8 percent (Diagram 2.2.3.3).

Concerning the indicator of the 'share of four large banks' in terms of credit concentration we may note that it rose from 49.5 to 52.3 percent, while the composition of the four major banks during the first half of 2011 has not changed.

In the first half of 2011 the figure of credit concentration in foreign currency rose to 12.8 percent level, and in national currency increased by 2.2 percentage points from 9.1 to 11.3 per cent, the gradation credit concentration changed and became "moderate" (Diagram 2.2.3.4).

According to credit concentration risk analysis by the economics sectors have been observed the level fluctuation from 'low' to 'high', depending on the industry (Table 2.2.3.5). Have been increased the level of credit concentration in such industries as communications, procurement, processing, and social services, which indicates the activation of individual banks in lending to sectors mentioned in the first half of 2011.

⁵ Assessment of concentration risk as 'high', 'average' or 'low' is based on generally accepted gradation of the concentration level. Thus, concentration risk is deemed to be 'low' where the concentration level makes up to 10 percent; 'moderate' risk makes from 10 percent to 18 percent, and 'high' risk makes more than 18 percent. For example, the concentration index equal to 50 percent is equivalent to the market presence of 2 participants with equal shares; where it amounts to 33 percent, the concentration index is equivalent to 3 participants, etc.

The structure of the aggregate bank loan portfolio in the first half of 2011 have been observed some increase in share of loans to agriculture and trade, at the same time construction loans and mortgages have been decreased. In the structure of the aggregate bank loan portfolio highly increased proportion of loans to trade, agriculture and the mortgage, what indicates the relatively high risks of lending to these sectors by the individual banks (see Table 2.2.3.6).

Thus, during the first half of 2011 the moderate concentration of deposits and loans by currencies and sector purposes is noted in the banking system of the Kyrgyz Republic on the whole. The concentration of loans has been showing increase on the credits in both national and foreign currency. The level of loans concentration by the economic sectors in the banking system ranges from 'low' to 'high'.

Chart 2.2.3.4. Credit Concentration by Types of Currencies

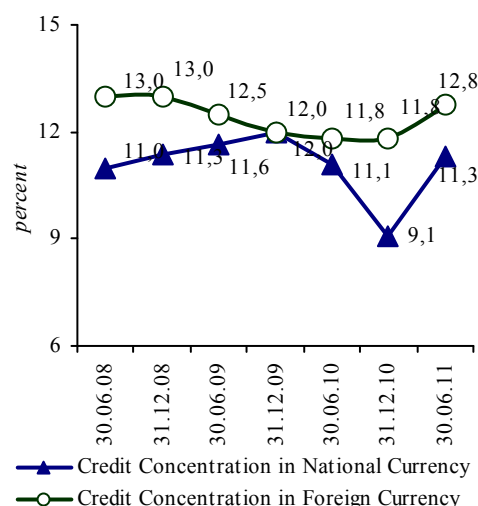


Table 2.2.3.5. Concentration Banks Activities on Lending to Sectors of National Economy (percentage) *

	31.12.08	30.06.09	31.12.09	30.06.10	31.12.10	30.06.11	Variance to the previous period (percentage points)
Industry	18,6	15,7	15,8	15,5	18,7	15,8	-2,9
Agriculture	50,3	50,0	48,6	43,9	42,0	38,8	-3,2
Transportation	24,3	23,3	20,5	20,7	19,7	20,2	0,5
Communication	72,6	67,2	97,3	75,0	73,1	86,9	13,8
Trade	11,5	10,9	11,9	11,0	7,1	8,3	1,3
Procurement and Processing	32,7	34,8	39,9	30,9	23,4	35,3	11,9
Construction	13,5	12,0	12,0	10,5	10,6	12,3	1,7
Housing Lending	17,9	17,8	19,1	20,6	21,6	24,1	2,5
Household	11,7	12,2	11,8	11,4	12,1	12,1	-0,0
Social Services	65,5	40,1	40,6	41,5	41,2	49,1	8,0
Other	15,5	16,6	18,0	18,2	18,0	22,1	4,2

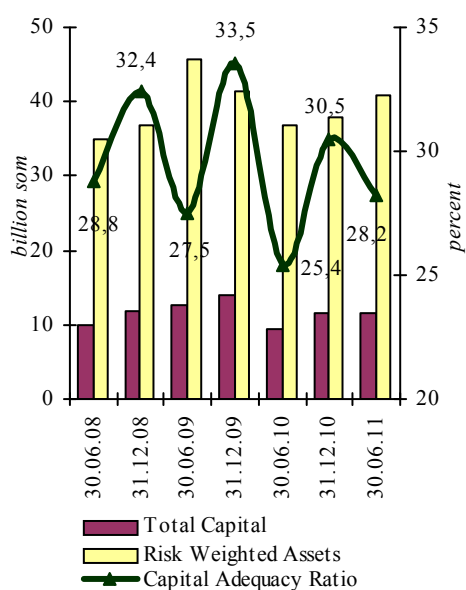
* Concentration is defined on the basis of a Herfindahl index that is calculated as the sum of squares of shares of banks in the total volume of lending to the sector. A concentration index equaling to 100% means complete monopolization of the market, 50% means 2 participants with equal shares and 3% means 3 participants, and so forth.

Table 2.2.3.6. Credit Portfolio Structure of Banks by sectors of National Economy

	31.12.08	30.06.09	31.12.09	30.06.10	31.12.10	30.06.11	Variance to the previous period (percentage points)
Industry	5,7	6,1	5,5	5,3	5,6	5,7	0,05
Agriculture	11,5	12,1	12,2	13,0	12,7	14,0	1,28
Transportation	1,0	1,0	1,0	1,1	1,3	1,2	-0,02
Communication	0,5	0,4	0,1	-	0,0	0,0	0,01
Trade	36,1	38,2	41,5	43,0	43,0	44,7	1,72
Procurement and Processing	0,5	0,4	0,4	0,3	0,2	0,2	0,09
Construction	9,5	8,5	7,7	7,5	7,7	6,1	-1,65
Housing Lending	14,0	13,2	12,3	11,4	10,8	9,6	-1,16
Household	8,3	7,8	8,0	7,3	7,1	7,7	0,61
Social Services	0,4	0,2	0,1	0,2	0,3	0,5	0,18
Other	12,4	12,2	11,2	10,9	11,3	10,2	-1,10
Total	100,0	100,0	100,0	100,0	100,0	100,0	x

2.3. Capital Adequacy

Chart 2.3.1. Change in Capital Adequacy Indicators of Banking System



Eventually all risks inherent in banking activity are reflected on the financial result from this activity (both as having already developed in the form of direct losses and as having high degree of probability of future losses through expenses for establishing appropriate reserves) and affect the size of own funds of the bank that is its capital. Therefore the capital amount defines the bank's stability before present and future negative changes in external and internal environment.

In establishing the minimum value of the capital adequacy ratio at 12.0 per cent, on the average for the banking system this indicator remained sufficiently high and was 28.2 per cent according to data of the first half of 2011 (Diagram 2.3.1). As it seen from the given diagram, the growth of assets according to risk levels became the main factor for decrease of the capital adequacy indicator in the first half of 2011, with total capital of commercial banks decrease.

At the same time the actual capital adequacy level (28.2 per cent) permits to additionally increase the volume of risky and income-earning assets by more than two and half times without exceeding the allowable risk level in the overall operation of the banking system.

Aforesaid shows the stability of the banking system against negative shocks in the first half of 2011. Moreover, there is potential for expanding financial intermediation level and improving efficiency of banking system in the future.

2.4. Financial Results

Return on assets defined as the ratio of profit received to average assets is the main profitability indicator of the banking activity as well as return on equity defined as the ratio of profits to the average size capital of First level.

Following the results of the first half of 2011 in the banking system of the Kyrgyz Republic the annualized return on assets was 2.7 per cent (1.2 per cent following the results of last year); the annualized return on equity was 14.4 per cent (7.1 per cent following the results of last year).

Due to the higher interest income, the main indicators of profitability of the banking system to the average value of assets showed increase in net interest income (from 6.0 to 7.0) (table 2.4.1).

Table 2.4.1. Main Profitable Indicators of the Banking System
(percentage to average assets (half a year))

	30.06.09	31.12.09	30.06.10	31.12.10	30.06.11
Interest Income	10,0	9,6	9,3	8,3	9,8
Interest Expenses	3,6	3,3	2,8	2,3	2,8
Net Interest Income	6,4	6,3	6,5	6,0	7,0
Allocation to ALL on Loans	0,9	0,6	2,3	1,1	0,2
Net Interest Income after Allocation to ALL	5,5	5,7	4,1	4,9	6,8
Non-interest Income	17,8	16,8	16,7	18,8	25,0
Non-interest Expenses	13,8	12,5	13,1	15,2	20,6
Non-credit Operation and Administrative Expenses	6,4	6,8	7,2	6,5	7,8
Allocation to ALL on Non-credit Operation	0,3	0,3	11,5	0,4	0,3
Net Profit (Loss) before Tax	2,8	2,8	-11,0	1,5	3,2
Profit Tax	0,3	0,3	0,2	0,2	0,3
Net Profit (Loss)	2,5	2,5	-11,2	1,2	2,8
Average Assets Indicator for period (billion som)	61,6	64,1	63,8	60,9	55,6

Observing non-interest income and expenses, the increase of non-interest income and expense have been indicated (from 18.8 to 25.0 per cent to average assets level). At the same time the level of banks operation and administrative expenses increased on 1.3 percentage points.

The level of profit tax deductions practically remained the same, therefore net profit of the first half of 2011 was 2.8 per cent to the average assets of banks.

In absolute terms net profit of the banking system was Som 0.79 billion following the results of the first half of 2011 (during the same period in 2010 the loss was Som 3.6 billion), the net profit of 2010 was Som 0.74 billion (diagram 2.4.2)

Chart 2.4.2. Change in Return on Assets

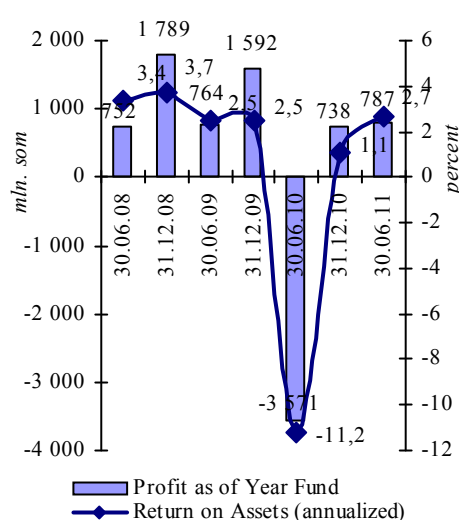
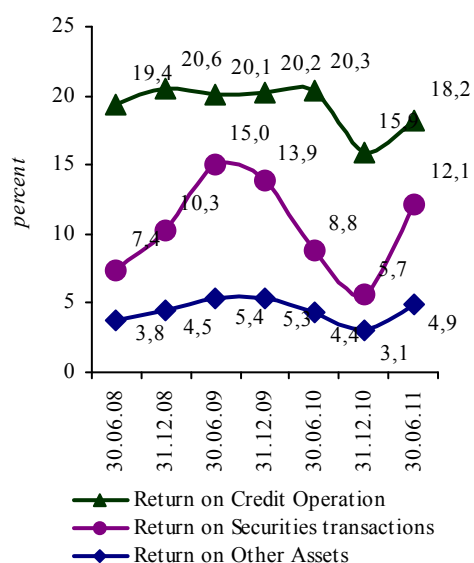


Chart 2.4.3. Return by Certain Types of Operation



Profitability of loan portfolio defined as the ratio of interest income on loans to the average debt balance on loans, increased on 2.3 percentage points, and in the first half of 2011 amounted 18.2 per cent (diagram 2.4.3). This increase was due to the improved credit quality of the banking system.

On the 30.06.2011 the ratio of assets to the number of employees was Som 7.0 million (on 31.12.2010 - Som 6.8 million). The marked increase of this index was associated with the increase in total assets by 6.0 per cent, and lower rate of growth of the employees' number by 4.1 per cent.

Thus, the banking system in the first half of 2011 has showed overall profitability despite the losses of the problem banks. The level of the average standard of capital adequacy of the banking system reflects the possibility of further expansion of active operation of banks. The factor for the effectiveness of the assets could be a further increase of the share of income-earning assets.

2.5. Financial Intermediation Indicators

The role of the banking system as a financial agent accumulating financial resources for their further allocation among sectors of economy directly depends on the level of development and efficiency of its operation.

Following the results of the first half of 2011 the volume of deposits¹ to GDP² was 15.2 percent (13.9 per cent as of the same period of time in 2010), and following the results of 2010 was 14.8 per cent (diagram 2.5.1). The increase of this index is due to the continued trust to the banking system and the positive growth rate of deposits (8.2 per cent).

The share of total distributed loans to clients to GDP was 12.3 per cent and decreased by 0.1 percent points in comparison with 2010 (diagram 2.5.2).

By 30.06.2011 the volume of loans was Som 28.5 billion, and increased by 8.4 per cent since the beginning of 2011.

The ratio of debt on loans to the volume of deposits increased slightly since the beginning of the year amounted to 81.4 per cent against 81.2 per cent by the end of 2010, which was due to the slight ahead of the growth rate of loans to deposits (diagram 2.5.3).

By 30.06.2011 average weighted interest rate on newly issued loans in national currency was 24.2 per cent (increased by 1.1 percentage points compare to 31.12.2010). Average weighted interest rate on newly issued loans in foreign currency increased by 1.4 percentage points and following the results of the first half of 2011 was 19.5 per cent.

The average weighted interest rate on newly accepted deposits in national currency was 3.08 per cent (increased by 1.08 percentage points compare to the end of 2010). The average weighted interest rate on newly accepted deposits in foreign currency decreased by 0.17 percentage points in the first half of 2011 and amounted 0.84 per cent.

The continued high spread rate was due to the influence of credit risk's high level and of unmet demand for loan funds.

From the perspective of financial intermediation, the decrease of the total assets ratio to GDP has been marked (diagram 2.5.4). Thus, in the first half of 2011 this ratio was 26.6 per cent, in 2010 it amounted 27.6 per cent.

Chart 2.5.1. Movement in Deposits and Deposits to GDP

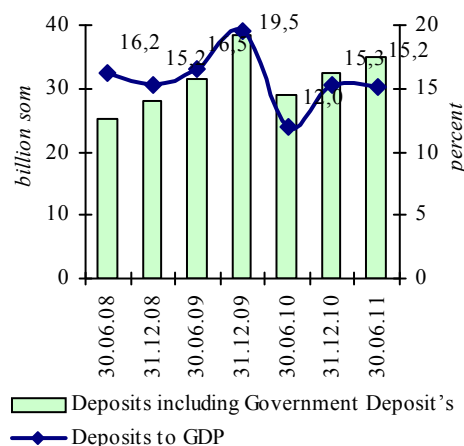


Chart 2.5.2. Movement in Loans and Loans to GDP

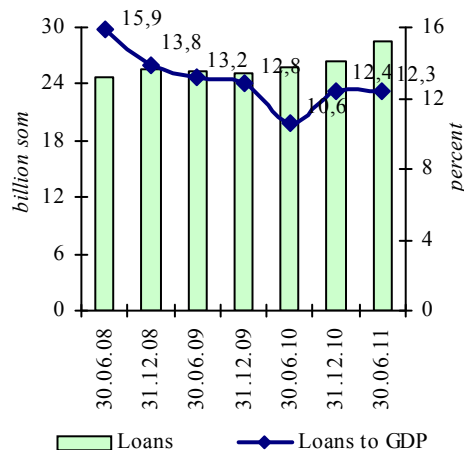
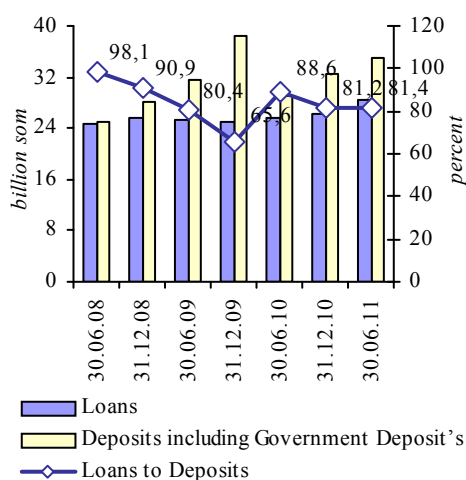


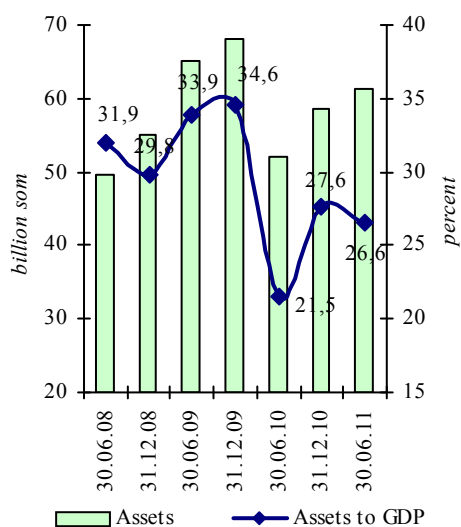
Chart 2.5.3. Movement in Loans on Deposits



¹ In this section, deposits mean deposits of the population, enterprises and also of the Government and other public authorities of the Kyrgyz Republic.

² Actual GDP data for the past 12 months is taken into account.

Chart 2.5.4. Movement in Assets and Assets to GDP



The current level of financial intermediation performance is still relatively low, and due to this fact there is an opportunity for further expansion of the banking system's active operations.

Available in the commercial banks cushion suggests that the short-term banking system can withstand moderate shocks.

III. NON-BANK FINANCE AND CREDIT INSTITUTIONS

3.1. Status of the System of Non-Bank Finance and Credit Institutions

The system of non-bank finance and credit institutions (NBFIs) includes the following institutions that are subject to regulation and supervision by the NBKR (see table 3.1.1):

- Financial Company for Support and Development of Credit Unions (FCSDCU);
- Specialized Bank Refinancing Fund (LLC SFRB);
- Credit Unions (CUs);
- Microfinance organization (MFOs), including microcredit companies (MCCs), microcredit agencies (MCAs) and microfinance companies (MFCs);
- Exchange offices.

Table 3.1.1. Movements in the number of non-bank finance credit institutions

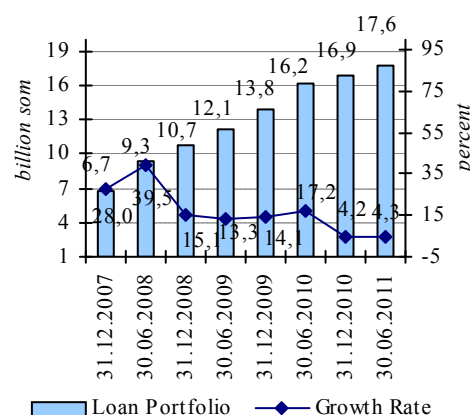
Name	2007	2008	2009	30.06.2010	2010	30.06.2011
LLC SFRB	-	-	1	1	1	1
Development Fund	-	-	1	-	-	-
FCSDU	1	1	1	1	1	1
MFOs	233	291	359	380	397	424
Credit Unions	272	248	238	229	217	207
Lombards	181	196	231*	-	-	-
Exchange offices	318	353	372	336	290	274
Total	1005	1089	1203	947	906	907

* Data as of 01.09.2009. Licenses withdrawn from 01.09.2009

It has been observed a decrease in the number of NBFIs due to the reducing of the number of credit unions and foreign exchange offices.

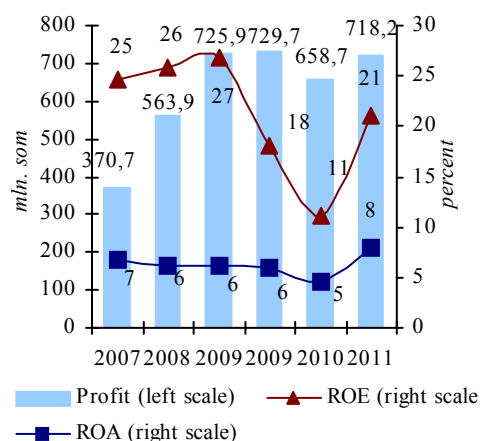
According to the regulatory report as of 06.30.2011, the total assets of NBFIs amounted to Som 17.6 billion¹ (without aggregate assets and liabilities by MFI's currency risk hedging instruments) and in compare with the results of 2010 (including aggregate assets and liabilities by currency risk hedging of MFI's instruments 31.12.2010 - Soms 16.9 billion) increased by 4.3 per cent or Som 732.0 million (see chart 3.1.1), and growth in assets for NBFIs during the first half of 2011 amounted to Som

Chart 3.1.1. Movement in Aggregate Assets of NBFIs.



¹ Hereinafter assets and loan portfolio of NBFIs are shown without assets of FCSDCU that is related to the fact that the loan portfolio of FCSDCU is already included in assets of CUs and commercial banks.

Chart 3.1.2. Dynamics of net profit and indices ROA and ROE of non-banking financial and credit institutions



26 billion or 18.0 per cent (31.12.2010 - Som 15.0 billion, without aggregate assets and liabilities by MFI's currency risk hedging instruments).

During the first half of 2011, the increase of NBFI's equity capital amounted to 21.0 per cent, with total liabilities of NBFIs decreased by 1.2 per cent. Compared to the same period in 2010 an increase of NBFI's equity capital was 31.9 per cent, and total liabilities of the NBFI amounted to 10.1 per cent.

In the first half of 2011 the total NBF² profit amounted to Som 718.2 million (see chart 3.1.2). The level of the current year profit increased almost 2 times more than profit of the first half of 2010 (Som 359.9 million). The main reason of the increase was an increase in the loan portfolio and NBFI's slight rise in interest rates on loans and a decrease in the special reserve for losses and losses on loans.

² NBFI's total profit is shown without assets of FCSDCU and SFRB.

3.2. Structure and Development of Loan Portfolio

Lending is the main direction in activities of non-bank finance and credit institutions.

During recent years NBFI credit portfolio (see chart 3.2.1) was showing increasing trends, despite the reduction in the number of NBFIs.

During the first half of 2011 the total loan portfolio of NBFIs increased by 2.9 billion, or 26.0 per cent, to the amount of 14.0 billion. The increase in the total portfolio in absolute terms over the same period in 2010 amounted to 3.8 billion or 36.3 per cent.

In this period of time the share of loan portfolio in total assets of NBFIs increased from 63.1 per cent as of June 30, 2010 to 79.2 per cent as of June 30, 2011 (as of December 31, 2010, the share of loan portfolio in total assets amounted to 65.6 per cent).

Compare to the same period in 2010 an increase in the number of NBFIs borrowers had been noted and added 80 628 people, or 22.6 per cent, which in total amounted to 437 250 people. Compared to the beginning of 2010 an increase in the number of borrowers was 11.8 per cent, or 46,020 people. Sustained growth in the number of borrowers indicates the demand for MFIs services among the population.

In the structure of the NBFIs aggregate loan portfolio (see chart 3.2.2), 91.2 per cent of loans accounted for microfinance institutions and 8.8 per cent are CU's credits.

Dynamics of changes in the loan portfolio by sectors and regions reflects the stability of the preferences to NBFIs. Thus, by regions defining (see chart 3.2.3), the bulk of the loan portfolios is concentrated in Osh, Jalal-Abad Oblasts and Bishkek. On the whole, the regional activity is the highest in the south of the country and in the capital in view of higher population density and its economic activity in agricultural and trade sectors.

In the first half of 2011 the highest volume of loans of NBFIs was aimed at agricultural that was 49.3 per cent and 28.3 per cent for trade and services (see chart 3.2.4). Sufficiently high proportion of loans in agriculture sector is determined by MFIs regional branching and features of CU's activity, as rural financial institutions. Concentration of credit in trade is dictated by the

Chart 3.2.1. Movement in Loan Portfolio of NBFIs

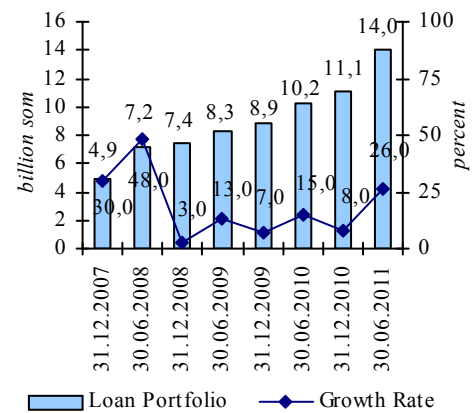


Chart 3.2.2. Aggregate Loan Portfolio by Types of NBFIs (Som Million)

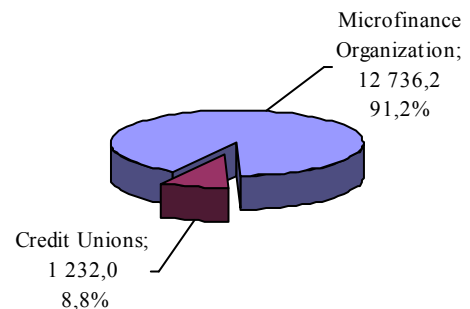


Chart 3.2.3. Aggregate Loan Portfolio of NBFIs by Oblast

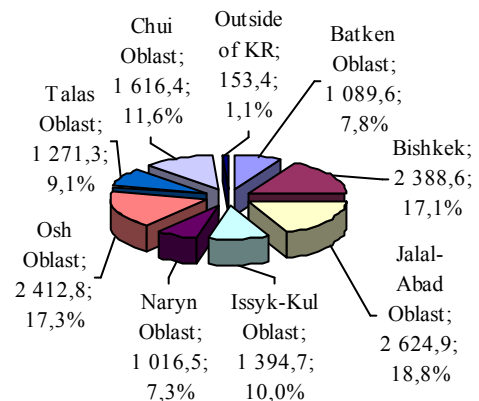
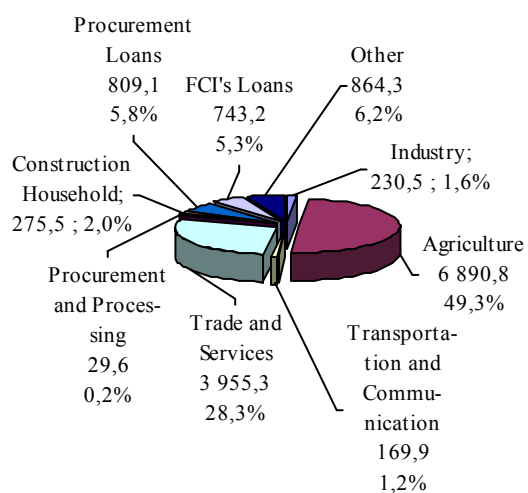


Chart. 3.2.4. Aggregate Loan Portfolio of NBFIs by Sectors of Economy



specifics of NBFIs activity: small loans usually are short-termed and have a high rate, what determines the reference point for the sector with a higher turnover funds.

3.3. Primary risk

By sectors of economy the loan portfolio of NBFIs is primary concentrated in agriculture and related business that is located in rural area. Lending to this area is connected with high risks due to dependence on weather and climatic conditions, and relatively small income of rural population.

There was a seasonal increase in the share of loans in agriculture sector, which from the beginning of the year has increased from 45.0 per cent to 49.3 per cent.

Concentration is another factor of risk. The main share of the loan portfolio has 7 large MFIs, which had been established and operated by foreign donors. The share of these MFI's loan portfolio is 85.2 per cent of total NBFIs loan portfolio. The NBFIs growth trend is due to the increasing volume of foreign investment.

Interest rates on loans to non-bank credit institutions remain at the high level, due to the continuing high demand for these types of loans, as well as the desire to cover existing NBFIs high risks and costs associated with the issuing and servicing the loans.

Table 3.3.1. The weighted average interest rates on loans of non-bank financial institutions (per cent)

Name	2007	2008	2009	30.06.2010	2010	30.06.2011
KAFC	14,3	13,5	14,6	15,1	15,5	15,6
* FC SDCU	-	-	3,5	-	-	-
organization	32,9	32,4	34,5	31,7	31,7	38,5
Credit Unions	25,8	28,0	29,5	28,4	30,7	28,8
** Lombards	167,9	132,3	-	-	-	-

* By resolution of the National Bank 29/ 1 from 07.05.2010, "Kyrgyz Republic Development Fund" license № 4 of 02.09.2009 is withdrawn, on the basis of the Decree № 31 PGKR from 30.04.2010

** Data are not available due to termination of the lombards licensing

IV. PAYMENT SYSTEM

4.1. Structure of Payment System

Payment system constitutes an interrelated system of technologies, procedures, payment instruments and money transfer systems that provides monetary circulation. In depend of payment settled types the systems can be categorized as the large-value payment systems and the retail payment systems.

The payment system of the Kyrgyz Republic (the national payment system) constitutes an aggregate of payment systems that operate on the Kyrgyz Republic territory and transfer monetary assets in compliance with the Kyrgyz Republic legislation. The operator of payment systems may be both residents and non-residents of the Kyrgyz Republic.

As of the end of the first half of 2011, the following components of the payment system were operating in the Kyrgyz Republic:

1. Real-Time Gross Settlement System for urgent and large payments relating to financial markets (RTGS).
2. Bulk Clearing System - the System for recurring and non- urgent low value payments of Package Clearing of Small Retail and Regular Payments (PBCS).
3. Card Payment systems.
4. Remittance Systems.

4.2. Banking Products, Rates and Services

Banks apply different approach to services charge:

- fixed rates for single transactions;
- rates, prescribed regarding of the transaction amount or the account balance;
- charge for a period regardless of the number or an amount of performed operations;
- other mechanisms complied to the agreement conditions.

The most popular services are as follows: settlement and cash services, documentary transactions, non-cash transfers, securities transactions, credit issue operations and payment cards service.

Upon the clients' instructions, commercial banks perform the following transactions:

- collecting, documentary credit and transfer operations;
- providing bank acceptance and aval for debt liabilities;
- transactions with credits and deposits;
- purchase and sale of securities, currency and precious metals;
- intermediation in allocations of stocks and bonds;
- encashment services;
- services for the accounting purposes, providing consulting and credit cards services.

In the reviewing period, the rate of the services on issuance (opening) of the letter of credit was from 0.2 to 3.0 per cent on average, regarding of the amount of the letter of credit.

In the first half of 2011, 22 banks provided

Table 4.1.1. List of Bank Servicing Money Transfer System

Commercial Bank Name	Money Transfer System
Amanbank	UNistream, Western Union, Money Gram, Contact, Anelik, Leader, Migom, Xpress Money, InterExpress, Allure, Zolotaya Korona, Blizko, Private Money
Ayil Bank	Contact, UNIstream, Migom, Leader, Western Union, Money Gram, InterExpress, Anelik, Zolotaya Korona, Allure, Blizko, Xpress Money, Privat Money, Faster
AkylInvest Bank	UNistream,, Migom, Contact, Leader,
Bank of Asia	Western Union, Contact, Anelik, Leader, Migom, UNIstream, Blizko, Zolotaya Korona, InterExpress, Money Gram, Faster
Bank Bakai	Western Union, Money Gram, Contact, Leader, Migom, UNIstream, Allure, Zolotaya Korona , Allure, Bystraya Pochta
Demir Kyrgyz International Bank	Western Union, Anelik, UNIstream
DosCredo Bank	Western Union, Contact, Anelik, Leader, Migom, UNIstream, InterExpress, Blizko, Zolotaya Korona
Issyk Kul	Western Union, Money Gram, Contact, Anelik, Leader, Migom, Bystraya Pochta, UNIstream, Blizko, Allure, Private Money, Zolotaya Korona
BTA Bank	Western Union, Money Gram, Contact, Anelik, Leader, Migom, Bystraya Pochta, UNIstream, InterExpress, Blizko, Zolotaya Korona, Caspian Money Transfer
Halyk Bank Kyrgyzstan	Western Union, Contact, Leader, Migom, UNIstream, Zolotaya Korona
Kyrgyz Investment and Credit Bank	Western Union, Leader, UNIstream, Migom, Anelik, Zolotaya Korona., Blizko, Contact
KazCommertzbank	Western Union, Bystraya Pochta
KyrgyzCredit Bank	Western Union, Contact, Anelik, Leader, Migom, Bystraya Pochta, UNIstream, Blizko, Zolotaya Korona, Allure, Money Gram
KB Kyrgyzstan	Western Union, Zolotaya Korona, Contact, Leader, Migom, Bystraya Pochta, UNIstream, Anelik, InterExpress, Faster
RSK Bank	Western Union, Leader, Migom, UNIstream, Bystraya Pochta, Money Gram, Zolotaya Korona
Tolubai Bank	Western Union, Zolotaya Korona, Contact, Leader, Migom, UNIstream, Blizko
EcoIslamic Bank	Western Union, Contact, Anelik, Leader, Migom, UNIstream, Allure, Bystraya Pochta, Zolotaya Korona, Coinstar, InterExpress
UniCreditBank	Western Union, Leader, Migom, Bystraya Pochta, Zolotaya Korona, UNIstream
National Bank of Finance Credit Bank	Western Union
Manas Bank	Anelik, Contact, Leader, Migom, Money Gram, Coinstar, Western Union, Unistream, Faster
	Contact, Leader, Migom, Western Union, Unistream, Zolotaya Korona

services for issuing banking guarantee. The value of this service depended on the amount and type of a pawn; in the reviewing period the commission fees for issuing banking guarantee made from 0.3 to 5.0 percent.

Commercial banks provided services within 18 types of remittance systems (Table 4.1.1).

The rate for connecting to the Internet banking services depended on the way of accessing. The following banks provided the services of Internet banking during the reviewing period: the OJSC RK Amanbank, the CJSC Demir Kyrgyz International Bank, the CJSC ACB Tolubai, the OJSC FinansCreditBank CAB, the OJSC Kazcommertzbank Kyrgyzstan, the OJSC UniCreditBank, OJSC "Dos-KredoBank", OJSC "BTA Bank", CJSC "KICB", and OJSC "Commercial Bank Kyrgyzstan".

4.3. Cash and Non-Cash Circulation

4.3.1. Cash circulation

The total amount of money in circulation as of the end of the first half of 2011 constituted 45.5 billion soms, and having increased by 8.6 billion soms or 23.3 percent as compared to the corresponding period of 2010. In the vaults of commercial banks was 2.0 billion soms, which accounted as 4.4 percent of the total money in circulation. The dynamics of money in circulation is represented on the chart 4.3.1.1.

The increase of money in flow is associated with the increased state payments for social benefits and sustains need of the economy in cash. During the first half of 2011 repayment of cash to commercial banks amounted to 97.1 percent, what is 2.6 percentage points less than in the first half of 2010. Reduced recurrence of cash was due to the increase of cash withdrawals from commercial banks (chart 4.3.1.2).

The highest rate of cash repayment for the first half of 2011 amounted to 110.7 percent and located in Osh, in Chui Oblast this number was 105.4 percent, in Bishkek repayment of cash amounted to 104.3 percent. The lowest rate was noted in Naryn Oblast and amounted to 63.3 percent (chart 4.3.1.3). In Osh high rate of cash repayment was related to the more saturated consumer market, although, in general, in the Osh region the percentage of cash repayment is low. The high rate of cash repayment in Bishkek city and Chui region is associated with a concentration of banking and financial institutions, retail and industrial businesses in the capital and Chui region. Compared to the first half of 2010 cash repayment in different regions has not changed significantly.

Thus, the increase of cash in circulation is conditioned by real needs of the economy in cash and reflects the increase of demand for it.

4.3.2. Non-cash circulation

As per results of the first half of 2011, there were processed 603 689 payments in aggregate amount of 250.7 billion soms through the payment systems of the Kyrgyz Republic. In compare to indicator of the second half of 2010, the value of payments increased by 6.9 percent, the volume of payment decreased by 0.8 percent (chart 4.3.2.1)

The value of incoming payments of the Central Treasury Fund increased in the first half of 2011 by 2.3 percent compared to the second half of 2010 and decreased by 8.8 percent over the

Chart 4.3.1.1. Dynamic of Money in Circulation

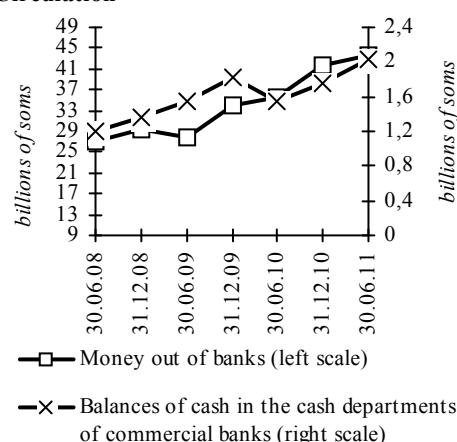


Chart 4.3.1.2. Receipt and Issue of Cash Money and Their Return to Cash Departments of Commercial Banks

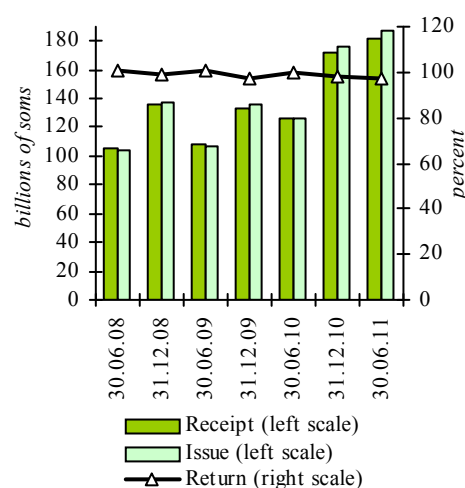


Chart 4.3.1.3. Indicator of Cash Return by Regions

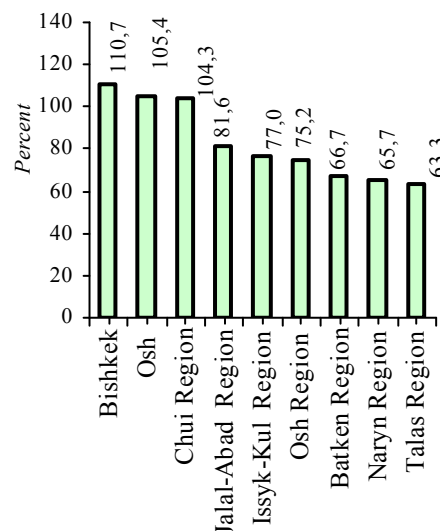
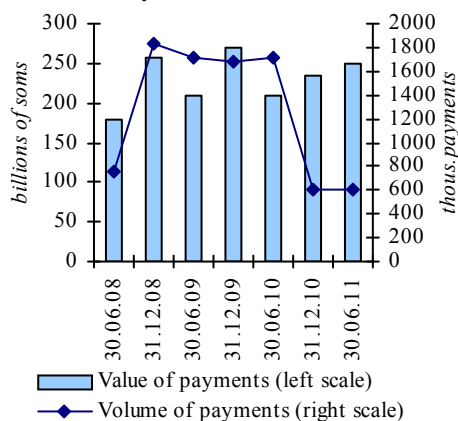


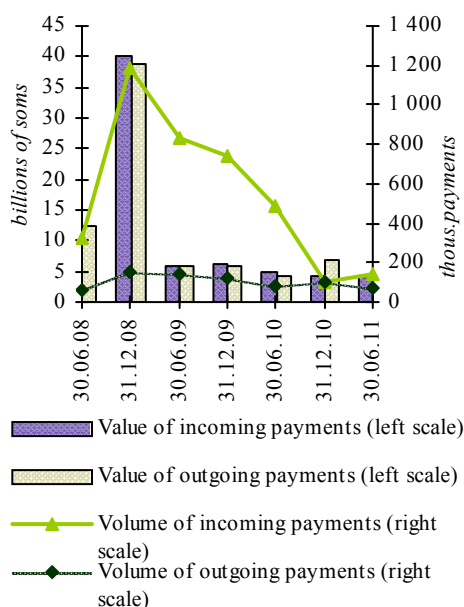
Chart 4.3.2.1. Dynamic of Value and Volume of Inter-Bank Payments



same period in 2010; and the value of outgoing payments of the Central Treasury decreased during the first half of 2011 by 29.9 percent as compared to second half of 2010 and increased by 13.7 percent over the same period in 2010 (chart 4.3.2.2.).

In the first half of 2011, 59 840 payments for the amount of 221.5 billion soms were effected through the gross settlement system of the National Bank of the Kyrgyz Republic. As compared to the corresponding period last year, the value of the payments increased by 23.1 percent and the volume of payments increased by 22 percent (chart 4.3.2.3.). The value of payments, effected through the clearing system increased by 10.6 percent as compared to indicator of the first half of 2010 and constituted 29.2 billion soms. The overall volume of payments was 543 849, it was by 42.4 percent less than for the comparable period of 2010 (chart 4.3.2.4.).

Chart 4.3.2.2. Dynamics of values and volumes of incoming and outgoing payments of the Central Treasury



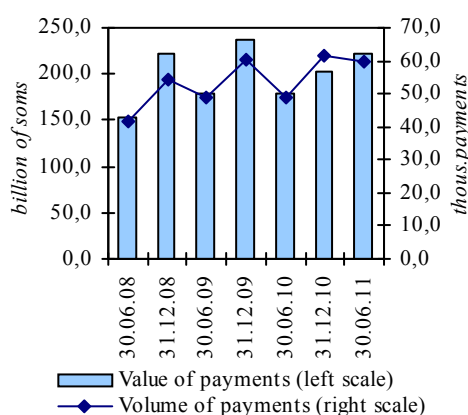
In the regional context of payments in the inter-bank payment system, the largest shares by value (92.2 percent from the total value) and volume (69.7 percent from the total volume) were concentrated on the Chui region and Bishkek city.

4.3.3. Payment cards settlement systems

At the end of the first half 2011, 21 of 22 commercial banks, provided issue and acquiring of payments cards: 8 of them are issue cards of international systems, 4 banks - cards of local system and 17 banks - cards of national system *Elcard*.

During the reviewing period, the cards of the national system *Elcard* were serviced by 144 ATMs (automated teller machines) installed throughout Bishkek and by 566 terminals; among them 425 terminals were installed in branches and savings departments of the commercial banks as well as 141 terminals were installed in the trade-service centers and in the public places around Bishkek as well as in the region and district centers.

Chart 4.3.2.3. Dynamics of value and volume of payments in Gross System



As of June 30, 2011 commercial banks issued 53 548 payment cards of national system *Elcard*.

During the first half of 2011 there was an activation in the payment cards market; an increase in the number of issue cards and transactions with their use was indicative of this. Thus, the overall volume of issuing cards made 237 124 as of June 30, 2010, that constituted the 34.1 percent increase against the comparable period of the previous year (Chart 4.3.3.1.).

The overall volume and value of the transactions performed with cards relative to increased by 30.5 percent and 64.6

percent, correspondingly, against the comparable period of 2010 (Chart 4.3.3.2).

As before, the principal share of the effected transactions fell within the withdrawal of monetary assets ATM and terminals; their value accounted for 9.8 billion soms of the total volume of transactions, while their turnover in the retail-and-service enterprises amounted to 496.6 million soms. These data indicate that converting money into cash constituted more regular and demanded type of transactions and accounted for 95 percent of the overall volume of transactions with use of cards.

One of the priority areas of banks development strategy is increasing the number of bank accounts and implementing the 'payroll' projects on the basis of the international, local and national cards systems. Due to these very projects, the banks achieve a sound increase in the cards emission and transactions value; this allows to make a considerable progress towards strengthening the position of banks in the bank cards market.

In the first half of 2011, 21 commercial banks made arrangements to implement and expand the 'payroll' projects on the basis of the international, local and national cards systems.

In total, the banks issued 59 163 cards within 463 'payroll' projects, which accounted for 24.9 per cent out of the total number of the cards issued.

Commercial banks continue developing the infrastructure for accepting and servicing cards. Thus, as of June 30, 2011, the overall number of the terminals and ÀÒÌ amounted to:

- 144 ATMs and 566 terminals for the national card payment system *Elcard*. As a result of the integration of the card payment system, all the ATM of the international systems and 46 terminals of the local system *Alai-Card* accepted the national payment card *Elcard* for servicing;
- 163 ATMs and 1000 terminals for the international systems Visa and MasterCard;
- 61 ATMs and 220 terminals for the *Alai-Card*.

Thus, the bank payment cards were accepted for servicing by 368 ATMs and 1 786 terminals, installed in public places all over the country's territory.

4.3.4. Trans-Boundary Payments including Travel Cheque Transactions

As of the end of the first half of 2011, 22 banks of the Kyrgyz

Chart 4.3.2.4. Dynamics of value and volume of payments in Clearing System

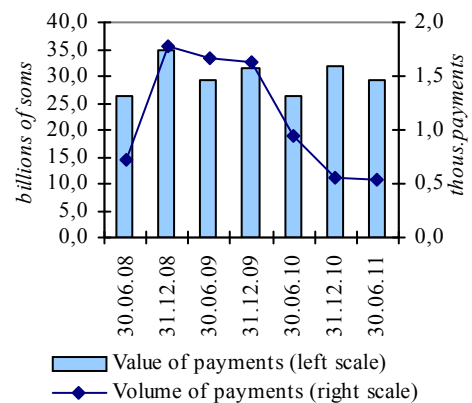


Chart 4.3.3.1. Dynamics of the number of emitted cards

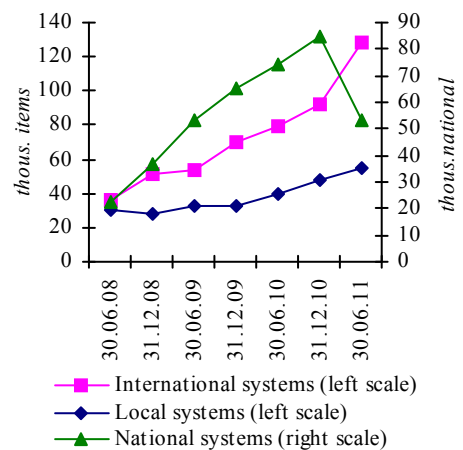


Chart 4.3.3.2. Dynamics of value and volume of transactions with the use of banking cards

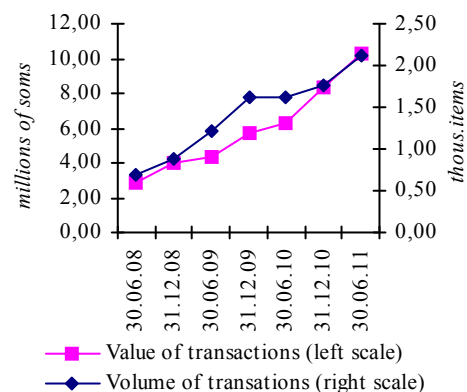
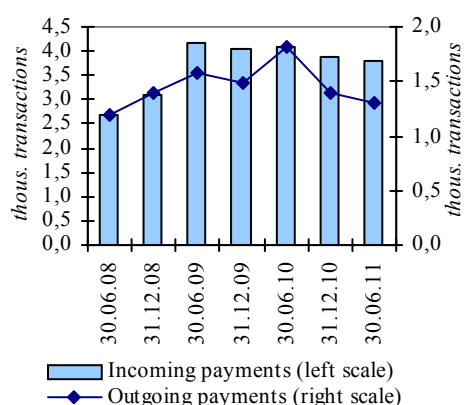


Chart 4.3.4.1. Dynamic of Transactions in the SWIFT System

Republic (including the National Bank of the Kyrgyz Republic) were the SWIFT members. 19 banks (including NBKR) operated through the Center of multiple access SWIFT (CMA SWIFT), 3 banks were connected independently, and 1 bank operated through its head office in Kazakhstan - OJSC "Kazkommerzbank Kyrgyzstan".

In the first half of 2011, the number of the outgoing payments amounted to 1 349, and the incoming payments made 3 777, which constituted 2.6 per cent decrease and 7.1 per cent decrease, correspondingly, as compared to the second half of 2010; as compared to the corresponding period of 2010, the decrease constituted 7.1 and 28.2 per cent correspondingly (Chart 4.3.4.1.). The principal share of payment value in currency nominal values was accounted in US dollars.

7 of 22 commercial banks of the Kyrgyz Republic provided services for the travel cheque transactions. In the first half of 2011, the 2 305 number of transactions using travel cheques amounted with the total value of 39.1 million soms. Non-residents of the Kyrgyz Republic have still remained the main consumers of the travel cheques.

V. STATUS OF THE REAL SECTOR

5.1. Households

In January-June 2011 the nominal average monthly salary (not including small enterprises) was 8 185 KGS, having increased by 1.8 percent in real term against 9.4 percent in January-June 2010. In dollar equivalent, the nominal average monthly salary amounted to USD 174.9 (on a base of average USD exchange rate for January-June 2011, constituted 46.8 KGS per 1 USD).

The increase in salaries in January-June 2011 compared to the same period in 2010 was observed in all types of economic activity, but the most significant was in education and health sphere, where the salaries of employees was increased from May 2011. The trend of a significant excess above the average level of salaries of the employees is observed in financial sphere, transportation and communication, production and distribution of electricity, gas and water. The lowest level of wages and salaries were in education, health, agriculture, the provision of community, social and personal services.

In the reporting period, there was an increase in a volume of individual remittances. The total volume of net inflow in January-June 2011 increased as compared to the first half of 2010 by 43.6 percent and amounted to USD 650.6 million.

The subsistence minimum in the first half of 2011 was 4 609.0 KGS, having increased by 31.6 percent as compared to the corresponding period in 2010. The ratio of the average salary to the level of subsistence minimum decreased from 226.9 percent by the end of 2010 to 177.6 percent by the end of June 2011.

5.1.1. Liabilities to Banking System

Liabilities of the household sector to the banking system on the end of the first half of 2011 amounted to 10.3 billion KGS, having increased by 9.1 percent as compared to 2010. Individuals' indebtedness on credits in national currency increased by 17.5 percent and constituted 5.3 billion KGS, debts on credits in foreign currency increased by 1.5 percent, up to 5.0 billion KGS in national currency equivalent (see chart 5.1.1.1). In structure of obligations of individuals, a share of loans in foreign currency decreased from 52.3 to 48.6 percent.

The total amount of loans to households for consumption

Chart 5.1.1.1. Liabilities of Natural Persons to Banks

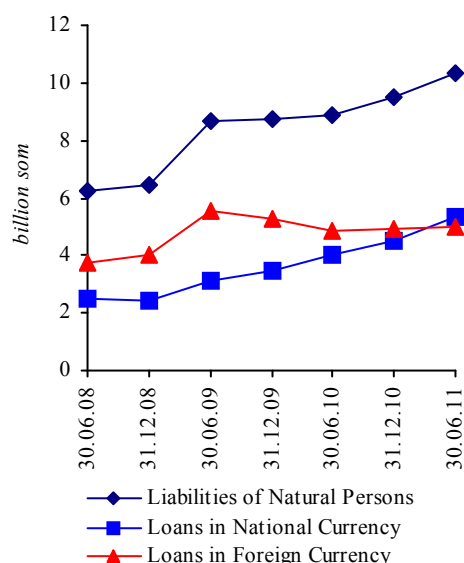
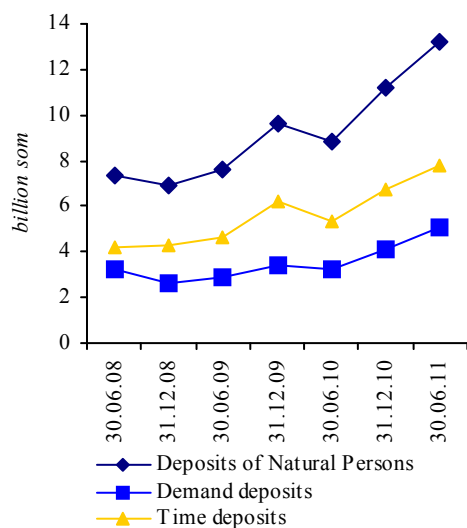


Chart 5.1.2.1. Deposits of Natural Persons



purposes in January - June 2011 amounted to 1.5 billion KGS, having increased by 79.9 percent as compared to January-June 2010; and their share in total loans increased from 7.2 to 9.9 percent.

5.1.2. Public Savings

In the first half of 2011 the total deposits of individuals amounted to 13.2 billion KGS, having increased by 17.5 percent from the beginning of the year (see chart 5.1.2.1). At that, deposits of individuals in national currency grew by 22.8 percent, up to 6.0 billion KGS, and in foreign currency deposits increased by 13.5 percent, up to 7.2 billion KGS in national currency equivalent. The share of deposits of individuals in foreign currency in the first half of 2011 amounted to 54.9 percent, having decreased by 1.9 percentage points as compared to the results of 2010.

5.2. Corporate Sector

5.2.1. Liabilities to Banking System

As of July 1, 2011 there were 491.6 thousands of existing economic players on the territory of the Kyrgyz Republic, that is 3.5 percent higher as compared to the end of 2010. As before, farms and individual entrepreneurs dominated in structure of economic players.

In the first half of 2011 it was observed an increase in the total debt of the enterprises and organizations to commercial banks¹. At the end of the period under review its volume reached 18.8 billion KGS, having increased by 10.2 percent as compared to 2010 (see chart 5.2.1.1).

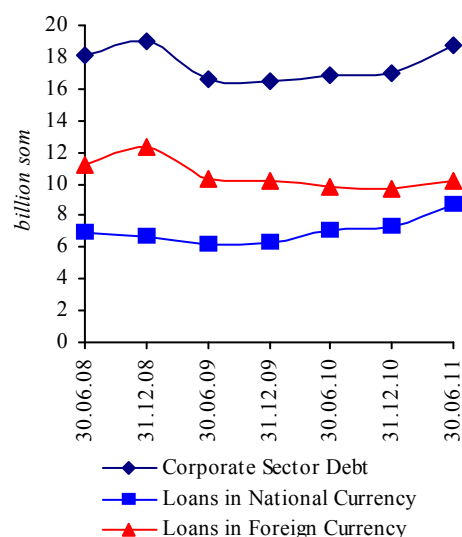
The volume of loans lent in January-June 2011 increased by 30.9 percent as compared to the corresponding period of 2010 and amounting to 14.7 billion KGS, the volume of credits in national currency increased by 27.5 per cent to Som 7.6 billion, foreign currency lending increased in January - June 2011 by 34.8 percent, up to 7.1 billion KGS.

In sectoral context of loans lent, an increase in lending to most sectors of the economy was observed. In comparison with the figures of the first half of 2010 the share of loans in agriculture increased up to 13.7 percent (+1.0 percentage points), in consumer loans - up to 9.9 percent (+2.0 percentage points) and in mortgage - up to 4.2 percent (+1.0 percentage points). At the same time, the share of loans in trade decreased by 2.8 percentage points, down to 54.6 percent, loans to industry - from 6.1 to 4.7 percent. The share of loans for procurement and processing, transportations, telecommunications and social services amounted to 1.9 percent in total. The share of "other" loans increased by 1.6 percentage points, and amounted to 9.0 percent.

According to preliminary data of the first half of 2011 in the most sectors of the economy interest rates on new credits, both in national and foreign currencies decreased. In January-June of 2011 average rates of banks on credits in national currency decreased in comparison with January - June of 2010 by 1.2 percentage points and constituted 22.7 percent, in foreign currency - 19.8 percent (-0.1 percentage points).

On credits in national currency rate reduction was observed in all sectors, except the loans for the trade and consumer purposes. At the lowest rates credits in national currency lent

Chart 5.2.1.1. Movement in Corporate Sector Debt to Commercial Banks



¹ Entities debt by balance reports of the commercial banks.

for mortgage (average for period is 19.5 percent), the highest rates were for loans to the telecommunications (28.0 percent). At the lowest rates in foreign currency loans were lent to the industry sector (average for period is 17.9 percent), the highest rates - for consumer purposes (22.7 percent in average).

5.2.2 Status of Accounts Receivable and Accounts Payable²

The volume of accounts receivable among enterprises and organizations of the real sector in the first half of 2011 amounted to 57.4 billion KGS, that is more by 5.0 percent than the result of 2010 (see chart 5.2.2.1).

The greatest growth in accounts receivable was recorded in agriculture sector (in 14.0 times) and transportations and telecommunications (153.3 percent). The greatest share in the total accounts receivable were occupied by manufacturing industries (26.2 percent), real estate transactions (20.2 percent) and trade (15.6 percent).

By the end of June 2011 overdue accounts receivable increased by 8.2 percent as compared to the corresponding period in 2010 and amounted to 5.7 billion KGS. The share of overdue debt in its total volume was amounted to 10.0 percent. Among the total overdue accounts receivable, 53.9 percent were for the producing and distributing electricity companies.

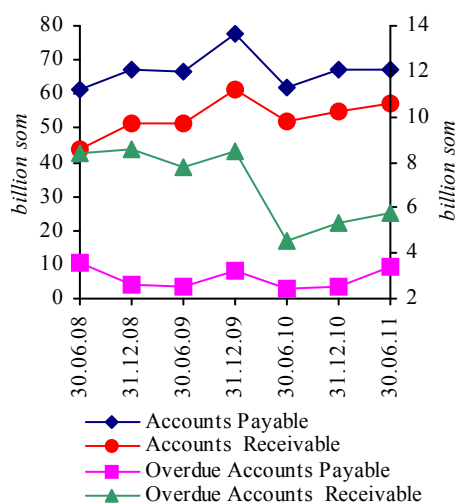
By the first half of 2011 accounts payable amounted to 67.4 billion KGS, that is 0.4 percent more as compared to 2010. The increase in debt was observed mainly due to increase in agricultural enterprises' debt (in 6.0 times), manufacturing (125.8 percent) and transportations and telecommunications (109.2 percent).

On the end of June 2011, overdue accounts payable increased by 35.6 percent as compared to the value of the index as of December 31, 2010, while its share in total volume of accounts payable increased from 3.7 percent to 5.0 percent. In structure of overdue accounts payable, the largest share is observed in manufacturing industries (38.7 percent), trade (20.6 percent) and producing and distribution of electricity, gas and water (13.3 percent).

5.2.3. Financial Results³

In the first half of 2011 operating income of the real sector

Chart 5.2.2.1. Movement in Accounts Receivable and Accounts Payable of Corporate Sector



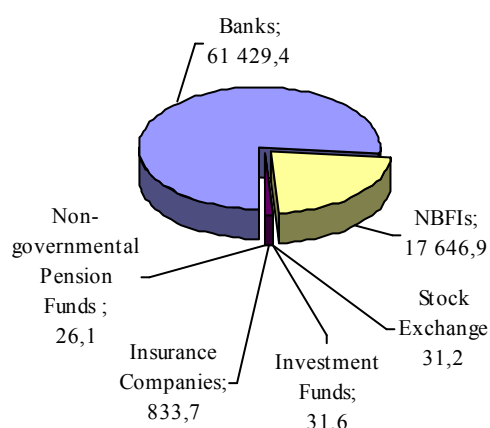
² According to preliminary data of NSC KR, excluding organizations providing financial services.

³ According to preliminary data of NSC KR.

amounted to 20.8 billion KGS. The main volume of operating profit was obtained by manufacturing enterprises, transportations and telecommunications, trade and enterprises producing and distributing electricity, gas and water. Losses of 25.7 million KGS were obtained by enterprises in sectors of agriculture, finance (exchange offices and lombards) and education.

VI. FINANCIAL SYSTEM DEVELOPMENT TRENDS

Chart 6.1. Assets of the Financial System as of July 1, 2011
(in million KGS)

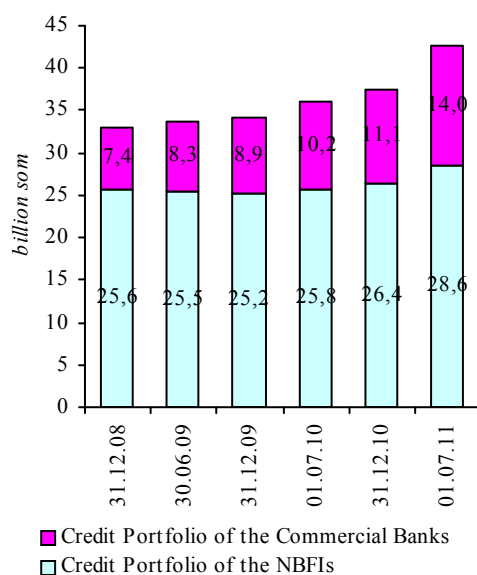


In the first half of 2011, the positive dynamics of development was observed in the financial sector. Situation on the market evolved against a background of sustainable economic growth in countries which are the major trading partners of the Kyrgyz Republic, as well as growth of credits to the economy. Thus, despite some reduction of credit interest rates, a cost of credit resources was still relatively high. In the first half of 2011, a financial intermediation rate, calculated as a ratio of banking credits to GDP, constituted 14.2 percent¹.

The banking sector occupies a dominate place in the financial system of the country, presented by banks, non-bank financial institutions, stock exchange, insurance companies, pension and investment funds (see chart 6.1). In general, assets of the financial system amounted to 80.0 billion KGS, having increased by 4.5 percent compared to December 31, 2010. A ratio of assets of the financial system to GDP constituted 34.6 percent.

In January-June of 2011, qualitative characteristics of credit portfolio of the banking system determined by the value of bad debts and extended credits, have improved. In context of economic sectors, the main contribution to increase in the banks' credit portfolio was made by growth of the trade sector credits constituted more than a half of total credit volume lent during the period under review.

Chart 6.2. Credit Portfolio of the Commercial Banks and NBFIs



At that, a share of such credits in total credit portfolio constituted 44.7 percent as of July 1, 2011 (+1.7 percentage points). Shares of other sectors changed slightly: a share of credits to agricultural sector increased from 12.7 to 14.0 percent, consumer loans increased from 7.1 to 7.7 percent, credits to the industry increased by 0.1 percentage points, up to 5.7 percent, while a share of mortgage decreased from 10.8 to 9.6 percent, credits to construction sector - from 7.7 to 6.1 percent. As before, credits to transportations and telecommunications, procurement and processing, and social services formed insignificant share and constituted 2.0 percent in total. During first six months, a share of 'other' credits decreased from 11.3 to 10.2 percent.

In the first half of 2011, situation on the deposit market was characterized as stable. Deposits in commercial banks showed a moderate increase, mainly due to the appropriate changes in the volume of demand and time deposits. At that, an increase

¹ To GDP in the first half of 2011.

in the deposit base, in context of currencies, arose from almost equal growth of deposits in domestic and foreign currencies.

During first six months, the volume of trades on securities on stock market of the Kyrgyz Republic constituted 630.7 million KGS, or 103.3 percent compared to the corresponding period of 2010, and a number of deals amounted to 1 131, having increased by 33.8 percent compared to January-June of 2010. In the process of improving the efficiency of efforts, in this period existing stock exchange was merged into unified trading platform, proposing to include all brokerage firms into its structure. Besides that it was also agreed to establish unified national depository, suggesting a direct Government involvement into its management.

Despite an increase of key indicators, insurance companies and non-governmental pension sector still plays a minor role in development of the financial sector.

Thus, 14 among 19 registered insurance companies, including two reinsurance companies and five companies with participation of non-residents, provided their services. In January-June of 2011 volume of insurance premiums increased by 4.7 percent compared to the corresponding period of 2010, up to 154.1 million KGS. In context of types of insurance services, dominant position in insurance product portfolio is still occupied by property insurance. Total assets of insurance companies in the first half of 2011 constituted 833.7 million KGS, having increased by 3.6 percent compared to the correspondent period of 2010. During first six month of current year, a ratio of assets of insurance companies to GDP constituted 0.4 percent.

The funded pension system is presented by two non-government pension funds (NGPFs) namely 'Kyrgyzstan' and 'Jany Asia.' The latter has not launched its activity on the market yet in spite of obtaining a license in the middle of 2009. In the period under review, pension savings continued to increase and amounted to 20.4 million KGS as of July 1, 2011 that is 11.8 percent more compared to the beginning of the year. At that, total assets of NGPF 'Kyrgyzstan' reached 26.1 million KGS, having increased by 9.2 percent compared to the beginning of the year. In January-June of 2011, there was a positive trend of increase in the number of depositors and pension recipients of NGPF 'Kyrgyzstan'. As of July 1, 2011 the total number of NGPF participants constituted 2 387.

Chart 6.3. Sectored Structure of Credit Portfolio of the Commercial Banks in the First Half of 2011 (in percent)

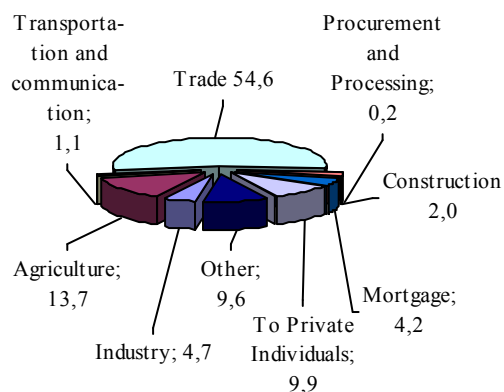


Chart 6.4. Volume of New Loans and Long Term Loans

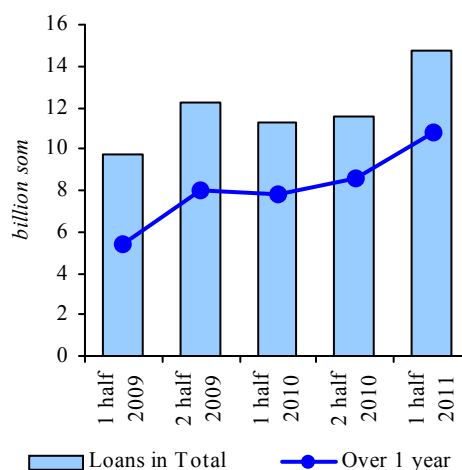
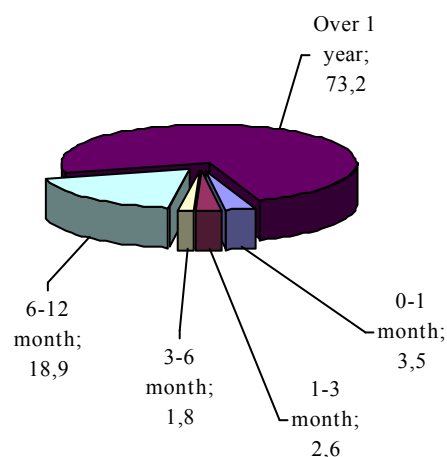


Chart 6.5. Loans structure by Commercial Banks in first half of 2011



VII. SPECIAL ISSUES

SWIFT in Kyrgyz Republic



SWIFT interpreted as Society for Worldwide Interbank Financial Telecommunications, and telecommunications system that provides reliable and secure data transmission and communications for cross-border and domestic payments between members of the community SWIFT.

SWIFT customers are the various financial institutions such as banks, brokerage firms, investment companies, stock exchanges and other corporate clients. E-mail messages that users of the SWIFT system transmit to each other, provided with a high degree of protection. At the same time they are quite inexpensive. Transfer rules and formats for information made by the creators of this system, now acquired the status of international standard.

SWIFT now unites more than 9700 banking institutions, financial institutions and corporate clients who are in 209 countries all around the world. Despite the considerable distance from each other, they can exchange messages and communicate throughout the year 24 hours a day. Tens millions of financial messages transmitted by them daily, and their total amounts are more than US dollar 5 trillion.

SWIFT provides clients with their own communications platform, products and services that enable customers to reliably and securely share financial information. SWIFT also acts as a catalyst, which combines the financial community together to determine the causes and standards and addresses issues of financial practices of mutual interest.

SWIFT payment system is by far the most widely used inter-bank payment system in the world community and in the future is expected to further strengthen its position as the future projected steady growth in the number of inter-bank communications. In this case SWIFT uses proprietary formats and message types, which serve as a model for other settlement systems.

Currently, users of SWIFT in the Kyrgyz Republic are 22 banks, 3 of which are connected to the SWIFT network independently, 19 banks work through the collective use unit SWIFT (UKP SWIFT). SWIFT is the operator of the UCP National Bank. During the period from 2008 to 2011 SWIFT for UCP to 4 participants were connected: OJSC 'Bank Ail' (Q1 2009), OJSC 'Akylinvestbank' (Q3 2009), OJSC 'Bank Zalkar' (1st quarter 2011.) and OJSC 'BTA Bank' (Q3 2011).

Connecting to the SWIFT network via node shared-use SWIFT NBKR is possible in two modes: "Shared connection" and in the mode of "Own connection". At present, the mode of "Shared connection" via SWIFT UCP has 15 commercial banks and the NBKR. In the "Own connection" via SWIFT UCP there are 4 commercial banks.

Anyone else with PPC SWIFT signed the 'Multilateral Agreement on cooperation of users in the operation and maintenance of UKP SWIFT', which reflects the interaction between users in the operation of UKP SWIFT, and connect the output from the PPC SWIFT, emergency situations, auditing and upgrading UKP SWIFT.

In accordance with "Regulations on the basic requirements for functioning of the payment systems of the Kyrgyz Republic in emergency situations in the payment system" based on the National Bank to

work as a united service center (USC) to make payments on commercial SWIFT NBKR in emergency situations on the bank side.

Currently, community development plan provides for SWIFT products and services in the migration of SWIFT Alliance and update the entire line of software families of Alliance to version 7.0. Completion date product support SWIFT Alliance version 6.x - March 31, 2012. By this time, all the users of SWIFT in the Kyrgyz Republic should be migrated. As a result, users will get new features and services of SWIFT.

Recently was held the 33rd International Forum Sibos 2011 on the financial industry SWIFT. Sibos - an event that gathers thousands of participants - representatives of major banks, financial institutions and corporations, as well as developers and suppliers of equipment and solutions for the global financial industry.

Sibos Forum held since 1978 in different countries. Sibos 2007 was held in Boston and had more than 7 500 participants. In 2008, Sibos Forum was held in Vienna, and there were attended about 10 000 people. Sibos 2009 was held in Hong Kong and gathered 5 782 delegates. Sibos 2010 was in Amsterdam (Netherlands) and brought together about 9 000 participants from 200 countries.

Sibos 2011 was held in Toronto (Canada) from 19 to 23 September 2011. The International Financial Forum Sibos 2011 gathered 6 000 participants from nearly 200 countries. A delegation from the Russian and CIS this year amounted to the number of more than 100 participants, including the chairmen of national groups and leaders of the Bank of Russia, the largest commercial banks, credit institutions and stock market participants.

At the plenary sessions and sessions of the forum discussed a wide range of topical issues of the global financial infrastructure, improvement of national and cross-border payment systems, the introduction of innovative services and products. Much attention was paid to the active process of corporations' involvement to SWIFT, as well as the development of standards (ISO 20 022, XBRL, LEI, and others). Sibos is also one of the largest international exhibitions of modern information technologies. Traditionally, participants of the exhibition are all the world's leading providers of technology solutions, including manufacturers of automated banking systems and individual applications, system integrators, the world's largest banks, financial and clearing organizations.