

National Bank of the Kyrgyz Republic

**BANKING SYSTEM
DEVELOPMENT
TRENDS**

FIRST HALF OF 2009 (15)

BISHKEK 2009

EDITORIAL BOARD:

Chairman: K.K. Bokontayev
Members of Board: Alybaeva S.K.
Tsypalakova L.N.
Eremeyeva E.A.
Zhakypov M.Zh.
Imaraliev N.N.
Davlesov A.N.
Sadykova N.O.
Khan R.D.
Executive secretary: Iskandarov M.Zh.

The main executors of the preparation of this publication are the following collaborators:
Bugubaeva N. (chapter 1), Djaparova Ch. (chapter 2), Asanaliyeva N. (chapter 3), Nikolsky S. (chapter 4),
Bronitskaya G. (chapter 4.2), Yktybaev A. (chapter 5), Koshoeva Ch. (chapter 6), Faleev A. (chapter 7).

Founder: National Bank of the Kyrgyz Republic.
Edition is registered by the Ministry of Justice of the Kyrgyz Republic, registration certificate СМН N 783
dated 18.09.2002.

© National Bank of the Kyrgyz Republic, 2009

The given edition is not subject to reproduction and distribution in any form and by any means without permission of the National Bank of the Kyrgyz Republic. When reprinting or translating excerpts, the reference for edition of "Banking system development trends" is compulsory.

Printed by the printing centre "MCM Define plus" Ltd.
Circulation: 200 copies

Banking system development trends

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.

This document was last updated on December 31, 2008.

On issues, relating to contents of this publication, please, apply to the following address

Bishkek , 101 Umetaliev str.
National Bank of the Kyrgyz Republic
Supervision methodology and licensing Department
phone number: (+996 312) 669 252
fax: (+996 312) 656 477
e-mail: miskandarov@nbkr.kg; nbugubaeva@nbkr.kg

Other editions of the National Bank of the Kyrgyz Republic

Annual report of the National Bank of the Kyrgyz Republic

Annual report of NBKR is a full report about the executed work of the National Bank for the accounting year; it contains short characteristic of the results of functioning changes of the real sector of economy, as well as a description of decisions and actions of the National Bank in money and credit sphere. The report includes information about economic development and money and credit policy, financial accountability, general information about the National Bank, statistical annexes. It is published in the Kyrgyz, Russian and English languages.

Bulletin of the National Bank of the Kyrgyz Republic

Bulletin of NBKR contains macroeconomic indices of the Kyrgyz Republic by real, financial and foreign-economic sectors, as well as by state finances. Materials of the National statistic committee, Ministry of finances, commercial banks, State Commission under the Government of the Kyrgyz Republic by securities market and the National Bank of the Kyrgyz Republic are used when preparing the bulletin. It is published every month in the Kyrgyz, Russian and English languages.

Balance of payments of the Kyrgyz Republic

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

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 January, May, July and October.

Press-release of the National Bank of the Kyrgyz Republic

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.

Regulatory acts of the National Bank of the Kyrgyz Republic

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>

CONTENTS

INTRODUCTION	5
I. STATUS OF THE FINANCIAL AND CREDIT SYSTEM OF THE KYRGYZ REPUBLIC	6
II. STATUS OF THE BANKING SYSTEM	8
2.1. Banking System Structure	8
2.2. Risks	12
2.2.1. Credit Risk	12
2.2.2. Liquidity Risk	13
2.2.3. Concentration Risk	15
2.3. Capital Adequacy Level	18
2.4. Financial Results	19
2.5. Financial Intermediation Indicators	21
III. NON-BANKING FINANCIAL INSTITUTIONS	23
3.1. State of the Non-Bank Financial Institutions System	23
3.2. Credit Portfolio Structure and Dynamic	25
3.3. Major Risks	26
IV. PAYMENT SYSTEM	27
4.1. Banking Products, Rates and Services	27
4.2. Cash Flows and Non-Cash Transactions	29
V. REAL SECTOR	33
5.1. Private Households	33
5.1.1. Liabilities to the Banking System	33
5.1.2. Personal Savings	34
5.2. Corporate Sector	35
5.2.1. Liabilities to the Banking System	35
5.2.2. State of the Accounts Receivable and Accounts Payable	36
5.2.3. Financial Results	37
VI. FINANCIAL SYSTEM DEVELOPMENT TRENDS	38
VII. SPECIAL ISSUES	42
National Currency Evolution	42

INTRODUCTION

In the first half of 2009 a decrease in the growth rates of credit volumes in real economy as well as decrease in financial intermediation indicators was marked in the republic's banking system. Nevertheless, a considerable supply of liquidity and excess of capital adequacy level of the commercial banks over the specified normative requirement testified to rather stable banking system.

In the first half of 2009 the positive trend of increase in the resource base of the banking system and non-banking financial institutions continued, but its growth rates decreased. The increase was due to an increase in capital of the banking and non-banking credit institutions, in deposit base of the banking system as well as due to the financial investment inflow in the financial sector of economy.

In the conditions of the resource base growth, the positive trend of increase in the credit volumes in economy, which formed in the recent years, continued in the first half of 2009 but credit growth rates decreased. The decrease was due to the reduction of the banking system's credit volumes.

In spite of the indirect detrimental effect of the world financial crisis on the individual growth values, there was marked an increase in the capital base of the commercial banks, enlargement of the range, and improvement of the quality, of the banking and payment services that are the positive factors for the republic's economy development.

Implementation of the Crisis Management Plan of the Kyrgyz Republic Government adopted at the end of 2008 to minimize the impact of the world financial crisis on the country's economy and maintain the economic growth rates facilitated preservation of the macroeconomic situation stability. Besides, establishment of the Specialized Fund for Banks Refinancing under the National Bank of the Kyrgyz Republic as well as revisions and amendments to the Kyrgyz Republic Law *On Protection of Banking Deposits* had a positive effect on maintaining the banking system stability. As a result, in spite of the indirect detrimental effect of the external factors, the banking system stability continuation was marked on the whole.

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

According to the first half of 2009, the aggregate assets of the financial and credit system¹ increased by 5.7 percent as compared to the corresponding period of 2008, while the increment of this index was provided by the non-banking financial institutions.

The financial intermediation indicator, which constitutes the ratio of the total credit portfolio to the gross domestic product (GDP)², decreased against the comparable period of the previous year to make 18.1 percent (Diagram 1.1). As of the end of the first half of 2009, the growth rate for the banking system credits amounted to 3.1 percent against the comparable period of 2008.

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 2009, their share accounted for 76.0 percent³ in the aggregate credit portfolio of the financial and credit system that constituted 7.8 percentage points decrease against the comparable period of 2008.

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 (NBFI) indicated some deterioration in the quality of the credit portfolio of banks (Diagram 1.3). The share of special PL in the NBFI credit portfolio⁴ increased in the first half of 2009 to make 1.8 percent; as to the banking system, this value increased by 1.5 percentage points to make 4.6 percent.

In the first half of 2009 there was an increase in the weighted average interest rates for credits of the commercial banks and credit unions against the comparable period of the previous year.

Diagram 1.4 demonstrates the spread of the weighted average rates on credits issued by the commercial banks (in the national and foreign currencies) and by the non-banking financial institutions; the Diagram enables, to some extent, to assess the

Diagram 1.1. Development trend of the credit portfolio (CP) of the financial and credit system (FCS), in percent to GDP

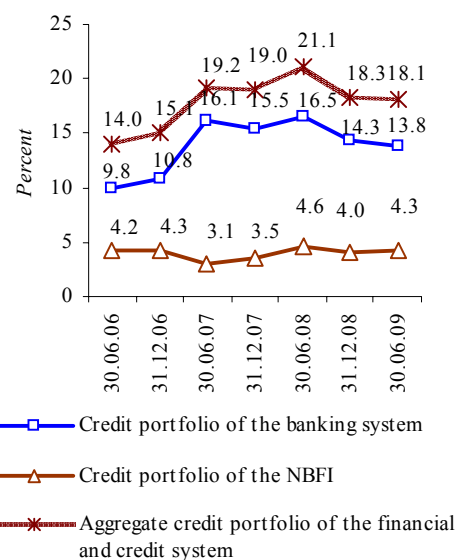
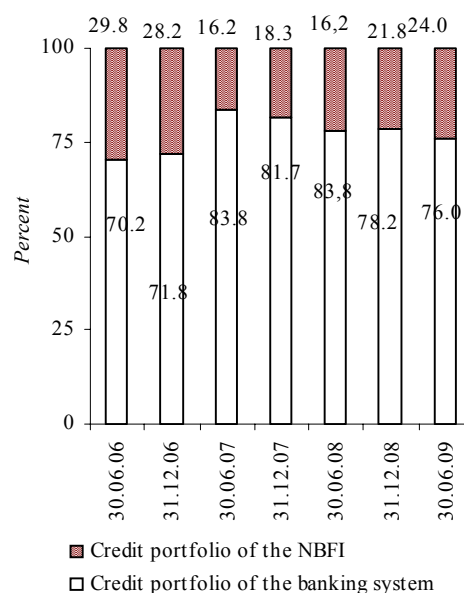


Diagram 1.2. Structure of the aggregate Credit Portfolio (CP)



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 credit portfolio of the bankrupt banks as well.

⁴ According to the NBFI data.

Diagram 1.3. Level of special Reserve for Coverage of Potential Losses in Credit Portfolio of the banking system and NBFI

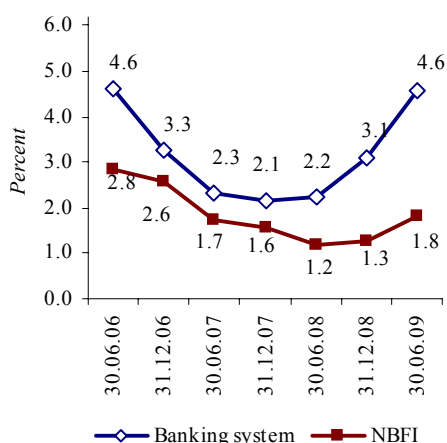
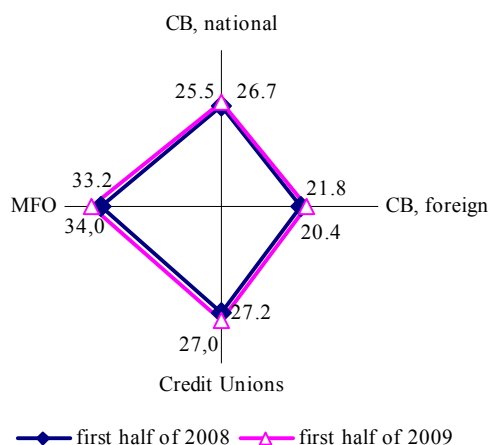


Diagram 1.4. "Spread" of weighted average interest rates for credits of the various financial credit institutions, percent



Note: CB, national – commercial banks, national currency; CB, foreign – commercial banks, foreign currency; MFO – microfinancing institutions.

level and the trend of change in the value of credit resources. At the same time, Diagram 1.4 doesn't show the weighted average rates for the pawn offices' credits, in which this figure amounted to 122.8 percent (121.3 percent in the comparable period of 2008) in the first half of 2009.

The level of weighted average interest rates for newly issued credits of the commercial banks increased both in the national and foreign currencies. Thus, in the first half of 2009 the average level of interest rates for the credits in foreign and national currencies increased by 1.4 percentage points and 1.2 percentage points, correspondingly, against the similar period of 2008.

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

- continuing increase in absolute amount of key indicators;
- deceleration of the growth rates of financial intermediation; however, a more considerable deceleration of the growth rates for this indicator was observed in the banking system;
- some deterioration of qualitative characteristics of the commercial banks' credit portfolio;
- high liquidity level in the commercial banks.

II. STATUS OF THE BANKING SYSTEM

2.1. Banking System Structure

As of the end of the first half of 2009, 22 commercial banks (including the Bishkek Branch Office of the National Bank of Pakistan) operated in the republic; including 16 banks with foreign capital share. In 12 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.

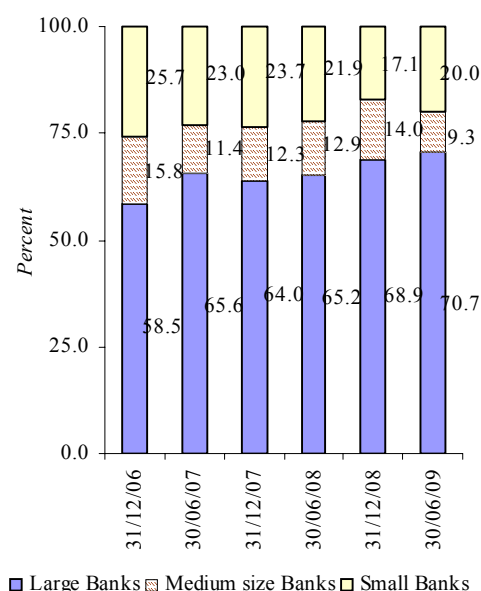
As of the end of the first half of 2009, the growth trend in absolute expression of key performance indicators, in particular, of assets, credit portfolio and deposit base of the commercial banks, continued as a whole for the banking system.

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’ banks; their specific weight increased by 1.8 percentage points in the reporting period. The share of ‘medium’ banks decreased by 4.7 percentage points, while the share of ‘small’ banks increased by 2.9 percentage points.

The segment of ‘large’ banks comprised one bank that held 70.7 percent of market share. This bank was qualified as the ‘large’ one due to the high share values, which it held in the total deposit base that accounted for 41.1 percent (without regard to the deposits of banks and other NBFIs as well as to those of governmental authorities), while its share in the aggregate assets of the banking system accounted for 32.7 percent. Meanwhile, this bank was involved in the group of major participants in credit market (10.3 percent).

Consolidated capital of the banking system increased by 4.7 percent in the reporting period. The growth was due to the

Diagram 2.1.1. Changes of the banking system structure by bank groups



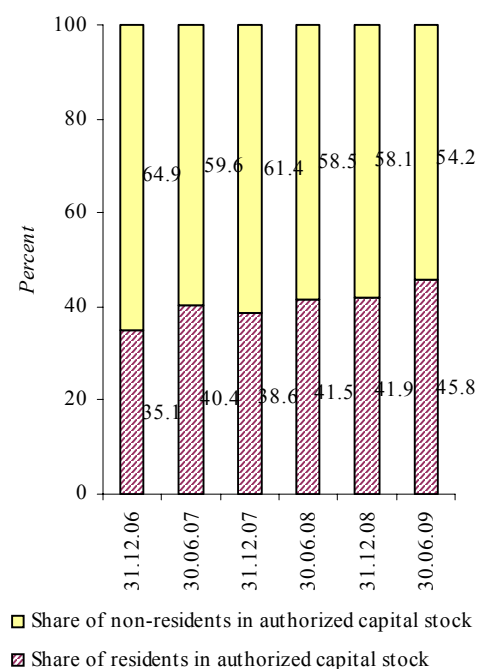
¹ For the purpose of the analysis herein, the term ‘large’ banks means the banks which share (d_i) in the banking market (averaged square of the share in aggregate assets, credits, deposits and liabilities) exceeds 10 percent; ‘medium’ banks have the share from 5 percent to 10 percent, and ‘small’ banks 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;

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

Diagram 2.1.2. Change of authorized capital structure of the banking system

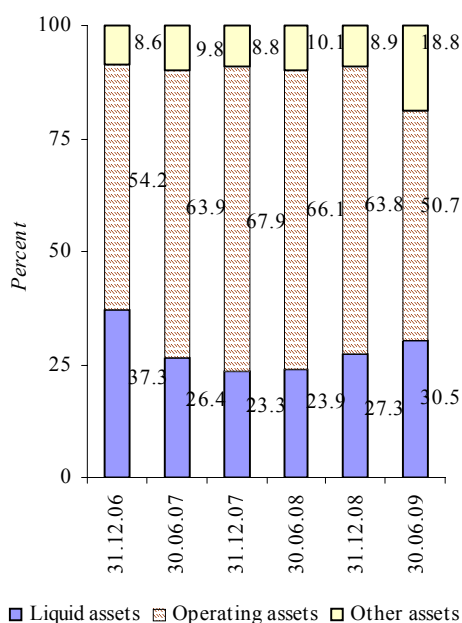
increase in the authorized capital (by 180.7 million soms) as well as to the current profit made during the first half of 2009 (764.1 million soms).

The foreign capital share accounted for 54.2 percent in the authorized capital of the commercial banks (as of the end of the second half of 2008 it accounted for 58.1 percent (Diagram 2.1.2).

In the first half of 2009 the overall growth rate of the resident banks' authorized capital amounted to 31.8 percent, while the non-resident banks' authorized capital made 10.7 percent.

The continuing growth of the banks' capital base promoted building of a sufficient capacity for further development of the banking system.

The increase in the assets of banking system amounted to 18.2 percent as of the end of the first half of 2009. It's noteworthy that regarding the change in the aggregate assets structure (Diagram 2.1.3), 50.7 percent of the banks' assets were operating², and their share decreased by 13.1 percentage points. The share of liquid assets³ in aggregate assets of the banking system increased from 27.3 percent to 30.5 percent. The increase in this category of assets occurred mainly due to the increase in the balances in the banks' correspondent accounts by 37.9 percent.

Diagram 2.1.3. Banking system assets structure variation

Sufficient liquidity of banks' assets compared to the normative requirement specified by the NBKR allows banks to increase future credits in economy due to a decrease in the share of liquid assets.

The share of 'other' assets amounted to 18.8 percent.

The operations on the basis of the Islamic financing principles were performed within the Presidential Resolution of the Kyrgyz Republic *On Pilot Project for Introduction of the Islamic Financing Principles in the Kyrgyz Republic* No. 373, dated July 12, 2006, and the Memorandum of Understanding between the Kyrgyz Republic and the Islamic Development Bank. The amount of such operations made 232.7 million soms as of the end of the first half of 2009 (220.8 million soms as of the end of the second half of 2008).

In view of more detailed consideration of changes in the

² 'Operating assets' means the credits and deposits held in FCI as well as securities and other bank placements yielding interest revenue and taken into account in the balance as of the reporting date.

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

operating assets structure, the analysis of the total *deposit base*⁴ of the banking system as the main source for the placed funds, including the credit portfolio, is offered below. Late in the first half of 2009 the growth of *deposit base* of the banking system continued. The increment amounted to 17.1 percent year to date, and the amount of deposits came up to 33.1 billion soms. In terms of deposits, the share of deposits held by individuals decreased from 29.5 percent to 29.0 percent. The increase in the amount of deposits held by individuals made 10.1 percent.

The specific weight of deposits held by legal entities made 56.1 percent (2.1 percentage points decrease). Meanwhile, the increase in the amount of deposits held by legal entities made 12.9 percent.

The rest share (21.0 percent) belonged to the deposits and credits of the Kyrgyz Republic state agencies. The increment of this deposit category amounted to 40.8 percent.

The share of fixed deposits decreased down to 24.0 percent of the banks' total deposit base during the reporting period (Diagram 2.1.4). This, in its turn, decreased the banks' capacity to increase the medium-term and long-term financing of economy. However, it's noteworthy that the fixed deposits held by individuals increased by 8.3 percent and their absolute amount made 357.6 million soms; this indicates the increased confidence of the population in the banking system.

Late in the first half of 2008, the increase in 'dollarization' level of the banking system deposit base was observed (Diagram 2.1.5). This value amounted to 62.0 percent against 56.2 percent for the second half of 2008. 'Dollarization' level of the deposits held by legal entities increased by 18.9 percentage points and amounted to 71.0 percent as of the end of the reporting period. The share of deposits held by individuals in foreign currency decreased by 4.8 percentage points to make 59.3 percent. One of the factors that influenced the increase in this indicator was the increase in USD exchange rate in relation to som.

The total *credit portfolio*⁵ of the banking system decreased by 0.8 percent late in the first half of 2009 to make 25.4 Billion soms. However, 'dollarization' level of the commercial banks' credits decreased to make 64.0 percent as of the end of the reporting period (Diagram 2.1.6).

Diagram 2.1.4. Structural change of deposit structure in the banking system by the dates of attraction

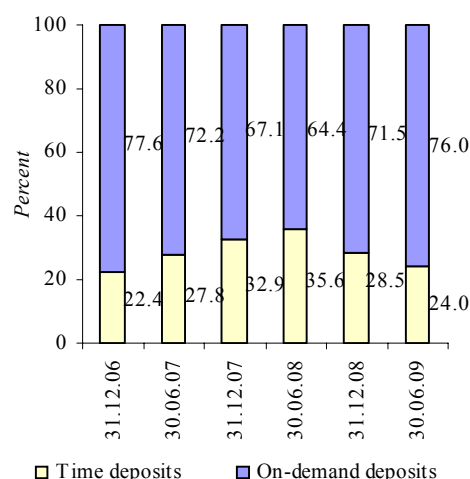


Diagram 2.1.5. Change of the deposit structure of the banking system by types of currency

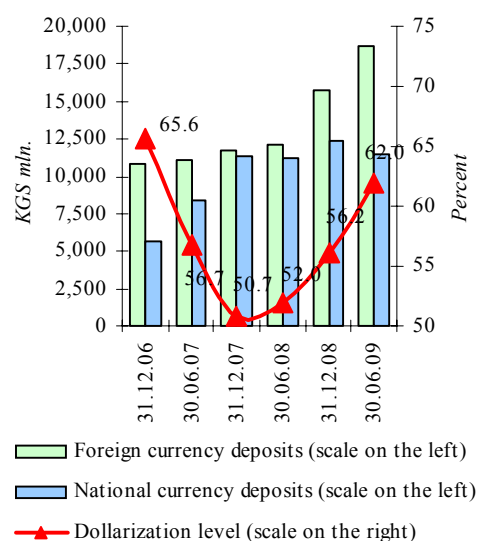
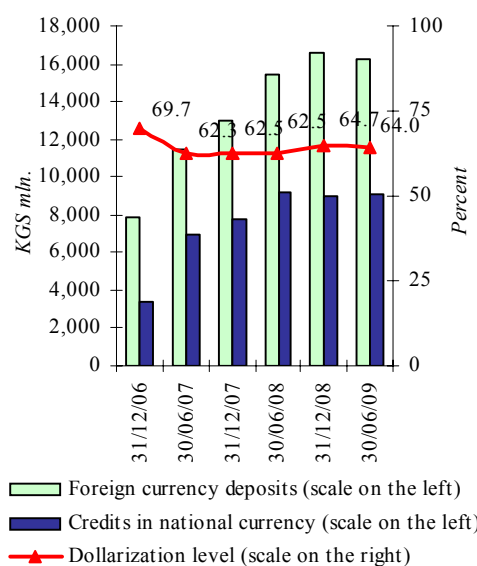


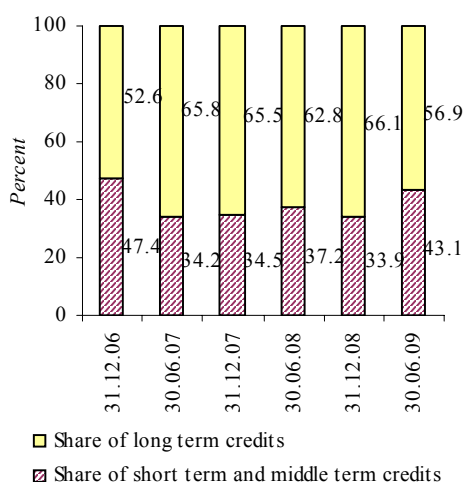
Diagram 2.1.6. Change in the Banking Systems' Credit Portfolio Structure by Currencies



⁴ Hereinafter this category includes the deposits of enterprises and population as well as the deposits and credits of public authorities of the Kyrgyz Republic.

⁵ Hereinafter this category shall not include any appropriate discount for all credits as well as for the credits issued to banks and other financial institutions.

Diagram 2.1.7. Structural change of the banking system credit portfolio by the dates of allocation

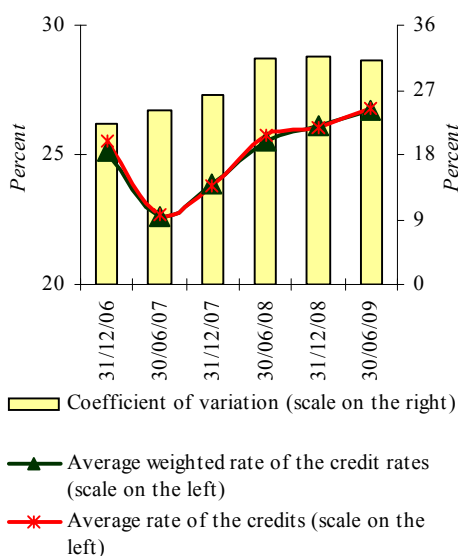


The share of long-term credits⁶ decreased from 66.1 percent to 56.9 percent, and the reduction in absolute amount made 23.4 percent that can be viewed as one of the factors for economical destabilization. Meanwhile, the specific weight of the credits with payment period of less than one year remained rather high (43.1 percent) in the conditions of continuing trend of decrease in their share (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.

The interest rates calculated as 6 months' arithmetic mean value on credits in the national and foreign currencies amounted to 26.7 percent and 21.8 percent correspondingly. As compared with the second half of 2008, the interest rates on credits in the national currency increased by 0.6 percentage points, and those in foreign currency increased by 1.4 percentage points. The coefficient of variation that demonstrated the range of interest rates' spread in credit market increased slightly both for credits in the national and foreign currencies. As of the end of the first half of 2009, the weighted average rate on credits both in the national and foreign currency was quite equal to the average rate (Diagrams 2.1.8, 2.1.9).

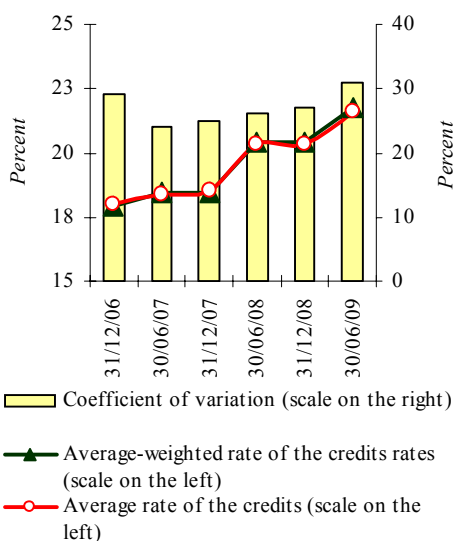
Diagram 2.1.8. Changes of the Interest Rates Features on Credits in the National Currency



Therefore, the trends observed in the banking sector in the first half of 2009 were as follows:

- increase in the banking system assets;
- increase in capitalization of the banking system;
- increase in the banks' deposit base;
- slight decrease in the credit portfolio;
- deceleration of relative growth rates for the key indicators of the banking system as a result of indirect impact of the externalities;
- increase in 'dollarization' level of the banking system deposit base.

Diagram 2.1.9. Change of the interest rate on credits in foreign currency



⁶ Herein the term '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 active banking operations 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 2009 an increase in the share of classified and overdue credits was observed in the credit portfolio (Diagram 2.2.1.1). At the same time, the value of assets default risk (the ratio of special PL to credit portfolio) was within the permissible level. Nevertheless, taking into account the dynamic of this value in the previous periods and a decrease in the credit portfolio in the first half of 2009, there is a probability of deteriorating the quality of the banking system credit portfolio in future.

Change in the volume 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 increased late in the first half of 2009 (Diagram 2.2.1.2), and they have kept holding a considerable share in the total credit portfolio (11.2 percent).

The banks created the volume of provisions adequate to the accepted credit classification; it accounted for 6.7 percent of the total credit portfolio (as of the end of the second half of 2008 this figure made 5.3 percent).

In the case of degradation of the classified credits’ quality and supplementing of provisions, the amount of the ‘net’ total capital of banks will decrease inconsiderably.

Diagram 2.2.1.1. Change of credit risk level in credit portfolio of the banking system

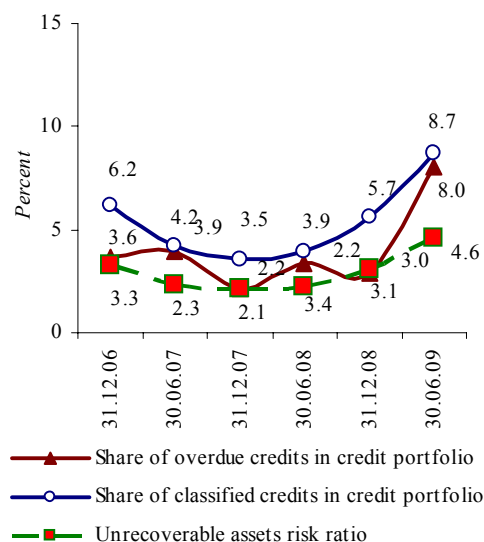
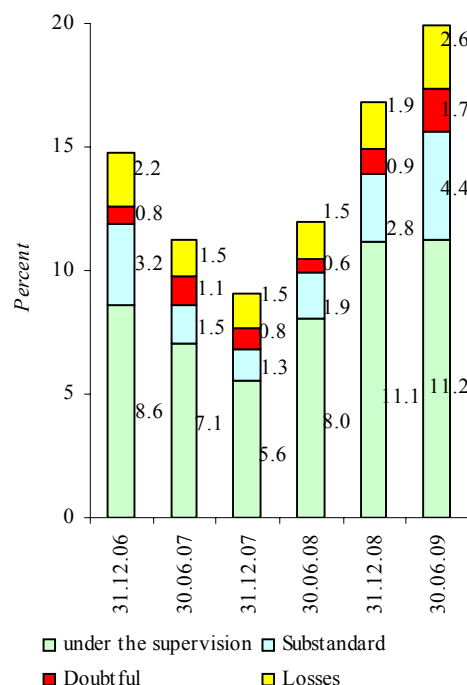
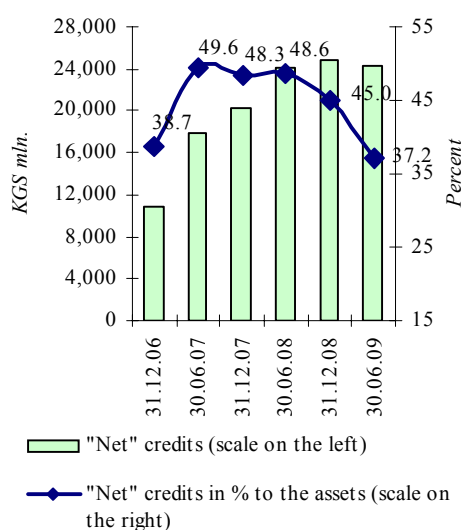


Diagram 2.2.1.2. Change of classification of the banking system credit portfolio



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.

Diagram 2.2.1.3. Level variation of the "net" credits

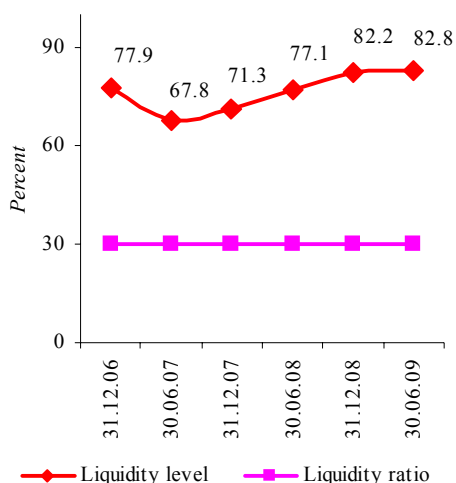


Therefore, credit risk has remained at an acceptable level; nevertheless, the current trend demonstrates the signs of some increase in credit risk in future.

As of the end of the first half of 2009, the specific weight of the 'net' credit portfolio (balances of debts on client credits less the established specific provision for potential losses on the classified credits) decreased by 7.8 percentage points compared to the previous half-year and amounted to 37.2 percent of the aggregate assets of the banking system (Diagram 2.2.1.3). This resulted in an increase in the specific weights of other asset groups of banks, correspondingly.

The Regulation for Credit Register was adopted and came into force to decrease systemic credit risk. Creation of the credit register was oriented at achieving stability of the republic's banking system operation and ensuring its efficiency, security and reliability.

Diagram 2.2.2.1. Time history of current liquidity calculated value

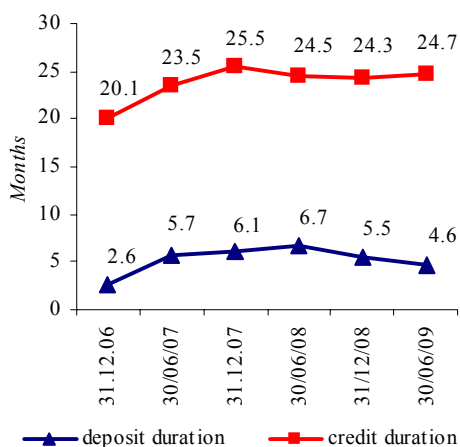


2.2.2. Liquidity Risk

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 prudential standard maintained by the banking system remained rather high. On the average for the banking system, the calculated value of such regulation increased by 0.6 percentage points as compared with the end of the second half of 2008 to make 82.8 percent as of the end of the first half of 2009 (Diagram 2.2.2.1).

Diagram 2.2.2.2. Dynamics of Changes in the Banking System's Credits and Deposits Duration



Excess of the liquidity actual value over the specified standard value indicates mobilization of the liquid assets in order to stand against the potential risks as a result of the international crisis influence.

Insufficient stability of deposits was proved by the data on change in the maturity of deposits and credits as well as by 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

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.

remained great; this suggests the latent disintermediation⁴ risks that can occur in some banks in the process of liquidity management. Nevertheless, it's 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 decreases the potentiality of the above mentioned risk exposures.

Diagram 2.2.2.3 demonstrates the change in stability coefficient for the sources of funds compared to the dynamic of the deposit base ratio to the 'net' credit portfolio. Rather small share of time deposits (24.0 percent for the first half of 2009) in the deposit base, undoubtedly, influences the volumes and terms of issued credits and complicates future process of liquidity management.

The excess of deposits volume over the 'net' credits indicates some decrease in efficiency of the attracted funds use as compared with the 2008 level.

As a whole it should be noted that there was no grounds for occurring the lack of funds in the banking system to discharge liabilities during the reporting period. Yet, the prevailing volume of the short-term resources complicated the liquidity management process.

In the first half of 2009 the stability coefficient for financial assets increased.

Table 2.2.2.4 shows the data on the maturity of the financial assets and liabilities of banks as of the end of the first half of 2009. As a whole, the financial liabilities of banks were covered by the financial assets; the gap (excess of assets over liabilities) amounted to 14.9 billion soms, including soms

Diagram 2.2.2.3. Estimation of the banking system liquidity factors

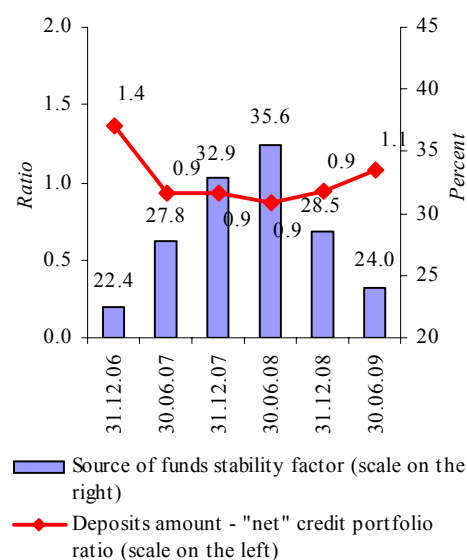
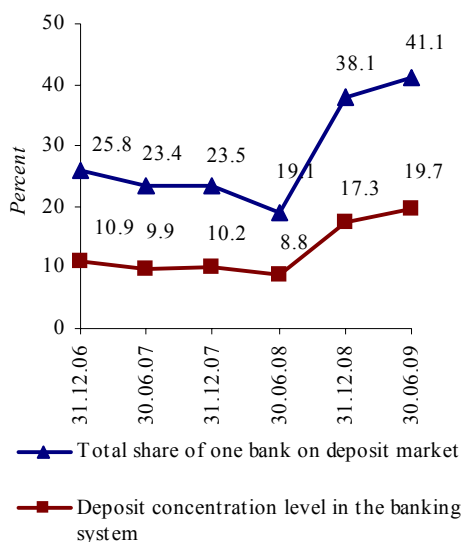
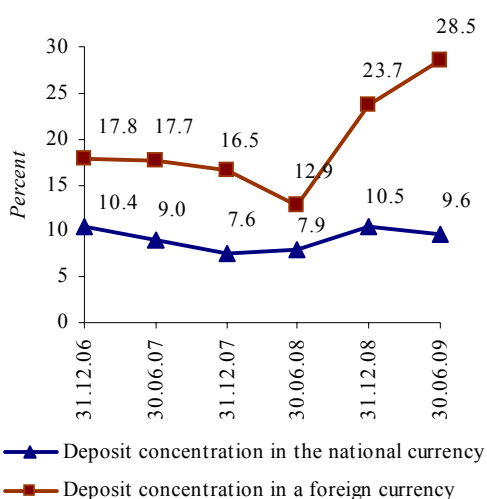
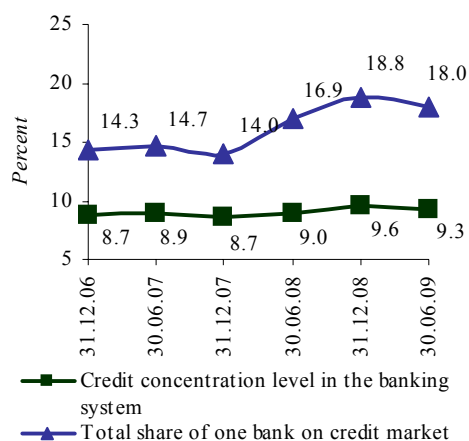


Table 2.2.2.4. Maturity of Financial Assets and Liabilities
(Million soms)

Description	Repayment dates/maturity					Total
	from 1 to 30 days	from 31 to 90 days	from 91 to 180 days	from 181 to 365 days	more than 365 days	
1. Total financial assets	29,420.0	5,011.1	5,741.3	7,530.2	18,788.0	66,490.6
<i>including loans and financial lease to the clients</i>	1,009.2	1,322.8	2,563.2	4,931.8	12,961.1	22,788.1
2. Total financial liabilities	30,745.0	6,764.1	4,316.9	4,020.1	5,748.1	51,594.2
<i>including deposits from physical persons and time deposits from legal entities</i>	3,893.7	1,035.5	1,378.8	1,710.3	1,539.0	9,557.3
3. Total spread	-1,325.0	-1,753.1	1,424.5	3,510.1	13,039.9	14,896.4
<i>including credit and deposit spread</i>	-2,884.6	287.2	1,184.4	3,221.5	11,422.2	13,230.7

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.

Diagram 2.2.3.1. Deposit concentration variation**Diagram 2.2.3.2. Deposits concentration by types of currency****Diagram 2.2.3.3. Credit concentration variation**

13.2 billion for credits and deposits. Therefore, the banks held enough assets to discharge their financial liabilities. Meanwhile, a negative gap in the period of up to 90 days may have an adverse effect on the banks' discharging their average-term financial liabilities.

2.2.3. Concentration Risk

Special Features of Deposits Concentration. Diagram 2.2.3.1 demonstrates that in the first half of 2009 the level of deposits concentration in the banking system and maximum share per bank in the deposit market continued their growth. However, deposit concentration in the national currency decreased from 10.5 percent to 9.6 percent. Deposit concentration in foreign currency increased from 23.7 percent to 28.5 percent. (Diagram 2.2.3.2).

Deposit market concentration among the participants⁵ was high (more than 18 percent) and has tended to growth.

Assessment of the concentration level in the banking system using other indicator – 'the share of four large banks' – also indicated the increase in deposit concentration from 58.4 percent to 63.0 percent.

Special Features of Credits Concentration. In the first half of 2009 a decrease in the credit portfolio of the banking system was accompanied by a decrease in the credits concentration assessed both in accordance with maximum share of any individual bank in the credit market and with credits concentration level compared to the end of the second half of 2008 (Diagram 2.2.3.3).

As to the indicator of the 'Share of Four Large Banks', in terms of credits concentration it can be noted that in the reporting period it also decreased from 50.8 percent to 49.7 percent.

In the first half of 2009 the value of credits concentration in foreign currency decreased from 13.0 percent to 12.5 percent; as to the national currency it increased from 11.3 percent to 11.6 percent (Diagram 2.2.3.4).

Complying with the results of analysis for credits concentration risk in sectors of economy, there was a fluctuation from

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 10percent; 'moderate' risk makes from 10percent to 18percent, and 'high' risk makes more than 18percent. For example, the concentration index equal to 50percent is equivalent to the market presence of 2 participants with equal shares; where it amounts to 33percent, the concentration index is equivalent to 3 participants, etc.

‘average’ to ‘high’ risks depending on a sector.

Based on the data of Table 2.2.3.6, an increase in the specific weight of the banks’ credit portfolio for credits in trade as well as slight increase for credits in private households and agriculture was observed. Meanwhile, a decrease in the share of credits in mortgage, construction, industry, procurement and processing was marked.

High concentration of credits issued for the needs of sectors of communication, agriculture, social services, procurement and processing testified to the high crediting risk exposures in these sectors.

Therefore, as a whole for the Kyrgyz Republic, the average concentration was marked for deposits in the national currency, and high concentration was observed for deposits in foreign currency. As to the credits both in the national and foreign currencies, the concentration level was average. Credits concentration level by the sectors of economy, as a whole for the banking system, varied from “average” to “high” depending on a sector. A considerable growth of indicators of deposits concentration in terms of participants of this market resulted from an increase in the share of the largest commercial bank. This activity was not attended by any considerable changes in interest rates due to (i) insufficient level of competition in the credit market, (ii) high demand for credit funds, and (iii) remaining high level of risks.

Diagram 2.2.3.4. Credit concentration by types of currency

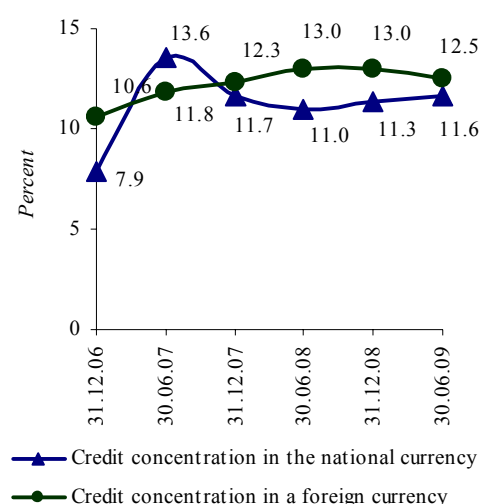


Table 2.2.3.5. Concentration of Banks Activities by Crediting Economy Sectors*

	31.12.06	30.06.07	31.12.07	30.06.08	31.12.08	30.06.09	Deviation to the previous period (in percentage points)
Industry	23.1	20.1	22.0	20.6	18.6	15.7	-2.9
Agriculture	19.8	60.7	56.3	49.1	50.3	50.0	-0.3
Transportation industry	23.2	27.0	22.1	25.5	24.3	23.3	-1.0
Communication	87.4	81.7	88.5	74.7	72.6	67.2	-5.4
Trade industry	8.7	8.4	8.5	10.2	11.5	10.9	-0.6
Procurement and processing	58.1	45.9	37.5	32.2	32.7	34.8	2.1
Building industry	19.2	17.0	16.7	14.6	13.5	12.0	-1.5
Real estate mortgage	20.2	20.4	18.2	16.8	17.9	17.8	-0.1
Home economics	14.8	15.7	13.9	13.1	11.7	12.2	0.5
Social services	27.7	24.7	44.1	58.9	65.5	40.1	-25.4
Others	11.6	13.8	14.6	15.5	15.5	16.6	1.1

* Concentration should be defined in accordance with the Herfindal index, which is calculated by adding index share squares in total volume of crediting in a sector. The concentration index of 100 percent means full monopolization of a specific market segment; 50 percent means the presence of 2 participants with equal shares; 33 percent implies 3 participants, etc.

Table 2.2.3.6. Banks Credit Portfolio Structure by Economic Sectors

	31.12.06	30.06.07	31.12.07	30.06.08	31.12.08	30.06.09	Deviation to the previous period (in percentage points)
Industry	11.0	7.7	6.8	6.2	5.7	4.9	-0.8
Agriculture	3.3	13.1	12.2	11.9	11.5	12.7	1.3
Transportation industry	0.7	0.7	0.7	1.0	1.0	1.0	-0.1
Communication	1.6	0.9	0.6	0.3	0.5	0.4	-0.1
Trade industry	40.9	36.8	37.9	36.7	36.1	54.7	18.6
Procurement and processing	1.0	0.8	0.6	0.5	0.5	0.2	-0.3
Building industry	5.8	6.1	6.8	7.8	9.5	4.1	-5.4
Real estate mortgage	14.3	14.9	15.8	13.9	14.0	1.6	-12.4
Home economics	8.1	7.6	6.6	8.4	8.3	9.9	1.7
Social services	0.1	0.1	0.1	0.4	0.4	0.3	-0.2
Others	13.2	11.3	11.9	13.0	12.4	10.2	-2.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	x

2.3. Capital Adequacy Level

All the risks inherent in the banking activity eventually impact on the financial outcome of this activity (both already occurred as direct damages and those of high likelihood ratio for future losses through the costs incurred due to creating relevant provisions) and influence the equity amount of a bank – its capital. That's why capital amount defines bank's stability in the case of any potential negative changes.

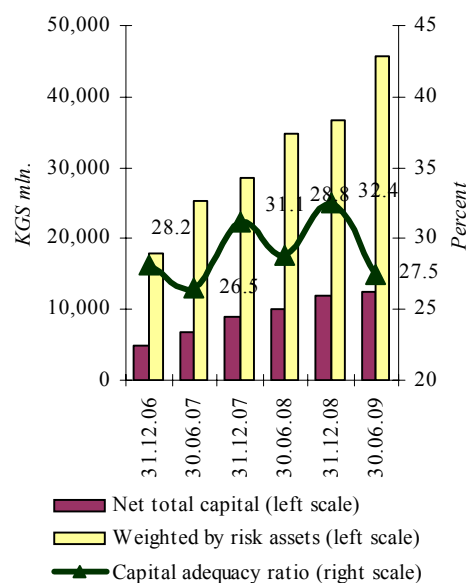
When carrying out the analysis of any bank's financial standing, the main feature of its credibility consist in the compliance of its capital amount to the scope and nature of the transactions performed (capital adequacy level). Adequate capital forms a peculiar 'safety cushion' that allows a bank to remain solvent and maintain confidence of population. In this connection, the bank strategy in the field of capitalization should be aimed at maintaining the capital level that would be sufficient to cover any potential losses incurred due to exposure to any banking risks.

Under the specified minimum capital adequacy of 12.0 percent, this value, on the average for the banking system, amounted to 27.5 percent for the first half of 2009 (Diagram 2.3.1). The considerable decrease occurred due to the lower growth rates for the net total capital (5.5 percent) compared to the increment of the risk weighted assets of the banking system (24.6 percent).

Actual level of capital adequacy allows to supplementary increase the volume of risky and earning assets by more than 2.0 times and without excess of the acceptable level of risk in the banking system activity as a whole.

The above mentioned data indicate relative stability of the banking system against the negative shocks and availability of the capacities for increasing the level of financial intermediation and efficiency of the banking system operation in future.

Diagram 2.3.1. The Banking Systems's Capital Adequacy Indicators Changes



2.4. Financial Results

A main indicator of the banking activity profitability is the coefficient of the return on assets (ROA), which is defined as the ratio of the made profit to the average level of assets as well as the coefficient of the return on equity (ROE) defined as the ratio of the made profit to the average amount of the Tier 1 Capital.

In the first half of 2009, in the banking system of the Kyrgyz Republic, ROA amounted to 2.5 percent year-on-year (3.7 percent for the second half of 2008); ROE amounted to 13.2 percent year-on-year (20.1 percent for the second half of 2008).

As to the key indicators of the banking system yield against the average value of assets, there was the decrease in the after-tax interest (from 7.5 percent to 6.4 percent) that occurred due to a greater decrease in the interest income compared to an increase in the interest expenses (Table 2.4.1).

Table 2.4.1. Major Indicators of Banking System profitability for the half year period
(in percent)

	31/12/07	30/06/08	31/12/08	30/06/09
Total interest yields	10.7	11.2	11.6	10.0
Total interest losses	3.3	4.0	4.0	3.6
Net interest income	7.4	7.2	7.5	6.4
Deduction to Reserve for Potential Loss Coverage (by loans)	0.5	0.8	0.8	0.9
Net interest income after deductions to Reserve for Potential Loss Coverage	6.9	6.4	6.7	5.5
Total non-interest income	10.3	9.0	23.3	17.8
Total non-interest expenditures	5.1	4.1	17.8	13.8
Total other operating expenses and administrative expenditures	7.3	7.6	8.0	6.4
Deduction to Reserve for Potential Loss Coverage (by assets)	0.0	0.0	0.0	0.3
Net Income (loss) before taxation	4.8	3.7	4.2	2.8
Income tax	0.4	0.4	0.4	0.3
Net Income (loss)	4.3	3.4	3.8	2.5
Average value of assets for the period (KGS bln.)	35.8	44.6	48.5	61.6

When considering the non-interest incomes and expenses of the commercial banks, the decrease in the non-interest incomes (from 23.3 percent to 17.8 percent against the average level of assets) and in the non-interest expenses (from 17.8 percent to 13.8 percent) was marked. The level of the operational and administrative expenses of banks decreased by 1.6 percentage points.

The level of profit taxes decreased by 1.6 percent; thus, the net profit amounted to 2.5 percent against the average value of assets for the first half of 2009.

Absolute amount of the net profit of the banking system amounted to 0.76 billion soms in the first half of 2009, while in 2008 it amounted to 1.79 billion soms (Diagram 2.4.2).

Credit portfolio yield defined as the ratio of interest income on credits to the average value of the balances of principle receivable decreased by 0.5 percentage points and amounted to 20.1 percent as of the end of the first half of 2009 (Diagram 2.4.3).

As of the end of the first half of 2009, the ratio of assets to the number of the commercial banks' employees amounted to 7.5 million soms (6.4 million soms as of the end of the second half of 2008). It was connected with comparatively high increment of assets, which made 18.2 percent, whereas the number of the commercial banks' employees increased by 1.7 percent.

Therefore, the indicators of the banking activity yield, on the whole, testified to some decrease in the attractiveness of the banking system in terms of additional investment. At the same time, the level of the mean value of capital adequacy requirement suggests the opportunity of additional outreach of the banks' active transactions. On the other hand, the efficiency of assets application can be significantly enhanced by decreasing a share of the low-profit assets.

Diagram 2.4.2. Variation in return on assets

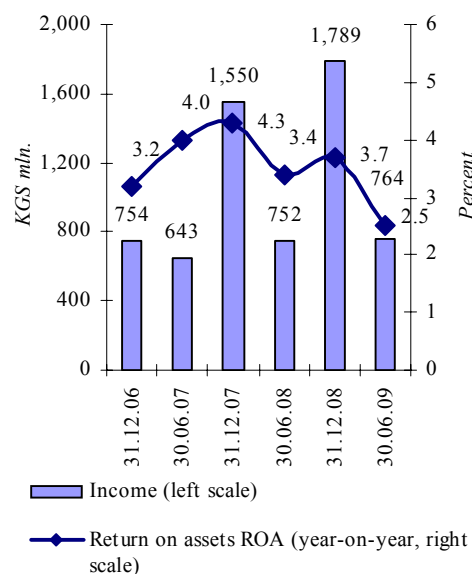
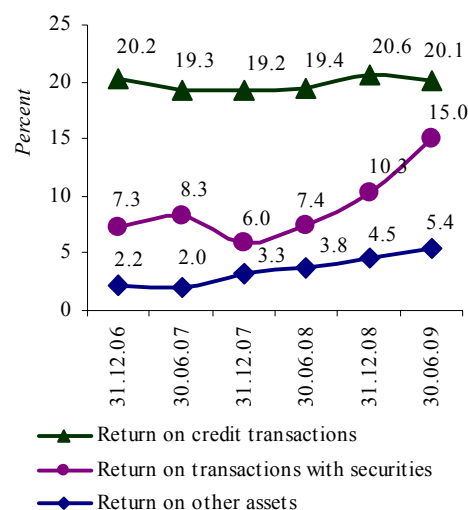


Diagram 2.4.3. Changes in the Assets Profitability



2.5. Financial Intermediation Indicators

Diagram 2.5.1. Deposits volume dynamics and deposits ratio to GDP

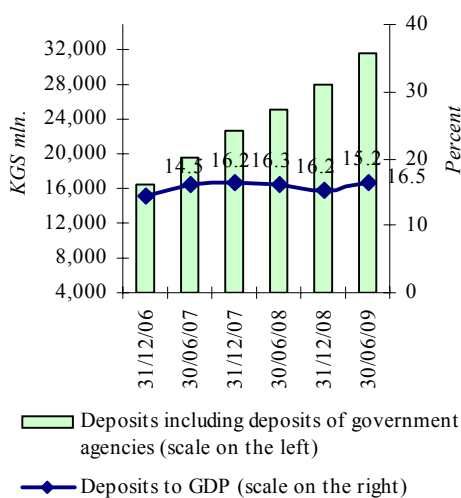
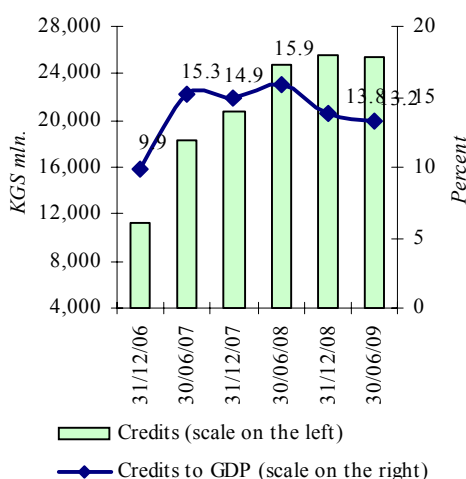


Diagram 2.5.2. Credit volumes dynamics and ratio of credits to GDP



The role of the banking industry as the financial intermediary that accumulates financial resources for their further transfer between the sectors of economy directly depends on the development level and efficient operation of the banks.

The ratio of deposits volume¹ to the GDP² volume made 16.5 percent as of the end of the first half of 2009 (15.2 percent for the first half of 2008, Diagram 2.5.1). The increase in this indicator was caused by the higher growth rates for deposits (12.1 percent) compared to the growth rates for GDP (3.8 percent) for the reporting period.

A decrease in the credit portfolio was marked for the reporting period; the drawdown rate for credit volumes made 0.8 percent (minus), whereas the growth rate for deposit volumes amounted to 12.1 percent.

The ratio of the overall volume of credits issued to clients to the GDP volume decreased by 0.6 percentage points compared to the same indicator for the second half of 2008 and amounted to 13.2 percent (Diagram 2.5.2).

As of the end of the first half of 2009, the volume of credits amounted to 25.4 billion soms that was by 0.8 percent lower than the volume of credits as of the end of the second half of 2008.

In terms of client credits, the most growth was marked for the credits issued to industry (5.6 percent), trade (5.0 percent), and agriculture (3.7 percent).

The ratio of credits indebtedness to deposit volumes made 80.4 percent against 90.9 percent for the second half of 2008; this was connected with the increment of deposits, which exceeded the growth of credits (Diagram 2.5.3).

As of the end of the first half of 2009, the weighted average interest rate for newly issued credits in the national currency amounted to 26.4 percent (0.7 percentage points increase compared to the second half of 2008). The interest rate for newly issued credits in foreign currency increased by 1.5 percentage points to make 21.9 percent as of the end of the first half of 2009.

¹ For the purposes of this section the term 'deposits' mean the deposits of enterprises and population as well as the deposits and credits of the Kyrgyz Republic state agencies.

² The data on nominal GDP for the last 12 months are used for the calculation.

The remaining high spread of the interest rates for credits and deposits in the Kyrgyz Republic was conditioned by the impact of the following factors.

- insufficient level of competition in the credit market;
- high demand for credit funds;
- continuing high level of risks.

In terms of financial intermediation level, it is necessary to mark the increase in the value of the aggregate assets ratio to GDP (Diagram 2.5.4). Thus, for the end of the first half of 2009 this ratio made 33.9 percent (29.8 percent as of the end of the second half of 2008).

Despite the stable growth during the last several years, some indicators of the financial intermediation still have rather low values, and, thus, the possibility for further developing and enhancing the efficiency of the banking system activity still exists.

The general risk exposures of banks show that in the short-term period the banking system will be able to sustain some additional financial risks. Nevertheless, further worsening of general macroeconomic situation can cause a considerable deterioration in the credit portfolio quality.

Diagram 2.5.3. Dynamics of credit ratio to deposits

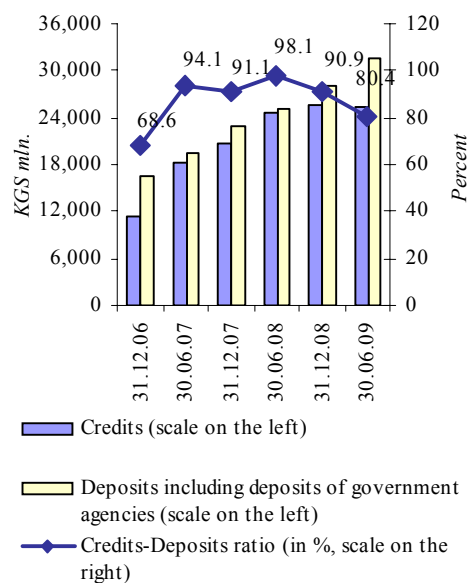
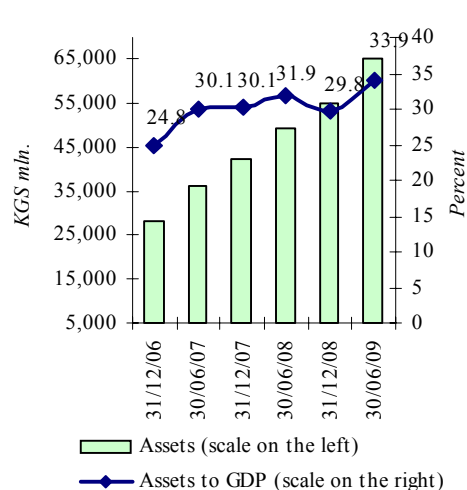


Diagram 2.5.4. Assets volume dynamics and ratio of assets to GDP



III. NON-BANKING FINANCIAL INSTITUTIONS

3.1. State of the Non-Bank Financial Institutions System

The system of non-banking financial institutions (NBFI) includes the following institutions liable to the NBKR supervision (Table 3.1.1):

- Financial Company for Support and Development of Credit Unions (LLC FCSDCU);
- Special Fund for Banks Refinancing (LLC SFBR);
- credit unions (CU);
- microfinance organizations (MFO) that involve microfinance companies (MFC), micro-credit companies (MCC), and micro-credit agencies (MCA);
- pawn offices;
- exchange bureaus.

Table 3.1.1. Dynamic of the Non-Banking Financial Institutions

Name	2004	2005	2006	2007	30.06.2008	2008	30.06.2009
CUFC (Ayil Bank) ¹	1	1	1	-	-	-	-
LLC SFBR ²	-	-	-	-	-	-	1
FCSDCU	1	1	1	1	1	1	1
MFO	104	136	168	233	265	291	327
Credit Unions	305	320	305	272	266	248	238
Pawn Offices	116	140	148	181	187	196	226
Exchange Bureaus	266	260	263	318	355	353	385
Total	793	858	886	1005	1074	1089	1178

Increase in the overall amount of the NBFI as well as in the volumes of their assets and credit portfolio was marked. This is explained by the demand for the NBFI services as well as rather liberal legislative requirements to their establishment and activity.

According to the submitted regulatory reports for the first half of 2009, the increment of the total NBFI assets (Diagram 3.1.1) amounted to 13.3 percent, and, as of June 30, 2009, their volume

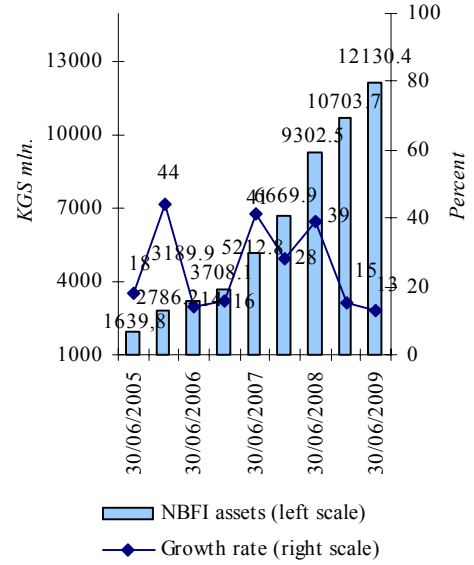
¹ On December 27, 2006, the OJSC CUFC was transformed into the OJSC *Ayil Bank*; in this connection, it shall be considered in the commercial banks system.

² LLC SFBR was established on May 6, 2009.

amounted to 12, 130.4 million³ soms, whereas the aggregate assets increment as compared with the similar period of 2008 amounted to 30.4 percent. For the first half of 2009 the growth rate for the NBFi own capital made 28.1 percent, while the NBFi joint liabilities amounted to 11.7 percent. Meanwhile, for the comparable period of 2008 the growth rate for the NBFi own capital made 33.7 percent, while the NBFi joint liabilities amounted to 28.1 percent.

For the first half of 2009 the NBFi consolidated profit amounted to 425.0 million soms (or 415.7 million soms without regard for the LLC *FCSDCU*). However, the profit level of the current year was by 25.1 percent higher than the profit level of the first half of 2008 (339.8 million soms). It was connected with an increase in the volume of the NBFi main capital earning asset – the credit portfolio – mainly due to an increase in the share of large MFO.

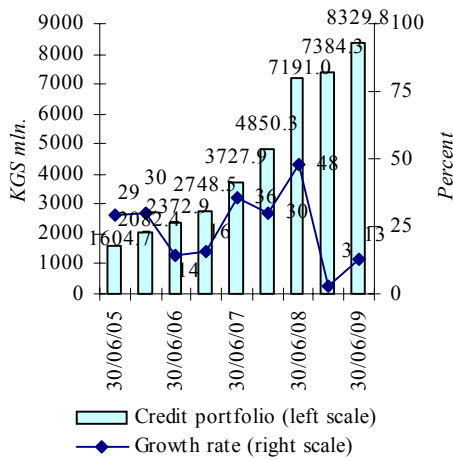
Diagram 3.1.1. Trend of aggregate assets of NBFi



³ Hereinafter the NBFi assets and credit portfolio were indicated without regard for the FCSDCU credit portfolio, which had been already included in the credits unions' assets; as well as without regard for the SFBR assets and credit portfolio as the Fund was established on May 6, 2009, and didn't submit the reporting as of June 30, 2009.

3.2. Credit Portfolio Structure and Dynamic

Diagram 3.2.1. Credit portfolio trend of NBFIs



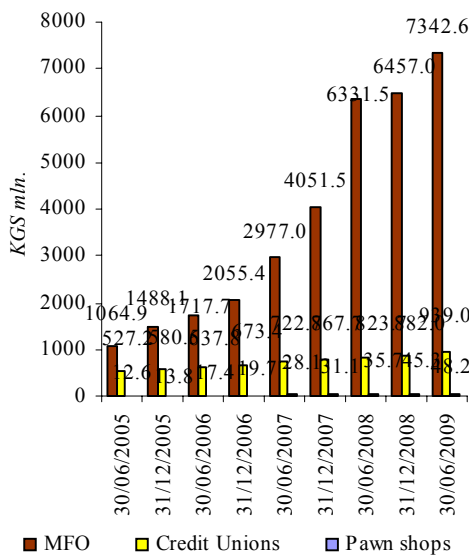
Credit financing is a principal area of the non-banking financial institutions' activity.

For the recent years, the NBFIs credit portfolio had a growth trend (Diagram 3.2.1 and 3.2.2).

For the first half of 2009 the total NBFIs credit portfolio increased by 945.5 million soms, or 12.8 percent, and made 8,329.8 million soms. The growth of the total portfolio in absolute amount made 1,138.8 million soms, or 15.8 percent, against the comparable period of 2008.

In the reporting period, the share of the credit portfolio in the NBFIs aggregate assets decreased from 77.3 percent as of June 30, 2008, down to 68.7 percent as of June 30, 2009 (the credit portfolio share in the aggregate assets made 69.0 percent as of December 31, 2008).

Diagram 3.2.2. Credit portfolio trend by types of NBFIs

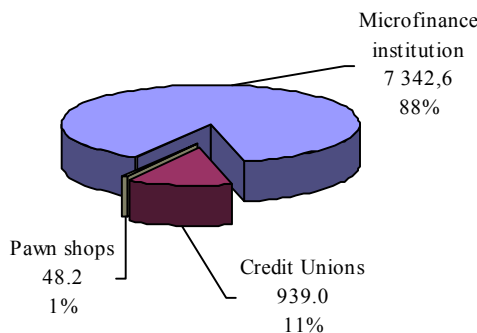


The increase in the number of NBFIs borrowers was marked by 92,586 people, or by 41.9 percent, up to more than 313,000 people as compared with the comparable period of 2008.

In the structure of the NBFIs total credit portfolio (Diagram 3.2.3), 88.0 percent were related to the credits of microfinance organizations; 1.0 percent was within the credits of pawn offices, and 11.0 percent were within the credits of CU.

The dynamic of change in the volumes of credit portfolio by industries and regions reflects the sustainability of NBFIs preferences. Thus, in the context of the oblasts (Diagram 3.2.4) the major share of the credit portfolio fell within the Osh Oblast and Bishkek. As a whole, the higher activity was marked in the country's south and in the capital due to the higher population density and its economic activity in the sectors of agriculture and trade.

Diagram 3.2.3. Aggregate credit portfolio by types of NBFIs (KGS mln.)



In the first half of 2009 the highest volume of NBFIs credits was granted to agriculture (42.6 percent) and trade (33.9 percent) (Diagram 3.2.5). Rather high share of the credits in agriculture was predetermined by the MFOs regional branching and the specific features of the credit unions' activity as rural financial institutions. Credits concentration in trade was imposed by the NBFIs activity specificity: small credits are, as a rule, short-term and have high rates that condition their orientation to the sectors with higher capital turnover.

3.3. Major Risks

NBFI credit portfolio was concentrated mainly in agriculture and in the business related to it and located in rural area. Such credit financing was attended by high risks due to the dependence from weather and climatic conditions and to rather low income of rural population.

There was the seasonal increase in the share of credits in agriculture from 36.8 percent to 42.6 percent year-to-date.

Another risk factor consisted in concentration. 6 large MFOs, which were established and performed their activity due to the funds of foreign donors, held a principal share of the credit portfolio. The credit portfolio share of these MFOs accounted for 71.6 percent of the NBFI total credit portfolio. The NBFI growth trend was conditioned by the increasing volume of outward investments.

Interest rates on the credits of non-banking financial institutions remained at a rather high level due to the remaining high demand for these types of credits on the part of the population as well as due to the NBFI endeavor to cover the existing high risks and expenses related to the issue and servicing of credits.

Table 3.3.1. Weighted Average Rates for Credits of the Non-Banking Financial Institutions
(as a percentage)

Description	31/12/2008	30/06/2009
Financial Corporation for Support and Development of Credit Unions	13.5	14.4
Microfinance Organizations	32.4	33.2
Credit Unions	28.0	29.0
Pawn Shops	132.3	122.8

Diagram 3.2.4. Aggregate credit portfolio of NBFI by oblast
(KGS mln.)

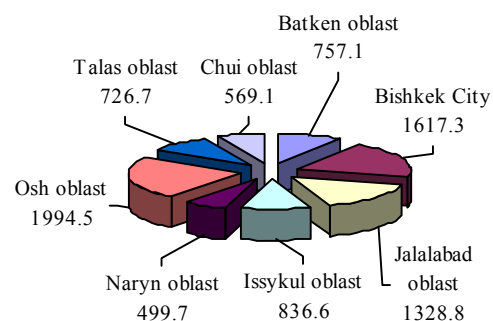
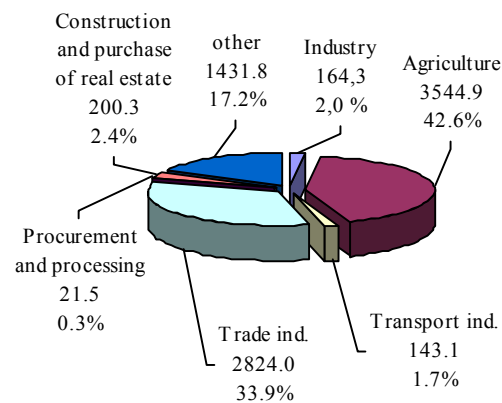


Diagram 3.2.5. Aggregate credit portfolio of NBFI by economic sectors
(KGS mln.)



IV. PAYMENT SYSTEM

Table 1. List of the Banks Providing Service of Money Transfer Systems

Money Transfer System	Names of the Commercial Banks
Western Union	OJSC Bank Bakai, OJSC Dos-Kredobank, OJSC IB Issyk-Kul, CJSC BTA Bank, CJSC Kyrgyz Investment and Credit Bank, OJSC Kyrgyz Credit Bank, OJSC AsiaUniversalBank, OJSC Kazkommertsbank Kyrgyzstan, OJSC Halyk Bank Kyrgyzstan, OJSC Commercial bank KYRGYZSTAN, CJSC JSCB Tolubai, OJSC Ecobank, OJSC ATFBank - Kyrgyzstan, CJSC Demir Kyrgyz International Bank, OJSC FinanceCreditBank KAB, CJSC Manas Bank
Money Gram	OJSC RSK Bank, CJSC Kyrgyz Investment and Credit Bank, OJSC FinanceCreditBank KAB
Contact	OJSC RK AMANBANK, CJSC Bank of Asia, OJSC Dos-Kredobank, OJSC IB Issyk-Kul, CJSC BTA Bank, OJSC Halyk Bank Kyrgyzstan, OJSC Commercial Bank KYRGYZSTAN, OJSC AsiaUniversalBank, OJSC ATFBank - Kyrgyzstan, OJSC Kyrgyz Credit Bank, CJSC Manas Bank
Anelik	OJSC AsiaUniversalBank, OJSC IB Issyk-Kul, CJSC BTA Bank, CJSC Kyrgyz Investment and Credit Bank, OJSC Kyrgyz Credit Bank, OJSC Commercial bank KYRGYZSTAN, OJSC Ecobank, OJSC FinanceCreditBank KAB, CJSC Demir Kyrgyz International Bank
Lider	OJSC Dos-Kredobank, OJSC RK AMANBANK, OJSC IB Issyk-Kul, OJSC AsiaUniversalBank, OJSC Kyrgyz Credit Bank, OJSC Ecobank, OJSC ATFBank - Kyrgyzstan, OJSC FinanceCreditBank KAB, CJSC Manas Bank

4.1. Banking Products, Rates and Services

Nowadays, the competitive activity for attracting clients promote expansion of the range of banking products both due to enhancing the service quality and to reduction of own expenses.

Rate policy of the commercial banks is aimed at gradual provision of a wide range of banking and payment services to population, facilitation of the access to any rendered services, improvement of the mechanisms for liquidity management in the process of effecting payments and settlements.

Banks apply different approaches to charging payment for the same services:

- fixed rates for any single transaction;
- rates prescribed with regard to an amount of operation or a balance on account;
- charge for a period regardless the number or an amount of the operations performed;
- other mechanisms complied to the conditions of any agreements concluded.

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.

On the instruction from clients, the commercial banks perform the following transactions for commission fees:

- collection, documentary credit and transfer operations;
- providing bank acceptance and aval for debt liabilities;
- purchase and sale of securities, currency and precious metals;
- intermediation in floating shares and bonds;
- encashment services;
- services for the accounting purposes, providing consulting services and credit cards services.

In the reporting period, the value of the service for issuing (opening) a letter of credit made from 0.1 percent to 0.25 percent on average, subject to the amount of the letter of credit.

In the first half of 2009 16 banks provided services for issuing bank guarantee. The value of this service depends on the amount and type of a pledge; the highest commission fee for issuing bank guarantee amounted to 8.0 percent.

Commercial banks as the participants of money transfer systems provided more than 20 kinds of international money transfer services (Table 1).

The price of connecting to the Internet banking system depends on the way of accessing. 11 commercial banks provide the services of Internet banking in the Kyrgyz Republic: the OJSC *AsiaUniversalBank*, the OJSC *RK Amanbank*, the OJSC *Bank Bakai*, the OJSC *Dos-Credobank*, the CJSC *Demir Kyrgyz International Bank*, the CJSC *ACB Tolubai*, the OJSC *FinansCreditBank CAB*, the OJSC *Kyrgyzcreditbank*, the OJSC *Kazkommertsbank Kyrgyzstan*, the OJSC *ATF – Bank Kyrgyzstan*, and the CJSC *Manas Bank*.

Table 1. *Continue*

Migom	OJSC RK AMANBANK, CJSC Bank of Asia, CJSC BTA Bank, OJSC IB Issyk-Kul, OJSC Kyrgyz Credit Bank, OJSC FinanceCreditBank KAB, CJSC Manas Bank
Strana Express, Kyrgyz Transfer	OJSC RSK Bank
Bystraya Pochta	CJSC BTA Bank , OJSC Kyrgyz Credit Bank , OJSC RSK Bank
UNIstream	OJSC AsiaUniversalBank , OJSC RK AMANBANK, CJSC Bank of Asia, CJSC Demir Kyrgyz International Bank, OJSC Dos-Kredobank, CJSC BTA Bank, OJSC Halyk Bank Kyrgyzstan, OJSC Kyrgyz Credit Bank , OJSC Commercial bank KYRGYZSTAN, CJSB JSCB Tolubai, OJSC Ecobank, OJSC ATFBank - Kyrgyzstan, OJSC FinanceCreditBank KAB, OJSC RSK Bank, CJSC Manas Bank
Xpress Money,	OJSC RK AMANBANK, OJSC AsiaUniversalBank
Inter Express	OJSC Dos-Kredobank, OJSC IB Issyk-Kul, OJSC Commercial bank KYRGYZSTAN, CJSC BTA Bank, OJSC Ecobank
Blizko	OJSC RK AMANBANK, CJSC BTA Bank, OJSC Kyrgyz Credit Bank
Allzur	OJSC AsiaUniversalBank, OJSC RK AMANBANK, OJSC Ecobank
Private Money, Zolotaya Korona	OJSC AsiaUniversalBank
Faster, Inecsim-Transit, Caspian	CJSC BTA Bank
Travelex	OJSC Ecobank, OJSC FinanceCreditBank KAB

4.2. Cash Flows and Non-Cash Transactions

Diagram 4.2.1. Change of Currency in Circulation

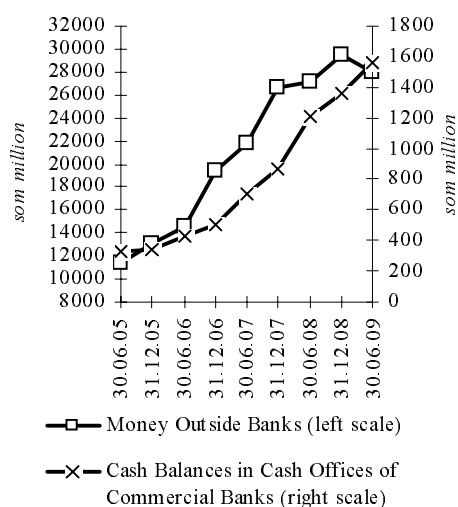


Diagram 4.2.2. Inflow and Issue of Cash Assets and their Recoverability in Cash Departments of the Commercial Banks

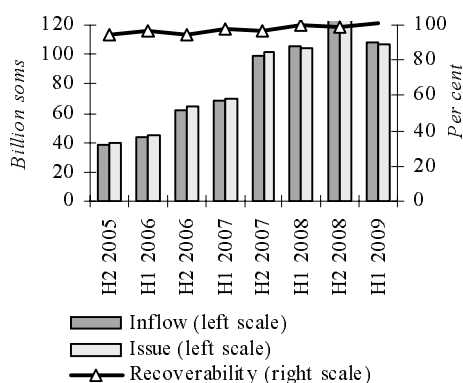
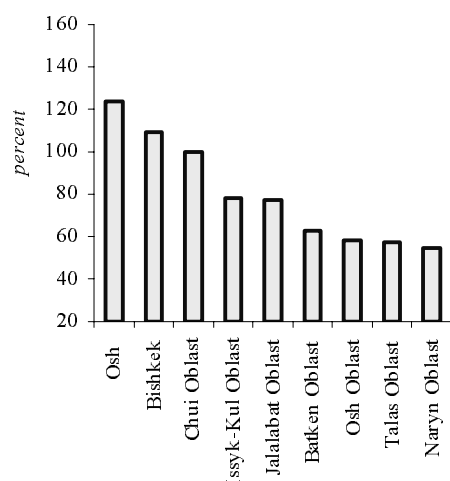


Diagram 4.2.3. Rate of Cash Recurrence to Cash Offices of Commercial Banks



The total amount of *money in circulation* increased by 1,143.5 million som (or by 4.0 percent) against the comparable period of 2008 and amounted to 29,561.4 million som as of January 1, 2009.

1,555.4 million som were contained in the cash departments of the commercial banks that amounted to 5.3 percent of the total amount of money in circulation.

The dynamic of money in circulation is shown in Diagram 4.2.1.

Increase in the welfare transfers by government and increase in the demand of economy for cash money facilitated the growth of money in circulation.

Return of cash assets to cash departments of the commercial banks amounted to 100.8 percent in the first half of 2009 that was by 0.2 percentage points more than for the first half of 2008.

In the first half of 2009 108,240.6 million som were received by the *commercial banks' cash departments* that was by 3,007.2 som more than for the first half of 2008.

In the first half of 2009, 107,380.9 million som were issued by the *commercial banks' cash departments*; it was by 2,724.0 million som more than in the first half of 2008 (Diagram 4.2.2).

In the first half of 2009 the highest value of cash assets return amounted to 124.0 percent (for Osh City); the lowest value made 54.5 percent (for the Naryn Oblast) (Diagram 4.2.3). Cash assets return amounted to 108.9 percent for Bishkek and 99.8 percent for the Chui Oblast. The high values of cash assets return in Bishkek and the Chui Oblast were connected with concentration of the banking and financial institutions as well as the trade and industrial enterprises in the capital of the republic and in the Chui Oblast. The high value of cash assets return in the Osh Oblast were associated with more saturated consumer market; although, the percent of cash assets return for the Osh Oblast was low on the whole. As a whole for the republic, the cash assets return in the context of oblasts changed inconsiderably compared to the first half of 2008.

Therefore, the increase in money in circulation was conditioned by the steady rise of demand in cash assets on the part of business entities and by expansion of the commodity and service market that is serviced by the cash assets.

Non-Cash Transactions

In the first half of 2009 there were effected 1, 722.578 payments for the total amount of 209,309.0 million soms through the payment systems of the Kyrgyz Republic. The volume of payments increased by 16.6 percent, while the number of payments increased by 128.2 percent compared to the values of the first half of 2008 (Diagram 4.2.4).

In the first half of 2009 48,530 payments for the amount of 179,930.7 million soms were effected through the *gross settlement system* of the National Bank. The volume of payments increased by 17.4 percent, and the amount of payments increased by 17.2 percent against the comparable period of the previous year (Diagram 4.2.5).

The volume of payments affected through the *clearing payment system* increased by 11.3 percent against the comparable period of the previous year and amounted to 29,378.3 million soms. The overall number of payments made 1,674.048 payments; it was by 134.2 percent more than for the comparable period of 2008 (Diagram 4.2.6).

In the regional context, the Chui Oblast and Bishkek were the leaders by the number and volume of the clearing payments in the first half of 2009; the volume of clearing payments within them made 69.2 percent, while their amount made 63.1 percent.

Bank Cards Payment Systems

As of July 1, 2009, 19 out of the 22 commercial banks of the republic provided the emission, acquiring and the settlement and cash services to clients using bank payment cards; 16 of the commercial banks were the emitters that issued the cards of international systems (9 banks), local systems (4 banks) as well as of the integrated national system (14 banks).

For the reporting period the acceptance and service through the integrated national *Elkart* System was performed by 135 cash machines installed throughout Bishkek and 383 terminals, among which 337 terminals have been installed in the branch offices and savings departments of the commercial banks; 46 terminals were installed in the trade-and-service centers and in the public spaces around Bishkek as well as in the district and oblast centers.

As a whole for July 1, 2009, the commercial banks issued 53,458 cards of the National Payment System *Elkart*.

During the first half of 2009 there was an activation in the payment cards market; an increase in the number of emitted

Diagram 4.2.4. Dynamic of the Volume and the Number of the Interbank Payments

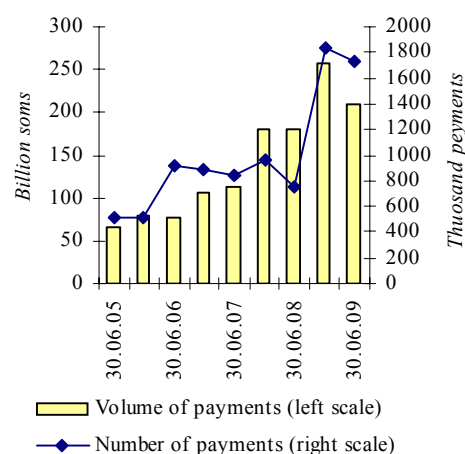


Chart 4.2.5. Dynamic of the Volume and Number of the Inter-Bank Payments.

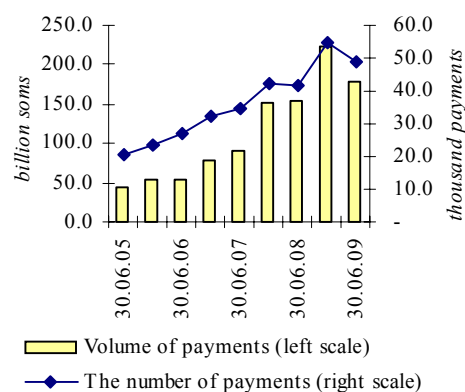


Diagram 4.2.6. Dynamics of Volumes and Number of Payments in Clearing System

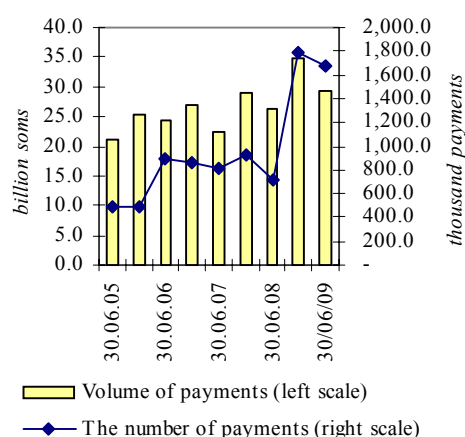
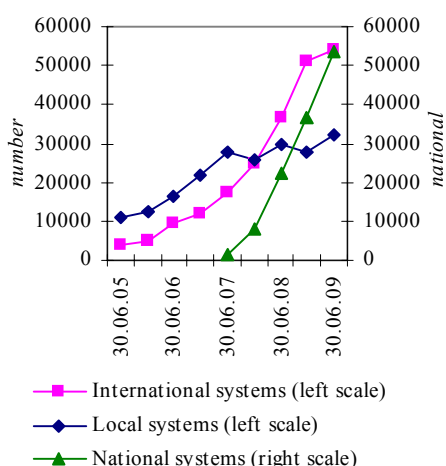
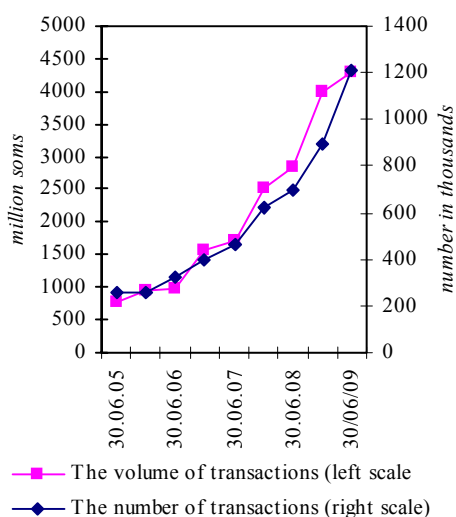


Diagram 4.2.7. Dynamics of the Issued Cards Number

cards and transactions with their use was indicative of this. Thus, the overall number of emitted cards made 140,081 as of July 1, 2009, that constituted the 37.9 percent increase against the comparable date of the previous year (Diagram 4.2.7).

The overall number and volume of the transactions performed with cards increased by 45.0 percent and 29.7 percent, correspondingly, against the comparable period of 2008 (Diagram 4.2.8).

As before, the principal share of transactions fell within the withdrawal of monetary assets through cash machines and terminals; their volume accounted for 1,939.4 million soms of the total volume of transactions, while their turnover in the retail-and-service enterprises amounted to soms 135.8 million. These data indicate that converting money into cash constituted more demanded type of transactions and accounted for 93.5 percent of the overall volume of transactions with use of cards.

Diagram 4.2.8. Dynamics of emitted cards number

One of the priority areas of banks development strategy is the implementation of the ‘payroll’ projects on the basis of the international, local and national systems using cards. Due to these very projects, the banks achieve a sound increase in the cards emission and transactions volumes; this allows to make progress towards strengthening the position of banks in the bank cards market.

In the first half of 2009 19 commercial banks made arrangements to implement and expand the ‘payroll’ projects on the basis of cards of the international, local and national systems.

In total, the banks serviced 61,637 cards within 554 projects, which accounted for 44.0 percent of the total number of cards issued.

Commercial banks continue developing the infrastructure for accepting and servicing cards. Thus, as of July 1, 2009, the overall number of the operating terminals amounted to:

- 210 terminals (among which 64 terminals provided accepting and servicing the *Zolotaya Korona* Russian System cards and 19 cash machines for the *Alai Card* System;
- 383 terminals and 135 cash machines for the *Elkart* System;
- 722 terminals and 149 cash machines for the international systems;

- 33 cash machines for cards of the local *Demir 24* System.

Trans-boundary Payments including Travel Check Transactions

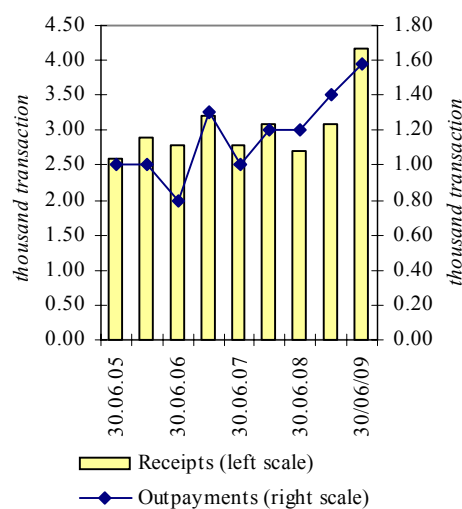
As of the end of the first half of 2009, 21 banks of the Kyrgyz Republic (including the National Bank) were the SWIFT System members. 15 banks operated through the general-purpose interface of SWIFT NBKR MAU, and 6 banks operated autonomously. The activities for connecting a new bank to the SWIFT MAU, in quarter 3, 2009, are undertaken.

In the first half of 2009 the number of the outgoing payments amounted to 1,576, and the incoming payments made 4,176, which constituted 31.7 percent and 54.9 percent increase, correspondingly, compared to the first half of 2008 (Diagram 4.2.9). At the same time, the analysis of payments volume effected through the SWIFT net showed an increase both in the volume of the incoming payments and in the volume of the outgoing payments in all forms of currencies. The principal share of payments was effected in US dollars and Japanese yens.

During the reporting period, the travel check transactions were performed via the following kinds of travel checks: American Express, Master Card, Visa Card, City Card and the checks payable to different banks.

5 out of the 22 commercial banks of the Kyrgyz Republic provided services for the travel check transactions. The number of transactions using the travel checks amounted to 410 transactions for the total volume of 4,624.5 soms thousand in the second half of 2009. Non-residents of the Kyrgyz Republic have still remained the main consumers of the travel checks. Among the local population of the Kyrgyz Republic the travel checks have been still unclaimed due to their specificity.

Diagram 4.2.9. Dynamics of Transactions in SWIFT System



V. REAL SECTOR

5.1. Private Households

In the first half of 2009 the monthly average nominal wage amounted to 5,880 soms (or 140.0 USD by the official monthly average US dollar exchange rate for the reporting period) as a whole for the republic (excluding small businesses) and increased by 5.2 percent against 7.4 percent in the comparable period of the previous year. A rise in remuneration of labor was marked in all the types of economic activity, but the most considerable rise was marked for agriculture, for the sector of ‘trade and repair of vehicles and consumer goods’ as well as for construction. The wage of the workers of financial sphere, the sectors of transport and communication, production and distribution of electric power, gas and water considerably exceeded the republican average level. Its lowest level was marked for agriculture, healthcare agencies, educational institutions, public utilities and social services enterprises.

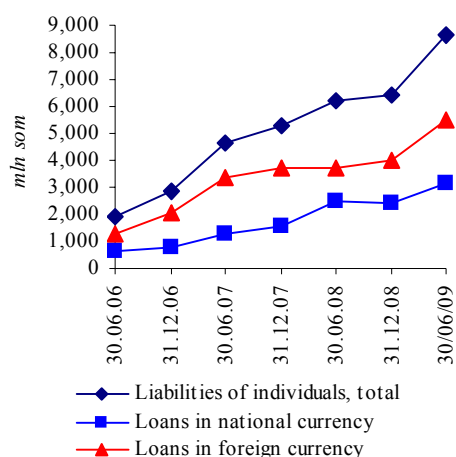
The monthly average minimum consumer budget increased by 6.3 percent as compared with the first half of the previous year and amounted to 3,750.4 soms in January to June. Therefore, the monthly average labor remuneration ratio to that indicator increased from 140.8 percent to 156.8 percent that testified to some improvement of the living standard.

5.1.1. Liabilities to the Banking System

The amount of the private household sector liabilities to the banking system increased by 43.6 percent during the reporting period to make 8,675.1 million soms as of the late in June 2009. In terms of individuals’ liabilities the specific weight of credits in foreign currency increased from 62.1 to 63.8 percent year-to-date. For the first half of 2009 the individuals’ credit indebtedness in the national currency increased by 28.8 percent to make 3,142.0 million soms as of the late in June 2009, whereas credit indebtedness in foreign currency increased by 38.1 percent to make 5,533.1 million soms in equivalent.

The overall amount of credits issued to the private households for consumer purposes decreased by 32.8 percent against the comparable period of the previous year and amounted to 965.9 million soms in the reporting half-year, while their share in the total volume of the credits issued decreased from 11.3 percent to 9.9 percent.

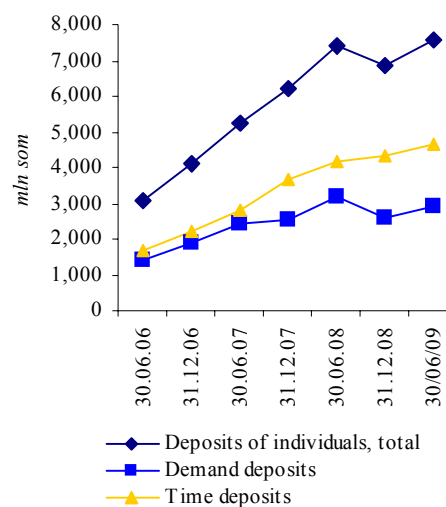
Diagram 5.1.1.1. Liabilities of individuals



5.1.2. Personal Savings

There was a resumption of growth trend for the individuals' deposits in the commercial banks during the reporting period after the outflow of deposits in foreign currency in the second half of 2008. The total volume of the individuals' deposits amounted to 7,575.9 million as of the end of the half-year (Diagram 5.1.2.1). At the same time, there was marked some decrease in the deposits by the end of the half-year that was mainly connected with the national currency descent against US dollar. As a whole, the growth of the individuals' deposits made 10.1 percent year-to-date (18.4 percent for the first half of 2008); meanwhile, the individuals' deposits in the national currency decreased by 1.7 percent down to 3,081.1 million som, while those in foreign currency increased by 19.9 percent, up to 4,494.8 million som in som equivalent (except for the influence of changes in exchange rate, the deposits in foreign currency increased by 4.3 percent). As a result of a considerable growth of deposits in foreign currency there was a decrease in the specific weight of deposits in the national currency in terms of individuals' deposits that made 40.7 percent as of the end of the reporting half-year against 45.5 percent for the beginning of the year.

Diagram 5.1.2.1. Deposits of individuals



5.2. Corporate Sector

5.2.1. Liabilities to the Banking System

As of July 1, 2009, the number of the operating economic entities made 445.0 thousand units that constituted the 9.4 thousand, or 2.2 percent, increase against similar date of the previous year. The growth of the number of operating economic entities was conditioned, to greater extent, by the 21.6 percent increase in the number of individual entrepreneurs. As before, there was a prevalence of peasant (farm) households (61.3 percent) and individual entrepreneurs (31.9 percent) in the category of economic entities.

As a whole for the republic there was marked an increase in the number of newly registered economic entities, while the number of the liquidated ones, on the contrary, decreased as compared with this value for similar date of the previous year.

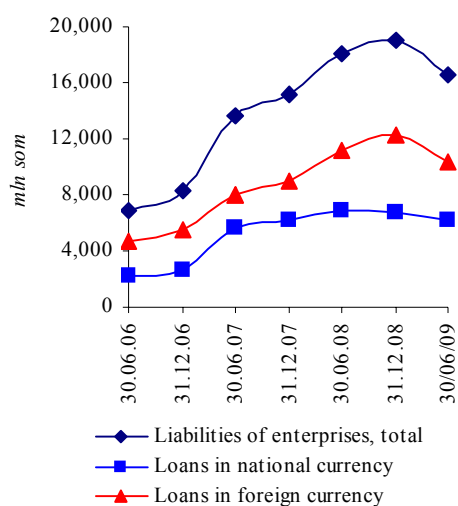
In the first half of 2009 a significant decrease in the total debt of enterprises and organizations¹ to the commercial banks was marked. It decreased by 12.9 percent as compared with the beginning of the year and amounted to 16,557.3 million soms (Diagram 5.2.1.1).

The volume of newly issued credits decreased by 23.2 percent against the comparable period of 2008 and made 9,726.9 million soms; it was caused mainly due to the 34.4 percent decrease in credits issued in foreign currency (except for the influence of changes in exchange rate, the credits in foreign currency decreased by 37.9 percent), which amounted to 5,169.7 million soms in som equivalent. Credits in the national currency decreased by 4.6 percent, down to 4,557.1 million soms. In this regard, the dynamic of the issued credits' volume had multi-directional nature.

By sectors, the decrease in the amount of newly issued credits was marked almost for all the sectors. In this context, the most considerable decrease was observed for mortgage credits (by 78.9 percent), trade credits (by 8.7 percent), construction credits (by 54.8 percent), consumer credits (by 32.8 percent), and other credits (by 37.1 percent). Some increase was marked for the credits in agriculture and communication.

Decrease in the volume of newly issued credits was, to some extent, due to deceleration of growth rates for the banking system deposit base and decrease in the financing volume provided by the parent banks to the banks with foreign capital

Diagram 5.2.1.1. Liabilities of corporate sector



¹ Legal entities' indebtedness on the balance sheets of the commercial banks.

participation. Besides, the high uncertainty level concerning the financial status of borrowers and credit risk growth in the conditions of increasing influence of the world financial crisis led to toughening the requirements for credits issued. In the conditions of risks escalation, the value of financial resources increased; this impacted the increase in the interest rates on the credits issued by the commercial banks.

In the reporting period the average interest rates for credits issued in the national currency increased by 1.0 percentage points and amounted to 26.8 percent. Interest rates growth was marked almost in all real economy sectors, whereas the most considerable growth was observed for credits in procurement and processing. The weighted average rate for new credits in foreign currency increased by 1.3 percentage points and made 21.6 percent. Meanwhile, the interest rates on credits were observed to grow in all real economy sectors. The lowest interest rates were marked for credits in the sector of 'procurement and processing', and construction; in average for the period they made 18.0 percent and 18.8 percent, correspondingly.

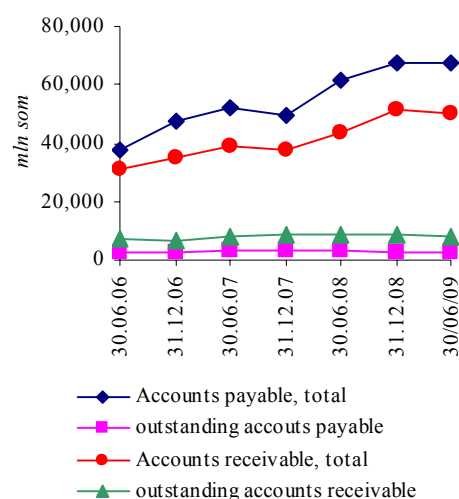
5.2.2 State of the Accounts Receivable and Accounts Payable²

The volume of the accounts receivable of the enterprises and institutions of the real sector decreased by 11.7 percent compared to the beginning of the year and amounted to 50,083.7 million soms as of April 1, 2009. (Diagram 5.2.2.1).

The most considerable decrease in the volume of accounts receivable was observed in trade (by 22.9 percent) and processing industry (by 21.2 percent). However, the greatest specific weight in the total volume of accounts receivable was marked for the enterprises occupied with production and distribution of electric power, gas and water (27.6 percent) as well as the agencies dealing with trade and real estate operations (17.4 percent and 18.0 percent, correspondingly).

The volume of the overdue accounts receivable decreased by 8.6 percent as compared with the beginning of the year and made 7,794.3 million soms (8,527.9 million soms late in 2008). The share of the overdue accounts receivable accounted for 15.6 percent in their total volume. Out of the total volume of the overdue accounts receivable, 64.2 percent fell on the debts to the enterprises dealing with production and distribution of electric power.

Diagram 5.2.2.1 Accounts payable and accounts receivable of corporate sector



² According to the NSC KR, excluding the institutions that provide financial services.

As of the first quarter of 2009, the accounts payable amounted to 67,712.5 million soms that constituted the 4.7 percent decrease as compared with the beginning of the year. The decrease occurred mainly due to the decrease in debts of the commercial establishments (by 2,345.7 million soms) and processing industry (by 2,059.8 million soms). The debts of the enterprises dealing with production and distribution of electric power were observed to increase (by 3,450.1 million soms).

The volume of the overdue accounts payable decreased by 1.7 percent as compared with the beginning of the year, and their share in the total volume of the accounts payable remained the same to make 3.9 percent as of April 1, 2009.

5.2.3. Financial Results ³

As of April 1, 2009, the operational profit of real sector enterprises decreased by 98.0 percent as compared with the beginning of the year and amounted to 425.9 million soms.

The main volumes of the operational profit were received by the enterprises of trade, transport and communication. Losses were observed at the enterprises of production and distribution of electric power, gas, and water (in the amount of Million soms 940.6) and those effecting the real estate operations (in the amount of 315.5 million soms).

Balance losses were incurred by the enterprises of almost all the types of activity, except for the organizations in the spheres of social trade, transport and communication, education, health care and social services.

In geographic distribution the balance profit was received by the enterprises of Osh City and the Naryn Oblast in the reporting period; whereas the rest regions were observed to have losses.

³ According to the NSC KR preliminary data.

VI. FINANCIAL SYSTEM DEVELOPMENT TRENDS

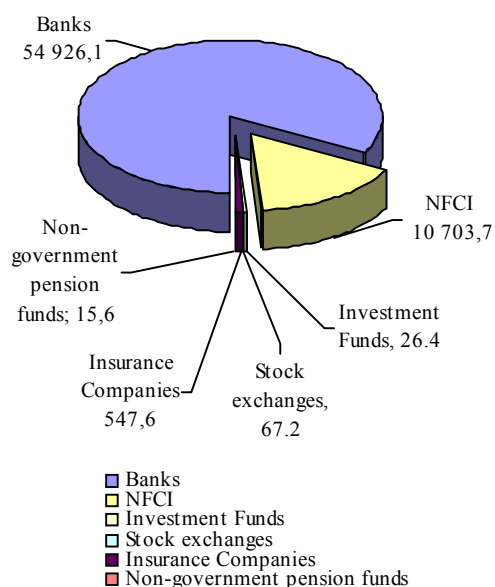
The section covers some specific features of financial system development in the Kyrgyz Republic as well as its impact on economy of the country as a whole.

Financial sector plays an important role in achieving macroeconomic stability. The sustainable and efficient operation of the financial system, which meets the real sector demands in financial resources, provides qualitative services in the competitive environment and provides for the transformation of savings into the investment, will facilitate the achievement of the accelerated economic development.

The distinctive feature of the present development stage of the financial system of the country is the instability of the international financial system that is currently undergoing the global economic crisis. The negative external shocks, which occurred in 2007 and 2008, had an adverse effect on our economy; first of all, this caused a decrease in the aggregate domestic and external demand, and, as a result, the decrease in the GDP growth rates and decline of the balance of payment indexes (trade turnover, remittances from labor migrants), deceleration of the rates for crediting economy and slowdown of investors' activity in the securities market. To minimize the global crisis effect and maintain the economic growth rates, the Government of the Kyrgyz Republic at the end of 2008 endorsed the Action Plan of the Kyrgyz Republic (Crisis Management Plan). Within the Plan, in the first half of 2009, there was undertaken the activity for maintaining stable macroeconomic situation and ensuring sustainability of the government budget as well as stability of the banking system, food and power security, and economic development through support of domestic demand and creation of favorable business and investment environment as well as through targeted protection of vulnerable layers of population.

Establishing the Special Fund for Banking Refinancing under the National Bank of the Kyrgyz Republic, introducing the revisions and amendments to the Kyrgyz Republic *Law On Protection of Bank Deposits*, increasing capital base and assets of the banks as well as undertaking measures to provide efficient supervision and management of the financial sector had a positive influence on further development of the Kyrgyz Republic financial system and strengthening of its stability against the external shocks. The positive events that

Diagram 6.1. Financial system assets (in 2008)
(KGS mln.)



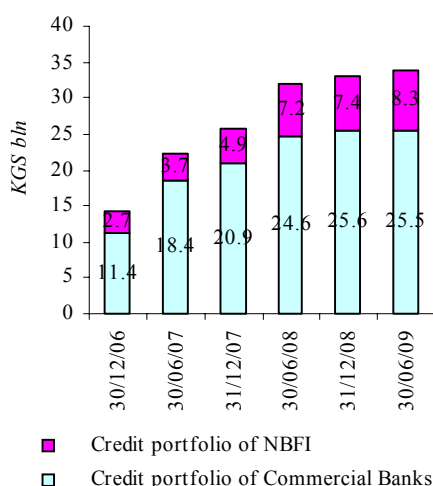
facilitated the strengthening process of the banking system included the rehabilitation and inclusion of the OJSC IJCCB “Akyl” into the banking system, which license was renewed and issued at the beginning of 2009.

At present, the financial sector of the country comprises such financial institutions as banks, non-banking financial institutions (credit unions and microfinance organizations), stock exchanges, insurance companies, pension and investment funds, and pawn offices (Diagram 6.1)¹.

The banking system that performs the function of accumulating and allocating spare cash in the economy continues holding a dominant position in the financial sector of the country. In the circumstances of high demand for credit resources, the sources of its coverage, besides the banks’ funds, include the resources of the non-banking financial sector, in particular, those of the microcredit organizations as well as the funds used by enterprises for mutual crediting inside the real sector.

In the first half of 2009 the positive trend of increase in the resource base of the banking system and non-banking financial institutions continued, but its growth rates decreased. The increase was due to the growth of the banking and non-banking financial institutions’ capital, and the banking system deposits as well as due to the inflow of foreign investment in the financial sector of economy.

Diagram 6.2. Credit portfolio of commercial banks and non-banking financial and credit institutions



In the context of the resource base growth, in the first half of 2009, there was a continuation of the positive trend of increase in the volumes of credit financing of economy, which was forming in the recent years (Diagram 6.2); nevertheless, the growth rates of credits decreased considerably. The deceleration was due to the decrease in volumes of the banking system credits (by 0.6 percent), whereas the volumes of credits issued by the NBFIs increased by 12.8 percent. As a whole for the first half of 2009, the growth of the total credit portfolio of the commercial banks and non-banking financial institutions was 2.3 percent (in the first half of 2008 the growth rate was 23.8 percent).

In the banking system, under slowdown of the economic activity in the country and implementation by banks the moderate crediting policy, the volume of the commercial banks’ newly issued credits was 9.7 billion soms in January to June of 2009, the decrease was by 23.2 percent in comparison with the first half of 2008. The newly issued credits ratio to GDP was 13.1

¹The data refer to 2008 as the data, as of July 1, 2009, on assets of the investment and pension funds, exchanges and insurance companies are not available.

percent², whereas this indicator in the first half of 2008 was 18.9³ percent.

By structure of the commercial banks' credits, the volume of the long-term credits in the reporting period decreased to account for 55.4 percent of the total volume of credits (in the first half of 2008 the share of the long-term credits was 59.9 percent).

In the reporting period the volume of the credits issued by the non-banking financial institutions continued its growth, but their growth rates decreased. Thus, credit portfolio of the non-banking financial institutions increased by 12.8 percent in the first half of 2009, whereas in the first half of 2008 the growth was 48.3 percent.

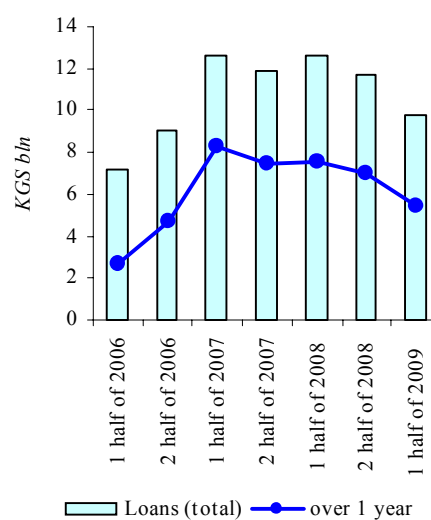
The global financial crisis impacted the slowdown of investors' activity in the securities market. The overall volume of the auctions on the trading floors of three stock exchanges decreased by 53.7 percent against the first half of 2008 and amounted to 1,787.6 million soms in the first half of 2009. The decrease in the overall amount of auctions was influenced by the 63.3 percent decrease in the volume of transactions performed on the trading floor of the CJSC *Kyrgyz Stock Exchange* (which performed 63.2 percent of the overall volume of transactions), down to 1,130.5 million soms, and by the 28.8 percent decrease on the trading floor of the CJSC *Central Asian Stock Exchange*, down to 519.1 million soms. The volume of the exchange auctions on the trading floor of the CJSC *Stock Exchange of Kyrgyzstan – BTS* increased by 2.7 percent against its volume for the comparable period of 2008, up to 138.0 million soms. In the overall volume of auctions the main part was related to the transactions in the primary market (67.7 percent) that amounted to 1,210.2 million soms.

In the securities market, as of the end of the first half of 2009, six incorporated investment funds operated as well, but their share in rendering financial services remained inconsiderable: in 2008 the level of investment funds' assets was 0.02 percent to GDP.

The performance indicators of insurance companies and non-government pension funds also testified to poor development of these financial system segments and their minor influence on the country's economy.

Notwithstanding that for the previous years the national insurance framework has been formed in the Kyrgyz Republic,

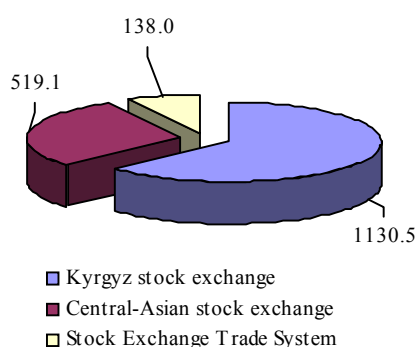
Diagram 6.3. Trend of total loan volume and long-term loans, provided by the commercial banks



² To GDP as of the first half of 2009

³ To GDP as of the first half of 2008

Diagram 6.4. Volume of exchanges in the first half of 2009
(KGS mln.)



the sizes of insurance market of the Kyrgyz Republic have still remained small: the ratio insurance companies' assets to GDP remained at the 0.3 percent in 2008. As of the end of May 2009, 19 insurance companies performed insurance activity in the market, while two of them were the reinsurance companies, and seven operated with non-residents participation. The aggregate assets of the insurance companies increased almost twice against the comparable period of 2008 and amounted to 770.6 million soms as of the end of 2009; their aggregate own capital increased by 2.2 times to make 683.4 million soms. The activity that is currently undertaken to introduce the compulsory kinds of insurance in the insurance service market of the Kyrgyz Republic, including the activity to enforce the four laws on compulsory insurance of the civil liability adopted in 2008 will, undoubtedly, facilitate further development of this financial market segment. Besides the provision of insurance services, the republican insurance companies also undertake investment activity investing funds in the public and corporate securities, and deposits of the commercial banks as well as providing loans.

Pension funds constitute another segment of the financial market. At present, two non-governmental pension funds have been registered in the market of the republic: the NGPF "Kyrgyzstan" that have operated since 1994 and the NGPF "Jany Asia" that obtained license on May 26, 2009, and has not operated yet. The amount of the NGPF "Kyrgyzstan" assets increased by 7.1 percent year-to-date and made 16.6 million soms as of the end of 2009; meanwhile, the number of its participants, who entered into the agreements for voluntary pension provision amounted to 2,304 people (among them 442 people draw pensions).

VII. SPECIAL ISSUES

National Currency Evolution

On May 10, 1993, the first banknotes of sovereign Kyrgyzstan were firstly issued due to the economic prerequisites. These were the ‘transition period’ banknotes of 1, 10, and 50 tiyin as well as 1, 5, and 20 soms, which were manufactured during six months. These banknotes had similar watermarks and similar main images: golden eagle for tiyins and Manas sculpture for soms; they only differed in color.

In 1994-1995 the second series of the national currency banknotes – the ‘stabilization period’ banknotes – was issued for circulation. Som par values were substituted for more longwearing banknotes with improved protective specifications. The historical and cultural heritage of Kyrgyzstan became the plot for national currency. The face of the banknotes contained the portraits of the outstanding figures of Kyrgyz nation, while the reverse side reflected Kyrgyzstan places of interest.

In the period from 1995 to 2002 the Concept for Developing the Design and Protection of the Series III Banknotes of the National Currency was developed and implemented; the following principles were taken as its basis:

- individual size: the more the par value, the larger the banknote size;
- specific color for each par value;
- individual watermark: each banknote has the watermark duplicating the portrait of a person depicted on the banknote;
- introduction of new authenticity signs, such as the security thread of the ‘plunging’ type made so as to complicate the counterfeiting, metallic foil with impression, multilayer hologram with changing images, and other elements.

According to the Interpol recommendations, the age of a series of banknotes shall make 7-9 years in order to prevent counterfeiting. To optimize cash turnover, since 2008 the low-par banknotes have been substituted for the circulation coins: 10 and 50 tiyins as well as 1, 3, and 5 soms; their period of use is 10 times more than that for the low-par banknotes.

Since 2005 the Concept for Improvement of the Technical Specifications and Protective Elements of the Kyrgyz Republic National Currency Banknotes through Issuing the Series IV Banknotes has been implemented. The highest par value banknote – 5,000 soms – became the first one in this series, which was issued for circulation on March 2, 2009. The modified banknotes of 20, 50, and 100 soms par values were issued for circulation from July 1, 2009.

Issue of the high par value banknote – 5,000 soms – is the marker of the economical situation in the country, which is characterized by the increase in the quantity of money in circulation and growth of the population income. As compared with the year of 2000, when the high par value banknotes (200, 500 and 1,000 soms) were issued for circulation, the average level of wage increased almost 5 times¹. Issue of the highest par value banknote was intended to ensure the

¹ Monthly average wage amounted to Soms 1,176.6 in 2000 and Soms 5,422 in 2009.

function of money as the mean of hoarding and savings for the population as well as for performing major transactions.

Besides, the par value of 5,000 soms provides population with the alternative to the banknotes of 100 Dollars and 100 Euro when performing major transactions; this will allow to reduce the share of foreign currency in cash turnover and strengthen the national currency. At the same time, introduction of higher par value decreases the burden on the banknotes of 500 and 1,000 soms par values; meanwhile, the costs for manufacture, processing and keeping of money in cash decreases.

The banknote with the par value of 5, 000 soms contains the portrait of the great actor and artist, Chokmorov Suimenkul, and its reverse side contains the image of Ala-Too Cinema. The decision on placing the Chokmorov's portrait on the banknote of 5, 000 soms par value was made in February 2007 by the Commission for Selection of the National Currency Sketches under the President of the Kyrgyz Republic, which was composed of the supreme public officials: President of the Kyrgyz Republic, State Secretary, the leaders of the Government, the Jogorku Kenesh, the Constitutional Court, and the National Bank as well as the representatives of the Academy of Sciences and the Academy of Arts of the Kyrgyz Republic.

A cardinal difference between the design of the 5,000 soms banknote and the design of the existing series banknote is the left-sided location of the portrait rather than the right one. In accordance with people's requests and cashiers' recommendations, all banknote sizes of the series IV will be decreased. The size of the 5,000 soms banknote will be brought to the size of the 200 soms banknote of the series III, as the optimal size, which coincides the size of a standard wallet.

The highest par value requires the highest security level. Therefore, besides the already known protective elements, such as watermark, security thread, deep relief printing of the portrait and legends, there were improved and added the new protective elements:

- The SPARK element (the lustrous green rectangle located to the left side of the portrait) is one of the latest developments in the area of protective elements; in future, this element is going to be used for a new series of Euro banknotes, Swiss francs and other world foreign currencies. Nowadays, a very small number of the banknote printing companies can reproduce this element. It was our banknote exactly when, for the first time in the world, the SPARK element was used on the circulation banknotes of new design. The element has several visible effects:
 - The volumetric embossed figures of '5,000' are distinctly stand out against the green lustrous background;
 - When turning the banknote to the left or to the right, the figures change their color from dark-green to light-green.
 - When turning the banknote up and down the rectangle changes its color from green to blue.
 - The portrait contains the repeating legends 'Suimenkul Chokmorov' typed in small print. This technology was also applied on our banknotes for the first time ever in the world;

- The security thread of the ‘plunging’ type changes its color from red to yellow and then to green when turning the banknote – the ‘traffic light’ thread;
- Coincidental images of the face and reverse sides. Against the white field under the watermark-portrait appears the clear legend ‘som’ in the blue rectangle, close to the light-colored figures ‘5,000’ when taking a look in the light,
- The embossed image in the form of the Kyrgyz national tracery is located against the background of the yellow circle in the center of the banknote.

The above mentioned and other authenticity elements of the 5,000 soms banknote may be found at the National Bank of the Kyrgyz Republic website www.nbkr.kg, under the Section ‘National Currency/Banknotes/5000 soms’.

Thus, the Kyrgyz soms has undergone its evolutionary way from the coupon money to the most recent patterns.