



**NATIONAL BANK
OF THE KYRGYZ REPUBLIC**

ANNUAL REPORT

2005

BISHKEK 2006

Report of the National Bank of the Kyrgyz Republic for 2005.

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DEAR READERS!

The monetary policy that is being implemented by the National Bank of the Kyrgyz Republic and aimed at ensuring the price stability is an important factor for sustaining macro-economic stability. For the achievement of this goal, the National Bank of the Kyrgyz Republic used proper monetary instruments contributing to the development of the banking system in general and facilitating uninterrupted functioning of the payment system.

Despite the slowing down of the economy in 2005, the monetary policy of the National Bank enabled to ensure low inflation. In April-May, an outflow of deposits from commercial banks was observed. Measures taken by the National Bank in time allowed preserving confidence in the national currency.

The National Bank's activity is aimed at strengthening of the banking sector, increase in level of financial intermediation and preserving financial stability in the country. Positive trends were observed in the banking sector during the reporting period: capital base continued growing, deposits and loans were increasing, earnings of banks increased.

Promotion of microfinance organisations development was a priority in the work of the National Bank. Microfinancing allowed better access and higher volume of financial resources provided to households, contributed to employment growth and poverty reduction. The National Bank worked out the medium-term strategy for 2006-2010 to ensure further development of the sector.

In the reporting year, the National Bank continued implementation of the State Program on Payment System Modernisation of the Kyrgyz Republic. Non-cash settlements being promoted under this Program facilitate transparency and inflow of funds to the banking system.

In this Report, the National Bank presents the results of its activity in 2005 including financial statements confirmed by audit in compliance with the internationally accepted audit standards.

Best regards,

M.O. Alapaev
Acting Chairman of the Board



ECONOMIC SITUATION IN THE KYRGYZ REPUBLIC

I

CHAPTER 1

DEVELOPMENT OF THE KYRGYZ ECONOMY

1.1. Real Sector

According to the data of the National Statistical Committee of the Kyrgyz Republic¹, in 2005, Gross Domestic Product (GDP) reduced by 0.6 percent and amounted to 100.1 billion soms. Without consideration of Kumtor gold deposit mining related enterprises, increase in the GDP was 1.4 percent.

Table 1.1.1.

Structure of Gross Domestic Product in 2005

	Proportion, percent	Rate of growth, percent	Contribution to the rate of growth, percentage points
Agriculture, hunting and forestry	30.5	-4.2	-1.3
Mining industry	0.5	-13.9	-0.1
Processing industry	12.6	-15.6	-2.4
Production and distribution of electric power, gas and water	3.1	1.6	0.1
Construction	2.5	2.1	0.1
Trade, repair of cars and other items of personal use	17.8	12.6	2.0
Hotels and restaurants	1.7	12.2	0.2
Transport and communication	6.8	9.5	0.6
Other sectors	13.9	1.5	0.2
GDP	100.0	-0.6	-0.6

Source: NSC KR

During the reporting year, the number of business entities² increased by 7.5 percent, and by the end of 2005, the number of registered entities reached 319.6 thousand (including branches of representative offices). The number of legal entities increased by 7.3 percent and totalled 64.9 thousand, while the number of individual entrepreneurs increased by 2.4 percent as compared to 2004, and amounted to 163 thousand individuals³. Most business entities are involved in trade, repair services (their share is 27.5 percent), communal and social services (19.2 percent), and industry (11.9 percent).

In comparison with 2004, gross agricultural output reduced by 4.2 percent. In 2005, because of weather conditions, and because of later start of field works in spring, crop output reduced considerably. Thus, the yield of the grain and potato crops was less than in 2004 by 4.5 and 16.2 percent, respectively. In livestock sector, production of

¹ Preliminary data.² Included into the Uniform State Register of Statistical Units.³ Total number of business entities also includes 91 thousand of peasant farms.

meet reduced by 0.1 percent, while production of milk and eggs increased by 1.1 percent and 6.3 percent, respectively.

In 2005, the volume of industrial production decreased by 12.1 percent, while without considering Kumtor gold deposit mining related enterprises it reduced by 4.6 percent.

Processing industry demonstrated the highest growth of output in the textile and garment sectors (113.3 percent). The worst setback was observed in production of electrical equipment (by 27.8 percent) and in metallurgical production (23.8 percent).

Total volume¹ of turnover in trade, car repair, household goods and goods of personal use increased by 12.6 percent. Total volume of services provided by hotels and restaurants increased by 12.4 percent, hotel services grew by 3.3 percent, and restaurant services increased by 16.0 percent. In 2005, the volume of loads¹ hauled by all types of transport reduced by 4.1 percent and totalled 29.5 million tons. Communication services increased by 24.3 percent.

There was 17.8 percent² increase in direct foreign investments as compared with 2004, but investments in fixed capital reduced by 3.0 percent. As before, funds of enterprises, which remained to be the major source of financing, made 41.4 percent out of investment fund. There was a decline in a financing of fixed capital – foreign grants and humanitarian aid (74.8 percent), local budget (50.7 percent), foreign credit (28.2 percent).

Balance-sheet profit³ of business entities (not considering organisations involved in crop and livestock sectors) reduced 2 times as compared with the same period of 2004. Processing industry, transport and communication, trade and organisations carrying out financial activity manifested profits. At the same time, losses took place in construction, generation and distribution of electric power, gas and water, mining industry. The share of loss bearing enterprises amounted 39.1 percent out of entities provided data, and its number declined slightly compared to 2004. According to the results of business activity monitoring among the inspected enterprises, they operate at about 39.0 percent of their productive capacity as compared with 32.0 percent in 2004.

Low inflation rate, despite the economic recession, contributed to the increase in household income. In 2005, monthly average salary was 2569.5 soms, and its real growth rate (taking into consideration consumer price index) was 11.9 percent. Increase in the expenditures of households is an evidence of its increased income. Retail turnover, including public catering, increased by 13.4 percent (or by 20.7 percent in per capita terms); increase in the volume of payable services provided to households was 8.3 percent (or 11.5 percent in per capita terms).

¹ Physical volume.

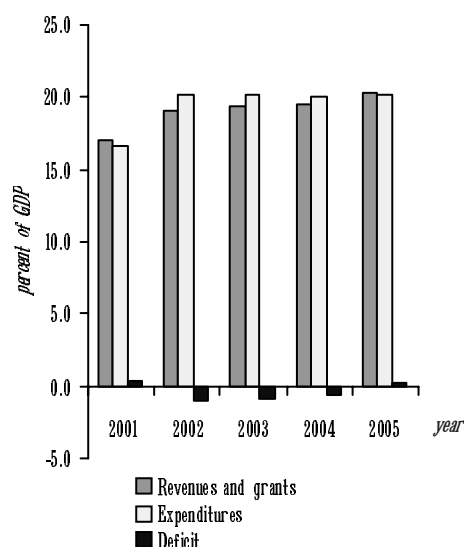
² Data from the NSC KR.

³ Data from the NSC KR for 9 months of 2005.

1.2. Public Finance¹

Chart 1.2.1.

State Budget (excluding PIP)



In 2005, as in previous years, fiscal policy was aimed at the extension of the tax base and financing of the social sector as policy priority. Thus, improvements in the tax policy including enactment of the new Customs Code, tightening up tax administration against the background of the economic slowdown still made possible execution of the state budget revenues. As a result, increase in revenues, in particular, tax revenues, in the reporting year contributed to the execution of the budget in terms of expenditures, which were aimed primarily at financing of social services. Creation of more favourable environment for economic growth and protection of the most vulnerable groups of population remained to be the key goals of the fiscal policy.

In the reporting year, state budget of the Kyrgyz Republic, without external financing through the Public Investment Program (PIP), had a surplus in the amount of 224.4 million soms or 0.2 percent of GDP (given the external financing through the PIP the deficit of the budget totalled 4.2 percent of GDP).

At the same time, the revenues including transfers from abroad totalled 20368.1 million soms; expenditures (without PIP) totalled 20143.7 million soms. Primary budget surplus² amounted to 648.2 million soms or 0.6 percent of GDP.

1.2.1. Resources of the State Budget

Total revenue of the state budget in 2005 including transfers from abroad increased by 11.1 percent as against 2004, and as percentage to GDP, it increased from 19.4 to 20.3 percent.

The share of taxes in revenues of the state budget reached 80.3 percent and increased by 4 percentage points in comparison with 2004. In the state budget, tax revenues totalled 16361.4 million soms or 16.3 percent of GDP (in 2004, it was 13986.6 million soms or 14.8 percent of GDP). Increase in tax revenue was 17.0 percent. This increase took place mainly due to profit tax, income tax and collections from external economic activity.

As before, in 2005 the major contribution in tax revenue was formed by value added tax, which share reached 34.8 percent (37.2 percent in 2004) out of total revenues, or 7088.6 million soms. More than 80 percent of VAT is formed by the tax on imported goods. Therefore, the increase in the volume of import in the reported year resulted in the increase in collection of VAT on imported goods by 6.8 percent (in 2004, increase was 36.5 percent), while the VAT collection from domestic goods reduced by 7.5 percent as against 2004.

¹ According to preliminary data from the Central Treasury, Ministry of Economy and Finance (former Ministry of Finance).

² This indicator characterise sustainability of the budget with respect to debt servicing. It is calculated as a difference between the total revenue and total expenditure net of interest payments.

Substantial increase by 20.9 percent was observed in the reporting year for income tax revenue. Its proportion in the total revenue increased from 7.9 percent in 2004 to 8.6 percent, amounting to 1744.2 million soms.

Collection of profit tax kept growing and totalled 1283.2 million soms showing increase by 39.7 percent as against 2004.

Customs payments in the reporting year grew considerably (3.7 times). Such notable increase in customs duty collections results from enactment of new Customs Code of the Kyrgyz Republic, in particular, collection of uniform tax from natural persons.

In 2005, non-tax revenue in the state budget increased by 4.4 percent as against 2004, and totalled 3567.9 million soms including 123.2 million soms of revenue from the profit of the National Bank. Special means received by state-financed organisations increased by 4.1 percent.

During the reporting period, 392.6 million soms of foreign grants were used (715.8 million soms in 2004).

Enterprises and organisations repaid 961.5 million soms of earlier received loans and credits.

1.2.2. Expenditures of the State Budget

Increase in revenues of the budget enabled better financing of the liabilities of the country during the year. In the reporting year, expenditures of the state budget increased by 6.9 percent.

In the first place, the expenditures were focused on priority-based and timely financing of the social guarantees of the state. Expenditures on protected items were executed in full scale.

According to functional classification, the key expenditure items in the budget are related with social services (58.1 percent of expenditures), including 24.4 percent for education, 11.3 percent for health care, 14.2 percent for social insurance and social welfare. Proportion of public and economic services out of total expenditures is 30.3 and 9.5 percent, respectively.

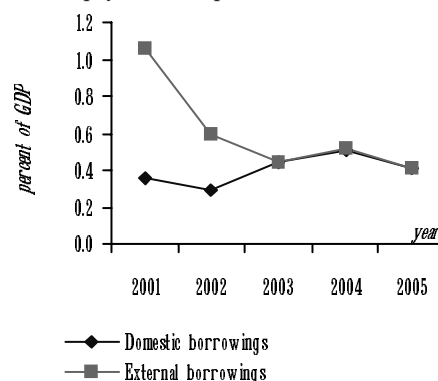
During the reporting year, considerable growth was observed in the expenditures related with payment of wages to employees of state-financed organisations (15.1 percent increase in comparison with 2004), pensions (14.3 percent), and scholarships (28.9 percent). This resulted from the increase in the salary for employees working in interior bodies (by 50 percent), education and health care sectors (by 15 percent), culture (by 30 percent); pensions (in average, by 8 percent); scholarships (by 30 percent).

Subventions from the republican budget for covering the deficit of the Social Fund in 2005 totalled 76.1 million soms (497.2 million soms in 2004). Changes in this item are related with shifting the liabilities of the Social Fund to budget financing.

In 2005, budget expenditures for public debt servicing totalled 3067.6 million soms (15.2 percent of total expenditures), out of which 762.0 million soms and 2305.6 million soms were channelled to repay external and internal debt of the Government, respectively. Over 12 months of 2005, interest payments for public debt amounted to 816.5

Chart 1.2.2.1.

Interest payments on public debt



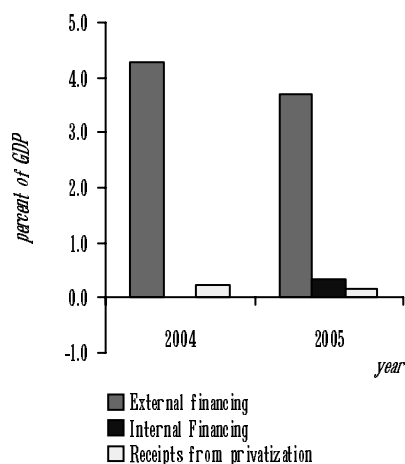
million soms, including 409.8 million soms paid for external debt, which is less than in 2004 by 15.6 percent.

In the reporting year, expenditures of the state budget for capital investments reduced by 7.9 percent as against 2004, and totalled 960.0 million soms.

In 2005, expenditures for investment projects within the Public Investment Program amounted to 4137.8 million soms including 3240.2 million soms (3.2 percent of GDP) of external financing of investment projects without grants, and 260.4 million soms of internal co-financing of investment projects.

Chart 1.2.3.1.

State Budget Deficit Financing (including PIP)



1.2.3. State Budget Deficit Financing

State budget deficit, considering external financing through the PIP, totalled 4192.4 million soms. The financing was ensured from internal and external sources.

According to preliminary data from the Ministry of Economy and Finance of the Kyrgyz Republic, external financing totalled 3710.6 million soms (3240.2 million soms were received, 2315.8 million soms were deferred and restructured; 1845.5 million soms were paid).

In 2005, financing of the state budget deficit from internal sources totalled 320.8 million soms. Receipts from privatisation amounted to 161 million soms.

1.3. Balance of Payments

In 2005, balance of payments¹ of the Kyrgyz Republic totalled 48.9 million US dollars. Current account was determined by 2.5 time increase in deficit of trade and service balance with simultaneous reduction in income balance by 11.0 percent and favourable increase in balance of transfers by 73.7 percent. In 2005, the current account deficit increased 3 times as compared with 2004, and reached 8.5 percent of GDP.

In 2005, foreign trade turnover in FOB prices totalled 1796.4 million US dollars and exceeded the turnover of 2004 by 9.7 percent. Turnover grew due to growth in imports by 23.9 percent and reduction in exports by 7.8 percent. Difference between exports and imports conditioned balance of trade deficit in the amount of 445.1 million US dollars (in 2004, it was 171.2 million US dollars).

Trade turnover with CIS countries increased by 14.3 percent and totalled 951.3 million US dollars, and with non-CIS countries it increased by 4.9 percent and totalled 845.1 million US dollars.

In 2005, exports of goods in FOB prices totalled 675.7 million US dollars. Exports of gold in value terms reduced by 19.7 percent and amounted to 230.7 million US dollars, which was caused by reduction in physical volume of gold production by 25.9 percent.

Exports of goods without gold practically stayed at the level of 2004. At the same time, export of consumer goods increased by 6.1 percent, and export of investment goods rose by 15.6 percent. Exports of raw materials reduced by 16.3 percent, exports of intermediate goods reduced by 14.5 percent, and volume of energy product supply reduced by 3.5 percent.

Group of goods, which enabled growth in export of consumer goods included tobacco products, juices, products made from vegetable fat and animal fat. The main items which ensured growth in export of investment goods were machines and equipment for civil works and contract works, spare parts and accessories for cars, special purpose cars, batteries, electric transformers. Reduction in export of raw materials was related with decrease in supplies of non-fermented tobacco and raw cotton. The main item caused reduction in export of intermediate goods, was gold, whose export reduced considerably.

In the geographical structure of export, 54.9 percent fell at non-CIS countries. Most of export except to the United Arab Emirates and Switzerland, which are main gold importers, accounted to Canada and China. Exports to CIS countries reached 45.1 percent in the total volume of export supplies. Major volume of export still went to Russia (44.3 percent of the total export to CIS countries) and Kazakhstan (38.3 percent), Tajikistan (7.6 percent), and Uzbekistan (5.6 percent). The main exports to CIS countries were textile, electric power, sugar, electric bulbs, glass, and cement.

¹ Preliminary data.

Chart 1.3.1

Current Account

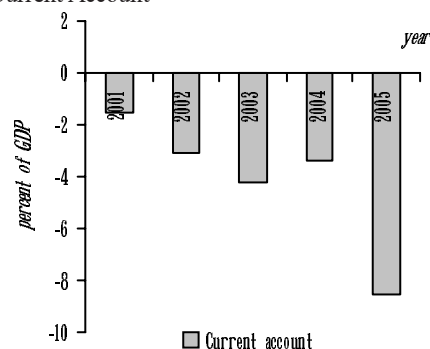


Chart 1.3.2

Trade Balance

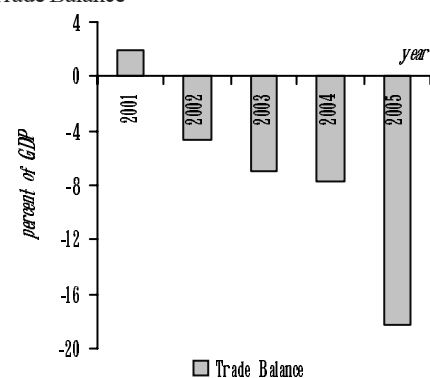


Chart 1.3.3

Trends in physical volume of gold export

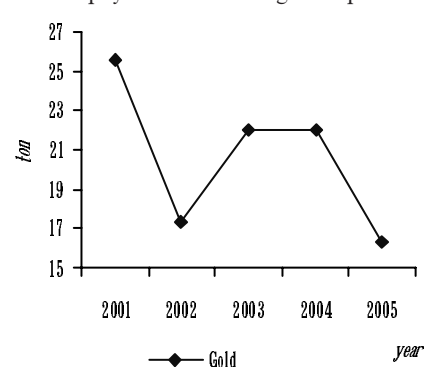


Chart 1.3.4

Export of Goods

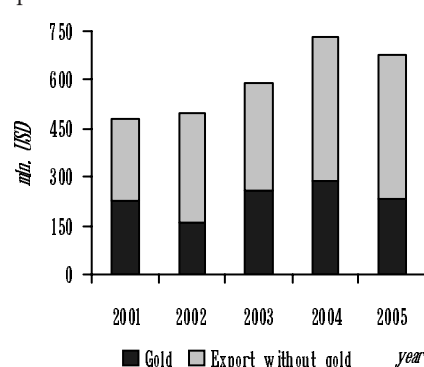
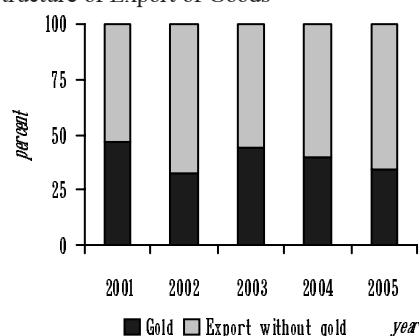
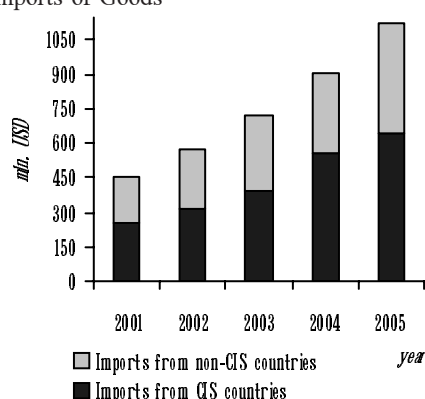


Chart 1.3.5.

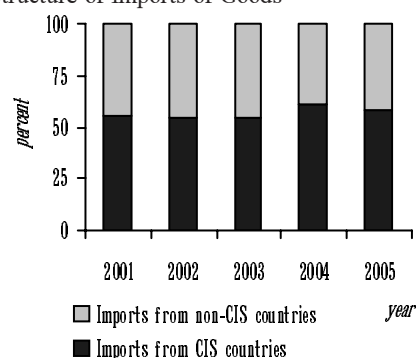
Structure of Export of Goods

**Chart 1.3.6.**

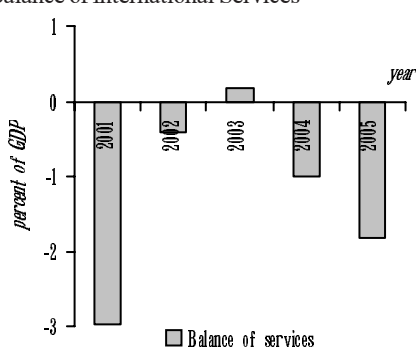
Imports of Goods

**Chart 1.3.7.**

Structure of Imports of Goods

**Chart 1.3.8.**

Balance of International Services



Imports of goods¹ in FOB prices totalled 1120.7 million US dollars and increased by 23.9 percent. Increase in import took place both for CIS countries (by 16.9 percent), and for non-CIS countries (by 29.0 percent).

Increase in import took place for all items of the functional structure except raw materials. The major increase in import (by 25.0 percent) fell at energy products, and it took place due to the 30.7 percent increase in prices for oil products, while the physical volume of supplies reduced by 3.4 percent.

Imports of intermediate goods (by 19.6 percent), investment goods (by 17.1 percent), and consumer goods (by 6.5 percent) increased. The main items of imports, which resulted in its growth alongside with oil products, were cars, equipment, mechanisms, batteries, fertilisers, medical supplies, special scientific and test instruments.

In the geographical structure of import, the share of CIS countries remained at the level of 2004 and totalled 61.9 percent. Imports of goods from Russia continued to be the major part in the total imports from CIS countries (55.3 percent), which increased by 29.0 percent as against 2004. At the same time, imports from Kazakhstan reduced by 11.1 percent. Imports from CIS countries mainly included oil products, food, cars, equipment, plastic, and wood.

As before, the main suppliers of goods from non-CIS countries were China (24.4 percent in the total volume of import from non-CIS countries), USA (15.9 percent), Germany (8.9 percent) and Turkey (8.0 percent). The main goods imported from these countries were cars, equipment, mechanisms, medical supplies, vehicles, and textiles.

In 2005, adverse balance of international services increased 2 times and totalled 44.4 million US dollars. Adverse balance of international services resulted from outpacing rate of growth in the volume of import of services (by 29.6 percent) as compared with their export (by 22.2 percent). The highest growth during the period under consideration was observed for import of transportation services (by 20.8 percent).

In 2005, negative balance of incomes reduced by 10.9 percent and totalled 80.5 million US dollars. Reduction by 31.8 percent in payments to non-residents with regard to reinvested incomes resulted in decrease of negative balance. At the same time, income receivable from other investments increased by 25.2 percent.

Positive balance of current transfers maintains the trend towards increase, as in 2005 it exceeded the value of 2004 by 73.7 percent. The increase took place mainly due to private transfers (by 81.1 percent or by 149.9 million US dollars), which were related, first of all, to the inflow of cash from labour migrants. Transfers received by the general government increased by 16.2 percent.

Capital and financial account (in analytical representation) amounted 118.9 million US dollars, which is 1.2 percent less than in

¹ According to the preliminary data import of goods at c.i.f. prices totalled 1206.6 million of US dollars for 2005, with the trade deficit being 530.9, million US dollars.

2004. At the same time, there was observed some reduction of the capital account deficit and positive balance of the financial account.

Deficit in capital account totalled 6.1 million US dollars, which is 69.3 percent less than the balance in 2004. Such reduction is mainly related to carrying out on cancelling the debt to foreign investors and an increase in the inflow of capital commodity grants.

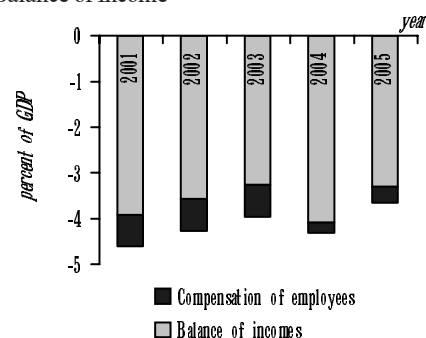
Positive balance of the financial account declined by 10.9 percent in 2005 which is explained by 2.5 times reduction of the net inflow of foreign direct investments accompanied with the increase in proceeds from other investments. This was related with the increase in short-term liabilities (credits) of commercial banks.

Reduction in the net inflow of direct investments¹ to the Kyrgyz Republic by 54.3 percent as against 2004 is explained by inflow of means, which took place in 2004 as a result of sale of Kyrgyz shares in a foreign company. 5.8 times increase in negative balance of portfolio investments resulted from growth of commercial banks' assets in debt securities, and decline in investments from foreign investors in the capital of enterprises.

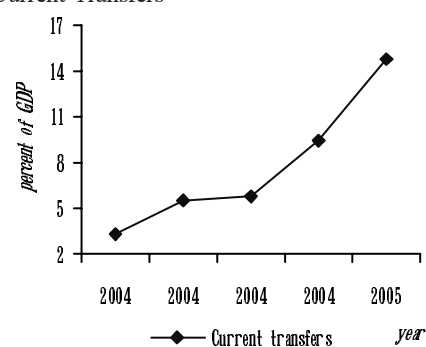
Thus, as a result of 2005, positive balance of payments reduced 2.4 times and totalled 48.9 million US dollars. As of the end of 2005, gross international reserves² increased by 8.3 percent and totalled 612.4 million US dollars. The level of reserve assets of the NBKR³ corresponded to 4.6 months of import of goods and services.

Chart 1.3.9.

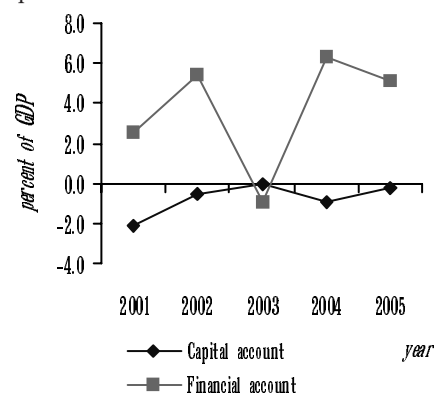
Balance of Income

**Chart 1.3.10.**

Current Transfers

**Chart 1.3.11.**

Capital and Financial Account



¹ According to preliminary results of 2005, net inflow of foreign direct investments totalled 60.1 million US dollars. Over 9 months of 2005, gross direct investments to the economy of the Kyrgyz Republic amounted to 136.4 million US dollars.

² Taking into account reserve position in the IMF.

³ A new methodology was put into practice in 2005 to bring this indicator into compliance with international practice of calculation. According to the previous methodology used in 2004, the level of international reserves corresponded to 5.7 months of import of goods and services, while according to the new methodology it corresponds to 4.6 months. The main difference between these methodologies is in comparison of reserves with different periods of import of goods and services: the initial methodology took into consideration indicators of import of goods and services of the reporting year, while the new methodology does it for the next year.

1.4. Financial Sector

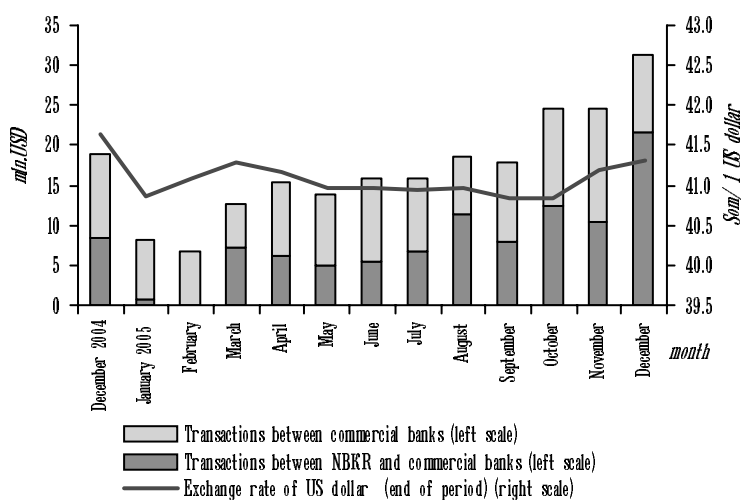
1.4.1. Foreign Exchange Market

In 2005, foreign exchange market was characterised by considerable inflow of foreign currency (export of goods and services, capitalisation of banks, money transfers from abroad, etc.), which resulted in excessive supply of foreign currency observed in the market since April. Furthermore, market environment was seriously affected by aggravation of political situation in the country at the end of March. These factors have determined the character and the size of currency intervention of the NBKR, which prevented acute fluctuations of exchange rate.

Early in 2005, seasonal fluctuations of the exchange rate were observed in the foreign exchange market of the Kyrgyz Republic, which were enhanced by the unstable dynamics of the US dollar in global markets during certain periods. The National Bank practically did not interfere in the development of the situation in the foreign exchange market given negligible fluctuation in the exchange rate. Only at the end of January, – for withdrawal of excessive supply of foreign currency, – the National Bank effected several minor deals with commercial banks to purchase non-cash US dollars.

Chart 1.4.1.1.

Interbank Foreign Exchange Auctions



At the end of March, the demand for the US dollar increased considerably, which, in turn, put pressure on the exchange rate. In March and April, the National Bank conducted large transactions in the interbank foreign exchange auctions selling non-cash US dollars to satisfy keen demand for foreign currency and to smooth fluctuations of the exchange rate. Interventions of the National Bank and increased inflow of the foreign currency to the banking system contributed to stabilisation of the situation at the foreign exchange market.

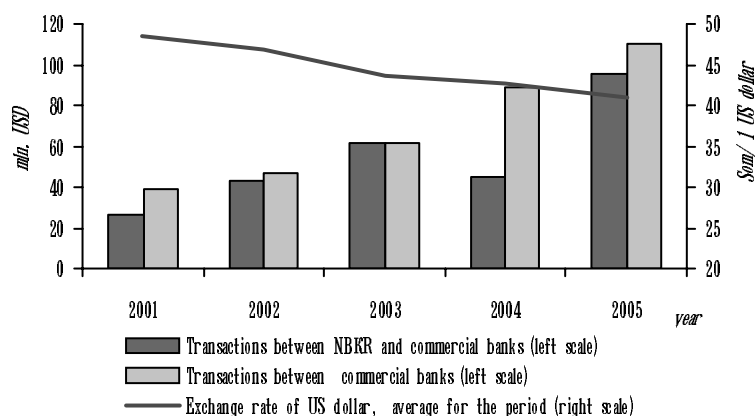
During the subsequent months, the environment of the domestic

foreign exchange market was driven by the growth of foreign exchange revenues from the export of goods and services, and the increase of money transfers. The influence of US dollar exchange rate fluctuation in global markets on the dynamics of dollar – som exchange rate was insignificant during this period. In May-December, the National Bank conducted transactions to purchase non-cash US dollars. During this period, the market was characterised by prevailing trend towards lowering of US dollar exchange rate. Only at the end of the year, under the influence of changes in cash and non-cash balances of foreign exchange in commercial banks, slight increase in US dollar exchange rate was observed.

Over the year, average weighted dollar rate at the interbank foreign exchange auctions increased by 0.95 percent, and as of January 1, 2006 the exchange rate was 41.3008 soms/ US dollar. In 2005, US dollar exchange rate reduced by 0.78 percent and became 41.3011 soms/ US dollar.

Chart 1.4.1.2.

Deals at Interbank Foreign Exchange Auctions



Total turnover of the interbank foreign exchange market, including swap transactions, increased 1.5 times as against 2004. This increase was mainly ensured by the foreign exchange interventions of the National Bank, which share in the total value of deals increased from 32.2 to 45.8 percent. The value of interbank transactions on purchase and sell of foreign currency also increased in the reporting year, however, their share reduced to 53.1 percent. The share of swap transactions remained insignificant, only 1.1 percent, and basically such transactions were conducted by commercial banks with the National Bank in order to replenish liquidity in the national currency.

As compared with 2004, total value of deals on purchase and sell of foreign currency in exchange offices increased by 16.5 percent and amounted to 21.7 billion soms. Increase in deals was observed for all types of main currencies. Most deals (66.7 percent) were conducted with US dollars. The share of deals with Russian ruble, Kazakh tenge and euro in the structure of foreign exchange

Table 1.4.1.1.

Deals in the Interbank Foreign Exchange Market
(mln. USD)

	2004	2005
Total	138.8	207.6
including:		
<i>Deals at foreign exchange auctions</i>	133.3	205.3
Transactions with the NBKR	44.6	95.2
Interbank transactions	88.6	110.1
<i>Swap transactions</i>	5.5	2.3
Transactions with the NBKR	5.0	1.6
Interbank transactions	0.5	0.7

transactions was 15.2, 9.1, and 7.7 percent, respectively. The share of transactions conducted by exchange offices with other currencies (Chinese yuan, pound sterling and Uzbek sum) formed at a level of 1.3 percent.

The US dollar exchange rate demonstrated the same dynamics at interbank auctions, and exchange offices. At the same time, the average selling rate of US dollars in exchange offices was by 0.07 soms lower than the average weighted rate at interbank foreign exchange auctions. Over the year, selling rate of US dollar in exchange offices increased by 0.65 percent and by the end of 2005 it was 41.22 soms per US dollar. During the year, the rate of euro to som was fluctuating according to the dynamics of the euro rate in global markets, and over the year it went down by 12.2 percent to 48.63 som/euro. The rate of Russian ruble and Kazakh tenge also went down by 1.8 and 2.0 percent, respectively, and by the end of the year these rates were 1.42 som/ruble and 0.3053 som/tenge.

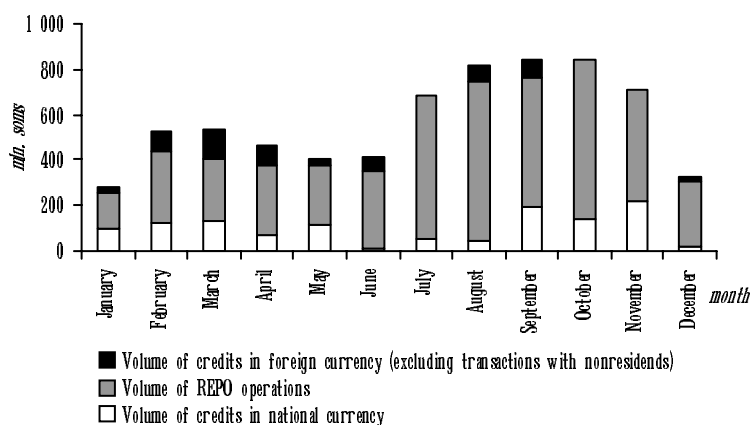
1.4.2. Interbank Credit Market

In 2005, there maintained a trend towards expansion and deepening of the interbank credit market, which became the major source of liquidity replenishment for commercial banks. This was accompanied with improvement in qualitative characteristics of the market: concentration reduced, volatility and interest rates lowered, the range of transactions' maturity extended. Positive development of the interbank market was considerably supported by adequate level of liquidity in the banking system itself, and also by change of conditions for obtaining overnight credits provided by the National Bank¹.

In 2005, as compared with 2004, the amount of deals in som segment of the interbank credit market² increased by 61.5 percent,

Chart 1.4.2.1.

Domestic Interbank Credit Market



¹ Since April, the rate on overnight credit was established as discount rate times 1.5 (previously, discount rate times 1.2), but since July, obtaining of such credit requires provision of collateral in the form of government securities.

² Excluding transactions with the National Bank.

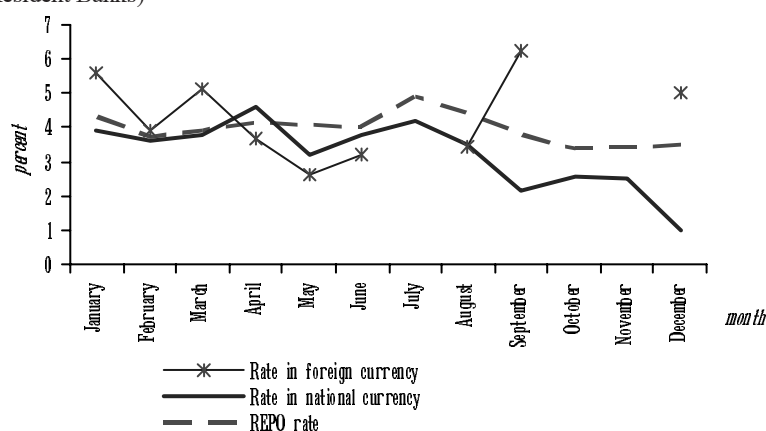
and totalled 6.2 billion soms. As before, the main share in deals was presented by REPO transactions (80.7 percent). Average for year interest rate on REPO transactions decreased from 5.0 percent in 2004 to 4.0 percent, and the rate of interbank credit in national currency decreased from 4.8 to 3.2 percent. Downward interest rate trend was prevailing during the second half of year in connection with liquidity growth in the banking system. Substantial difference in the cost of resources provided under REPO and in the form of interbank credit is explained by structural characteristics of these segments: thus, large deals prevailed in the interbank credit market and among regular counteragents. In 2005, in comparison with 2004, average weighted maturity of REPO transactions reduced from 7.0 to 6.7 days, while it increased for credits in national currency from 5.9 to 8.0 days.

In 2005, transactions in foreign currency¹ among resident banks increased 1.8 times and totalled 592.9 million soms. At the same time, proportion of such transactions in the total value of interbank borrowings remains insignificant totalling 8.7 percent. Main factors, which determined the level and dynamics of rates for interbank credits in foreign currency in 2005, were increased foreign currency balance in banks, shortening of maturity of deals, and consistent rise in the interest rate of the Federal Reserve. Because of prevailing influence of the first two factors, the average annual rate for credits in foreign currency provided in the interbank market, reduced by 1.5 percentage points as against 2004, and totalled 4.3 percent. This was accompanied with extension of interest rate fluctuation range to 11.0 percentage points (8.1 percentage points in 2004) caused by fall of minimal rate to zero level. Average weighted maturity of deals in foreign currency shortened to 69 days (94 days in 2004).

When conducting transactions with non-residents in 2005,

Chart 1.4.2.2.

Dynamics of Interest Rates in the Interbank Credit Market (Transactions among Resident Banks)



Note: in July, October and November credit transactions in foreign currency were not conducted.

¹ Excluding transactions with the National Bank.

domestic banks acted as net creditors. The transactions were mostly conducted by two banks, and, as a rule, the deals were made in US dollar. On the background of significant supply of foreign currency, the total volume of interbank credits given to non-resident banks increased in 2005 by 1.5 times and totalled 118.7 billion soms. At the same time, the value of interbank credits received from non-resident banks in foreign currency slightly reduced and totalled 4.0 billion soms. The growth trend in interest rate for transactions with non-residents having been observed during the year resulted from repeated increase of the interest rate by Federal Reserve. As a result, average annual interest rate on transactions with non-residents increased in 2005 by 1.5 percentage points as compared with 2004, and totalled 2.5 percent.

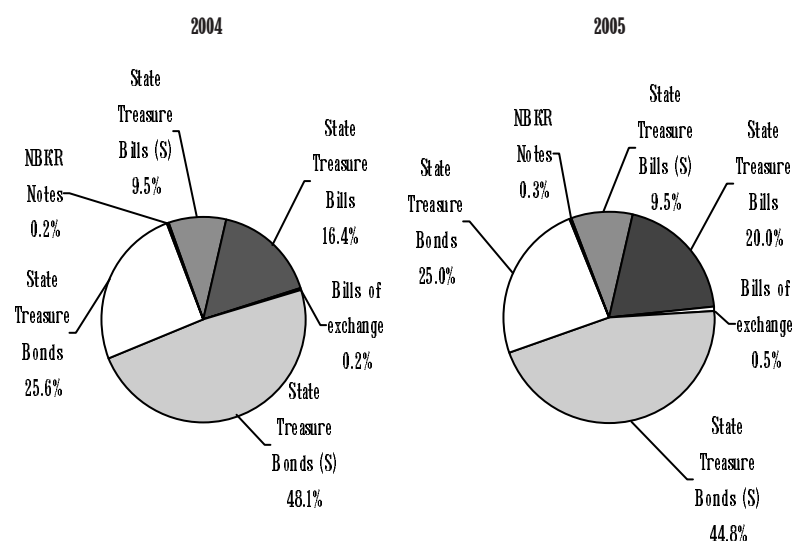
1.4.3. Government Securities Market

The following types of securities circulated at the government securities market in 2005:

- Treasury bills (T-bills);
- Bills of exchange;
- Treasury bonds;
- Government securities for settlement – T-bills(S) and Treasury bonds (S);
- Notes of the National Bank.

Government securities in circulation slightly decreased, and by the end of 2005 it totalled 5798.8 million soms. The most liquid among them were Treasury bills issued by the Ministry of Economy and Finance to finance budget deficit. During the reporting year, the volume of T-bills in circulation increased, and their share at the government securities market increased. The share of notes of the National Bank at this market is less than one percent; however, these securities play the role of price benchmark when evaluating the cost of financial resources. The main share among government securities belong to

Chart 1.4.3.1.
Government Securities in Circulation



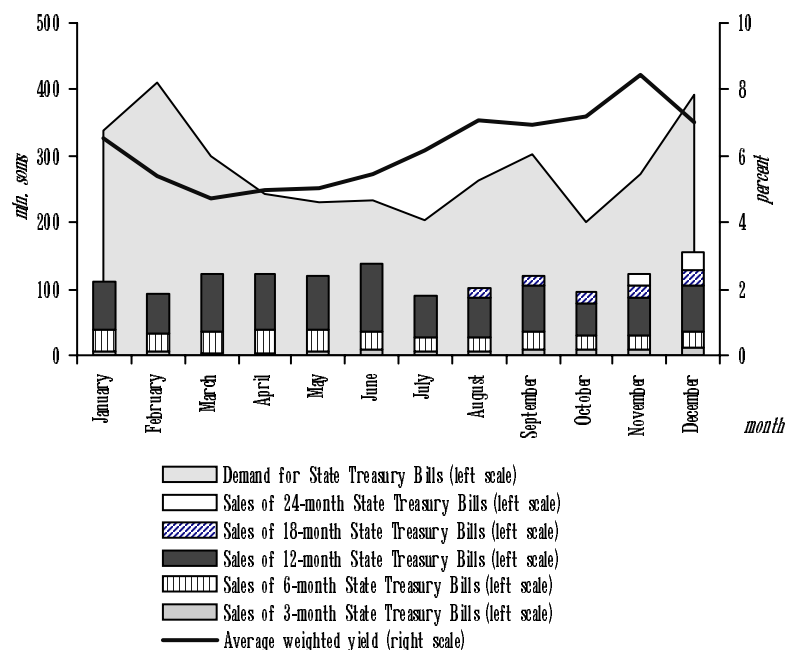
Treasury bonds and Treasury bonds(S) issued by the Ministry of Economy and Finance at different times as restructuring of debt of the Government of the Kyrgyz Republic to commercial banks, non-banking institutions and the National Bank. In 2005, the volume of Treasury bonds and Treasury bonds(S) reduced because of partial repayments. The volume of T-bills(S) also issued in the process of settlement of debt of the Government to the NBKR did not change in 2005. At the same time, the volume of bills of exchange being issued by the Ministry of Economy and Finance in the process of restructuring of banks' and other financial institutions' debt to depositors increased; however, their share in the total volume of government securities is low (less than one percent).

1.4.3.1. Treasury Bills

The Ministry of Economy and Finance is issuing Treasury bills to finance the state budget deficit. Initial placement of T-bills takes place at weekly auctions at the National Bank. In 2005, for the purpose of development and extension of the securities market, the Ministry of Economy and Finance issue new types of T-bills. Starting from July, in addition to bills with 3, 6 and 12-month maturity, it regularly issues 18-month maturity T-bills, and 24-month T-bills since November. The Ministry of Economy and Finance was publishing information about the volume of issue for the next month to improve transparency of the market.

Chart 1.4.3.1.1.

Demand and Placement of T-bills in 2005



At the beginning of 2005, high excess liquidity in commercial banks contributed to increase in the demand and improvement of competition in the primary market of T-bills. Reduction in the yield

for all types of bills was observed during that period, and the lowest level in interest rates for the whole history of T-bills placement was reached in March: 3.4 percent for 3-month T-bills, 3.8 percent for 6-month T-bills, 4.5 percent for 12-month T-bills. Lessening of demand for bills and increase in its yield was observed at the end of March. Later on, the trend towards the growth of average weighted yield of T-bills was prevailing in the market, which was caused by decrease in banking liquidity in spring and summer, and after that, by appearance of longer maturity bills with higher yield. At the end of the year, in the context of considerable increase of liquidity in the banking system, the demand for T-bills notably increased, which resulted in slight reduction in yield for all types of T-bills.

Table 1.4.3.1.1.

Sales and average annual yield of T-bills

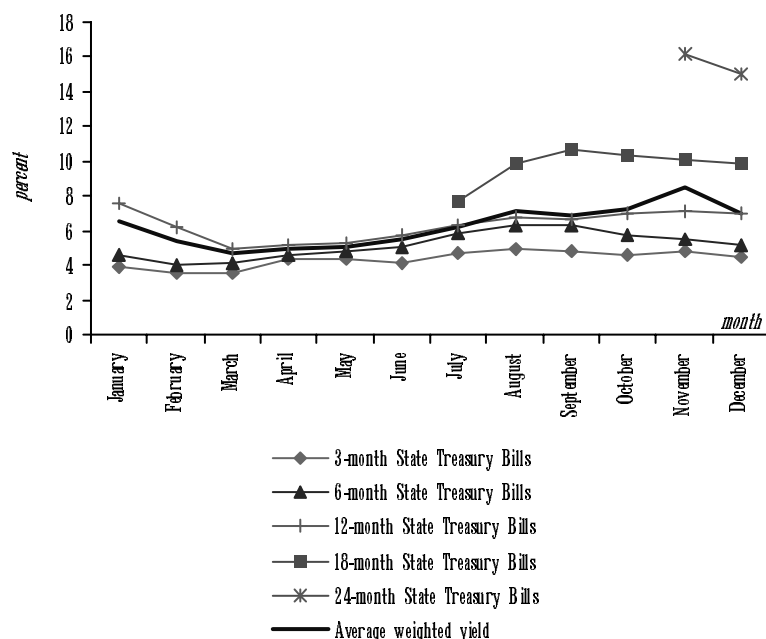
	2004		2005	
	Sales	Yield	Sales	Yield
	<i>mln. soms</i>	<i>percent</i>	<i>mln. soms</i>	<i>percent</i>
Total	1 217.6	8.7	1 395.1	6.3
<i>including:</i>				
3-month T-bills	98.2	5.0	78.8	4.4
6-month T-bills	337.2	6.5	324.9	5.2
12-month T-bills	782.3	10.3	849.4	6.3
18-month T-bills	-	-	99.0	9.7
24-month T-bills	-	-	43.0	15.6

As a whole, over the year, average annual yield of T-bills reduced by 2.4 percentage points as against 2004, and totalled 6.3 percent. This was accompanied with lower volatility of rates and reduction of spread between the yields of different types of bills. Reduction in the general level of rates allowed the Ministry of Economy and Finance to increase the annual volume of issued T-bills to 1395.1 million soms or by 14.6 percent as against 2004. At that, the share of medium-term T-bills (12, 18 and 24-month bills) was prevailing in sales; as compared with 2004, it increased by 6.9 percentage points and totalled 71.1 percent.

Commercial banks remained to be the main holders of T-bills. During the year, their T-bill portfolio increased by 30.1 percent, and as of the end of the reporting year, it totalled 1128.8 million soms or 97.5 percent of the total volume of T-bills in circulation. The number of banks holding T-bills did not change and remained 16. In most of the banks the T-bill portfolio increased, however, concentration of the total banking portfolio remains high (as of the end of the year, concentration index was equal to 0.28, which is equivalent to presence of 4 participants in the market with equal shares). In the reporting year, the volume of T-bills held by resident individuals and legal entities reduced, and their share in the structure of holders reduced and made up 1.2 percent each. At the same time, the volume of T-bills in the portfolio of non-residents increased in the reporting year, however,

Chart 1.4.3.1.2.

T-bill Yields and Average weighted Yield in 2005



their proportion remained insignificant, and, as of the end of the year, it occupied 0.1 percent of total volume of T-bills in circulation.

In the secondary market, Treasury bills were mainly used for transactions under REPO. In comparison with 2004, the value of interbank REPO transactions increased 1.6 times and totalled 5035.6 million soms. At the same time, the value of direct REPO transactions with the National Bank conducted with the purpose of replenishment of commercial banks' liquidity reduced to 17.0 million soms (432.7 million soms in 2004). Transactions on purchase or sale of T-bills prior to maturity were very few: over the year, three deals were effected among banks and their clients. As compared with 2004, the value of such transactions reduced 3.4 times and totalled 10.5 million soms.

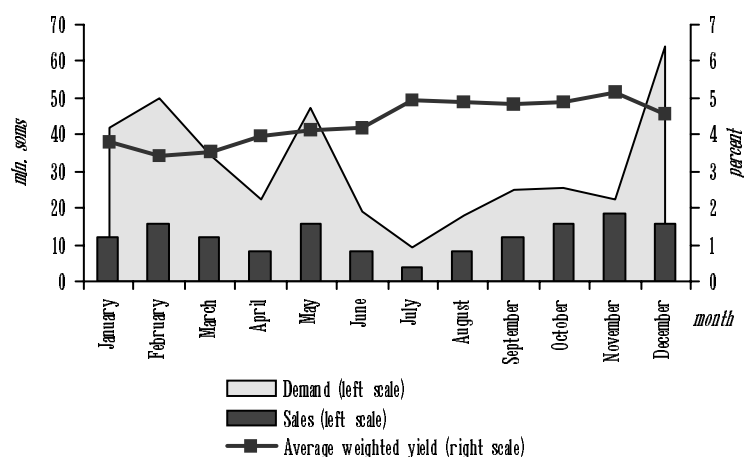
1.4.3.2. Notes of the National Bank

In 2005, the National Bank issued in circulation 28-day notes of the NBKR with the purpose to determine the discount rate, which is «attached» to the yield of these securities. Issuance of notes took place at weekly auctions conducted by the National Bank.

In the reporting year, growth in demand, lower concentration and reduction in volatility and level of interest rate characterised the market of notes. Thus, in 2005, the total value of bids from participants of auctions 2.2 times exceeded the declared value of issuance (in 2004, this indicator was lower by one third). The number of auctions increased from 26 to 36, and the number of participants also increased. Higher level of liquidity in the banking system and appropriate measures taken by the National Bank contributed to deepening and development of primary market of notes.

Chart 1.4.3.2.1.

Demand and Placement of Notes in 2005



In 2005, situation in the primary market of notes developed almost the same way as in the market of T-bills. At the beginning of 2005, there was observed considerable upswing of demand and, as consequence, reduction of yield of 28-day notes caused by high liquidity level in the banking system and reduction of interest rates in other segments of money market. As a result, by the end of February, the yield of notes reduced to minimal level of 3.2 percent. However, during spring and summer period, activity of banks in the market of notes slowed down because of lower liquidity of the banking system. During this period, the trend towards note yield growth was prevailing in the market reaching 4.9 percent in July. At the same time, most of auctions announced during the period from May to August did not take place because of insufficient number of participants.

In autumn, liquidity in commercial banks increased, however, competition in the market of notes remained weak, as banks preferred to invest in longer maturity instruments. In this connection, during September and October, yield of notes stayed at the level of 4.8-4.9 percent, and in November it increased to 5.3 percent. At the end of the year, against the background of considerable growth of liquidity in the banking system, significant intensification of banks' activity was observed in the primary market of notes resulting in lower yield of notes, which reached 4.1 percent at the end of year.

In 2005, average annual yield of notes was 4.4 percent, showing reduction by 0.3 percentage points as against 2004. At the same time, total sales at auctions reduced by 10.4 percent and totalled 146.5 million soms. As of January 1, 2006, the stock of notes of the NBKR in circulation totalled 16 million soms. All the notes were in portfolio of commercial banks.

1.4.3.3. Other Government Securities

The Ministry of Economy and Finance was the issuer of other government securities, which were in circulation in 2005. Since 1995,

Treasury bonds were issued in series to restructure the debt to commercial banks, non-banking institutions and the National Bank. Recently, the National Bank having 90 percent of treasury bonds in portfolio is the main holder of these securities. In 2005, while restructuring the debt to non-banking institutions, the Ministry of Economy and Finance issued Treasury bonds to the amount of 54.0 million soms, which were fully redeemed during the year. In addition, the Ministry of Economy and Finance settled its debt with regard to Treasury bonds issued in 1997 and 2004 to the amount of 36.5 million soms having fully met its liabilities related with these securities. As a result of transactions conducted by the Ministry of Economy and Finance, during 2005, the Treasury bonds in circulation reduced by 2.5 percent, and, as of January 1, 2006, totalled 1448.8 million soms.

Government securities for settlement were issued in December 2002 for debt restructuring of the Kyrgyz Republic Government to the National Bank. The package of these securities includes Treasury bills for settlement having maturity up to one year, and Treasury bonds for settlement with more than 3 years maturity. The entire package of government securities for settlement is held by the National Bank, and Treasury bills for settlement are used by the National Bank for purpose of conducting reverse REPO transactions. During the year, the stock of government securities for settlement did not change and remained at the level of 550.0 million soms. At the same time, part of Treasury bonds for settlement was redeemed, so its stock reduced by 7.2 percent, or to 2596.6 million soms. Therefore, in general, over 2005, overall outstanding debt of the Ministry of Economy and Finance with regard to government securities for settlement reduced by 6.0 percent, and totalled 3146.6 million soms.

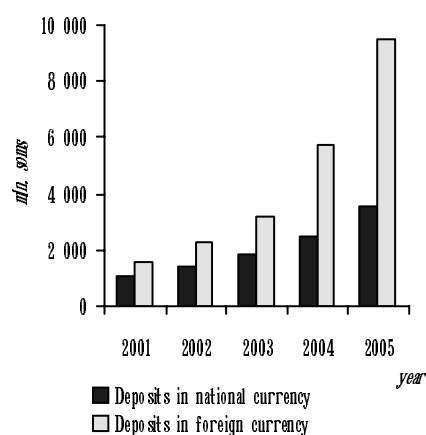
Bills of exchange are long-term securities with 7-year maturity. The Ministry of Economy and Finance started issuance of these securities in 2004 in connection with debt restructuring of bankrupt financial institutions to depositors. At the beginning of 2005, their value in circulation totalled 10.8 million soms. During the reporting year, the Ministry of Economy and Finance issued a new package of bills to the amount of 183.4 million soms. However, almost all these bills were redeemed ahead of schedule. As a result, by the end of 2005, outstanding debt of the Ministry of Economy and Finance with regard to bills of exchange totalled 29.5 million soms.

1.4.4. Deposit and Credit Market

In 2005, growth trend for deposits and credits preserved¹. Over the year, deposits² in the banking system increased to 13.3 billion soms and exceeded the level of the beginning of the year by 56.6

¹ According to regulatory reporting from commercial banks and Saving Settlement Company (SSC).

² Taking into consideration deposits from the Government and financial institutions.

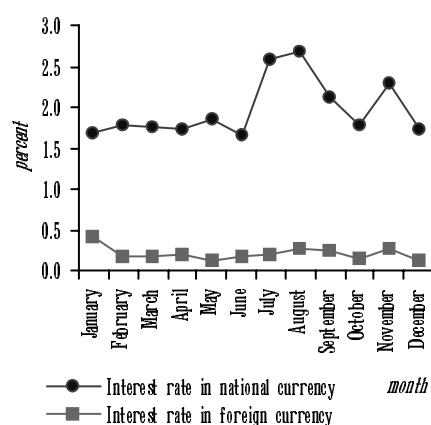
Chart 1.4.4.1.Deposits in the Operating Commercial Banks
(end of period)

percent, while credit portfolio¹ increased to 8.4 billion soms, or by 29.0 percent. At the same time, during the reporting year, balance of deposits and credits in banks with revoked licenses slightly reduced due to writing-off and repayment, and also due to conversion of bankrupt banks' debt² to depositors into government securities, namely, bills of exchange. As a result, the share of deposits in these banks in the total deposit base of the banking system decreased during the year from 3.2 to 1.7 percent, and in the credit portfolio it decreased from 11.3 to 8.7 percent. Expansion of the deposit base and credit portfolio in commercial banks could be characterised by the following indicators: ratio of deposits to GDP increased during the reporting period by 4.3 percentage points and totalled 13.3 percent, while the ratio of credit portfolio to GDP increased by 1.5 percentage points and reached 8.4 percent. At the same time, ratio of credit portfolio to deposits reduced from 77.2 to 63.6 percent.

In the operating commercial banks, deposits increased by 59.1 percent, and by the end of year, reached 13.1 billion soms. Despite the aggravation of domestic political situation, the confidence in the banking system was preserved, which could be illustrated by ratio of deposits in national currency to cash (M0) that grew from 22.1 to 27.1 percent. At the same time, the rate of growth of deposits in foreign currency outran the growth of som deposits in the reporting year, though it slightly decreased as compared with 2004. As a result, «dollarisation» of deposits base increased during the year from 70.0 to 72.9 percent.

Chart 1.4.4.2.

Interest Rate for Deposit



As before, deposits of legal entities having comprised the bulk of the deposit base in the operating banks, increased almost by 70.0 percent during the year, and reached 10.4 billion soms. During the reporting period, the deposits of households also increased, however, the rate of their growth reduced from 45.6 to 28.0 percent as against 2004, which resulted from outflow of deposits caused by the events at the end of March. The share of deposits of households reduced during the year to 20.4 percent, or by 5.0 percentage points, and amounted deposits to 2.7 billion soms.

As to the time structure of the deposit base, an increase in the balance was observed in all categories of maturity, except for deposits up to one month and more than 3-year maturity. The highest growth was observed among demand deposits. As a result, their share in the time structure increased to 75.9 percent (71.5 percent, as of the beginning of the year), leading to reduction of the duration of the deposit base to 3 months, which reduced by 0.8 month.

Increase in deposits was observed in most commercial banks, however, over the year, concentration of the deposit base slightly increased, though it remained moderate. Thus, deposit concentration index increased from 0.11 to 0.13, which is equivalent to reduction in

¹ Excluding the discount. The discount means an adjustment in the loan book value. It is a difference between the nominal value of the extended loan and its fair value.

² «Mercury», «Kurulush» and «Insan».

the number of market participants with equal shares from 9 to 8. It should be noted, however, that different categories of deposits are characterised by different concentration level. For example, deposits of households are more equally distributed among the banks, while deposits of legal entities in foreign currency are characterised by high concentration.

In comparison with 2004, deposit flow¹ increased by 23.2 percent. Most part of deposits (about 73 percent) was received by one bank, which is servicing current foreign currency accounts of non-resident individuals. Without this bank, the value of funds raised by banks totalled 33.7 billion soms, which is by 22.7 percent more than in 2004. In particular, the flow of deposits in foreign currency increased by 19.6 percent and amounted to 25.8 billion soms.

Average annual interest rate for deposits in national currency did not change staying at the level of 2.0 percent, while the rate for the deposits in foreign currency reduced from 0.3 to 0.2 percent. In particular, the interest rate for time deposits in national currency reduced from 8.5 to 8.2 percent, and for foreign currency deposits it reduced from 5.6 to 5.2 percent mainly due to changes in the maturity.

In the reporting year, commercial banks continued active crediting of different sectors of economy, however, growth rate of loans issued considerably decreased as compared with 2004. Over the year, credit portfolio of the operating banks increased by 32.8 percent, and, as of the end of December, it totalled 7.7 billion soms. At the same time, credits in national currency increased by 28.0 percent and reached 2.2 billion soms, while credits in foreign currency increased by 34.9 percent and totalled 5.5 billion soms, or 71.4 percent of the total volume.

Increase in credit portfolio was observed in most of the banks with slight decrease in concentration of credit. As of the end of December, the index of credit concentration in banks was 0.10, which is equivalent to market sharing among 10 participants, and testifies about moderate concentration. At the same time, in some sectors concentration index was much higher than general level, and, as a rule, loans in most of the banks were distributed between two sectors, which testifies about market segmentation by sectors. The market of credit to trade is the least concentrated, where concentration index is 0.11, which is equivalent to market sharing among 9 creditors with equal shares.

In 2005, positive changes in crediting also included increase in credit with maturity exceeding one year, practically, in all sectors. Over the year, the share of such credits increased to 34.9 percent, or by 7.5 percentage points. At the same time, the duration² of credit portfolio increased from 14.8 months at the beginning of the year to 16.3 months.

¹ Deposit flow does not include funds credited to the demand accounts of legal entities.

² Average weighted period till repayment.

Chart 1.4.4.3.

Interest Rate for Time Deposits

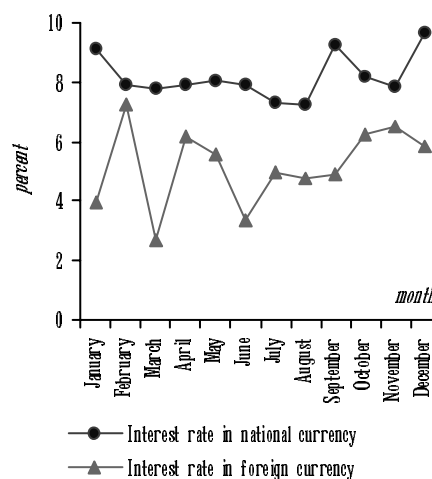
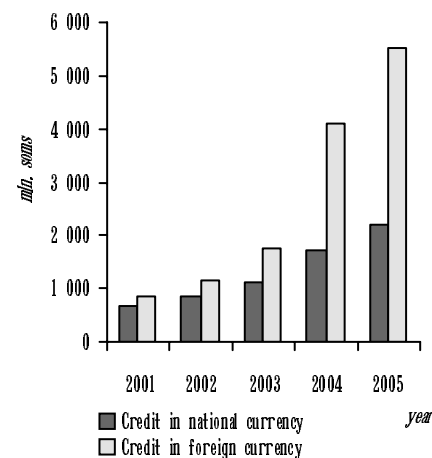


Chart 1.4.4.4.

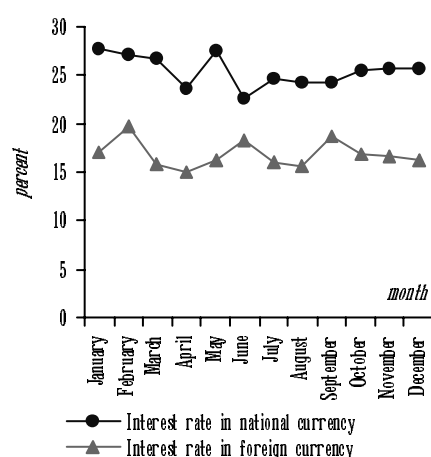
Credit Portfolio of Operating Commercial Banks (end of period)



In 2005, the credit flow totalled 10.6 billion soms, which by a quarter exceeded the figure of 2004. In particular, credit flow in national currency increased by 18.2 percent and reached 3.0 billion soms, while credit flow in foreign currency increased by 29.3 percent and totalled 7.6 billion soms. The largest proportion of funds was channelled by commercial banks to trade sector; however, in comparison with 2004, the share of such credits reduced by 5.5 percentage points and totalled 43.7 percent in the total flow of credits. At the same time, proportion of credits for construction and housing increased considerably, – up to 8.2 and 4.6 percent, respectively. In addition, crediting of households (8.4 percent of the total extended credits), agriculture (1.5 percent) and development of social services (0.4 percent) also increased in 2005. The flow of loan extended to industry, transport, communication, procurement and processing reduced in 2005. At the same time, crediting of other sectors increased, and its share in the total volume of credits reached 18.3 percent.

Chart 1.4.4.5.

Average Interest Rate



Average annual interest rate for credits in national currency increased during the reporting period by 0.9 percentage points and totalled 25.4 percent. It was connected with the increase in the cost of credit for trade. At the same time, the rates went down for almost all other sectors. As to credit in foreign currency, the average interest rate decreased by 2.1 percentage points to 16.8 percent. The largest decrease was observed for credit extended for construction and other sectors (by 5.4 and 5.6 percentage points, respectively). Reduction in interest rate for credit in foreign currency was observed practically in all sectors and categories of maturity.

Over the year, the credit portfolio in national and foreign currency increased – by 0.8 percentage points to 24.9 percent, and from 18.0 to 18.7 percent, respectively. It ought to be noted, that increase in interest rate of credit portfolio in foreign currency against the background of interest rate reduction for credit flow in foreign currency is explained by growing share of overdue credits for which the banks increased the interest rate. That resulted in the increase of margin for deposit and credit transactions: for the credit in national currency its size increased from 20.5 to 20.8 percentage points, and for credit in foreign currency it increased from 15.9 to 17.0 percentage points.

In 2005, growth in crediting of the economy was observed not only on the part of banks, but also on the part of non-banking institutions licensed by the National Bank. Over the year, aggregate credit portfolio of these organisations increased by 41.5 percent, and as of January 1, 2006, it totalled 3922.2 million soms. At the same time, in comparison with 2004, the average level of interest rates for new credits provided by largest non-banking institutions (Kyrgyz Agricultural Financial Corporation and Financial Company for Support and Development of Credit Unions) reduced by 0.7 percentage points to 16.2 percent, while the interest rate on existing credit portfolio reduced from 17.0 to 15.9 percent.

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

II

CHAPTER 2

MONETARY POLICY

2.1. Goals and Outcomes of Monetary Policy

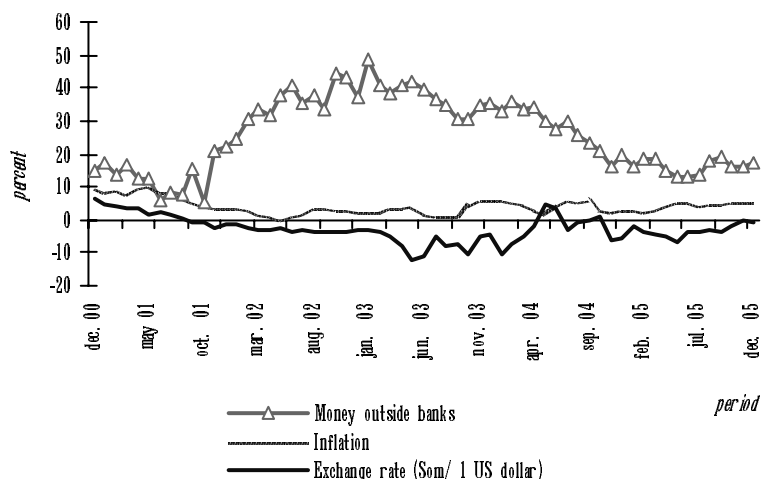
The Law *On the National Bank of the Kyrgyz Republic* provides that achieving and maintaining of price stability through conducting monetary policy is a goal of the National Bank activity. Consumer price index (CPI) is used as an inflation target, so the Statement of the National Bank on Monetary Policy for 2005 set growth rate in consumer prices at a level less than 4.0 percent (December 2005 to December 2004) given the 5.0 percent increase in real GDP.

In January-September 2005, the economy was characterised by zero growth rate, therefore, the inflation target for 2005 was revised and set to 4.7 percent. In practice, because of drop in GDP, inflation ultimately reached 4.9 percent and slightly exceeded target set for the year.

In 2005, price dynamics was largely determined by rise in food prices resulting from poor crop of vegetables and fruit. Without fruit and vegetable group, the CPI growth was 3.6 percent (3.5 percent in 2004). Expansive rise of motor fuel prices in the fourth quarter of 2005 also contributed to growth in inflation rate.

Chart 2.1.1.

Growth Rate of Money out of Banks, Exchange Rate and CPI (end of period)
(year-on-year)



During the reporting year, the inflation had predominantly non-monetary nature despite rather high growth of monetary aggregates in nominal terms caused by continuing remonetisation of the economy. As a result, the velocity of money aggregates was further decreasing in 2005, while the trend towards the advanced growth of the deposit component in money supply as compared with cash was preserving. However, given business activity slowdown, monetary policy was rather moderate, and growth of monetary aggregates in real terms was lower than in 2004.

The highest increase among money aggregates was observed

for broad money or money aggregate M2X. In 2005, its increase reached 25.5 percent¹, and money aggregate M2 increased by 17.6 percent. Minimal increase was observed for monetary aggregate M0 (money outside of the banks), its rate of growth was 17.5 percent. This is 2.0 percentage points less than in 2004, which testifies to slowdown of transaction demand for monetary assets. Therefore, in 2005, the National Bank was regulating money supply according to the demand for money and inflation rate, which was largely determined by non-monetary factors.

As of the end of 2005, the monetary base was 15466.2 million soms showing 24.9 percent increase over the year. Operations of the NBKR increased it by 2650.3 million soms, which was mainly related with operations conducted in the interbank foreign exchange market due to increased inflow of foreign currency. Therefore, to prevent sudden swings in the foreign exchange market, the NBKR was primarily conducting operations with foreign currency. Over the reporting year, the net purchase totalled 71.3 million US dollars. Due to budget operations of the Government, monetary base increased by 435.6 million soms. Contribution of net foreign assets to the increase of monetary base was 23.9 percentage points, while contribution of net domestic assets was 1.0 percentage points.

As of the end of 2005, reduction in the share of money in circulation was observed in the structure of monetary base (86.7 percent against 92.3 percent as of the end of 2004), and accordingly, there was an increase in the share of commercial banks' reserves (13.3 percent against 7.7 percent).

As of the end of the reporting period, money supply M2 totalled 15959.3 million soms, and over 2005, the increase was 17.6 percent (22.4 percent in 2004). Deposits in national currency were outrunning

Table 2.1.1.

The Monetary Base and its Sources (end of period)
(mln. soms, based on permanent exchange rate 42 soms per US dollar)

	2004	2005	Growth rate, percent	Impact on monetary base, percentage points
Net foreign assets	14,626.7	17,588.9	20.3	23.9
Net international reserves	13,798.6	17,476.8	26.7	29.7
Other foreign assets	879.6	163.6	-81.4	-5.8
Balance with CIS countries	-51.4	-51.4	0.0	0.0
Long-term foreign liabilities	-2,356.8	-2,352.9	-0.2	0.0
Net domestic assets	110.2	230.2	108.9	1.0
Net domestic lending	834.3	1,489.5	78.5	5.3
Claims to the Government	420.5	1,188.5	182.6	6.2
REPO operations	40.0	-50.0	-225.0	-0.7
Claims to banks	373.8	351.0	-6.1	-0.2
Other items	-724.1	-1,259.3	73.9	-4.3
Monetary base	12,380.1	15,466.2	24.9	24.9
Money in circulation	11,425.1	13,413.8	17.4	16.1
Reserves of commercial banks	955.1	2,052.4	114.9	8.9

¹ Based on permanent exchange rate 42 soms per US dollar; deposits of non-residents were excluded from money supply.

in the structure of money supply, at that, rate of growth in transferable and other deposits totalled 10.2 and 39.6 percent, respectively, which shows cardinal change as compared with 2004 (in 2004, transferable and other deposits grew by 47.2 and 18.6 percent).

The money aggregate M2X totalled 21401.9 million soms, – during 2005, it increased by 25.5 percent. In 2005, growth of both broad money and monetary base was primarily driven by the increase in net international reserves of the NBKR. Purchase of foreign currency proved to be important source for the replenishment of international reserves of the NBKR, which testifies to the growing role of domestic market among other sources being used for the replenishment of net international reserves. At the same time, the influence of external factors was reducing, which was mainly connected with external debt restructuring under the agreement with Paris Club creditors. Increase in crediting to the economy should be emphasised with regard to net domestic assets of the banking system, as its volume increased by 32.0 percent over the year.

As of the end of 2005, the structure of M2X underwent the following changes:

- share of money outside of the banks totalled 61.0 percent (65.2 percent as of the end of 2004);
- share of deposits in national currency totalled 13.5 percent (14.3 percent as of the end of 2004);
- share of deposits in foreign currency totalled 25.4 percent (20.4 percent as of the end of 2004).

As against the previous year, monetisation of the economy (ratio of M2X to GDP as of end of year) increased by 3.4 percentage points and totalled 21.4 percent to GDP.

Table 2.1.2.

Sources of Money Supply M2X Formation (end of period)¹
(mln. soms, based on permanent exchange rate 42 soms per US dollar)

	2004	2005	Growth rate, percent	Impact on M2X, percentage points
Net foreign assets	16,709.6	19,585.1	17.2	16.9
Long-term foreign liabilities	-2,356.8	-2,352.9	-0.2	0.0
Net domestic assets	2,698.8	4,169.7	54.5	8.6
Net claims to the Government	1,131.4	1,405.5	24.2	1.6
Credit to the economy	6,067.6	8,010.1	32.0	11.4
Credit in national currency	1,836.3	2,197.2	19.7	2.1
Credit in foreign currency	4,231.3	5,812.9	37.4	9.3
Other items	-4,500.1	-5,246.0	16.6	-4.4
Money supply (M2X)	17,051.7	21,401.9	25.5	25.5
Money outside of banks	11,124.0	13,065.4	17.5	11.4
Deposits	5,927.7	8,336.5	40.6	14.1
Deposits in national currency	2,444.5	2,893.9	18.4	2.6
Deposits in foreign currency	3,483.2	5,442.5	56.3	11.5

¹ In compliance with the Guidelines on monetary and financial statistics, the data for 2005 on deposits and credits from nonresidents in commercial banks are excluded from calculation of monetary aggregate M2X.

2.2. Monetary Policy Instruments

High level of liquidity in the banking system and considerable inflow of foreign currency to the country became the key factors which exerted influence on the volume and structure of the transactions conducted by the NBKR in the reporting year. Thereby, the National Bank reduced the volume of transactions on liquidity provision to commercial banks, and increased the volume of foreign currency interventions. In 2005, the total transactions conducted by the NBKR amounted approximately to 7 billion soms showing 41.3 percent reduction as against 2004. Thus, compared with 2004, proportion of transactions on refinancing (provision of overnight loans) reduced from 75.1 to 37.7 percent of transactions conducted by the NBKR. The volume of direct REPO transactions has also noticeably reduced, along with foreign exchange SWAP transactions used by the National Bank for short-term injection of additional liquidity to the banking system. The share of these transactions reduced by 3.4 and 0.9 percentage points respectively, and totalled 0.2 and 0.9 percent. At the same time, the share of currency interventions increased from 15.8 to 56.0 percent, while the main part of them (87.4 percent) were transactions on purchasing US dollars.

2.2.1. Open Market Transactions

Transactions in the open market are aimed at regulation of liquidity in the banking system and are conducted in compliance with the goals of monetary policy and developments on financial market. In 2005, the National Bank was using two types of transactions in the open market – direct and reverse REPO. Direct REPO (purchase of government securities from commercial banks with obligation of subsequent resale) was used for providing short-term liquidity. For such transactions the National Bank was using Treasury bills. Reverse REPO transactions (sale of government securities to commercial banks for a certain period) were conducted for the purpose of medium term liquidity “sterilisation”. Treasury bills for settlement were used by the National Bank for these transactions.

In the context of sustainable and sufficient liquidity in commercial banks in 2005, the National Bank conducted only one direct REPO transaction. This transaction took place at the end of March in connection with the deposit outflow from the banking system. During that period, the National Bank advanced transactions on refinancing of commercial banks.

Reverse REPO transactions to withdraw liquidity from the banking system were conducted by the National Bank at the beginning and at the end of the year when considerable increase in the liquidity was observed in banks. It should be noted that a new tender mechanism of reverse REPO was introduced in 2005 aimed at better transparency of transactions and determination of price on monetary resource on the market basis. There were conducted five tenders to place T-bills for settlement under REPO conditions. As against 2004,

the reverse REPO reduced by 22.4 percent. Average weighted maturity of reverse REPO transactions reduced from 71 to 49 days, average weighted interest rate for such transactions was 3.5 percent.

Table 2.2.1.1.

Transactions of the NBKR with Government Securities
(thous. soms)

	1 q.	2 q.	3 q.	4 q.	Total
2004	216,299.1	293,683.0	132,000.2	62,000.1	703,982.4
<i>including:</i>					
Direct REPO	-	238,682.8	132,000.2	62,000.1	432,683.0
Reverse REPO	216,299.1	55,000.3	-	-	271,299.3
2005	117,000.4	-	-	110,500.9	227,501.3
<i>including:</i>					
Direct REPO	17,000.1	-	-	-	17,000.1
Reverse REPO	100,000.4	-	-	110,500.9	210,501.2

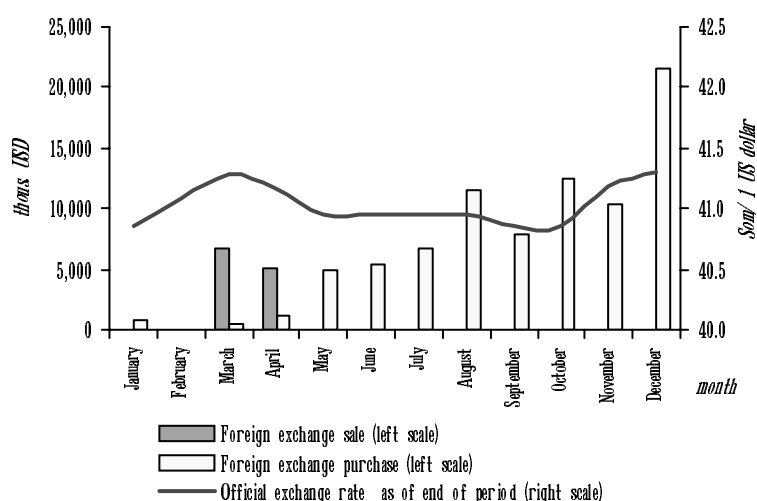
2.2.2. Transactions in the Foreign Exchange Market

In 2005, the National Bank significantly increased the foreign exchange transactions in the domestic interbank market, which were conducted to smooth swings of the exchange rate. At the same time, in March and April, the National Bank was mainly selling US dollars because of foreign exchange deficit occurring in the market at that time resulting from the increased demand for US dollar. The interventions conducted by the National Bank have stabilised the exchange rate. Last days of April, US dollar exchange rate started to go down together with growing foreign exchange revenues from exports of goods and services and lower demand for US dollars. During this period, the National Bank was buying non-cash US dollar.

Beginning from May, offer of US dollars at foreign exchange

Chart 2.2.2.1.

Foreign Exchange Transactions of the NBKR in 2005



auctions increased considerably due to foreign exchange deposit inflow, money transfers and funds for banks' capitalisation, and also due to increased revenue from export and other transactions. Excessive supply of foreign exchange preserved till the end of the year, and in this context, the National Bank continued its foreign exchange purchase transactions. As a result, the fluctuations of the exchange rate at foreign exchange auctions were insignificant and mainly depended on the stock of foreign currency in commercial banks. At the same time, the dynamics of US dollar exchange rate in the internal market practically did not depend on the situation in global markets. In comparison with 2004, exchange rate fluctuation range at foreign exchange auctions considerably reduced in 2005 totalling 2.9 percent with regard to average annual level (in 2004, this was 8.6 percent).

In 2005, the National Bank bought 83.2 million US dollars and sold 12.0 million US dollars. Therefore, the net purchase totaled 71.3 million US dollars. Over the year, the official exchange rate of US dollar against som reduced by 0.78 percent and, as of end of reporting period, it made 41.3011 som/US dollar.

In 2005, together with exchange interventions, the National Bank conducted exchange swaps purchasing foreign currency in commercial banks to replenish their liquidity in national currency. In comparison with 2004, the volume of such transactions reduced from 5.0 to 1.6 million US dollars which was caused by high liquidity in the banking system.

Table 2.2.2.1.

Foreign Exchange Transactions of the NBKR
(thous. USD)

	1 q.	2 q.	3 q.	4 q.	Total
2004	3,000.0	7,980.0	11,393.0	27,260.0	49,633.0
<i>including:</i>					
Purchase of foreign currency	1,400.0	5,090.0	8,240.0	27,190.0	41,920.0
Sale of foreign currency	600.0	600.0	1,525.0	0.0	2,725.0
Swap FX transactions (purchase)	1,000.0	2,290.0	1,628.0	70.0	4,988.0
2005	8,680.0	17,590.0	26,175.0	44,340.0	96,785.0
<i>including:</i>					
Purchase of foreign currency	1,260.0	11,460.0	26,175.0	44,340.0	83,235.0
Sale of foreign currency	6,810.0	5,145.0	-	-	11,955.0
Swap FX transactions (purchase)	610.0	985.0	-	-	1,595.0

2.2.3. Refinancing of Banks

The basic type of refinancing of banks was overnight loans which were used by banks to meet reserve requirements. However, because of higher and more sustainable liquidity in the banking system in the reporting year, the demand of commercial banks for credit resources of the National Bank reduced considerably: in comparison with 2004, total volume of granted overnight loans reduced 3.4 times (from 8.9 to 2.6 billion soms). Increase in the demand for such type of loans was observed only at the end of March together with outflow

of deposits from the banking system. In general, over 2005, overnight loans were granted to 10 banks, however, the major portion (more than 70 percent) was taken by two banks. In 2005, the average annual interest rate for overnight loans was 6.2 percent.

During the year, the National Bank was taking measures to improve the mechanism used to refinance commercial banks. Thus, in March, in the context of high risk of deposit outflow from the banking system, commercial banks were given an opportunity of receiving special loans for liquidity supporting. Amendment to the Regulation «On Overnight Loan of the National Bank of the Kyrgyz Republic» aimed at the development of the interbank market became effective on April 8. Accordingly, interest rate on overnight loan was increased to discount rate times 1.5 instead of discount rate times 1.2 before amendment. One more amendment in the same Regulation was enacted on June 1 to ensure further development of the government securities market. For receiving overnight loan, this amendment requires from commercial banks provision of collateral in the form of government securities (bills and notes) with maturity period within the current quarter. In addition, in July, in order to widen the area for the use of credit resources and to reduce the risk, the National Bank made a decision to provide to commercial banks interest free intraday loans on the security of government securities since January 1, 2006.

Table 2.2.3.1.

Overnight Loans Granted by the NBKR
(thous. soms)

	1 q.	2 q.	3 q.	4 q.	Total
2004	834,800.0	3,416,400.0	3,698,400.0	977,700.0	8,927,300.0
2005	1,065,300.0	1,563,200.0	-	-	2,628,500.0

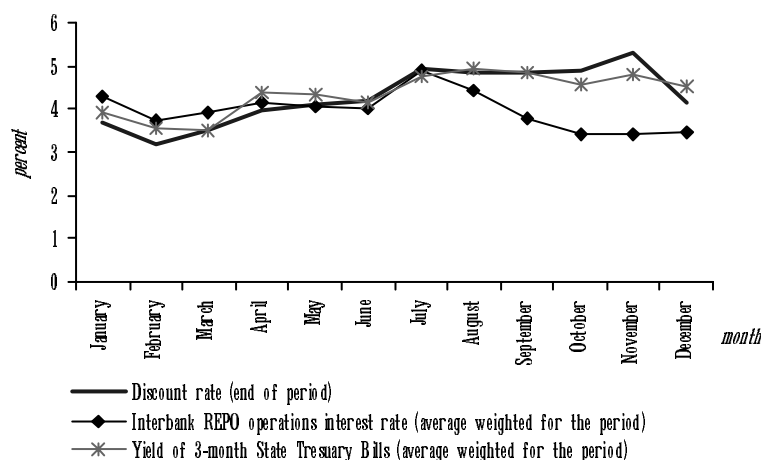
2.2.4. Discount Rate

Discount rate of the National Bank is a price benchmark for money funds, which has an impact on the interest rates in the money market because interest rate on overnight loan and foreign exchange swap both is depended upon discount rate size. In addition, the discount rate is used by business entities for accounting of taxable profit of legal entities and for calculation of penalty fees and fines for various overdue payments.

In 2005, the National Bank did not change the methodology for discount rate setting: its size is still equaled with the yield of 28-day notes of the NBKR that were placed at weekly auctions. At the same time, to ensure development and transparency of the market of notes, in 2005, the National Bank started announcing the volume of issue for the next month. In addition, some amendments were made in the Regulation “On Issue, Placement and Redemption of Notes of the NBKR” according to which the National Bank can not change the volume of issue in the process of the auction. These measures were aimed at strengthening of the discount rate as an indicator of money fund price.

Chart 2.2.4.1.

NBKR Discount Rate in 2005



During the year, the dynamics of discount rate was forming depending on liquidity fluctuations in the banking system, interest rate levels in other segments of the money market, and preferences of commercial banks with regard to maturity of investments in securities. Thus, at the beginning of the year, higher level of excessive reserves enhanced competition at note auctions, which, against the background of interest rate reduction in other segments of the money market, resulted in the reduction of discount rate to 3.2 percent in February. However, since March and during the year, there was a tendency towards the growth of the discount rate, the level of which reached 5.3 percent by the end of November. At the end of the year, under the influence of considerable liquidity growth in the banking system, the situation in the market of notes changed, and gradual reduction of the discount rate was observed during December. As a result, by the end of the year, it went down to 4.1 percent, and exceeded the level of the beginning of the year by 0.1 percentage points.

Generally, the volume of notes offered for sale every week totalled 4.0 million soms. In 2005, the average discount rate was 4.4 percent, which is 0.3 percentage points lower than in 2004.

2.2.5. Reserve Requirements

Reserve requirements having been an important tool for money supply regulation, also are utilised for reaching other tasks of monetary policy. Amended Regulation on reserve requirements became effective at the beginning of the year, and according to this Regulation, a uniform rate has to be applied to calculate compensation for the observance of the reserve requirements, namely, the average weighted interest rate for deposits in national and foreign currency in commercial banks as of the beginning of month. These changes in the calculation of reserve requirements were introduced to intensify competition in the deposit market and to lower the interest rates. At the same time, the norm of reserve requirements stayed at the level of 10 percent in 2005.

During 2005, there preserved a trend towards the growth of

deposits, and as a consequence, towards the growth of reserves. The trend was interrupted only in March-April as a result of temporary outflow of deposits. In general, the mandatory provisions increased during the reporting period by 67.2 percent. At the same time, there were registered three facts of noncompliance with reserve requirements by one bank, for which the bank was charged 32.5 thousand soms. At the same time, the amount of compensation paid to commercial banks for observance of mandatory reserve requirements during the reporting period totalled 12.9 million soms, which is 1.5 times more than in 2004.

Table 2.2.5.1.

Average Daily Level of Reserves in Commercial Banks
(thous. soms)

	1 q.	2 q.	3 q.	4 q.
2004	752,418.6	649,450.9	774,662.7	1,107,166.2
<i>including:</i>				
Mandatory provisions	455,375.8	487,862.6	554,061.0	636,656.4
Excess reserves	297,042.8	161,588.4	220,601.7	470,509.7
2005	1,291,521.4	1,191,003.0	1,348,317.6	1,667,012.9
<i>including:</i>				
Mandatory provisions	721,715.6	761,923.3	922,918.5	1,070,262.3
Excess reserves	569,805.8	429,079.7	425,399.1	596,750.6

2.3. Exchange Rate Policy and International Reserve Management

In the context of complex transition processes and small open economy, the floating exchange rate, - when foreign currency exchange rates are driven by demand and supply in the domestic foreign exchange market, - allows to mitigate to certain extent the impact of external shocks, and ensures timely adaptation to the changes taking place in global economy.

Having signed 29 of March, 1995, Article 8 “Joint Commitments of the Member Countries” of the Agreement with the International Monetary Fund, the Kyrgyz Republic committed to ensure payments and transfers within current international transactions without limitations, not permit multiple exchange rate practice or participation in unfair foreign exchange agreements.

The efforts of the National Bank were aimed at ensuring stability in the foreign exchange market. During the periods of higher demand for foreign currency (March-April), timely measures taken by the National Bank allowed to avoid swings of the exchange rate. Later, beginning from May till the end of the reporting year, purchases of foreign exchange ensured accumulation of international reserves due to the excessive offer of foreign currency. Over 2005, som against US dollar exchange rate strengthened by 0.78 percent (in 2004, the strengthening was 5.84 percent). As of the end of 2005, gross international reserves totalled 612.3 million US dollars (565.2 million US dollars as of December 31, 2004).

International reserve management, having been one of the key functions of central banks, was regulated by the “Risk Management Policy for International Reserve Management”, by regulations “International Reserve Benchmark Portfolio of the National Bank of the Kyrgyz Republic for 2005”, “International Reserve Structure in the National Bank of the Kyrgyz Republic”, and “Limits in the Management of the International Reserve Investment Asset”.

Proceeding the functions and objectives of central bank, principles of liquidity maintenance and reserve asset security were observed in the process of international reserve management. In managing its international reserves the National Bank aims at strictly observance of principles ensuring liquidity, security, and return maximisation.

The Board and the Investment Committee make decisions setting risk and return parameters on investment instrument for management of international reserves. In compliance with the developed decision making and internal control practice, minimisation of risks related with international reserve management was ensured via criteria, requirements and limits set for counteragents, types of instruments, size and maturity of investments.

International reserves consist of gold, Special Drawing Rights (SDR), and foreign exchange portfolio. By the end of 2005, the gross

Chart 2.3.1.
Gross International Reserves

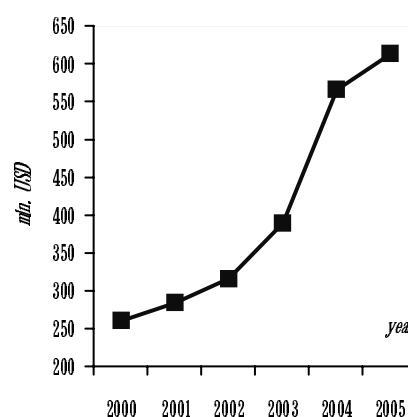


Table 2.3.1.Reserve Asset Structure
(percent)

	2004	2005
Gold	6.4	6.9
FX portfolio	90.1	92.2
Special Drawing Rights	3.5	0.9
Total	100.0	100.0

Table 2.3.2.FX Portfolio Structure
(percent)

	2004	2005
US dollars	28.6	48.3
Euro	23.2	16.5
Swiss francs	4.7	3.7
Pounds	6.3	3.3
Australian dollars	8.8	7.9
Canadian dollars	28.5	20.3
Other	0.0	0.0
FX portfolio, total	100.0	100.0

reserves totalled 612.34 million US dollars showing growth by 47.18 million US dollar or 8.35 percent.

In 2005, physical volume of gold within international reserves of the National Bank stayed unchanged, and some increase in the share of gold resulted from the increase in the price of this asset in the global market. Reduction of the SDR share in the structure of international reserves in comparison with 2004 is explained by payments made by the NBKR in special drawing rights during one year on liabilities to the IMF, and by strengthening of the US dollar exchange rate with regard to key global currencies in external markets.

In 2005, foreign exchange portfolio of the National Bank's international reserves consisted of US dollars, euro, Swiss francs, pounds, Australian and Canadian dollars, and minor amount of other currencies (Japanese yens, Russian rubles).

In the reporting year, the structure of foreign exchange portfolio of the reserve assets underwent changes caused by the growth of the US dollar exchange rate with regard to other global currencies and increase in the asset return resulted from the policy pursued by the Federal Reserve to increase interest rate in 2005. While adhering to the principles of ensuring liquidity and security, the NBKR reduced the share of pounds, and Canadian dollars, and increased the share of US dollars in portfolio.

The NBKR revised the structure of the foreign exchange portfolio on a quarterly basis and made adjustments depending on the development of the global economy, situation in global financial markets, and taking into consideration the structure of external liabilities of the Kyrgyz Republic.

In 2005, the key sources ensuring the growth in international reserves were transactions in the domestic foreign exchange market, credit in favour of the National Bank and the Government of the Kyrgyz Republic including the credit from the International Monetary Fund, Asian Development Bank and European Community Commission, revenues of the National Bank resulting from management of the international reserves, concession receipts in budget from Kumtor gold deposit mining, and precious metal's price growth.

In 2005, international reserves were used for transactions conducted in the domestic market, for servicing external public debt of the Kyrgyz Republic, and for paying membership fees and matching contributions of the Government of the Kyrgyz Republic.

In order to improve the efficiency of the international reserve management and maintain sufficient liquidity, operations with reserve assets were conducted on portfolio basis. The FX portfolio in US dollars, euro, Swiss francs, pounds, Australian and Canadian dollars was split into the working and investment asset, which ensured the required liquidity level. The assets from the working portfolio were placed in most liquid instruments and were used to make foreign currency payments of the National Bank and the Government of the Kyrgyz Republic and for transactions in the domestic foreign exchange market. Investment portfolio management was carried

out in accordance with the approved benchmark portfolio; the assets were placed in the investment instruments of the international market in order to generate profit.

In 2005, the National Bank placed reserve assets in central banks of developed countries, international financial institutions, and foreign commercial banks with high credit rating assigned by leading international agencies. The NBKR was ensuring ongoing monitoring and analysis of its counteragent banks. When required, decisions were made to terminate co-operation with a bank not meeting the NBKR's security requirements.

Reserve assets were placed in highly reliable and liquid instruments of the international market: securities, time deposits and intraday REPO transactions. Securities portfolio of the National Bank included government securities of the USA, Germany, Australia, short-term investment instruments of the Bank of International Settlements. Time deposits were placed in international financial institutions, foreign central and commercial banks.

During 2005, the NBKR continued its efforts aimed at reduction of low liquid assets in the international reserves. Low liquid assets basically included pledged deposits placed as a sovereign guarantee security in the Standard Bank of London, and deposits of the NBKR in the CJSC CABC&D. During the reporting year, the pledged deposit of the NBKR in the amount of 40 thousand troy ounces of gold was fully released from the Standard Bank, London. As of the end of 2005, the volume of low liquid assets in the international reserves totalled 3.89 million US dollars.

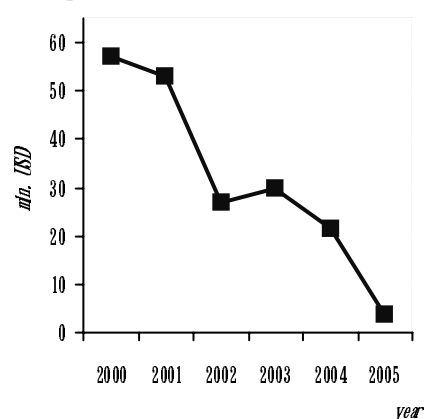
Table 2.3.3.

Reserve Asset Placement Structure
(percent)

	2004	2005
International financial institutions	46.4	31.0
Central banks	25.2	33.9
Commercial banks	28.2	34.5
NBKR	0.2	0.6
Total	100.0	100.0

Chart 2.3.2.

Low Liquid Assets



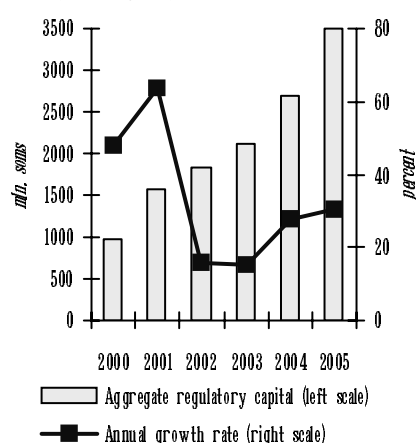
CHAPTER 3

REGULATION OF FINANCE AND CREDIT INSTITUTIONS

In 2005, the activity of the National Bank was aimed at improving sustainability of the finance and credit system, early prevention of problems in the operating institutions licensed by the NBKR, improvement in supervision methodology and its implementation. In this connection, the main efforts of the National Bank were concentrated on further development of banking sector regulation and timely detection of potential problems related with bank specific risks.

3.1. Banking System¹**Chart 3.1.1.**

Aggregate Regulatory Capital of Commercial Banks (end of year)



In 2005, there were 19 commercial banks operating in the Kyrgyz Republic².

Over 2005, aggregate regulatory capital³ of the banks increased by 819.0 million soms, or by 30.4 percent, and as of the end of 2005, it totalled 3.5 billion soms. At the same time, authorised capital⁴ increased by 21.4 percent.

Total liabilities⁵ of the banks increased in 2005 by 23.3 percent and amounted to 18.5 billion soms. At the same time, proportion of foreign currency liabilities in total liabilities was 77.7 percent (in 2004 it was 81.5 percent).

Deposit base of commercial banks continued growing. Thus, the deposits in the operating commercial banks⁶ increased by 51.6 percent and totalled 12.1 billion soms. The share of legal entities increased by 4.1 percentage points and totalled 78.0 percent of the banking system's deposit portfolio. At that, the absolute growth of deposits of legal entities amounted to 3.5 billion soms. Deposits of individuals increased during the reporting period by 582.6 million soms,

¹ According to adjusted data from annual regulatory reports of the operating commercial banks as of end of year, if otherwise is not specified. .

² Including OJSC SSC and the branch of foreign bank, and not including OJSC «FinanceCreditBank KAB» (the license was issued December 30, 2005), CABC&D (it was under temporary governor regime; July 15, 2002, the banking license was revoked) and OJSC «Ak Bank» (it was under conservatorship regime; July 1, 2004 the banking license was revoked).

³ For regulatory purposes, the aggregate capital of bank includes authorised capital, provisions, past retained earnings (loss), retained earnings (loss) of the reporting year, and general provisions formed in the bank for non-classified assets.

⁴ Apart from ordinary shares and preferred shares, this category also includes additional capital, which was contributed by the shareholders, but was not appropriately registered by the reporting date.

⁵ Total liabilities include funds collected by the bank as deposits, credits, etc.

⁶ Not considering deposits of the Government, banks and other finance institutions.

Table 3.1.1.

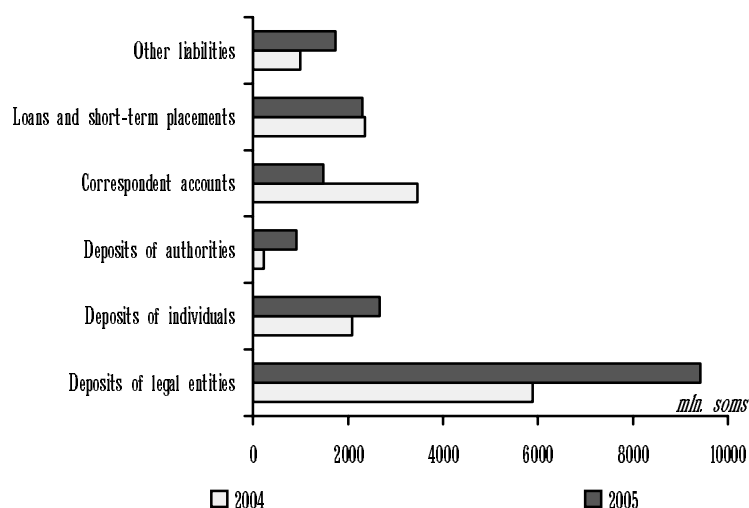
Commercial Banks' Liabilities

Liability Category	2004		2005	
	Value (mln. soms)	Share (percent)	Value (mln. soms)	Share (percent)
Demand deposits of legal entities	4,750.7	31.6	7,888.5	42.6
Deposits of individuals	2,081.2	13.9	2,663.8	14.4
Time deposits of legal entities	1,143.9	7.6	1,536.2	8.3
Liabilities to the NBKR	55.2	0.4	33.3	0.2
Correspondent accounts	3,457.1	23.0	1,478.3	8.0
Short-term placements	208.7	1.4	15.2	0.1
Deposits and loans of authorities	225.5	1.5	919.9	5.0
Securities sold under REPO agreement	88.9	0.6	0.0	0.0
Loans received	2,057.2	13.7	2,281.3	12.3
Subordinated debt	217.6	1.4	364.2	2.0
Other liabilities	724.3	4.8	1,327.9	7.2
Total	15,010.1	100.0	18,508.6	100.0

¹ Including deposits of banks and other finance and credit institutions.

Chart 3.1.2.

Commercial Banks' Liabilities



or by 28.0 percent. As before, demand deposits had the primary growth in the structure of deposits of individuals.

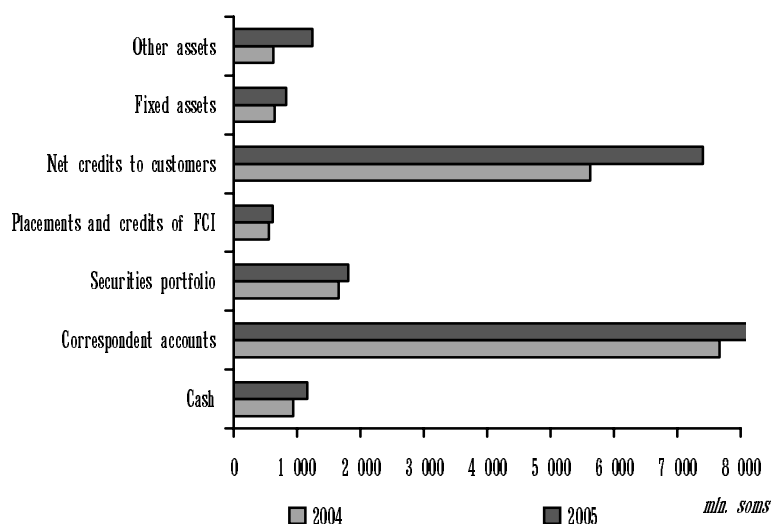
In 2005, aggregate assets of banks increased by 24.4 percent and totalled 22.0 billion soms. At the same time, assets in national currency increased by 38.0 percent, and assets in foreign currency increased by 42.4 percent, which is related to receipt and further placement of foreign currency from foreign investors as part of additional capitalisation of a number of commercial banks and development of payment system.

During the reporting year, there preserved a trend in the structure of commercial banks' assets toward outrunning growth of liquid assets as compared with other assets, which was related to emergence of new services on making customers' payments. The highly liquid assets placed by commercial banks on the accounts in other banks (including the NBKR) increased by 17.7 percent. As of the end of 2005, this

Table 3.1.2.
Commercial Banks' Assets

Asset Category	2004		2005	
	Value (mln. soms)	Share (percent)	Value (mln. soms)	Share (percent)
Cash	941.6	5.3	1,155.0	5.2
Correspondent accounts with the NBKR	954.8	5.4	2,051.8	9.3
Correspondent accounts and deposits with other banks	6,710.8	37.9	6,928.0	31.5
Securities portfolio	1,658.5	9.4	1,809.5	8.2
Short-term placements	270.5	1.5	346.5	1.6
Securities purchased under REPO transactions	48.9	0.3	50.0	0.2
Credits from finance and credit institutions	232.3	1.3	215.4	1.0
Credits to customers	5,801.4	32.8	7,693.0	34.9
(Less) Special LLP	-180.4	-1.0	-292.1	-1.3
Fixed assets	642.1	3.6	820.8	3.7
Other assets	622.4	3.5	1,242.4	5.6
Total	17,702.9	100.0	22,020.4	100.0

Chart 3.1.3.
Assets of Commercial Banks



category of assets amounted to 10.1 billion soms. Growth in credit extended was also observed during the reporting year and it accompanied with more conservative lending policy.

In 2005, over the year, the total net credit to customers¹ increased by 30.1 percent and amounted to 7.6 billion soms. As compared with 2004, the share of credit in the total assets of banks increased by 1.9 percentage points and totalled 33.6 percent. According to regulatory reporting from banks, «unclassified» assets² totalled 96.4 percent of aggregate assets subject to classification, while «classified» assets totalled 3.6 percent. Slight deterioration in

¹ Net credit means credit and leasing less provision formed to cover potential losses, and also applied discount.

² The category of non-classified assets (loans) includes assets (loans) qualified as normal, satisfactory and watch-list.

asset quality (credit portfolio) was related to deterioration in the financial conditions of a number of commercial banks' borrowers, who sustained damage as a result of the events of March 2005, and had problems with loan repayment. As a result, the share of overdue debt in the aggregate credit portfolio increased to 4.1 percent, or 1.0 percentage point, while the share of rollover loans increased from 6.8 to 9.8 percent.

Fixed assets of commercial banks increased by 27.8 percent, and, as of the end of 2005, totalled 820.8 million soms.

In 2005, aggregate income of banks totalled 2.6 billion soms, while aggregate expenses totalled 2.1 billion soms.

In 2005, there was observed increase in incomes and expenses of commercial banks, both interest (50.1 and 54.8 percent, respectively), and non-interest (26.2 and 35.4 percent, respectively). Net operating income of banks in 2005 totalled 751.1 million soms showing 38.3 percent increase as against 2004.

Allocations of banks to loan loss provision totalled 155.9 million soms, which is 37.0 percent higher compared with 2004. Banks' profit tax transfers to the budget increased by 44.9 percent (114.9 million soms as of the end of 2005).

The banking system ended 2005 with 479.9 million soms of net profit, while the financial result of 2004 was 350.1 million soms (37.2 percent increase).

In general, condition of the banking system in the reporting year testifies to the stable situation in the market of banking services. The following positive changes were observed in the activity of commercial banks:

- strengthening of banks' capital base as a framework for banking expansion, and as a factor contributing to higher confidence in banks from creditors and depositors (30.4 percent increase in aggregate capital);
- growth of key indicators of the commercial banks' system (assets increased by 24.4 percent, liabilities increased by 23.3 percent);

Table 3.1.5.

Incomes and Expenses
(mln. soms)

Category	2004	2005
Interest income	1 007.9	1 512.7
Interest expenses	260.2	402.7
<i>Net interest income</i>	<i>747.7</i>	<i>1 110.0</i>
Non-interest income	883.0	1 114.0
Non-interest expenses	1 087.5	1 472.9
<i>Net operating income (loss)</i>	<i>543.1</i>	<i>751.1</i>
Loan Loss Provision	113.8	155.9
<i>Net income (loss) before taxes</i>	<i>429.3</i>	<i>595.1</i>
Profit tax	79.3	114.9
<i>Net income (loss) before contingent incomes and expenses</i>	<i>350.0</i>	<i>480.2</i>
Contingent incomes (expenses) after taxation	-0.1	0.3
Net profit (Loss)	350.1	479.9

Table 3.1.3.

Classification of Assets and Off-balance Liabilities
(percent, if otherwise is not specified)

Category	2004	2005
Normal	60.1	58.4
Satisfactory	30.2	32.5
Watch-list	6.9	5.5
<i>Total, unclassified</i>	<i>97.2</i>	<i>96.4</i>
Substandard	1.5	2.1
Doubtful	0.6	0.5
Loss	0.8	1.0
<i>Total classified</i>	<i>2.8</i>	<i>3.6</i>
Subtotal	100.0	100.0
Total (mln. soms)	16,196.8	19,419.2

Table 3.1.4.

Classification of Loans to Customers
(percent, if otherwise is not specified)

Category	2004	2005
Normal	1.1	2.4
Satisfactory	74.5	76.0
Watch-list	18.2	13.9
<i>Total, unclassified</i>	<i>93.9</i>	<i>92.3</i>
Substandard	3.1	4.5
Doubtful	1.4	1.2
Loss	1.7	2.0
<i>Total classified</i>	<i>6.1</i>	<i>7.7</i>
Subtotal	100.0	100.0
Total (mln. soms)	5,801.4	7,693.0

- growth of indicators characterising the level of financial intermediation in the system of commercial banks: ratio of deposits from enterprises and households to GDP, and ratio of credit portfolio to GDP were 12.0 percent and 7.7 percent, respectively (in 2004, these figures were 8.4 and 6.2 percent, respectively);
- increase in household deposits (28.0 percent);
- increase in return on equity (ROE) by 2.1 percentage point, which totalled 19.6 percent, as of 2005 year-end.

3.2. Non-Bank Credit Institutions

In the reporting year, the National Bank of the Kyrgyz Republic implemented a wide range of actions aimed at development of the system of non-bank credit institutions, the main efforts of which are focused on widening access to financial resources.

In view of determining the main directions for the development of micro-finance institutions, in 2005, the National Bank initiated formulation of «Medium-Term Development Strategy for Micro-Financing in the Kyrgyz Republic for 2006-2010». During the preparation of the Medium-Term Strategy, the National Bank of the Kyrgyz Republic together with all interested parties conducted round table discussions in Bishkek, Osh and Karakol. The draft Medium-Term Strategy was discussed on the National Round Table, which was organised and took place with participation of representatives of ministries and agencies, micro-finance organisations, credit unions, commercial banks, specialised credit institutions (KAFC and FCSDCU), international financial donor organisations and non-governmental organisations. Medium-Term Strategy was approved by the joint resolution of the Government of the Kyrgyz Republic and the National Bank in December.

Sustainable growth of the system of non-bank credit institutions (NBCI) contributed to social mobilisation of the population, employment and poverty reduction.

The system of non-bank institutions, which is subject to regulation and supervision from the NBKR includes: specialised credit institutions, namely, Kyrgyz Agricultural Financial Corporation (KAFC) and Financial Company for Support and Development of Credit Unions (FCSDCU); 320 credit unions; 136 micro-finance organisations including 39 micro-credit companies (MCC) and 97 micro-credit agencies (MCA); 140 pawnshops and 260 exchange offices.

In 2005, the number of non-bank credit institutions, their assets and coverage with their services increased.

Table 3.2.1.

Number of Non-Bank Finance, Credit Institutions and Exchange Offices

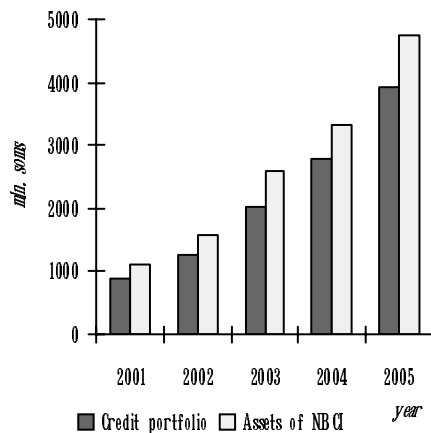
Category	2001	2002	2003	2004	2005
Micro-finance organizations	0	0	72	104	136
Credit unions	278	349	303	305	320
Pawnshops	64	85	108	116	140
Exchange offices	271	234	261	266	260

Increase in the number of non-bank finance and credit institutions is explained by high demand for their services, by improvement of the legal framework and liberal regulation of their activity.

In 2005, the National Bank issued 367 licenses and certificates to various non-bank credit institutions. For non-compliance with regulations of the NBKR 42 licenses were revoked, 19 licenses were

Chart 3.2.1.

Aggregate Assets and Credit Portfolio of Non-Bank Credit Institutions



cancelled because of close of business, and 242 licenses were cancelled because of their expiry.

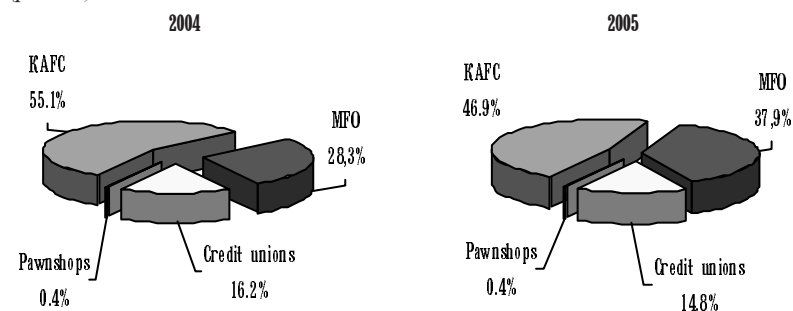
According to regulatory reports for the reporting period, aggregate assets of NBFCI increased by 42.6 percent and totalled 4734.0 million soms as of end of 2005.

Lending is the main activity of NBCI. In the reporting year, as against 2004, the share of credit portfolio in the aggregate assets of NBCI practically did not change (83.5 percent in 2004, and 82.9 percent in 2005). At the same time, credit portfolio increased by 41.5 percent and totalled 3922.2 million soms, while the number of those who was granted a loan increased by 12.9 percent and totalled 115.9 thousand borrowers.

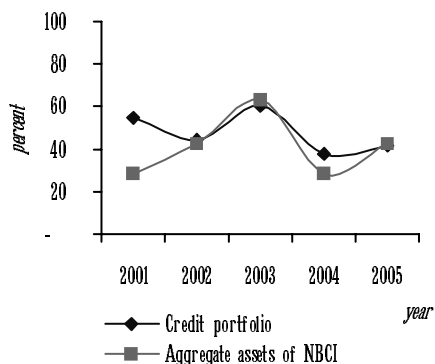
Over the reporting period, the share in the aggregate credit portfolio of the KAFC, which is the largest specialised credit institution, reduced from 55.1 to 46.9 percent, while the share of micro-finance organisations increased from 28.3 to 37.9 percent.

Chart 3.2.3.

Credit Portfolio Structure by Types of Non-Bank Credit Institutions (end of period)
(percent)

**Chart 3.2.2.**

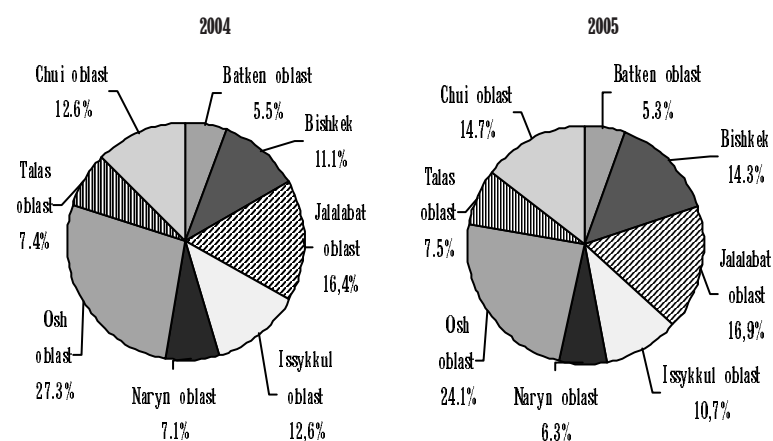
Rate of Growth of Aggregate Assets and Credit Portfolio of Non-Bank Credit Institutions (end of period)



In the reporting year, as in 2004, the largest proportion of credit portfolio of NBCI fell to Osh Oblast, Jalalabat Oblast, Chui Oblast and Bishkek city.

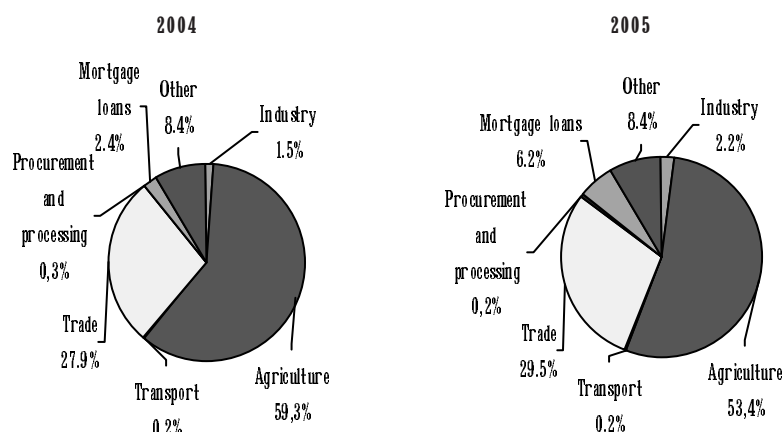
Chart 3.2.4.

Credit Portfolio Structure of Non-Bank Credit Institutions by Oblasts (end of period)
(percent)

**Table 3.2.2.**

Credit Portfolio by Types of Institutions (end of period)
(mln. soms)

	2004	2005
KAFC	1527.7	1839.8
Micro-finance organisations	784.7	1488.1
Credit unions	448.6	580.5
Pawnshops	11.0	13.8

Chart 3.2.5.Credit Portfolio by Sectors of Economy (end of period)
(percent)

As of the end of the reporting year, compared with 2004, the share of the agriculture in the aggregate credit portfolio of NBCI reduced from 59.3 percent to 53.4 percent, while the share of mortgage loans increased from 2.4 percent to 6.2 percent.

In 2005, aggregate net profit made by NBCI increased by 10.7 percent and totalled 237.8 million soms. At the same time, slight reduction in efficiency of assets and equity performance ratios (ROA and ROE) was observed. There took place reduction in interest rates for loans granted by KAFC, credit unions and pawnshops, while in the system of micro-finance organisations interest rates increased.

The main source for KAFC to form its assets are concession loans granted by the Government of the Kyrgyz Republic on IDA and ADB credit lines aimed to credit small farms, as well Rural Finance-I, Rural Finance-II, and Regional Development of Agriculture projects.

In 2005, KAFC granted loans for the amount of 1212.9 million soms, which is 21.7 percent more than in 2004. Over 2005, its effective credit portfolio increased from 1 527.7 to 1 839.8 million soms, or by 20.4 percent. As of the end of the reporting period, the number of provided loans totalled 30.9 thousand. Credit portfolio of KAFC primarily consists of medium-term and long-term loans with 2-3 and 3-5-year maturity.

Increase in the aggregate credit portfolio of credit unions in 2005 up to 580.5 million soms, or by 29.4 percent, was mainly related to the growth in:

- loans from the FCSDCU and other credit institutions to 302.9 million soms or by 26.0 percent;
 - saving contributions to 169.7 million soms or by 5.4 percent.
- At the same time, the number of participants increased in credit unions by 0.7 thousand people or by 2.5 percent;
- institutional capital of credit unions up to 92.7 million soms or 2.1 times.

The main proportion of loans in the structure of credit unions' credit portfolio falls on agriculture (59.1 percent) and trade (25.8

Table 3.2.3.Credit Portfolio by Oblasts (end of period)
(mln. soms)

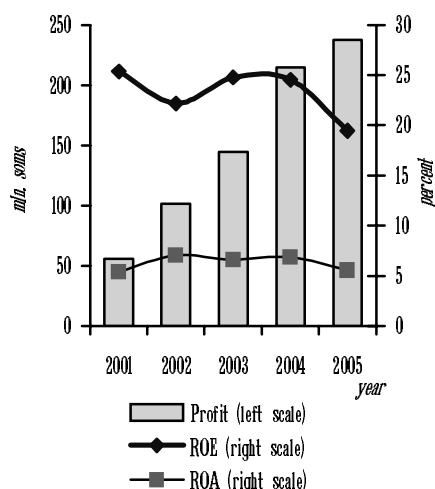
Oblast	2004	2005
Batken	151.8	209.1
Chui	350.2	577.4
Jalalabat	455.6	663.8
Issykkul	350.1	421.1
Naryn	196.7	246.4
Osh	755.9	946.2
Talas	204.2	296.1
Bishkek city	307.4	561.9

Table 3.2.4.Credit Portfolio by Sectors of Economy
(end of period)
(mln. soms)

Sector	2004	2005
Industry	41.9	85.3
Agriculture	1 645.1	2 094.0
Transport	4.2	6.5
Trade	774.2	1 158.5
Procurement and processing	7.9	6.8
Mortgage loans	65.5	243.3
Other	233.2	327.7

Chart 3.2.6.

Net Profit, ROA and ROE in Non-Bank Credit Institutions

**Table 3.2.5.**

Average Weighted Interest Rates on Loans of Non-Bank Credit Institutions (percent)

	2004	2005
KAFC	17.0	15.8
Micro-finance organizations	28.0	33.5
FCSDCU	17.1	16.9
Credit unions	28.7	26.8
Pawnshops	162.1	153.6

percent). As of the end of 2005, the number of borrowers in credit unions totalled 22.4 thousand people.

In the reporting year, the aggregate credit portfolio of micro-finance organisations (MFO) increased by 89.6 percent and totalled 1488.1 million soms; the number of clients increased to 52.1 thousand or by 24.3 percent. At that, the share of MCC in the aggregate credit portfolio of micro-finance organisations was 74.7 percent, while the share of MCA was 25.3 percent.

Analysis of the MFO credit portfolio shows that, like in 2004, the MFO loans were mainly granted to the trading sector, the share of which in the aggregate credit portfolio is 52.9 percent (66.1 percent in 2004), and agriculture (17.2 percent; 12.0 percent in 2004). The volume and amount of loans provided to the industrial sector and for housing purposes also increased, though they still have low proportion in the aggregate portfolio.

Total amount of short-term loans granted by pawnshops in 2005 reached 61.8 million soms. Like in previous years, the loans were mainly granted in Bishkek city. According to the provided reports, the balance of pawnshops' credit portfolio increased in the reporting year to 13.8 million soms or by 25.4 percent. Credit portfolio consists mainly of consumer loans.

In 2005, the National Bank issued 265 licenses (including re-registration) for transactions with foreign currency. Over the reporting period, the National Bank conducted 391 inspection of exchange offices, including 5 exchange offices was inspected based on private person complaints, and 38 offices was inspected as a part of routine inspection conducted jointly with fiscal and law enforcement bodies. These inspections resulted in 22 cases on administrative violations related to carrying on business without licenses.

3.3. Regulation and Banking Supervision

Banking supervision as activity of the National Bank includes:

- licensing of commercial banks;
- off-site (distant) supervision of commercial banks;
- inspection of commercial banks;
- development and improvement of regulatory and legal framework for banking regulation and supervision.

3.3.1. Licensing

In the process of carrying out the functions specified in the Law «On the National Bank of the Kyrgyz Republic», the National Bank sets certain requirements for individuals who plan to carry out, or are carrying out the activity on banking. They include requirements on minimum authorised capital for commercial banks, the size of capital base, holding and transfer of blocks of shares giving the right for direct or indirect control over the bank, approval procedures for appointing bank's executive officers.

In 2005, paid-in capital of commercial banks increased by 19.5 percent or 434.5 million soms. A number of commercial banks increased their paid-in capital: CJSC «Ineximbank» (more than 2 times); OJSC «Kyrgyzcredit» (2.5 times); OJSC «Energobank» (by 38.0 percent); OJSC «Bank-Bakai» and CJSC JSCB «Tolubai» (by 33.0 percent); OJSC «Halyk Bank Kyrgyzstan» (by 24.0 percent, OJSC RK «Amanbank» (by 15.0 percent).

At the end of 2005, banking licence for operations in national and foreign currency were issued to the OJSC «FinanceCreditBank KAB»¹, which is 100 percent owned by the JSC «Alliance Bank» (Kazakhstan).

In connection with introduction of requirements for consolidated supervision, amendments and additions were made in laws and regulations of the Kyrgyz Republic. Thus, in December 2005, there was enacted a Law «On Amendments and Additions in the Law «On Banks and Banking in the Kyrgyz Republic».

There was drafted and effected a new edition of «Procedure of Bank Branch Endowment Capital by its Parent Non-resident Bank». This normative document regulates the system of bank selection for placement of funds endowed to the branch of non-resident bank as a connected deposit.

In addition to issuance of banking licence, the National Bank of the Kyrgyz Republic also maintains the Register of commercial banks' branches, savings banks, exchange offices, and POS terminals. As of the beginning of 2005, there were 160 branches operating within the territory of the Kyrgyz Republic, 148 savings banks, 371 POS terminals, and 40 exchange offices of commercial banks. During 2005, commercial banks continued expanding their operations: there were

¹ Banking license was issued December 30, 2005, that is why information about this bank was not included to aggregate data on the banking system.

opened 8 branches, 46 savings banks, 77 POS terminals, and 3 exchange offices.

3.3.2. Off-Site Supervision¹

The National Bank is conducting distant supervision of commercial banks via monitoring, analysis of provided reports and results of inspections. This ensures early warning of potential problems in their operation, and allows maintaining stability in the banking system.

Distant (off-site) supervision of commercial banks' activity was conducted based on assessment of risks inherent to banking operations. The most essential are insolvency risk and liquidity risk, and also credit risk and foreign exchange risk.

Insolvency Risk. Solvency of commercial banks is characterised by the adequacy of total capital for covering potential losses. In 2004, net risk assets² increased by 1.3 billion soms, and net total capital³ increased by 766.0 million soms. Proportion of risk assets in total assets of the banking system was 60.3 percent (in 2004, it was 67.4 percent).

In 2005, growth of capital was observed because commercial banks were implementing the requirement for authorised capital and were optimising internal resources. In addition, increase of capital of the banking sector was related with the inflow of foreign investments. Increase of authorised capital and funds transferred as additional capital of commercial banks resulted in the growth of the total capital of the banking system; at the same time, there was observed faster growth of net total capital as against the growth of assets (28.2 percent and 24.4 percent, respectively). As a result, the aggregate capital adequacy ratio has increased, which is exhibition of improvement in financial soundness of the banks.

Credit Risk was assessed based on classification of assets and off-balance liabilities. Non-repayment risk calculated as the ratio of Loan Loss Provision (LLP) to the total amount of assets with credit risk exposure as of the end of the reporting year totalled 3.0 percent (2.7 percent in 2004). Overdue assets totalled 378.4 million soms or 1.9 percent of total assets with credit risk exposure (1.1 percent or 178.2 million soms in 2004).

Foreign Exchange Risk. As of the end of 2005, foreign exchange assets of the banking system totalled 15.1 billion soms or 68.4 percent of total assets. Foreign exchange liabilities of commercial banks totalled 14.4 billion soms or 77.7 percent of total liabilities.

Liquidity Risk. The structure of assets and liabilities by maturity characterises condition of banks from the point of view of coverage of liabilities with assets for each maturity interval (Table 3.3.2.3),

Table 3.3.2.1.

Capital Adequacy Indicators for Commercial Banks

	2004	2005
Net total capital, <i>mln. soms</i>	2,740.7	3,513.1
Net risk assets, <i>mln. soms</i>	11,691.5	13,269.6
Actual capital adequacy ratio, <i>percent</i>	23.1	26.5
Minimal required capital adequacy ratio, <i>percent</i>	12.0	12.0

¹ Based on refined data from annual regulatory reports of operating commercial banks as of the end of the period, if otherwise is not specified.

² Credit risk weighted assets and off-balance liabilities of commercial banks.

³ Estimated indicator, which includes shareholder capital of the bank, financial results of the reporting year and of previous years, created provisions less investments in branch organisations and in the capital of other finance and credit institutions. It is used for calculation of economic ratios set by the NBKR.

and it reflects the need for funds in case of maturity gap between assets and liabilities for the relevant interval.

Table 3.3.2.3.

Assets and Liabilities by Maturity
(mln. soms)

2004	Interval, number of days					Total
	0-30	31-90	91-180	181-365	More than 365	
Financial assets	9 679.2	1 293.8	1 990.3	2 073.7	2 283.8	17 320.9
Financial liabilities	10 836.0	816.4	878.8	736.4	1 593.3	14 861.0
Financial assets less financial liabilities (difference)	-1 156.8	477.4	1 111.5	1 337.3	690.5	2 459.9

2005	Interval, number of days					Total
	0-30	31-90	91-180	181-365	More than 365	
Financial assets	12 651.9	1 036.0	1 735.4	2 745.6	3 561.5	21 730.5
Financial liabilities	13 398.1	837.1	800.9	1 290.3	2 130.6	18 457.0
Financial assets less financial liabilities (difference)	-746.2	198.9	934.5	1 455.3	1 430.9	3 273.5

Table 3.3.2.2.

Assets and Liabilities of Commercial Banks in Foreign Currency
(mln. soms)

	2004	2005
Foreign exchange assets	12 818.1	15 062.5
Foreign exchange liabilities	12 265.2	14 386.5

Note: At the official exchange rate of the NBKR as of December 31, 2005: 41.3011 soms per 1 US dollar.

3.3.3. Inspections

In 2005, there was conducted 21 comprehensive inspection in banks, SSC, KAFC and FCSDCU to assess financial condition of commercial banks, finance and credit institutions licensed by the NBKR.

During the reporting year, in order to check compliance with the NBKR requirements on execution time of payment, fill-in correctness and procedure of payment collection for payment services, and also the lawfulness of some banking transactions, there were conducted 11 special inspections of commercial banks. In addition, there were conducted 7 target inspections to assess quality of assets and capital formation in commercial banks.

On-site inspections were conducted in compliance with requirements for inspections (Instruction for On-site Inspections). These requirements include detailed analysis of risks existing in commercial banks and finance and credit institutions (credit risk, operating risk, foreign exchange risk, liquidity risk, etc.), and assessment of the bank management system.

The inspections conducted during the reporting year demonstrate improvements in the management system in most commercial banks. There were also observed improvements in credit administration quality and credit monitoring. At the same time, a number of deficiencies were revealed in the internal control systems. Deficiencies were discussed at the meetings of the Supervision Committee, which resulted in making appropriate resolutions.

3.3.4. Preventive Measures and Sanctions

In 2005, the following enforcement measures and sanctions were taken with regard to commercial banks and other institutions licensed by the NBKR:

- 5 warnings, 2 prescriptions, and 3 complaints were sent to commercial banks;
- 14 meetings of the Supervision Committee were held to discuss operations of 5 commercial banks;
- fines were imposed on executives of two commercial banks (16.0 thousand soms were transferred to the republican budget).

In 2005, licence was revoked from OJSC «Ak Bank» because of non-compliance with the minimal capital requirement (capital base) and other economic ratios set by the NBKR.

3.3.5. Development of Legal Framework for Banking Regulation and Supervision

In 2005, improvement of legal framework for banking regulation and supervision was aimed at enhancement of its effectiveness and development of the banking system of the Kyrgyz Republic. Special attention is paid by the National Bank to the development of adequate risk management system enabling to reduce bank specific risks. The National Bank continued its efforts aimed at introduction of Core Principles for Effective Banking Supervision of Basle Committee on Banking Supervision channelled into enhancement of banking supervision effectiveness, development of corporate governance in banks, better transparency of the banking system, prevention of money laundering.

Regulations «Minimal Requirements for Operating Risk Management in Commercial Banks of the Kyrgyz Republic» and «Minimal Requirements for Credit Risk Management in Commercial Banks and other Finance and Credit Institutions Licensed by the NBKR» were drafted and enacted in 2005. These documents set forth basic principles of operating and credit risk management in commercial banks, provide classification of events containing operating risk. In addition, the regulations define duties and responsibilities of managerial bodies of banks, which have to ensure efficient risk management; they set minimal requirements for policies, procedures and internal control contributing to shaping of the risk management system in commercial banks.

With a view to improve stability and reliability of the banking system, bank capitalisation requirements were revised during the reporting year: the National Bank Board issued Statement, which set the minimal size of capital (capital base) for operating banks (not less than 100 million soms) and the deadline for additional capitalisation process (by 1 of January, 2008).

In the area of antimonopoly regulation, prevention, restriction and suppression of unfair competition in the banking sector, there were developed a policy and key principles of antimonopoly regulation, development of competition and consumer right protection in the market of banking services rendered in the Kyrgyz Republic by

commercial banks and other institutions licensed and regulated by the NBKR. This document regulates relations among the banks having influence on competition in the market of banking services, and defines the policy of the NBKR for antimonopoly regulation, protection of competition and consumer rights in the market of banking services.

Necessity in practical application of the mechanism for pre-trial settlement of dispute among the NBKR, commercial banks and other interested parties resulted in drafting of the Resolution «On Pre-trial Settlement of Dispute Among the NBKR and Commercial Banks, Organisations Carrying out Certain Types of Banking, and their Founders (Shareholders), Legal Entities and Individuals». This regulation stipulates that all disputes arising among the NBKR and banks, their founders (shareholders), legal entities and individuals have to be settled given mandatory compliance with pre-trial procedures. This regulation specifies procedures for pre-trial appeal to be filed by a bank, institution or individual with regard to enforcement measures taken by the NBKR.

Amendments and additions were approved to the Regulation «On Requirements for Financial Reporting of Commercial Banks of the Kyrgyz Republic» and new edition of the chart of accounts for accounting in commercial banks and other institutions licensed by the NBKR. These changes are aimed at improvement of the financial reporting system, harmonisation of the existing regulations of the NBKR with the International Accounting Standards, ensuring transparency and accessibility of financial reports of commercial banks and institutions licensed by the NBKR. In addition, these amendments and additions facilitate the process of collecting information about banks from the point of view of monetary and financial statistics, and take into account changes which occur in accounting policy and financial reporting practice of banks.

As part of ongoing improvement of regulatory reporting, there was approved a new edition of the Regulation on Call Report and guidelines for its completion. New form for data about cost of key products and services provided by commercial banks of the Kyrgyz Republic was approved to improve the system of information disclosure for banking services. This form comprises information about tariffs and interest rates for key and most common services of commercial banks: opening and servicing of accounts, money transfers, transactions based on traveller's cheques, securities and payment cards, and interest rates on deposits and interest rates on credits by their types.

Regulation «On Minimal Requirements for External Audit of Banks and Other Finance and Credit Institutions Licensed by the National Bank of the Kyrgyz Republic» was developed based on provisional Regulation «On Minimal Requirements for External Audit of Banks and Other Finance and Credit Institutions Licensed and Regulated by the National Bank of the Kyrgyz Republic» in connection with amendments and additions made in the Law «On Banks and Banking in the Kyrgyz Republic». Adopted amendments and additions are widening and adding powers to the NBKR to set requirements

for external auditor qualification, its independence, procedures of auditing a banking group, rejection (non-acceptance) of audit opinion and requirement of repeated audit of the bank, information sharing among the NBKR, the bank and its external auditor.

There was continued the work aimed at further improvement of the system of normative legal acts regulating operation of non-bank finance and credit institutions. In connection with the fact that credit union supervision passed from the FCSDCU to the NBKR, there was developed and approved a new edition of provisional rules for regulation of the limited liability company «Financial Company for Support and Development of Credit Unions in the Kyrgyz Republic», rules for regulation of credit unions and regulation on credit union licensing.

The above regulations of the NBKR set forth economic ratios, requirements and restrictions which are binding for the Financial Company for Support and Development of Credit Unions and for all credit unions. They are aimed at sustaining financial stability of the financial system and protection of creditors' rights, reduction of non-repayment risk for loans and leasing, and contain conditions for issuance of licences to credit unions by the National Bank of the Kyrgyz Republic.

During the reporting year, there was continued development of normative legal acts regulating the activity of micro-finance organisations. Thus, the Regulation on preventive measures and sanctions applied by the National Bank of the Kyrgyz Republic to micro-finance organisations specify measures and sanctions depending on the category of the micro-finance organisation. Regulation of micro-credit companies and micro-credit agencies, which do not take deposits and are working with their own capital, was simplified to the maximum.

With the purpose of further improvement of the existing system and the practice of enforcement measures taken by the NBKR, there was approved the Regulation «On Enforcement Measures Applied to Banks and Some Other Credit Institutions Licensed by the National Bank of the Kyrgyz Republic». According to this Regulation, capital adequacy ratio is a decisive factor when making a decision about application of one or another enforcement measure. For the purpose of practical application, the Regulation contains a matrix enabling to do the analysis of infringements made by executives of the bank, and to determine the size of the fine to be imposed on the bank's executive.

There is being conducted an ongoing work on development and introduction of the deposit insurance system. In 2005, the National Bank together with commercial banks carried out amendment of the draft Law «On Deposit Protection», based on which an action plan on introduction of deposit insurance system was developed. Fulfilment of preliminary conditions is provided for in order to form the Deposit Protection Fund and to do the selection of commercial banks meeting the criteria required for participation in the deposit protection system. The Action Plan was submitted to the Government, Ministry of

Economy and Finance, and to the international organisations – IMF, WB, EBRD, and ADB.

The NBKR takes part in the drafting of the new edition of the Tax Code. The National Bank, together with commercial banks, submitted proposals and comments on this draft Code to the State Commission on Drafting of the Tax Code for consideration.

CHAPTER 4

PAYMENT SYSTEM

4.1. Payment System Development

4.1.1. Non-cash Payments

Currently, there are two interbank payment systems operating in the Kyrgyz Republic the participants of which at the end of 2005 were the National Bank of the Kyrgyz Republic, Central Treasury under the Ministry of Economy and Finance of the Kyrgyz Republic, commercial banks including their branches, and the Interstate Bank.

During the year under review, the payment system demonstrated positive trends. In total 1.22 million payments have been executed through the interbank payment systems to the total amount of 145.6 billion soms. The value of payments has increased by 9.5 percent as compared with 2004, or by 12.6 billion soms.

Total volume of payments reduced by 6.3 percent or by 69,000 payments. This reduction is explained by the decrease in the volume of payments executed in the Clearing System by 6.8 percent, while the same indicator for the large payments system has increased by 7.4 percent.

During 2005, commercial banks have been active in promoting bank plastic cards and developing the card acceptance and servicing infrastructure for both the local and international card systems.

Among the active commercial banks fifteen banks engaged in provision of acquiring and card-based payment/cash services to clients. Among them, 7 banks issue international issue cards, and 4 banks issue domestic systems' cards. Four banks among the international cards' issuers are associated members of the Visa & MasterCard International association.

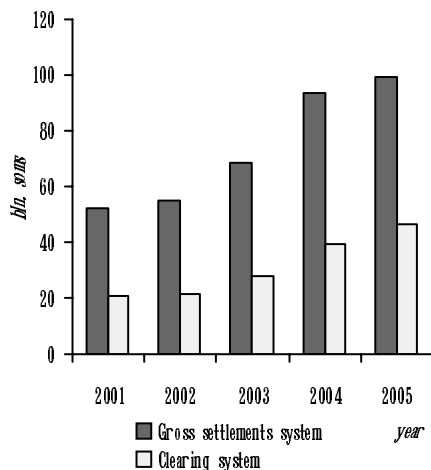
Growth in the number of cards issued and the number of card-based transactions evidences the increasing activity in the market of bank cards. In comparison with 2004, total number of cards issued increased by 28.4 percent in 2005 and achieved 17,380 cards.

Total of card-based transactions amounted to 1,719.4 million soms and increased by 4.1 percent as compared with 2004. Transactions executed through the international systems amounted to 1,055.8 million soms, which is 9.9 percent less than in 2004. Transactions conducted through the domestic payment systems amounted to 663.6 million soms, which is 38.1 percent larger than in 2004.

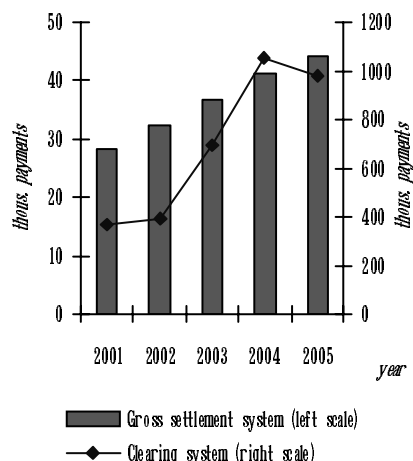
Cardholders preferred to withdraw cash: total cash withdrawal on card achieved 1,555.4 million soms, while the card-based transactions in the POS network totalled 164.0 million soms. The proportion of cash transactions and card-based non-cash transactions comprised 90.5 percent and 9.5 percent, respectively. On the average, the annual of payments per one card in the POS network amounted to 2,354 soms, and through ATMs and POS terminals there have been withdrawn from one card 3,490 soms on the average. The above

Chart 4.1.1.1.

Value of payments through the interbank payment systems (end of period)

**Chart 4.1.1.2.**

Volume of payments through the interbank payment systems (end of period)



proportion of cash and cashless card-based payments is explained by underdeveloped card payment infrastructure, and also by the fact that most of the cards are issued within salary projects. Nevertheless, growth in the number of salary projects and in the number of POS terminals accepting cards, as well as low card service tariffs as compared with the international system cards contributed to the growth in payments made by domestic cards.

In 2005, there 515,382 card-based transactions were executed or by 7.5 percent less than in 2004. Among them 167,202 transactions were executed through the international systems, which is 41.3 percent less than in 2004. Domestic payment systems executed 348,180 transactions, which is more by 28.6 percent than in 2004.

4.1.2. Implementation of the State Program for the Development of Payment System

In 2005, the implementation of the State Program¹ aimed at improving efficiency in payment execution and increasing non-cash payments share in the economy was continued.

One of the core lines of the State Program is the implementation of the Payments and Banking System Modernisation Project (PBSMP) envisaging implementation of the following four systems:

- Bulk Clearing System (BCS) for processing of individuals' small retail payments and budgetary payments through the accounts with commercial banks;
- common Interbank Card Processing Centre (CPC) for card-based payments processing;
- Real Time Gross Settlement System (RTGS) for ensuring effective financial markets operation; and
- NBKR General Ledger (NBKR GL) to integrate the systems and ensure timely reflection of the settlements on commercial banks accounts with the National Bank.

During 2005, international competitive bidding were conducted for the procurement of BCS and CPC systems, contracts signed with the winning companies, and hardware and software were delivered.

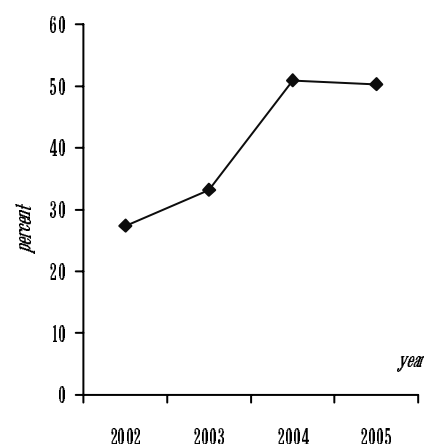
To ensure support to PBSMP management, a consulting company was contracted to provide long-term consulting services in preparation of market environment for the implementation of the systems.

With a view to developing card servicing infrastructure throughout the country, 11 commercial banks established a CJSC Interbank Card Processing Centre. In order to ensure successful implementation of the CPC project, the Board of the NBKR made a decision on capital contribution by the NBKR to the authorised capital of the Interbank Card Processing Centre.

During 2005, works were carried out to select a system vendor for the Real Time Gross Settlement System.

Chart 4.1.1.3. *

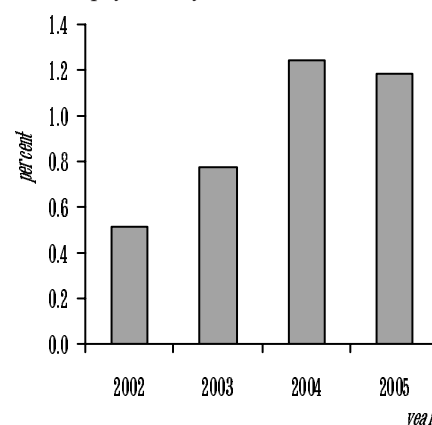
Proportion of card-based transactions in the total number of transactions executed through the interbank payment systems



* Data for 2001 is not available as the card market became active only since 2002.

Chart 4.1.1.4. *

Proportion of card-based transactions in the total value of transactions executed through the interbank payment systems



* Data for 2001 is not available as the card market became active only since 2002.

¹ The State Program of Measures for 2003-2005 to introduce non-cash Payment System and Establish Infrastructure Ensuring Efficient Payment Execution in the Kyrgyz Republic was approved by the joint Resolution of the Government and the National Bank No. 916 of 31 December 2002.

In the course of improving payment systems regulatory and legal framework in order to support the implementation of the State Program projects, the Government and the NBKR by their joint Resolution approved the Regulation on Non-cash Settlements in the Kyrgyz Republic. This document determines the procedures and forms of non-cash payments within the Kyrgyz Republic, and also the new forms of the non-cash settlements such as direct debiting to a bank account and execution of all non-cash payments based on electronic payment documents.

Joint work with government ministries and agencies to prepare market environment for the implementation of the new payment systems was carried out along several main lines.

One of such lines is a transition of individuals' recurring payments (utility fees, disbursement of pensions, salaries and social benefits, etc.) to non-cash payments via the banking system. In order to elaborate technical solutions for the collection of budget revenues and execution of recurring payments from individuals, and also in order to prepare non-cash disbursement of pensions, salaries and benefits, and other non-cash payments the appropriate work was carried out with the Central Treasury and its regional departments, Revenue Committee, Social Fund, Severelectro distribution company, government company Kyrgyz Post, JSC Teploset (district heating company), JSC Kyrgyzgaz (natural gas supplier) and other organisations.

In 2005, commercial banks worked actively on expanding salary projects based on both domestic and international system cards. In total, 95 salary projects have been implemented involving issue of 8,477 cards.

In order to organise the transition to the disbursement of government employees' salaries through the accounts with commercial banks, a draft joint Resolution of the Government and the NBKR was drafted On Salary Disbursement to the Employees of the Ministries, State Committees and Administrative Agencies of the Kyrgyz Republic through the Accounts with Commercial Banks.

During the reporting period, the issues of the State Program implementation have been considered several times at different governance level. Owing to the enlargement in the scale of the State Program projects implementation and involvement of all relevant business entities in the process of increasing the share of non-cash payments in the economy, a decision was made to extend State Program implementation through the end of 2008. To this effect, a joint Resolution of the Government and NBKR of 30 December 2005, No. 632/26/7, was approved On Amendments to the Resolution of the Government of the Kyrgyz Republic on Approval of the State Program of Measures for 2003-2005 to introduce non-cash Payment System and Establish Infrastructure Ensuring Efficient Payment Execution in the Kyrgyz Republic.

4.2. Currency in Circulation

An important direction of the National Bank's activity is to meet the demand of the economy in currency, and to improve quality and security features of the banknotes.

As of the end of 2005, the amount of currency in circulation was 13,414 million soms, and increased by 17.4 percent as compared to the beginning of 2005.

During 2005, growth of currency in circulation occurred mainly due to intensive development of construction, trade and agricultural land market, and also due to the increases in salaries and saturation of commodities market.

The ratio of recurrency to commercial banks' cash offices achieved 96.2 percent during 2005 (98.0 percent in 2004). Recurrency increased in Osh city and Naryn oblast.

During 2005, pay-ins to commercial banks amounted to 66,975 million soms, which is 16.9 percent higher than in 2004; pay-outs from commercial banks increased by 19.1 percent and achieved 69,617 million soms.

Table 4.2.1.

Cash movements through cash office of commercial banks by country regions (for the period)

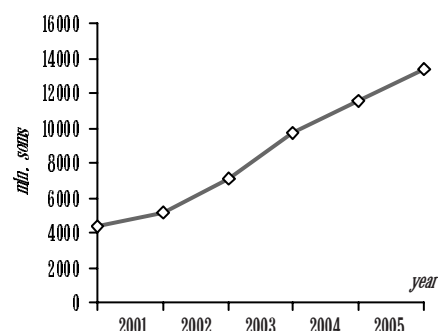
	Pay-in, <i>mln soms</i>		Pay-out, <i>mln soms</i>		Recurrence, <i>percent</i>	
	2004	2005	2004	2005	2004	2005
Total	57,271	66,975	58,432	69,617	98.0	96.2
Batken oblast	483	628	1,474	1,900	32.7	33.0
Jalalabat oblast	3,586	4,665	5,480	7,210	65.4	64.7
Issykkul oblast	1,901	2,278	2,470	3,218	76.9	70.8
Naryn oblast	468	605	1,347	1,601	34.7	37.8
Osh oblast	863	1,090	2,185	2,846	39.5	38.3
Talas oblast	482	635	1,090	1,448	44.3	43.9
Chui oblast	3,148	3,902	2,889	3,692	108.9	105.7
Bishkek city	40,581	43,886	36,859	40,700	110.1	107.8
Osh city	5,759	9,286	4,638	7,002	124.2	132.6

During 2005, pay-in to the National Bank from commercial banks was 11,145 million soms and pay-out from National Bank to commercial banks was 13,323 million soms. Pay-outs to budgetary institutions amounted to 1,999 million soms, pensions to 999 million soms, social benefits to 303 million soms, other payments to 7,906 million soms, and the payments to self-financing organizations to 1,676 million soms.

Based on money in circulation denomination analysis the work was carried out to maintain optimal inventory of the necessary banknote denominations, issue of new banknotes to circulation, and withdrawal and destruction of unfit banknotes. In 2005, the amount

Diagram 4.2.1.

Currency in circulation (end of period)



of unfit banknotes received by the National Bank from commercial banks was 2,290 million soms.

In general, denomination composition of the banknotes in circulation was stable, with the largest change in the share of 1,000 soms banknotes.

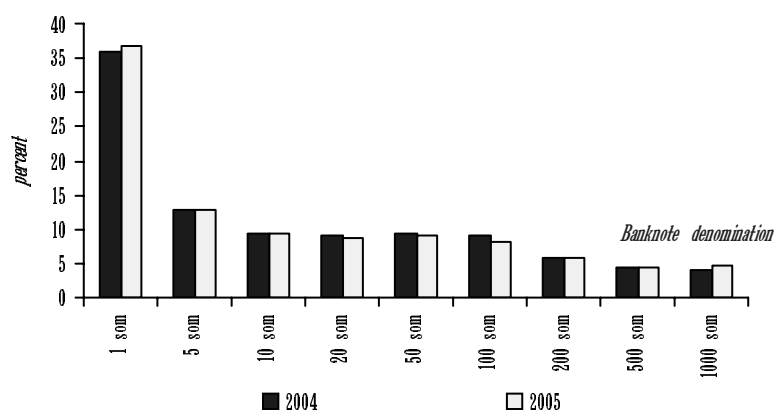
Table 4.2.2.

Denomination of Banknotes in Circulation (in sum at the end of period)
(percent)

Banknote denomination	up to 5 som	10 som	20 som	50 som	100 som	200 som	500 som	1000 som	Total
2004	1.3	1.0	2.0	5.2	10.0	12.8	23.9	43.8	100.0
2005	1.2	1.0	1.8	4.6	8.2	12.2	23.0	48.0	100.0

Chart 4.2.2.

Composition of Banknotes in Circulation by Denomination in Quantity (number of banknotes at the end of period)



In November 2005, a new 500 som banknote with improved technical specifications conducive to increase the banknote life was issued.

The work on issuing numismatic coins was continued. Two commemorative coins “60th Anniversary of the Great Victory” and “Kyrgyzstan on the Great Silk Road: Tashrabad” were issued on May 4, 2005.

The National Bank continued working on further improvement of the regulatory framework, procedures of currency circulation organization and management. Amendments were made to the temporary Instruction on the Procedure of Cash Transactions in NBKR; procedure and principles of NBKR provision with cash-handling equipment were developed.

In 2005, because of the theft of valuables from the vault of Jalalabat oblast branch, necessary measures have been taken to restore full-scale operation of the oblast branch and uninterrupted supply of cash to the commercial bank branches in Jalalabat oblast.

In 2005 in the framework of the activities conducted to verify banknotes’ paying capacity the banknotes in the amount of 268,000 soms received by the National Bank of the Kyrgyz Republic by 764 applications were under expertise.

The National Bank in common with law-enforcement machinery of the Republic was engaging in work on combating against counterfeiting. According to the data of the Judicial Department under the Ministry of Justice, in 2005 there were 11 criminal cases concerning detection of counterfeiting banknotes, which were considered and adjudicated by courts of the Kyrgyz Republic.

For the purpose of forming among population careful attitude towards the national currency, in the framework of the Annual Information and Education Campaign «Som is the Face of Kyrgyzstan» desk throw-over and pocket calendars were produced in Kyrgyz and Russian explaining how to identify security features when doing express authentication of doubtful banknotes. Open days based on numismatic museum of NBKR were arranged for journalists and university students who acquainted with the «History of the National Currency» exposition.

CHAPTER 5

EXTERNAL ECONOMIC RELATIONS

5.1. Co-operation with International Organisations

In 2005, the National Bank participated in long-term national programs and continued co-operation with the International Monetary Fund, World Bank, European Bank for Reconstruction and Development, and Asian Development Bank. It also developed relations with other international financial and credit institutions. The National Bank had undertaken measures on the improvement of efficiency of technical assistance provided by the international financial institutions to develop the financial sector, in particular, to modernise the payment system.

The National Bank interacted with the International Monetary Fund (IMF) and the World Bank (WB) in the following main directions:

- Implementation of measures within the Poverty Reduction and Economic Growth Facility Program.
- Implementation of the International Monetary Fund and the World Bank joint Program on the Financial Sector Assessment;
- Improvement of statistics (conversion to new statistic reporting forms to be published in the “International Financial Statistics”).
- The reforming of the Kyrgyz Republic’s payment system.

The Executive Board of the IMF completed the review of the implementation of Poverty Reduction and Growth Facility in the Kyrgyz Republic for 2001-2004. In February 2005, the International Monetary Fund’s Executive Board approved 8,88 million SDR (about US\$ 13,6 million) within the new Poverty Reduction and Growth Facility Program to provide assistance to the economic program of the Kyrgyz Republic Government for 2005-2007. The purpose of a new three-year program is maintaining of stable economic growth and further reduction of poverty.

To improve the quality and transparency of published statistic data, and in compliance with the monetary as well financial statistics requirements, in February 2005, the International Monetary Fund introduced new forms for statistic reporting to be published in the “International Financial Statistics”. The NBKR developed new statistic reporting forms including data on the analytical accounts of the Central Bank and other deposit corporations and monetary aggregates, and since February 2005 it has been providing information on the new reporting forms to be published in the International Financial Statistics year-book.

In accordance with the General Data Dissemination Standard (GDDS) and Special Data Dissemination Standard (SDDS), during the reporting period, the NBKR continued informing the general public of the most important macroeconomic indicators in the monetary and credit area through mass media and placement of information on the official web-site.

Co-operation with the IMF within the Financial Sector

Assessment Program continued. In September of the reporting period, the IMF mission visited the Republic to assess the banking supervision conformity with the Basle Core Principles. Based on the performance results, the mission prepared a final report, which contained a recommended action plan to improve the banking supervision in compliance with the Basle Core Principles. An IMF banking supervision advisor was attracted to provide consulting services to the National Bank.

During the IMF mission's visit to reform the payment system, they discussed the results of measures undertaken within the Payment and Banking System Modernisation project being implemented in the Kyrgyz Republic. The issues related to the progress achieved in the reforming of the payment system, improvement of the regulatory and legal framework, and interaction with the Kyrgyz Republic's payment system participants and users had also been discussed. Comments were received and discussed with regard to the improvement of the regulatory and legal framework of the payment system in order to ensure the basis for introduction of new systems and payment instruments, they had also reviewed draft plans for a phased conversion to the payment of salaries to government officials through the commercial bank accounts. The NBKR specialists had developed a number of draft normative documents regulating non-cash settlements and payment system performance taking into account the IMF's recommendations.

Co-operation with the World Bank was extended in the area of the payment system reform. Within the Payment and Banking System Modernisation project in the Kyrgyz Republic, with the World Bank's financial support, there had been made the arrangements to purchase two systems, including the package clearing system and uniform inter-bank processing centre system. The above systems were purchased in accordance with the World Bank's purchase procedures based on the international competitive bid results. To solve issues that arose in the course of the Payment and Banking System Modernisation project implementation in the Kyrgyz Republic, a number of video-conferences were held involving the World Bank payment system specialists as well as informational technologies specialists.

Within the Asian Development Bank co-operation efforts, the NBKR continued preparing the banking sector and capital market development program, the implementation of which was planned for 2006-2008. The purpose of the program is improvement of the financial sector's potential to efficiently implement its intermediary role through promoting the implementation of the banking legislation and observance of regulations, strengthening of the securities market supervision to protect investors as well as increasing its transparency and efficiency; removal of factors that hamper the development of capital market, the balanced development of financial sector, and diversification of investment opportunities and financing.

Under the above program, it is anticipated to provide technical assistance including consulting services and training of government officials who supervise banking and non-banking financial sectors.

To prepare the Program, the ADB assessment missions have visited the Kyrgyz Republic three times. Based on the missions' performance results, Memorandums of Understanding have been prepared between the ADB and the Kyrgyz Republic where they specified recommendations and proposals of the ADB as well as terms for the credit to enter into force.

The NBKR extended collaboration with the Asian Development Bank on the following credits: "Rural Financial Institutions" and "Capacity Building in Savings and Credit Unions and Micro Finance Institutions". Within the above ADB programs, two review missions were held and technical assistance provided to the National Bank. Following the results of the work with the ADB review mission, a Memorandum of Understanding was signed in November 2005 in accordance with which the "Rural Financial Institutions" project implementation period was prolonged up to the end of 2006. In addition, there have been identified measures on privatisation of the Financial Company for Support and Development of Credit Unions (FCSDCU) and improvement of supervisory functions.

In 2005, the NBKR effected co-operation with the German Agency for technical Co-operation (GTZ) within the Rural Financial Institutions project on credit unions and credit unions' personnel training-related issues.

In the process of the development of a Medium-term Micro Financing Development Strategy in the Kyrgyz Republic for 2006-2010, the NBKR co-operated with the following international donor organisations, which rendered assistance in the Republic's micro financing system development – GTZ, UNDP, EBRD, ADB, USAID, IREX, and IMF. The strategy had been developed with the financial assistance of FIRST Initiative Program and technical support of a group of advisors from FACET BV company (the Netherlands) which was working jointly with the NBKR and micro financing sector representatives in July-September, 2005.

In 2005, USAID initiated a three-year Economic Reform in Central Asia program. The above program stipulated for the provision of technical assistance to the banking system in the Kyrgyz Republic. For this purpose, USAID selected BearingPoint Company which provides consulting services to the NBKR and commercial banks. For the past period, the company conducted a number of seminars on external supervision and risk management-related issues where the supervision unit staff members had trained, as well as it provided consulting services on further development and improvement of the regulatory and legal framework for supervision.

The National Bank continued working with the integration institutions. The NBKR officers consisting of a working group on the development of a long-term activity program for the Interstate Bank took part in the discussion of the following issues:

- Further development of the general payment and settlement system of CIS countries as well as development of a corresponding regulatory and legal framework.
- Creation of the money transfer system made by individuals in

the national currencies on the territory of Eurasian Economic Community (EAEC).

- Co-operation in the area of organization of an integrated foreign exchange market of the EAEC member countries.

Within the efforts made to prepare a uniform statistic database on the settlements between the EAEC member states, the forms for collecting data on the currency structure of settlements between the EAEC member countries had been jointly developed.

The NBKR carried out activities aimed at further promotion of the economic integration, harmonisation and liberalisation of the exchange regime of the CIS and EAEC member states. We should place special emphasis on collaboration of the NBKR within the Council of the heads of central (national) banks of the EAEC member states (further referred to as the Council).

During the Council meetings held in May and October 2005, a number of important issues were considered related to the development of the banking system and co-operation in the area of foreign exchange regulation as well as exchange of statistic data. In 2005, the Council realised the following measures:

- It approved and recommended for consideration a draft Agreement on the fundamental principles of the policy of EAEC member states in the area of foreign exchange regulation and control over transactions connected with the flow of capital.
- The Council approved the action plan of central (national) banks of EAEC member states on the implementation of co-operation concept of EAEC member states in the foreign exchange area.

The Council developed and approved special reporting forms to be used for a comparative analysis of the banking sector of the EAEC member states.

5.2. Co-operation with Central Banks

In 2005, the NBKR extended co-operation with the central (national) banks of a number of states on the following issues: implementation of technical and consulting support programs, information exchange, improvement of the legislation, regulatory and legal framework, problems of supervision over banking and other financial institutions, as well as exchange of experience and improvement of the NBKR's personnel professional training.

Within the co-operation efforts between the NBKR and the Swiss National Bank, a training for NBKR line managers was conducted in May 2005 to improve the level of managerial competency of the mid-level management personnel. In addition, during 2005, the Swiss National Bank rendered consulting assistance on the issues related to the bank's operation and improvement of the currency circulation; it provided training workshops on monetary policy issues for young economists and mid-level specialists. Jointly with the Swiss National Bank, a number of research works were launched in 2005.

The NBKR proceeded with co-operating with Deutsche Bundesbank to render consulting assistance in the area of currency circulation and professional training of the Bank's employees. As for instance, at the end of August, Deutsche Bundesbank conducted a seminar for the NBKR's officers on the internal audit and risk management-related issues. In October 2005, the Director of Deutsche Bundesbank's Center for Technical Co-operation with the Central Banks paid a visit to the NBKR, the purpose of which was to identify the primary directions of co-operation with the National Bank of the Kyrgyz Republic for the upcoming year. In the course of the visit, they discussed the projects that had been earlier laid in the co-operation matrix. Also an agreement was reached on the conduction of training workshops for the NBKR's officers and provision of consulting assistance by Deutsche Bundesbank's specialists in 2006.

In accordance with the Agreement signed by the National Bank of the Kyrgyz Republic and the National Bank of Poland (NBP) in April 2004, the delegation of the National Bank of Poland paid a visit in June 2005. In the course of the visit, there were discussed the prospects for further co-operation and was held a seminar for the employees of the National Bank of the Kyrgyz Republic, during which the representatives of the NBP shared their experience in the area of monetary policy, management of international reserves, strategic planning in the central bank, and development of international relations of the bank.

In compliance with the Memorandum of Co-operation, the employees of the NBKR's key structural subdivisions visited the People's Bank of China in 2005 within the experience exchange program on monetary policy as well as payment system-related issues.

The National Bank continued its co-operation with the central banks of CIS and non-CIS countries on issues of monetary policy

and information exchange. In particular, it co-operated with the central banks of China, Swiss, Kazakhstan, and Russia.

The National Bank of the Kyrgyz Republic, within its co-operation efforts with the Central Bank of Russia and Interstate Bank, provided statistic data on a monthly basis on the real and banking sectors, as well as on the monetary aggregates.

The representatives of the National Bank participated in regular meetings of the Central Banks Governor's Club of the Black Sea region, Eastern Europe and Central Asia organised by the Central Bank of Russia which performed the functions of the Club's Secretariat in the reporting period. During the meetings, they exchanged experience in the most important lines of activity of central banks, including pursuing monetary policy, main trends in banking sector and payment system development, etc.

Co-operation with the Central Banks of England, France, Germany, Turkey and Italy was carried in the following traditional directions: issues on the personnel qualification improvement and provision of technical assistance. The NBKR officers underwent training at the Central Banks of Mongolia, Czech Republic, Austria, Poland, and Holland.

In 2005, mutual internships were arranged to exchange experience with the Central Bank of Russia, the National Banks of Tajikistan, Moldova and Kazakhstan. Also, the NBKR officers took part in workshops provided by the central (national) banks of Russia, Ukraine, Belorussia, Armenia and Azerbaijan.

CHAPTER 6

DEVELOPMENT AND MANAGEMENT OF
THE NATIONAL BANK OF THE KYRGYZ
REPUBLIC

6.1. Human Resource Development

In 2005, the efforts were continued on the improvement of the organisational structure and optimisation of the number of personnel to enhance the efficiency of fulfilment of goals and tasks specified in the primary directions of the NBKR development up to 2005. Approaches and principles of the National Bank's activity in the area of human resource management policy had been specified in the Personnel Management Strategy and the Code of Corporate Ethics for NBKR employees.

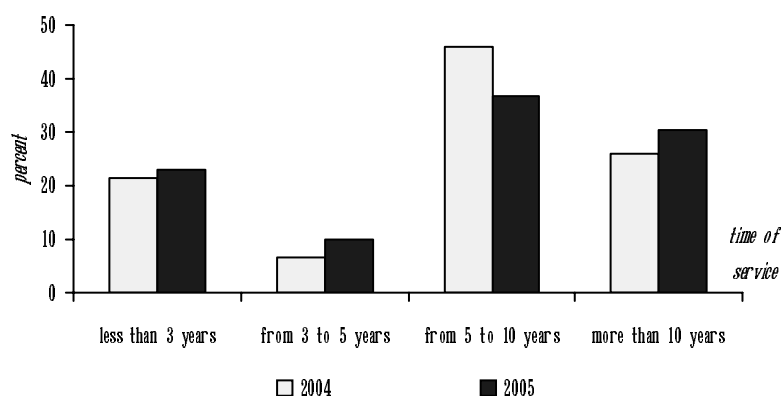
In February, based on findings of the management audit, the Board formulated proposals aimed at improvement of the organisational structure.

The Division of Supervision under Non-bank Institutions department had been reorganised into the Supervision Department over Non-bank Institutions, which comprised of two divisions: Inspection Division and External Supervision and Licensing Division. The above reorganisation was carried out because of growth of micro-financing organisations, credit unions and other non-bank credit institutions, which were licensed and regulated by the NBKR, and was aimed to improve efficiency of supervision over their operations.

Investment and Technical Assistance Co-ordination Directorate due to the change in the methods of working with the international financial institutions had been reorganised into the Project Implementation Division. The Accounting and Control Division was

Chart 6.1.1.

Composition of specialists by years of service (end of period)



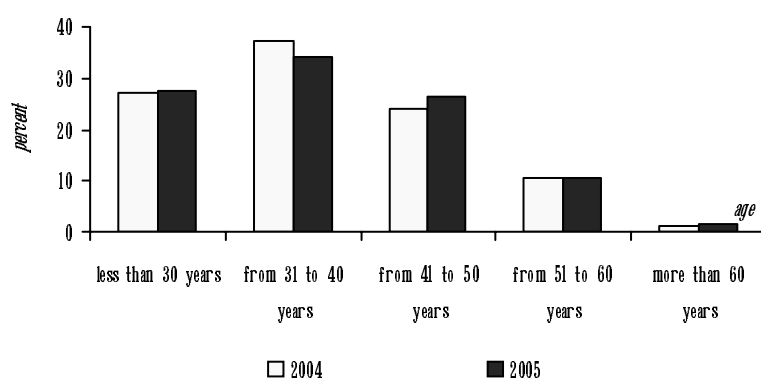
established by merging the Accounting Methodology and Follow-up Control Division with the Accounting and Analysis Division, which had been within Accounting and Reporting Department.

The National Bank's Regional Departments underwent reorganisation also. A new staffing list had been approved for the Regional Departments and Representative Office in Batken oblast, their number of employees had been reduced by 20.

The changes in the organisational structure enabled to reduce the staff of the National Bank by 9 percent. As of end of the reporting period, the organisational structure of the NBKR included 24 structural subdivisions of the central office, 5 regional departments and representative office in Batken oblast.

Chart 6.1.2.

Age composition of specialists (end of period)



With the view of execution of the Law on the Official Language of the Kyrgyz Republic, the National Bank developed additional measures on law implementation. Under the General office, a translation group had been set up which was assigned to co-ordinate the activities on the implementation of the provisions of the Law on Official Language of the Kyrgyz Republic.

There are 6 committees and 10 commissions functioning in the NBKR. Respective provisions regulate the order and procedures of the activity of committees and commissions. The activity of the committees and commissions contribute to the corporate culture development in the decision-making and improvement of the NBKR's activity.

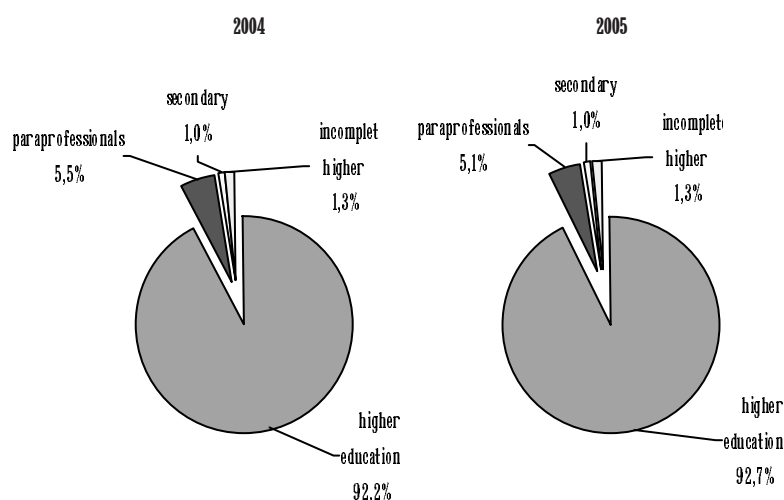
A competitive selection system implemented by the NBKR ensures a transparent, equal and fair approach to recruitment of personnel and provides for a selection of specialists with required qualification. Vacancy announcements and notices of invitation to contests have been published in mass media and posted on the NBKR's web-site. Information and consulting regarding the contests were provided by the Personnel Division.

In 2005, 19 open and 3 internal contests were held, including 5 open and 1 in-house, contests to select candidates for the Regional Departments and representative office. The total number of contest participant was 260. Based on the contest results, 22 specialists had been hired by the National Bank.

As of end of the reporting year, an actual staffing at the central office, and Regional Departments and representative office in Batken oblast amounted 415 and 82 employees, respectively.

Chart 6.1.3.

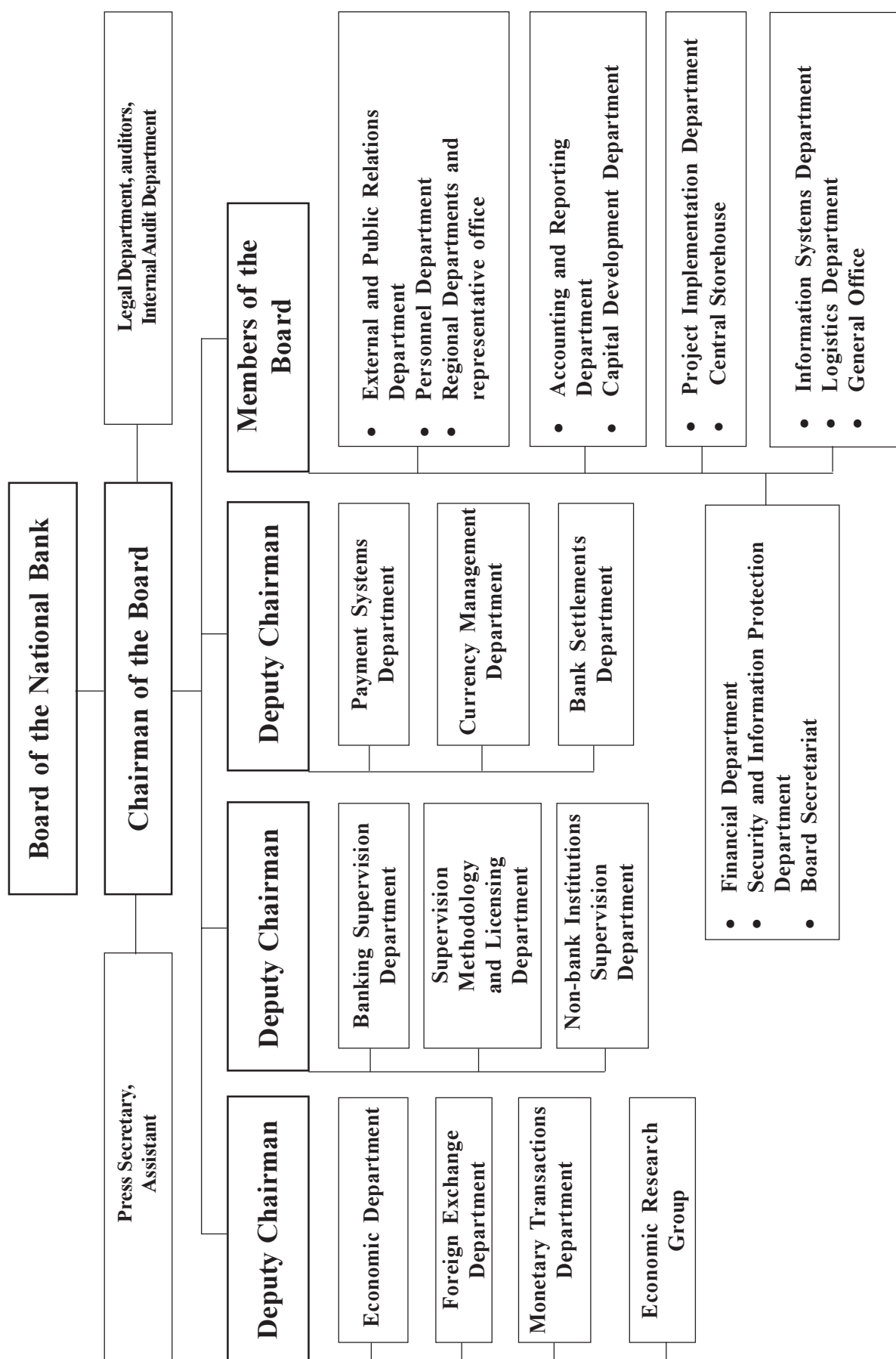
Composition of specialists by education



Skilled personal totalled 395 persons, out of which in central office, and Regional Departments and representative office hired 333 and 58 persons, respectively. Of them 92.7 percent or 336 persons have got higher education, 9 persons hold academic degree of the candidate of sciences, and one person holding the doctor of sciences' degree. With regard to the period of employment with the NBKR, the length of service of the majority of employees exceeds 5 years (67.1 percent of the total number), 22.8 percent employed up to 3 years, and 10.1 percent has a length of service from 3 to 5 years.

As for the age structure, the biggest share falls on 30 to 40 year-old employees or 34.2 percent, 27.6 percent falls on under 30-year, 26.3 percent are from 40 to 50 years old, and age of 11.9 percent is above 50.

Organisation Chart of the National Bank of the Kyrgyz Republic as of December 31, 2005



Main Functions of the Structural Subdivisions of the National Bank of the Kyrgyz Republic

Board	Specifies major lines of activity and is the supreme collegial governing body of the NBKR. The Chairman of the Board is appointed by the President of the Kyrgyz Republic and approved by the Jogorku Kenesh of the Kyrgyz Republic for 7-year term. The Board members are appointed by the President of the Kyrgyz Republic as advised by the Chairman of the National Bank of the Kyrgyz Republic for of 7-year term.
Economic Department	Develops proposals on monetary policy and its implementation, makes analysis in the area of the real, financial, fiscal and external sectors of the economy.
Foreign Exchange Department	Develops proposals and implements the international reserves management policy, makes analysis of stability of the government debt and monitors its servicing, implements the policy in the area of development of foreign exchange and financial relations.
Monetary Transactions Department	Makes analysis of trends and identifies the reasons for changes in financial markets to efficiently co-ordinate transactions at the open market, conducts operations at domestic (internal) financial markets.
Economic Research Group	Performs analytical and research works, improves their methodology, participates in scientific and information exchange.
Banking Supervision Department	Supervises the activity of banks, pawnshops and exchange offices to ensure their compliance with economic standards and observance of the legislation of the Kyrgyz Republic and of the National Bank statutory acts.
Supervision Methodology and Licensing Department	Issues licences to banks, develops and improves the regulatory framework and supervision methodology, supervision of commercial banks and other financial and credit institutions licensed by NBKR as well as new directions of banking system development.
Non-bank Institutions Supervision Department	Supervises the activity of micro-finance organisations, credit unions and other non-bank institutions licensed and regulated by the NBKR in accordance with the legislation and regulatory acts.
Payment Systems Department	Develops and implements measures to ensure efficient payment system, its reliability and security.
Bank Settlements Department	Ensures continuous operation of interbank clearing systems.
Currency Management Department	Meets economic needs of the Kyrgyz Republic for currency, organises currency circulation, assists in taking measures against counterfeiting.
Central Storehouse	Ensures safety of banknote, coins, and valuables, delivery of valuables, processing of currency, and disposal of old bills.

Internal Audit Division	Assesses the status and efficiency of the internal control and risk management system in the activity of structural subdivisions.
Legal Division	Ensures legal framework for the National Bank activity, development and improvement of the banking legislation.
External and Public Relations Division	Informs the general public of the goals, tasks, functions, and performance results of the National Bank, co-operates with external organisations, mass media, and community.
Personnel Division	Recruits and allocates personnel, provides training and improvement of qualification of employees, develops and introduces staff motivation tools to increase efficiency of their work.
Financial Division	Plans and controls the current financial activity of the NBKR.
Accounting and Reporting Department	Accounts for transactions and prepares financial statements for the NBKR, develops documents regulating accounting practice in the Bank, exercises internal control over accounting transactions.
Project Implementation Division	Deals with the implementation of projects of international financial organisations that are implemented with the participation of the NBKR.
Information Systems Department	Develops, implements and improves automated systems to provide services in the payment and banking systems, promotes the development and technically supports the information system.
General Office	Provides the flow of documents and records management in the NBKR including control over the implementation of documents, compliance with the Kyrgyz language rules and standards in record keeping.
Board Secretariat	Provides organisational support to the Board's activity.
Security and Information Protection Department	Ensures security of operations and information protection of the activity of the National Bank.
Logistics Department	Provides logistics and transportation support, maintenance of buildings and constructions.
Capital Development Department	Organises capital construction and reconstruction of buildings and other facilities of the NBKR.
Regional Departments and Representative Office	Provide commercial banks and their branch offices with currency, take measures on supervision over compliance with and observance of the banking legislation by banks and financial and credit institutions, the activity of which is licensed by the NBKR, and also perform other functions within their powers.

6.2. Management of the National Bank in 2005

In accordance with the Law “On the National Bank of the Kyrgyz Republic” the Board is the supreme governing body of the National Bank and it shall define the main directions of its activities. The Board is a collegiate body. The Board members shall be appointed by the President of the Kyrgyz Republic as advised by the Chairman for the term of seven years.

The Board reviews and specifies the monetary policy, normative acts, annual report, and the procedures for withdrawal of bank notes and coins from circulation. Pursuant to the by-laws, the National Bank’s Board also considers such reserved matters as provision of loans of last instance, issue, withdrawal or suspension of banking licences, initiation of bankruptcy proceedings and application of bankruptcy procedures, introduction of provisional administration, and other issues.

In the reporting period, the Board of the National Bank carried out its activity in accordance with the approved annual and quarterly plans. In 2005, Board met 41 times, 275 issues were considered and 172 resolutions were adopted.

The Board, based on the economic situation and projection for its further development and taking into consideration structural reforms and changes being implemented in the Republic in the tax and budget areas, annually sets inflation target and intermediate quantitative benchmarks for the monetary policy. Monetary policy intermediate benchmarks are monitored on a regular basis. If external and internal factors lead to impossibility to meet of targets, the Board has the right to review it. To regulate the money supply, various tools are applied, the strategic selection of which is vested on the Board.

In the reporting period, the Board, based on the monetary policy reports, approved its primary directions as well as the Statement of the National Bank on the monetary policy for the upcoming year. To improve the efficiency of mandatory reserve requirements as a monetary policy instrument, and further develop interbank credit market, the Board resolution had introduced changes in the provision “On Mandatory Reserves”. According to the above Regulation, the US Dollar exchange rate shall be approved twice a year to be applied for calculation of mandatory reserve requirements. In addition, the Board’s Resolution approved the following provisions: “On SWAP auctions (bids) of the National Bank of the Kyrgyz Republic”, “On Intraday Credit of the NBKR”, a revised version of the provision “On Issue, Placement, Circulation, and Redemption of NBKR notes”, procedures for conduction of REPO transactions.

Pursuant to the risk management policy, the Board of the National Bank sets forth general goals and principles for reserve management, as well as investment strategy, overall strategy, and legal framework for international reserves management.

To minimise risks, and also taking into account the situation at the global financial markets and the liability structure of both the

National Bank and the Government, in 2005 the Board approved the Regulation “On the Benchmark Portfolio of International Reserves of the National Bank of the Kyrgyz Republic for 2006”, which specified a set of instruments and maximum maturity of the investment portfolio.

To identify the structure of international reserves and the set of instruments of a working asset in each currency, the Regulation “On the Structure of International Reserves” had been approved on a quarterly basis. In 2005, a report on international reserves management for 2004 was approved by the Board’s decision. A total of 14 resolutions were adopted concerning monetary policy issues in 2005.

In the reporting period, the Board paid great attention to the issues of development and strengthening of the banking system in the Republic. To provide efficient and sustainable development of banks, promote reliability and safety of the banking system, as well as to enhance crediting opportunities, the Board made a decision to set a minimum size of capital (equity capital) of commercial banks in the amount of no less than 100 million soms, which should be formed by January 1, 2008.

The National Bank of the Kyrgyz Republic places great importance on the risk reduction-related issues which are attributable to the banking activity as well as on the implementation of principles of the Basle Committee on Banking Supervision due to the growth of the banks’ credit portfolio and supply of a wide range of credits, new financing services in the Republic’s banking market.

A provision “On Minimum Requirements for Operating Risk Management in Commercial Banks of the Kyrgyz Republic” had been developed which provided for minimum requirements to operating risk management in the commercial banks. The above provision is the additional guidelines for commercial banks and other financial and credit institutions of the Kyrgyz Republic with regard to minimum requirements for policies, procedures and internal control with the purpose of compliance with operating risk management standards specified by the Regulation “On Minimum Requirements for Risk Management in the Banks of the Kyrgyz Republic”.

As a whole, 20 resolutions had been adopted in the reporting period regarding the activity of certain commercial banks and institutions licensed by the NBKR.

Also, the Board adopted 13 resolutions on the legal framework that regulated the activity of the commercial banks. This included both new normative acts and changes introduced in the earlier adopted statutory acts. Among the normative acts approved by the Board in 2005 it worth to mention the following ones: on the approval of the policy and main principles of antimonopoly regulation; development of competition and protection of consumer rights at the banking market of the Kyrgyz Republic; on making changes and amendments to the provision “On the requirements to the formation of financial reporting of commercial banks in the Kyrgyz Republic”; on the revised version of provisional rules for regulation of the activity of the “Finance

Company on the support and development of credit unions in the Kyrgyz Republic” LLC; on the approval of the provision on crediting in commercial banks and other financial and credit institutions licensed by the National Bank of the Kyrgyz Republic; on the approval of “Procedures for vesting bank branches with capital by non-resident banks”; on a revised version of rules for regulating the activity of credit unions in the Kyrgyz Republic; on a revised version of the provision “On licensing of credit unions”; on approval of the provision “On measures applied to banks and some other financial and credit institutions licensed by the National Bank of the Kyrgyz Republic”; on the approval of the provision “On preventive measures and sanctions applied by the National Bank of the Kyrgyz Republic to micro-financing organisations”; on temporary forms of a regulatory report of the credit union and instructions for their completion, and the approval of a revised version of the chart of accounts in commercial banks and other financial and credit institutions of the Kyrgyz Republic; on the provision “On minimum requirements for external audit of banks and other financial and credit institutions licensed by the NBKR”; on introduction of changes and amendments in the provision on a periodic regulatory bank reporting and approval of the form “Data on Fees for Commercial Bank Services in the Kyrgyz Republic”.

A reliable and efficient payment system as an important component of the financial system is needed to support a normal operation of the banking and financial markets and pursue monetary policy. Assuming a leading role in the development of policy with regard to the overall payment system structure, the Board makes efforts on the development and approval of strategic measures, introduction of basic principles of supervision and control over the payment system performance and also efficient mechanisms for making settlements. The Board had reviewed quarterly reports on the current state of the payment and settlement systems. Also, in the second half of the year, the Board reviewed a draft resolution on making changes in the Resolution of the Government the National Bank “On Approval of the Government Program of Measures for 2003-2005 on Introduction of Non-cash Payments and Creation of the Infrastructure Capable of Ensuring Efficient Processing of Payments in the Kyrgyz Republic”, in accordance with which a Government program of measures had been approved for the period of 2006-2008. The following resolutions had been adopted to approve: an instruction on procedures for numbering bank settlement accounts; an action plan on conversion to new banking identification codes and bank account numeration standards; a provision on the activity of the National Bank as a verification centre for electronic digital signatures; the risk management policy in the payment system; a provision on non-cash settlements; a provision on the centre for emergency recovery of the NBKR; payment of salaries to the officials from the ministries, state committees and administrative departments via commercial bank accounts jointly with the Government and the National Bank; provision on the package clearing system of small

and regular payments. A total of 12 resolutions had been adopted related to the payment system issues.

The Board had been reviewing on a quarterly basis the issue of the progress of projects' implementation under the Government Program of Measures for 2003–2005 on the introduction of non-cash payment system and creation of the infrastructure capable of ensuring efficient processing of payments in the Kyrgyz Republic.

The Board also considered general issues as well as issues concerning the organisation of the National Bank's activity. Concerning regulatory framework, 23 resolutions had been adopted, while 60 resolutions was passed on the internal activity of the Bank.

6.3. Improvement of the Banking Legislation and Financial Advisor Activities

In 2005, the National Bank continued improving and developing the banking legislation of the Kyrgyz Republic. As for instance, the standards had been introduced in the legislation of the Kyrgyz Republic that stipulated for a consolidated supervision. A restriction had been removed for legal entities involved in the financial and banking activity to hold more than 15 percent of bank shares.

In March 2005, the Law “On pledge” that had been examined by the National Bank came into force.

To eliminate conflicts and inconsistencies with the banking legislation and bring into line with the Basle principles on issues related to the banking secrecy, the working on the draft Law “On Making Changes and Amendments to Some Legislative Acts of the Kyrgyz Republic” were continuing. The above draft law provides for making changes and amendments to the Civil Code, Code of Civil Procedure, Labor Code, the Code on administrative responsibility, the Criminal Code, the Laws “On Joint Stock Companies”, “On Banks and Banking Activity”, “On Banking Secrecy”. The draft law was submitted to Jogorku Kenesh of the Kyrgyz Republic for its consideration.

The National Bank continued working on the draft Law “On Counter-acting Legalization (laundering) of Proceeds from Crime, and Terrorist Financing” taking into consideration renewed recommendations of the financial action Task Force on money laundering (FATF) and comments of Jogorku Kenesh of the Kyrgyz Republic.

The draft law is aimed at the creation of a system of measures on detection, tracking and prevention of the activity connected with terrorism financing and legalization (laundering) of proceeds from crime. Currently, the draft law is being reviewed by Jogorku Kenesh of the Kyrgyz Republic. Also, Jogorku Kenesh of the Kyrgyz Republic is considering draft “package” laws developed by the National Bank. The draft law stipulates for making changes and amendments to the Criminal Code and the Code on Administrative Responsibility.

In 2005, the National Bank developed and duly submitted to Jogorku Kenesh of the Kyrgyz Republic the draft Law “On Making Changes and Amendments to Certain Legislative Acts of the Kyrgyz Republic”. The draft Law is aimed at removal of contradictions in determination of the legal status of the National Bank.

The National Bank being a member of interdepartmental working groups with the involvement of interested government agencies performed the following work:

- Preparation of proposals on the draft revised version of the Tax Code.
- Participation in the discussions of the draft revised version of the Tax Code in the expert group and at “round tables”.
- Development of the Draft law “On Mortgage Securities”.
- Taking inventory of regulatory and legal acts.

- Development of the Draft law “On Housing Certificates”.
- Development of regulatory acts on hypothec promotion.

In the reporting period, the National Bank continued improving the legal framework regulating the activity of banks and other financial and credit institutions licensed by the NBKR.

The new version of the “Provision on Non-cash Settlements in the Kyrgyz Republic” had been developed aimed to ensuring a proper methodological basis for successful implementation of the Government Program of Measures for 2003-2005 on introduction of non-cash payment system and creation of infrastructure capable of ensuring efficient payment processing in the Kyrgyz Republic, approved by a joint resolution of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic № 916 of December 2002. The above provision was approved by the Government Resolution of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic of September 9, 2005 № 420/21/4. The purpose of the provision is specification of the procedures for non-cash settlements in the territory of the Kyrgyz Republic, as well as the forms of non-cash payment instruments, non-cash settlement system between its participants, and also introduction of new non-cash settlement methods.

The “Provision on the Verification Centre of the NBKR” had been developed to fulfil the powers of the Verification Centre upon verification of electronic digital signatures not only in electronic payment documents but also in any electronic documents of the participants holding key certificates at the verification centre.

The above document specifies goals and scope of application of the provision, the legal status of the Verification Centre, its rights and obligations, responsibility while carrying out its activity, issues related to interaction of participants, protection of personal data, and terms for termination of activity.

The provision “On Package Clearing System” approved by the Board of the National Bank of December 15, 2005 № 37/8 is the primary regulatory and legal document, on the basis of which the instructions, procedures and rules for making payments under the system had been developed. The provision specified basic concepts and operation rules of the Package Clearing System for small retail and regular payments in the Kyrgyz Republic. The document regulates interrelations of the system participants and methods for risk management within the system.

The risk management policy in the payment system of the Kyrgyz Republic approved by the Board of the National Bank of May 19, 2005 № 16/4 stipulates for risk management principles and methods in the payment system to ensure its safety and reliability.

Within the conversion to uniform bank identification code and bank account numbering standards, which is one of the requirements for ensuring successful project implementation on the payment system improvement, an instruction “On the procedures for bank settlement account numbering” had been approved along with the action plan on conversion to new bank identification code standards and bank account numbering.

To improve the normative and legal framework that regulates the activity of banks and other financial and credit institutions licensed and regulated by the National Bank of the Kyrgyz Republic, the following resolutions had been adopted:

- On replacement of blank forms of licences of commercial banks, Settlement and Saving Company, financial and credit institutions licensed by the National Bank of the Kyrgyz Republic (Resolution of the Board of the National Bank of the Kyrgyz Republic of January 20, 2005 № 1/4).
- On approval of the policy and main principles of antimonopoly regulation, development of competition and protection of consumer rights at the banking service market provided by the commercial banks and other financial and credit institutions licensed and regulated by the NBKR (Resolution of the Board of the National Bank of the Kyrgyz Republic of March 2, 2005 № 4/1).
- On approval of the provision on pre-trial settlement of disputes between the National Bank and commercial banks, organisations that carry out certain types of banking transactions, their founders (shareholders), legal entities and individuals (Resolution № 6/3 of the Board of the National Bank of the Kyrgyz Republic of March 18, 2005).
- On making changes and amendments to the provision on financial reporting requirements set to the commercial banks of the Kyrgyz Republic ((Resolution of the Board of the National Bank of the Kyrgyz Republic of March 19, 2005).
- On a revised version of provisional rules for regulating the activity of “Financial Company on Support and Development of Credit Unions in the Kyrgyz Republic” LLC (Resolution № 12/6 of the Board of the National Bank of the Kyrgyz Republic of April 27, 2005).
- On provisional forms of periodic regulative report of the credit union and instructions for completing provisional forms of periodic regulative report of the credit union (Resolution № 20/7 of the Board of the National Bank of the Kyrgyz Republic of June 24, 2005).
- On draft procedures for holding SWAP auctions by the National Bank of the Kyrgyz Republic (Resolution № 21/2 of the Board of the National Bank of the Kyrgyz Republic of June 29, 2005).
- On provision “On minimum requirements for external audit of banks and other credit and financial institutions licensed by the National Bank of the Kyrgyz Republic” (Resolution № 22/2 of the Board of the National Bank of the Kyrgyz Republic of July 14, 2005).
- On draft provision “On intraday credit of the National Bank of the Kyrgyz Republic” (Resolution № 24/1 of the Board of the National Bank of the Kyrgyz Republic of July 27, 2005).
- On approval of a revised version of the chart of accounts in commercial banks and financial and credit institutions of the Kyrgyz Republic) (Resolution № 22/1 of the Board of the National Bank of the Kyrgyz Republic of July 14, 2005).
- On a revised version of rules for regulating the activity of credit unions in the Kyrgyz Republic (Resolution № 14/2 of the Board of the National Bank of the Kyrgyz Republic of May 4, 2005).
- On approval of provision “On measures applied to banks and certain

financial and credit institutions licensed by the National Bank of the Kyrgyz Republic (Resolution № 16/2 of the Board of the National Bank of the Kyrgyz Republic of May 19, 2005).

- On a revised version of the provision “On issue, placement, circulation, and redemption of the National Bank notes of the Kyrgyz Republic” (Resolution № 28/2 of the Board of the National Bank of the Kyrgyz Republic of September 14, 2005).
- On minimum size of capital (equity) (Resolution № 32/3 of the Board of the National Bank of the Kyrgyz Republic of October 26, 2005).
- On making changes in the resolution of the Board of the NBKR of April 16, 2003 № 13/2 “On setting requirements for identification of entities and list of offshore zones” (Resolution № 34/4 of the Board of the National Bank of the Kyrgyz Republic of November 18, 2005).
- On making changes and amendments to the provision on mandatory reserves (Resolution № 34/1 of the Board of the National Bank of the Kyrgyz Republic of November 18) and others.

Draft laws developed by the National Bank are posted on a regular basis on the official web-site.

During the reporting period, the National Bank continued working with the Ministry of Justice of the Kyrgyz Republic in on such issues as registration of regulatory and legal acts of the NBKR, implementation of certain articles of draft laws of the Government of the Kyrgyz Republic and expert examination of draft normative acts, constituent documents of financial and credit institutions licensed by the NBKR. The representatives of the National Bank took part in the work of Interdepartmental commission on inventory of regulatory and legal acts of the Ministry of Justice of the Kyrgyz Republic, on removal of conflicts and inconsistencies, abolition of irrelevant and outdated regulatory acts.

The National Bank being a financial advisor:

- Informed the President of the Kyrgyz Republic, Jogorku Kenesh of the Kyrgyz Republic, Government of the Kyrgyz Republic on a regular basis on monetary policy and the status of the banking system-related issues.
- Provided analytical information on the situation at the financial market of the Kyrgyz Republic.
- Participated in the development of regulatory documents for Eurasian Economic Community (EAEC), the Shanghai Cooperation Organisation (SCO), Commonwealth of Independent States, and other organisations.
- Reviewed draft laws and other regulatory and legal acts, decisions concerning financial and banking issues or the NBKR’s scope of authority.
- Was involved in consideration of issues proposed to the Economic Policy Council under the Government of the Kyrgyz Republic.

- Participated in the development of a number of government programs.

Fulfilling the functions of a finance adviser and financial agent of the Government of the Kyrgyz Republic, the National Bank jointly with the Government of the Kyrgyz Republic took part in the preparation and negotiations on the Kyrgyz Republic's external debt restructuring in the Paris Club, it also participated in concordance of external debt-related data with the creditors and the Paris Club Secretariat.

In 2005, the Ministry of Economy and Finance of the Kyrgyz Republic jointly with the National Bank of the Kyrgyz Republic held negotiations and signed agreements on debt consolidation with the Paris Club's members, namely, with the Governments of France, Russian Federation, Germany, Japan, and Denmark.

The National Bank continued servicing accounts of the Government concerned with the membership of the Kyrgyz Republic in a number of international financial organisations, including IMF, WB, ADB, IDB, and others.

6.4. Internal Audit and Control System

Internal audit, being an integral part of the internal control system was conducted in compliance with the generally accepted Standards for the Professional Practice of Internal Auditing.

The activity of the internal audit services was carried out in accordance with the approved plan developed on the basis of risk analysis peculiar to the activity of the NBKR. The principles recommended by the Basle Bank Supervision Committee laid the foundation for efficiency assessment of the internal control system. As a result of audits conducted in 2005, 53 recommendations aimed at the improvement of the regulatory framework, development and strengthening of the analytical block, and risk restriction were developed. Monitoring over the implementation of approved recommendations is performed on a regular basis. The monitoring performance reports are submitted to the Chairman and Board.

A considerable attention in the reporting period was paid to the internal control system improvement and risk restriction. Pursuant to the Risk Management Committee's plan, they continued working with the regional departments on the development of a summary risk map in the activity of regional departments. Also, they continued working with the structural subdivision on the analysis of developed risk management cards.

In 2005, the regional departments underwent a comprehensive inspection, on the results of which an action plan had been approved to restrict risks, strengthen internal control and safe custody of valuables in the regional departments. Findings of action plan monitoring were reviewed at the Risk Management Committee's meeting. Within the efforts to improve the organisational structure of the National Bank the work for rationalising of regional department activity have been continued.

A relevant analysis of the internal control system was executed in 2005, in accordance with the assessment of the International Monetary Fund on safeguards of central banks. Based on the analysis findings, the internal audit division developed an action plan on the improvement of the control system and reduction of risks; this plan was approved by the NBKR's Board.

To improve the auditor selection mechanism for audit of the financial statements, a law provided the rotation of external auditor was drafted in 2005.

Co-operation with the central banks was continued on the issues relating to improvement of the audit methodology and further development of risk management as a part of consultative meetings of heads of the CIS internal audit services.

6.5. Information Activity

The National Bank being pursued the information policy is guided by the principle of openness through timely informing the public of the measures undertaken by the National Bank to fulfil vested functions and tasks.

The National Bank proceeded with holding monthly press conferences with participation of the Chairman on the monetary policy. 16 press conferences and 5 briefings involving the Bank management were held in 2005 to discuss issues on all the lines of the central bank's activity.

The monetary policy-related issues were covered in analytical reviews and comments which were placed on the websites of the leading information agencies, in newspapers and highlighted in "The National Bank informs" TV program and in a new weekly program in Kyrgyz "The National Bank informs" broadcasted on the National radio.

During the first half year of 2005, there was an increased public interest concerning the financial market situation, monetary policy, key macroeconomic indicators, the status of the Bank's forex and gold holdings, as well as the Kyrgyz Republic's external debt. Taking into account the social and political situation, the National Bank promptly informed the public of the measures being undertaken. With a view to maintaining stability of the banking system, the National Bank made a statement on the need for ensuring safety of assets, physical and information security of banking institutions and the banking system in general, on what terms banks to resume its normal operation. Later, the Bank and commercial banks released joint statement which announced that the banking system had restored functioning in a usual way. The "hot line" telephone numbers of the NBKR and commercial banks were published on the NBKR's official web-site and communicated to the republican and foreign mass media.

Daily briefings were held since March 30 till April 4 with participation of the Chairman for the representatives of commercial banks, donor and international organisations, embassies accredited in Bishkek city, republican and foreign mass media.

Information on the current financial indicators, updated information on key macroeconomic indicators as well as payments were brought to the attention of the participants. The Chairman advised of the measures being undertaken to ensure stable and normal operation of all the financial market participants and of complete fulfilment of obligations by commercial banks to their depositors.

Due to a number of armed attacks on cash and banking institutions in April and May 2005, the management of the National Bank, commercial banks, and law enforcement bodies made a joint statement on measures to be taken to ensure safety of commercial banks' operation.

One of the priority directions in public information by the National Bank for the reporting period was further implementation of the Government Program of measures for 2003-2005 on introduction of non-cash payment system and creation of infrastructure capable of ensuring efficient payment processing in the Kyrgyz Republic.

Within the efforts aimed at implementation of the Government Program, the NBKR specialists made presentations on “Prospects for the retail and regular payment market development” for the representatives of branches of commercial banks, Central Treasury departments, Social Fund, tax and customs agencies, post offices, the housing maintenance and utilities boards, and mass media in oblast offices of the National Bank.

The purpose of the presentation was aimed to clarify advantages of non-cash settlement and their importance for the economy of the country, to get acquainted with the major measures taken by the Government and the National Bank aimed at ensuring conditions for making such settlements, updating on the progress of work performed jointly with the commercial banks, departments and corporations that provide regular services to the population within the Government Program implementation.

Due to the changes and amendments introduced to the normative acts on regulation of the activity of credit unions, the National Bank initiated TV-debates on the National TV channel (KTR) attended by the representatives of the National Bank, Financial Company on Support and Development of Credit Unions, credit unions, Ministry of Economy and Finance, Asian Bank of Development. The participants of discussions summarised the results of the first stage of credit unions’ development; they also discussed pressing issues and development prospects.

The National Bank regularly covered all the development stages and discussions of a medium- term micro-financing development strategy in the Kyrgyz Republic. The draft Strategy and speeches of the participants made in the course of discussions were posted on the official web-site of the Bank.

During 2005, the topic of mortgage lending in Kyrgyzstan had been actively covered:

- In a cycle of radio programmes in the Kyrgyz and Russian languages with participation of Deputy Chairman of the National Bank, representatives of a number of commercial banks and financial institutions, State Agency for Architecture and Construction, during which participants explained terms needed for introduction of mortgage lending in the Republic. In the course of the whole cycle of programmes, the matter concerned the specifics of mortgage lending, answers to questions of radio listeners were given concerning the legal framework of mortgage lending in the Republic, the commercial banks that provide loans for construction and purchase of housing, and their lending terms.

- Interactive on-line discussions were arranged on the web-site on the mortgage lending creation and implementation model proposed by the National Bank.
- On TV programmes with participation of specialists of the National Bank, who explained the terms for the model implementation, and on “round table” discussions organised by the interested departments and mass media.
- In articles and information provided in response to numerous requests from mass media.

Draft regulatory and legal acts, as well as information on court decisions connected with the application of sanctions with regard to the commercial banks, other financial and credit institutions licensed by the National Bank, and also other information were placed on the official web-site.

The National Bank continued running a traditional educational and informational campaign “Som is the face of Kyrgyzstan”. Oblast (regional) offices conducted a cycle of activities including the publication of articles on the history of introduction of som and careful attitude to the national currency, rules for exchanging old bills and protective properties of the national currency.

Televised addresses and broadcast talks on the radio, as well as thematic lectures at high education and secondary schools, contests for the best composition on “Kyrgyz som is our money” had been organised.

Issues related to fighting against counterfeiting were covered in all oblast mass media, on protective marks of the national currency having been broadcasted on all the oblast TV channels during the year.

The public reception office of the National Bank consulted interested persons, held meetings between the Bank management and initiative group of depositors of bankrupt banks.

161 written appeals in total were received by the National Bank’s central office reception which exceeded by 20.1 percent the number of appeals received in 2004. Also, 61 applications had been submitted to the NBKR by different government agencies, of them-3 applications from Jogorku Kenesh, 23 application from the President Administration, and 35 application from the Prime Minister’s Office.

The NBKR received applications from persons interesting in explanation of the banking legislation, services provided by the commercial banks and other financial and credit institutions, primary directions of the Bank activity; there were complaints made about illegal actions of commercial banks and other financial and credit institutions, and other issues.

In 2005, a special attention was paid to information dissemination in the regions of the Kyrgyz Republic. With a view to more active involvement of the regional departments and representative office in handling applications of persons, a provision “On the Work of the Public Reception of the NBKR Regional Department” had been approved. According to the above provision, there were public

receptions established and information boards set up in each oblast office where the following information was posted:

- Information on the activity of regional departments, work schedule of the public reception;
- The schedule for exchanging old national currency;
- List of branch offices of commercial banks, credit unions, micro credit agencies and companies, pawnshops, exchange offices in the oblast;
- Vacancy announcements;
- Sample documents required for opening micro-finance agencies and companies, credit unions, pawnshops, exchange offices.

In 2005, regional departments of the National Bank accepted and reviewed more than 700 oral and written applications, and held consultations for individuals. The biggest number of applications and appeals was registered in Osh and Talas oblast.

Analysis of incoming correspondence received by the public reception of oblast branches showed that the major share of appeals falls on the requests to provide data on foreign currency and refinancing rates fixed by the National Bank for accounting purposes. The performance report of the public reception office and answers to frequently-asked questions addressed to the NBKR are posted on the official web-site in “About the Bank” section.

The National Bank continued publishing its own official informational and analytical publications in the Kyrgyz, Russian, and English languages. The editorial boards carried out activity on the improvement of the official publications¹.

They continued working on the clarification and systemisation of the banking terminology in the official language. In 2005, foreign exchange and monetary policy-related terms were published in a series of brochures titled “Explanation of the meaning of terms”. The terms were approved by the methodological commission of the Bank and the terminology commission of the State Committee on the Official Language Development under the President of the Kyrgyz Republic. Brochures had been distributed to the government agencies, commercial banks, legal agencies, high education institutes and libraries.

The official web-site is a tool for public information, which provides equal and timely access to information. The following information is available on the web-site in compliance with goals, tasks and functions of the National Bank: banking and regulatory acts, program and strategic documents on the banking sector and monetary policy development, data on banking and payment systems, statements; statistic data on the financial market, the operations; history of the national currency and activity of the NBKR in general; internet versions of the official publications; vacancy announcements, tenders and other open contests.

Information on the official web-site in Kyrgyz, Russian and

¹ Detailed information can be found in Attachment 3 «Periodical publications and other information tools of the NBKR».

English is placed in accordance with the temporary provision on the procedure for information dissemination on the Government Internet Portal approved by the President decree and updated on a regular basis.

To implement the principle of openness, the National Bank held traditional open days and lectures on pressing issues of the economic policy.

As for instance, open door days were held for the deputies of Jogorku Kenesh of the Kyrgyz Republic, journalists and students of institutes of higher education in Bishkek city. Visiting of the National Bank included meetings with the bank management, familiarisation with the activity of the key structural subdivisions. Also, the participants had an opportunity to familiarize themselves with the NBKR's computer assisted trading systems for making transactions at the Inter-bank foreign exchange market and securities secondary market, numismatic exposition of the NBKR, the process of disposal of old bank notes, and principles of public relations.

Within a joint action of the NBKR and Kyrgyz National University named after J. Balasagyn (KNU), an open lecture was delivered by Mr. M. Mered, IMF resident representative in the Kyrgyz Republic on "Medium-term development prospects of Kyrgyzstan: IMF vision" for economic faculty students of the leading institutes in Bishkek city, employees of the NBKR, Ministry of Economy and Finance, Ministry of Industry, Trade and Tourism of the Kyrgyz Republic and professors of Bank Management department of the KNU.

A cycle of orientation workshops for regional mass media journalists was completed in 2005 on "The role and functions of the NBKR as a central bank of the country" aimed at the improvement of feedback, information policy tools and interaction with mass media on important issues of the central bank's operation.

During the year, the workshop was provided for the mass media representatives from all the oblasts of the republic and Bishkek city, during which a special attention was paid to the participation of journalists from remote regions.

The employees of the National Bank acted as lecturers. During the workshop, the participants got to know about the history of the formation of central banks and also about the role, legislative framework and principles of the activity of the National Bank of the Kyrgyz Republic. Moreover, the participants received information on monetary policy of the NBKR, on payment system reform and banking supervision improvement-related issues, currency circulation, micro-finance and micro-crediting institutions' development trends.

The above workshop provided journalists of regional mass media with a direct access to information on the NBKR's activity and promoted better understanding of economic processes taking place in the Kyrgyz Republic.

**FINANCIAL STATEMENTS
FOR 2005**

III

CHAPTER 7

FINANCIAL STATEMENTS OF THE NATIONAL
BANK OF THE KYRGYZ REPUBLIC

7.1. BALANCE SHEET

at 31 December 2005

	Note	31 December 2005 thousand som	31 December 2004 thousand som
ASSETS:			
Gold and other precious metals	5	1,760,600	1,514,964
International Monetary Fund membership quota	6	5,241,845	5,740,328
<i>Assets in foreign currency:</i>		25,352,363	23,763,872
Including: Due from banks and other financial institutions,			
less allowance for impairment losses	7	18,034,004	15,358,408
Investments available-for-sale	8	5,224,457	6,420,689
Loans related to agent functions, less allowance for impairment losses	9	1,942,399	1,939,797
Other assets	14	151,503	44,978
<i>Assets in national currency:</i>		5,358,915	5,442,939
Including: State securities held-to-maturity	10	4,643,134	4,783,734
Loans to banks, less allowance for impairment losses	11	-	40,000
Investments in equity of organizations, less allowance for impairment losses	12	11,680	11,699
Fixed and intangible assets, less accumulated depreciation and amortisation	13	298,752	206,816
Other assets, less allowance for impairment losses	14	405,349	400,690
Total assets		37,713,723	36,462,103
LIABILITIES:			
Banknotes in circulation	15	13,413,802	11,425,060
Securities in favor of International Monetary Fund	6	5,228,446	5,725,654
<i>Liabilities in foreign currency:</i>		14,228,138	16,178,337
Including: International financial institutions	16	7,389,294	8,549,436
Banks and other financial institutions	17	59,556	47,639
Loans received due to agent functions	9	2,317,230	2,338,296
Accounts of the Government of the Kyrgyz Republic		4,408,111	5,187,450
Other liabilities	19	53,947	55,516
<i>Liabilities in national currency:</i>		3,382,536	1,948,288
Including: Banks and other financial institutions	6, 17	2,088,399	949,515
Accounts of the Government of the Kyrgyz Republic		950,686	973,085
Debt securities issued	18	15,972	11,974
Other liabilities	19	327,479	13,714
Total liabilities		36,252,922	35,277,339
EQUITY:			
Share capital	20	50,000	50,000
Reserves		921,856	958,704
Retained earnings		488,945	176,060
Total equity		1,460,801	1,184,764
Total liabilities and equity		37,713,723	36,462,103

Acting Governor

M. Alapayev

Chief accountant

Ch. Imankulova

The notes on pages 94 to 119 form an integral part of these financial statements.

7.2. PROFIT AND LOSS ACCOUNT

for the year ended 31 December 2005

	Notes	Year ended 31 December 2005 <i>thousand som</i>	Year ended 31 December 2004 <i>thousand som</i>
Interest income	21	999,998	600,225
Interest expense	22	(186 563)	(113 355)
Net interest income before recovery of provision for impairment losses on interest-bearing assets		813,435	486,870
Recovery of provision for impairment losses on interest-bearing assets	23	8,356	30,530
Net interest income		821,791	517,400
Net realized income /(loss) from foreign currency transactions	24	107 572	(48 545)
Net unrealized loss from foreign currency transactions	24	(98 522)	-
Non-interest income:			
Fee and commission income		5,877	3,779
Other income	25	5,330	7,833
Total non-interest income		11,207	11,612
Non-interest expenses:			
Fee and commission expense		(733)	(342)
Staff costs	27	(118 849)	(90 014)
Administrative expenses	28	(49 689)	(45 599)
Expenses on fixed assets	29	(26 807)	(28 064)
Depreciation and amortization of fixed and intangible assets		(36 622)	(43 443)
Expenses for banknotes and coins issued for circulation	26	(70 213)	(95 115)
Other expenses	25	(50 190)	(1 830)
Other non-interest expenses		(353 103)	(304 407)
Net income		488,945	176,060

Acting Governor

M. Alapayev

Chief accountant

Ch. Imankulova

The notes on pages 94 to 119 form an integral part of these financial statements.

7.3. STATEMENT OF CASH FLOWS

for the year ended 31 December 2005

	Notes	Year ended 31 December 2005 <i>thousand som</i>	Year ended 31 December 2004 <i>thousand som</i>
Cash flows from operating activities:			
Interest and commission received		649,015	304,564
Interest and commission paid		(67 341)	(75 477)
Recovery of provision for impairment losses		4,897	3,301
Other operating income received		3 580	23 275
Staff costs		(118 849)	(90 014)
Administrative and other operating expenses		(214 244)	(171 240)
Operating income/(loss) before changes in operating assets and liabilities		257 058	(5 591)
<i>(Increase)/decrease in operating assets:</i>			
Receivables from banks and other financial institutions		(2 521 420)	(2 388 550)
Originated loans		59 571	(10 421)
Other assets		15 096	(47 780)
<i>Increase/(decrease) in operating liabilities:</i>			
Issued banknotes		1,988,742	1,801,803
Banks and other financial institutions		1,152,260	353 935
Accounts of the Government of the Kyrgyz Republic		(790 110)	4 520 549
Debt securities issued		3 998	(83 881)
Other liabilities		300,818	4,044
Net cash provided by operating activities		466,013	4,144,108
Cash flows from investing activities:			
Sale, redemption of investment securities		16,910	16,910
Purchase of fixed and intangible assets		(128 086)	(56 766)
Interest received on investment securities		123,537	115,536
Net cash provided by investment activities		12,361	75,680
Cash flows from financing activities:			
Loans received from international financial institutions		756,062	1,207,142
Loans repaid to international financial institutions		(1 268 482)	(1 383 674)
Net cash used in financing activities		(512 420)	(176 532)
Net (decrease) / increase in cash and cash equivalents		(34 046)	4,043,256
Effect of exchange rate changes		(613 337)	(139 190)
Cash and cash equivalents at the beginning of the period	36	16,444,983	12,540,917
Cash and cash equivalents at the end of the period	37	15,797,600	16,444,983

Acting Governor

M.Alapayev

Chief accountant

Ch. Imankulova

The notes on pages 94 to 119 form an integral part of these financial statements.

7.4. STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2005

	Share capital	Required reserves	General reserves	Fixed assets revaluation reserve	Foreign currency, gold and other precious metals revaluation reserve	Investments available- for-sale fair value reserve	Retained earnings	Total equity
	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>
Balance as of 31 December 2003	50,000	100,000	686,431	1,094	53,848	(10 389)	274,657	1,155,641
Settlements with the State Budget of the Kyrgyz Republic	-	-	-	-	-	-	(192 260)	(192 260)
Transfer of prior-year net profit to general reserve	-	-	82,397	-	-	-	(82 397)	-
Transfer from fixed assets revaluation reserve	-	-	41	(41)	-	-	-	-
Net unrealized profit on revaluation of foreign currency, gold and other precious metals	-	-	-	-	49 595	-	-	49 595
Transfer of realized loss to profit and loss account	-	-	-	-	15,440	-	-	15,440
Result from decrease of the fair value of investments available-for-sale	-	-	-	-	-	(19 712)	-	(19 712)
Net profit	-	-	-	-	-	-	176,060	176,060
Balance as of 31 December 2004	50,000	100,000	768,869	1,053	118,883	(30 101)	176,060	1,184,764
Settlements with the State Budget of the Kyrgyz Republic	-	-	-	-	-	-	(123 242)	(123 242)
Transfer of prior-year net profit to general reserve	-	-	52,818	-	-	-	(52 818)	-
Transfer from fixed assets revaluation reserve	-	-	43	(43)	-	-	-	-
Net loss from revaluation of foreign currency, gold and other precious metals	-	-	-	-	(227 601)	-	-	(227 601)
Net realized profit from revaluation of foreign currency, gold and other precious metals	-	-	-	-	10,196	-	-	10,196
Transfer of loss from revaluation of foreign currency, gold and other precious metals to profit and loss account	-	-	-	-	98,522	-	-	98 522
Result of decrease in the fair value of investments available-for-sale	-	-	-	-	-	29 217	-	29 217
Net profit	-	-	-	-	-	-	488,945	488,945
Balance as of 31 December 2005	50,000	100,000	821,730	1,010	-	(884)	488,945	1,460,801

Acting Governor

M. Alapayev

Chief accountant

Ch. Imankulova

The notes on pages 94 to 119 form an integral part of these financial statements.

7.5. NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

1. NATURE OF BUSINESS

The National Bank of the Kyrgyz Republic (the “National Bank”) is an assignee of the State Bank of the Republic of Kyrgyzstan which was renamed by the Law “On the National Bank of the Republic Kyrgyzstan” dated 12 December 1992 into the National Bank of the Republic of Kyrgyzstan. On 2 July 1997, the Jogorku Kenesh (Parliament) of the Kyrgyz Republic adopted the new Law “On the National Bank of the Kyrgyz Republic” whereby the National Bank of the Kyrgyz Republic carries out its activities.

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

The basic functions of the National Bank include:

- definition and implementation of the monetary and credit and exchange rate policies;
- promotion of effective development of the payment system and the conduct of inter-bank payments;
- issuance of banknotes and coins for circulation and replacement of worn-out banknotes;
- management of the international foreign exchange reserves;
- regulation and supervision of commercial banks; and
- licensing of banking and other financial and lending activities.

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

As of 31 December 2005 and 2004 the number of the National Bank employees was 566 and 588, respectively.

These financial statements were authorised for issue by the Board of the National Bank on 10 April 2006.

2. OPERATING ENVIRONMENT

The economy of the Kyrgyz Republic continues to display typical characteristics of an emerging market. Among others, these characteristics include development of stock exchange market which is still at the stage of formation and over-the-counter markets of debt and equity securities. However this specification does not limit the economic development of the Kyrgyz Republic.

Measures undertaken by the National Bank in 2005 focused on increase of the banking system’s effectiveness and mobilization of internal savings along with the development of the payment system, will promote further development and reforming of the banking system with the aim of achieving its stable functioning and financial brokering level. The perspectives of future economic development of Kyrgyz Republic significantly depend upon implementation of the Complex Development Base and National Strategy of Poverty Reduction adopted by the Kyrgyz Republic, as well as social and economic conditions in Central Asia and countries being merchant partners.

3. BASIS OF PRESENTATION

Legal framework. The National Bank regularly maintains its accounting records and

The notes on pages 94 to 119 form an integral part of these financial statements.

reporting of its activities in accordance with the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic” (the “Law”). Accounting records of the National Bank are maintained in the national currency of the Kyrgyz Republic, the Kyrgyz Som (the “Som”). Article 8 of the Law determines the reporting basis in accordance with the international accounting practice. Furthermore, pursuant to Article 52 of the Law, the National Bank is entitled to establish forms of reporting, accounting policy and standards for preparing the financial statements.

Accounting basis. These financial statements have been prepared on the basis of the accounting records and are based on the accounting policies approved by the Board of the National Bank, in order to present the financial position and financial results of the National Bank, taking into account its activities as a central bank. These accounting policies have been designed on the basis of International Financial Reporting Standards taking into account the specific activities of the National Bank as a central bank. The main principles of recognition and evaluation of operations of the financial statements of the National Bank are stated below.

The preparation of the financial statements in conformity with the accounting policies of the National Bank requires the management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to change relate to the provisions for impairment losses on loans, impairment and the fair value of financial instruments.

Changes in the accounting policies. As the National Bank believes that incorporation of foreign exchange gain into operating results may conflict with the National Bank purposes, gain from revaluation of foreign currency, gold and other precious metals, is recognized, as before, as increase on revaluation reserve on equity items. It can be explained by the fact that the National Bank’s activities and its management of the international foreign exchange reserves of the state result in significant movements in unrealized gains and losses from foreign currency revaluation from one reporting period to another. However in accordance with changes in the accounting policies adopted in 2005 the National Bank states losses carried forward in the current period and resulted from revaluation of foreign currency, gold and other precious metals, directly in the profit and loss account.

Functional currency. These financial statements have been prepared in the national currency of Kyrgyz Republic, Som, which is measurement currency of the National Bank. The measurement currency reflects economic substance of the main events and the National Bank’s environment.

Date of financial statements. Financial statements were prepared as at 31 December 2005 and 2004.

4. ACCOUNTING POLICY

Gold and other precious metals. Monetary gold and other precious metals, other than platinum, are recorded at market prices determined at the morning quotations fixing London precious metals market, with the account of the currency rate of Som to US Dollar effective at the balance sheet date. The exchange rate difference resulting from revaluation of monetary gold and other precious metals is recorded as unrealized gain or loss and included in the foreign currency, gold and other precious metals revaluation reserve. Weekly transfer of realized gain and loss from revaluation reserve to the profit and loss account is based on the reduction of the aggregate net currency position on foreign currency, monetary gold and other precious metals.

The notes on pages 94 to 119 form an integral part of these financial statements.

Official morning fixing of London Association of Previous Metals Market is as follows:
(in USD per troy ounces)

	31 December 2005	31 December 2004
Gold	513.00	438.00
Silver	8.83	6.77

Platinum intended for numismatic purposes is recorded at cost and is recorded as other assets in national currency.

Recognition and measurement of financial instruments. The National Bank recognizes financial assets and liabilities on its balance sheet when it becomes a party to the contractual provisions of the instrument. Regular way purchase and sale of the financial assets and liabilities are recognized using settlement date accounting. Financial assets and liabilities are initially recognized at cost, which is the fair value of consideration given or received, respectively, including or net of any transaction costs incurred, respectively. The accounting principles used for subsequent measurement of these items are disclosed in the respective accounting policies set out below.

Loans originated and accounts receivable. Loans of the National Bank issued in cash to commercial banks are recorded at the date of transaction on “Loans to the banks” item of the balance sheet, and are subsequently measured at amortized cost less allowance for loan losses. Interest income on originated loans is recorded in the profit and loss account as interest income based on effective interest rate.

Provision for impairment losses is made when there is an evidence that the National Bank will not be able to collect amounts payable in due dates and in full. Amount of provision is a difference between the carrying and estimated values of the loan recovery. Uncollectible loans are written off against related provision. Write off is made only after completion of all required legal procedures and determination of the loss amount. Recovery of amounts previously written off is treated as the reduction of provision expenses.

Loans in foreign currency provided by international financial institutions where the National Bank acts as an agent of the Government of the Kyrgyz Republic or under its guarantee are accounted for in assets and liabilities on “Loans related to agent functions” and “Loans received due to agent functions” items.

Other accounts receivable are accounted for similarly to loans and are recorded on “Other assets” item of the balance sheet.

Investments available-for-sale. This category includes securities, which the National Bank intends to hold for an indefinite period of time that may be sold depending on the market conditions: changes of interest rates, exchange rates or prices, liquidity of the commercial banks. The National Bank determines the appropriate classification of its securities at the time of their purchase.

Investments available-for-sale are initially recorded at cost (which includes operating expenses). Subsequently investments available-for-sale are measured at fair value. The National Bank uses quoted market prices to determine the fair value for the investments available-for-sale. If such quotes do not exist, estimation is used based on the amounts of revenue from sale of such securities. Unrealized gains and losses arising from changes in the fair value of investments available-for-sale are recognized in the statement of changes in shareholders' equity. When the investments available-for-sale are disposed of, the related accumulated fair value adjustments are included in the profit and loss account as gain/(loss) on investments available-for-sale within “Other operating income” as income less losses from securities transactions.

The notes on pages 94 to 119 form an integral part of these financial statements.

Interests on such securities are accrued using the effective yield method. Accrued income and unamortized coupon/ discount income from the investments available-for-sale are included in the carrying value and stated in the profit and loss account on a monthly basis as interest income.

Investments held-to-maturity. Investments held-to-maturity are securities with determinable or fixed payments. The National Bank has the positive intent and ability to hold them to maturity. The appropriate classification of the investments is made at the date of their purchase.

Investments held-to-maturity are initially recognized at cost (which includes operating expenses) and are subsequently carried at amortized cost using the effective yield method, less any provision for impairment losses, computed as the difference between the book and present value of expected future cash flows discounted at the instrument's original effective interest rate.

Accrued income and unamortized coupon/ discount income from the securities held-to-maturity are included in the carrying value and stated in the profit and loss account on a monthly basis as interest income.

Repurchase and reverse repurchase agreements. Sale and reverse purchase agreements ("repos") are treated as borrowing transactions collateralized by securities and are accounted for at the date of settlement in liabilities on "banks and other financial institutions" items and "securities issued". Difference between sale and reverse purchase values is recorded as interest expense and is accrued over the life of the repos agreement using effective interest yield method.

The securities purchased under reverse repurchase agreements ("reverse repos") are recorded in assets as loans to banks. The difference between the purchase and reverse repurchase values is recorded as interest income and is accrued over the life of the repos agreement using effective yield method.

Equity investments in organizations. Equity investments in organizations are recorded at initial cost. The management periodically assesses the carrying value of such investments and, when necessary, forms provision for impairment losses.

Fixed and intangible assets. The fixed assets are recorded at initial cost less the accumulated depreciation. If the carrying value of the asset is larger than its estimated recoverable amount, it is reduced to its recoverable amount, and the difference is referred to the losses. The estimated recoverable amount is the greater of the net realizable value and the asset value resulting from its use. Repair and maintenance costs are charged to the profit and loss account when incurred.

Depreciation of fixed and intangible assets is designed to write off assets over their useful economic lives and is calculated on a straight-line basis at the following annual prescribed rates:

Buildings	50 years
Constructions	20 years
Furniture and office equipment	3-5 years
Computer equipment	3-5 years
Vehicles	5 years
Intangible assets	3 years

Fully depreciated fixed assets are stated at their conditional value, which is determined to be 1 Som per each of the property, plant and equipment facilities

Depreciation on assets under construction and those not placed in service commences from the date the assets are ready for their intended use.

The notes on pages 94 to 119 form an integral part of these financial statements.

Inventories. Inventories are recorded at the lower of the cost (initial cost) or realizable value. Reserves of non-issued banknotes are recorded at production cost, including the accompanying costs, and are accounted for as other assets and expensed when issued.

Membership quota of the International Monetary Fund. Subscription quota is the basis for determination of the admission of the Kyrgyz Republic to International Monetary Fund ("IMF") financing. For the purpose of subscription quota the Ministry of Finance of the Kyrgyz Republic issued securities in favor of IMF. The National Bank acting as a financial agent of the Government of the Kyrgyz Republic states in the balance sheet assets and liabilities on operations relation to the membership fee of the Kyrgyz Republic in IMF. The National Bank's position to IMF is stated in the financial statements in gross amount. The subscription quota of the Kyrgyz Republic is included into the balance sheet of the National Bank as asset at nominal value, and the amount of liabilities of the National Bank to IMF, expressed in the national currency, is stated as IMF depository account.

Financial liabilities. All financial liabilities including liabilities to banks and other financial institutions, accounts of the Government of Kyrgyz Republic, debt securities issued are originally recorded at cost of proceeds at the date of settlement less operating expenses. Subsequently, financial liabilities are recorded at amortized cost, and any difference between the net receipts and replacement value is recorded in the profit and loss account over the life of the financial liabilities using effective yield method.

Banknotes in circulation are stated in the balance sheet at their nominal value. Expenses on the issue of banknotes are recognized upon their issue into circulation in the profit and loss account.

Recognition of income and expense. Interest income and expense are recognized in the profit and loss account on the accrual basis using effective interest rate yield method. Overdue interest and accrued interest deemed doubtful are not included in interest income. Interest income and expenses may include coupons income/expenses and amortized discount. Commissions and other non-interest income are recognized when the related transactions are completed. Commission and non-interest expenses are recognized at the date the products are received or the service is provided.

Foreign currency translation. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate effective at the balance sheet date. Transactions denominated in foreign currency are recorded at the exchange rate prevailing at the date of transaction. The exchange difference arisen from the revaluation of net foreign exchange position is recorded as unrealized gain or loss and included in the revaluation reserve offor foreign currency, gold and other precious metals. Weekly transfer of realized gain and losses from the revaluation reserve to the profit and loss account is based on the reduction of the aggregate net position on foreign exchange, gold and other precious metals.

If at the reporting date the provision for revaluation of foreign currency, gold and other precious metals represents an unrealized loss from revaluation of the net currency position, the unrealized loss is charged to profit and loss account and reflected in the net unrealized loss from foreign currency transactions.

The exchange rate difference resulting from revaluation of monetary gold and other precious metals is recorded as unrealized gain or loss and included in the foreign currency, gold and other precious metals revaluation reserve. Weekly transfer of realized gain and loss from revaluation reserve to the profit and loss account is based on the reduction of the aggregate net currency position on foreign currency, monetary gold and other precious metals.

Information on the exchange rates of foreign currency transactions used by the National Bank at the end of 2005 and 2004 is as follows:

The notes on pages 94 to 119 form an integral part of these financial statements.

	31 December 2005	31 December 2004
USD	41.3011	41.6246
EUR	48.9686	56.3930
Special drawing rights (SDR)	59.0234	64.1506
Canadian Dollars (CAD)	35.5370	33.8632
Australian Dollars (AUD)	30.2964	32.0031
Swiss franc (CHF)	31.4639	36.4824
Russian ruble (RUR)	1.4346	1.4955
English pound sterling (GBP)	71.3229	80.2148
10 Japanese yen (JPY)	3.5204	4.0194

Reserves. In accordance with the Law, equity reserves include:

- Required reserves, supported at the amount of not less than double paid-in authorized capital;
- General reserves formed from net gains after deductions to the state budget;
- Reserves for revaluation of property, foreign currency, gold and other precious metals, and securities available-for-sale.

Retained earnings represent profits before allocation to the budget of the Kyrgyz Republic and to reserve accounts of the capital of the National Bank.

Income tax. In accordance with the Article 53 of the Law, the National Bank is not liable to any taxes.

Income distribution. In accordance with the Article 13 of the Law, the following amounts are deducted from net income:

- Amounts for the replenishment of the share capital in events of its increase in accordance with the legislation.
- Required reserves, up to the size of twice paid-in share capital.
- 70 percent of income remained after the above deductions should be transferred to the state budget of the Kyrgyz Republic. The remaining amount of income is transferred to general reserves (equity).

Pension and retirement obligations. The National Bank transfers payments to the Social Fund of the Kyrgyz Republic in the amount envisaged by the legislation. These contributions are expensed as incurred. Additionally, the National Bank withholds contributions from employee's salaries and transfers them to the Social Fund also in the amount envisaged by the legislation. Upon retirement, the pension payments of all employees are administered by the Social Fund of the Kyrgyz Republic. The National Bank does not have additional pension plans besides the state pension system of Kyrgyz Republic and does not have other benefits provided to employees upon requirement or other significant benefits requiring an accrual.

Cash and cash equivalents include cash in foreign currency, balances on correspondent accounts with other central banks and non-resident banks, deposits placed in International Monetary Fund and debt securities issued by non-residents.

5. GOLD AND OTHER PRECIOUS METALS

	31 December 2005		31 December 2004	
	<i>In troy ounces</i>	<i>thousand som</i>	<i>In troy ounces</i>	<i>thousand som</i>
Gold	83.090	1,760,466	83.090	1,514,861
Silver	364	134	364	103
Total gold and other precious metals		1,760,600		1,514,964

The notes on pages 94 to 119 form an integral part of these financial statements.

In 2005 there were no purchases and sales of gold and other precious metals. The change is related to the changes in the Som equivalent of gold and silver resulting from their revaluation.

Relevant interest income on deposits in gold allocated in non-resident banks is reflected in the profit and loss account (see Note 21).

As of 31 December 2005 the National Bank has no deposits pledged as collateral under any guarantees to the third parties.

Included in gold is 40 000 troy ounces pledged as collateral for the guarantee of the Government of the Kyrgyz Republic, provided in respect of the loan from the bank Standard Bank London given to Kyrgyzaltyn SJSC owned by the Government of the Kyrgyz Republic.

6. MEMBERSHIP QUOTA OF THE INTERNATIONAL MONETARY FUND

	31 December 2005 <i>thousand som</i>	31 December 2004 <i>thousand som</i>
IMF quota, recognized in assets:		
IMF quota	5,241,845	5,740,328
	5,241,845	5,740,328
IMF deposit accounts, recognized in liabilities:		
Securities in favor of the IMF, issued as membership quota	5,228,446	5,725,654
IMF current accounts No. 1 и 2 (see Note 17)	13,399	14,674
	5,241,845	5,740,328

In 1992 the Kyrgyz Republic joined the IMF. A membership quota expressed in Special Drawing Rights (“SDRs”) is assigned to each member of the IMF. The membership quota is the basis for determining access to IMF financing. The quota of the Kyrgyz Republic as of 31 December 2005 and 2004 amounted to SDR 88.8 million.

To secure the membership quota, the Ministry of Finance of the Kyrgyz Republic issued securities in favor of the IMF. The National Bank, operating as the financial agent of the Government of the Kyrgyz Republic, records in the balance sheet the assets and liabilities on transactions related to membership of the Kyrgyz Republic in IMF.

7. DUE FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2005 <i>thousand som</i>	31 December 2004 <i>thousand som</i>
Deposits with other nonresident banks 0.76% - 5.27% (2004: 0.5%-5.2%)	7,593,617	5,157,360
Correspondent accounts with other non-resident banks	5,593,188	6,845,734
Correspondent accounts and deposits with other central banks 0.1% - 4.75% (2004: 1.3%-1.81%; LIBOR)	4,750,680	2,286,140
Balances on the IMF account 2.22% - 3.03% (2004 r.: 2.22%)	217,653	821,360
Short-term account receivable from Ineximbank JSC	24,781	-
Deposits with other central banks 4.64%	-	401,074
Accrued interest income	14,518	8,369
Less: provision for impairment losses (see Note 23)	(160 433)	(161 689)
Total due from banks and other financial institutions, less allowance for impairment losses	18,034,004	15,358,408

As of 31 December 2005 receivables from Ineximbank JSC amounted to Som 24,781 thousand was repaid on 3 January 2006.

The notes on pages 94 to 119 form an integral part of these financial statements.

Relevant interest income on deposits placed in other central and other non-resident banks are recorded in the profit and loss account (see Note 21).

The impairment reserve was created in 1999 and is related to the deposit placed with Central Asian Bank of Cooperation and Development (CABCD) of 100%.

8. INVESTMENTS AVAILABLE-FOR-SALE

	Due Year	Rat %	31 December 2005 thousand som	31 December 2004 thousand som
Debt securities - at fair value:				
Promissory Notes (Australian Dollars)	2005, 2006	5,25-5,49	1,813,282	1,276,838
EUR BUBILLS	2005, 2006	2,017-2,292	1,755,926	1,127,095
US Dollars FIXBIS	2005, 2006	2,16-4,05	1,406,596	1,041,251
EUR FIXBIS	2006	2	248,653	-
US Dollars Treasury Notes	2006-2008	2,0-2,6	-	813,262
EUR FIXBIS	2005	2,04-2,05	-	790,221
English Pound Sterling FIXBIS	2005	4,56-4,59	-	595,079
Swiss Francs FIXBIS	2005	0.39	-	437,967
Canadian Dollars FIXBIS	2005	2.3	-	338,976
Total investments available-for-sale			5,224,457	6,420,689

All foreign securities consist of high rating instruments issued by the Australian Reserve Bank (Promissory Notes), US Treasury (Treasury Notes), Swiss International Settlements Bank (FIXBIS) and the Federal Bank of Germany (BUBILLS).

Relevant interest income on investments available-for-sale in foreign currency are recorded in the profit and loss account (see Note 21).

9. LOANS RELATED TO AGENT FUNCTIONS

	31 December 2005 thousand som	31 December 2004 thousand som
Due from the Ministry of Finance of the Kyrgyz Republic under loan of Government of Turkey	1,910,861	1,888,074
Loans to resident banks (LIBOR + 2 %) under credit line of EBRD	202,244	210,508
Receivables from the Debt Enterprise Bank Resolution Agency (DEBRA) for funds issued to resident banks under credit line of EBRD	77,641	80,562
Loans to resident banks (LIBOR +2%) under credit line of IDA	23,548	38,630
Accrued interest income	644	700
Less: provision for impairment losses (see Note 23)	(272 559)	(278 677)
Total loans related to agent functions, less provision for impairment losses	1,942,399	1,939,797

Loans with no accrual of interest totaled Som 279,885 thousand as of 31 December 2005 (in 2004: Som 291,070 thousand). Relevant interest income and expenses on loans related to agent functions are reflected in the profit and loss account (see Note 21 and 22).

Below are liabilities on loans related to agent functions:

	31 December 2005	31 December 2004
	<i>thousand som</i>	<i>thousand som</i>
Export and Credit Bank of Turkey (Eximbank)	1,910,881	1,888,074
European Bank for Reconstruction and Development (EBRD)	252,830	296,435
International Development Association (IDA)	150,004	152,307
Accrued interest expenses	3,515	1,400
Total liabilities on loans related to agent functions	2,317,230	2,338,216

Credit institution	Date of approval	Currency	Program amount	Payment period	Grace period	Interest rate	Payment Frequency
EXIMBank	28 April 1992	USD	566	28 years	10 years	2%	semiannual
EBRD	30 August 1995	USD	000	17 years	5 years	LIBOR + 1%	semiannual
IDA	18 November 1998	SDR	486	35 years	10 years	LIBOR + 0.75%	semiannual

Loans related to agent functions include the loans given by the international financial institutions to the Government of the Kyrgyz Republic and resident commercial banks, for which the National Bank serves as the agent or under the guarantee of the Ministry of Finance of the Kyrgyz Republic.

The Government of Turkey granted a loan to the Government of the Kyrgyz Republic through the authorized bank, Export and Credit Bank of Turkey (hereinafter “Eximbank”). Pursuant to the terms of the agreement made between the National Bank and Eximbank, the National Bank is specified as the borrower, however, taking into account the guarantee of the Government and the agreement between the Ministry of Finance of the Kyrgyz Republic and the National Bank No. D-3-2-5/409 dated 25 March 2003 with amendments # D-2-2/689 dated 7 May 2004, the Government of the Kyrgyz Republic is the actual borrower and has the direct liability on this loan. On 9 March 2006 the National Bank on behalf of the Government of the Kyrgyz Republic and Eximbank signed a debt restructuring agreement on the terms stipulated in the protocol of the meeting of the Paris Club of Creditors dated 11 March 2005 whereby the entire bilateral debt of the Kyrgyz Republic is subject to restructuring as of 1 March 2005. Under the above agreement the National Bank will issue in favor of Eximbank notes for the entire debt before Turkey taking into account capitalized interest, which amounts to USD 46 884 468 as of 1 March 2005. Besides, this agreement provides for capitalization of part of interest charged on the principal of the restructured debt. Thus, the National Bank will also issue notes on capitalized interest accrued as of 1 September 2005 in the amount of USD 554,029 and as of 1 March 2006 in the amount of USD 480,878.

The European Bank for Reconstruction and Development («EBRD») provided a credit line to commercial banks to support small and medium-size enterprises of the Kyrgyz Republic. The National Bank had a liability confirmed by the guarantee of the Government of the Kyrgyz Republic in front of EBRD on the credit line EBRD-1 and creates provision for impairment losses on issued loans.

Loan of the International Development Association (“IDA”) was extended to commercial banks of the Kyrgyz Republic to support and develop private business in the Kyrgyz Republic. On this loan, the National Bank acts as the financial agent under the Financial Agency Contract with the Ministry of Finance of the Kyrgyz Republic, under which the loan is serviced in US dollars.

The notes on pages 94 to 119 form an integral part of these financial statements.

10. STATE SECURITIES HELD-TO-MATURITY

	31 December 2005	31 December 2004
	<i>thousand som</i>	<i>thousand som</i>
State securities held-to-maturity:		
Securities with maturity within 1 year (from date of purchase)	555,235	559,265
Securities with maturity from 1 to 5 years (from date of purchase)	2,107,067	2,257,815
Securities with maturity of more than 5 years (from date of purchase)	1,980,832	1,966,654
Total state securities held-to-maturity	4,643,134	4,783,734

Detailed information on state securities portfolio is presented below:

Securities	Date of issue <i>year</i>	Redemption <i>year</i>	Interest rate <i>%</i>	Payment of interest	31 December 2005 <i>thousand som</i>	31 December 2004 <i>thousand som</i>
State Treasury Bills - global certificates No. 10, 14, 15, 16, 17	2005	2006	4.04 - 10.43	Redemption yield	555,235	559,265
Treasury bonds - NBKR series	2002	2005-2006	Annual rate of inflation + 2	Annually	2,107,067	2,257,815
Treasury bond - Jibek-Jolu series	2002	2008	Annual rate of inflation + 3	Annually	657,989	640,636
Treasury bonds - RSK series	2004	2010	Annual rate of inflation + 3	Annually	107,335	104,395
Treasury bonds - Bank series	1996-1997	2007, 2021	5-25	Annually	924,406	930,274
Treasury bonds - Kairat series	2001	2011, 2016	10-14.5	Quarterly	291,102	291,349
Total state securities held-to-maturity					4,643,134	4,783,734

In 2002 pursuant to the Master Agreement on Regularization of Financial Relations between the Government of the Kyrgyz Republic and the National Bank No. D-3-2/659 of 21 June 2002, the debt of the Government of the Kyrgyz Republic to the National Bank, which was perpetual and interest-free, was converted into time state securities with the interest rate: governmental treasury bills of regulation “global certificates”, treasury liabilities of regulation series NBKR, and treasury liabilities series Jibek-Jolu.

Pursuant to the Law of the Kyrgyz Republic “On Debt Restructuring of the Government of the Kyrgyz Republic” of 8 June 1998 and the Master Agreement on Regularization of Financial Relations between the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic of 21 June 2002, redemption of State securities resulting from restructuring of the debt of the Government of the Kyrgyz Republic will be done through 70 percent of net annual profit, subject to transfer to the state budget.

In 2004 according to the Additional agreement to the State Securities Issue Agreement concluded for the purposes of regulation of financial relations with the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic dated 23 April 2004, treasury bills #1 of NBKR series with a par value of Som 200 000 thousand were re-registered as revolving short-term notes with maturity from 6 to 12 months with a par value of Som 100 000 thousand and Som 100 000 thousand, respectively.

Relevant interest income on governmental securities is stated in the profit and loss account (see Note 21).

Because of the lack of any active market or other criteria of estimation it is difficult to make an assessment of impairment of state securities. The National Bank believes that the carrying value is unlikely to decrease, therefore state securities are stated at amortized cost.

The notes on pages 94 to 119 form an integral part of these financial statements.

11. LOANS TO BANKS

	31 December 2005	31 December 2004
	<i>thousand som</i>	<i>thousand som</i>
Overdue loans	121,398	122,360
Securities purchased under REPO transactions 4.80%	-	40,000
Less: provisions, for impairment losses (see Note 23)	(121 398)	(122 360)
Total loans to banks, less provision for impairment losses	-	40,000

Overdue loans include the loan extended to Bishkek Bank in 2000. Bishkek Bank partially repaid its liabilities - Som 982 thousand - to the National Bank in 2005. Because of its bankruptcy, this bank is in process of liquidation.

In 2005 the National Bank continued short-term lending to banks of the Kyrgyz Republic by overnight loans and purchase of state securities on terms of reverse repos. As of 31 December 2005 there are no liabilities of banks for short-term loans. Relevant interest income from overnight loans and purchase of state securities on terms of reverse repos are included in the profit and loss account (see Note 21).

12. INVESTMENTS IN EQUITY OF ORGANIZATIONS

	31 December 2005		31 December 2004	
	Share	Cost	Share	Cost
	%	<i>thousand som</i>	%	<i>thousand som</i>
Financial Company for Support and Development of Credit Unions ("FCSDCU")	100.0	15,000	100.0	15,000
Interstate bank ("Mezhgosbank")	1.5	430	1.5	449
Less: provision for impairment losses (see Note 23)		(3 750)		(3 750)
Total investments in equity of organizations, less provision for impairment losses		11,680		11,699

The investment in FCSDCU is temporary and limited to terms under the international agreement between the Kyrgyz Republic and Asian Development Bank under the project of agricultural financial institutions.

In 2004 for the purposes of implementing the State program for 2003-2005 for implementation of non-cash settlements system and creation of infrastructure ensuring effective payment on implementation of transfer payments and creation of the infrastructure which can ensure an effective payment system in the Kyrgyz Republic in accordance with the Regulation of the National Bank of the Kyrgyz Republic # 4/3 dated 9 March 2004 the state company National Automated Clearing Chamber was reorganized by joining the National Bank of the Kyrgyz Republic. Income from reorganization of the Company was included in the profit and loss account (see Note 25).

Dividend income from subsidiaries is recorded in the profit and loss account (see Note 25).

The notes on pages 94 to 119 form an integral part of these financial statements.

13. FIXED AND INTANGIBLE ASSETS

	Buildings and constructions	Construction in progress	Furniture and equipment	Computer equipment	Vehicles	Intangible assets	Total
	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>
Cost							
As of 31 December 2003	62,024	57,646	68,133	112,806	21,000	14,381	335,990
addition	3,515	38,159	3,903	8,788	58	3,751	58,174
transfer	3,243	(8 846)	817	4,422	364	-	-
disposal	(1 202)	(1)	(24 616)	(2 026)	(602)	-	(28 447)
As of 31 December 2004	67,580	86,958	48,237	123,990	20,820	18,132	365,717
addition	7,872	70,126	12,485	32,619	4,153	1,402	128,657
transfer	16,679	(26 039)	6,718	2,642	-	-	-
disposal	(1 220)	-	(14 028)	(84 003)	(427)	(5 579)	(105 257)
As of 31 December 2005	90,911	131,045	53,412	75,248	24,546	13,955	389,117
amortization							
As of 31 December 2003	14,687	-	43,357	70,026	5,826	9,582	143,478
depreciation and amortization charges	2,483	-	10,399	23,338	4,201	3,022	43,443
disposal	(1 202)	-	(24 415)	(1 974)	(429)	-	(28 020)
As of 31 December 2004	15,968	-	29,341	91,390	9,598	12,604	158,901
depreciation and amortization charges	2,981	-	8,639	17,452	4,508	3,042	36,622
disposal	(1 220)	-	(13 938)	(83 994)	(427)	(5 579)	(105 156)
As of 31 December 2005	17,729	-	24,042	24,848	13,679	10,067	90,365
Net book value							
31 December 2005	73,182	131,045	29,370	50,400	10,867	3,888	298,752
31 December 2004	51,612	86,958	18,896	32,600	11,222	5,528	206,816

Disposal of fixed assets includes write-offs of their carrying value after their useful lives ended and subsequent recording at their contingent value.

14. OTHER ASSETS

Other assets in foreign currencies as of 31 December 2005 include foreign currency on hand and other receivables totaling Som 141,503 thousand (in 2004: Som 44,978 thousand).

Other assets in national currency as of 31 December 2005 include accounts receivables, assets transferred for the financial lease, inventories, accounts receivables, less provision for impairment losses totaling Som 405,349 thousand, including provision for impairment losses of Som 34,815 thousand. (in 2004: Som 400,690 thousand) (see Note 23).

15. BANKNOTES IN CIRCULATION

	31 December 2005	31 December 2004
	<i>thousand som</i>	<i>thousand som</i>
Issued banknotes and coins in circulation	13,609,074	11,684,111
Less: banknotes and coins on hand	(195 272)	(259 051)
Total banknotes in circulation	13,413,802	11,425,060

The notes on pages 94 to 119 form an integral part of these financial statements.

16. DUE TO INTERNATIONAL FINANCIAL INSTITUTIONS

	31 December 2005	31 December 2004
	<i>thousand som</i>	<i>thousand som</i>
Poverty Reduction and Economic Growth Facility (PRGF) - loan of IMF	7,346,436	8,547,971
Modernization of payment and banking systems - loan of IDA	42,858	1,465
Total due to international financial institutions	7,389,294	8,549,436

The IMF provided the PRGF facility to support the economic program of the Government of the Kyrgyz Republic targeted to promote economic growth and reduce poverty in the Kyrgyz Republic. Related interest expense on IMF loans is recorded in the profit and loss account (see Note 22).

The details of the PRGF facility for the Kyrgyz Republic are as follows.

Facility	Date of approval	Program amount <i>mln SDR</i>	Maturity <i>years</i>	Grace period <i>years</i>	Interest rate <i>%</i>	Frequency of payment
PRGF-1	(1994-1997)	88.1	10	5.5	0.5%	Semiannually
PRGF-2	(1998-2001)	73.4	10	5.5	0.5%	Semiannually
PRGF-3	(2001-2005)	73.4	10	5.5	0.5%	Semiannually
PRGF-4	(2005)	8.9	10	5.5	0.5%	Semiannually

The IDA provided loan under the project of modernisation of payment and banking system of Kyrgyz Republic. This project is implemented within the frameworks of the state program for implementation of non-cash settlements system and creation of infrastructure ensuring effective payment introduction of non-cash settlements system and infrastructure ensuring effective payment in the Kyrgyz Republic. The related interest expenses on IMF loans are stated in the profit and loss account.

17. DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	31 December 2005	31 December 2004
	<i>thousand som</i>	<i>thousand som</i>
Due to banks and other financial institutions in foreign currency:		
Correspondent accounts of banks - residents	34,280	22,165
Correspondent accounts of banks - non-residents	25,276	25,474
Total liabilities to banks and other financial institutions in foreign currency	59,556	47,639
Due to banks and other financial institutions in national currency:		
Correspondent accounts of banks - residents	2,017,554	982,686
Securities sold under repurchase agreements (4.10% - 8.15%)	50,050	-
IMF current accounts (see Note 6)	13,399	14,674
World Bank organizations accounts	7,325	2,084
Other	71	71
Total due to banks and other financial institutions in national currency	2,088,399	949,515

The National Bank has expenses on liabilities to banks and other financial organizations, such as interest expense on securities sold under agreements to repurchase and compensation for compliance of banks-residents to the minimum reserve requirements both recorded in the profit and loss account (see Note 22).

The notes on pages 94 to 119 form an integral part of these financial statements.

18. DEBT SECURITIES ISSUED

	Average interest rate per year, %	31 December 2005 <i>thousand som</i>	Average interest rate per year, %	31 December 2004 <i>thousand som</i>
Short-term notes	3.59	15,972	4.7	11,974

The National Bank in 2005 and 2004 conducted transactions with short-term paperless State securities maturing on the 28 day, issued by the National Bank, and used as the monetary and credit policy instrument. Related interest expense is recorded in the profit and loss account (see Note 22).

19. OTHER LIABILITIES

	31 December 2005 <i>thousand som</i>	31 December 2004 <i>thousand som</i>
Other liabilities in foreign currency:		
Bank accounts of CIS countries	53,947	55,516
Total other liabilities in foreign currency	53,947	55,516
Other liabilities in national currency:		
Accumulation account with OJSC Finance Credit Bank	300,000	-
Accruals and deferred income	18,791	6,305
Accounts payable	8,688	7,409
Total other liabilities in national currency	327,479	13,714

20. SHARE CAPITAL

Paid-in authorized capital is determined by the Law “On the National Bank of the Kyrgyz Republic” in the amount of Som 50 million.

21. INTEREST INCOME

	Year ended 31 December 2005 <i>thousand som</i>	Year ended 31 December 2004 <i>thousand som</i>
Interest income from transactions in foreign currency:		
Interest income on deposits with banks	484,105	148,846
Interest income on investments available-for-sale	151,915	144,130
Interest income on EBRD and IDA loans, related to agent functions	12,515	5,846
Interest income on gold deposits with banks	707	423
Interest income from transactions in national currency:		
Interest income from State securities	350,266	297,071
Interest income from bank loans	408	3,254
Interest income from capital lease	36	328
Interest income from securities purchased under agreement to resell	28	237
Interest income from SWAP operations	18	90
Total interest income	999,998	600,225

The notes on pages 94 to 119 form an integral part of these financial statements.

In 2005 increase in deposit amounts and increase of interest rates led to increase in interest income from transactions in foreign currency. Comparative information on interest rates are given in the related notes on assets. (see Note 5,7,8).

Interest income from bank loans in 2004 included interest in amount of Som 1,514 thousand on overnight bank loans and interest received in amount of Som 1,740 thousand on loan provided by the JSCB KyrgyzKramdsbank in 1999, with the repaid principal amount during 1999-2001.

22. INTEREST EXPENSES

	Year ended 31 December 2005	Year ended 31 December 2004
	<i>thousand som</i>	<i>thousand som</i>
Interest expenses on foreign currency transactions:		
Interest expenses from IMF loans	39,869	43,871
Interest expenses from EBRD and IDA related to the agent functions	12,791	8,695
Interest expenses from IDA and modernization of payment banking system	1,694	335
Interest expenses from SWAP operations	1	3
Interest expenses on local currency transactions:		
Interest expenses on Government of Kyrgyz Republic deposits	117,694	41,103
Interest expenses from securities sold under repurchase agreements	923	10,225
Interest on compliance of reserve requirements by banks	13,101	8,434
Interest expenses from debt securities issued	490	689
Total interest expense	186,563	113,355

Interest expense on the Kyrgyz Republic Government deposits from 2003 are repaid in local currency regardless of the currency of the deposits in accordance with the agreement dated 23 December 2002 and in the framework of the General Agreement No. D-3-2/659 dated 21 June 2002 on regulation of the financial relations between the Government of the Kyrgyz Republic and the National Bank.

23. PROVISIONS FOR IMPAIRMENT LOSSES OF INTEREST-BEARING AND OTHER ASSETS

Movement of provisions for impairment losses of interest-bearing assets is presented below:

	Due from banks and other financial institutions	Loans related to agent functions	Loans to banks in local currency	Total
	<i>thousand som</i>	<i>thousand som</i>	<i>thousand som</i>	<i>thousand som</i>
31 December 2003	171,755	298,390	123,131	593,276
Recovery of provision	(10 066)	(19 713)	(751)	(30 530)
31 December 2004	161,689	278,677	122,380	562,746
Recovery of provision	(1 256)	(6 118)	(982)	(8 356)
31 December 2005	160,433	272,559	121,398	554,390

The notes on pages 94 to 119 form an integral part of these financial statements.

Movement of provisions for impairment losses on other assets and investments is presented below:

	Other assets in national currency	Investment in equity securities	Total
	<i>thousand som</i>	<i>thousand som</i>	<i>thousand som</i>
31 December 2003	34,815	3,750	38,565
Provision in 2004	-	-	-
31 December 2004	34,815	3,750	38,565
Provision in 2004	-	-	-
31 December 2005	34,815	3,750	38,565

24. NET REALIZED GAIN / (LOSS) FROM FOREIGN CURRENCY TRANSACTIONS

	Year ended 31 December 2005	Year ended 31 December 2004
	<i>thousand som</i>	<i>thousand som</i>
Realized gain from revaluation of foreign currency, gold and other precious metals	123 099	24 169
Realized loss from revaluation of foreign currency, gold and other precious metals	(15 527)	(72 714)
Total net realized gain /(loss) from foreign currency transactions	107 572	(48 545)

In 2005 the National Bank incurred unrealized loss from revaluation of foreign currency, gold and other precious metals in amount of Som 98,522 thousand. This mainly is caused by the USD rate decrease trend in world currency market in 2005, which affected the increase of unrealized loss from foreign currency revaluation.

25. OTHER OPERATING INCOME AND EXPENSE

	Year ended 31 December 2005	Year ended 31 December 2004
	<i>thousand som</i>	<i>thousand som</i>
Other income:		
Income from numismatics sale	1,230	917
Income from grants	916	672
Income from prior reporting periods	651	151
Reimbursement to commercial banks of the purchase expenses for SWIFT equipment	548	3,663
Income from property lease	418	416
Penalties	134	-
Income from sale of routers	903	-
Dividend income from subsidiaries	-	115
Other	530	1,899
Total other income	5,330	7,833

For the year ended 31 December 2005, other expenses included loss from transactions with debt securities in foreign currency of Som 22,743 thousand and extraordinary expenses, incurred on 24 March 2005 of Som 22,854 thousand.

The notes on pages 94 to 119 form an integral part of these financial statements.

26. EXPENSES FOR ISSUANCE OF BANKNOTES AND COINS

The cost of production of banknotes and coins of local currency including related expenses is charged to expenses as issued.

27. STAFF COSTS

	Year ended 31 December 2005 <i>thousand som</i>	Year ended 31 December 2004 <i>thousand som</i>
Salaries	81,293	58,801
Contribution to the Social Fund of the Kyrgyz Republic	22,782	18,153
Employee benefits and incentives	14,774	13,060
Total staff costs	118,849	90,014

Staff costs for the years ended 31 December 2005 and 31 December 2004 include individual income tax of Som 12,512 thousand and Som 8,415 thousand, respectively.

28. ADMINISTRATIVE EXPENSES

	Year ended 31 December 2005 <i>thousand som</i>	Year ended 31 December 2004 <i>thousand som</i>
Staff training	9,372	9,141
Communication services	7,349	7,954
Publications and subscriptions	7,721	7,565
Professional services	6,184	5,249
Business trip expenses	5,695	4,760
Social facilities maintenance expenses	4,156	2,497
Expense related to arrangement of international conferences, meetings and other business events	2,402	2,908
Stationary and office supplies	2,950	2,873
Other	3,860	2,652
Total administrative expenses	49,689	45,599

29. FIXED ASSETS EXPENSES

	Year ended 31 December 2005 <i>thousand som</i>	Year ended 31 December 2004 <i>thousand som</i>
Buildings and constructions	15,201	12,684
Computer equipment	4,992	8,627
Vehicles, furniture and office equipment	6,614	6,753
Total fixed assets expenses	26,807	28,064

Fixed assets expenses include expenses on support and maintenance, current repair works of fixed assets, related materials and spare parts, utilities and fuel for vehicles.

The notes on pages 94 to 119 form an integral part of these financial statements.

30. RISK MANAGEMENT

The structure of assets and liabilities of the National Bank is determined by the specific of its state functions of a central bank. The National Bank performs continued risk management which is regulated by the internal provisions and monitored by the Risk Committee and Audit Committee of the National Bank. The Board, committees and related departments of the National Bank review matters of monetary and credit policy, investment and currency policy and set up limitations on volume of operations and requirements of assessment of the National Bank's counter-parties.

In the normal course of its operations, the National Bank is exposed to various risks such as operating, credit, currency and interest rate risks.

Operating risk is the risk of contingent losses due to inadequate internal control of the operating activity. The Internal Audit function of the National Bank estimates and monitors effective functioning of the internal control system.

Credit risk is a risk when one party to a financial instrument will fail to discharge an obligation in full and contractual terms. Investment Committee of the National Bank constantly monitors counter-parties of the National Bank by assessing their liquidity and credit ratings.

Currency risk is related to fluctuations of available assets and liabilities currency rates.

Interest risk is a risk of losses due to fluctuations of assets and liabilities interest rate. Interest rates on assets and liabilities are disclosed in these financial statements in respective notes.

Reputation risk – Currently there is a litigation against certain former officials of the Ministry of Finance of the Kyrgyz Republic, Central Treasury Office and the Chairman of the National Bank related to operations on conversion of funds of the Central Treasury Office held on 21 December 1999.

As at the balance sheet date the management of the National Bank cannot predict the results of this litigation and its affect on the National Bank's image.

31. ANALYSIS OF ASSETS AND LIABILITIES BY COUNTERPARTIES (GEOGRAPHICAL ANALYSIS)

Analysis of assets and liabilities of the National Bank by counter-parties is presented below. 30 countries are members of Organization of Economic Cooperation and Development (OECD), including USA, Switzerland, Great Britain, Japan, Canada, Australia, Turkey, Germany, Belgium and other developed countries. International financial institutions include IMF, World Bank, EBRD and Islamic Development Bank.

The notes on pages 94 to 119 form an integral part of these financial statements.

The geographical analysis by groups of countries as of 31 December 2005:

	The Kyrgyz Republic	OECD countries	Countries, non-members of OECD	International financial institutions	Provision for impairment losses	Total
	<i>thousand som</i>	<i>thousand som</i>	<i>thousand som</i>	<i>thousand som</i>	<i>thousand som</i>	<i>thousand som</i>
ASSETS						
Gold and other precious metals	-	1,760,600	-	-	-	1,760,600
International Monetary Fund membership quota	-	-	-	5,241,845	-	5,241,845
<i>Assets in foreign currency:</i>						
Due from banks and other financial institutions, less allowance for impairment losses	-	17,814,441	160,433	219,563	(160 433)	18,034,004
Investments available-for-sale	-	5,224,457	-	-	-	5,224,457
Loans related to agent functions, less allowance for impairment losses	2,214,958	-	-	-	(272 559)	1,942,399
Other assets	151,503	-	-	-	-	151,503
<i>Assets in national currency:</i>						
State securities, held-to-maturity	4,643,134	-	-	-	-	4,643,134
Loans to banks, less allowance for impairment losses	121,398	-	-	-	(121 398)	-
Investment in equity of organizations, less allowance for impairment losses	298,752	-	-	-	-	298,752
Fixed and intangible assets, less accumulated depreciation and amortisation	15,000	-	430	-	(3 750)	11,680
Other assets, less allowance for impairment losses	440,164	-	-	-	(34 815)	405,349
TOTAL ASSETS	7,884,909	24,799,498	160,863	5,461,408	(592 955)	37,713,723
LIABILITIES						
Banknotes in circulation	13,413,802	-	-	-	-	13,413,802
Securities in favor of the IMF	-	-	-	5,228,446	-	5,228,446
<i>Liabilities in foreign currency:</i>						
International financial institutions	-	-	-	7,389,294	-	7,389,294
Banks and other financial institutions	34,280	-	-	25,276	-	59,556
Loans related to agent functions	-	1,910,881	-	406,349	-	2,317,230
Accounts of the Government of the Kyrgyz Republic	4,408,111	-	-	-	-	4,408,111
Other liabilities	-	-	53,947	-	-	53,947
<i>Liabilities in national currency:</i>						
Bank and other financial institutions	2,067,605	-	71	20,723	-	2,088,399
Accounts of the Government of the Kyrgyz Republic	950,686	-	-	-	-	950,686
Debt securities issued	15,972	-	-	-	-	15,972
Other liabilities	327,479	-	-	-	-	327,479
TOTAL LIABILITIES	21,217,935	1,910,881	54,018	13,070,088	-	36,252,922
Net balance sheet position	(13 333 026)	22,888,617	106 845	(7 606 680)	(592 955)	1,460,801

The notes on pages 94 to 119 form an integral part of these financial statements.

The geographical analysis by groups of countries as of 31 December 2004:

	The Kyrgyz Republic	OECD countries	Countries, non-members of OECD	International financial institutions	Provision for impairment losses	Total
	<i>thousand som</i>	<i>thousand som</i>	<i>thousand som</i>	<i>thousand som</i>	<i>thousand som</i>	<i>thousand som</i>
ASSETS						
Gold and other precious metals	-	1,760,600	-	-	-	1,760,600
International Monetary Fund membership quota	-	-	-	5,241,845	-	5,241,845
<i>Assets in foreign currency:</i>						
Due from banks and other financial institutions, less allowance for impairment losses	-	17,814,441	160,433	219,563	(160 433)	18,034,004
Investments available-for-sale	-	5,224,457	-	-	-	5,224,457
Loans related to agent functions, less allowance for impairment losses	2,214,958	-	-	-	(272 559)	1,942,399
Other assets	151,503	-	-	-	-	151,503
<i>Assets in national currency:</i>						
State securities, held-to-maturity	4,643,134	-	-	-	-	4,643,134
Loans to banks, less allowance for impairment losses	121,398	-	-	-	(121 398)	-
Investment in equity of organizations, less allowance for impairment losses	298,752	-	-	-	-	298,752
Fixed and intangible assets, less accumulated depreciation and amortisation	15,000	-	430	-	(3 750)	11,680
Other assets, less allowance for impairment losses	440,164	-	-	-	(34 815)	405,349
TOTAL ASSETS	7,884,909	24,799,498	160,863	5,461,408	(592 955)	37,713,723
LIABILITIES						
Banknotes in circulation	13,413,802	-	-	-	-	13,413,802
Securities in favor of the IMF	-	-	-	5,228,446	-	5,228,446
<i>Liabilities in foreign currency:</i>						
International financial institutions	-	-	-	7,389,294	-	7,389,294
Banks and other financial institutions	34,280	-	-	25,276	-	59,556
Loans related to agent functions	-	1,910,881	-	406,349	-	2,317,230
Accounts of the Government of the Kyrgyz Republic	4,408,111	-	-	-	-	4,408,111
Other liabilities	-	-	53,947	-	-	53,947
<i>Liabilities in national currency:</i>						
Bank and other financial institutions	2,067,605	-	71	20,723	-	2,068,399
Accounts of the Government of the Kyrgyz Republic	950,686	-	-	-	-	950,686
Debt securities issued	15,972	-	-	-	-	15,972
Other liabilities	327,479	-	-	-	-	327,479
TOTAL LIABILITIES	21,217,935	1,910,881	54,018	13,070,088	-	36,252,922
Net balance sheet position	(13 333 026)	22,888,617	106 845	(7 608 680)	(592 955)	1,460,801

The notes on pages 94 to 119 form an integral part of these financial statements.

32. CURRENCY ANALYSIS

The currency position of the National Bank as of 31 December 2005 was as follows:

	Som	US dollar	SDR	Euro	Canadian Dollar	Other currencies	Gold and other precious metals	Total
ASSETS:								
Gold and other precious metals	-	-	-	-	-	-	1,760,600	1,760,600
IMF membership quota		-	-	5,241,845	-	-	-	-
<i>Assets in foreign currency:</i>								
Due from banks and other financial institutions, less allowance for impairment losses	-	9,586,841	219,563	1,837,670	4,723,836	1,666,094	-	18,034,004
Investments available-for-sale	-	1,406,596	-	2,004,579		1,813,282	-	5,224,457
Loans related to agent functions, less allowance for impairment losses	-	1,942,399	-	-	-	-	-	1,942,399
Other assets	-	151,503	-	-	-	-	-	151,503
<i>Assets in national currency</i>								
State securities, held-to-maturity	4,643,134	-	-	-	-	-	-	4,643,134
Loans to banks, less allowance for impairment losses	-	-	-	-	-	-	-	-
Investment to equity of organization, less allowance for impairment losses	298,752	-	-	-	-	-	-	298,752
Fixed and intangible assets, less accumulated depreciation and amortisation	11,250	-	-	-	-	430	-	11,680
Other assets, less allowance for impairment losses	405,349	-	-	-	-	-	-	405,349
TOTAL ASSETS	5,358,485	13,087,339	5,461,408	3,842,249	4,723,836	3,479,806	1,760,600	37,713,723
LIABILITIES:								
Banknotes in circulation	13,413,802	-	-	-	-	-	-	13,413,802
Securities in favor of IMF *	-	-	5,228,446	-	-	-	-	5,228,446
<i>Liabilities in foreign currency:</i>								
International financial institutions	-	-	7,389,294	-	-	-	-	7,389,294
Banks and other financial institutions	-	59,556	-	-	-	-	-	59,556
Loans related to agent functions	-	2,317,230	-	-	-	-	-	2,317,230
Accounts of the Government of the Kyrgyz Republic	-	472,813	-	248,013	3,687,285		-	4,408,111
Other liabilities	-	-	-	691	-	53,256	-	53,947
<i>Liabilities in national currency:</i>								
Bank and other financial institutions	2,088,399	-	-	-	-	-	-	2,088,399
Accounts of the Government of the Kyrgyz Republic	950,686	-	-	-	-	-	-	950,686
Debt securities issued	15,972	-	-	-	-	-	-	15,972
Other liabilities	327,479	-	-	-	-	-	-	327,479
TOTAL LIABILITIES	16,796,338	2,848,599	12,617,740	248,704	3,687,285	53,256	-	36,252,922
Net balance sheet position	(11 437 853)	10,238,740	(7 156 332)	3,593,545	1,036,551	3,426,550	1,760,600	1,460,801

*In accordance with the terms of the Kyrgyz Republic membership in IMF, these liabilities in favour of IMF are represented in Som at the rate of SDR set by the IMF at 31 December 2005.

The notes on pages 94 to 119 form an integral part of these financial statements.

The currency position of the National Bank as of 31 December 2004 was as follows:

	Som	US dollar	SDR	Euro	Canadian Dollar	Other currencies	Gold and other precious metals	Total
ASSETS:								
Gold and other precious metals	-	-	-	-	-	-	1,514,964	1,514,964
IMF membership quota		-	-	5,740,328	-	-	-	-
<i>Assets in foreign currency:</i>								
Due from banks and other financial institutions, less allowance for impairment losses	-	3,953,454	825,048	3,007,956	5,687,877	1,884,073	-	15,358,408
Investments available-for-sale	-	1,854,512	-	1,917,316	338,976	2,309,885	-	6,420,689
Loans related to agent functions, less allowance for impairment losses	-	1,939,797	-	-	-	-	-	1,939,797
Other assets	-	44,978	-	-	-	-	-	44,978
<i>Assets in national currency</i>								
State securities, held-to-maturity	4,783,734	-	-	-	-	-	-	4,783,734
Loans to banks, less allowance for impairment losses	40,000	-	-	-	-	-	-	40,000
Investment to equity of organization, less allowance for impairment losses	206,816	-	-	-	-	-	-	206,816
Fixed and intangible assets, less accumulated depreciation and amortisation	11,250	-	-	-	-	449	-	11,699
Other assets, less allowance for impairment losses	397,418	-	-	-	-	-	3,272	400,690
TOTAL ASSETS	5,439,218	7,792,741	6,565,376	4,925,272	6,026,853	4,194,407	1,518,236	36,462,103
LIABILITIES:								
Banknotes in circulation	11,425,060	-	-	-	-	-	-	11,425,060
Securities in favor of IMF *	-	-	5,725,654	-	-	-	-	5,725,654
<i>Liabilities in foreign currency:</i>								
International financial institutions	-	-	8,549,436	-	-	-	-	8,549,436
Banks and other financial institutions	-	47,639	-	-	-	-	-	47,639
Loans related to agent functions	-	2,338,296	-	-	-	-	-	2,338,296
Accounts of the Government of the Kyrgyz Republic	-	1,320,001	-	259,256	3,608,193	-	-	5,187,450
Other liabilities	-	-	-	-	-	55,516	-	55,516
<i>Liabilities in national currency:</i>								
Bank and other financial institutions	949,515	-	-	-	-	-	-	949,515
Accounts of the Government of the Kyrgyz Republic	973,085	-	-	-	-	-	-	973,085
Debt securities issued	11,974	-	-	-	-	-	-	11,974
Other liabilities	13,714	-	-	-	-	-	-	13,714
TOTAL LIABILITIES	13,373,348	3,705,936	14,275,090	259,256	3,608,193	55,516	-	35,277,339
Net balance sheet position	(7 934 130)	4,086,805	(7 709 714)	4,666,016	2,418,660	4,138,891	1,518,236	1,184,764

*In accordance with the terms of the Kyrgyz Republic membership in IMF, these liabilities in favour of IMF are represented in Som at the rate of SDR set by the IMF at 31 December 2004.

The notes on pages 94 to 119 form an integral part of these financial statements.

33. MATURITY ANALYSIS

The National Bank as any other central bank has no liquidity risk as itself related to assets and liabilities in local currency. Nevertheless, in accordance with IAS 30 “Disclosures in the Financial Statements of Banks and Similar Financial Institutions” the table below shows distribution of all assets and liabilities by their maturities.

Assets and liabilities as of 31 December 2005 by their remaining maturity and demand:

	On demand and less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Undefined	Total
	thou. som	thou. som	thou. som	thou. som	thou. som	thou. som	thou. som
ASSETS:							
Gold and other precious metals	134	-	1,760,466	-	-	-	1,760,600
IMF subscription quota	-	-	-	-	5,241,845	-	5,241,845
<i>Assets in foreign currency:</i>							
Due from banks and other financial institutions, less allowance for impairment losses	17,995,338	78,666	-	-	-	-	18,034,004
Investments available-for-sale	4,198,065	540,648	485,744	-	-	-	5,224,457
Loans related to agent functions, less allowance for impairment losses	4,503	5,670	5,798	17,989	1,908,439	-	1,942,399
Other assets	151,503	-	-	-	-	-	151,503
<i>Assets in national currency:</i>							
State securities held-to-maturity	7,749	72,342	2,664,245	947,119	951,679	-	4,643,134
Loans to banks, less allowance for impairment losses	-	-	-	-	-	-	-
Investment in equity of organizations, less allowance for impairment losses	-	-	-	-	-	298,752	298,752
Fixed and intangible assets, less accumulated depreciation and amortization	-	-	-	11,250	-	430	11,680
Other assets, less allowance for impairment losses	405,349	-	-	-	-	-	405,349
TOTAL ASSETS	22,722,641	697,326	4,916,253	976,358	8,101,963	299,182	37,713,723
LIABILITIES:							
Banknotes in circulation	-	-	-	-	-	13,413,802	13,413,802
Securities in favor of the IMF	-	-	-	-	-	5,228,446	5,228,446
<i>Liabilities in foreign currency:</i>							
International financial institutions	65,434	295,501	739,652	3,693,094	2,595,613	-	7,389,294
Banks and other financial institutions	59,556	-	-	-	-	-	59,556
Loans related to agent functions	1,531	-	144,676	670,178	1,194,598	306,247	2,317,230
Accounts of the Government of the Kyrgyz Republic	4,408,111	-	-	-	-	-	4,408,111
Other liabilities	53,947	-	-	-	-	-	53,947
<i>Liabilities in national currency:</i>							
Banks and other financial institutions	2,088,399	-	-	-	-	-	2,088,399
Accounts of the Government of the Kyrgyz Republic	950,686	-	-	-	-	-	950,686
Debt securities issued	15,972	-	-	-	-	-	15,972
Other liabilities	327,479	-	-	-	-	-	327,479
TOTAL LIABILITIES	7,971,115	295,501	884,328	4,363,272	3,790,211	18,948,495	36,252,922
Net liquidity gap	14,751,526	401,825	4,031,925	(3 386 914)	4 311 752	(18 649 313)	1,460,801
Aggregate liquidity gap as of 31 December 2005	14,751,526	15,153,351	19,185,276	15,798,362	20,110,114	1,460,801	

The notes on pages 94 to 119 form an integral part of these financial statements.

Assets and liabilities as of 31 December 2004 by their remaining maturity and demand:

	On demand and less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Undefined	Total
	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>	<i>thou. som</i>
ASSETS:							
Gold and other precious metals	729,366	-	785,598	-	-	-	1,514,964
IMF subscription quota	-	-	-	-	-	5,740,328	5,740,328
<i>Assets in foreign currency:</i>							
Due from banks and other financial institutions, less allowance for impairment losses	14,093,771	1,264,637	-	-	-	-	15,358,408
Investments available-for-sale	4,735,170	872,257	-	813,262	-	-	6,420,689
Loans related to agent functions, less allowance for impairment losses	9,986	-	116,073	559,458	1,254,280	-	1,939,797
Other assets	44,764	214	-	-	-	-	44,978
<i>Assets in national currency:</i>							
State securities held-to-maturity	-	52,570	713,683	3,726,133	291,348	-	4,783,734
Loans to banks, less allowance for impairment losses	40,000	-	-	-	-	-	40,000
Investment in equity of organizations, less allowance for impairment losses	-	-	-	-	-	206,816	206,816
Fixed and intangible assets, less accumulated depreciation and amortization	-	-	-	11,250	-	449	11,699
Other assets, less allowance for impairment losses	400,690	-	-	-	-	-	400,690
TOTAL ASSETS	20,053,747	2,189,678	1,615,354	5,110,103	1,545,628	5,947,593	36,462,103
LIABILITIES:							
Banknotes in circulation	-	-	-	-	-	11,425,060	11,425,060
Securities in favor of the IMF	-	-	-	-	-	5,725,654	5,725,654
<i>Liabilities in foreign currency:</i>							
International financial institutions	70,425	229,370	1,040,619	5,094,103	2,114,919	-	8,549,436
Banks and other financial institutions	47,639	-	-	-	-	-	47,639
Loans related to agent functions	473	-	147,540	734,005	1,456,278	-	2,338,296
Accounts of the Government of the Kyrgyz Republic	5,187,450	-	-	-	-	-	5,187,450
Other liabilities	55,516	-	-	-	-	-	55,516
<i>Liabilities in national currency:</i>							
Banks and other financial institutions	949,515	-	-	-	-	-	949,515
Accounts of the Government of the Kyrgyz Republic	973,085	-	-	-	-	-	973,085
Debt securities issued	11,974	-	-	-	-	-	11,974
Other liabilities	13,714	-	-	-	-	-	13,714
TOTAL LIABILITIES	7,309,791	229,370	1,188,159	5,828,108	3,571,197	17,150,714	35,277,339
Net liquidity gap	12,743,956	1,960,308	427,195	(718 005)	(2 025 569)	(11 203 121)	1,184,764
Aggregate liquidity gap as of 31 December 2005	12,743,956	14,704,264	15,131,459	14,413,454	12,387,885	1,184,764	

The notes on pages 94 to 119 form an integral part of these financial statements.

34. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value disclosures of financial instruments is made in accordance with the requirements of IAS 32 “Financial Instruments: Disclosure and Presentation” and IAS 39 “Financial Instruments: Recognition and Measurement”. As no readily available market exists for most of the National Bank’s financial instruments, judgment is necessary in arriving at fair value based on current economic conditions and specific risks attributable to the instrument. The amounts the National Bank could receive from actual sales of the available package of financial instruments could insignificantly differ from the recorded estimations.

As of 31 December 2005 and 2004 the following methods and assumptions were used by the National Bank to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

Claims on banks and other financial institutions - For these financial instruments the carrying amount is a reasonable estimate of fair value.

Foreign investments available-for-sale - As of 31 December 2005 and 2004 investments available-for-sale are stated at fair value amounting to Som 5,224,457 thousand and Som 6,420,689 thousand, respectively. Fair value of investments available-for-sale was determined with reference to an active market for those securities quoted publicly or at over-the-counter market.

Loans and accounts receivables - Fair value of the credit portfolio and accounts receivables is determined by quality of specific loans and the level of their interest rates under each type of loans in the credit portfolio. The assessment of provisions for impairment losses for loans and accounts receivable includes the analysis of the risk inherent in various types of lending, on the basis of such factors, as the current situation in the economic sector of the borrower, the financial position of each borrower, as well as the issued guarantees. Thus, the provisions for impairment losses sufficiently reflect the extent of the required cost adjustment including the impact of the credit risk.

Currency in circulation - For these financial instruments the carrying amount is a reasonable estimate of fair value.

Liabilities to banks and other financial institutions - As of 31 December 2005 and 2004 the carrying amount of short-term deposits and demand deposits, and liabilities under repurchase agreements of Som 2,147,955 thousand and Som 997,154 thousand, respectively, represents the reasonable estimation of their fair value.

Accounts of the Government of the Kyrgyz Republic - As of 31 December 2005 and 2004 the carrying amount of the current accounts of the Government of the Kyrgyz Republic of Som 5,358,797 thousand and Som 6,160,534 thousand, respectively, represents the reasonable estimation of their fair value.

Debt securities issued – Debt securities issued are recorded at cost of sale adjusted to amortization of premiums and discounts that corresponds to their fair value.

Financial assets and financial liabilities whose fair value cannot be determined due to nature of transactions of the central bank and/or for lack of the active market for these instruments: investments in equity of organizations, State securities held-to-maturity, IMF membership quota, and securities in favor of IMF.

35. TRANSACTIONS WITH RELATED PARTIES

For the reporting purposes parties are considered to be related, if one of them has an opportunity to control another or may significantly control its financial and operational decisions.

The notes on pages 94 to 119 form an integral part of these financial statements.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Related parties include the Management of the National Bank and subsidiaries of the National Bank. As of 31 December 2005 the subsidiaries of the National Bank are represented by FCSDCU, BTC, RED (see Note 12).

Payables and receivables at the year-end and profit/loss from related parties transactions included to the financial statements are presented below:

	31 December 2005 <i>thousand som</i>	31 December 2004 <i>thousand som</i>
Other assets:		
Balances at the year-end on management loans	2,999	21
Other operating income:		
Income as dividends from subsidiaries	-	115
Administrative expenses:		
Expenses related to the staff training in BTC	722	858

36. CASH AND CASH EQUIVALENTS

	31 December 2005 <i>thousand som</i>	31 December 2004 <i>thousand som</i>
Foreign currency on hand	151,503	44,765
Correspondent accounts with other central banks	4,750,680	2,286,140
Correspondent accounts with other non-resident banks	5,459,647	6,845,734
Balances with the IMF account	217,653	821,380
Debt securities of non-residents in foreign currency (excluding accrued interest)	5,218,117	6,446,964
Total cash and cash equivalents	15,797,600	16,444,983

The notes on pages 94 to 119 form an integral part of these financial statements.



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INDEPENDENT AUDITORS' REPORT

To the Board of the National Bank of the Kyrgyz Republic

We have audited the accompanying balance sheet of the National Bank of the Kyrgyz Republic (the "National Bank") as of 31 December 2005 and the related profit and loss account and statements of cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the National Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the National Bank as of 31 December 2005, and the results of its operations and its cash flows for the year then ended, in accordance with the accounting policy approved by the Board of the National Bank.

Deloitte & Touche

10 April 2006

Audit • Tax • Consulting • Financial Advisory.

Member of
Deloitte Touche Tohmatsu

ATTACHMENTS

IV

Chronology

Date	Content
February 10	A press conference devoted to the monetary policy results for January 2005 with participation of the Chairman was held at “Kabar” information agency.
February 22	The Board reviewed and took into consideration the monetary policy report for 2004.
February 23	The Executive Board of the International Monetary Fund approved a three-year agreement for 8.88 million SDR (about US\$ 13.6 million) within the Poverty Reduction Mechanism and Economic Growth Promotion efforts for the Kyrgyz Republic intended for rendering support to the economic program of the Government of the Kyrgyz Republic for the period of 2005-2007.
March 9	A press conference devoted to the monetary policy results for two months of 2005 with participation of the Chairman was held at “Kabar” information agency.
March 15	A press conference devoted to the negotiation results held on March 10, 2005 on the Kyrgyz Republic’s external debt restructuring with the Paris Club involving the Chairman of the National Bank of the Kyrgyz Republic, the Minister and the first Deputy Minister of the Ministry of Economy and Finance of the Kyrgyz Republic was held at “Kabar” information agency.
March 25	Due to the changes in the country’s political situation on March 24, 2005, the National Bank made a statement on the current situation in the banking sector and financial markets of the country.
March 28	The National Bank Board approved a temporary provision “On the NBKR loan to maintain the banking system liquidity”, which was in force from March 28 to June 30, 2005.
March 31	A briefing was held at the National Bank with participation of the Chairman and attended by the representatives of international financial institutions, embassies accredited in the Kyrgyz Republic, foreign and local journalists. Information on the current financial indicators as of March 29, 2005 and measures of the National Bank taken with a view to ensuring a stable and normal operation of all the financial market participants was brought to the notice of the participants.
April 14	A press conference devoted to the monetary policy results for three months of 2005 with participation of the Chairman was held at “Kabar” information agency.

Date	Content
April 27	The Board approved a Resolution “The Regulation on Crediting in Commercial Banks and other financial and credit institutions licensed by the NBKR».
May 12	A press conference devoted to the monetary policy results for four months of 2005 with participation of the Chairman was held at “Kabar” information agency.
May 19	The NBKR Board reviewed and took into consideration “The Report on the Monetary Policy for the 1 st quarter of 2005”.
May 19	The Board of the National Bank adopted changes and amendments to the Regulation “On “overnight” loan of the National Bank of the Kyrgyz Republic”.
May 30	The Board adopted resolution “On the US dollar exchange rate applied for calculation of reserve requirements” for the period of May 30 to October 2, 2005 according to which the value of the dollar fixed exchange rate for reserve requirements purposes was established at a rate of 41,0 Som for 1 US dollar.
June 16	A press conference devoted to the monetary policy results for five months of 2005 with participation of the Chairman was held at “Kabar” information agency.
June 29	The Board approved “Procedures for conduction of SWAP auctions by the National Bank of the Kyrgyz Republic”.
July 13	An “open house” was held at the National Bank of the Kyrgyz Republic for mass media representatives. In the course of the visit, the journalists have familiarized with the activity of key subdivisions and numismatic exposition of the NBKR. Upon completion of the excursion, a traditional press conference was conducted involving the NBKR’s Chairman devoted to the monetary policy results for six months of 2005.
July 27	The Board approved the regulation «On intraday credit of the National Bank of the Kyrgyz Republic».
July 27	The Board approved the amendments to the regulation «On overnight loan of the National Bank of the Kyrgyz Republic».
July 28	In accordance with the instruction of the Ministry of Economy and Finance of the Kyrgyz Republic, the National Bank of the Kyrgyz Republic conducted its first auction on the placement of 18-month state treasury bills (STB).
August 18	The Board reviewed and took into consideration “The monetary policy report for the first half of 2005”.
September 8	A press conference devoted to the monetary policy results for seven and eight months of 2005 with participation of the Chairman was held at “Kabar” information agency.

Date	Content
September 14	The Board approved the amendments to the regulation “On mandatory reserve requirements” and a revised version of the provision “On issue, placement, circulation and repayment of the NBKR bank notes”
September 28	The Board adopted resolution “On the US dollar exchange rate applied for calculation of reserve requirements « for the period of May 30 to October 2, 2005 according to which the value of the dollar fixed exchange rate for reserve requirements purposes was established at a rate of 41,0 Som for 1 US dollar.
October 4	A press conference was held involving the Chairman and the Head of the Strategic Development and Expertise department of the President’s Administration of the Kyrgyz Republic who represented Kyrgyzstan in an Annual meeting of IMF and World Bank directors which was held on September 25, 2005 in Washington (USA).
October 14	A press conference devoted to the monetary policy results for nine months of 2005 with participation of the Deputy Chairman was held at “Kabar” information agency.
October 24	The Executive Council of the International Monetary Fund (IMF) completed the review of economic performance results of the Kyrgyz Republic within the poverty reduction and growth facility mechanism and approved a three-year program of February 23, 2005.
October 26	The Board accepted the Statement of the National Bank of the Kyrgyz Republic to review the monetary policy target for 2005.
November 4	According to the order of the Ministry of Economy and Finance of the Kyrgyz Republic, the National Bank of the Kyrgyz Republic conducted the first auction on the placement of 24-month state treasury bills (STB).
November 15	A press conference devoted to the monetary policy results for ten months of 2005 with participation of the Chairman was held at “Kabar” information agency.
November 18	The Board of the National Bank approved amendments to the regulation on reserve requirements.
December 2	The Board of the National Bank reviewed and took into consideration “The monetary policy report for 9 months of 2005”.
December 21	The Board of the National Bank approved «Main Directions of monetary policy for 2006».
December 23	The Board of the National Bank approved «The Statement of the National Bank of the Kyrgyz Republic on the monetary policy for 2006».
December 23	The Board of the National Bank approved «The structure of the NBKR’s Annual Report for 2005 and its development program».

Date	Content
December 27	A press conference devoted to the monetary policy results for eleven months of 2005 and Statement of the NBKR on the monetary policy for 2006 with participation of the Chairman was held.
December 28	The Board of the National Bank approved «The procedures for conduction of REPO auctions».

Statistical Information

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Table 1: Macroeconomic Indicators

	Unit of measurement	2001	2002	2003	2004	2005
Real sector ¹						
Nominal GDP	<i>mln. soms</i>	73,883.3	75,366.7	83,871.6	94,350.7	100,115.5*
Real GDP growth rate	<i>percent</i>	5.3	0.0	7.0	7.0	-0.6 *
Growth rate of industrial production	<i>percent</i>	5.4	-10.9	17.0	4.6	-12.1
Growth rate of gross agricultural output	<i>percent</i>	7.3	3.1	3.2	4.1	-4.2
Retail turnover	<i>mln. soms</i>	31,430.9	34,090.9	38,735.5	45,715.6	55,359.0
Paid services	<i>mln. soms</i>	7,466.3	8,794.8	10,980.5	14,100.7	15,800.1
Consumer prices (in % to December of the previous year)	<i>percent</i>	3.7	2.3	5.6	2.8	4.9
- food goods		0.1	2.0	5.2	2.2	9.8
- non-food goods		1.4	0.9	1.9	3.2	2.0
- services		21.7	4.0	18.5	2.5	3.2
Producer's prices (in % to December of the previous year)		3.3	7.6	11.4	4.4	6.8
Unemployment rate	<i>percent</i>	3.2	3.1	2.9	2.9	3.3
Money income of the population	<i>mln. soms</i>	51,126.3	57,444.7	61,847.9	...	...
Cash outlay of the population	<i>mln. soms</i>	49,775.6	55,088.9	60,493.6	...	...
Average nominal wage	<i>soms</i>	1,455.1	1,684.4	1,916.0	2,240.3	2,569.50
Estimated minimal consumer budget	<i>soms</i>	1,316.5	1,404.8	1,540.4	1,725.9	1,836.60
Financial sector ²						
NBKR discount rate (end of period)	<i>percent</i>	8.0	4.4	4.0	4.0	4.1
State Treasury Bills market (end of period yield as of action date)	<i>percent</i>					
Maturity period:						
- 3 months		12.4	7.0	3.8	4.0	4.3
- 6 months		14.6	10.3	6.9	4.8	4.8
- 12 months		16.6	12.4	9.1	8.2	7.0
- 18 months		...	...	...	...	9.8
- 24 months		...	...	...	...	14.9
Interbank market						
Credits in national currency:						
- volume (for a period)	<i>mln. soms</i>	1,195.8	412.1	295.4	674.1	1,208.1
- interest rate (end of period)	<i>percent</i>	11.9	7.8	5.8	4.0	1.0
Credits in foreign currency:						
- volume (for a period)	<i>mln. soms</i>	179.8	259.5	251.6	331.9	592.9
- interest rate (end of period)	<i>percent</i>	6.7	8.0	6.1	4.5	5.0
REPO operations						
- turnover volume	<i>mln. soms</i>	2,021.5	1,329.1	1,466.4	3,191.2	5,035.6
- interest rate (end of period)	<i>percent</i>	5.3	4.9	3.5	4.5	3.5
Exchange transactions	<i>thous. USD</i>	67,751.0	89,984.8	122,449.9	133,268.2	205,339.5

Continue table 1.

	Unit of measurement	2001	2002	2003	2004	2005
Deposit and credit market						
Credits in national currency:						
- volume (for a period)	<i>mln.soms</i>	1,170.3	1,385.6	2,003.8	2,559.2	3,025.2
- interest rate (end of period)	<i>percent</i>	36.4	30.2	25.1	24.5	25.4
Credits in foreign currency:						
- volume (for a period)	<i>mln.soms</i>	1,527.7	2,030.2	2,913.7	5,862.5	7,578.2
- interest rate (end of period)	<i>percent</i>	25.0	22.6	19.2	18.9	16.8
Deposits in national currency:						
- volume (for a period)	<i>mln.soms</i>	2,418.7	2,502.9	3,601.8	5,902.1	7,976.2
- interest rate (end of period)	<i>percent</i>	8.1	4.1	2.5	2.0	2.0
Deposits in foreign currency:						
- volume (for a period)	<i>mln.soms</i>	7,368.5	11,501.8	28,875.4	95,710.1	117,232.9
- interest rate (end of period)	<i>percent</i>	1.0	0.6	0.5	0.3	0.2
State budget ³						
Revenues	<i>mln.soms</i>	12,539.7	14,392.1	16,214.5	18,335.9	20,368.1
including taxes	<i>percent</i>	73.3	72.8	73.5	76.3	80.3
Expenditure	<i>mln.soms</i>	12,255.7	15,190.2	16,895.9	18,841.7	20,143.7
Deficit (-) / Surplus (+)	<i>mln.soms</i>	284.0	-798.1	-681.4	-505.8	224.4
in percent of GDP	<i>in % of GDP</i>	0.4	-1.1	-0.8	-0.5	0.2
External economic sector ⁴						
Export of goods and services	<i>in % of GDP</i>	36.6	39.7	38.8	42.6	38.1*
Import of goods and services	<i>in % of GDP</i>	37.6	44.6	45.5	51.3	58.2*
Current account (including transfers)	<i>in % of GDP</i>	-1.6	-3.1	-4.2	-3.4	-8.5*
Reserve assets ⁵	<i>months of import of goods and services</i>	3.9	4.0	3.8	4.6	4.6*

* preliminary data.

¹ NSC KR data.² NBKR data.³ MEF KR data.⁴ NSC KR and NBKR data.⁵ data have been recalculated taking into account the changes in the calculation methods in 2005.

"..." – no data available.

Table 2: Structure of Net Value Added*(percent)*

	2001	2002	2003	2004	2005 *
Agriculture, hunting and forestry	34.5	34.4	33.6	29.9	30.5
Mining industry	0.5	0.5	0.5	0.6	0.5
Processing industry	17.6	13.0	13.3	15.3	12.6
Production and distribution of electricity, gas, and water	4.9	4.4	3.6	3.3	3.1
Construction	3.8	3.4	2.9	2.5	2.5
Trade, repairs of motor vehicles, household supplies and personal-use items	12.2	14.3	15.2	16.0	17.8
Transportation and communication	4.2	5.1	5.4	6.4	6.8
Other	22.2	24.9	25.6	26.0	26.3
Total	100.0	100.0	100.0	100.0	100.0

NSC KR data.

* preliminary data.

Table 3: Structure of Capital Investments by Sources of Financing*(percent)*

	2001	2002	2003	2004	2005*
Domestic investment	57.8	71.3	65.1	66.2	74.9
including those financed by:					
Republican budget	7.0	7.9	7.8	8.0	6.3
of which funds for emergency relief:	1.3	1.6	1.7	2.0	2.0
Local budget	0.9	1.4	2.4	2.4	1.2
Funds of enterprises and organizations	29.1	46.6	37.7	27.0	41.4
Savings of the population and others	20.8	15.4	17.2	28.7	25.9
Foreign investment	42.2	28.7	34.9	33.8	25.1
including those financed by:					
Foreign grants and humanitarian aid	0.5	3.6	4.5	5.8	1.5
Foreign loans	34.4	19.7	21.5	21.9	16.2
Foreign direct investment	7.4	5.4	8.9	6.2	7.4
Total	100.0	100.0	100.0	100.0	100.0

NSC KR data.

* preliminary data.

Table 4: Monetary Aggregates (end of period)*(mln. soms)*

	2001	2002	2003	2004	2005
Monetary base ¹	5,358.5	7,658.4	10,075.3	12,379.9	15,465.6
Currency in circulation	5,174.6	7,058.0	9,623.3	11,425.1	13,413.8
Currency outside banks (M0)	5,020.0	6,872.6	9,315.1	11,124.0	13,065.4
Monetary aggregate (M1)	5,560.0	7,784.6	10,515.7	12,891.6	15,014.1
Monetary aggregate (M2)	6,189.0	8,304.1	11,086.3	13,568.5	15,959.3
Broad money (M2X) ²	8,201.8	10,995.6	14,676.4	19,379.3	21,295.9
M2 Multiplier *	1.15	1.08	1.10	1.10	1.03
M2X Multiplier *	1.53	1.44	1.46	1.57	1.38
M1 Velocity **	15.5	11.6	9.3	8.1	7.3
M2 Velocity **	13.6	10.5	8.7	7.7	6.9
M2X Velocity **	10.0	8.0	6.7	5.7	4.8
Currency outside banks / Total deposits	1.58	1.67	1.74	1.35	1.59
Deposits / Monetary aggregate (M2)	0.39	0.37	0.37	0.43	0.39

¹ since October 1, 2001 the monetary base includes deposits of commercial banks in foreign currency in the NBKR.

² data on deposits and credits for 2005 were provided in accordance with the new Chart of Accounts for commercial banks.

Deposits and credits of non-residents have been excluded from calculation of monetary aggregates.

* multiplier is an indicator of monetary units created by each monetary base item.

** velocity equals the relation of the nominal GDP per annum to monthly average money supply.

Note: M0-currency outside banks, M1=M0+demand deposits, M2=M1+time deposits in domestic currency,

M2X=M2+time deposits in foreign currency.

Table 5: External Economic Indicators

	Unit of measurement	2001	2002	2003	2004	2005 ¹
Balance of payments indicators ²						
Total balance	<i>mln. USD</i>	3.3	29.1	8.1	116.3	48.9
	<i>percent of GDP ³</i>	0.2	1.8	0.4	5.3	2.0
Current account	<i>mln. USD</i>	-24.1	-49.4	-80.6	-75.1	-207.7
	<i>percent of GDP ³</i>	-1.6	-3.1	-4.2	-3.4	-8.5
Export of goods (FOB)	<i>mln. USD</i>	480.3	498.1	590.3	733.2	675.7
	<i>percent of GDP ³</i>	31.4	30.9	30.7	33.1	27.7
Import of goods (FOB)	<i>mln. USD</i>	449.8	572.0	723.7	904.4	1120.7
	<i>percent of GDP ³</i>	29.4	35.4	37.7	40.9	45.9
Reserve assets	<i>months of import of goods and services</i>	3.9	4.0	3.8	4.6	4.6
External debt						
Public external debt ⁴	<i>mln. USD</i>	1440.4	1586.2	1776.8	1955.1	1860.2
	<i>percent of GDP</i>	94.1	98.3	92.4	88.4	76.2
	<i>percent of export of goods and services</i>	257.0	247.8	238.5	207.5	199.8
Public external debt servicing (schedule) ⁵	<i>mln. USD</i>	71.7	86.7	96.9	104.6	115.5
	<i>percent of GDP</i>	4.7	5.4	5.0	4.7	4.7
	<i>percent of export of goods and services</i>	12.8	13.5	13.0	11.1	12.4
Nominal exchange rate ⁶						
I. <i>Currencies of non-CIS countries</i>						
US dollar	<i>som/USD</i>	47.7186	46.0949	44.1902	41.6246	41.3011
Deutsche mark	<i>som/DM</i>	21.5436	...	...	...	...
British pound	<i>som/pound sterling</i>	69.0870	73.8947	78.3227	80.2148	71.3229
Euro	<i>som/euro</i>	42.1355	47.8719	55.0323	56.3930	48.9686
Canadian dollar	<i>som/dollar</i>	29.8699	29.5442	33.7356	33.8632	35.5370
Japanese yen	<i>som/10 yen</i>	3.6338	3.8408	4.1288	4.0194	3.5204
Turkish lira	<i>som/1 lira</i>	0.0329	0.0276	0.0313	0.0304	30.6843
II. <i>Currencies of FSU countries</i>						
Russian ruble	<i>som/ruble</i>	1.5832	1.4499	1.5110	1.4955	1.4346
Kazakh tenge	<i>som/tenge</i>	0.3177	0.2966	0.3070	0.3202	0.3087
Uzbek sum	<i>som/sum</i>	0.0695	0.0486	0.0451	0.0394	0.0350
Ukrainian grivna	<i>som/grivna</i>	9.0066	8.6443	8.2885	7.8451	8.1784
Azerbaijan manat	<i>som/1000 manat</i>	9.9955	9.5283	8.9781	8.4914	8.9922
Armenian dram	<i>som/10 dram</i>	0.8488	0.8261	0.7851	0.8602	0.9174
Belorussian ruble	<i>com/ruble</i>	3.0202	2.4045	2.0525	1.9155	1.9192
Latvian lat	<i>som/lat</i>	74.7940	77.6008	81.5317	80.2015	70.2878
Lithuanian lit	<i>som/litas</i>	11.9297	11.5237	15.8963	16.2077	14.1828
Moldovian ley	<i>som/lei</i>	3.6452	3.3322	3.3467	3.3390	3.2186
Estonian krona	<i>som/kroon</i>	2.6929	3.0596	3.5172	3.6042	3.1297
Tajik somoni	<i>som/somoni</i>	19.1203	15.3650	14.8824	13.7058	12.9082

¹ indicators on the balance of payment and external debt are preliminary.² NSC KR and NBKR data.³ has been calculated based on the average annual nominal exchange rate.⁴ including IMF credits.⁵ not accounting for restructuring of bilateral debt within the Paris Club in 2002 and 2005.⁶ NBKR data as of end of period.

"..." — means that no data available.

Table 6: Monetary Policy Instruments

	Unit of measurement	2001	2002	2003	2004	2005
NBKR credits	<i>mln. soms</i>					
Overnight credits		1112.07	2910.42	4397.5	8927.3	2628.5
Last resort credits		...	25.00	...	...	...
Other credits		...	...	...	...	...
NBKR's discount rate (end of period)		7.95	4.43	3.97	4.00	4.13
NBKR Bills	<i>mln. soms</i>					
maturity period:						
7 days						
volume of bids		14.84	...	58.00	...	...
volume of sales		7.90	...	8.00	...	...
14 days						
volume of bids		21.02	...	...	...	...
volume of sales		7.00	...	...	...	...
28 days						
volume of bids		485.32	373.85	270.50	470.90	468.10
volume of sales		193.75	112.00	112.00	163.50	146.50
REPO operations	<i>mln. soms</i>					
Direct		83.02	214.83	180.10	432.68	17.00
Reverse		77.00	193.75	715.10	271.30	210.50
NBKR intervention in foreign exchange sales	<i>mln. USD</i>					
Net purchase		9.28	24.52	45.06	39.20	71.28
Foreign currency in cash		-2.14	...	...	...	...
Non-cash foreign currency		11.42	24.52	45.06	39.20	71.28
SWAP operations		38.18	9.51	9.84	4.99	1.60
Reserve requirements						
Reserve requirements ratio	<i>percent</i>	10.0	10.0	10.0	10.0	10.0
Required reserves *	<i>mln. soms</i>	296.4	262.3	351.6	534.9	873.4
Excess reserves*	<i>mln. soms</i>	68.6	144.4	177.3	287.8	503.9

* average annual indicator.

"..." – no transactions.

Table 7: Interest Rates on Deposits in National Currency¹ (end of period)

(percent)

	2001	2002	2003	2004	2005
On deposits of legal entities					
<i>demand deposits:</i>	0.72	1.36	0.73	0.98	1.43
<i>time deposits:</i>	15.19	9.19	8.58	9.84	9.01
<i>including:</i>					
up to 1 month	2.48	1.93	7.48	7.47	9.48
1-3 months	12.05	5.83	6.50	8.89	7.04
3-6 months	16.89	9.25	8.79	10.59	10.35
6-12 months	19.74	12.31	9.25	11.44	9.76
over 1 year	23.58	16.13	10.96	12.91	10.03
On deposits of individuals					
<i>demand deposits:</i>	1.11	1.09	0.86	1.69	2.21
<i>time deposits:</i>	18.98	13.92	10.69	10.36	10.65
<i>including:</i>					
up to 1 month	7.74	4.81	11.30	8.87	9.59
1-3 months	11.37	7.58	10.15	8.65	8.52
3-6 months	15.52	11.43	9.74	9.56	9.76
6-12 months	18.85	14.10	10.98	11.14	10.98
over 1 year	26.58	17.55	13.06	13.80	14.04
Average weighted rate	8.37	5.11	3.48	3.52	4.03

¹ since 2003, maturity of deposits is shown based on the actual period to repayment.**Table 8: Interest Rates on Deposits in Foreign Currency¹ (end of period)**

(percent)

	2001	2002	2003	2004	2005
On deposits of legal entities					
<i>demand deposits:</i>	0.23	0.13	0.19	0.47	0.16
<i>time deposits:</i>	9.43	3.66	4.75	4.55	5.80
<i>including:</i>					
up to 1 month	—	7.98	5.73	3.74	4.09
1-3 months	5.82	6.69	4.36	4.79	5.44
3-6 months	8.82	9.90	7.17	6.21	6.87
6-12 months	1.84	5.78	6.50	7.06	9.54
above 1 year	10.95	3.13	4.48	4.34	4.79
On deposits of individuals					
<i>demand deposits:</i>	0.11	0.09	0.06	0.80	0.17
<i>time deposits:</i>	10.21	9.27	8.40	8.15	8.45
<i>including:</i>					
up to 1 month	2.81	1.62	7.54	5.45	5.92
1-3 months	4.87	4.10	7.92	6.74	7.20
3-6 months	8.08	7.75	8.10	7.85	8.23
6-12 months	11.12	8.67	8.03	9.57	9.11
above 1 year	12.02	11.04	11.21	11.63	11.53
Average weighted rate	2.91	2.08	2.23	2.12	1.64

¹ since 2003, fixed-term deposits are shown based on the actual period to repayment.

"—" — means that commercial banks have accepted interest-free deposits.

Table 9: Interest Rates on Credits of Commercial Banks in National Currency¹ (end of period)
(percent)

	2001	2002	2003	2004	2005
up to 1 month	20.82	21.43	30.61	29.09	24.85
Industry	20.00	20.00	28.05	28.54	31.45
Agriculture	45.39	45.00	33.13	28.40	28.33
Transport and communication	...	17.00	45.00	20.01	18.94
Trade	...	32.13	30.91	32.77	24.26
Procurement and processing	...	...	33.40	22.25	30.19
Construction and purchase of real property (including mortgage)	...	...	28.49	27.59	29.86
To individuals	39.47	26.20	31.97	30.87	32.98
Other	20.11	13.20	31.56	25.08	21.93
1-3 months	39.83	30.16	23.54	27.22	27.54
Industry	36.63	36.29	25.60	25.48	30.86
Agriculture	46.33	45.69	30.59	24.83	28.49
Transport and communication	40.70	30.13	17.81	22.67	16.95
Trade	35.29	22.36	22.50	30.65	28.75
Procurement and processing	75.00	68.70	38.36	26.37	28.76
Construction and purchase of real property (including mortgage)	31.21	26.46	32.67	27.96	25.28
To individuals	47.22	46.99	31.33	30.85	28.46
Other	45.75	27.23	34.59	20.01	25.31
3-6 months	40.40	35.82	24.43	22.87	24.09
Industry	40.48	32.20	23.28	14.51	23.55
Agriculture	22.91	36.53	30.47	27.37	27.43
Transport and communication	57.20	65.00	19.00	19.30	21.46
Trade	34.76	33.32	26.99	22.62	23.72
Procurement and processing	31.54	31.27	30.84	26.86	24.48
Construction and purchase of real property (including mortgage)	39.02	24.10	33.00	24.28	21.14
To individuals	48.71	36.88	32.11	30.81	29.19
Other	42.93	40.77	18.39	24.67	25.19
6-12 months	34.65	30.99	27.12	24.51	27.25
Industry	38.41	31.05	25.55	22.99	19.13
Agriculture	35.27	32.81	28.85	28.11	26.70
Transport and Communication	45.00	26.63	18.36	19.99	32.87
Trade	34.87	26.92	29.26	25.11	28.87
Procurement and processing	42.17	43.57	26.77	23.25	24.92
Construction and purchase of real estate (including mortgage)	27.23	11.92	19.64	24.11	21.51
To individuals	41.39	39.75	30.79	28.99	28.40
Other	27.72	28.92	24.39	19.51	24.50
above 1 year	13.84	26.87	19.83	21.50	21.31
Industry	12.84	22.91	22.78	20.28	20.44
Agriculture	21.37	26.92	13.41	20.63	23.30
Transport and communication	0.41	2.00	...	25.81	30.24
Trade	21.20	19.45	24.51	24.70	25.39
Procurement and processing	...	45.00	...	...	20.77
Construction and purchase of real property (including mortgage)	10.80	8.44	19.59	20.76	19.85
To individuals	6.81	7.33	10.28	17.41	23.37
Other	5.80	31.09	19.77	21.60	18.21
Overdue debt ²	...	...	29.78	23.18	22.97
Industry	...	...	42.88	23.95	13.58
Agriculture	...	...	28.70	29.01	29.72
Transport and communication	...	...	...	...	27.00
Trade	...	...	32.23	23.10	24.04
Procurement and processing	...	...	56.79	25.87	23.90
Construction and purchase of real property (including mortgage)	...	...	10.79	19.43	14.65
To individuals	...	...	36.04	29.44	39.55
Other	...	...	15.45	17.13	16.58
Average weighted rate	33.17	29.61	25.17	24.08	24.88

¹ since 2003, fixed-term loans have been shown based on the actual period to repayment.

² rates on overdue loans up to 2003 had been accounted for by

the interest rates in accordance with the terms specified in the loan agreement.

"..." – means that no data available.

Table 10: Interest Rates on Credits of Commercial Banks in Foreign Currency (end of period)¹
(percent)

	2001	2002	2003	2004	2005
up to 1 month	12.10	12.46	19.44	20.03	13.25
Industry	23.03	12.55	17.56	18.80	12.85
Agriculture	...	30.00	20.00	19.23	21.20
Transport and communication	23.39	24.00	17.00	11.71	25.78
Trade	23.67	22.03	17.21	19.78	22.03
Procurement and processing	...	24.00	29.77	10.90	12.80
Construction and purchase of real property (including mortgage)	...	...	25.19	19.02	7.90
To individuals	27.02	32.09	27.52	25.21	24.09
Other	7.38	6.02	23.72	21.06	11.92
1-3 months	28.01	23.22	22.03	15.16	16.70
Industry	23.86	30.48	19.63	16.77	15.48
Agriculture	9.29	23.45	30.11	22.06	23.80
Transport and communication	27.20	182.50	28.21	16.04	20.57
Trade	27.47	22.32	26.26	13.32	20.26
Procurement and processing	42.30	40.70	29.54	22.00	24.00
Construction and purchase of real property (including mortgage)	35.40	21.52	28.62	18.43	20.66
To individuals	28.31	23.87	26.71	21.13	23.36
Other	32.26	21.36	22.93	19.83	10.51
3-6 months	27.26	25.09	22.16	19.20	19.33
Industry	27.71	24.24	19.67	15.91	17.34
Agriculture	38.25	23.19	19.99	19.29	21.97
Transport and communication	21.26	30.93	23.24	16.22	23.89
Trade	27.21	21.64	24.35	20.13	20.24
Procurement and processing	12.29	22.77	19.28	20.56	22.75
Construction and purchase of real property (including mortgage)	29.46	22.88	23.42	20.38	17.69
To individuals	28.36	29.39	24.27	22.74	23.13
Other	29.14	24.03	21.63	20.37	18.72
6-12 months	26.01	26.05	22.27	20.12	19.04
Industry	24.71	22.45	19.06	16.98	16.07
Agriculture	22.73	28.80	23.86	22.26	24.67
Transport and communication	24.57	82.29	18.55	19.72	22.75
Trade	25.23	23.76	22.88	21.69	20.97
Procurement and processing	31.43	32.24	24.15	19.61	18.13
Construction and purchase of real property (including mortgage)	21.14	19.96	21.12	18.92	20.23
To individuals	26.06	28.90	22.91	19.34	21.90
Other	29.73	27.97	24.55	20.37	13.15
above 1 year	17.45	17.18	17.33	16.57	16.73
Industry	15.42	15.21	15.92	15.13	15.25
Agriculture	11.80	12.80	14.88	23.92	20.65
Transport and communication	15.02	16.81	15.30	18.95	16.17
Trade	14.47	19.20	21.30	16.43	16.68
Procurement and processing	...	30.00	10.61	16.89	18.36
Construction and purchase of real property (including mortgage)	24.24	17.50	18.33	18.28	16.97
To individuals	27.87	21.07	21.29	17.62	19.10
Other	22.09	20.58	16.68	16.92	17.49
Overdue debt ²	...	...	18.52	22.78	48.81
Industry	...	...	27.59	29.18	72.64
Agriculture	...	...	29.93	23.09	21.68
Transport and communication	...	...	13.40	12.06	29.07
Trade	...	...	11.31	21.18	43.20
Procurement and processing	...	...	23.14	25.76	15.69
Construction and purchase of real property (including mortgage)	...	...	24.62	17.98	32.96
To individuals	...	...	25.83	24.57	36.86
Other	...	...	20.25	16.40	61.35
Average weighted rate	23.41	22.19	20.44	18.04	18.69

¹ since 2003, fixed-term loans have been shown based on the actual period to repayment.² rates on overdue loans up to 2003 had been accounted for by the interest rates in accordance with the terms specified in the loan agreement.

"..." – means that no data available.

Table 11: Average Annual Interest Rate on Interbank Credits*(percent)*

	2001	2002	2003	2004	2005
Interbank credits in national currency	11.63	6.26	4.61	4.84	3.25
Credits for up to 1 day	10.32	6.11	4.63	5.08	4.51
2 - 7 days	12.16	6.49	4.58	4.84	3.05
8 - 14 days	12.75	6.43	4.21	4.40	2.40
15 - 30 days	...	...	4.75	3.63	3.54
31 - 60 days	4.00	...	6.00	...	1.00
61 - 90 days	...	...	...	6.00	7.00
91 - 180 days	...	...	4.32	...	12.00
181 - 360 days	...	...	...	...	...
Interbank credits in foreign currency	8.53	5.92	5.95	5.80	4.32
Credits for up to 1 day	10.00	5.50	...	5.17	...
2 - 7 days	9.24	4.37	4.08	4.32	3.70
8 - 14 days	9.06	4.50	4.83	7.79	3.38
15 - 30 days	7.68	6.57	5.28	5.42	3.59
31 - 60 days	8.65	6.18	4.25	5.50	2.75
61 - 90 days	11.18	7.03	9.00	8.50	...
91 - 180 days	9.54	6.98	8.17	6.40	7.12
181 - 360 days	...	10.00	8.38	...	6.04

"..." — no data available.

Table 12: Balance of Payments of the Kyrgyz Republic*(mln. USD)*

	2001	2002	2003	2004	2005*
CURRENT ACCOUNT	-24.1	-49.4	-80.6	-75.1	-207.7
Goods and services	-15.1	-80.5	-129.9	-193.4	-489.4
Trade balance	30.5	-74.0	-133.4	-171.2	-445.1
Exports (FOB)	480.3	498.1	590.3	733.2	675.7
CIS countries	172.2	170.3	202.4	277.6	303.2
Non-CIS countries	308.0	327.7	387.9	455.5	372.5
Import (FOB)	449.8	572.0	723.7	904.4	1120.7
CIS countries	250.1	311.7	394.5	554.4	648.2
Non-CIS countries	199.7	260.3	329.3	349.9	472.6
Balance of services	-45.6	-6.5	3.5	-22.2	-44.4
Transportation services	-29.4	-18.5	-9.7	-37.9	-56.1
Trips	12.5	25.8	31.2	25.3	15.9
Construction services	0.0	0.5	0.8	6.2	0.0
Other services (excluding TA)	-6.2	7.7	6.0	6.4	24.7
Technical assistance (TA)	-22.4	-22.1	-24.8	-22.3	-28.9
Income	-60.0	-57.4	-62.4	-90.2	-80.5
Income from direct investment	-25.6	-19.7	-26.7	-57.3	-35.9
Income from portfolio investment	-0.1	0.3	0.3	0.1	0.0
Income from other investments	-24.0	-26.4	-22.7	-28.4	-35.6
Interests on credits (schedule)	-35.6	-31.9	-27.1	-36.8	-41.1
Other income from other investments	11.6	5.5	4.5	8.4	5.5
Compensation of labor	-10.3	-11.6	-13.3	-4.6	-9.0
Current transfers	51.0	88.4	111.7	208.5	362.2
CAPITAL AND FINANCIAL ACCOUNT	7.4	80.0	-19.6	120.4	118.9
Capital account	-32.0	-7.9	-0.9	-19.9	-6.1
Capital transfers	-32.0	-7.9	-0.9	-19.9	-6.1
Financial account	39.4	87.9	-18.7	140.3	125.0
Direct investment	-1.1	4.7	45.5	131.4	60.1
Portfolio investment	1.2	-12.0	6.0	-2.5	-14.5
Financial derivatives	17.6	-5.1	-20.0	-20.5	0.5
Other investments	21.7	100.4	-50.2	31.8	78.9
Assets (-increase)	-4.0	21.5	-78.7	-29.6	-40.5
Commercial banks	-16.5	-42.3	-50.2	-49.4	-20.1
Other assets	12.5	63.8	-28.5	19.8	-20.4
Liabilities (+ increase)	25.7	78.9	28.5	61.4	119.4
Commercial banks	3.9	32.7	36.6	25.8	68.4
Loans	18.6	35.6	-16.1	43.1	29.4
Lending to public sector	66.9	50.5	33.3	50.7	7.6
Disbursement	110.2	87.8	74.9	95.0	58.5
Amortisation (schedule)	-43.4	-37.3	-41.6	-44.3	-50.9
Lending to private sector	-48.2	-14.9	-49.4	-7.6	21.8
Disbursement	7.9	3.6	13.0	15.0	30.0
Amortisation (schedule)	-56.2	-18.5	-62.4	-22.7	-8.2
Other liabilities	3.2	10.6	7.9	-7.4	21.6
Errors and omissions	20.0	-1.5	108.3	71.0	137.6
TOTAL BALANCE	3.3	29.1	8.1	116.3	48.9
Financing	-3.3	-29.1	-8.1	-116.3	-48.9
NBKR reserves	-16.3	-43.8	-50.8	-160.6	-80.5
IMF loans	-2.1	-6.0	-0.9	-1.1	-12.5
Exceptional financing	15.1	20.7	43.6	45.4	44.2
Other financing	0.0	0.0	0.0	0.0	0.0

* preliminary data.

Table 13: Data on External Debt of the Kyrgyz Republic (end of period)*(mln. USD)*

	2001	2002	2003	2004	2005 ¹
Total external debt (I+II)	1721.7	1839.3	1978.3	2103.5	1974.0
I. Public and Government-guaranteed debt	1440.4	1586.2	1776.8	1955.1	1860.2
Official creditors					
Multilateral ²	946.4	1074.7	1216.2	1350.1	1285.3
IMF	179.3	185.2	201.9	206.9	177.9
World Bank	388.4	457.0	525.2	579.0	562.8
European Bank for Reconstruction and Development	62.3	53.7	44.1	36.5	27.7
Asian Development Bank	291.9	342.5	399.9	479.4	466.8
Islamic Bank for Reconstruction and Development	11.6	18.6	24.3	25.0	28.8
International Fund for Agricultural Development	4.5	5.7	7.0	9.2	9.0
OPEC Fund	3.5	6.7	7.3	7.0	6.3
Nordic Development Fund	4.7	5.3	6.4	6.9	6.0
Bilateral	466.5	506.5	555.3	599.7	574.8
CIS countries	177.8	182.4	180.2	193.1	197.1
Russia	166.4	171.1	168.6	181.8	186.0
Uzbekistan	11.3	11.3	11.6	11.3	11.1
Other countries (excluding CIS countries)	288.7	324.0	375.1	406.6	377.7
Turkey	43.6	44.5	45.8	46.3	46.3
Japan	176.6	197.0	229.8	246.2	225.2
Germany	20.0	26.5	37.1	45.8	40.8
Pakistan	8.4	8.4	8.4	9.2	10.0
China	6.0	10.3	13.3	13.5	13.6
France	3.5	4.1	5.0	5.7	5.5
Kuwait Fund	9.8	13.0	15.5	15.5	15.7
India	0.9	0.9	1.0	2.0	1.0
South Korea	12.2	13.5	14.1	16.5	16.7
Denmark	7.7	5.8	5.0	5.9	3.0
Government-guaranteed debt	27.5	5.0	5.3	5.3	0.0
II. Private non-guaranteed debt	281.3	253.1	201.5	148.4	113.8

MEF KR data.

¹ preliminary data.² creditors acting on multilateral basis including international finance institutions.

Table 14: Structure of Exports¹
(mln. USD)

	2001	2002	2003	2004	2005*
Total	476.2	485.5	581.7	718.8	672.0
Food products and live animals	19.3	31.2	37.5	62.3	56.6
Drinks and tobacco	28.2	21.0	13.6	16.2	18.6
Non-food raw materials, other than fuel	46.2	82.5	67.9	77.6	75.8
Mineral fuels, lubricating, and similar materials	54.5	58.2	67.3	81.2	78.8
Animal and vegetable oils, fats and wax	0.0	0.2	0.1	0.1	0.1
Chemical substances and similar products, not included in other categories	18.2	25.5	9.8	22.0	14.6
Industrial goods classified by the type of material	19.5	36.1	57.1	78.1	85.9
Machinery and transport equipment	55.6	48.8	43.4	51.4	51.2
Various finished products	10.2	19.3	25.3	42.6	59.7
Goods and transactions, not included in other categories ISCC categories	224.6	162.8	259.7	287.4	230.7

¹ by sections of the International Standard Commodity Classification (not accounting for exports by "shuttle traders").

* by preliminary data of the NSC KR.

Table 15: Structure of Imports¹
(mln. USD)

	2001	2002	2003	2004	2005*
Total	467.2	586.7	716.9	941.0	1107.8
Food products and live animals	35.8	53.2	56.3	81.2	114.9
Drinks and tobacco	18.7	19.2	26.1	34.4	41.8
Non-food raw materials, other than fuel	16.8	23.8	26.8	30.5	36.3
Mineral fuels, lubricating, and similar materials	121.0	152.0	180.5	256.3	320.0
Animal and vegetable oils, fats and wax	3.1	3.8	9.2	11.3	9.2
Chemical substances and similar products, not included in other categories	75.5	87.0	104.8	137.4	157.4
Industrial goods classified by the type of material	70.7	76.4	111.8	150.7	161.8
Machinery and transport equipment	89.3	122.6	142.5	180.1	199.6
Various finished products	36.3	48.7	58.9	59.1	65.5
Goods and transactions, not included in other categories ISCC categories	0.0	0.0	0.0	0.0	1.3

¹ by sections of the International Standard Commodity Classification (in CIF prices not accounting for imports by "shuttle traders").

* NSC KR and NBKR data.

Table 16: Information on Authorised Capital of Commercial Banks and of the SSC*(thous. soms)*

Name of banks	01.01.2002			01.01.2003			01.01.2004			01.01.2005			01.01.2006		
	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c
Total	1757686.4	1562111.4	670877.1	2011214.9	1802536.7	756902.1	2416430.0	1950289.0	905954.6	2470844.0	2425138.0	1391656.2	3050756.0	2959605.0	1963408.2
OJSC "AsiaUniversalBank"	100000.0	100000.0	68430.7	200000.0	200000.0	100743.8	300000.0	200000.0	136120.0	300000.0	300000.0	236217.0	300000.0	300000.0	236217.0
OJSC Russian-Kyrgyz "Amanbank"	55000.0	55000.0	18872.0	55000.0	55000.0	18872.0	55000.0	55000.0	18755.0	63000.0	55000.0	13156.0	63000.0	63000.0	17823.0
OJSC "Ak Bank" ¹	-	-	-	-	-	-	200000.0	60000.0	28950.0	200000.0	200000.0	87500.0	-	-	-
OJSC "Bank of Asia"	63000.0	63000.0	63000.0	63000.0	63000.0	63000.0	63000.0	63000.0	63000.0	63000.0	63000.0	63000.0	63000.0	63000.0	63000.0
OJSC "Bakai Bank"	30000.0	30000.0	...	38000.0	38000.0	...	47000.0	47000.0	...	60000.0	60000.0	...	80000.0	80000.0	0.0
CJSC "Demir Kyrgyz International Bank"	54052.8	54052.8	54052.8	54052.0	54052.8	54052.8	100000.0	100000.0	100000.0	132540.0	132540.0	132540.0	132540.0	132540.0	132540.0
OJSC "Dos-Credobank"	50000.0	50000.0	...	50000.0	50000.0	...	100000.0	70720.0	...	100000.0	77294.0	...	100000.0	77825.0	...
Investment JSCB "Issuk-Kul"	50000.0	25000.0	...	35000.0	25250.0	250.0	35000.0	35000.0	4802.0	50000.0	35000.0	4802.0	60000.0	35000.0	4855.0
CJSC "INEXIMBANK"	100000.0	100000.0	34519.0	230000.0	100000.0	34519.0	230000.0	100000.0	76930.0	230000.0	230000.0	163300.0	480000.0	480000.0	340800.0
OJSC "Halyk Bank Kyrgyzstan"	170000.0	170000.0	...	170000.0	170000.0	...	170000.0	170000.0	...	170000.0	170000.0	170000.0	211000.0	211000.0	211000.0
CJSC "Kyrgyz Investment and Credit Bank"	334030.0	334030.0	300627.0	322664.3	322664.3	290397.9	309331.0	309331.4	278398.0	291372.0	291372.0	262234.8	289108.0	289108.0	260197.2
OJSC "Kazkommertsbank Kyrgyzstan"	50000.0	25625.0	...	100000.0	100000.0	72352.0	100000.0	100000.0	73972.0	100000.0	100000.0	73972.0	100000.0	100000.0	93581.0
JSCB "Kyrgyzcredit"	35000.0	35000.0	...	35000.0	35000.0	...	35000.0	35000.0	...	40000.0	40000.0	35480.0	100000.0	100000.0	80795.0
OJSC "Kyrgyzpromstroibank"	100000.0	100000.0	...	100000.0	100000.0	...	100000.0	100000.0	...	100000.0	100000.0	...	100000.0	100000.0	...
JSCB "Kyrgyzstan"	127079.0	72079.0	...	127079.0	120912.0	...	127079.0	120912.0	...	120912.0	120912.0	...	138912.0	120912.0	...
Bishkek Branch of the National Bank of Pakistan	114524.6	114524.6	114524.6	105419.6	105419.6	105419.6	105420.0	105419.6	105420.0	105420.0	105420.0	105420.0	105420.0	105420.0	105420.0
OJSC "Settlement & Savings Company"	100000.0	100000.0	...	100000.0	100000.0	...	100000.0	100000.0	...	100000.0	100000.0	...	103800.0	103800.0	...
CJSCB "Tolubai"	25000.0	25000.0	500.0	26000.0	26000.0	520.0	31000.0	31000.0	589.0	36000.0	36000.0	589.0	48000.0	48000.0	901.0
OJSC FinanceCreditBank ²	-	-	-	-	-	-	-	-	-	-	-	-	300000.0	300000.0	300000.0
OJSC "Ecobank"	100000.0	50000.0	7551.0	100000.0	66038.0	9975.0	100000.0	76706.0	12219.0	100000.0	100000.0	6087.0	125976.0	100000.0	5400.0
OJSC "Energobank"	100000.0	58800.0	8800.0	100000.0	71200.0	6800.0	108600.0	71200.0	6799.6	108600.0	108600.0	37358.4	150000.0	150000.0	110879.0

Notes: a – announced authorised capital, b – paid-in authorised capital, c – including the share of foreign investors.

¹ since September 1, 2004, the conservation regime has been introduced, with the banking licence being revoked. Since May 19, 2005 – the banking licence recovered. Since September 27, 2005 – licence revoked.

² since December 12, 2005 – the banking licence issued. The Bank started its operating activity in January, 2006.

"..." – no share of foreign investors.

"-" – no data available.

Table 17: Information on Head Offices and Branches of Commercial Banks and of the SSC as of January 1, 2006

Bank	Location of head office	Number of branches	Branches							
			Bishkek	Chui oblast	Issykkul oblast	Naryn oblast	Talas oblast	Jalalabat oblast	Osh oblast	Batken oblast
Branches, total		168	30	27	23	13	8	30	27	10
Branches of resident banks										
OJSC "AsiaUniversalBank"	Bishkek	2	1	-	1	-	-	-	-	-
OJSC Russian-Kyrgyz "Amanbank"	Bishkek	6	1	1	2	-	-	1	1	-
OJSC "Bank of Asia"	Bishkek	-	-	-	-	-	-	-	-	-
OJSC "Bakai Bank"	Bishkek	5	-	2	1	-	-	1	1	-
CJSC "Demir Kyrgyz International Bank"	Bishkek	2	1	-	-	-	-	-	1	-
OJSC "Dos-Credobank"	Bishkek	7	1	1	1	2	-	1	1	-
Investment JSCB "Issuk-Kul"	Bishkek	6	2	-	2	-	-	1	1	-
CJSC "INEXIMBANK"	Bishkek	5	2	1	-	-	-	1	1	-
OJSC "Halyk Bank Kyrgyzstan"	Bishkek	5	2	1	-	-	-	1	1	-
CJSC "Kyrgyz Investment and Credit Bank"	Bishkek	1	1	-	-	-	-	-	-	-
OJSC "Kazkommertsbank Kyrgyzstan"	Bishkek	3	1	-	-	-	-	1	1	-
JSCB "Kyrgyzcredit"	Bishkek	-	1	-	-	-	-	-	-	-
OJSC "Kyrgyzpromstroibank"	Bishkek	29	2	5	4	3	2	6	4	3
JSCB "Kyrgyzstan"	Bishkek	28	5	4	3	3	1	5	5	2
OJSC "The Settlement & Savings Company"	Bishkek	51	3	9	7	5	4	10	8	5
CJSCB "Tolubai"	Bishkek	1	1	-	-	-	-	-	-	-
OJSC "Ecobank"	Bishkek	7	3	2	-	-	-	1	1	-
OJSC "Energobank"	Bishkek	7	1	1	2	-	1	1	1	-
OJSC "Ak Bank" ¹	Bishkek	-	-	-	-	-	-	-	-	-
OJSC FinanceCreditBank ²	Bishkek	-	-	-	-	-	-	-	-	-
Branches of non-resident banks										
Bishkek Branch of "CABCD" ³	Almaty	1	1	-	-	-	-	-	-	-
Bishkek Branch of the National Bank of Pakistan	Karachi	1	1	-	-	-	-	-	-	-

¹ on September 1, 2004 – the conservation regime was introduced.

² on December 30, 2005 the banking licence was issued. The Bank started carrying out its operating activity in January 2006.

³ on July 31, 2002 a provisional administration regime was introduced. On July 15, 2002, the banking licence of Almaty-based CABCD was revoked.

"—" – no branches.

Table 18: Composition of Currency Circulation of Commercial Banks and its Recurrence in 2005**(mln. soms)*

	Receipt				Issue					Surplus of issue (receipt) over receipt (issue) (+/-) (9-4)	Rate of recurrence (%) (4/9)
	Taxes, duties, and fees	From sales of foreign currency	Other	Total	To the Treasury for payment of wages	For payment of pensions and allowances	For purchases of foreign exchange	For other expenses	Total		
	1	2	3	4	5	6	7	8	9	10	11
Republic, total	6,364	5,034	55,577	66,975	8,046	5,774	5,470	50,327	69,617	2642	96.2
Bishkek	3,572	3,726	36,588	43,886	2,795	1,009	2,876	34,020	40,700	-3186	107.8
Batken Oblast	81	4	543	628	523	464	158	755	1,900	1272	33.1
Jalalabat Oblast	484	236	3,945	4,665	1,101	913	1,052	4,144	7,210	2545	64.7
Issykkul Oblast	213	62	2,003	2,278	591	559	156	1,912	3,218	940	70.8
Naryn Oblast	166	7	432	605	499	530	8	564	1,601	996	37.8
Osh	793	880	7,613	9,286	730	266	999	5,007	7,002	-2284	132.6
Osh Oblast	251	1	838	1,090	690	1,007	98	1,051	2,846	1756	38.3
Talas Oblast	88	-	547	635	296	253	14	885	1,448	813	43.9
Chui Oblast	716	118	3,068	3,902	821	773	109	1,989	3,692	-210	105.7

* NBKR data.

Table 19: Volume and Amount of Payments in the Payment System**19.1. Structure of Payments in the Gross Settlements***

	2001		2002		2003		2004		2005	
	Amount (mln. soms)	Volume	Amount (mln. soms)	Volume	Amount (mln. soms)	Volume	Amount (mln. soms)	Volume	Amount (mln. soms)	Volume
Payments under Som 1 thous.	0	1,623	0	2,250	1	3,762	1	3,136	1	2,447
From 1 thous. to 100 thous.	147	5,250	209	8,823	312	13,828	371	14,175	433	16,418
From 100 thous. to 1 mln.	2,717	6,427	3,309	9,492	3,806	11,610	4,231	11,887	4,347	12,868
From 1 mln. to 10 mln.	26,009	8,275	29,231	10,564	31,528	10,682	32,744	9,535	35,172	10,009
From 10 mln. to 100 mln.	19,702	973	21,039	1,313	32,206	1,778	50,147	2,327	51,853	2,370
Payments above 100 mln.	2,942	14	936	5	822	7	5,901	47	7,144	31
Total	51,517	22,562	54,724	32,447	68,676	41,667	93,394	41,107	98,951	44,143

* NBKR data.

"–" – no data available.

19.2. Volume and Number of Clearing Payments by Oblasts *

	2001		2002		2003		2004		2005	
	Amount (mln. soms)	Volume	Amount (mln. soms)	Volume	Amount (mln. soms)	Volume	Amount (mln. soms)	Volume	Amount (mln. soms)	Volume
Bishkek and Chui Oblast	17,925	287,520	18,188	308,887	24,282	533,209	33,759	821,788	38,659	744,346
Issykkul Oblast	273	15,964	218	13,269	357	18,603	733	29,549	977	35,296
Talas Oblast	129	6,132	129	6,850	183	19,226	303	41,293	432	44,576
Naryn Oblast	185	9,770	231	10,508	296	13,591	497	16,546	595	19,811
Jalalabat Oblast	444	15,023	559	16,163	945	34,190	1,500	51,680	1,912	53,307
Osh Oblast and Osh	1,454	29,716	1,851	33,225	2,048	72,076	2,842	88,835	3,951	73,072
Batken Oblast	0	0	0	0	0	0	0	0	148	7,548
Total	20,409	364,125	21,176	388,902	28,110	690,895	39,634	1,049,691	46,675	977,956

* NBKR data.

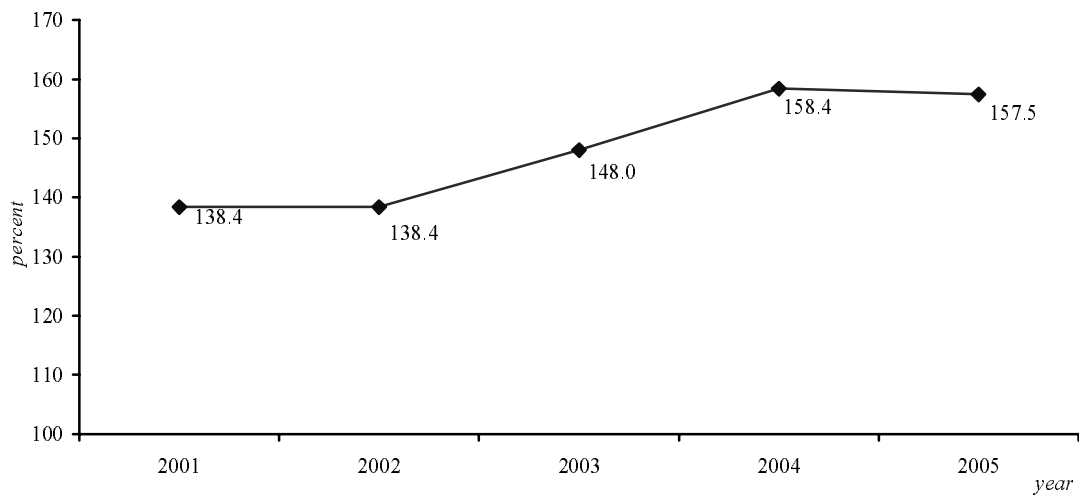
19.3. Data on Banking Cards Transactions in Sales Outlets *

Type of Card	2001		2002		2003		2004		2005	
	Volume	Amount (mln. soms)	Volume	Amount (mln. soms)	Volume	Amount (mln. soms)	Volume	Amount (mln. soms)	Volume	Amount (mln. soms)
Visa	4,722	49,619	6,682	71,566	8,004	90,711	16,956	102,437	21,062	106,917
Europay/Master Card	1,917	18,084	2,452	24,444	3,789	39,692	7,827	44,671	8,920	46,923
Alai-Card	39,988	10,080	43,339	9,162	41,159	8,017	38,857	8,178	34,348	8,366
Demir 24	-	-	-	-	-	-	2,510	833	5,327	1,781
Union Card	-	-	6	3	-	-	-	-	-	-

* according to the data of commercial banks.

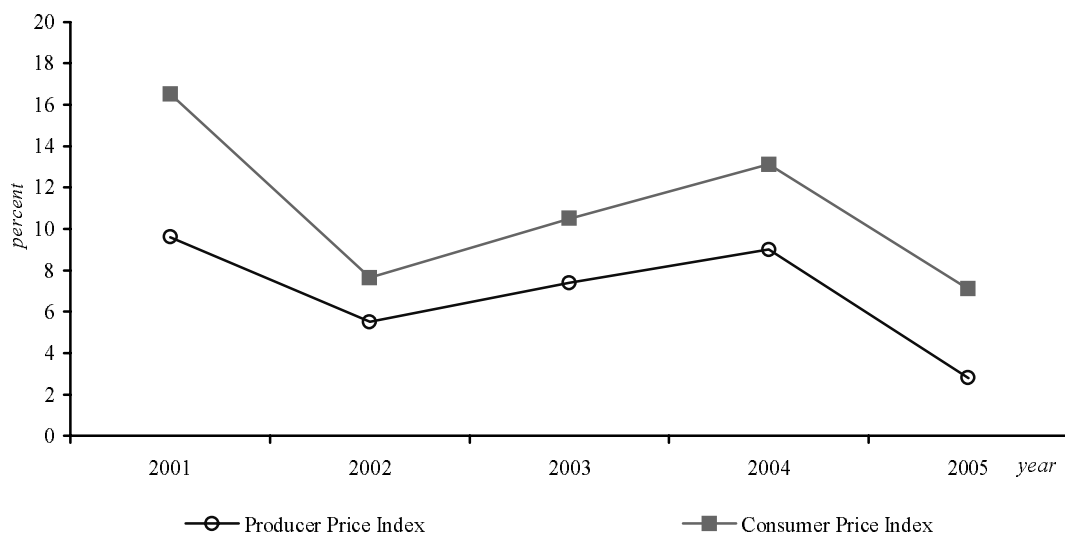
"–" – no data available.

Graph 1. Real Growth Rate of Gross Domestic Product (1995=100%)



NSC KR data.

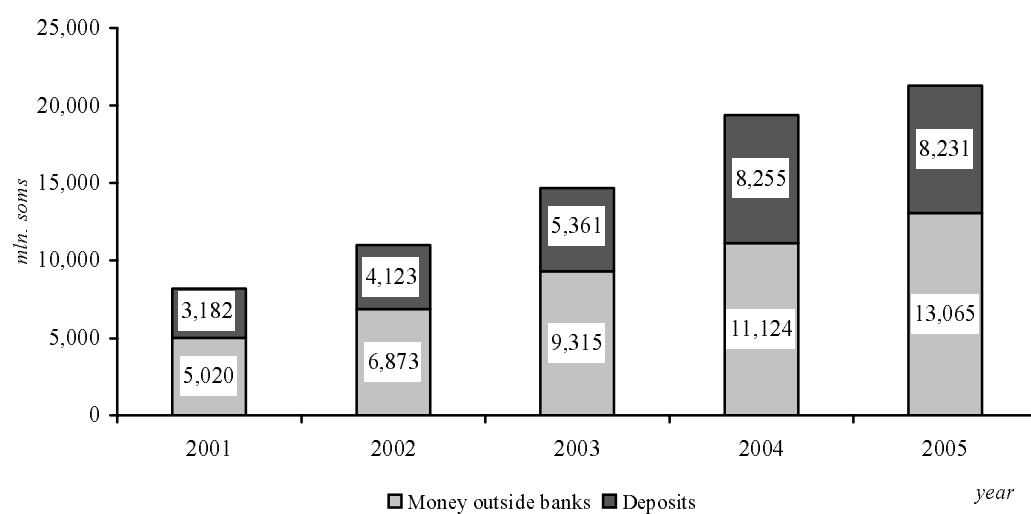
Graph 2. Growth Rates of Consumer Prices and Producer Prices



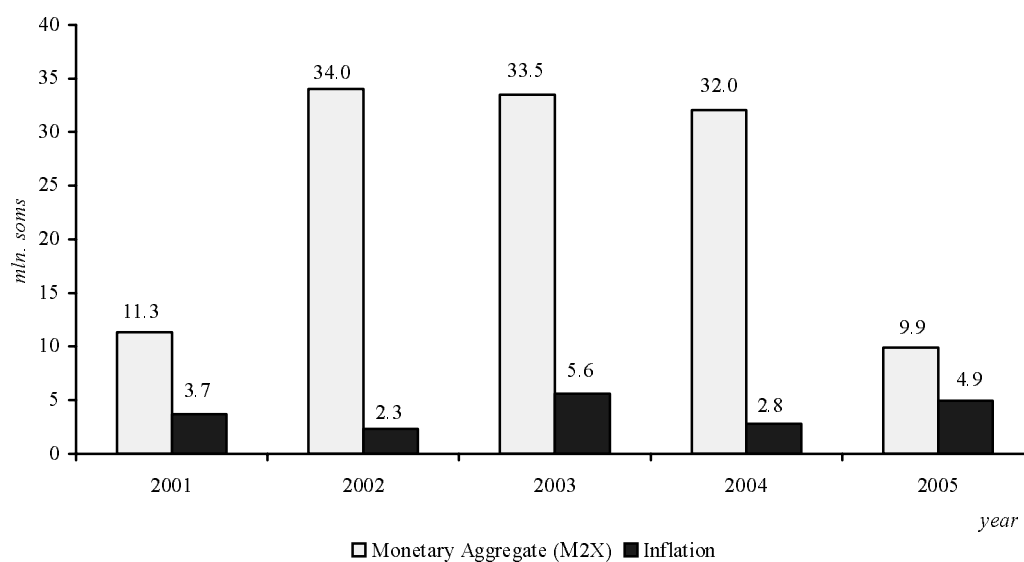
NSC KR data.

Graph 3. Monetary Aggregates

3.1: The Structure of Monetary Aggregate M2X



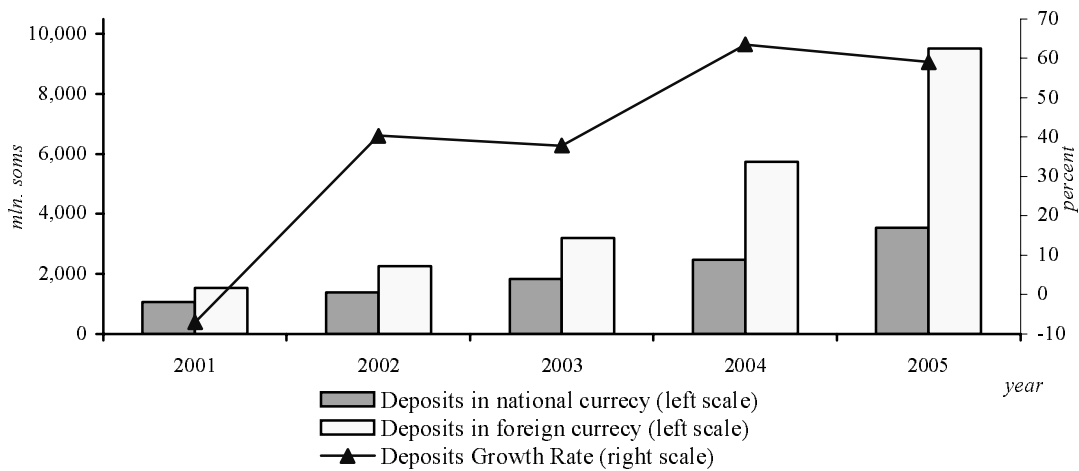
3.2: Growth Rates of Monetary Aggregates and Inflation



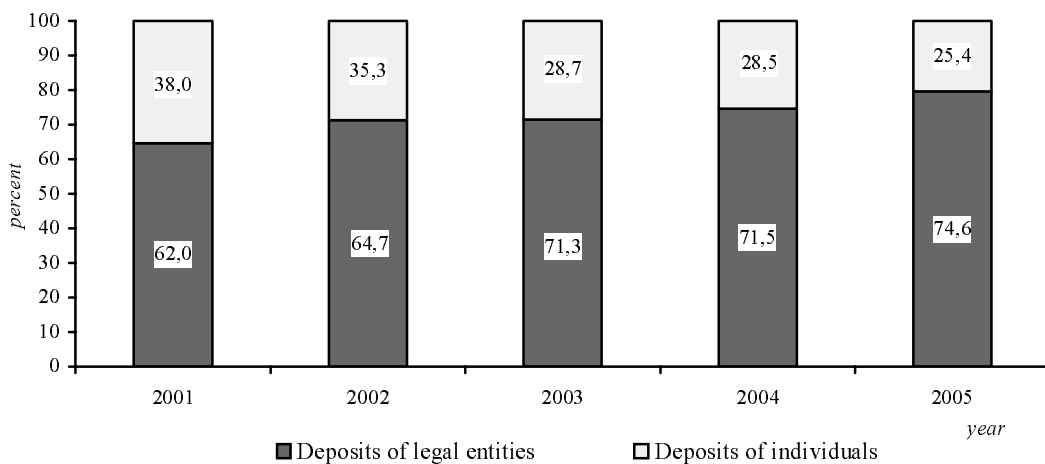
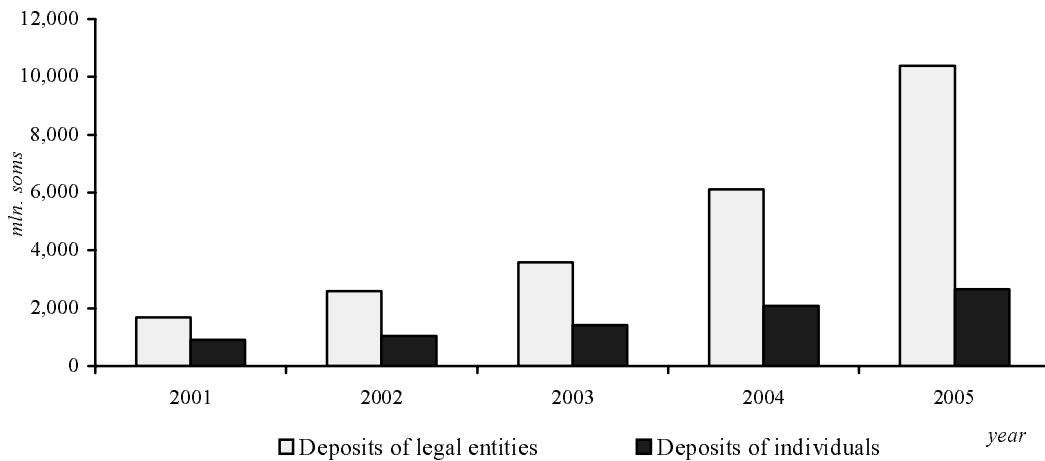
According to the data of the NSC KR, NBKR and commercial banks.

Graph 4: Deposits

4.1. Deposits in Operating Commercial Banks (end of period)



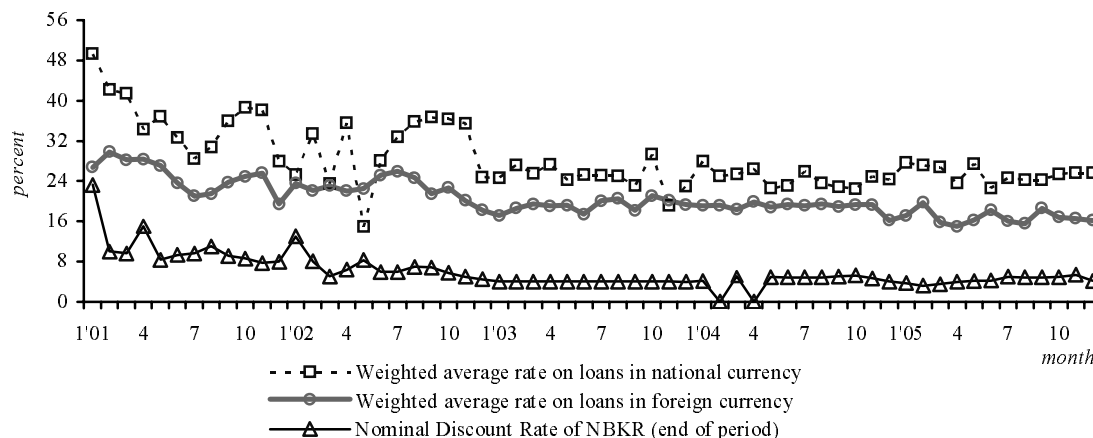
4.2. Composition of Deposits of Operating Commercial Banks by Depositors (end of period)



According to the data of the monthly regulatory reports of commercial banks.

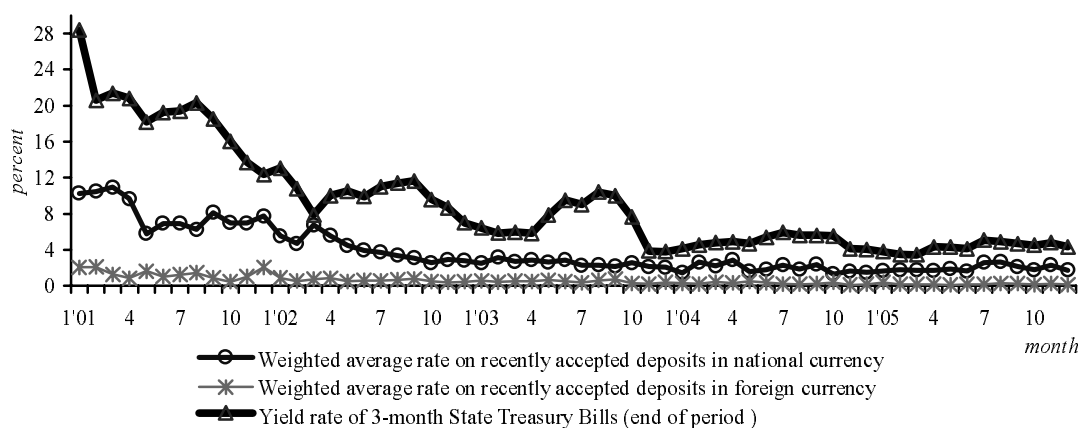
Graph 5. Interest Rates

5.1. Interest Rates of Credits Extended by Commercial Banks



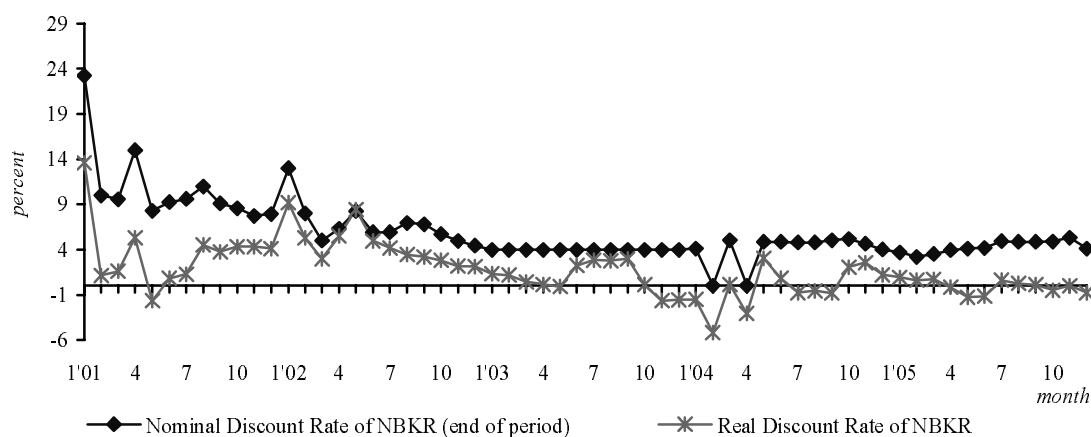
According to the data of the monthly regulatory reports of commercial banks.

5.2. Interest Rates of Deposits and State Treasury Bills' Yield



According to the data of the NBKR and monthly regulatory reports of commercial banks.

5.3. Dynamics of Nominal and Real Discount Rate



According to the data of the NBKR

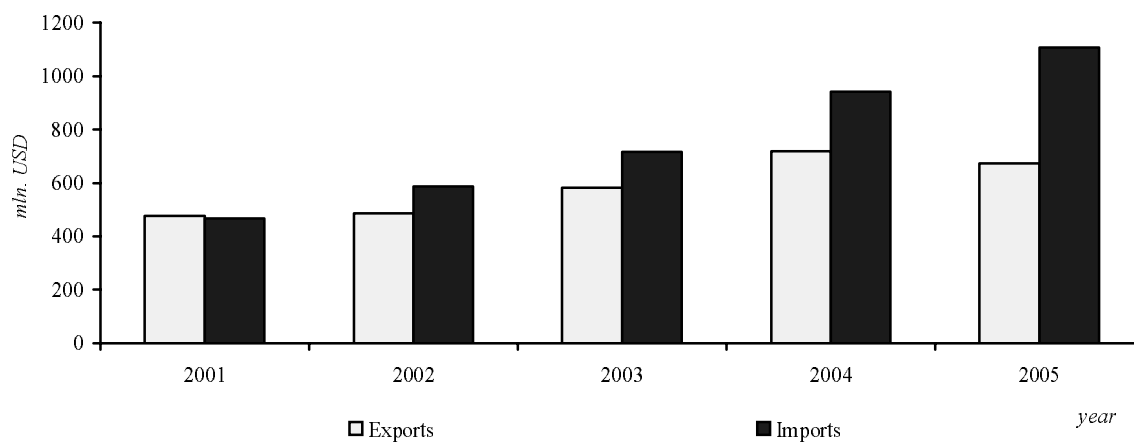
Note: To calculate the real interest rate, the following formula has been used

$r = (i - p) / (p + 100) * 100$, where i is a nominal interest rate,

r - Real interest rate, p - annual inflation rate.

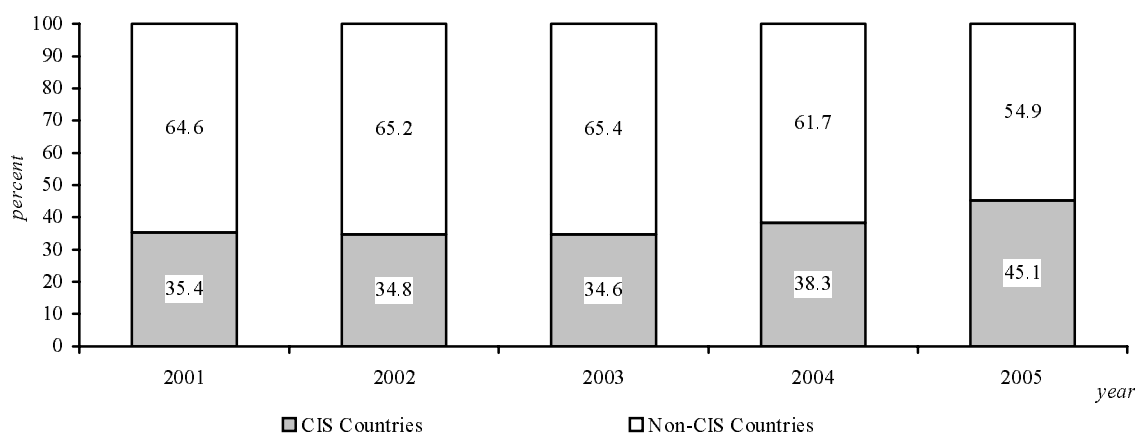
Graph 6. Share of CIS and Non-CIS Countries in External Trade

6.1. Exports and Imports



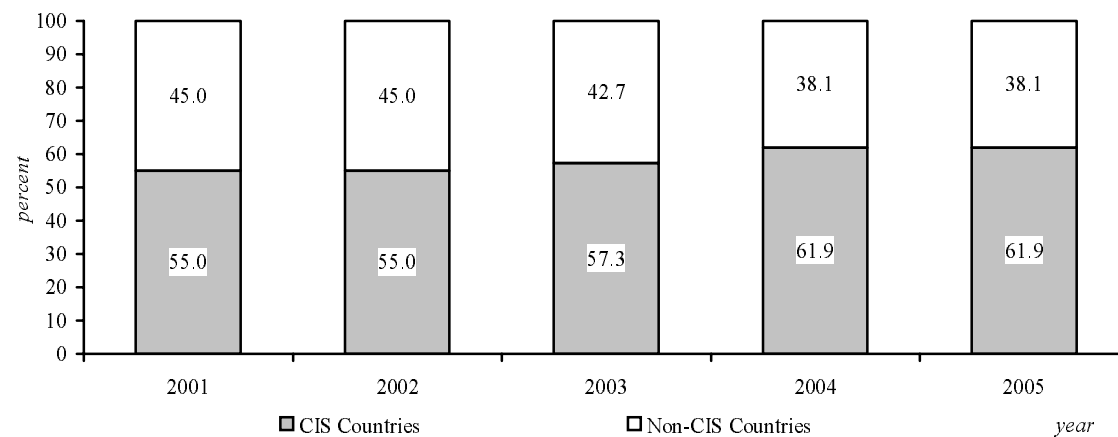
NSC KR data.

6.2. Share of CIS and Non-CIS Countries in Export



According to the preliminary data of the NSC KR in FOB prices.

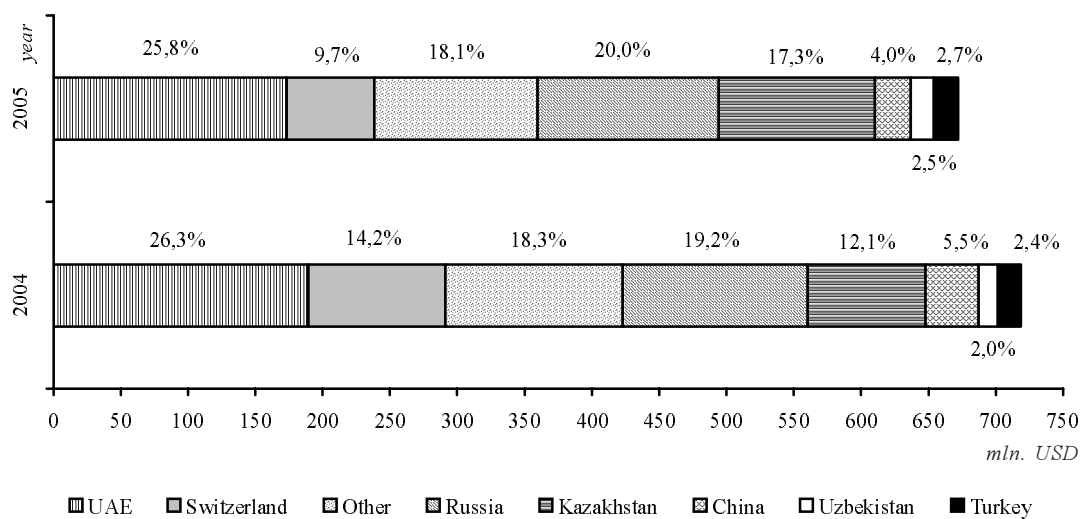
6.3. Share of CIS and Non-CIS Countries in Import



According to the preliminary data of the NSC KR in CIF prices.

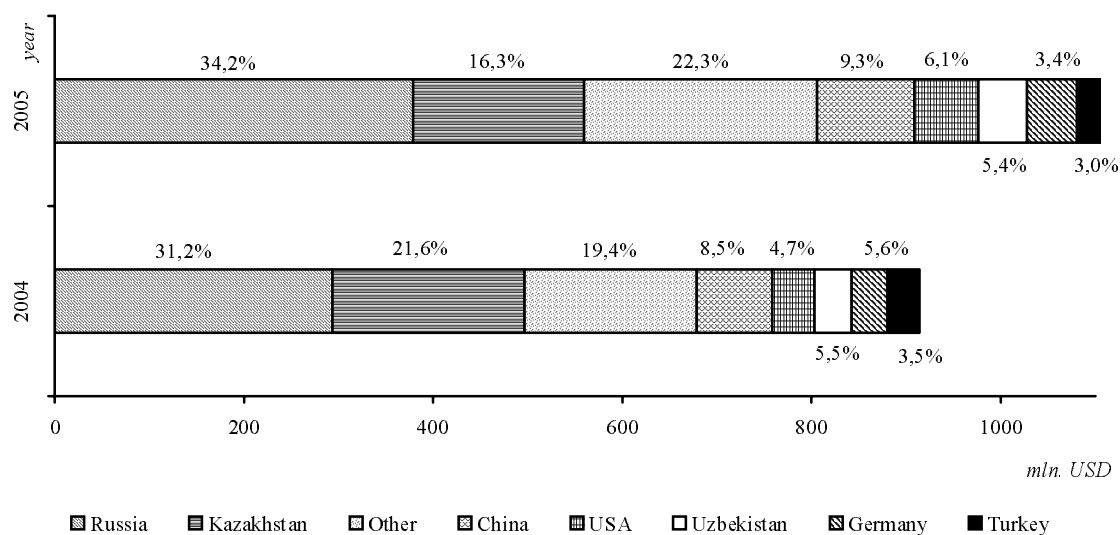
Graph 7. Geographical Structure of External Trade

7.1. Composition of Exports by Countries



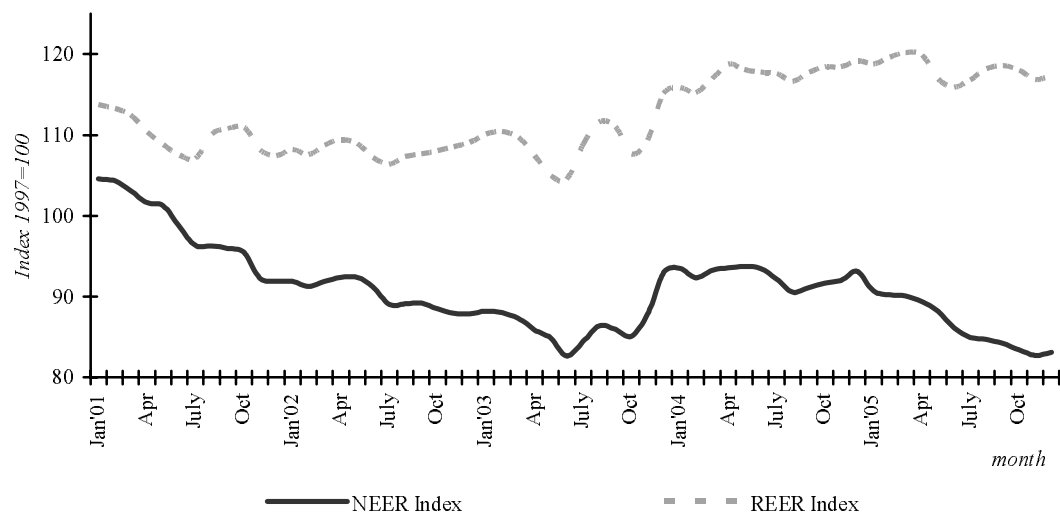
According to the preliminary data of the NSC KR in FOB prices.

7.2. Composition of Imports by Countries



According to the preliminary data of the NSC KR in CIF prices.

Graph 8. Indices of Nominal and Real Effective Exchange Rate



NBKR data.

Periodical Publications and other Informational Tools

№	Name ¹	Language of publication and circulation	Frequency	Contents	Subscription
1	2	3	4	5	6
1.	Bulletin of the National Bank of the Kyrgyz Republic	In Kyrgyz and Russian – 400 copies. In English – 180 copies.	Monthly	Statistic data on major macroeconomic indicators and sectors of economy of the Kyrgyz Republic. The materials from the following organizations are used in preparation of the Bulletin: National Statistic Committee, Ministry of Economy and Finance, commercial banks, State Agency for Financial Supervision and Reporting under the Government of the Kyrgyz Republic, and NBKR.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, Ministries and Departments, commercial banks, local government agencies, Higher Educational Institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, Diplomatic Missions of the Republic abroad, representative offices of international organizations and embassies of the countries accredited in the Kyrgyz Republic, mass media.
2.	Annual Report of the National Bank of the Kyrgyz Republic	In Kyrgyz – 250 copies. In Russian – 370 copies. In English – 250 copies.	Annually	A comprehensive progress report of the National Bank for the reporting period, which contains brief characteristics of the results of changes in the real sector of economy, description of decisions and actions of the National Bank of the Kyrgyz Republic in the monetary area. It also includes information on economic development, financial statements, and background information on the National Bank, and statistic attachments.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, Ministries and Departments, commercial banks, local government agencies, Higher Educational Institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, Diplomatic Missions of the Republic abroad, representative offices of international organizations and embassies of the countries accredited in the Kyrgyz Republic, mass media.

¹ name of publications in alphabetic order

1	2	3	4	5	6
3.	Statutory Acts of the National Bank of the Kyrgyz Republic	In Kyrgyz and Russian – 310 copies.	Monthly	Official publication of Statutory acts of the National Bank of the Kyrgyz Republic.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, Ministries and Departments, commercial banks, local government agencies, Higher Educational Institutions and libraries of the Kyrgyz Republic.
4.	Inflation Report	in Kyrgyz – 185 copies. in Russian – 290 copies. in English – 190 copies.	Quarterly	Description of dynamics of consumer prices in the Republic and its regions, analysis of major inflation factors. The publication informs of the decisions made by the NBKR in the monetary policy, it presents the forecast of inflation for the upcoming period.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, Ministries and Departments, commercial banks, local government agencies, Higher Educational Institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, Diplomatic Missions of the Republic abroad, representative offices of international organizations and embassies of the countries accredited in the Kyrgyz Republic, mass media.
5.	The Balance of Payments of the Kyrgyz Republic	in Kyrgyz – 175 copies. in Russian – 280 copies. in English – 160 copies.	Quarterly	The publication reflects the latest external sector's development trends and contains statistic data on the balance of payments, external trade, international reserves, external debt, and international investment position, and also methods and information basis for preparation of the Balance of Payments.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, Ministries and Departments, commercial banks, local government agencies, Higher Educational Institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, Diplomatic Missions of the Republic abroad, representative offices of international organizations and embassies of the countries accredited in the Kyrgyz Republic, mass media.

1	2	3	4	5	6
6.	Press Release of the National Bank of the Kyrgyz Republic	in Kyrgyz and Russian – 510 copies.	Weekly	Updated information on official exchange rates fixed by the National Bank of the Kyrgyz Republic, on the results of the inter-bank foreign exchange tenders, the status of the STB market, the discount rate of the National Bank, overall macroeconomic status of the Republic, preliminary inflation review for a month, analytical materials on the financial market, and also the chronicle of weekly events that take place in the National Bank.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, Ministries and Departments, commercial banks, local government agencies, Higher Educational Institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, Diplomatic Missions of the Republic abroad, representative offices of international organizations and embassies of the countries accredited in the Kyrgyz Republic, mass media.
7.	Banking System Development Trends	in Kyrgyz and Russian – 300 copies. in English – 200 copies.	Every six months	Analysis and evaluation of the banking system in Kyrgyzstan as a financial intermediary, identification of constraints for achievement and maintenance of stability, and also evaluation of component stability elements of Kyrgyzstan's banking system.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, Ministries and Departments, commercial banks, local government agencies, Higher Educational Institutions and libraries of the Kyrgyz Republic, international financial institutions, central banks of CIS countries, integration institutions, Diplomatic Missions of the Republic abroad, representative offices of international organizations and embassies of the countries accredited in the Kyrgyz Republic, mass media.
8.	Discount rates of foreign currencies to the Kyrgyz Som and the discount rate of the NBKR	in Kyrgyz and Russian – 300 copies.	Annually	Data on discount rates of foreign currencies to the Kyrgyz Som established by the National Bank of the Kyrgyz Republic and the NBKR's discount rate for the year.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, Ministries and Departments, commercial banks, local government agencies of the Kyrgyz Republic.

1	2	3	4	5	6
9.	Information Booklets and Reference Books	in Kyrgyz and Russian	In accordance with the Work Plans of the structural subdivisions	Information booklets and methodical manuals are published on various areas of the NBKR's activity. In addition, the National Bank publishes reference books for commercial banks and other financial and credit institutions that operate in the Kyrgyz Republic.	Jogorku Kenesh of the Kyrgyz Republic, President's Administration, Prime-Minister's Office, courts, Ministries and Departments, commercial banks and non-banking financial institutions, HEIs and libraries through the Public Reception of the NBKR and its oblast Boards.
10.	Official website of the NBKR www.nbkr.kg	in Kyrgyz, Russian, and English	Is updated on-line	Information on official exchange rates and discount rate fixed by the National Bank of the Kyrgyz Republic, a chronicle of events that take place in the NBKR, information on the outcomes of inter-bank foreign exchange tenders, on the status of the STB market, on overall macroeconomic indicators of the Republic, data on commercial banks and lists of active non-banking financial institutions. Also, the following information is posted on the web-site: rules and regulations adopted by the National Bank, new drafts subject to discussion, information on the monetary policy, banking and payment systems, national currency, statistic data on financial and foreign economic sectors, macroeconomic indicators, background information on the National Bank of the Kyrgyz Republic. Internet versions of official publications of the National bank including «Bulletin of the NBKR», «Annual Report», «Inflation review in the Kyrgyz Republic», «Balance of Payments of the Kyrgyz Republic», «Press Release of the NBKR», «Kyrgyz Republic's Banking	Free access to information.

1	2	3	4	5	6
				System Development Trends» – are updated according to the periodicity of the relevant publication.	
11.	«Natsbank soobschayet» TV Programme	in Russian	weekly	Major events in the activity of the NBKR are covered; the public is provided with the information on official exchange rates established by the National Bank of the Kyrgyz Republic, on the outcomes of interbank foreign exchange tenders, on the status of the STB market, on overall macroeconomic indicators of the Republic; Explanations on queries incoming from citizens are provided under the heading of “The Public Reception of the NBKR Answers Your Questions”.	Is broadcasted on the National State TV Channel (KTR).
12.	«Uluttuk bank bildirer»	in Kyrgyz	weekly	The radio programme covers the following news of the financial market : the market situation, discount and foreign exchange rates established by the National bank , interview of the NBKR specialists on monetary policy, banking system and banking legislation-related issues. Answers to the most frequently-asked questions of citizens are covered under the heading of “The Public Reception of the NBKR Answers Your Questions”.	Is broadcasted on the Kyrgyz Radio.

List of Abbreviations

ADB	– Asian Development Bank
ATM	– Automatic Teller Mashina
BCS	– Bulk Clearing System
BIS	– Bank for International Settlements
BTC	– Bank Training Center
CABC&D	– Central Asian Bank for Co-operation and Development
CIF	– Price on the Frontier of the Importer (Cost, Insurance, and Freight)
CIS	– Commonwealth of Independent States
CJSC	– Closed Joint Stock Company
CPI	– Consumer Price Index
CPC	– Interbank Card Processing Centre
EAEC	– Eurasian Economic Community
EBRD	– European Bank for Reconstruction and Development
ECB	– European Central Bank
FCSDCU	– Financial Company on Support and Development of Credit Unions
FinBUS	– Financial and Business Sector Development Program
FINCA	– Foundation for International Community Assistance
FIRM	– Financial Intermediation and Resource Mobilization Program
FOB	– Price on the Frontier of the Exporter (free on board)
FRS	– Federal Reserve System
FSAP	– Financial Sector Assessment Program
FSU	– Former Soviet Union
FX	– Foreign Exchange
GATS	– General Agreement on Trade in Services
GATT	– General Agreement on Tariffs and Trade
GDDS	– General Data Dissemination Standard
GDP	– Gross Domestic Product
PIP	– Public Investments Program
GS	– Government Securities
GTZ	– German Agency for Technical Assistance
IDA	– International Development Association
IDB	– Islamic Development Bank
IFC	– International Finance Corporation
IFRS	– International Financial Reporting Standards
IFRSC	– International Financial Reporting Standards Committee
IIGA	– International Investment Guarantee Agency
IMF	– International Monetary Fund
IREX	– International Research and Exchanges Board
ISB	– Interstate Bank
ISCC	– International Standard Commodity Classification
JSCB	– Joint Stock Commercial Bank
KAFC	– Kyrgyz Agricultural Finance Corporation
KNU	– Kyrgyz National University named after J. Balasagyn
KTR	– Kyrgyz Television & Radio Company

LLC	– Limited Liability Company
MCA	– Micro Credit Agencies
MCC	– Micro Credit Companies
MEF KR	– Ministry of Economy and Finance of the Kyrgyz Republic (formerly the Ministry of Finance of the Kyrgyz Republic)
MFO	– Micro-Finance Organizations
MRR	– Mandatory Reserve Requirements
NBKR	– National Bank of the Kyrgyz Republic
NBKR GL	– NBKR General Ledger
NBP	– National Bank of Poland
NFCI	– Non-banking Credit Institutions
NSC KR	– National Statistic Committee of the Kyrgyz Republic
OECD	– Organization for Economic Cooperation and Development
OFEP	– Open Foreign Exchange Position
OJSC	– Open Joint Stock Company
PBSMP	– Payment and Banking System Modernisation Project
POS	– Point of Service
PPLA	– Provisions for Potential Losses on Assets
PRBR	– Periodic Regulatory Banking Report
PRGF	– Poverty Reduction and Growth Facility Program
RED	– Republic's Encashment Department
ROA	– Return on Assets
ROE	– Return on Equity
RTGS	– Real Time Gross Settlement System
SCO	– Shanghai Cooperation Organization
SDDS	– Special Data Dissemination Standard
SDR	– Special Drawing Rights
SSC	– Settlement and Savings Company
T-bills	– State Treasury Bills
SWIFT	– Society for Worldwide Interbank Financial Telecommunication
UAA	– Union of Accountants and Auditors
UNDP	– United Nations Development Programme
UNESCAP	– United Nations Economic and Social Commission for Asia and the Pacific
UNICEF	– United Nations Children's Fund
USA	– United States of America
USAID	– United States Agency for International Development
VAT	– Value Added Tax
WB	– World Bank
WTO	– World Trade Organization

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