



КЫРГЫЗ БАНКЫ

NATIONAL BANK OF THE KYRGYZ REPUBLIC

ANNUAL
REPORT

2017



Bishkek-2018

Annual Report of the National Bank of the Kyrgyz Republic for 2017

The report of the National Bank of the Kyrgyz Republic for the year of 2017 is prepared in accordance with Articles 54 and 55 of the Law “On the National Bank of the Kyrgyz Republic, banks and banking activity” No.206 of December 16, 2016.

The annual report of the National Bank for 2017 is approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No 2018-II-15/8-1-(BII) of March 14, 2018.

The financial statements for the year ended 31 December 2017 are approved with the Resolution of the Board of the National Bank of the Kyrgyz Republic No 2018-II-15/8-2-(BII) of March 14, 2018.

Editorial Board:

Chairman	N. Jenish
Board Members:	A.K. Sydykov
	A.K. Aidarova
	S.K. Alybaeva
	A.M. Karabaeva
	A.M. Karakozhaev
	S.A. Chalbaev
Executive Editor:	N.M. Syrдыbaeva

On issues related to the contents and distribution of this publication, please contact: Chui Avenue, 168, Bishkek, 720010, National Bank of the Kyrgyz Republic, Financial Statistics and Review Department, Publications Group.

Phone: (996 312) 61 08 59

Fax: (996 312) 61 09 92

E-mail: nsyrдыbaeva@nbkr.kg

www.nbkr.kg

Deviations in last digits may occur because of rounding numbers when summing up.

Reprinting shall be performed only with the permission of the National Bank of the Kyrgyz Republic; quotation shall be fulfilled with obligatory indication of the source.

© National Bank of the Kyrgyz Republic, 2018

Translation into the English language was performed by GlobalOneTranslation LLC.

Prepared for publication by M-MAXIMA LLC, Tynystanov Street, 197/1, Bishkek.

Annual Report of the National Bank in the English language is published only in the web version.

CONTENTS

Foreword of the Chairman of the National Bank of the Kyrgyz Republic.....	5
I. ECONOMIC SITUATION IN THE KYRGYZ REUBLIC IN 2017	
CHAPTER 1. ECONOMIC DEVELOPMENT OF THE KYRGYZ REPUBLIC IN 2017	8
1.1. Real Sector of Economy	8
1.2. Public Finance Sector	10
1.3. Balance of Payments of the Kyrgyz Republic	11
1.4. Banking Sector.....	13
1.5. Sector of Non-banking Financial-Credit Organizations ..	17
1.6. Financial Markets.....	21
1.6.1. Foreign Exchange Market	21
1.6.2. Interbank Credit Market.....	22
1.6.3. Securities Market	23
1.6.3.1. Government Securities Market and Notes of the National Bank of the Kyrgyz Republic	23
1.6.3.1.1. State Treasury Bills	24
1.6.3.1.2. State Treasury Bonds.....	26
1.6.3.1.3. Notes of the National Bank	26
1.6.3.1.4. Other Government Securities	27
1.6.3.2. Corporate Securities Market	28
1.6.4. Deposit and Credit Market.....	28
II. ACTIVITY OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC IN 2017	
CHAPTER 2. MONETARY POLICY	33
2.1. Monetary Policy Framework	33
2.2. Monetary Policy Implementation	36
2.2.1. Domestic Foreign Exchange Market Operations	37
2.2.2. Operations with Notes of the National Bank	38
2.2.3. Refinancing of Banks	39
2.2.4. Reserve Requirements.....	40
2.3. Management of International Reserves	41
2.4. Monetary Policy Results.....	43
CHAPTER 3. SUPERVISION AND REGULATION OF FINANCIAL-CREDIT ORGANIZATIONS	46
3.1. Banking Supervision	46
3.1.1. Licensing.....	46
3.1.2. Off-Site Supervision	47
3.1.3. Inspection	49
3.1.4. Enforcement Measures.....	50
3.2. Supervision over Non-banking Financial-Credit Organizations	50
3.3. Protection of Consumer Rights.....	52
3.4. Supervision and Regulation Methodology.....	52
CHAPTER 4. PAYMENT SYSTEM	56
4.1. Payment System Development	56
4.1.1. Non-cash Payments.....	56
4.1.2. Operators of Payment Systems and Payment Organizations	60
4.1.3. Payment System Oversight	60
4.1.4. Measures to Increase the Share of Non-cash Payments	61
4.2. Cash Circulation.....	61
CHAPTER 5. INTERNATIONAL COOPERATION AND PUBLIC RELATIONS	68
5.1. International Cooperation	68
5.2. Public Relations and Improvement of the Population Financial Literacy	70
CHAPTER 6. INFORMATION ON ACTIVITIES OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC	74
6.1. Structure of the National Bank of the Kyrgyz Republic ..	74
6.2. Activity of the Board of the National Bank of the Kyrgyz Republic	81
6.3. Improvement of Banking Legislation	82
6.4. Performance of Duty of Financial Adviser	84
6.5. Internal Audit and Internal Control System	87
III. FINANCIAL STATEMENTS OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC FOR 2017	
CHAPTER 7. FINANCIAL STATEMENTS OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC FOR THE YEAR ENDED 31 DECEMBER 2017	89
7.1. Independent Auditor's Report	91
7.2. Statement of Financial Position as of December 31, 2017	94
7.3. Statement of Profit or Loss for the year ended on December 31, 2017	95
7.4. Statement of the Comprehensive Income for the year ended on December 31, 2017.....	96
7.5. Statement of Cash Flows for the year ended on December 31, 2017	97
7.6. Statement of Changes in Equity for the year ended on December 31, 2017	99
7.7. Notes to the Financial Statements for the year ended on December 31, 2017	101
IV. APPENDICES	
Appendix 1. Major Events in the Monetary Sphere in 2017.....	148
Appendix 2. Statistical Information (tables and charts)...	156
Appendix 3. Periodic Publications and Other Information Tools of the National Bank of the Kyrgyz Republic	181
Appendix 4. List of Abbreviations	185

Dear Readers!

The annual report of the National Bank for 2017 was prepared in accordance with the new Law “On the National Bank of the Kyrgyz Republic, banks and banking activity”. Effectiveness of this Law, which meets the requirements of modern banking and international best practices, enabled to fill the gaps and harmonize the banking legislation.

In the reporting year, the National Bank, in partnership with the Government of the Kyrgyz Republic, continued its work focused on achieving and maintaining macroeconomic stability in the country. The monetary policy made it possible to create the conditions for keeping the inflation rate within the declared benchmarks, thereby contributing to sustainable economic growth in the medium term. Significant progress has been achieved in increasing public confidence in the national currency of the country; dollarization indicators have reached historic lows. The monetary policy instruments were further improved in order to raise the effectiveness of measures taken by the National Bank.

Monetary conditions to support the real sector of the economy were created in 2017. The National Bank expanded provision of the resources in the national currency, which contributed to a reduction of the interest rates on loans to the end-consumers and development of the economy as a whole.

In the reporting year, dynamics of the main indicators of the banking and non-banking financial-credit sectors indicates their progressive development. The National Bank took measures to increase capitalization of the individual banks within the framework of implementing the requirements established by the legislation; these requirements, along with other measures taken, are generally aimed at improving the financial stability and reliability of the banking system.

The national payment system operated in a stable and safe mode. The second stage of the State Program to Increase the Share of Non-cash Payments and Settlements in the Kyrgyz Republic (for 2012-2017) was completed, following the results thereof a significant increase in the number and volume of non-cash payments was recorded, the projects for transfer of social benefits and payments to the budget in non-cash form were implemented.

An important event of 2017 was the 25th anniversary of the National Bank of the Kyrgyz Republic. The decision to transform the State Bank of the Republic of Kyrgyzstan into the National Bank, taken by the Supreme Council of the Kyrgyz Republic on March 6, 1992, formed the basis to conduct an independent monetary policy, introduce the national currency, form and develop the banking and payment systems of the Republic.

In preparing this Annual Report, the National Bank traditionally adhered to the principles of openness, reliability and completeness of the submitted information. The Annual Report reflects the activities of the central bank of the country in fulfilling its functions and includes financial statements confirmed by an independent international audit.

Sincerely,

Chairman



T. Abdygulov

ECONOMIC SITUATION
IN THE KYRGYZ REPUBLIC
IN 2017



CHAPTER 1. ECONOMIC DEVELOPMENT OF THE KYRGYZ REPUBLIC IN 2017

In 2017, the economic development of the Kyrgyz Republic demonstrated stable upward trend. The inflation rate was moderate and did not exceed the targets of the National Bank.

Economic growth was supported by increased external and internal demand, inflow of money transfers and stimulating monetary policy. The sectors of industry, trade, construction and agriculture made the most significant contribution to economic growth.

Improvement was observed in the key performance indicators of the financial-credit organizations. A high level of capital adequacy in the banking sector suggested that there was some potential to further improve the level of financial intermediation, the risks remained moderate. In the reporting period, non-banking financial-credit organizations continued progressive development.

In 2017, measures taken by the National Bank and the Government of the Kyrgyz Republic contributed to further decline of the dollarization level in the banking sector.

The situation in the financial sector as a whole was stable, activation was observed in the interbank credit market. At the end of 2017, USD/KGS exchange rate decreased by 0.6 percent.

1.1. Real Sector of Economy¹

In 2017, the economy of the Kyrgyz Republic continued its upward trend. According to preliminary data of the National Statistical Committee of the Kyrgyz Republic (NSC KR), GDP at real prices increased by 4.6 percent (in 2016, the growth was 4.3 percent) and amounted to KGS 521.0 billion. The GDP deflator was 4.6 percent as against 6.1 percent in 2016. The economic growth was mainly supported by the sectors of industry, trade, construction and agriculture. Excluding the enterprises involved in the Kumtor Gold Mine development, GDP growth reached 4.7 percent (in 2016, it was 4.3 percent).

Table 1.1.1.

Structure of the Gross Domestic Product²

	2016			2017		
	Share, percent	Growth rate, percent	Contribution to growth, percentage points	Share, percent	Growth rate, percent	Contribution to growth, percentage points
GDP	100	4.3	4.3	100	4.6	4.6
Agriculture, forestry and fishery	12.8	2.9	0.4	12.3	2.2	0.3
Industry	18.2	5.9	1.0	18.2	10.3	1.9
Mining	0.6	27.0	0.2	1.0	78.4	0.5
Manufacturing (processing)	15.4	5.8	0.8	15.1	7.6	1.2
Provision (supply) of electricity, gas, steam and conditioned air	1.9	-2.6	-0.04	1.9	10.1	0.2
Water supply, purification and treatment of waste and generation of secondary materials	0.2	3.3	0.01	0.2	6.6	0.02
Construction	8.4	9.3	0.8	8.2	7.1	0.6
Services	47.5	3.4	1.7	48.0	2.6	1.2
Wholesale and retail trade; repair of motor vehicles and motorcycles	17.9	8.0	1.5	17.9	3.5	0.6
Transportation and storage of goods	3.8	0.1	0.002	3.9	7.6	0.3
Information and communication	3.5	-9.1	-0.4	3.6	-0.6	-0.02
Other	22.3	2.4	0.5	22.6	1.5	0.3
Net (less subsidies) taxes on products	13.1	4.3	0.5	13.3	4.6	0.6

Source: NSC of KR

¹ According to the preliminary data.

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

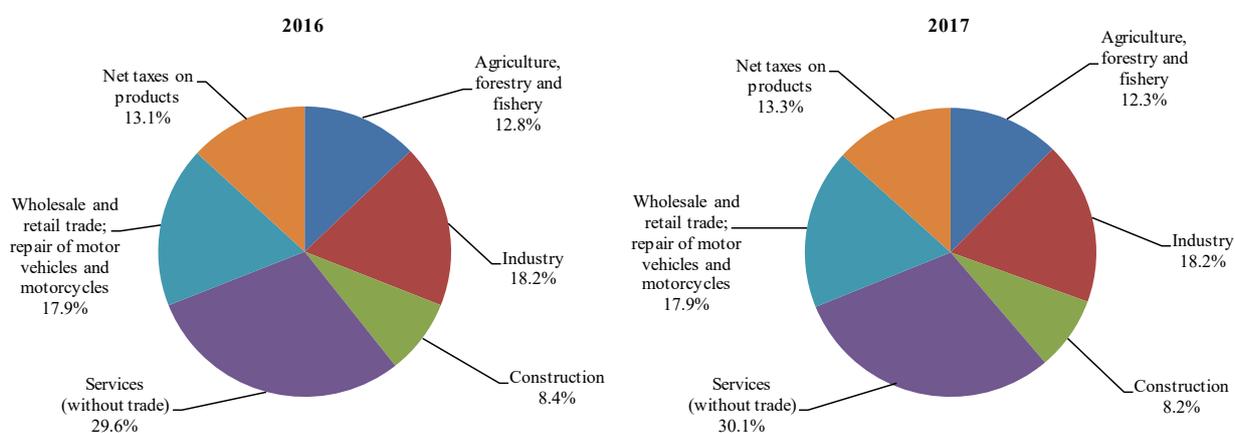
Following the results of 2017, the industrial sector showed significant growth. Industrial enterprises produced goods in the amount of KGS 230.8 billion, its physical output increased by 11.6 percent as compared to 2016. The share of the output of enterprises involved in the Kumtor Gold Mine development in the industrial sector was about 43.8 percent. Excluding the enterprises involved in the Kumtor Gold Mine development, the physical output of industrial production increased by 18.6 percent at the end of the year. The contribution of industry to the economic growth was positive and amounted to 1.9 percentage points (for comparison, its contribution in 2016 made 1.0 percentage point).

An increase in the industrial production was caused by the growth in production of metal ores, crude oil and natural gas, refined petroleum products, rubber and plastic products, other non-metallic and food products (including beverages), tobacco products and base metals.

In 2017, the share of industry in the GDP structure was 18.2 percent.

Chart 1.1.1.

GDP Sector Composition by Types of Economic Activity¹



In 2017, the volume of gross output in agriculture amounted to KGS 207.4 billion in nominal terms; meanwhile, the real increase was 2.2 percent against 2.9 percent in 2016. The contribution of agriculture to GDP growth was positive and amounted to 0.3 percentage points.

Growth of gross agricultural output has been provided by increased crop and animal production.

In 2017, the share of agriculture in the GDP structure was 12.3 percent.

In 2017, the volume of services rendered by the business entities increased by 2.6 percent compared to 2016. The contribution of this sector to GDP growth was positive due to the growth in the wholesale and retail trade turnover, cars and motorcycles maintenance (by 3.5 percent) and amounted to 1.2 percentage points. However, the reduction in the sphere of information and communication (by 0.6 percent) had a restraining impact on the growth in the services sector due to a significant decline in provision of telecommunications services.

The growth in the total volume of the wholesale, retail trade, and cars and motorcycles maintenance was conditioned by the increase in all sectors of this industry, in particular, in the wholesale and retail trade.

In 2017, the total volume of gross output in the construction sector amounted to KGS 140.2 billion in nominal terms, which in real terms was by 7.1 percent more than in 2016. This sector made a positive contribution to the GDP formation at 0.6 percentage points, which was conditioned by the growth of investments in fixed assets.

¹ Data are given according to GVA.

Investment In the reporting period, the volume of capital investments amounted to KGS 144.7 billion, having increased by 6.2 percent in comparable prices (in 2016, the increase of the same indicator was 5.8 percent). There was growth of capital investments in the construction of mining operations, processing industry facilities, the facilities for provision (supply) of electricity, gas, steam, and conditioned air, the wholesale and retail trade, hotels and restaurants, information and communication, public health services, the facilities of art and entertainment, other servicing activities and residential construction.

In the structure of funding sources, the capital investments increased (financed by external sources – 1.5 percent) due to the growth in foreign loans (by 1.6 percent) and grants (by 9.3 percent). Growth of investments from domestic funding sources by 10.0 percent was conditioned by the increase in investments from the funds of the enterprises and organizations (by 19.5 percent), the public funds and charitable assistance of the Kyrgyz Republic residents (by 7.0 percent), local budget (by 5.3 percent), and the banks’ loans (by 3.5 times).

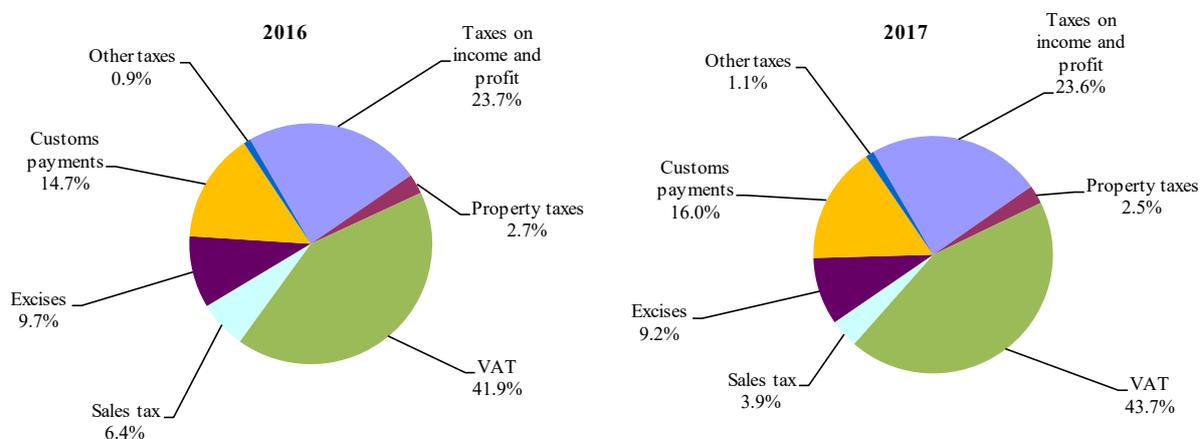
1.2. Public Finance Sector¹

Fiscal policy Favorable internal and external economic conditions in the country had a positive impact on the main parameters of the state budget. The budget revenues were characterized by a significant increase in tax revenues, mainly due to the growth of economic activity in the country and the increase in imports, and non-tax revenues and official transfers. Social orientation of public expenditures was still observed in the fiscal policy. As a result, the budget deficit decreased from 4.4 percent of GDP in 2016 to 3.2 percent to GDP in 2017. The state deficit in nominal terms amounted to KGS 16.5 billion.

The state budget revenues from operating activities amounted to KGS 149.4 billion, or 28.7 percent of GDP, having increased by 14.4 percent in 2017 (in 2016, the state revenues increased by 1.9 percent). Tax revenues having the major share in the budget revenue structure, increased by 10.2 percent compared to the same period of 2016 and amounted to KGS 103.4 billion. 66.9 percent of tax revenues was provided by the State Tax Service of the Kyrgyz Republic and 33.1 percent – by the State Customs Service of the Kyrgyz Republic (in 2016, the ratio was 68.7 and 31.3 percent, respectively).

In 2017, in accordance with the laws of the Kyrgyz Republic, 70 percent of the National Bank’s profit was transferred to the state budget, which amounted to KGS 2.6 billion.

Chart 1.2.1.
State Budget Tax Revenue Structure



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

In 2017, the total state budget expenditures for operating activities amounted to KGS 124.9 billion, having increased by 7.7 percent (in 2016, the growth of expenditures amounted to 10.2 percent).

According to the economic classification of budget expenditures, expenditures for purchase and use of goods and services (4.8 percentage points), remuneration (1.5 percentage points), as well as subsidies and social security benefits (1.5 percentage points) made the largest contribution to the increase in expenditures.

In accordance with the functional classification of budget expenditures, growth of expenditures was observed in the reporting period in the following groups: public healthcare – by 21.1 percent, general public services – by 9.4 percent, social security – by 7.3 percent, housing and communal services – by 6.6 percent, education – by 6.3 percent, economic issues – by 5.1 percent, defense, public order and security – by 3.4 percent. Expenditures of environmental protection decreased by 8.9 percent, recreation, culture and religion – by 5.0 percent.

In 2017, net acquisition of non-financial assets amounted to KGS 41.0 billion, or 7.9 percent of GDP (in 2016 - 7.5 percent of GDP).

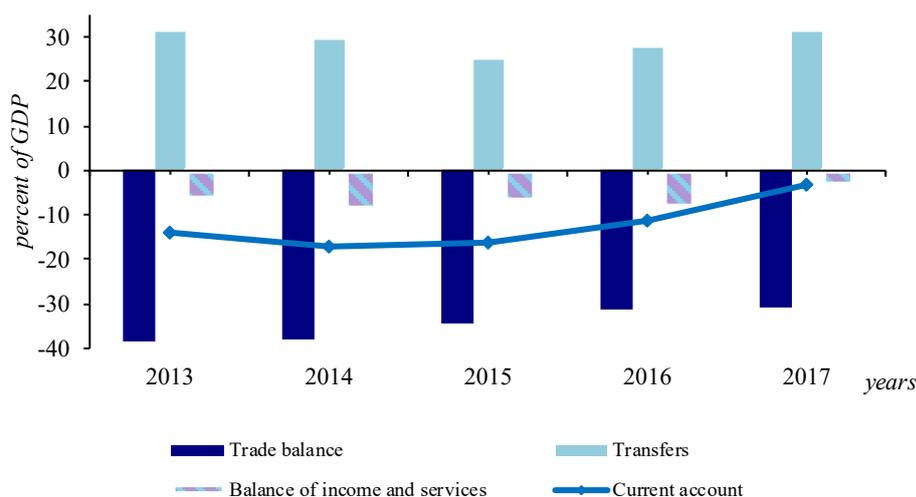
At the end of 2017, the public external debt amounted to USD 4.1 billion, or 53.9 percent of GDP (in 2016 – USD 3.7 billion, or 54.4 percent of GDP), the internal debt amounted to KGS 30.9 billion, or 5.9 percent of GDP (in 2016 – KGS 22.3 billion, or 4.7 percent of GDP). Public debt service expenditures amounted to KGS 20.8 billion, or 4.0 percent of GDP, of which interest payments amounted to KGS 5.9 billion, or 1.1 percent of GDP (in 2016, public debt service expenditures amounted to KGS 20.8 billion, or 4.4 percent of GDP).

1.3. Balance of Payments of the Kyrgyz Republic

According to the preliminary data, in 2017, the state of the current account improved and the current account deficit amounted to USD 232.1 million, or 3.1 percent of GDP (in 2016, the current account deficit was 11.5 percent of GDP).

Chart 1.3.1.

Current Account



Recovery of internal demand and economic activity in the main trading partner countries contributed to the increase of foreign trade activity in the Kyrgyz Republic. At the same time, more significant growth in import of goods in absolute terms compared

Foreign trade

to export supplies conditioned an increase of the trade deficit by 9.8 percent (up to USD 2.3 billion).

In the reporting year, export of goods (in FOB prices) increased by 14.5 percent and amounted to USD 1.8 billion¹. Gold remained the largest export item; in the reporting period, its export value decreased by 0.2 percent due to the decline in average prices of supplies. At the same time, export excluding gold increased by 25.8 percent and amounted to USD 1.1 billion. The increase was noted in the supplies of clothes, footwear, electricity, fruits and nuts, rolled glass, cheese and curd and a number of other goods. Moreover, the reduction was observed in export of vegetables, filament lamps, tobacco and other goods.

In the reporting year, import of goods (in FOB prices) amounted USD 4.2 billion, having increased by 11.8 percent. The increase in import was caused by a 22.5 percent growth in volumes of imported petroleum products, which occurred due to an increase in average prices of supplies. The reporting period was also characterized by an increase in supplies of fabrics, footwear, medicaments, electrical apparatus for line telephony, cigarettes and other goods. At the same time, the decrease was noted in import of motor cars and other motor vehicles principally designed for the transport of persons, grain, softwood, steam and water-heating boilers, sugar and a number of other goods.

Following the preliminary results of 2017, the decrease was noted in export of services by 0.3 percent and in import of services by 17.1 percent. As a result, balance of services deficit decreased by 86.3 percent and amounted to USD 27.9 million.

Money transfers

Net inflow of current transfers amounted to USD 2.4 billion, having increased by 24.3 percent compared to the same period of 2016. In structure of current transfers, a significant volume of income was provided by remittances of migrant workers. Following the results of 2017, the net inflow of remittances of individuals through money transfer systems amounted to USD 2.0 billion (USD 1.6 billion in 2016).

The negative balance of income decreased by 37.2 percent (down to USD 223.3 million). It was formed under the influence of declining incomes on direct investments accrued to be paid to non-residents.

Capital account

In the reporting period, the balance of the capital and financial account decreased by 78.4 percent and amounted to USD 154.8 million. Despite the decrease in direct foreign investments inflows into the country by 78.7 percent (down to USD 123.1 million), funds of foreign direct investors provided a significant share of receipts on the financial account.

The balance of the item “Other investments” was negative and amounted to USD 78.0 million against the positive balance of USD 26.5 million in 2016. It was mainly caused by an increase in the assets and liabilities of the residents of the Kyrgyz Republic.

Overall balance

Following the results of 2017, the positive balance of the item “Errors and omissions” amounted to USD 224.5 million, which may reflect statistical discrepancies related to the moment of transactions registry, incomplete coverage or using data from various sources.

The balance of payments was positive and amounted to USD 147.1 million (in 2016, the positive balance was USD 338.5 million).

At the end of the reporting year, gross international reserves amounted to USD 2,176.5 million, which corresponded to 4.8 months of coverage of the future volume of import of goods and services.

1.4. Banking Sector²

At the end of 2017, there was an increase of the banking sector key indicators: assets, credit portfolio and resource base compared to 2016.

At the end of 2017, the systemic risks in the banking sector are estimated as moderate. The banking sector has a high level of capital adequacy, suggesting that there is some

¹ Including additional estimates of the National Bank of the Kyrgyz Republic.

² The data of the periodic regulatory reports (PRBR) of the commercial banks were used taking into account adjustments made by the banks for prior periods.

potential to further improve the level of financial intermediation, increase the banking sector's efficiency, and ensure sustainability in the future.

As of the end of 2017, 25 commercial banks, including the Bishkek branch of the National Bank of Pakistan, operated in the Kyrgyz Republic.

Among the operating commercial banks, 18 banks had foreign capital. The share of foreign capital at the end of 2017 accounted for 49.8 percent of banks' capital (44.0 percent in 2016).

During the reporting period, total assets of the banking sector increased by 11.1 percent and amounted to KGS 198.0 billion. The main share of banks' assets, 54.7 percent, accounted for the loans issued, this share increased by 2.2 percentage points compared to 2016.

In the reporting period, the volume of highly liquid funds placed by the commercial banks in cash, short-term assets and on correspondent accounts of the National Bank increased by 2.1 percent and amounted to KGS 50.2 billion, or 25.3 percent of the total assets at the end of 2017.

Banking sector assets

Table 1.4.1.

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

Asset category	2016		2017	
	billions of KGS	Share, percent	billions of KGS	Share, percent
Loans and financial lease to clients	93.5	52.5	108.3	54.7
Correspondent accounts and deposits with other banks	23.5	13.2	25.6	12.9
Securities portfolio	13.0	7.3	17.7	8.9
Cash	13.3	7.5	13.1	6.6
Correspondent account with the NBKR	12.3	6.9	11.5	5.8
Fixed assets	9.2	5.1	10.6	5.4
Loans to financial-credit organizations	1.2	0.7	1.1	0.6
Securities purchased under repurchase (REPO) agreement	0.0	0.0	0.4	0.2
Investments and financial participation	0.3	0.2	0.3	0.2
Special LLP*	-7.6	-4.3	-8.1	-4.1
Other assets	19.4	10.9	17.5	8.8
Total	178.2	100.0	198.0	100.0

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

The credit portfolio¹ increased by 15.9 percent and amounted to KGS 108.3 billion. The credit portfolio increased due to the growth of moneylending in the national currency by 29.6 percent compared to 2016.

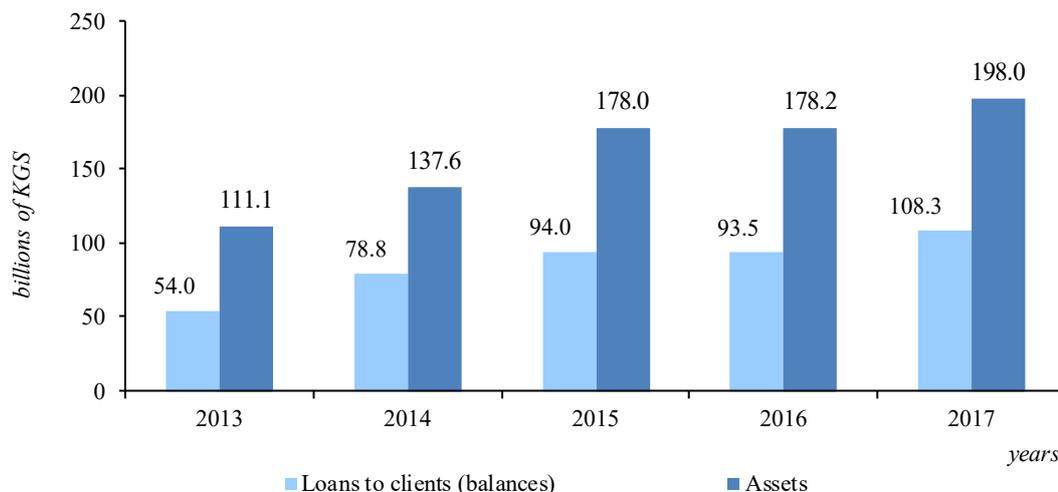
At the end of 2017, the number of the banks' borrowers amounted to 364,540 persons, having increased by 1.1 percent compared to 2016.

Credit portfolio

¹ Hereinafter, data are given excluding loans extended to the banks and other financial-credit organizations.

Chart 1.4.1.

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



The volume of “performing” assets was 92.7 percent of total assets (or KGS 170.4 billion) and that of “non-performing” assets was 7.3 percent (or KGS 13.4 billion). The share of “non-performing” loans in the credit portfolio decreased by 1.2 percentage points compared to 2016 and amounted to 7.6 percent (or KGS 8.2 billion).

Table 1.4.2.

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

(in percent, unless stated otherwise)

Category	Assets and off-balance liabilities		Loans to clients	
	2016	2017	2016	2017
Total performing	92.2	92.7	91.2	92.4
<i>including:</i>				
Standard	57.7	62.7	35.8	46.4
Satisfactory	18.9	15.0	29.8	21.7
Under supervision	15.5	15.0	25.6	24.3
Total non-performing	7.8	7.3	8.8	7.6
<i>including:</i>				
Substandard	3.5	3.8	3.4	3.3
Doubtful	1.7	1.0	2.5	1.4
Loses	2.6	2.5	2.9	2.9
Total	100.0	100.0	100.0	100.0

As a result of measures taken by the National Bank and the Government of the Kyrgyz Republic, in 2017, the level of dollarization of the banking sector continued falling to a record low. Following the results of 2017, the level of dollarization of the banking sector’s credit portfolio declined by 6.6 percentage points compared to 2016 and amounted to 38.0 percent.

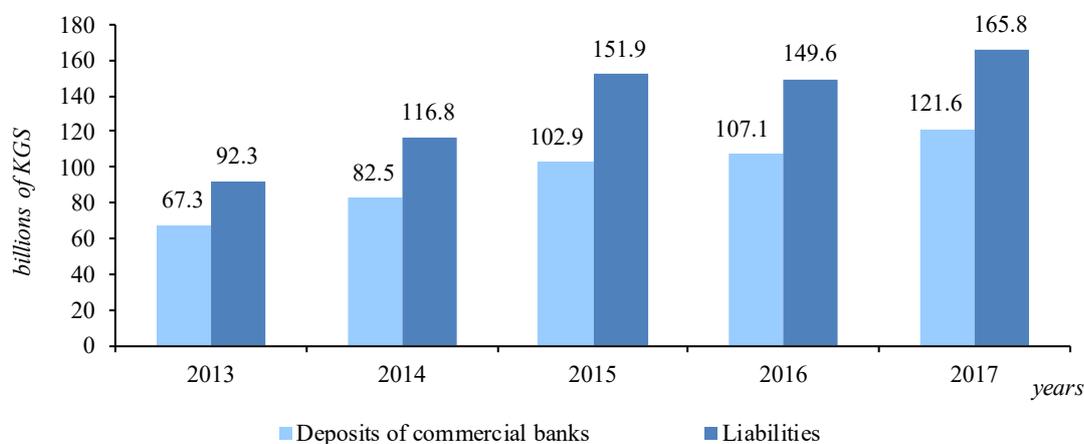
Banking sector liabilities

At the end of 2017, the volume of liabilities of the commercial banks increased by 10.8 percent, up to KGS 165.8 billion. The share of the deposit base in the gross volume of liabilities was 73.3 percent. During the reporting period, the deposit base of the banking sector increased by 13.6 percent and amounted to KGS 121.6 billion. The increase of

the deposit base was conditioned by the growth of the deposits in the national currency by 21.8 percent compared to 2016.

Chart 1.4.2.

Dynamics of Liabilities and Deposit Base of Banks



Liabilities in foreign currency decreased by 3.5 percentage points compared to 2016 and amounted to 45.5 percent of total liabilities.

Table 1.4.3.

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

Liability category	2016		2017	
	billions of KGS	Share, percent	billions of KGS	Share, percent
Term deposits	34.9	23.3	39.1	23.6
Settlement accounts	34.5	23.1	39.0	23.5
Demand deposits	24.6	16.4	30.2	18.2
Loans received	19.3	12.9	19.9	12.0
Government deposits	7.3	4.9	6.2	3.8
Deposits of non-residents	5.9	3.9	7.1	4.3
Liabilities to the NBKR	5.5	3.7	5.5	3.3
Government loans	2.6	1.7	3.4	2.1
Settlement accounts and deposits of banks	2.2	1.5	1.3	0.8
Securities sold under repurchase (repo) agreements	0.0	0.0	0.4	0.2
Other liabilities	12.8	8.6	13.6	8.2
Total	149.6	100.0	165.8	100.0

The structure of the deposit base has almost not changed. Thus, as of the end of 2017, settlement accounts and demand deposits amounted to 56.9 percent, time deposits – 32.1 percent and deposits of the Government of the Kyrgyz Republic and non-residents – 10.9 percent. In general, the volume of deposits of the commercial banks amounted to KGS 121.6 billion. Deposits of legal entities increased during the reporting period by KGS 3.5 billion or 8.2 percent. Deposits of individuals increased by KGS 11.2 billion or 17.6 percent. Measures taken by the National Bank to provide de-dollarization of the economy also affected the level of dollarization of the deposit base, which decreased by 3.5 percentage points compared to 2016 and amounted to 47.5 percent.

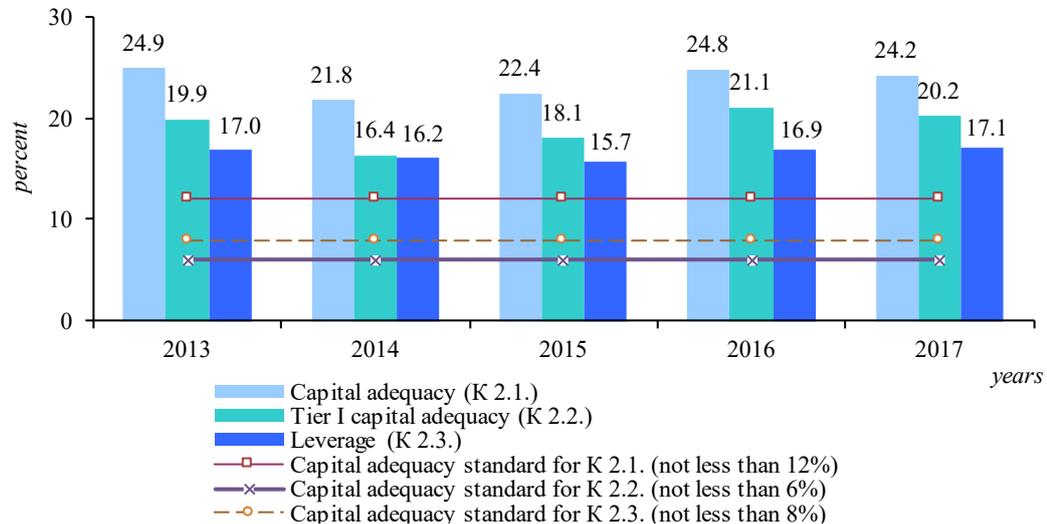
Deposit base

*Capital of
commercial banks*

In 2017, net total capital¹ of the commercial banks increased by 13.1 percent and amounted to KGS 33.6 billion. Paid-up authorized capital² increased by 15.4 percent, up to KGS 21.9 billion.

Chart 1.4.3.

Dynamics of Capital-Based Indicators



Indicators of capital adequacy of the banking sector reflect stability of the banking sector. At the same time, the actual level of capital adequacy (K 2.1) allows to further increase the volume of risk assets in compliance with the established standard level of capital adequacy.

Table 1.4.4.

Amounts of Income and Expenses

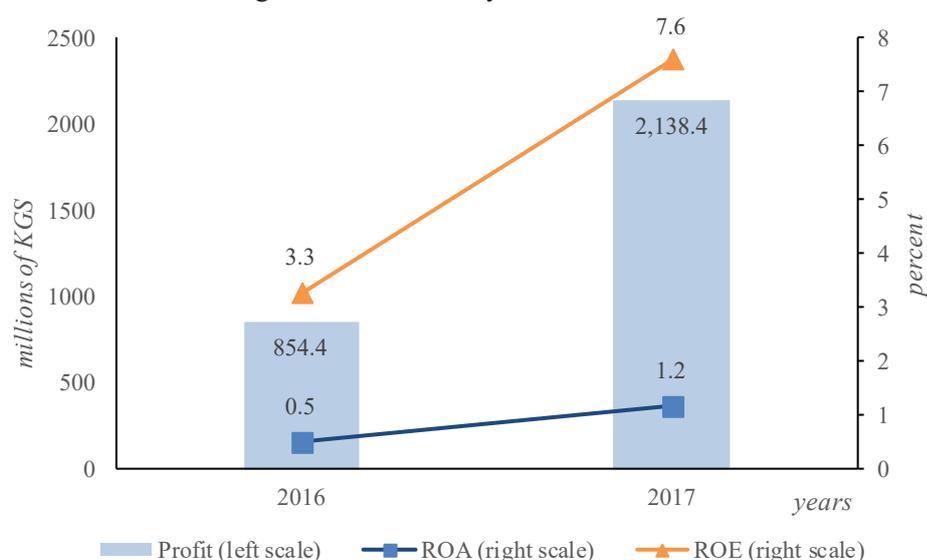
(billions of KGS)

Category	2016	2017
Total interest income	19.6	19.5
Total interest expenses	9.5	7.7
Net interest income	10.1	11.8
Allocations to LLP (loans)	1.4	0.6
Net interest income after allocations to LLP	8.7	11.2
Total non-interest income	14.6	10.0
Total non-interest expenses	10.6	5.7
Total other operating and administrative expenses	11.2	12.5
Net operating income (loss)	1.5	3.0
Allocations to LLP (on other assets)	0.4	0.5
Net income (loss) before tax	1.0	2.5
Profit tax	0.2	0.3
Net income (loss)	0.9	2.1

At the end of 2017, net profit of the banking system increased by 2.5 times compared to 2016 and totaled KGS 2,138.4 million. In 2017, return on assets (ROA) increased from 0.5 percent to 1.2 percent, return on equity (ROE) stood at 7.6 percent.

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

² Ordinary and preference shares are included into this category.

Chart 1.4.4.**Indicators of Banking Sector Profitability****1.5. Sector of Non-banking Financial-Credit Organizations¹**

Following the results of 2017, there was an increase in basic indicators of non-banking financial-credit organizations (NBFCOs) sector, in particular, assets, credit portfolio and resource base.

As of the end of 2017, 658 non-banking financial-credit organizations, including specialized financial-credit organization (hereinafter – SFCO) OJSC “Financial Company of Credit Unions” (FCCU), microfinance organizations (hereinafter – MFOs), credit unions (hereinafter – CUs), exchange offices and credit bureau operated in the territory of the Kyrgyz Republic.

According to the regulatory reporting, the total NBFCOs assets² increased by 12.7 percent in the reporting year and amounted to KGS 15.3 billion as of the end of 2017.

*Assets
of NBFCOs*

Table 1.5.1.**Structure of NBFCOs Assets (end-of-period)**

Asset Category	2016		2017	
	millions of KGS	Share, percent	millions of KGS	Share, percent
Loans and financial lease to clients	10,191.1	74.9	12,204.4	79.6
Correspondent accounts and deposits in other banks	1,486.2	10.9	1,232.7	8.0
Other assets	583.8	4.3	607.0	4.0
Loans to financial-credit organizations	724.3	5.3	527.7	3.4
Fixed assets	293.9	2.2	314.4	2.1
Investments and financial participation	670.2	4.9	658.3	4.3
Cash	226.5	1.7	201.3	1.3
Securities portfolio	2.6	0.0	54.0	0.4
Special LLP*	-576.2	-4.2	-465.5	-3.0
Total	13,602.3	100.0	15,334.4	100.0

* Special LLP are the loan loss provisions on the non-performing loans (substandard, doubtful, losses).

¹ According to periodic regulatory report (PRR) of the non-banking financial-credit organizations.

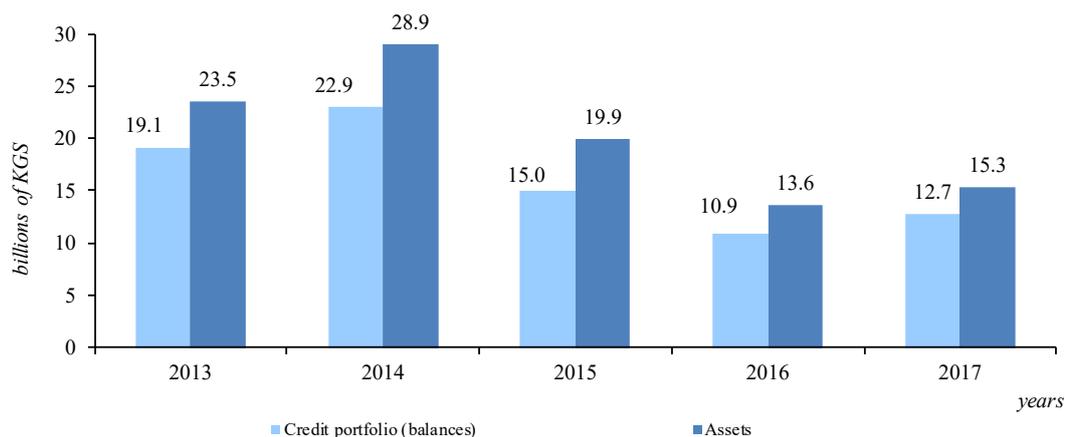
² Without considering the credit portfolio of the SFCO OJSC “FCCU”.

During the reporting period, the volume of liquid assets placed by NBFCOs in cash, short-term assets and on transaction accounts in the commercial banks decreased by 16.3 percentage points and amounted to KGS 1.4 billion or 9.2 percent of total assets at the end of 2017.

The credit portfolio of non-banking financial-credit sector increased by 16.5 percent compared to 2016 and amounted to KGS 12.7 billion. The share of the credit portfolio in the NBFCOs assets increased by 2.8 percentage points compared to 2016 and amounted to 83.0 percent. At the end of 2017, the number of NBFCOs borrowers amounted to 272,021 persons, having increased by 43,539 persons, or 19.1 percent compared to 2016.

Chart 1.5.1.

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



The volume of “performing” loans increased over the year by KGS 2.0 billion and amounted to KGS 12.1 billion and that of “non-performing” loans decreased over the year by KGS 186.4 million and amounted to KGS 0.6 billion.

Table 1.5.2.

NBFCOs Credit Portfolio Quality

Категориясы	2016		2017	
	millions of KGS	percent	millions of KGS	percent
Total performing	10,092.2	92.5	12,095.3	95.0
Total non-performing	823.2	7.5	636.8	5.0
<i>including:</i>				
Substandard	322.6	3.0	221.9	1.7
Doubtful	126.6	1.2	94.2	0.7
Losses	374.0	3.4	320.8	2.5
Total credit portfolio	10,915.4	100.0	12,732.1	100.0

In the aggregate credit portfolio of NBFCOs, the share of MFOs (microfinance companies, microcredit organizations, microcredit agencies) increased from 91.4 percent (KGS 10.0 billion) to 92.1 percent (KGS 11.7 billion), and the share of CUs decreased from 8.6 percent (KGS 0.9 billion) to 7.8 percent (KGS 1.0 billion).

SFCOs

Activities of the SFCOs are directed at extension of loans to support finance systems in rural areas as part of moneylending to CUs. At the end of 2017, SFCOs credit portfolio decreased by 6.4 percent compared to 2016 and amounted to KGS 444.4 million.

At the end of 2017, the aggregate credit portfolio of credit unions (CUs) increased by 6.2 percent and amounted to KGS 1.0 billion. In the structure of the credit portfolio the main share of loans fell on lending to agriculture – 40.3 percent, trade and services – 22.9 percent (in 2016 – 47.5 and 23.9 percent, respectively). The number of CUs borrowers decreased by 2.3 percent over the year and totaled 9,182 people at the end of 2017.

Credit unions

As of the end of 2017, seven CUs had deposit licenses. The volume of deposits attracted from CUs participants increased by 79.1 percent and amounted to KGS 15.4 million, while liabilities to other FCOs decreased by 1.6 percentage points and amounted to KGS 440.0 million.

The aggregate credit portfolio of microfinance organizations (MFOs) increased by 17.0 percentage points and amounted to KGS 11.7 billion by the end of 2017. In general, the MFO credit portfolio consists of short- and medium-term loans. The main sectors of MFO moneylending included agriculture accounting for 24.6 percent (27.7 percent by the end of 2016) of the aggregate credit portfolio, trade and services – 25.3 percent (28.3 percent as of the end of 2016), and consumer loans – 30.0 percent (25.3 percent at the end of 2016). The main sources of MFO lending included capital and funds attracted from the international financial institutions and foreign organizations. The number of borrowers increased by 20.0 percent and amounted to 262,839 persons at the end of 2017.

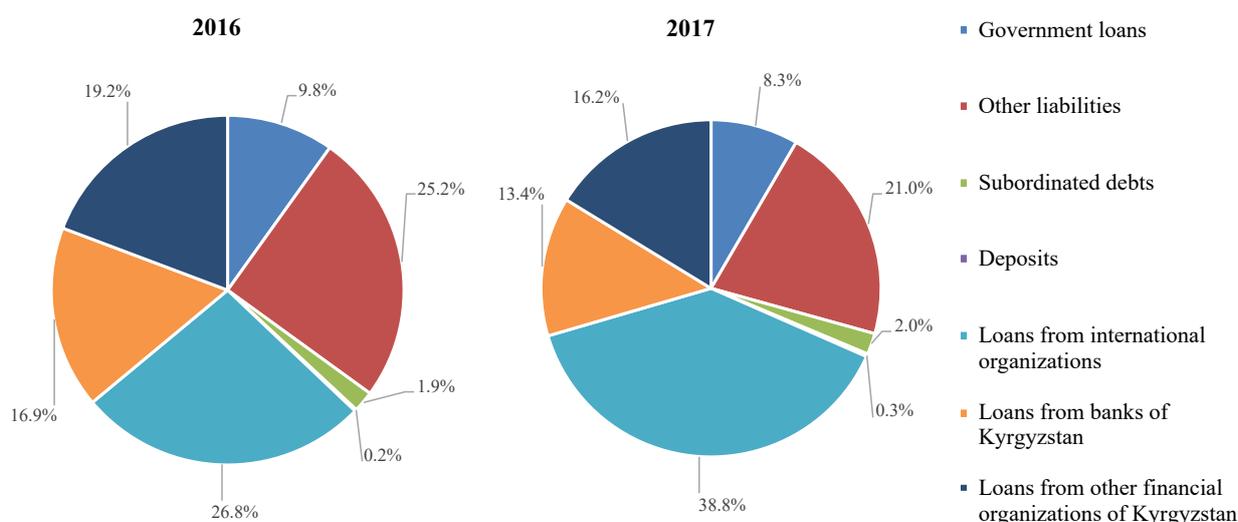
Microfinance organizations

At the end of 2017, the volume of NBFCOs liabilities increased by 11.5 percent, up to KGS 5.8 billion.

NBFCOs liabilities

Chart 1.5.2.

Structure of NBFCOs Liabilities



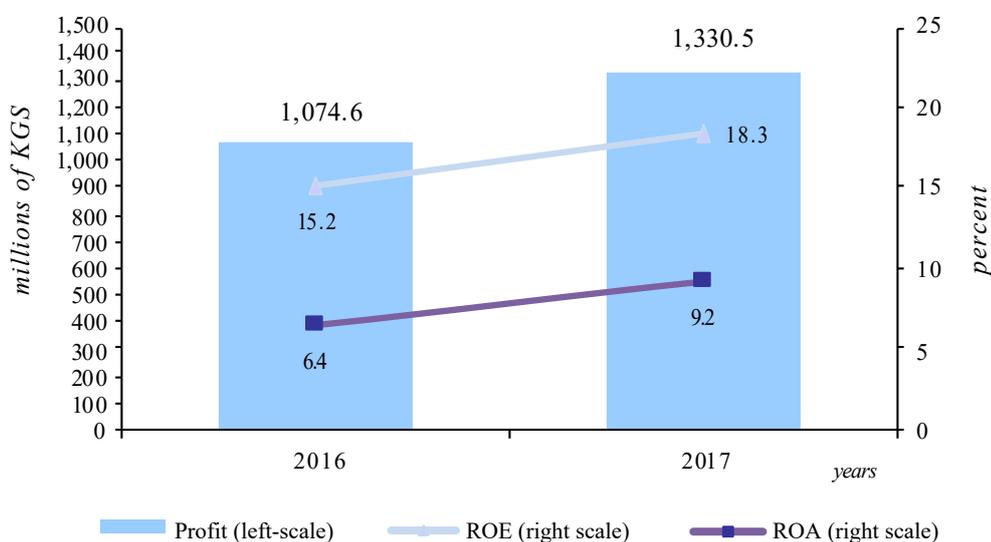
In the structure of NBFCOs liabilities, the share of liabilities to foreign entities amounted to 38.8 percent. At the same time, liabilities in the foreign currency amounted to 29.8 percent of total liabilities.

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

Liability category	2016		2017	
	millions of KGS	Share, percent	millions of KGS	Share, percent
Loans received, including:	3,781.9	72.7	4,473.6	76.7
<i>from banks of Kyrgyzstan</i>	877.7	16.9	778.6	13.4
<i>from other financial-credit organizations of Kyrgyzstan</i>	1,000.4	19.2	944.9	16.2
<i>from international financial organizations and donors</i>	88.1	1.7	86.5	1.5
<i>from international financial-credit organizations</i>	1,303.8	25.1	2,177.0	37.3
<i>from the Government of Kyrgyzstan</i>	511.9	9.8	486.6	8.3
Other liabilities	1,311.8	25.2	1,224.5	21.0
Subordinated debts	100.8	1.9	118.7	2.0
Term deposits	8.1	0.2	14.5	0.2
Demand deposits	0.5	0.0	1.0	0.0
Total	5,203.0	100.0	5,832.2	100.0

The total amount of paid-up authorized capital of non-banking financial-credit organizations amounted to KGS 3.9 billion. The total amount of the authorized capital of NBFCOs has not changed compared to the results of 2016. At the same time, the equity capital of NBFCOs increased by 10.1 percent or KGS 0.7 billion and amounted to KGS 7.6 billion.

Chart 1.5.3.
Dynamics of Net Profit and Profitability Indicators



At the end of 2017, the net profit of NBFCOs amounted to KGS 1.3 billion, having increased by KGS 0.2 billion, or 18.2 percent, compared to the previous year.

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

Category	2016	2017
Total interest income	3,490.0	3,859.4
Total interest expenses	670.9	651.3
Net interest income	2,819.1	3,208.0
Allocations to LLP (loans)	172.8	72.0
Net interest income after allocations to LLP	2,646.3	3,136.0
Total non-interest income	306.7	226.5
Total non-interest expenses	1,496.1	1,484.8
Total other operating and administrative expenses	248.4	398.0
Net operating income (loss)	1,208.4	1,479.7
Allocations to LLP (on other assets)	15.7	11.5
Net income (loss) before tax	1,192.7	1,468.2
Profit tax	116.1	137.7
Net profit (loss)	1,076.6	1,330.5

In 2017, return on assets (ROA) increased from 6.4 percent to 9.2 percent, return on equity (ROE) increased from 15.2 percent to 18.3 percent.

1.6. Financial Markets

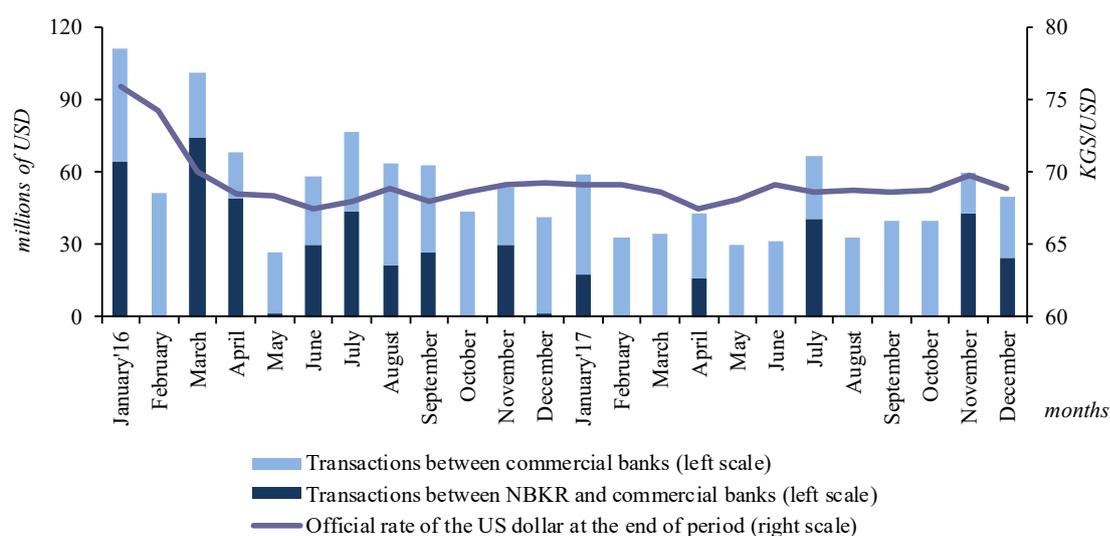
1.6.1. Foreign Exchange Market

In the reporting period, the situation in the domestic foreign exchange market was relatively stable minimizing the participation of the National Bank of the Kyrgyz Republic.

Following the results of 2017, the policy rate of the US dollar decreased by 0.6 percent, from KGS 69.2301 to 68.8395 per US dollar.

Chart 1.6.1.1.

Exchange Rate Movement and Volume of Interbank Foreign Exchange Auction Transactions



Foreign exchange market interventions

The National Bank carried out foreign exchange market interventions in the interbank foreign exchange market to smooth sharp fluctuations of the exchange rate. In general, the transactions on sale of foreign currency prevailed, their volume decreased by 34.2 percent compared to 2016 and amounted to USD 107.2 million. The volume of purchased foreign currency amounted to USD 34.5 million (-82.0 percent). As a result, net sale on such transactions amounted to USD 72.7 million.

Foreign exchange market structure by currencies

The total volume of spot-transactions on purchase/sale of foreign currency in the foreign exchange market¹ increased by 39.3 percent and amounted to KGS 566.2 billion. The volume of these transactions increased mainly due to the growth in the volume of transactions in Russian rubles (+60.1 percent), US dollars (+31.1 percent) and in euros (+6.1 percent). At the same time, the volume of transactions in Kazakh tenge decreased by 2.6 percent over the year. In the reporting period, there were no significant changes in the equity proportion of currencies. Thus, the share of transactions in US dollars made 58.1 percent (-3.6 percentage points), in Russian rubles – 38.2 percent (+5.0 percentage points), in euro – 2.2 percent (-0.7 percentage points) and in Kazakh tenge – 1.5 percent (-0.7 percentage points). The volume of transactions with other currencies² increased by 15.8 percent, and their share decreased insignificantly down to 0.03 percent.

Swap-operations

The aggregate volume of swap-operations carried out by the commercial banks, both in the domestic market and with non-resident banks, amounted to KGS 44.2 billion, having increased by 34.5 percent compared to the same period of 2016. The National Bank of the Kyrgyz Republic did not carry out swap-operations in the reporting period.

Exchange rate movement at exchange offices

At the end of 2017, the weighted average selling rate of US dollars in cash in the exchange offices decreased by 0.6 percent and amounted to KGS 68.8490 per dollar, Kazakh tenge – by 0.4 percent, down to KGS 0.2084 per tenge. The average weighted selling rate of euro in the exchange offices, on the contrary, increased by 13.0 percent year-to-date and amounted to KGS 82.3181 per euro, and that of Russian ruble increased by 4.4 percent, up to KGS 1.1902 per ruble.

1.6.2. Interbank Credit Market

In 2017, the interbank borrowing market participants stepped up their activity amid decrease of the commercial banks' excess reserves.

During the year, the interbank credit market rates on the transactions with the maturity up to 7 days fell within an interest rate corridor determined by the National Bank of the Kyrgyz Republic.

National currency transactions

Following the results of the year, the total volume of transactions in the national currency in the interbank credit market (including loans given by the National Bank of the Kyrgyz Republic) amounted to KGS 29.7 billion, having increased by 3.0 times compared to the same period of 2016.

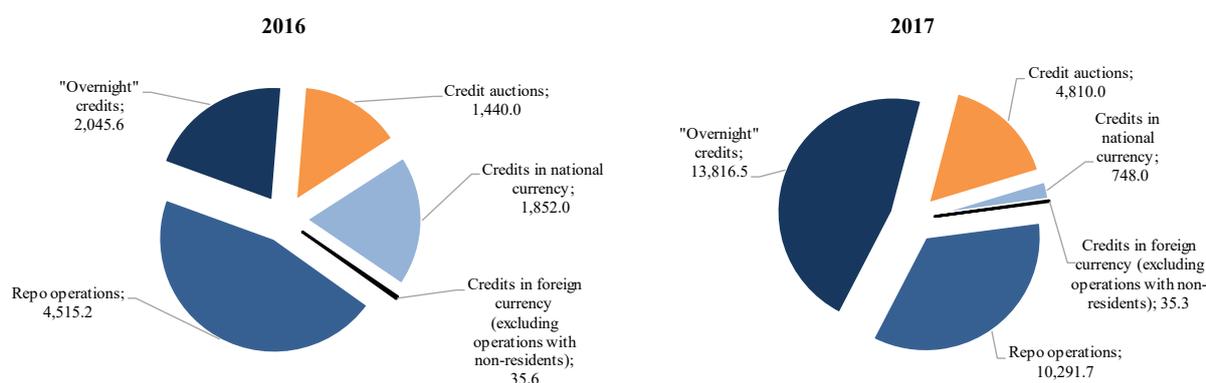
In 2017, the volume of “overnight” deposits decreased by 4.2 percent and amounted to KGS 1.9 trillion.

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

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

Chart 1.6.2.1.

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



In the reporting period, the weighted average interest rate of interbank credits in the national currency fell down to 3.4 percent (-3.5 percentage points in annual terms); the weighted average interest rate of repo operations decreased down to 1.8 percent (-2.2 percentage points). The weighted average rate of foreign currency credits was 2.6 percent, having increased by 0.6 percentage points from 2016. The average maturity of repo transactions increased from 7 to 10 days, while that of loans in the national currency – from 49 to 66 days and the maturity of loans in foreign currency – from 10 to 97 days.

Table 1.6.2.1.

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

	2016	2017
Interbank market rates		
Rates of credits in national currency	6.9	3.4
Rates of credits in foreign currency	2.0	2.6
Rates of repo operations	4.0	1.8
National Bank operations rates		
"Overnight" credits rates	12.0	6.3
"Overnight" deposits rates	1.2	0.3
Credit auctions rates	8.7	5.0

1.6.3. Securities Market**1.6.3.1. Government Securities Market and Notes of the National Bank of the Kyrgyz Republic**

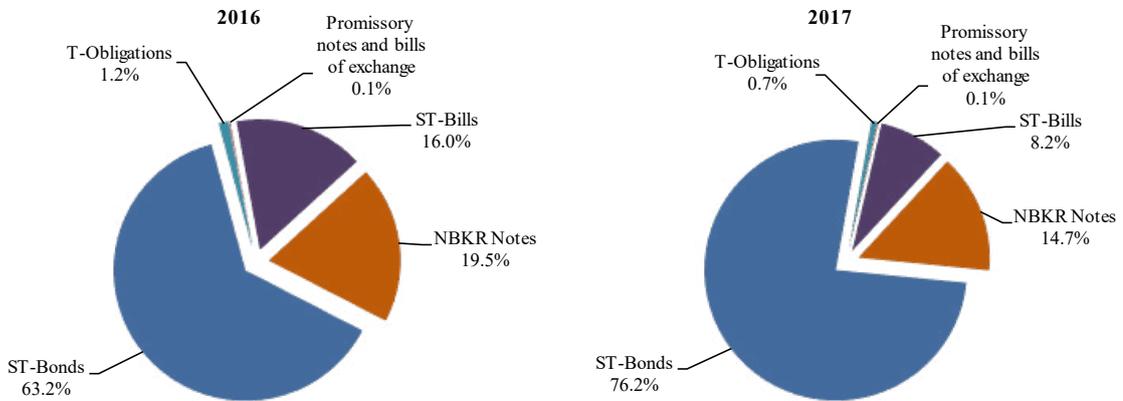
In 2017, the market of government securities issued by the Government of the Kyrgyz Republic and the National Bank was presented by the following types of securities:

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

Outstanding government securities

At the end of 2017, the total volume of the outstanding government securities increased by 31.9 percent, up to KGS 35.5 billion due to the growth in the volume of ST-Bonds (+59.1 percent).

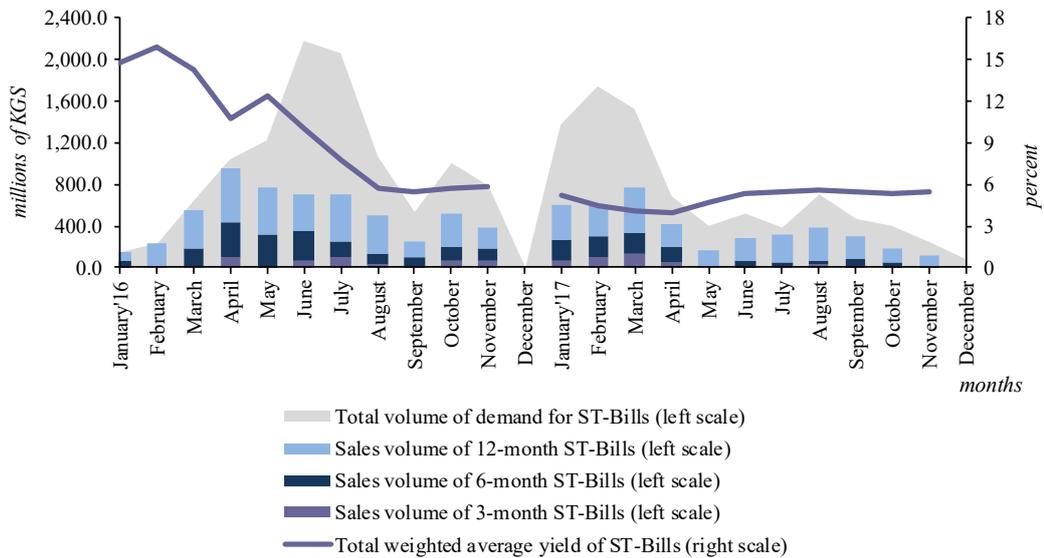
Chart 1.6.3.1.1.
Structure of Outstanding Securities



1.6.3.1.1. State Treasury Bills

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

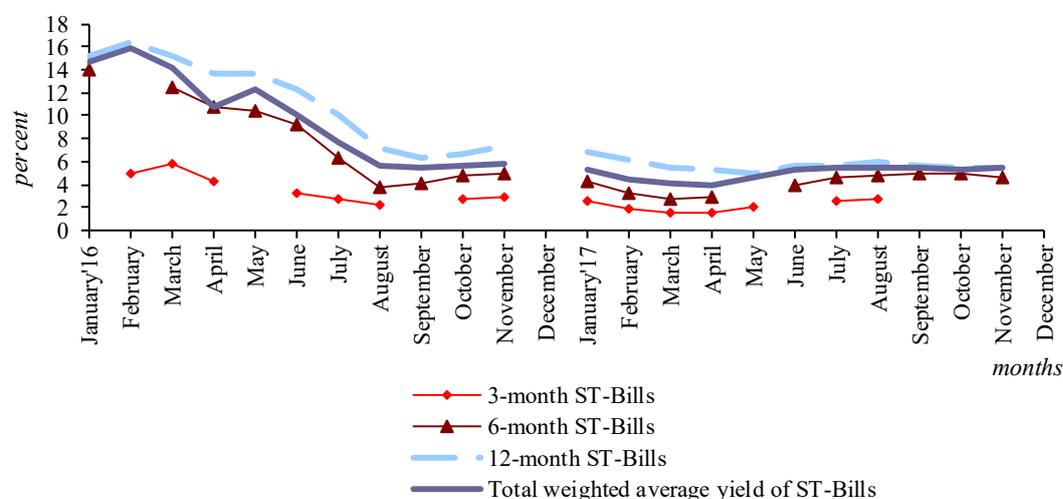
Chart 1.6.3.1.1.1.
Demand and Placement of ST-Bills



In 2017, the overall average monthly yield of ST-Bills was 5.0 percent, having decreased by 4.8 percentage points compared to 2016. The yield of ST-Bills decreased in all segments of maturity.

Chart 1.6.3.1.1.2.

Weighted Average Yield by All Types of ST-Bills



The volume of ST-Bills placed at the auctions decreased by 5.9 percent compared to 2016 and amounted to KGS 5.1 billion. In the reporting year, the volume of demand for ST-Bills decreased by 20.2 percent and amounted to KGS 8.7 billion, amid the decline in yield of these securities. Thus, the volume of actual sales of ST-Bills, taking into account additional placement, decreased down to KGS 4.2 billion (-27.4 percent).

*Volume of
ST-Bills issue*

Table 1.6.3.1.1.1.

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

	2016			2017		
	Sales volume, millions of KGS	Share, percent	Yield, percent	Sales volume, millions of KGS	Share, percent	Yield, percent
Total	5,719.7	100.00	9.9	4,151.3	100.00	5.0
including:						
3-month ST-Bills	456.0	7.97	3.6	420.0	10.12	2.1
6-month ST-Bills	1,800.0	31.47	8.1	1,033.0	24.88	4.1
12-month ST-Bills	3,463.7	60.56	11.3	2,698.3	65.00	5.7

Following the results of 2017, the volume of ST-Bills in circulation decreased by 32.2 percent and amounted to KGS 2.9 billion. Commercial banks dominated in the structure of ST-Bills market participants (78.2 percent of the total volume of ST-Bills in circulation). In the reporting period, the share of commercial banks increased by 12.4 percentage points, the share of institutional investors, on the contrary, decreased by 12.2 percentage points, down to 21.1 percent. The share of resident legal entities did not change significantly and constituted 0.7 percent. In the reporting period, non-residents did not participate in the auctions on placement of ST-Bills.

*ST-Bills secondary
market transactions*

In the reporting period, commercial banks were active in conducting repo-transactions in the ST-Bills secondary market. Thus, the volume of repo-transactions increased by 63.3 percent compared to 2016 and amounted to KGS 3.0 billion. Moreover, the volume of interbank transactions on purchase and sale of ST-Bills prior to their maturity (on "outright" terms) decreased significantly (-84.4 percent) in the secondary market and amounted to KGS 20.5 million.

1.6.3.1.2. State Treasury Bonds

Demand and supply in ST-Bonds market

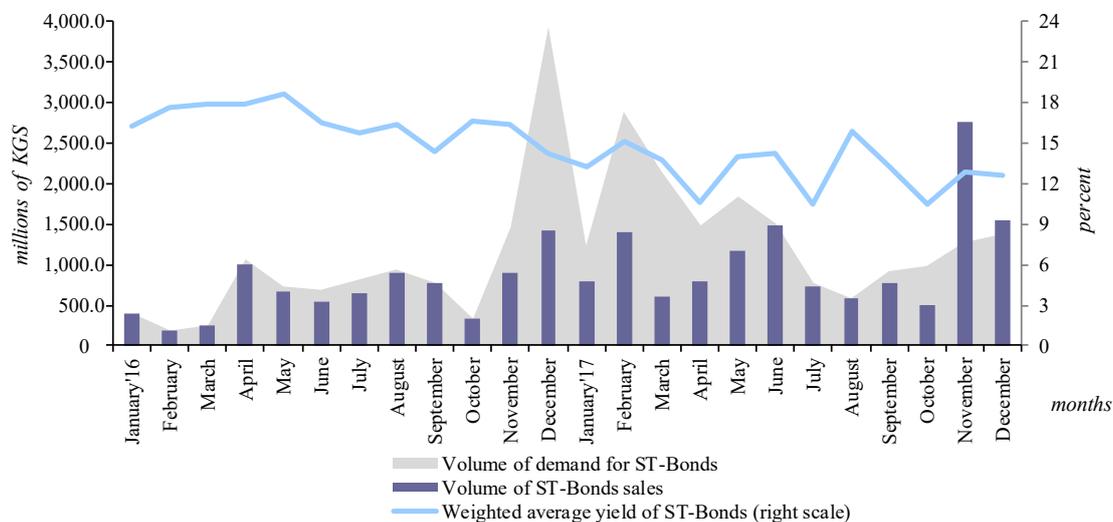
In 2017, the issuer placed ST-Bonds with maturities of 2, 3, 5, 7 and 10 years. The volume of announced issue increased by 38.5 percent compared to 2016, up to KGS 9.2 billion, due to broadening the range of the Ministry of Finance financial instruments. Following the results of the reporting year, there was an increase in the demand for these assets (+47.0 percent). At the end of 2017, the total volume of ST-Bonds in circulation increased by 73.4 percent, up to KGS 23.7 billion.

The total weighted average yield of ST-Bonds decreased by 3.5 percentage points and amounted to 13.0 percent in 2017 due to decreased yield of 2-, 3- and 5-year ST-Bonds.

In 2017, an auction for foreign-currency-denominated ST-Bonds was not held. At the same time, at the end of the reporting year the volume of ST-Bonds in circulation amounted to USD 49.4 million.

Chart 1.6.3.1.2.1.

Demand and Placement of ST-Bonds*



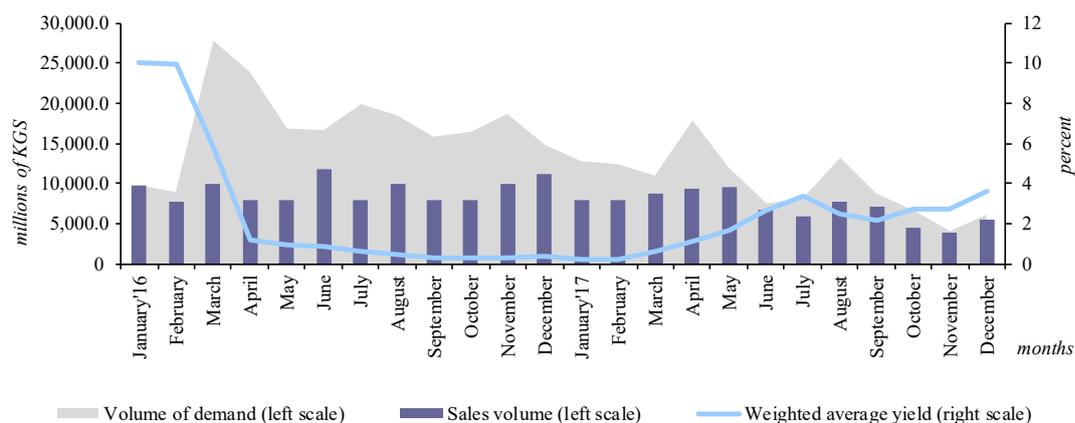
* – excluding foreign-currency-denominated ST-Bonds

1.6.3.1.3. Notes of the National Bank

In the reporting period, 7-, 14-, 28- and 91-day notes were placed in the market of the National Bank notes. In 2017, the volume of supply amounted to KGS 113.5 billion, having decreased by 2.2 percent compared to 2016. In the reporting period, the volume of demand for the notes decreased by 42.1 percent, down to KGS 120.3 billion, therefore the volume of notes sales, taking into account additional placement, decreased by 23.0 percent, down to KGS 84.9 billion.

Chart 1.6.3.1.3.1.

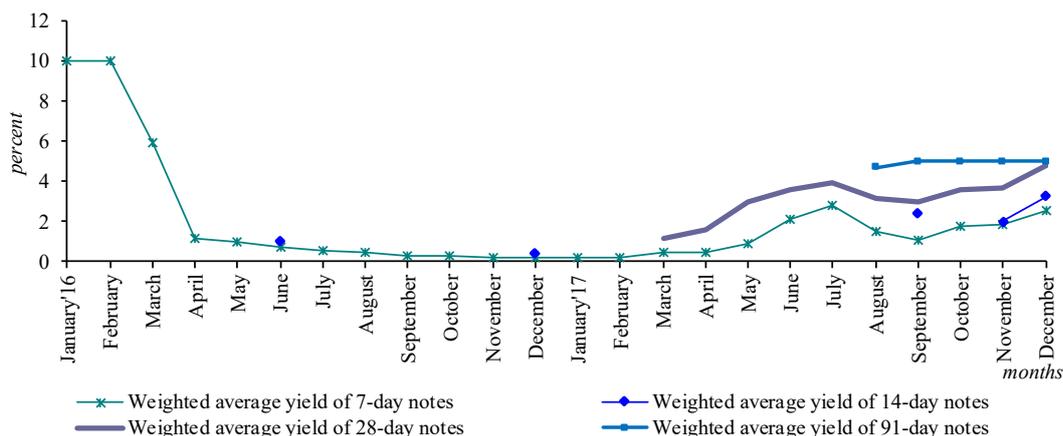
Demand and Placement of NBKR Notes



In the reporting period, the total weighted average yield of notes decreased by 0.6 percentage points compared to 2016, down to 2.0 percent.

Chart 1.6.3.1.3.2.

Weighted Average Yield by Types of NBKR Notes



In the reporting period, the number of participants increased from 5 to 13 banks in the structure of the NBKR notes holders. The volume of outstanding notes decreased by 0.3 percentage points and amounted to KGS 5.2 billion. The commercial banks (97.7 percent), institutional investors (2.3 percent) and resident legal entities (0.1 percent) were the main notes holders.

1.6.3.1.4. Other Government Securities

Following the results of 2017, the share of outstanding T-Obligations amounted to KGS 257.5 million, having decreased by 20.0 percent. The share of T-Obligations in the structure of government securities remained insignificant and made 0.7 percent (-0.5 percentage points).

The volume of outstanding bills of exchange, issued by the Ministry of Finance in the process of reregistering debts of financial-credit organizations to depositors, has not changed and amounted to KGS 34.5 million.

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

¹ According to the Bishkek Municipality data.

1.6.3.2. Corporate Securities Market¹

In 2017, the overall volume of securities auctions in the stock market amounted to KGS 7.9 billion, having decreased by 56.7 percent. In the reporting period, the number of securities transactions decreased by 19.6 percent, down to 3,137 transactions, compared to the same period of 2016.

The auctions were mainly held in the primary market, where their share made 44.9 percent and the volume of transactions amounted to KGS 3.5 billion. The share of non-exchange and secondary markets made 40.9 percent (KGS 3.2 billion) and 14.2 percent (KGS 1.1 billion), respectively.

59 issues of securities totaling KGS 5.5 billion were registered in the reporting year. Of them, 11 were the founders' issues of securities (to the amount of KGS 487.0 million), and 48 were additional issues (to the amount of KGS 5.0 billion).

The shares amounted to KGS 4.7 billion, bonds – KGS 540.0 million and real estate certificates – KGS 200.0 million in the total volume of issue.

In 2017, 29 issuers were listed on the Kyrgyz Stock Exchange, having increased by three issues compared to 2016.

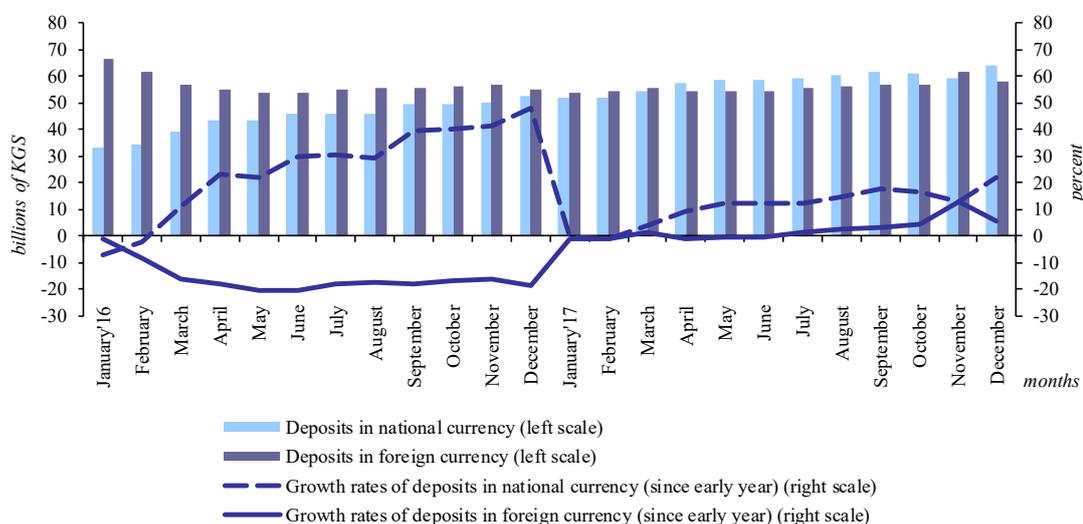
1.6.4. Deposit and Credit Market

Deposit base

At the end of 2017, the deposit base² of the commercial banks amounted KGS 121.6 billion, having increased by 13.6 percent since the beginning of the year. Deposits in the national currency increased by 21.8 percent, up to KGS 63.8 billion, while the volume of deposits in foreign currency increased by 5.7 percent, up to KGS 57.8 billion (in KGS equivalent).

Chart 1.6.4.1.

Volume of Deposit Base (end of period)



Deposit base structure

The share of individuals' deposits in the structure of the deposit base made 52.6 percent (in 2016 – 49.2 percent). Deposits of individuals in the national currency increased by 41.2 percent over the year, up to KGS 37.6 billion (in 2016, this indicator amounted to KGS 26.6 billion), while deposits in foreign currency increased by 1.0 percent,

¹ According to the data of the State Service for Financial Market Regulation and Supervision under the Government of the Kyrgyz Republic.

² Including the Government deposits and deposits of other financial organizations and excluding the loans of the Government and local authorities of the Kyrgyz Republic.

up to KGS 26.3 billion (in 2016, KGS 26.0 billion). The share of deposits of legal entities, other FCOs and governmental authorities decreased from 45.3 to 41.6 percent over the year. In the currency structure of the deposits of legal entities, deposits in foreign currency increased by 9.1 percent, up to KGS 25.6 billion. Deposits of enterprises in the national currency decreased by 0.3 percent over the year, down to KGS 25.0 billion (in 2016, KGS 25.1 billion).

In 2017, temporal structure of the deposit base did not change significantly: the major share was occupied by demand deposits and deposits on settlement accounts, which totaled 63.7 percent; term deposits made 36.3 percent.

The volume of long-term deposits increased up to KGS 13.7 billion (+33.8 percent), short-term deposits – up to KGS 30.5 billion (+2.5 percent) over the year.

In 2017, the volume of deposits¹ newly accepted by the banks amounted to KGS 527.5 billion, having increased by 13.7 percent over the year. Deposits in the national currency increased by 16.3 percent, up to KGS 289.7 billion, those in foreign currency – by 10.7 percent, up to KGS 237.9 billion. At the same time, the main inflow of deposits was provided by the receipt of funds on demand deposits in the national currency.

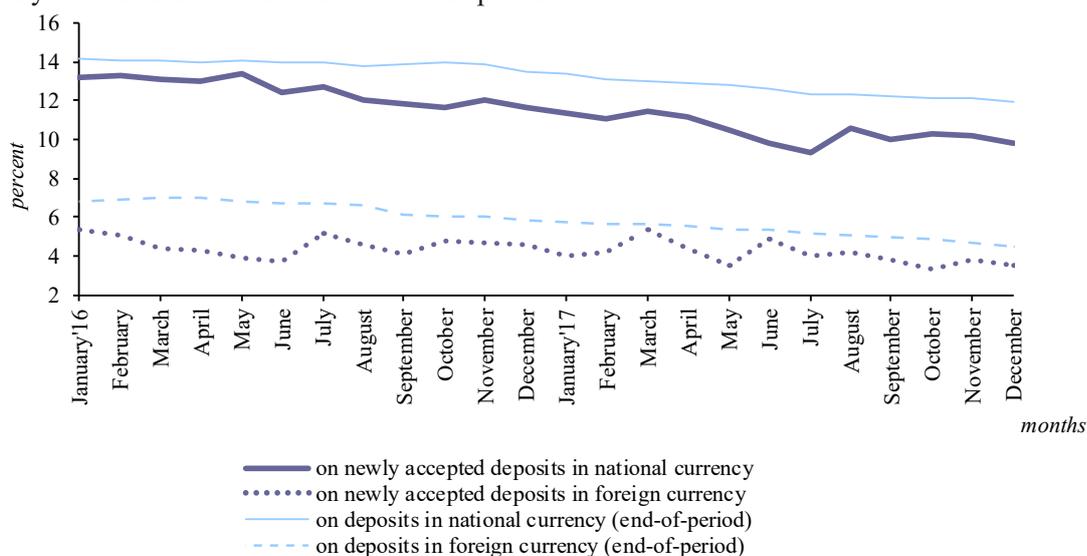
At the end of 2017, the weighted average interest rate of the deposit base in the national currency amounted to 6.2 percent, having decreased by 0.3 percentage points over the year. The rate of remaining balances of deposits in foreign currency decreased to 2.1 percent (-0.6 percentage points).

Newly accepted deposits

Deposit interest rates

Chart 1.6.4.2.

Dynamics of Interest Rates on Term Deposits



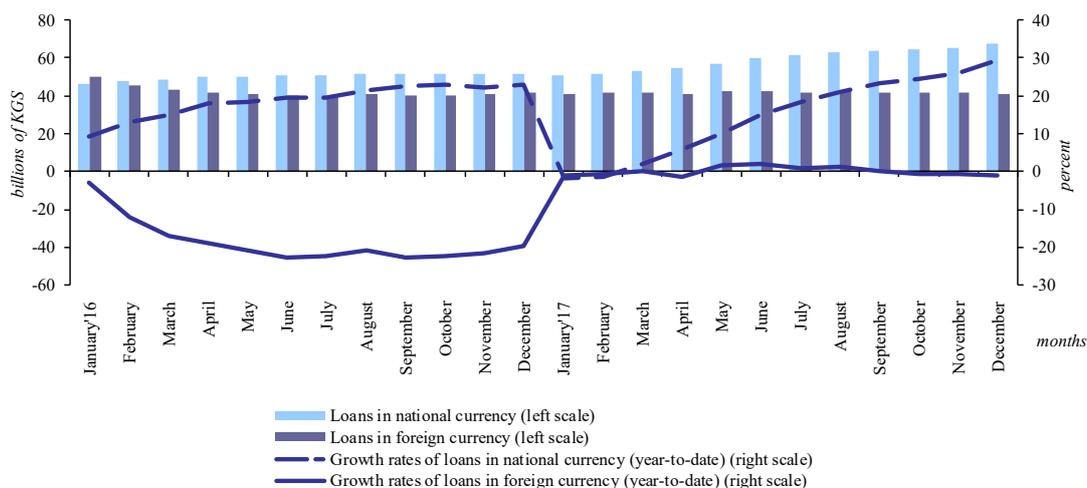
In 2017, the aggregate credit portfolio of the commercial banks increased by 15.9 percent and amounted to KGS 108.3 billion. Growth in the credit portfolio was provided by the increase of loans in the national currency by 29.6 percent, up to KGS 67.2 billion, while those in foreign currency decreased by 1.2 percent, down to KGS 41.1 billion.

Credit portfolio of banks

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

Chart 1.6.4.3.

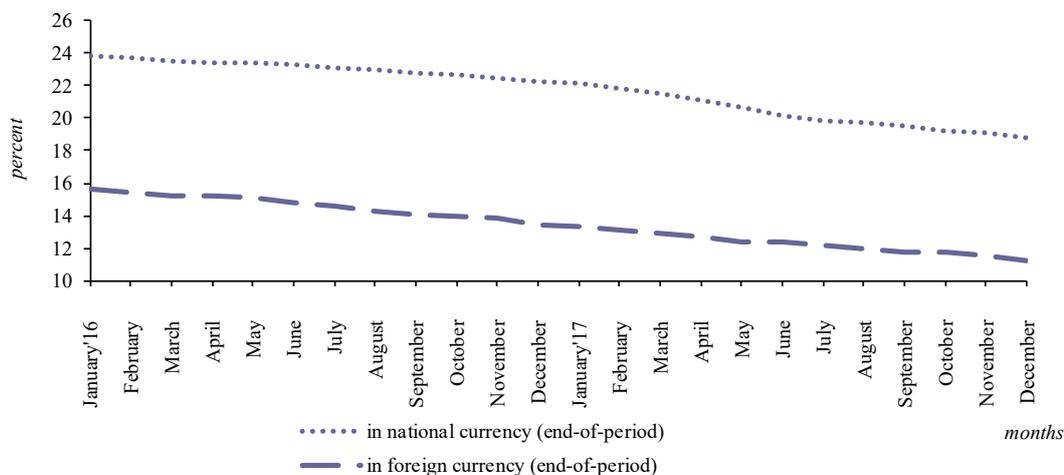
Volume of Bank Loans (end-of-period)



At the end of the year, the weighted average interest rate on the loans, which make the credit portfolio of the commercial banks, constituted 18.8 percent (-3.4 percentage points) in the national currency, and in foreign currency – 11.3 percent (-2.2 percentage points).

Chart 1.6.4.4.

Dynamics of Weighted Average Interest Rates on Loans of Commercial Banks

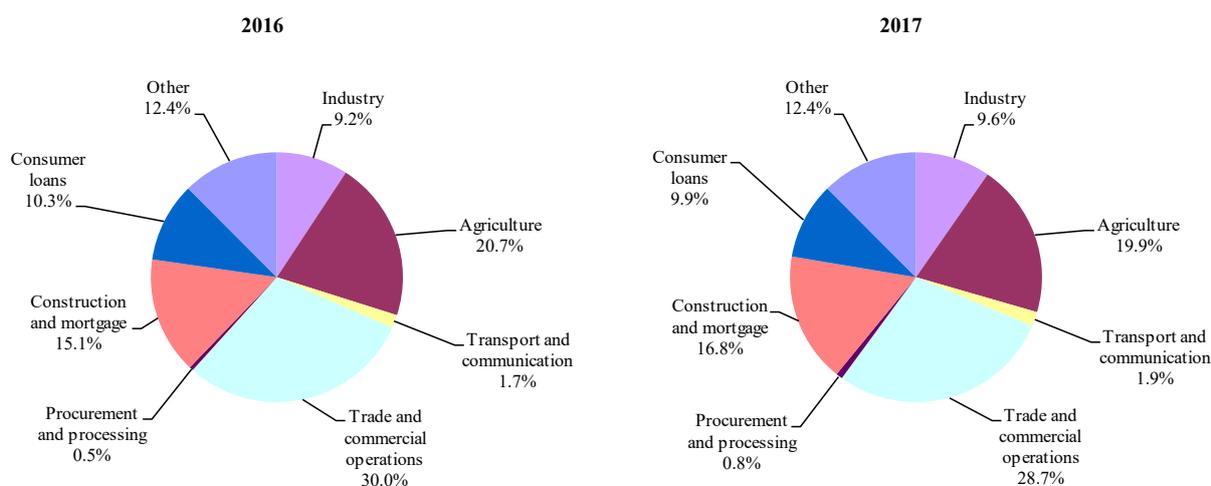


Temporal structure of credit portfolio of banks

At the end of 2017, the volume of short-term loans decreased by 12.3 percent amid increase in the volume of loans with a maturity of more than one year (by 23.7 percent) resulting in an increase in the credit portfolio duration from 29.3 to 31.3 months.

Chart 1.6.4.5.

Credit Portfolio of Commercial Banks by Economic Sectors



The total volume of loans newly extended by the commercial banks increased by 10.5 percent compared to 2016 and amounted to KGS 106.0 billion. This growth resulted from an increase of loans extended in the national currency by 18.5 percent, which amounted to KGS 70.0 billion. The volume of loans issued in foreign currency decreased by 2.4 percent, down to KGS 36.0 billion in KGS equivalent.

Table 1.6.4.1.

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

	2016		2017	
	millions of KGS	Share, percent	millions of KGS	Share, percent
Bishkek city	51,216.5	54.9	60,557.3	56.2
Osh city and Osh oblast	11,797.8	12.7	13,079.6	12.1
Jalal-Abad oblast	9,509.3	10.2	10,419.3	9.7
Chui oblast	6,800.1	7.3	7,790.6	7.2
Issyk-Kul oblast	5,227.1	5.6	6,237.4	5.8
Batken oblast	3,457.4	3.7	3,679.8	3.4
Talas oblast	2,665.4	2.9	2,966.9	2.8
Naryn oblast	2,558.6	2.7	3,046.3	2.8
Total	93,232.2	100.0	107,777.2	100.0

*The credit portfolio is given including accrued discount

In the reporting period, the bulk of the banking sectors' loans by regions was extended in Bishkek (56.2 percent), Osh city and Osh oblast (12.1 percent) and Jalal-Abad oblast (9.7 percent).

In 2017, the weighted average interest rate on newly issued loans in the national currency amounted to 19.8 percent, having decreased by 4.7 percentage points over the year. The weighted average interest rate on newly issued foreign currency loans for the reporting period amounted 10.5 percent, having decreased by 2.0 percentage points.

NBFCOs credit
portfolio**Table 1.6.4.2.**

NBFCOs Credit Portfolio by Economic Sectors (end-of-period)

	2016		2017	
	millions of KGS	Share, percent	millions of KGS	Share, percent
Industry	106.0	1.0	145.5	1.1
Agriculture	3,214.2	29.4	3,286.6	25.8
Transport and communication	112.0	1.0	144.0	1.1
Trade and services	3,043.5	27.9	3,210.5	25.2
Procurement and processing	25.8	0.2	16.8	0.1
Construction and purchase of property (mortgage)	801.8	7.3	1,161.5	9.1
Consumer loans	2,346.0	21.5	3,517.0	27.6
Other	1,266.1	11.6	1,250.2	9.8
Total	10,915.4	100.0	12,732.1	100.0

In the reporting period, the bulk of the NBFCOs credit portfolio was extended in Bishkek, Osh and Osh oblast.

Table 1.6.4.3.

NBFCOs Credit Portfolio Behavior by Regions (end-of-period)

	2016		2017	
	millions of KGS	Share, percent	millions of KGS	Share, percent
Bishkek city	3,180.4	29.1	3,471.2	27.3
Batken oblast	489.0	4.5	563.0	4.4
Jalal-Abad oblast	1,072.6	9.8	1,397.2	11.0
Issyk-Kul oblast	1,032.5	9.5	1,267.5	10.0
Naryn oblast	718.5	6.6	891.5	7.0
Osh oblast and Osh city	2,297.9	21.1	2,712.6	21.3
Talas oblast	330.3	3.0	347.7	2.7
Chui oblast	1,791.7	16.4	2,078.8	16.3
Outside Kyrgyzstan	2.6	0.0	2.6	0.0
Total	10,915.4	100.0	12,732.1	100.0

At the end of 2017, the weighted average rates on the credit portfolio of microfinance organizations did not change significantly and amounted to 31.1 percent (-0.3 percentage points), those of credit unions – 25.9 percent (-1.9 percentage points).

ACTIVITY
OF THE NATIONAL BANK
OF THE KYRGYZ REPUBLIC
IN 2017



CHAPTER 2. MONETARY POLICY

During 2017, inflationary conditions in the Kyrgyz Republic remained moderate. Under these circumstances, the National Bank continued conducting the appropriate monetary policy, keeping its interest rate policy unchanged. During 2017, the policy rate of the National Bank remained at 5.00 percent.

In 2017, the National Bank continued providing the resources in the national currency through the monetary policy tools to expand lending to all sectors of economy and support positive economic growth.

Moreover, the actions of the National Bank in the reporting year were focused on expanding and improving the monetary policy tools to develop the money market and the market of precious metals. The changes were introduced to improve the efficiency of the transmission mechanism of the monetary policy, as well as its extend of impact on the financial and real sectors of the economy, to reduction of economy dollarization as a whole.

Under the conditions of the floating exchange rate regime existing in the Kyrgyz Republic, the National Bank conducted exchange rate interventions to smooth the sharp exchange rate fluctuations.

The National Bank carried out operations on purchase of gold in the domestic market in order to increase the volume of international reserves. Management of international reserves was implemented in accordance with the key principles of liquidity and security.

2.1. Monetary Policy Framework

Monetary policy goal

The goal of the monetary policy implemented by the National Bank is to achieve and maintain price stability as a necessary condition of macroeconomic stability contributing to economic growth in the country.

In 2017, the National Bank developed and conducted monetary policy in accordance with the strategic objectives and priorities of the National Sustainable Development Strategy of the Kyrgyz Republic for 2013-2017 and the Main Directions of the Monetary Policy for the medium term¹. The target for inflation is to restrain the inflation rate within 5-7 percent in the medium term.

The National Bank determines and conducts the monetary policy based on the analysis of the current macroeconomic conditions, estimates of the external and internal environment development trends and inflationary expectations.

Interest rate policy

The policy rate was used as the main monetary policy tool, the decisions on which were made by the National Bank Board. In order to increase the impact on the short-term market interest rates, the National Bank took measures to strengthen operation of the interest rate channel in the transmission mechanism.

Meetings of the National Bank Board on the policy rate were held in accordance with the schedule of meetings posted on the official website of the National Bank. The tactical decision-making on monetary policy issues was done by the Monetary Regulation Committee (MRC) on the weekly basis. In order to provide coordination of monetary and fiscal policies, the Interagency Coordination Council held regular meetings with participation of the National Bank and the Ministry of Finance.

In 2017, the interest rate policy of the National Bank was focused on maintaining economic growth. In the reporting period, the National Bank's policy rate did not change and remained at 5.00 percent. The rates of the interest rate corridor also remained unchanged: the upper level of the interest rate corridor (the rate on "overnight" credits) at 6.25 percent, the lower level (the rate on "overnight" deposits) – 0.25 percent.

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

The National Bank still adhered to the floating exchange rate adopted by the Kyrgyz Republic. In order to prevent sharp fluctuations of the exchange rate during 2017, the National Bank conducted currency interventions on sale and purchase of foreign currency. In general, net sales of the US dollars amounted to USD 72.7 million.

Exchange rate policy

In 2017, the banking system continued functioning under the conditions of excess liquidity. The average daily volume of the excess reserves in the banking system before the sterilization operations conducted by the National Bank amounted to KGS 13.0 billion (in 2016 – KGS 11.6 billion), after sterilization operations – KGS 1.3 billion (in 2016 – KGS 1.4 billion). At the same time, at the end of the reporting year, the dynamics of excess liquidity was characterized by the downward trend.

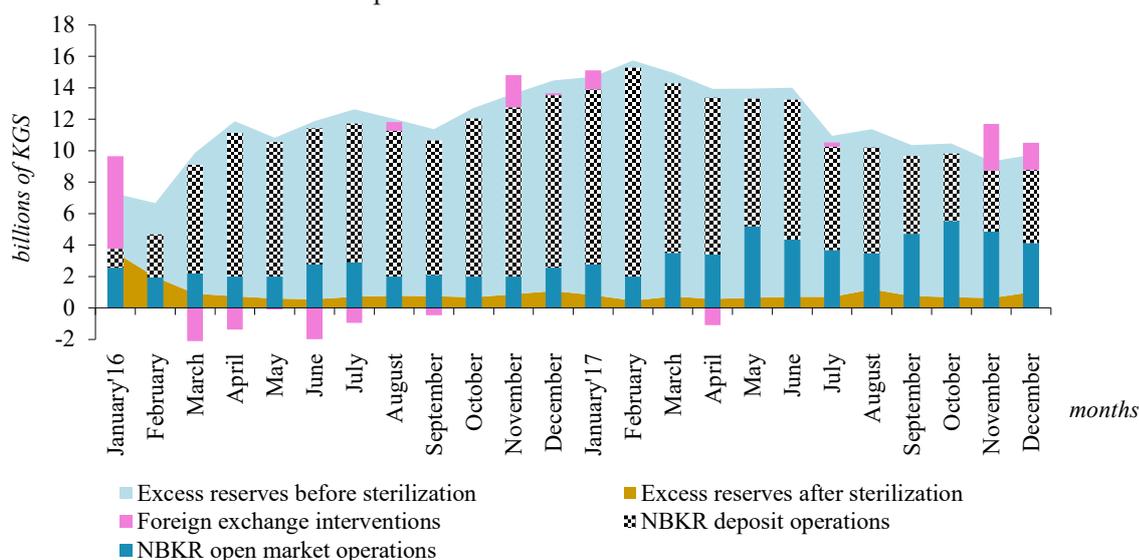
Monetary policy measures

In order to provide further development of the money market, the National Bank took measures to expand and improve the monetary policy tools. Within the framework of these measures, changes providing the possibility of issuing the National Bank notes with a maturity of up to 364 days were introduced. At the same time, to additionally enable the commercial banks to implement more flexible and effective management of their liquidity, the list of collaterals for all refinancing instruments of the National Bank was revised.

During the reporting year, in order to absorb excess liquidity from the banking system, the National Bank conducted mainly the open market operations (issue of the National Bank notes) and “overnight” deposit operations. The average daily volume of sterilization operations conducted by the National Bank increased from KGS 10.2 billion in 2016 up to KGS 11.7 billion in 2017.

Chart 2.1.1.

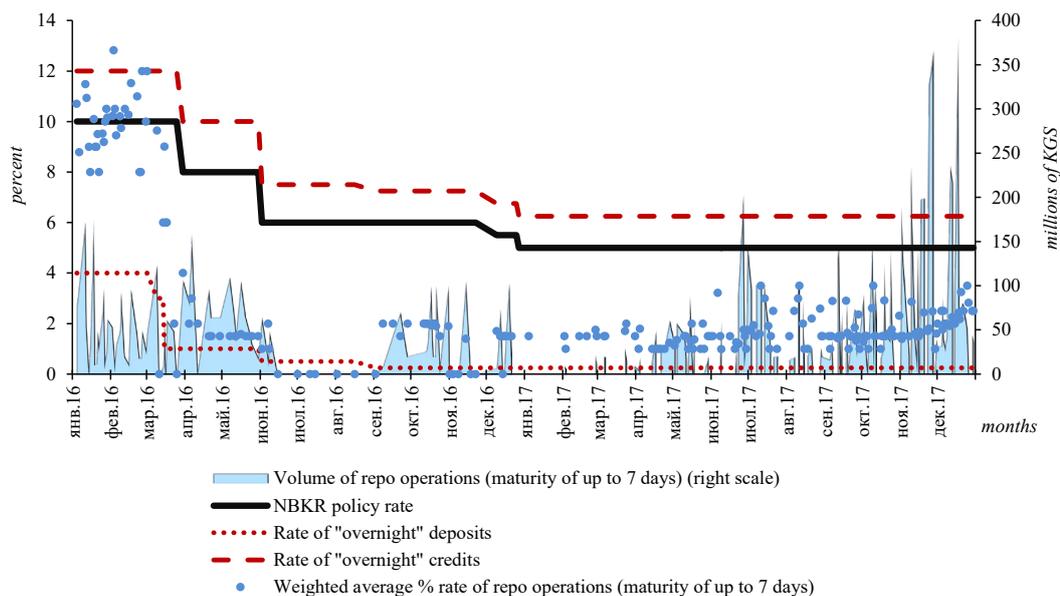
Excess Reserves and NBKR Operations



In the reporting period, the interbank credit market participants stepped up their activity. The total volume of repo operations increased by 2.3 times compared to 2016. Monetary conditions caused preservation of the short-term interest rates of the money market within the interest rate corridor set by the National Bank. Meanwhile, the rates of the money market were getting closer to the policy rate.

Chart 2.1.2.

Changes in Rates of National Bank and Interbank Repo Operations



Communication policy

In 2017, in order to improve the monetary policy effectiveness, the National Bank focused on conducting an active communication policy. Press conferences on monetary policy issues involving the National Bank management were held on a regular basis, press releases on the decisions made in respect of the policy rate were issued. Moreover, periodic monetary policy reports, containing estimates of the National Bank on the current and expected macroeconomic situation in the country, were published.

The main priorities in conducting the communication policy were to form the optimal market behavior of economic entities, including rational inflationary expectations, and to provide the general public with information on monetary policy issues.

2.2. Monetary Policy Implementation

In the reporting period, the monetary policy was implemented under maintenance excess liquidity conditions in the banking sector. In the second half of 2017, in order to absorb excess liquidity more efficiently, the market participants additionally offered 91-day notes of the National Bank. During 2017, the yield of the National Bank's notes was characterized by the upward trend and getting closer to the policy rate. At the end of 2017, the weighted average yield on all types of the National Bank's notes was 3.4 percent¹ (at the end of 2016, the yield was 0.4 percent²). Meanwhile, in the reporting period, the average daily volume of notes in circulation amounted to KGS 4.0 billion (in 2016 – KGS 2.3 billion).

Along with the open market operations, the sterilization of excess liquidity was carried out by the National Bank through placement of idle funds by the commercial banks on "overnight" deposits with the National Bank, the average daily volume of such funds totaled KGS 7.7 billion (in 2016 – KGS 8.0 billion).

Maintenance stimulating monetary conditions allowed the National Bank to activate measures for increasing domestic consumption and supporting positive economic growth. In 2017, in order to achieve the aforementioned goals, the resources to the banking sector were provided within the framework of the credit auctions and the credits to the international organizations established by the Kyrgyz Republic jointly with other states within the EAEU.

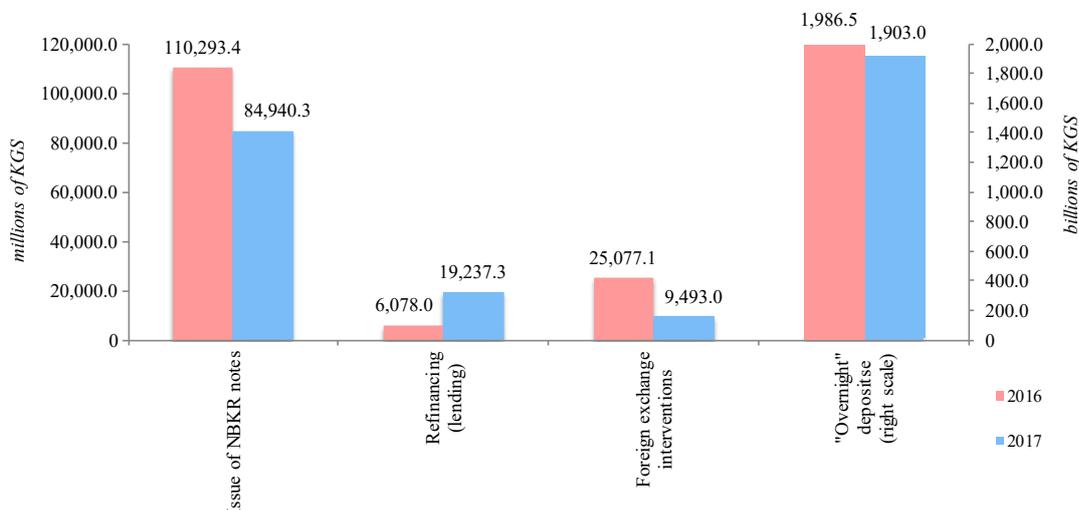
¹ According to the results of the auctions on placement of notes as of December 26, 2017.

² According to the results of the auctions on placement of notes as of December 27, 2017.

Moreover, in order to provide the commercial banks with the funds in the national currency, the National Bank conducted operations for extending the “overnight” credits and the credits to support liquidity.

Chart 2.2.1.

Volumes of National Bank Operations



In 2017, in order to enhance development of the operations with precious metals and to reduce dollarization of the economy, the National Bank developed a new monetary policy tool implying sale and repurchase of gold by the National Bank in the interbank domestic market without physical supply.

In 2017, the situation in the domestic foreign exchange market was stable. The foreign exchange interventions were conducted by the National Bank in order to smooth sharp fluctuations of the exchange rate. The National Bank participated in the domestic foreign exchange market as a buyer and a seller of foreign currency. In the reporting period, the volume of net sales of the US dollars amounted to USD 72.7 million, in 2016, the volume of net purchase amounted to USD 29.1 million.

In the reporting year, the National Bank conducted the operations on purchase of monetary gold in the domestic market, the volume thereof amounted to KGS 4.4 billion (in 2016 – KGS 982.2 million).

2.2.1. Domestic Foreign Exchange Market Operations

Within the framework of the existing regime of floating exchange rate, the National Bank participated in the foreign exchange auctions depending on the market situation to smooth the sharp exchange rate fluctuations.

There was relatively stable situation in the foreign exchange market during 2017. Demand for foreign currency was mainly satisfied by supply thereof; therefore participation of the National Bank in the foreign exchange auctions was relatively rare compared to the previous year.

At the beginning of the first quarter of the reporting year, amid seasonal decline in the inflow of money transfers in the domestic foreign exchange market, there was a decrease in the supply of foreign currency, which in turn increased the volatility of the exchange rate. The National Bank sold USD 17.7 million to smooth sharp fluctuations of the exchange rate in the aforementioned period.

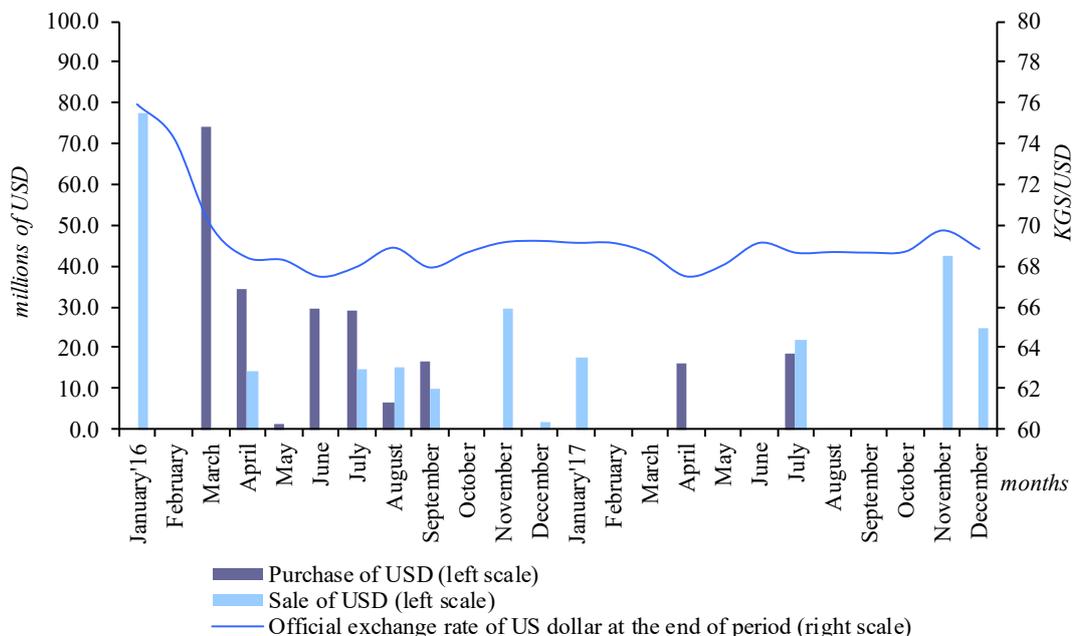
At the beginning of the second quarter, with recovery of money transfers inflows, there was a reverse situation: supply of foreign currency exceeded its demand and

resulted in strengthening of the national currency. Therefore, the National Bank purchased USD 16.2 million.

In the third quarter, the volume of operations on sale of foreign currency carried out by the National Bank exceeded the volume of operations on its purchase. As a result, net sale totaled USD 3.8 million in the third quarter of 2017.

Chart 2.2.1.1.

Foreign Exchange Operations of National Bank in 2017



In the fourth quarter, an increase in demand for foreign currency put some pressure on the exchange rate, which was smoothed through the operations of the National Bank. As a result, the National Bank sold USD 67.4 million in the fourth quarter.

In general, the National Bank sold USD 107.2 million and purchased USD 34.5 million in 2017. The net sale totaled USD 72.7 million. The official US dollar-Kyrgyz som exchange rate decreased by 0.6 percent and amounted to USD 68.8395 in the reporting period.

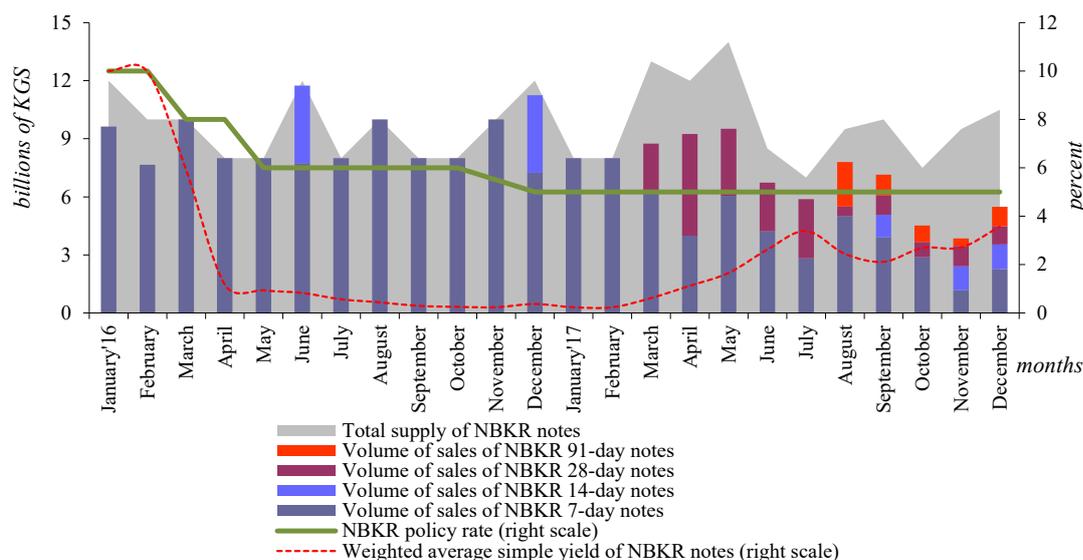
2.2.2. Operations with Notes of the National Bank

The notes are the securities of the National Bank with a maturity from 7 to 364 days. The National Bank places the notes at the auctions to regulate the level of liquidity in the banking system.

The National Bank started issuing notes with maturity of 91 days since August 2017 to develop the interbank market and provide more efficient liquidity management in the banking system. In 2017, total sales of the National Bank notes amounted to KGS 84.9 billion. The share of the National Bank notes with a maturity of 7 days (64.4 percent) was the most significant in their sales, the sales of notes with a maturity of 14, 28 and 91 days amounted to 4.3, 24.7 and 6.6 percent, respectively.

Chart 2.2.2.1.

Sales Volume of Notes of National Bank and Policy Rate Developments



2.2.3. Refinancing of Banks

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

The National Bank used the following types of refinancing instruments:

- the “intraday” credit extended in the national currency on the interest-free basis during the trading day on collateral, to enhance efficiency of the payment system;
- the “overnight” credit extended in the national currency for one day on the repayment basis on collateral, to support short-term liquidity of banks;
- the 7-day credit extended in the national currency for 7 days on the repayment basis on collateral, to support short-term liquidity;
- the credit auctions aimed at refinancing and supporting liquidity carried out in the national currency to extend to the commercial banks the six months credits on the repayment basis to support liquidity and lending to certain sectors of the economy;
- the credits for liquidity support extended on the repayment basis on collateral to protect integrity of the banking system, support liquidity of the bank and protect the interests of the depositors;
- the credits extended on the repayment basis on collateral to the international organizations established by the Kyrgyz Republic jointly with other states within the EAEU;
- the credits of last resort extended in exceptional cases to the commercial banks experiencing serious financial problems.

In 2017, the “intraday” credits were not demanded by the commercial banks.

In 2017, the volume of extended “overnight” credits amounted to KGS 13.8 billion, whereas, in 2016, the volume thereof amounted to KGS 2.0 billion.

In 2017, the National Bank extended credits to the commercial banks in the amount of KGS 4.8 billion (in 2016 – KGS 1.4 billion) through the credit auctions.

The National Bank extended credits in the amount of KGS 72.5 million to the international organizations established by the Kyrgyz Republic jointly with other states within the EAEU to promote and support a long-term economic development in the Kyrgyz Republic.

In 2017, the National Bank extended credits in the amount of KGS 538.3 million.

Table 2.2.3.1.

Credits Extended by the National Bank of the Kyrgyz Republic

(millions of KGS)

	Q1	Q2	Q3	Q4	Total
"Overnight" credits					
2016	2,045.6	-	-	-	2,045.6
2017	-	50.0	538.2	13,228.3	13,816.5
Credit auctions*					
2016	1,070.0	-	370.0	-	1,440.0
2017	500.0	4,130.0	180.0	-	4,810.0
Credits for liquidity support					
2016	-	-	-	-	-
2017	-	-	-	538.3	538.3
Credits to international organizations					
2016	350.0	130.0	61.0	137.2	678.2
2017	49.5	23.0	-	-	72.5

*Amount of credits actually extended for the indicated period

2.2.4. Reserve Requirements

RR for commercial banks

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

During 2017, the norms of reserve requirements were not changed and remained at 4.0 percent for the liabilities in the national currency, the currencies of the EAEU member-states and CNY and 12.0 percent for the liabilities in other foreign currencies. The base period of compliance with the RR was four calendar weeks. The minimum daily threshold amount of money in the correspondent account with the National Bank to comply with the RR on a daily basis was kept at 90.0 percent of the amount of the bank's required reserves allocated for the corresponding period.

In order to provide the commercial banks with an alternative opportunity to comply with the RR, as well as to further stimulate operations with precious metals, a decision was made to include 100 percent of assets in the form of gold on the bank's depersonalized metal account with the National Bank in the reserve assets.

RR for micro-finance companies, accepting deposits

In 2017, the National Bank started applying a differentiated approach to reserve requirements in respect of the microfinance companies that accept deposits. Within the framework of these activities, the norms of reserve requirements similar to the commercial banks were established: at 4.0 percent for the liabilities in the national currency, the currencies of the EAEU member-states and CNY, and 12.0 percent for the liabilities in other foreign currencies.

Also, there were amendments introduced for the microfinance companies, accepting deposits. These amendments provide for extension of the base period, change of the settlement procedure and compliance with the RR, determination of the list of liabilities included in the calculation base, establishment of the amount of fees for depositing obligatory reserves and penalties for their non-compliance and other changes.

Table 2.2.4.1.**Reserves of Commercial Banks in National Currency****(millions of KGS)*

	Q1	Q2	Q3	Q4
2016, total	8,742.6	8,640.8	8,583.7	8,845.5
<i>including:</i>				
required reserves	7,832.4	7,146.9	7,072.5	7,281.3
excess reserves	910.3	1,493.9	1,511.2	1,564.2
2017, total	8,730.4	8,699.5	9,107.1	8,827.9
<i>including:</i>				
required reserves	7,175.3	7,343.2	7,632.4	7,927.3
excess reserves	1,555.2	1,356.2	1,474.7	900.6

**average volume for the period*

During the reporting year, all commercial banks complied with the norms of reserve requirements. At the same time, there was one registered case of non-compliance with the daily minimum level of the volume of required reserves.

2.3. Management of International Reserves

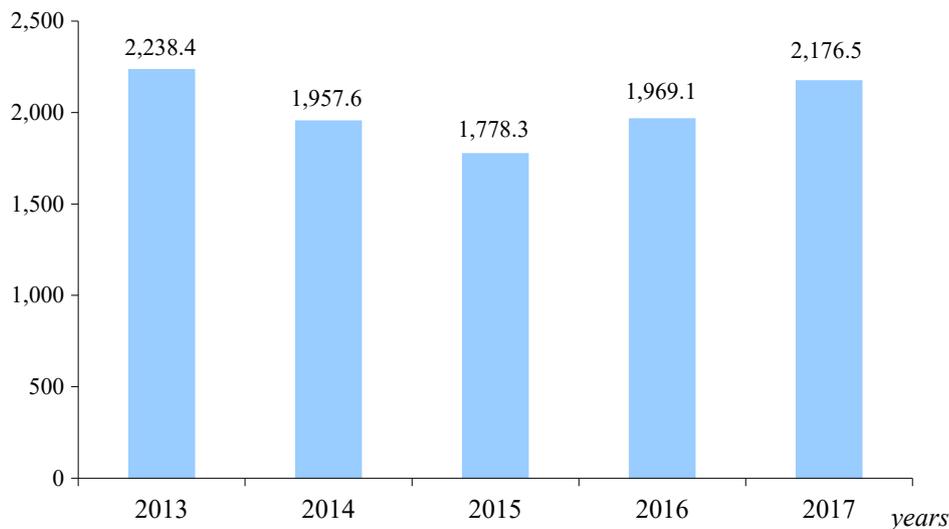
According to the Law “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity”, the National Bank independently forms, owns and manages all international reserves, taking into account the priorities of liquidity and ensuring security thereof.

Management of international reserves was regulated by the Investment Policy and the Risk Management Policy in International Reserves Management and the Methods to Determine Limits for Counterparties in International Reserves Management.

The decision-making in the part of defining the bank’s investment strategy, the portfolio structure of international reserves, the ratio of risk and the return on investment instruments, as well as a choice of the bank’s counterparties was made by the Board and the Investment Committee of the National Bank. In 2017, the Investment Committee held 23 meetings on international reserves management. Criteria were set, as well as the requirements and restrictions imposed on counterparties, types of instruments, and the size and maturity of investment were established to minimize the risks emerging during international reserves management.

At the end of 2017, gross international reserves amounted in the equivalent of USD 2,176.5 million, having increased by USD 207.4 million or 10.5 percent over the year. The international reserves of the National Bank comprise the assets in gold, SDR and the currency portfolio.

Volume and structure of international reserves

Chart 2.3.1.**Dynamics of Gross International Reserves***(millions of USD)*

The National Bank foreign exchange operations carried out in the domestic market of the country; the payments on the external liabilities of the Kyrgyz Republic; the changes in the exchange rates of currencies, which are part of international reserves; the changes in the prices of precious metals; income from management of international reserves; the operations on purchase of gold in the domestic market of Kyrgyzstan; and receipt of foreign currency in favor of the Government influenced the volume of gross international reserves during 2017.

Table 2.3.1.**Structure of International Reserves (end-of-period)***(percent)*

*Structure of the
international
reserves currency
portfolio*

	2016	2017
Currency portfolio	82.1	78.9
Gold	8.6	13.3
Special Drawing Rights	9.3	7.8
Total	100.0	100.0

In 2017, the international reserves currency portfolio consisted of following currencies: the US dollars, Euros, Swiss francs, British pounds, Australian and Canadian dollars, Japanese yens, Russian rubles, Chinese yuans, South Korean won, Singapore dollars and Norwegian kroner.

Table 2.3.2.**Structure of Allocation of International Reserves (end-of-period)***(percent)*

	2016	2017
Central banks	32.4	24.9
International financial institutions	16.6	29.5
Commercial banks	46.5	36.6
NBKR	4.5	9.0
Total	100.0	100.0

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

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

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

Structure of international reserves

Working capital placement

Investment portfolio management

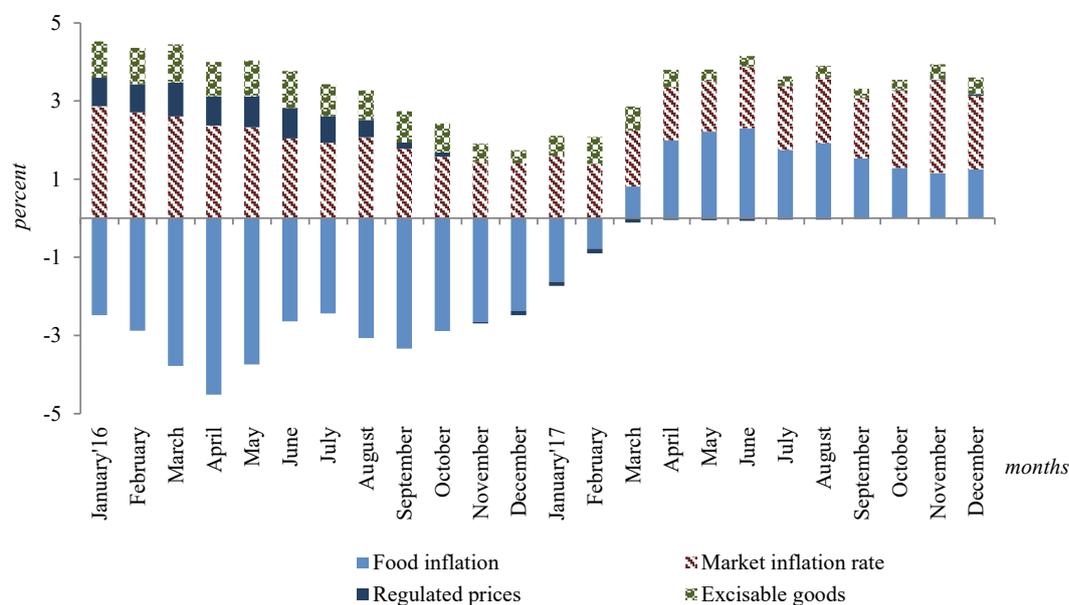
2.4. Monetary Policy Results

During 2017, inflation in Kyrgyzstan remained moderate, not exceeding the benchmarks of the National Bank. According to the National Statistics Committee, the annual average inflation rate was 3.2 percent, the inflation rate made 3.7 percent at the end of the year (December 2016 to December 2017). Growth rates in prices for food products increased compared to 2016 and moved into positive territory. Growth of prices for non-food products, on the contrary, slowed down 2017.

Inflation factors

Chart 2.4.1.

Contributions to Formation of Inflation¹



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

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

At the end of the year, the rate of food inflation was 2.7 percent (December 2016 to December 2017). Among the major types of food products, the prices for vegetables and meat products increased significantly. The price indices for bakery products and cereals, oils and fats, as well as sugar decreased compared to 2016, which influenced the formation of relatively low rate of food inflation.

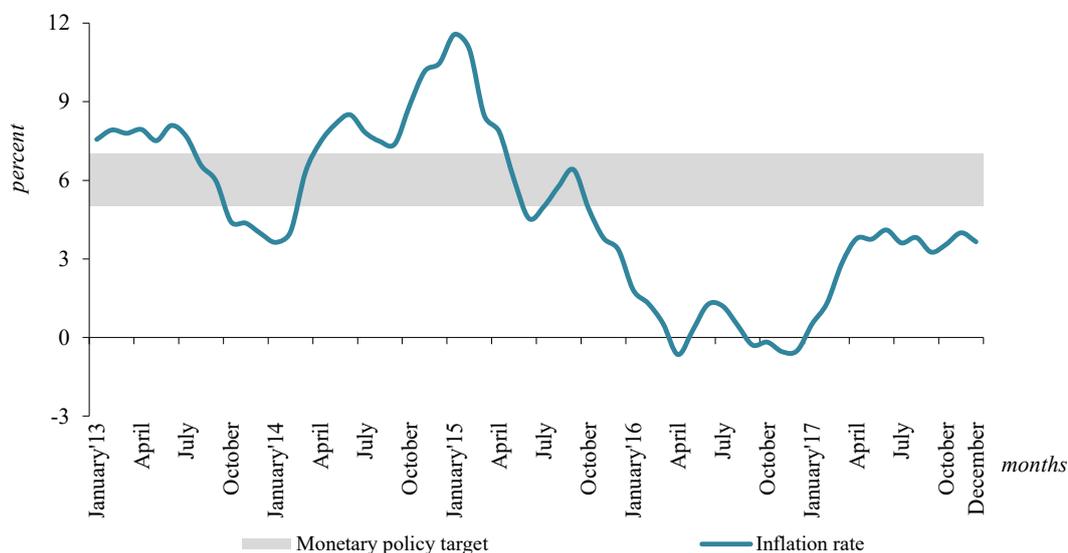
Prices for non-food products increased by 3.2 percent in annual terms. Growth of the price indices for majority of the non-food products was low or moderate. The prices for coal, petroleum and lubricants demonstrated relatively high growth rates. In 2017, the tariffs for electricity and heat energy remained unchanged.

In 2017, the price index for paid services increased by 6.9 percent, which was mainly due to the growth in prices for communication services, the services of restaurants and hotels.

During the period covered by the National Sustainable Development Strategy of the Kyrgyz Republic for 2013-2017, the average annual inflation rate did not exceed the target of 5-7 percent and amounted to approximately 5 percent (4.9 percent).

Chart 2.4.2.

Inflation Rate in Kyrgyzstan



Monetary base

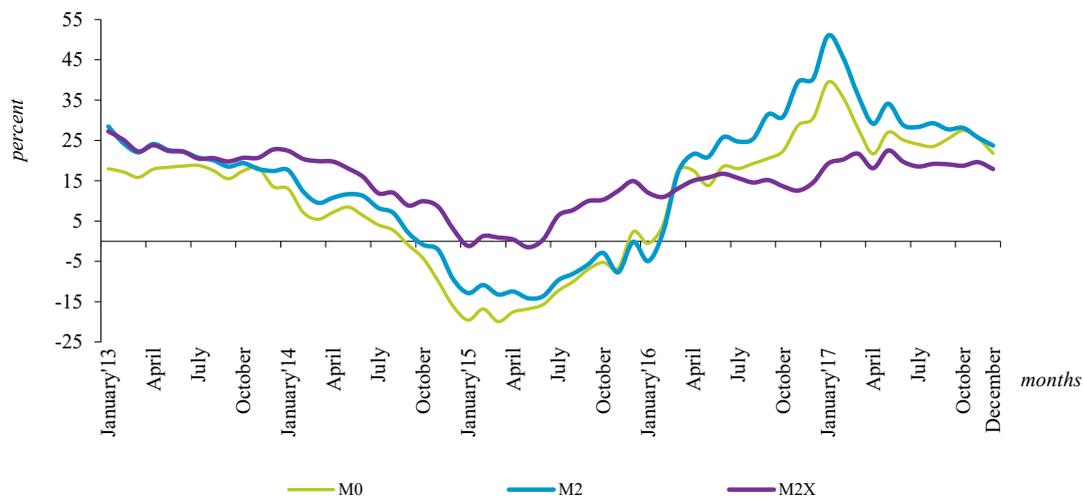
Following the results of 2017, the monetary base increased by 16.9 percent or KGS 14.4 billion and amounted to KGS 100.0 billion (in 2016, the increase made 27.6 percent). The operations of the Government of the Kyrgyz Republic increased the monetary base by KGS 10.1 billion, the operations of the National Bank – by KGS 4.3 billion.

Monetary aggregates

In general, in the reporting year, all monetary aggregates were still characterized by the upward trend, which was mainly determined by an increase of money outside banks. In 2017, M0 monetary aggregate (money outside banks) increased by KGS 15.1 billion or 21.8 percent and totaled KGS 84.5 billion at the end of the year (in 2016, the increase was 30.5 percent). M2 monetary aggregate (M0 + deposits, including the settlement accounts in the national currency) grew by 23.7 percent or KGS 27.4 billion, up to KGS 142.9 billion according to the results of the reporting year (in 2016, the increase was 40.3 percent). During the reporting year, M2X monetary aggregate increased by 17.9 percent and totaled KGS 193.4 billion (in 2016, the increase was 14.6 percent). Growth on this monetary aggregate, besides money outside banks, was due to the increase of the deposits in the national currency (26.7 percent) and in foreign currency (4.0 percent).

Chart 2.4.3.

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



CHAPTER 3. SUPERVISION AND REGULATION OF FINANCIAL-CREDIT ORGANIZATIONS

The National Bank exercised supervision and regulation of the banks and non-banking financial-credit organizations in accordance with the legislation of the Kyrgyz Republic to ensure stability of the banking system and to protect the interests of depositors and creditors.

A combination of the off-site (distant) supervision with comprehensive and target (if necessary) inspections of the financial-credit organizations is the main instrument to perform functions of supervision and regulation.

In the reporting year, the National Bank approved two strategic documents: on the main directions of development for the banking system and the microfinance sector in the Kyrgyz Republic for the medium-term period. These documents are drafted to provide sustainable development and to increase the role of sectors in the economy of the Kyrgyz Republic, to maintain efficiency, security and reliability of their activities, to create the conditions for increasing the availability of banking and microfinance services, to further increase the level of financial intermediation, to reduce the weighted average interest rates on loans, and to further develop the Islamic principles of financing.

3.1. Banking Supervision

3.1.1. Licensing

Authorized capital of banks

At the end of 2017, 25 commercial banks operated in the territory of the Kyrgyz Republic. The total amount of paid-up authorized capital of the commercial banks amounted to KGS 21.9 billion; the share of foreign capital in the authorized capital of the banking system was 49.8 percent or KGS 10.9 billion. During 2017, the total amount of the authorized capital of the banks increased by KGS 2.9 billion or by 15.4 percent.

In accordance with the requirements of the banking legislation for the operating banks (including the branches of non-resident banks), the deadline for the formation of a minimum authorized capital in the amount of at least KGS 500 million was set till July 1, 2017, this requirement was performed by all commercial banks except one.

Issue of license

During 2017, one bank was granted a permit to conduct activities for receiving, processing and issuing the financial information, three banks were issued permits for the right to issue electronic money, two more banks were authorized to conduct operations with precious metals of other issuers in an impersonal form (in non-cash form). Moreover, one bank was given a license to conduct banking operations in accordance with the Islamic principles of banking and financing through the “Islamic window” in the national and/or foreign currency.

Table 3.1.1.1.**Dynamics of Network of Branches, Savings Offices and Field Cash Offices**

	Number of Branches		Number of Savings Offices		Number of Field Cash Offices	
	2016	2017	2016	2017	2016	2017
Bishkek city	65	68	260	265	33	38
Batken oblast	26	25	70	72	6	7
Jalal-Abad oblast	50	49	164	174	15	15
Issyk-Kul oblast	40	39	61	64	15	16
Naryn oblast	21	20	24	23	1	2
Osh oblast	60	59	197	201	19	20
Talas oblast	18	18	23	22	5	5
Chui oblast	44	41	75	81	24	26
Total	324	319	874	902	118	129

Branches, associations and field cash offices

During 2017, the commercial banks opened 6 branches, 41 savings offices and 17 field cash offices in the country. At the same time, 11 branches, 13 savings offices, and 6 field cash offices of various commercial banks were closed.

3.1.2. Off-Site Supervision

In 2017, off-site supervision of the commercial banks was carried out as part of a supervision strategy over the activities of the commercial banks in the Kyrgyz Republic, taking into account the financial condition, management quality, compliance with the prudential standards and other requirements established by law. Supervision was oriented to timely identifying the risks inherent to the activity of the commercial banks and taking measures necessary to ensure stability of the banking system and to protect the interests of the commercial banks' depositors and creditors.

Following the results of 2017, the targets of financial intermediation provided for by the main directions of the banking sector development for 2014-2017 were fulfilled¹. The indicator of financial intermediation (the ratio of assets to GDP) amounted to 38.0 percent. The ratio of credits² to GDP was 20.8 percent. The volume of deposits of the commercial banks³ was 23.3 percent of GDP.

In 2017, the net total capital⁴ increased by KGS 3.9 billion or 13.2 percent, while the net risk assets⁵ increased by KGS 18.7 billion or 15.6 percent.

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

Capital indicators

¹ The targets of the banking system provided for by the Basic directions of the banking sector development for 2014-2017: assets to GDP – 37.0 percent, loans to GDP – 17.8 percent, deposits to GDP – 18.7 percent.

² Excluding the loans to the banks and other financial-credit organizations.

³ Excluding the deposits received from the banks.

⁴ Estimate indicator, including authorized capital of the bank, the financial result of the activity implemented in the reporting and previous years, created reserves, except for investments in the subsidiaries and the capital of other financial-credit organizations. This indicator is applied when calculating the values of economic standards established by the National Bank of the Kyrgyz Republic.

⁵ Risk assets include the loans to the clients, leasing, corporate securities, cash assets held in the foreign banks, other assets and off-balance sheet liabilities assessed by the degree of the credit risk inherent in them.

Table 3.1.2.1.

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

	2016	2017
Net total capital, <i>billions of KGS</i>	29.7	33.6
Net risk assets, <i>billions of KGS</i>	119.8	138.5
Total capital adequacy ratio, <i>percent</i>	24.8	24.2
Total capital adequacy ratio standards (not less), <i>percent</i>	12.0	12.0
Number of banks with capital adequacy ratio more than 30 percent, <i>units</i>	8	12
Number of banks with capital adequacy ratio from 20 to 30 percent, <i>units</i>	10	7
Number of banks with capital adequacy ratio under 20 percent, <i>units</i>	7	6

Credit risk

The credit risk is assessed based on the classification of assets and off-balance sheet liabilities¹. The ratio of special reserves for non-performing loans, bearing the risk of defaulting on the credit portfolio made 4.5 percent, having decreased from the beginning of the year by 0.5 percentage points. At the end of 2017, non-performing loans amounted to KGS 8.2 billion or 7.6 percent of all loans.

Currency risk

The currency risk is assessed based on the ratio of assets and liabilities in foreign currency, and their share in the total assets and liabilities of the commercial banks. At the end of 2017, the foreign currency assets of the banking system amounted to KGS 79.6 billion or 40.2 percent of total assets. The liabilities of the commercial banks in foreign currency amounted to KGS 75.4 billion or 45.5 percent of total liabilities.

Table 3.1.2.2.

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

	2016	2017
Assets in foreign currency, <i>billions of KGS</i>	77.2	79.6
Share of foreign currency assets in total assets structure, <i>percent</i>	43.3	40.2
Liabilities in foreign currency, <i>billions of KGS</i>	73.2	75.4
Share of foreign currency liabilities in total liabilities structure, <i>percent</i>	48.9	45.5

Liquidity risk

The liquidity risk is considered in terms of coverage for the liabilities by the assets in each maturity periods, making it possible to assess the need for the funds given a gap by maturities and liabilities. At the end of 2017, the negative gap by maturities of assets and liabilities was observed in all maturities up to 30 days and 91-180 days.

Table 3.1.2.3.²

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

(billions of KGS)

2016	Maturity in days					Total
	0-30	31-90	91-180	181-365	more than 365	
Assets	68.8	9.2	10.0	18.3	77.8	184.1
Liabilities	74.7	9.9	15.1	18.5	27.6	145.7
Amount of excess assets over liabilities	-5.9	-0.7	-5.1	-0.2	50.2	38.4
in percent of the total volume of assets	0.1	0.1	0.5	0.0	0.6	0.2

* - data as of 31 December 2016, inclusive

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

² Data are given on the basis of Section 12 PRBR.

2017*	Maturity in days					Total
	0-30	31-90	91-180	181-365	more than 365	
Assets	69.2	11.9	10.9	19.5	92.8	204.2
Liabilities	87.8	7.8	13.1	18.4	34.3	161.3
Amount of excess assets over liabilities	-18.7	4.1	-2.2	1.1	58.5	42.9
in percent of the total volume of assets	27.0	34.6	20.2	5.6	63.1	21.0

* - data as of 31 December 2017, inclusive

The value of liquidity standard in the banking system was 65.1 percent with the standard established for the commercial banks approximately at 45.0 percent. Additional “instant” liquidity ratio (K3.3) for four large banks is valid in order to prevent the risks.

3.1.3. Inspection

In 2017, the National Bank carried out inspections (on-site supervision) of the commercial banks, including the application of risk-based supervision approaches. The inspections included mainly assessment of the risk management system, corporate governance and internal control in the bank, taking into account the capital adequacy, the quality of assets and contingent liabilities, liquidity, profitability, the bank’s exposure to the operational and market risks, and compliance by the banks with the legislation requirements, including the legislation on anti-money laundering and combating the financing of terrorist or extremist activity (AML/CFT). Separate inspections were carried out for a detailed study of certain areas of activity or types of the banking operations conducted by the commercial banks, as well as for compliance with the rights of the consumers of financial services.

As the result of inspections of the commercial banks in connection with the shortcomings/violations of certain requirements, the instructions were sent in order to bring in conformity with the requirements of legislation and to reduce the high risks taken by the banks resulting from separate operations. A significant part of the identified violations was related to improper credit risk assessment, inadequate asset classification, shortcomings in credit administration, in the internal control system and management of operational and currency risks, as well as non-compliance with certain requirements of the AML/CFT legislation.

In 2017, there was a regular exchange of information on implementation of the AML/CFT legislation requirements by the commercial banks as a part of the bilateral agreement signed with the State Financial Intelligence Service under the Government of the Kyrgyz Republic (SFIS KR).

In the reporting year, the mission of appraisers visited the country within the framework of the 2nd round of mutual assessment of the national AML/CFT system compliance with the international standards. The main objective of this visit was to study the national AML/CFT system for compliance of the law of the Kyrgyz Republic on AML/CFT with the FATF Recommendations and the effectiveness of their implementation.

In 2017, the National Bank continued to develop the risk-based supervision system that involves evaluation of all areas of the bank’s activities, including the management and internal control system, to improve the methods and instruments of supervision according to the international practice.

In the reporting year, work was continued in the project groups to test the methods and tools of risk-based supervision. These groups used the principles of risk-based supervision for 16 commercial banks within the framework of off-site supervision and during inspections.

Risk-based supervision

3.1.4. Enforcement Measures

In 2017, enforcement measures were applied to the commercial banks within the framework of off-site supervision, as well as based on the results of on-site inspections. The measures taken were mainly precautionary and were implemented to ensure reliability, stability and to improve the efficiency of the activities implemented by the banks according to the legislation.

In the reporting year, the Supervision Committee of the National Bank (hereinafter – the Supervision Committee) held 51 meetings and discussed 129 issues on activities of the commercial banks.

During the reporting period, the Supervision Committee took supervisory response measures and measures to limit the activities of specific commercial banks.

Within the framework of implementing the requirements of the legislation and the regulatory legal acts of the National Bank regarding the minimum amount of the authorized and equity (regulatory) capital of the commercial banks, the Supervision Committee issued the requirements to the individual banks to conduct measures for financial recovery in order to increase the amount of their authorized and/or regulatory capital.

In 2017, enforcement measures were applied to the commercial banks in the course of licensing, in particular, prescriptions were sent to five banks due to violation of the requirements of the Regulation “On licensing the banks’ activities”.

Within the framework of off-site supervision, prescriptions were sent to three commercial banks due to violation of the prudential standard, legislation requirements to capital, as well as incorrect reporting.

Based on the results of inspections carried out, two commercial banks and five employees were brought to administrative responsibility in the form of a monetary fine in the amount of KGS 144 thousand for violation of the legislation requirements.

In the reporting year, a fine was imposed on one bank for non-compliance with the rules of the mandatory reserve requirements.

3.2. Supervision over Non-banking Financial-Credit Organizations

NBFCO licensing

At the end of 2017, the system of non-banking financial-credit organizations, subject to licensing and regulation by the National Bank, comprised the specialized financial-credit organizations – OJSC “Financial Company of Credit Unions” (SFCO), 110 credit unions, 150 microfinance organizations (including seven microfinance companies, 96 microcredit companies, and 47 microcredit agencies) and 396 exchange bureaus and one credit bureau.

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

In the reporting year, the National Bank issued 94 licenses to the exchange bureaus (including the exchange bureaus with expired previous licenses), four certificates of accounting registration to the MCC, one certificate of accounting registration to the MCA, one license to the MFC and one license to the credit bureau.

For the failure to comply with the legislation of the Kyrgyz Republic and the regulatory legal acts of the National Bank, three certificates of accounting registration of the MCCs, two CUs licenses and 12 licenses of the exchange bureaus were withdrawn. Eight certificates of accounting registration of the MCC, seven certificates of accounting registration of the MCAs, four CUs licenses, 80 licenses of the exchange bureaus, including 40 expired licenses were canceled due to a termination of activity.

Table 3.2.1.

Changes in Number of NBFCOs, Exchange Bureaus and Credit Bureaus

Title	2016	2017
SFCO	1	1
Microfinance organizations (MFC, MCC and MCA)	162	150
Credit unions	116	110
Exchange bureaus	394	396
Credit bureaus	-	1
Total NBFCO	673	658

In 2017, supervision over activities of non-banking financial-credit organizations was aimed to ensure further qualitative growth of the sector, the increase in the availability of microfinance services and the decrease of credit risks, which ultimately contributed to financial sustainability and stability of the non-banking financial-credit organizations.

Off-site supervision

Supervision of the NBFCO activities is carried out by means of conducting external (remote) supervision and inspections.

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

- 23 warnings, 131 instructions were sent to microfinance organizations, and the certificates of two MFOs were suspended, the certificates of three MFOs were withdrawn, a fine was imposed on one MFO;
- 23 warnings, 90 instructions were sent to the credit unions, the licenses of two CUs were suspended;
- 21 warnings and 240 instructions were forwarded to the exchange bureaus.

The license of one exchange bureau was suspended and thereafter resumed upon elimination of violations, the licenses of 11 exchange bureaus were withdrawn.

In 2017, the National Bank conducted 50 targeted and three full-scope inspections of the MFOs, 31 targeted and 31 full-scope inspections of the CUs, one targeted inspection of the SFCO¹ and one targeted inspection of the credit bureau for assessment of the quality and effectiveness of risk management inherent in the activities and for compliance with the requirements of the legislation of the Kyrgyz Republic, including the regulatory legal acts in the sphere of anti-money laundering and combating the financing of terrorist or extremist activity. Based on the results of the identified violations, the following measures have been applied:

Inspections

- 289 prescriptions, 24 recommendations were sent to the microfinance organizations, a fine was imposed on one MFO;
- 530 prescriptions, one warning and 135 recommendations were sent to the credit unions, moreover, the employees of three credit unions were also brought to administrative responsibility and a fine was imposed on them;
- eight prescriptions and four recommendations were sent to the SFCOs².

Moreover, during the reporting period, the National Bank carried out 159 inspections of the exchange bureaus for compliance with the requirements of the legislation of the Kyrgyz Republic, including the requirements of AML/CFT. 18 warnings, 77 prescriptions were sent to the exchange bureaus, the licenses of four exchange bureaus were suspended and one license of the exchange bureau was withdrawn for disclosed violations of the requirements of the legislation of the Kyrgyz Republic and the regulatory legal acts of the National Bank.

¹ Within the framework of the SFCOs targeted inspection, counter inspections of six CUs were conducted.

² In 2017, following the results of the full-scope inspection conducted in 2016, seven prescriptions and two recommendations were sent to the SFCOs.

Several exchange bureaus and separate managers of the exchange bureaus were brought to administrative responsibility in the form of fines in the total amount of KGS 720 thousand for violations of the legislation, including the requirements of AML/CFT.

Moreover, in accordance with the Code of the Kyrgyz Republic on administrative responsibility, fines in the total amount of KGS 2,250 thousand were imposed on 21 persons for conducting exchange operations with foreign currency without a license from the National Bank.

3.3. Protection of Consumer Rights

Protection of the rights of consumers of the banking services, analysis and improvement of the regulatory legal framework in this area is an important direction in the activity of the National Bank.

Measures to enhance consumers' rights protection

In order to implement the requirements of the Law “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity”, the norms aimed at protecting the rights of clients of the financial-credit organizations, ensuring compliance with the requirements for provision of the banking services, disclosure of information, the order of consideration of complaints and petitions were introduced in the regulatory legal acts of the National Bank.

Development of the effective approaches to protecting the rights of consumers of the financial services, improving financial literacy of the population with application of the best international practices were also relevant on the agenda of the 4th meeting on protecting the rights of consumers of the financial services and financial inclusion held by the Advisory Council of the central (national) banks within the EAEU member-states. During this meeting held in the Kyrgyz Republic in June 2017, the participants also considered the issues of legislation harmonization in the area of protecting the rights of consumers of the financial services.

Consideration of applications of the financial services consumers

Work on consideration of the applications is still among the main tools for ensuring protection of the rights of the financial services consumers. In 2017, the National Bank considered 474 applications (in 2016 – 653 applications), 448 thereof were considered by the head office (in 2016 - 577 applications), 26 – by the regional offices (in 2016 - 76 applications)¹.

Moreover, work was carried out to provide legal advice to the consumers of the financial services in the form of personal reception.

The National Bank continued working to ensure a unified practice and mechanisms for consideration the consumers' applications in order to ensure effective mechanisms for resolving the disputes and to provide the consumers' access to fair and timely consideration of complaints and petitions.

3.4. Supervision and Regulation Methodology

In 2017, improvement of the legal framework governing activities of the financial-credit organizations, including the financial-credit organizations, which carry out operations in accordance with the Islamic principles of banking and financing, was mainly associated with bringing the regulatory legal acts of the National Bank in compliance with the new laws of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” and “On Bringing into Force the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity”. Within the

¹ Decrease in the number of applications was due to the fact that in 2016 a significant part of the applications concerned the issues related to conversion of the loans issued by the commercial banks for housing purchase conducted under Resolution of the Government of the Kyrgyz Republic No. 33-P dated February 1, 2016.

framework of these laws, the Civil Code of the Kyrgyz Republic was supplemented by a new chapter “Financing in accordance with the Islamic principles of financing” to create the basis for further legal relations under the Islamic principles of financing and their wide application.

The National Bank approved the requirements for the terms and amount of formation of the minimum authorized and equity capital for the operating banks (including the branches of non-resident banks) to establish the requirements for the minimum amount of the authorized and equity (regulatory) capital of the commercial banks, taking into account the norms of banking legislation.

In order to update the requirements governing the licensing of the commercial banks, a new version of the Regulation “On licensing of banks’ activity” was adopted, according to which the notions “irreproachable business reputation” and “fiduciary duties of the officials” were introduced. The requirements for establishment of the bank, the founders, the members of the Board of Directors and other bank officials were revised. The requirements on technical strengthening for the field cash offices of the commercial banks are excluded, it will increase the population’s access to the banking services in the future.

The National Bank introduced amendments and additions into the regulatory legal acts to bring them in compliance with the Law of the Kyrgyz Republic “On the Basics of Administrative Activity and Administrative Procedures”. These amendments related to licensing of the activity of non-banking financial-credit organizations with regard to introduction of the uniform terminology, execution of the administrative acts adopted by the National Bank, as well as the possibility and the terms of appeals against the decisions taken by the National Bank.

A new version of the Regulation “On corporate governance in the commercial banks of the Kyrgyz Republic” was approved to increase the efficiency of the banks’ activities, as well as to strengthen the responsibility of the Board of Directors and the Board of the banks. This document establishes requirements for creation and implementation of the activities of the mandatory committees, such as the Nomination and Remuneration Committee, the Risk Management Committee, the Audit Committee and for the corporate secretary of the commercial bank.

The Rules for the formation of the internal control and internal audit system in the banks and non-banking financial-credit organizations, licensed and regulated by the National Bank of the Kyrgyz Republic, were adopted to improve the effectiveness of the internal control system. The document is aimed at establishing the requirements for carrying out effective control by the Board of Directors and the Board of the bank over the activities of the bank and its financial condition. Such control is carried out through risk management services, compliance control and internal audit.

The procedure for selecting audit organizations and the conditions for independence of the bank’s auditors in providing the auditing services and the procedure for preventing the conflicts of interest were approved within the framework of establishing the requirements for the banks’ external audit.

Due to expansion of the banks activity and the need to improve the risk management procedure, a new version of the Regulation “On minimum requirements for risk management in the banks of the Kyrgyz Republic” was adopted, this version provides for new concepts such as “compliance risk”, “compliance controller”, “concentration risk” and “the risk of money laundering of criminal proceeds and the financing for terrorist and extremist activity”.

As part of the requirements for credit risk management in the microfinance organizations and credit unions, a rule on mandatory compliance with the international principles of responsible lending was established. Moreover, the requirements have been introduced that are developed to protect the consumers’ rights in applying for a loan and

*Licensing of banks
and NBFCOs
activities*

*Corporate
governance system*

Risk management

in receiving thereof, as well as in the course of the procedures for collecting property, including single housing.

The notion “refinanced assets” was introduced and the definition of the notion “restructured assets” was revised to apply the best international practice and to introduce an adequate classification of the bank’s assets. The amount of the loan loss provisions on the loans issued by the banks in foreign currency was reduced in the event of a reduction in the interest rates on them, and the requirements for assets classification in terms of applying classification categories, depending on the terms of arrears, were eased.

The norms on risk reduction in carrying out operations/transactions by the bank with the affiliated and the bank-related entities with respect to the issuance of loans and/or raising funds under more favorable terms, as well as prevention of similar operations/transactions with such persons were approved in a new version of the Instruction “On requirements for the bank’s operations with the affiliated and the bank-related entities”. According to this Instruction, the threshold amounts of operations/transactions, which require the approval of the bank’s Board of Directors or the bank’s general meeting of shareholders, have been changed. A requirement for the banks to maintain a register of the persons related to the bank was also established. Similar amendments were adopted in the new version of the Instruction “On requirements for operations of the microfinance companies attracting deposits with the affiliated and the microfinance company-related entities”.

The National Bank established the requirements for organization of internal control over the banks’ operations with precious metals, as well as provided an opportunity to carry out operations with metal accounts to develop the precious metals market and manage the risks in carrying out operations with precious metals.

The need to define and assess the systemic importance of the commercial banks and non-banking financial-credit organizations and adoption of a set of measures to protect the interests of depositors and other creditors, and to ensure the stability of the banking system resulted in development and approval of the Regulation “On the criteria for systemic importance of the commercial banks and non-banking financial-credit organizations”.

Amendments and additions were introduced in the procedures for establishment/acquisition of the subsidiaries/dependent companies, as well as for establishment of the economic standards and requirements mandatory for the banks.

Amendments and additions were approved in the Instruction on work with the banking accounts, the accounts on bank deposits to simplify implementation of settlements and payments with the use of loans issued for the purposes of agriculture development. New notions were also introduced into the Instruction and the list of identity documents for the banks’ clients was revised.

The forms of the periodic regulatory bank report were improved to optimize the procedure of reporting provided by the commercial banks, as well as the actual analysis of the commercial banks’ activities conducted by the National Bank within the framework of external supervision. At the same time, the term for provision of the report’s separate sections by the banks to the National Bank was shortened.

The Recommendations on application of IFRS 9 were adopted as IFRS 9 “Financial Instruments” entered into force on January 1, 2018. The document establishes minimum standards for accounting information on estimated reserves for expected credit losses of the banks, which are recommended for effective and proper management and evaluation of expected credit losses, in accordance with the IFRS.

A list of enforcement actions was defined, as well as the amounts of fines imposed on the banks, microfinance organizations and their officials were established to strengthen the responsibility of the commercial banks and their officials.

Moreover, a new version of the Regulation “On pre-judicial regulation of the disputes between the National Bank of the Kyrgyz Republic and the commercial banks, the organizations carrying out certain types of banking operations and their founders

*Methodology
on enforcement
actions*

(participants), legal entities and individuals” was approved to simplify the procedure for appealing the decisions of the National Bank.

The forms of special regimes were revised and the new documents were approved to ensure the stability of the banking system and the safety of banks’ assets, when signs of problems arise in the banks’ activities. The regime of the provisional administration was introduced; this regime clearly regulates the activities of the temporary administrator and eliminates the duplication of the functions of the previous regimes of temporary management and conservation.

The National Bank approved the Regulation “On liquidation of the banks in the Kyrgyz Republic” to systematize the procedure for conducting voluntary and compulsory liquidation of the banks, to establish the qualification requirements for the bank liquidators and the accounting rules for liquidated bank, the procedure of reporting provided by the liquidator of the bank and to determine the rights and obligations thereof.

In order to improve regulation of the activities of financial-credit organizations that carry out operations in accordance with the Islamic principles of financing and taking into account the requirements of the laws “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” and “On Bringing into Force the Law “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity”, amendments were introduced in the regulatory legal acts relating to the rules for conducting banking operations, determining the capital sufficiency (adequacy), corporate governance, assets classification and credit risk management.

Moreover, amendments were introduced in the periodic regulatory reporting of the banks and non-banking financial-credit organizations that carry out operations in accordance with the Islamic principles of banking and financing in order to establish the requirements for disclosing the effective yield of banking products provided in accordance with the Islamic principles of banking and financing, as well as dividing the accounting of the weighted average percentage value of markup/income for such products from the weighted average interest rates on loans.

*Islamic Principles
of Financing*

CHAPTER 4. PAYMENT SYSTEM

In 2017, the payment system of the Kyrgyz Republic operated in a stable and sustainable regime.

In the reporting period, the National Bank continued working to ensure the efficiency, security and reliability of the payment systems. In 2017, the main directions of the payment systems development were to optimize and improve the regulatory legal framework conducive to enhancement of reliability and efficiency of the existing payment systems; to supervise the participants in the market of payment services and their systems; to expand the coverage sphere of retail non-cash payments and to develop innovative technologies.

In 2017, a self-assessment of the operation of the national payment system “Elcard” was carried out, the results of which demonstrated that it broadly observed the international standards.

A road map for integration of the national payment system “Elcard” with the national payment system “Mir” was signed.

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

For the period of 2018-2022, the National Bank defined the main directions of the payment system development and the activities for the third stage of the State Program.

In the field of cash supply management in 2017, the National Bank regulated the structure of money in circulation by satisfying the need of the economy.

4.1. Payment System Development

4.1.1. Non-cash Payments

Payment system

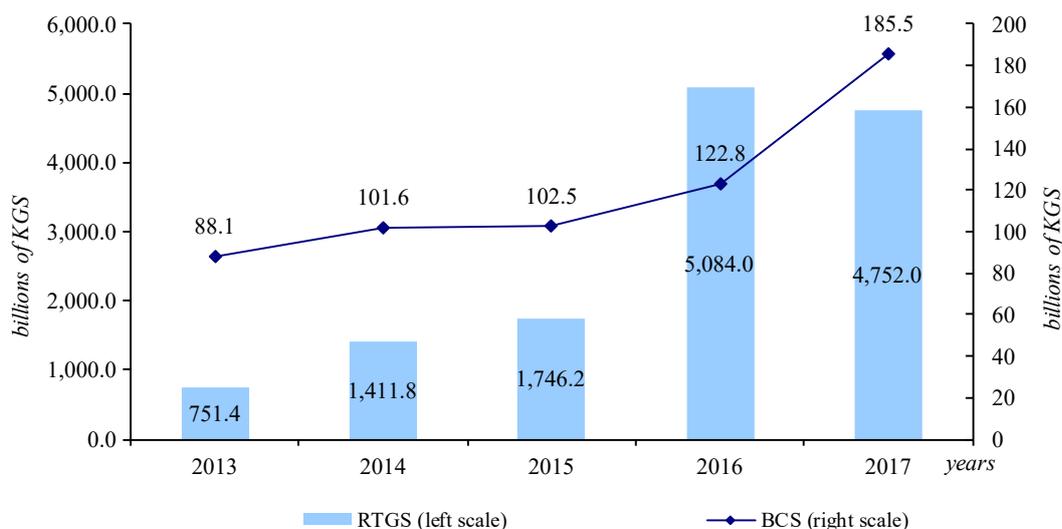
In the Kyrgyz Republic, non-cash payments were made in the payment system via the Real Time Gross Settlement System (RTGS), the Bulk Clearing System (BCS), the systems of payments with the use of payment cards, and the remittance systems and cross-border payments.

The National Bank of the Kyrgyz Republic, the commercial banks, including their branches, the Central Treasury of the Ministry of Finance of the Kyrgyz Republic, the Interstate Bank, the Deposit Protection Agency, the Social Fund, the State Accumulative Pension Fund, CJSC “Central Depository” and CJSC “Interbank Processing Center”, as special participant, were the participants of the interbank payment systems.

In 2017, the payments made through the interbank payment systems (RTGS and BCS) amounted to 8.7 million payments totaling KGS 4,937.5 billion. The number of payments increased by 2.1 times, and the volume thereof decreased by 5.2 percent compared to 2016 mainly due to the reduction in operations on purchase and sale of foreign currency.

Chart 4.1.1.1.

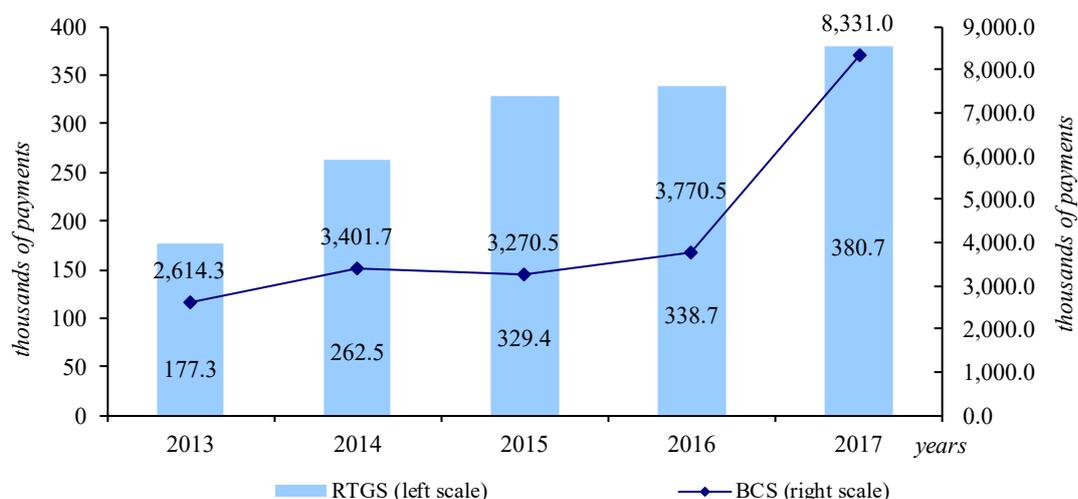
Volume of Payments via Interbank Payment Systems (RTGS and BCS)



In the reporting period, the volume of payments via the BCS increased by 51.1 percent. Growth of payments was mainly due to the increase in budget payments as a result of joining the Central Treasury of the Ministry of Finance to the BCS in January 1, 2017, as a direct participant. The volume of payments via the RTGS decreased by 6.5 percent.

Chart 4.1.1.2.

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



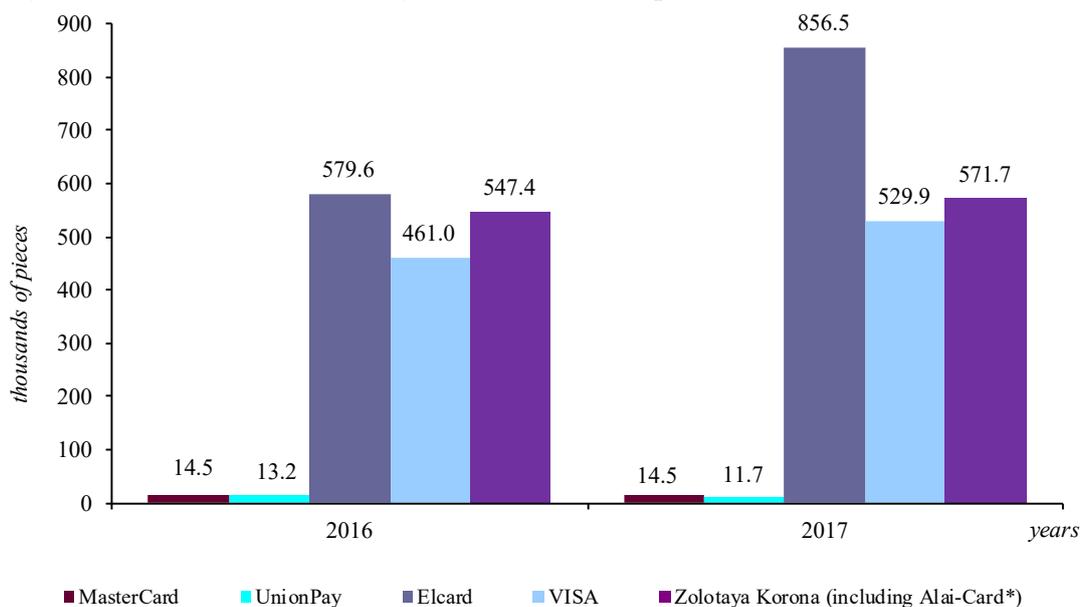
In the reporting period, the number of payments via the RTGS increased by 12.4 percent and the number of payments via the BCS increased by 2.2 times compared to 2016.

The total number of issued payment cards amounted to 1.98 million, having thus increased by 22.8 percent over the year, of which the number of cards of the national payment card system “Elcard” amounted to 856.5 thousand. The growth of issued payment cards was due to the increase in the number of bank cards issued under the salary and pension projects.

Bank payment cards

Chart 4.1.1.3.

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



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

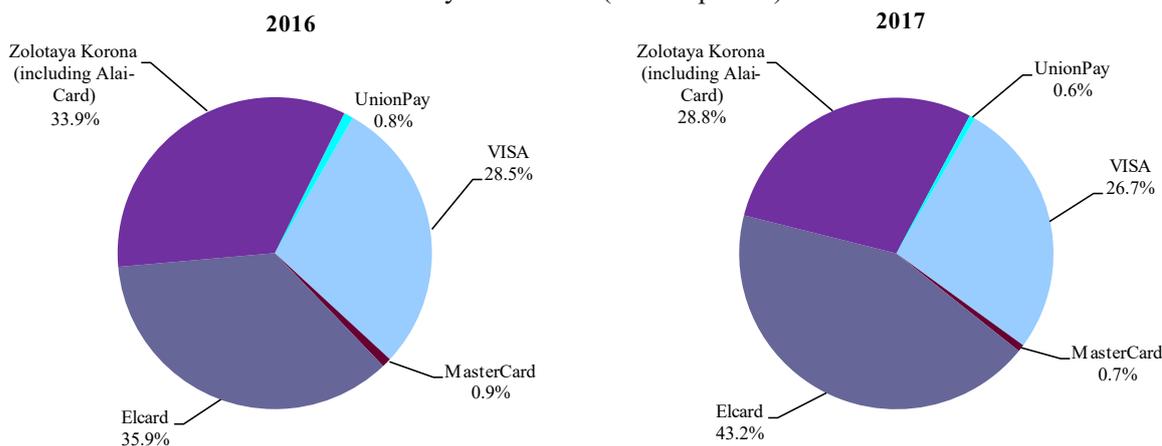
Operations with the use of bank payment cards

In the reporting period, 28.8 million operations were conducted with the use of payment cards, which is by 16.1 percent more compared to 2016 (24.8 million operations).

In 2017, the total volume of payment card operations was KGS 146.9 billion, having increased by 21.9 percent compared with the same indicator of 2016 (KGS 120.5 billion). This demonstrates increased activity of the population in the use of the bank payment cards and creation of the favorable conditions for increase in non-cash payments within the framework of the State Program.

Chart 4.1.1.4.

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

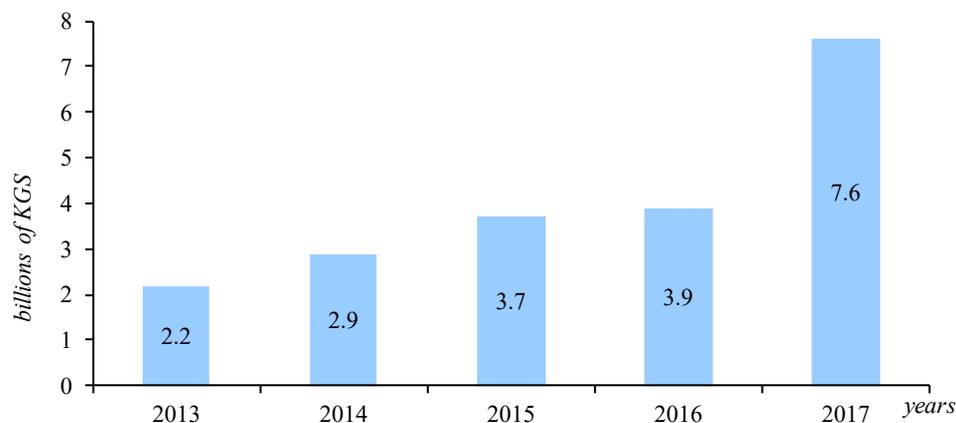


In 2017, the volume of the merchants' transactions with the use of cards increased by 1.9 times – from KGS 3.9 billion in 2016 to KGS 7.6 billion in 2017. A significant increase in the volume of the merchants' transactions with the use of payment cards is the result of the activities carried out in the framework of implementing the resolution of the Government of the Kyrgyz Republic "On Measures to Protect Consumers' Rights" on mandatory installation of the POS-terminals by the merchant enterprises to accept payment

for the goods and services in non-cash form and business incentives implemented by the commercial banks.

Chart 4.1.1.5.

Dynamics of Growth in the Volume of Transactions of Merchants



Thus, at the end of 2017, the bank payment cards were accepted for servicing by 1,413 ATMs and 8,285¹ POS-terminals (of which 6,646 POS-terminals were installed at merchants and 1,639 POS-terminals were installed in the branches and savings offices of the commercial banks) throughout the territory of the Kyrgyz Republic.

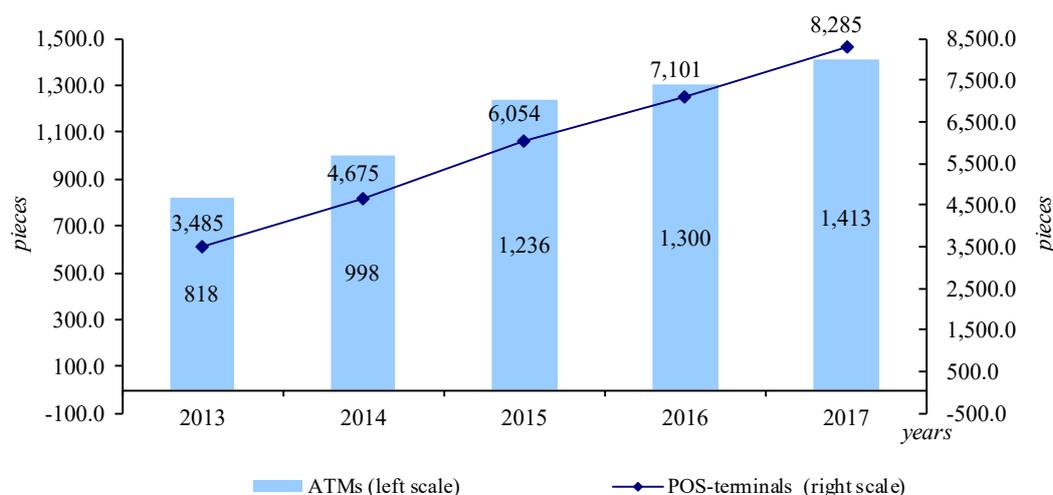
Card acceptance and servicing infrastructure

A breakdown by systems shows that:

- the cards of the national payment card system “Elcard” were accepted for servicing by 1,413 ATMs and 8,285 POS-terminals;
- the cards of the international system “Zolotaya Korona” were accepted in 402 ATMs and 1,925 POS-terminals;
- the cards of the international systems Visa and MasterCard were accepted in 560 ATMs and 3,820 POS-terminals.

Chart 4.1.1.6.

Dynamics of Number of ATMs and POS-terminals (end-of-period)



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

4.1.2. Operators of Payment Systems and Payment Organizations

In 2017, the National Bank continued licensing the activities of the payment systems¹ operators and payment organizations². Generally, since the beginning of the licensing activities the National Bank issued 21 licenses for carrying out activities of the payment system operator and 22 licenses for carrying out activities of the payment organization.

Four scheduled and four unscheduled inspections were conducted in order to assess the financial status of the payment systems operators and payment organizations, to analyze compliance with the legislation of the Kyrgyz Republic, as well as providing the smooth and secure functioning of the payment system.

In the reporting period, due to the decision of the legal entities founders on voluntary liquidation, two licenses for carrying out activities of the payment organization and one license for carrying out activities of the payment system operator were terminated. Thus, at the end of 2017, 20 legal entities had the licenses of the National Bank, of which 19 licenses of the payment system operator and 19 licenses of the payment organization.

Payment organizations accepted payments in favor of the third parties using cash-in payment terminals, agent network and e-money. At the end of 2017, the number of cash-in payment terminals of payment organizations and their agents was 4,200, the number of POS-terminals of payment organizations and their agents – 183.

Generally, in 2017, 182.4 million transactions (compared to 2016, there was a decrease by 8.8 percent) totaling KGS 25.7 billion (compared to 2016, there was an increase by 7.8 percent) were conducted through the payment system operators/payment organizations.

In 2017, the National Bank registered one international payment system with the use of payment cards, three e-money international systems and two operators for the international remittance systems. Generally, six international payment systems with the use of payment cards, four e-money international systems and 35 operators of remittance systems were registered in the republic at the end of 2017, 19 thereof are the operators of local remittance systems, 16 – the operator of the international remittance systems.

4.1.3. Payment System Oversight

Within the payment system of the Kyrgyz Republic oversight framework, according to the established criteria of importance, the payment systems of high relevance and priority for the financial system of the country were identified in 2017. Thus, RTGS and BCS were recognized as the systemically important payment systems, RTGS, BCS and “Elcard” – as the national payment systems.

According to the monitoring results, the systematically important payment systems operated in the normal mode. The level of financial risks in the RTGS remained minimal (the liquidity ratio was 0.79, and the turnover ratio – 1.27) due to the sufficiently high level of liquid assets on the correspondent accounts of the participants in the National Bank in relation to turnovers in the system.

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

Within the framework of compliance with the international standards, the National Bank conducted a self-assessment of functioning of the national payment system “Elcard”

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

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

for compliance with the Principles for financial market infrastructures, which confirmed that this system broadly observed the international standards.

The National Bank revised the requirements for payment systems in case of emergencies, explanatory work was conducted among the citizens on compliance with the safety rules when making payments and transfers to improve the security of payments and transfers.

Provision of security

In order to ensure the effective and safe functioning of the national payment systems within the EAEU, the National Bank, as part of the working group on coordination of the national payment systems development, worked on four most priority areas: in integration of the national payment cards, in introduction of the international standards on the financial messaging formats (ISO 20022), the channels for financial communications and development of financial technologies.

Integration of payment systems

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

In 2017, the National Bank continued coordinating and monitoring the implementation of the Action Plan on the State Program during the work of the Interagency Commission on increasing the share of non-cash payments and settlements in the Kyrgyz Republic, which includes the National Bank, the ministries, departments and local self-government authorities.

In 2017, at the end of implementation of the Action Plan on the State Program the following results have been achieved:

- social benefits were paid to 78.5 thousand people through the bank payment cards (18.6 percent of the total number of recipients), while in 2016 the social benefits were received by 59.1 thousand people (13.0 percent of the total number of recipients);
- pensions through the accounts in the commercial banks were paid to 296.9 thousand people, accounting for 47.0 percent of the total number of pensioners and compared with 43.0 percent in 2016;
- 2,787 “Budget Funds Recipient Cards” (BFR card) were issued for the budgetary organizations. The transactions with BFR cards totaled 96,788, with their volume being KGS 11.0 billion.

In the course of executing the Law “On Amendments and Addenda to the Tax Code of the Kyrgyz Republic”, which provides for exemption of the commercial banks from VAT, when they import bank equipment, within the framework of the Memorandum of Understanding signed between the Ministry of Economy, the National Bank and the Union of Legal Entities “Union of Banks of Kyrgyzstan”, as well as the agreement with the commercial banks, during 2017, the commercial banks imported 172 ATMs, 1,912 POS-terminals, 347 payment terminals, which generally exceeded scheduled indicators.

To reduce the level of dollarization in the economy of the country by means of increasing non-cash payments in the national currency and to implement the Resolution of the Government of the Kyrgyz Republic “On measures to protect consumers’ rights”, which provides for the mandatory installation of POS-terminals by the merchants to receive payment for goods and services in the non-cash form, at the end of 2017, the number of POS-terminals installed in the merchants amounted to 6,646, having increased by 16.4 percent year-to-date.

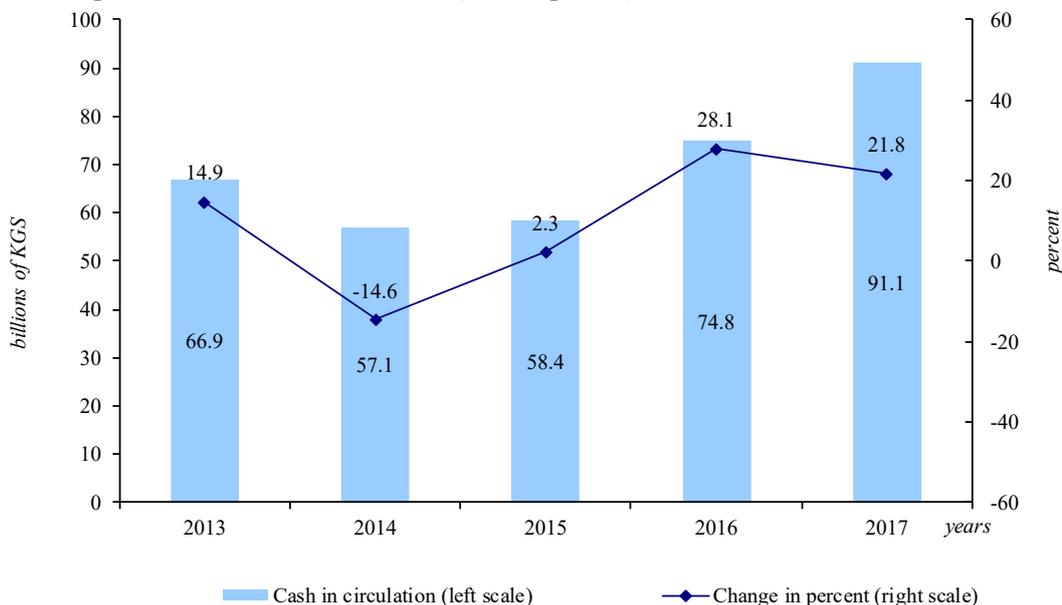
4.2. Cash Circulation

One of the main functions of the National Bank of the Kyrgyz Republic is the timely provision of the economy with the cash. To achieve it, the National Bank regulates the structure of cash in circulation through the commercial banks.

In 2017, the total amount of cash in circulation increased by 21.8 percent and amounted to KGS 91.1 billion.

Chart 4.2.1.

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



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

In 2017, receipt of cash in cash departments of the commercial banks totaled KGS 1,441.1 billion and increased by 22.9 percent compared to 2016. Payment of cash from the cash departments of the commercial banks increased by 22.1 percent and amounted to KGS 1,456.9 billion. In 2017, recoverability of cash in the cash departments of the commercial banks made 98.9 percent and increased by 0.6 percentage points compared to 2016.

Table 4.2.1.

Movement of Cash via Cash Departments of Commercial Banks by Regions

	Receipt, billions of KGS		Disbursement, billions of KGS		Recoverability, percent	
	2016	2017	2016	2017	2016	2017
Total	1,173.0	1,441.1	1,193.5	1,456.9	98.3	98.9
Bishkek city	532.7	668.1	524.8	655.0	101.5	102.0
Batken oblast	60.8	65.6	61.1	65.5	99.5	100.2
Jalal-Abad oblast	123.6	154.5	134.6	167.2	91.8	92.4
Issyk-Kul oblast	64.6	79.2	67.9	82.9	95.1	95.5
Naryn oblast	27.1	31.5	30.5	35.0	88.9	90.0
Osh city	149.4	190.7	154.7	194.8	96.6	97.9
Osh oblast	63.5	82.2	63.9	81.9	99.4	100.4
Talas oblast	28.8	34.5	33.6	39.8	85.7	86.7
Chui oblast	122.5	134.8	122.4	134.8	100.1	100.0

In 2017, the work was continued on issuance of banknotes and coins, withdrawal and destruction thereof.

In 2017, the cash turnover was represented by 366.5 million sheets of banknotes and 318.4 million coins. The share of banknotes accounted for 98.8 percent, and the share of

coins – 1.2 percent of the total amount of money in circulation in 2017. The structure of banknotes and coins by face value in circulation is presented in Table 4.2.2.

Table 4.2.2.

Shares of Banknotes and Coins in Total Cash in Circulation
(in percent of total cash in circulation)

Face value	up to 5 Soms	10 Soms	20 Soms	50 Soms	100 Soms	200 Soms	500 Soms	1000 Soms	2000 Soms	5000 Soms	Total
2016	0.9	0.5	0.6	1.0	2.2	4.2	11.7	46.3	-	32.6	100.0
2017	0.7	0.6	0.5	0.9	1.7	3.9	11.7	45.0	1.0	34.0	100.0

In 2017, the number of detected counterfeit banknotes (according to recent reports) totaled 26 pieces amounting to KGS 35.3 thousand (in 2016 – 228 pieces amounting to KGS 287.7 thousand). The level of counterfeiting amounted to 0.1 forgery per one million of the genuine banknotes being classified as a minimum 1st level (0-10 forgeries/ million).¹

The National Bank continued selling the refined gold measuring bullions with the fineness of 999.9 and the weight of 1, 2, 5, 10 grams 31.1035 grams (1 Troy ounce) and 100 grams within the framework of implementing the Concept on creation and development of the market of precious metals in the Kyrgyz Republic focused on forming the market of new savings and investment tools for the population and the enterprises of the republic, on attracting investments to the bank market, and on developing industrial potential of gold mining branch in Kyrgyzstan.

Selling of refined gold measuring bullions

Table 4.2.3.

Specifications of Refined Gold Measuring Bullions Issued by the National Bank

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

In 2017, the volume of sold gold measuring bullions made 60.7 kg and amounted to KGS 172.5 million (in 2016 – 62.6 kg in the amount of KGS 185.7 million). In the reporting period, the volume of re-purchased refined gold measuring bullions made 48.4 kg and amounted to KGS 139.8 million (in 2016 – 40.8 kg in the amount of KGS 122.2 million).

Table 4.2.4.

Information About Sold and Re-purchased Gold Measuring Bullions
(thousands of KGS)

Weight (grams)	Sale		Re-purchase	
	2016	2017	2016	2017
1	642.1	603.9	226.0	397.6
2	1,089.8	775.4	297.2	469.5
5	9,787.7	8,842.5	7,106.1	7,194.7
10	2,629.9	2,854.8	2,168.7	3,038.9
31.1035	11,494.4	7,401.1	12,088.8	7,640.5
100	160,099.4	152,061.2	100,315.6	121,037.6

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

Chart 4.2.2.
 Number of Sold Refined Gold Bullions
 (pieces)

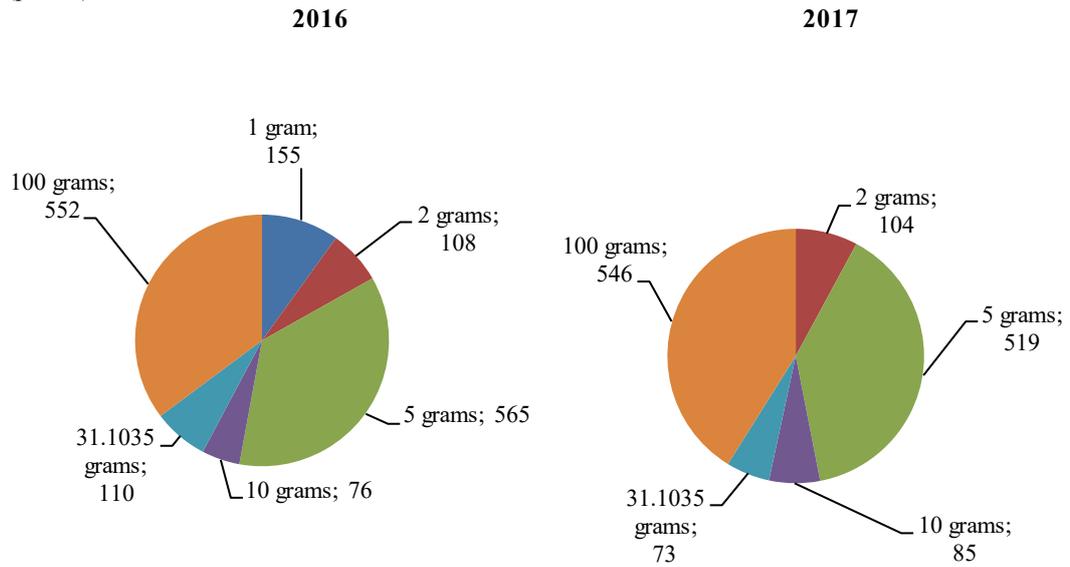
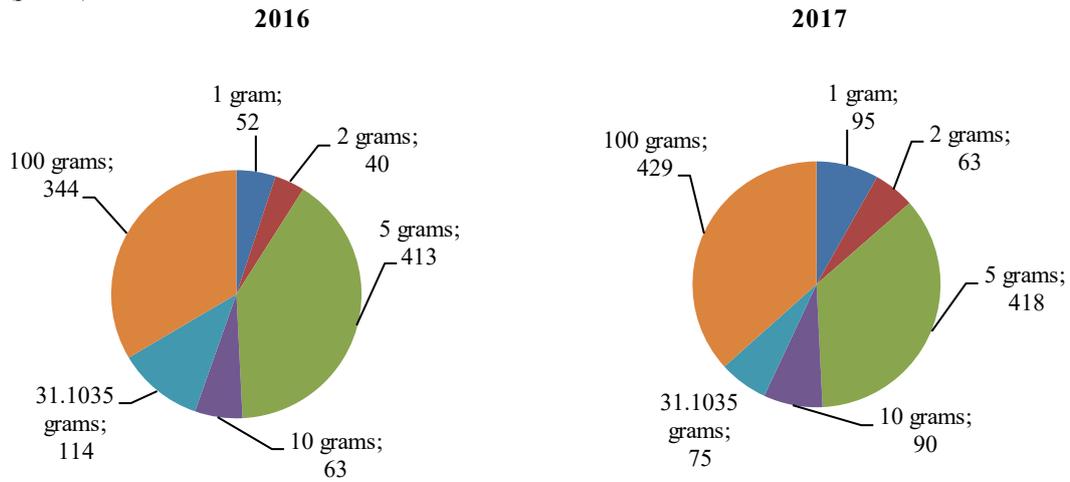


Chart 4.2.3.
 Number of Re-purchased Refined Gold Bullions
 (pieces)



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

In the reporting period, according to the Law of the Kyrgyz Republic "On Precious Metals and Gems", the National Bank purchased refined non-monetary gold for the national currency from local companies producing gold to constantly replenish the stock of refined gold measuring bullions.

In the reporting year, modified banknotes of the IV series with denominations of 50, 100, 200, 500 and 1000 Soms of 2016 year of issue were put into circulation. The portraits of historical personalities on the modified banknotes are made by the classic engraved method, and an additional protective element for the people is added, it is seen when

Issue into circulation of modified banknotes of the IV series

a banknote is held up to the light; the relief of images and inscriptions is increased to improve the tactile properties intended for the people with impaired vision.

The first commemorative banknote with denomination of 2000 Soms was issued in November 2017, it was dedicated to the 25th anniversary of independence of the Kyrgyz Republic, the 25th anniversary of the establishment of the National Bank of the Kyrgyz Republic and the 25th anniversary of the introduction of the national currency. The banknote became the winner of the prestigious international competition “The Best Regional Banknote of 2018” among the countries of Central and Eastern Europe and the CIS countries. The award in the competition is presented for outstanding achievements in design, the use of state-of-art protective elements in the context of decoration, as well as technical sophistication and security of the banknote. At the same time, special attention is focused on reflection of cultural heritage, the relevance of the overall design and the symbols of the issuing country.

*Commemorative
banknotes
and coins*

Figure 4.2.1.

Commemorative Banknote with Denomination of 2000 Soms



In 2017, the National Bank continued issuing collection commemorative coins. Three types of collection commemorative coins were issued into circulation:

- Oval-shaped silver coin “Demoiselle” of the series “Red book of Kyrgyzstan” made by the local gilding technology;
- Classical round-shaped silver coin “Heavily armed warrior of the Kyrgyz kaganate” of the series “Age of the Kyrgyz kaganat” made by the local oxidation technology;
- Copper-nickel coin “Heavily armed warrior of the Kyrgyz kaganate” of the series “Age of the Kyrgyz kaganat”. The coin is in an acrylic capsule and placed in a blister pack.

Figure 4.2.2.
Silver Coin “Demoiselle”



Figure 4.2.3.
Silver Coin “Heavily armed warrior of the Kyrgyz kaganate”



CONTENTS

Figure 4.2.4.

Copper-nickel Coin “Heavily armed warrior of the Kyrgyz kaganate”



CHAPTER 5. INTERNATIONAL COOPERATION AND PUBLIC RELATIONS

5.1. International Cooperation

Cooperation with international financial organizations

In the reporting year, the National Bank continued interaction and cooperation with central (national) banks, international organizations, financial institutions and associations, integration and central banks.

In 2017, cooperation with the IMF was continued as part of the three-year economic program for the Extended Credit Facility (ECF), as well as implementation of technical assistance to improve monetary policy. The IMF carried out consultations in the Kyrgyz Republic on Article IV of Agreement of the IMF, which were successfully completed in October 2017.

In the framework of cooperation with the Islamic Financial Services Board (IFSB) work was continued on the development of standards for the institutions offering Islamic financial services. The National Bank in collaboration with the IFSB organized seminars on the Islamic financial services for the representatives of central banks from the Commonwealth of Independent States (CIS) countries.

Interaction with the Asian Development Bank (ADB) was carried out to implement the Second Investment Climate Improvement Program (ICIP) and was mainly focused on improvement of the payment systems.

Cooperation with integration associations

The National Bank participated in the integration processes and events organized by the Shanghai Cooperation Organization (SCO), by the supreme authorities and coordinating bodies of the CIS, and the Eurasian Economic Union (EAEU) on the banking and financial issues.

The National Bank actively participated in the activities of various advisory and working bodies created under the Eurasian Economic Commission (EEC). Thus, in 2017, the work aimed at formulating the common positions for analysis, forecasting the macroeconomic indicators and defining the common policy was carried out within the framework of the Advisory Committee on the Macroeconomic Policy.

Work of the Advisory Committee on the Statistics was focused on improving the quality and content of provided statistical information to accelerate the implementation of international standards in the EAEU financial statistics through improved coordination of statistical activities at the national and supranational levels. Members of the Committee developed the EEC action plan within the framework of improving the provision of statistical data for 2018.

Harmonization of the EAEU member states laws in the financial sector, banking activities, securities market, insurance, currency regulation and other issues were considered in the course of the work carried out by the Advisory Committee on the Financial Markets. In the course of work conducted by this Committee, the central banks of the EAEU member states held self-assessment of conformity of the national regulatory standards in the sphere of banking legislation with the basic principles of the Basel Committee on Banking Supervision. Work on development of the EAEU legal framework was continued, particularly draft Concept for the formation of the common financial market, the draft Agreement on harmonization of laws in the financial sphere of the EAEU member states, as well as on elaboration of the draft Agreement on sharing information within the credit histories. Moreover, work was implemented on carrying out domestic procedures for the approval of the draft Agreement on harmonized approaches to the regulation of the currency legal relations and taking liberalization measures. A regular meeting of the Committee was held in the Kyrgyz Republic in September 2017.

Work was continued on development of the draft Agreement on coordinated monetary policy of the EAEU member states within the framework of the Advisory Council on the Monetary Policy of the Central (National) Banks of the EAEU member states.

In the reporting year, one of the sites for development of integration cooperation among the central banks, the Eurasian Council of Central (National) Banks (the Council), continued its work. During the regular meetings of the Council, the program issues were considered, as well as the issue of developing the activities of the banking and non-banking organizations working according to the Islamic/partnership principles of financing in the countries of the central (national) member banks of the Council. Based on the results of the Council's activities, the Protocol on termination of the Agreement on unification of the procedure for opening the accounts in the banks of other EurAsEC member states by the residents of the EurAsEC member states for servicing the activities of their representations dated June 29, 2004.

In 2017, the National Bank took part in the regular meetings of the Interstate Bank (ISC) Council, the key areas of the ISC international activities, the issues related to the results of the activities implemented by the ISC in 2016 and within nine months of 2017 and other organizational issues were discussed during these meetings, as well as the procedure of audit organization selection for carrying out the audit of the ISC financial statements.

During 2017, the National Bank actively participated in the work of the bilateral intergovernmental commissions within the framework of interaction with the central (national) banks of Armenia, China, Iran, Kazakhstan, Mongolia, Qatar, Saudi Arabia, Switzerland.

*Bilateral
cooperation*

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

*Technical
cooperation*

Work on introduction of the risk-based supervision (RBS) over the commercial banks and an automated system for collecting, processing and analysis of statistical data was continued within the framework of the joint project of the IMF and the State Secretariat for Economic Affairs (SECO) of Switzerland for development of the financial sector of the Kyrgyz Republic.

In October 2017, the World Bank (WB) jointly with the IMF organized a training course being an important step in raising the knowledge of the National Bank's employees in understanding and using the tools based on the RBS principles. In the reporting year, the World Bank Group provided technical assistance in development of the payment system, promotion of electronic and digital financial services, in increasing the share of the non-cash payments and settlements.

The delegation of the Swiss National Bank and the Deutsche Bundesbank visited the country in May 2017. As a result of the visit, the parties agreed to strengthen and develop partnership relations.

5.2. Public Relations and Improvement of the Population Financial Literacy

In 2017, the National Bank continued to work towards ensuring the transparency of its activities, informing the public about conducted monetary policy, the activities within the framework of fulfilling the functions and objectives of the central bank, and improving financial literacy of the population.

The public was informed through the press conferences and briefings with involvement of the National Bank's Board, publications of information on the official Internet site of the National Bank, an educational Internet site www.finsabat.kg, in mass media, by television broadcasts and on the radio and other awareness raising activities.

25th anniversary of the National Bank

The 25th anniversary of the National Bank of the Kyrgyz Republic was among the relevant topics in 2017, therefore various events dedicated to this anniversary were held during the year.

The research and practice conference “25 Years of the National Bank of the Kyrgyz Republic” was organized in March 2017, the results of the activities implemented by the central bank within a quarter of a century and prospects for development of the financial sector in the Kyrgyz Republic were discussed in the course of this conference. The representatives of the state bodies of the Kyrgyz Republic, of the financial-credit organizations, payment companies, industry associations, and academic community attended the conference.

Guest lectures with involvement of the National Bank's Board were organized in several universities. The audience members received information on the role and functions fulfilled by the central bank in the system of public administration during these lectures, they received answers to the urgent questions related to the activity of the financial-credit sector, payment systems and the economy in general.

The commemorative postage stamps issue was devoted to the memorable date of the 25th anniversary of the National Bank of the Kyrgyz Republic.

Figure 5.2.1.

Postage stamps “25th anniversary of the National Bank of the Kyrgyz Republic”



The publication of information, educational and analytical materials on the activities of the National Bank in mass media is among the main directions in informing sharing with the public. Thus, in the reporting year, more than 1,300 publications were published in the republican and regional print and electronic media. More than 160 public statements of the National Bank representatives were organized and carried out for the print and electronic media, radio stations and TV channels.

*Cooperation
with media*

The Board of the National Bank participated in 12 press conferences on the issues of the National Bank's policy rate, monetary policy, and improvement of the population financial literacy. More than 200 messages were sent in response to the relevant applications of the media representatives.

In order to attract public attention to the issue of improving the population financial literacy, the National Bank held a national contest to the best coverage of the topic "Learn. Save. Earn." among the journalists of electronic and print media, TV channels and radio stations, more than 60 works were received within the framework of this contest.

The National Bank carried out a training seminar for the journalists on the topic: "How "to read" correctly the National Bank?", which was attended by about 20 representatives of the mass media specializing in economics and finance.

*Media products of
the National Bank*

In 2017, the National Bank expanded the channels for the public awareness. TV and radio programs were devoted to the role and functions of the National Bank, the issues of monetary policy, functioning of the financial and foreign exchange markets, the market of the banking and payment services, the issues of the financial literacy and other relevant topics.

The programs "Finsabat", "The National Bank explains", as well as the section "The National Bank reports" were launched at the TV channels of the Public Broadcasting Corporation. There were issues of the programs "Sanesep" (12 programs in total) and "EcoLikbez" (40 programs in all) were broadcasted on the radio stations "Sanzhyra" and "Maral" with assistance of the National Bank.

The radio programs "The National Bank reports" were still broadcasted on "Birinci radio" (92 radio programs in total), and the releases of the section "Finsabat" were broadcasted in the TV program "Capital". In the reporting year, 32 videos were aired on television; these videos were devoted to the activities of the National Bank, functioning of the banking and microfinance sectors, improvement of the financial literacy.

Moreover, social videos were broadcasted on the state TV channels to inform business entities about the need to install POS-terminals in places of their activity and to inform the cardholders about their right to pay for the goods and services using payment cards.

Work was continued on improving the official website of the National Bank being an integral part of information provision. During the year, the design of the website was changed, new subsections were created, the list of provided information was expanded, the process of filling and updating the information in all sections of the site was continued.

*Improvement of
the financial
literacy*

The National Bank is a coordinator for implementation of the Program to Improve the Financial Literacy of the Population in the Kyrgyz Republic for 2016-2020 (Program).

A Coordination Council was established to effectively implement the Program, as well as to consolidate the efforts of the involved state bodies and other participants. In the reporting year, the Coordination Council approved the standards of basic competencies (knowledge, skills, attitudes and behavior) on the financial literacy for the adult population and for the pupils in secondary schools of the Kyrgyz Republic. These standards serve as the basis for development of the training, counseling and public awareness programs on the issues of the financial literacy.

In the spring of 2017, the traditional annual Global Money Week was held; this campaign was aimed at forming savings culture in children and youth and familiarizing with the basic concepts of financial literacy. The National Bank in cooperation with the ministries and departments, international and public organizations, and educational institutions carried out over 700 events, including lectures, interactive games, excursions

to the financial institutions, competitions, with involvement of over 40 thousand children and adults.

A series of events was held in the autumn, these events were timed to coincide with the World Savings Day being celebrated worldwide on October 31 each year. More than 5 thousand children and adults participated in the thematic lectures, introductory excursions in the banks' offices, interactive games and other events.

Training the teachers of the subjects "Human and Society", "Introduction to Economics", "Mathematics" of the general educational institutions of the republic in the financial literacy was continued. 365 teachers from Bishkek and Osh, as well as from Chui oblast participated in the first series of this training program, organized by the National Bank and the Ministry of Education and Science of the Kyrgyz Republic with the assistance of the German Savings Banks Foundation for International Cooperation.

Within the framework of implementing the Program for Improving the Financial Literacy of the Population, the National Bank together with its partners conducted training seminars for the heads and specialists of ayil okmotu and other municipal officials in all regions of the republic.

In the reporting year, the National Bank released the fourth series of the "Akcha alippesi" ("Monetary ABC"), an illustrated book for the preschool and primary school children, devoted to the social insurance. This book was distributed in all general educational institutions of the republic.

The issues of the population financial literacy, such as financial planning, savings, reasonable use of financial services, investment, insurance, pensions, taxation, financial security were also covered within the framework of the joint TV project of the National Bank and Public Broadcasting Corporation "Finsabat".

Regular work is carried out with the written requests and applications from the citizens, consultations and information are provided on the issues related to the activities of the National Bank and the banking sector as part of the activities of the public information services operating in the central office, regional administrations and the representative office of the National Bank. Totally, in 2017, the National Bank received 1,029 written requests (including 485 at the regional departments and the representative office in Batken city), these requests related to the official rates of foreign currencies to Kyrgyz som, policy rate set by the National Bank, inflation rate, the activities of the banks and non-banking financial-credit organizations, as well as the procedure of purchasing the gold measuring bullions and numismatic coins of the National Bank, etc.

According to the Law "On the Procedure for Considering Citizens' Applications", the administration of the National Bank conducted personal reception of citizens during the year. Generally, the applications comprised the questions concerning the procedure for providing the banking and microfinance services to the financial-credit organizations.

During the year, excursions were carried out for the students of the secondary and higher educational institutions, the mass media representatives, the members of delegations from the far and near abroad countries in the numismatic museums of the National Bank in the cities of Bishkek and Osh. The expositions devoted to ancient monetary samples found in the territory of Kyrgyzstan, sketches and samples of the banknotes and coins of the national currency issued in different periods, gold measuring bullions, precious metal coins, and other numismatic products issued by the National Bank were presented to the visitors during these excursions.

*Public Information
Service activity*

*Numismatic
Museum*

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

6.1. Structure of the National Bank of the Kyrgyz Republic

The specific character of the National Bank activities, the strategy of its development, the environment in which it operates, and a number of other factors predetermine its organizational structure designed to achieve the set goals to the fullest degree.

In 2017, the organizational structure of the National Bank was not amended and at the end of the reporting period, it included 24 structural units of the central office, five regional departments and one representative office of the National Bank in Batken oblast.

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

<i>Economic Department</i>	develops the proposals on the monetary policy and its implementation; analyzes monetary, real, financial, and fiscal sectors of the economy; and implements macroeconomic modeling and forecasting; carries out research work on macroeconomic issues, monetary policy, fiscal policy, exchange rate, and real sector;
<i>Monetary Operations Department</i>	implements the monetary policy; carries out the operations in the financial markets, assesses and analyzes them; and identifies the trends and reasons for the changes in the financial markets to effectively coordinate the open market operations;
<i>Financial Statistics and Review Department</i>	maintains statistics on monetary indicators, financial market performance indicators, statistics on the banking sector and non-banking financial-credit organizations; compiles the balance of payments; provides expert support in matters of external debt; analyzes and assesses financial stability of the Kyrgyz Republic; and releases official publications of the National Bank;
<i>Off-site Supervision Department</i>	exercises off-site (distant) supervision of banks and non-banking financial-credit organizations to protect the interests of depositors and other creditors, as well as to ensure fair competition;
<i>Supervision Methodology and Licensing Department</i>	develops the methodological framework of supervision and regulation of the banks and non-banking financial-credit organizations, including the ones operating in accordance with the Islamic principles of financing, and is responsible for licensing their activity;
<i>Inspection Department</i>	carries out inspections of banks and non-banking financial-credit organizations to assess the quality and effectiveness of management, the risks inherent in the Bank's activities and compliance with the laws, including AML/CFT, contributes to the protection of banking and microfinance services and the strengthening of consumer confidence in financial-credit organizations;

<i>Cash Management Department</i>	meets the demand of the economy of the Kyrgyz Republic for the banknotes, coins and gold measuring bullions, numismatic valuables;
<i>Bank Settlements Department</i>	ensures the functioning of interbank settlement systems; makes settlements on the financial market operations and transactions;
<i>Banking Automation Department</i>	provides the National Bank with high-quality and up-to-date IT services, develops and introduces the operational risk assessment procedures in the National Bank transactions, describes and analyzes business processes, elaborates recommendations for their optimization;
<i>Payment Systems Department</i>	develops the methodological framework, regulation, analysis, control and supervision (oversight) to ensure the effective operation of the payment system, its reliability and safety; and promotes development of the payment system of the country, as well as implements licensing, regulation and supervision of payment system operators and payment organizations;
<i>Accounting and Reporting Department</i>	keeps permanent accounts and records of the National Bank transactions in accordance with the international accounting practice to provide the customers with financial statements reflecting the Bank's financial position, custodian accounting of the Government Securities, as well as monitors the collateral on issued loans for refinancing and maintenance of liquidity of the commercial banks and international organizations established within the framework of the Eurasian Economic Union;
<i>Legal Department</i>	provides comprehensive legal support of the National Bank, development and improvement of the banking legislation;
<i>Security and Information Protection Department</i>	ensures safe activity of the National Bank and its information resources;
<i>Administration and Logistics Department</i>	resolves logistics issues of the Bank, transport support for administration and structural units, buildings and structures maintenance and their uninterrupted power supply;
<i>State Language Development and Documentation Management Division</i>	promotes the implementation and development of paperwork and record keeping in the state language, carries out the centralized document management and control of the National Bank's documents execution, as well as the activities of the National Bank's Management Board;
<i>Personnel Division</i>	meets the needs of the National Bank in the workforce required to fulfill the functions and objectives of the National Bank, and plans, organizes and controls the process of training the Bank employees;
<i>Finance and Monitoring Division</i>	organizes financial activities of the National Bank, aimed to ensure the financial resources for its development strategy, the safety and effectiveness of the use of fixed assets, working capital and financial resources of the Bank;

<i>International Cooperation Division</i>	provides for the establishment, strengthening, and development of international cooperation of the National Bank with the external organizations, financial institutions and countries;
<i>Financial Risk Control Division</i>	manages the financial risks in the operations of the National Bank in the foreign markets;
<i>Public Relations Division</i>	raises public awareness about the National Bank's activities and policies through the media outlets in accordance with the Bank's communications policy and contributes to improvement of the financial literacy in the Kyrgyz Republic;
<i>Construction and Repair Division</i>	organizes construction and assembly operations, repair, design and survey works at the National Bank's facilities;
<i>Internal Audit Service</i>	provides independent and objective assurance and consulting to the Board of the National Bank, using a systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control and corporate governance processes aimed at improving the activities of the National Bank;
<i>Procurement Group</i>	organizes and makes procurement in accordance with the current regulatory legal acts of the National Bank, as well as runs projects of international financial organizations and donor countries, implemented by the National Bank or with its direct participation;
<i>Educational and Recreation Center (recreation center "Tolkun")</i>	is intended for holding workshops, roundtable meetings and training, social and cultural events with the participation of the National Bank employees;
<i>Regional Departments and Batken Representative Office</i>	provides branches of the commercial banks with cash; supervises the financial-credit organizations, the activities of which are licensed and regulated by the National Bank, as well as implements measures within the framework of the payment system development program and improvement of the population financial literacy.

At the end of 2017, the payroll number of employees of the National Bank amounted to 664 people, including 581 people – in the central office and 83 people – in the regional departments and the Batken Representative Office. The number of women amounted to 282 people – in the central office and 33 people – in the regional departments and the Batken Representative Office. The number of women percentagewise was 47.0 percent and men – 53.0 percent.

In 2016, the payroll number of employees of the National Bank amounted to 692 people, including 610 people – in the central office and 82 people – in the regional departments and the Batken Representative Office. The number of women percentagewise was 47.0 percent and men – 53.0 percent.

The National Bank of the Kyrgyz Republic provides trainings for its specialists on an annual basis to improve their qualification. In 2017, training was carried out for the specialists within the framework of the Program of vocational training for the personnel of the central (national) banks (within the framework of the Agreement on cooperation for training of personnel of the central (national) banks, signed in Minsk on March 12, 2004),

Payroll number of employees of the National Bank

Personnel training

training events organized in the CIS, far abroad countries, and in the Kyrgyz Republic, as well as on the basis of the National Bank.

In accordance with the Memorandum of Long-Term Cooperation between the National Bank and the Savings Banks Foundation for International Cooperation (Germany), implementation of the educational project “Banking. Dual vocational training of bank officers” was continued. In the reporting year, according to the results of education 75 young specialists from the personnel of the National Bank and the commercial banks completed training.

Competitive selection

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

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

In 2017, 21 competitions were held, including seven competitions in the regional offices. In total, 170 people took part in the contests. As a result of these competitions, 13 people were recruited in the National Bank.

The staff turnover was 13.0 percent in 2017 and in 2016 – 14.0 percent.

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

Chart 6.1.1.

Structure of Specialists by Record of Work

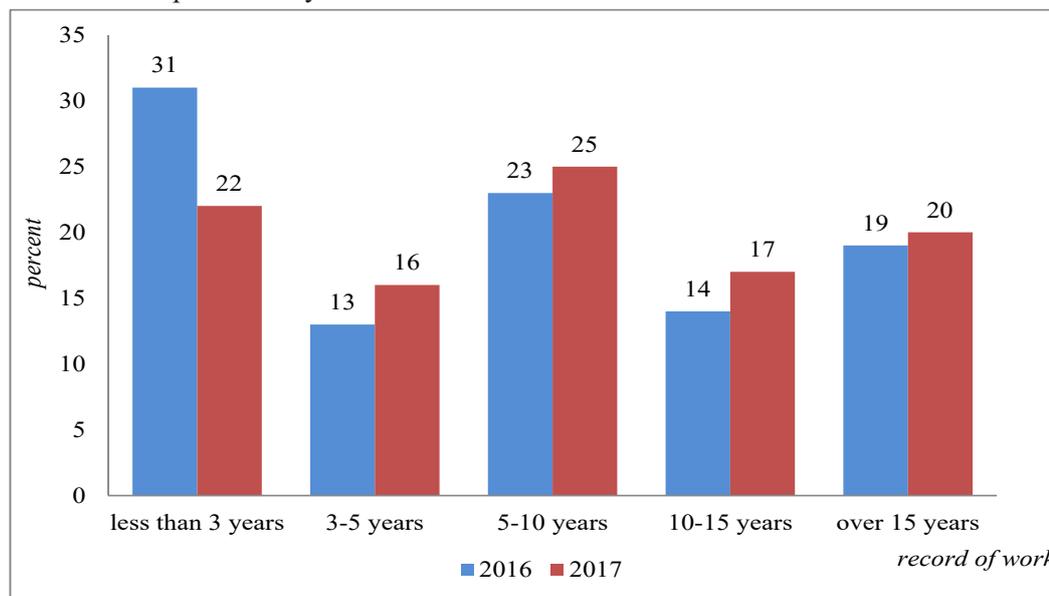
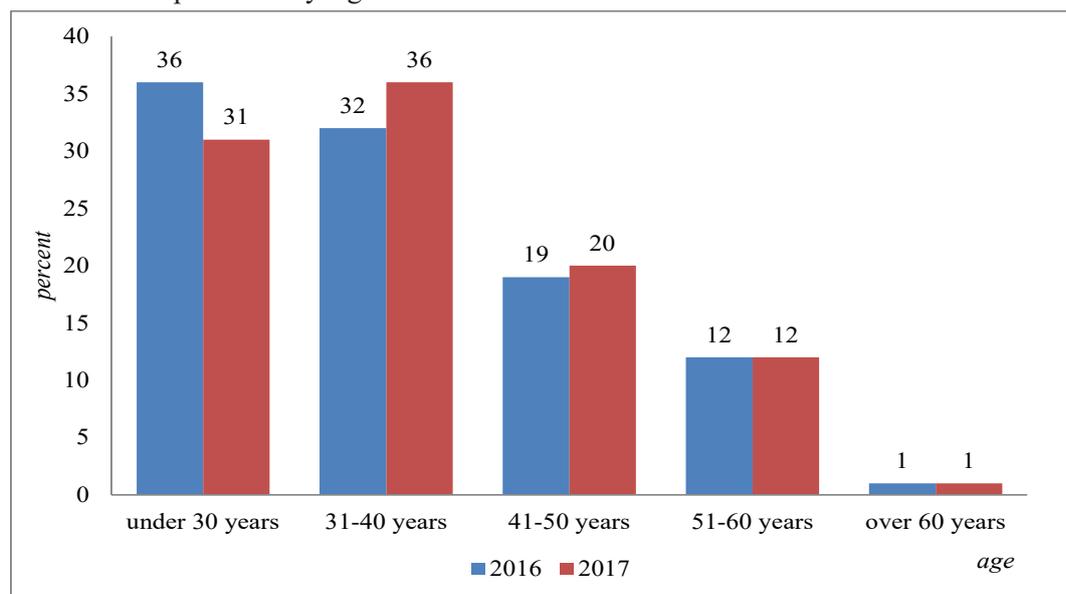


Chart 6.1.2.

Structure of Specialists by Age



The committees and commissions operate in the National Bank on a regular basis. Seven committees, ten commissions, six editorial boards for publications of the National Bank and the scientific advisory council operated as of the end of 2017. The order and procedures for the committees, commissions, and editorial boards are regulated by the relevant provisions. Activity of committees and commissions contributes to the improvement of corporate governance at the National Bank.

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

Monetary Regulation Committee

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

The main objectives are to evaluate and select open market options, analyze the possible consequences of the chosen options, make the decisions and create the conditions for the use of monetary policy instruments, as well as develop recommendations to the National Bank Board and the Kyrgyz Republic Government on the monetary policy issues;

Investment Committee

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

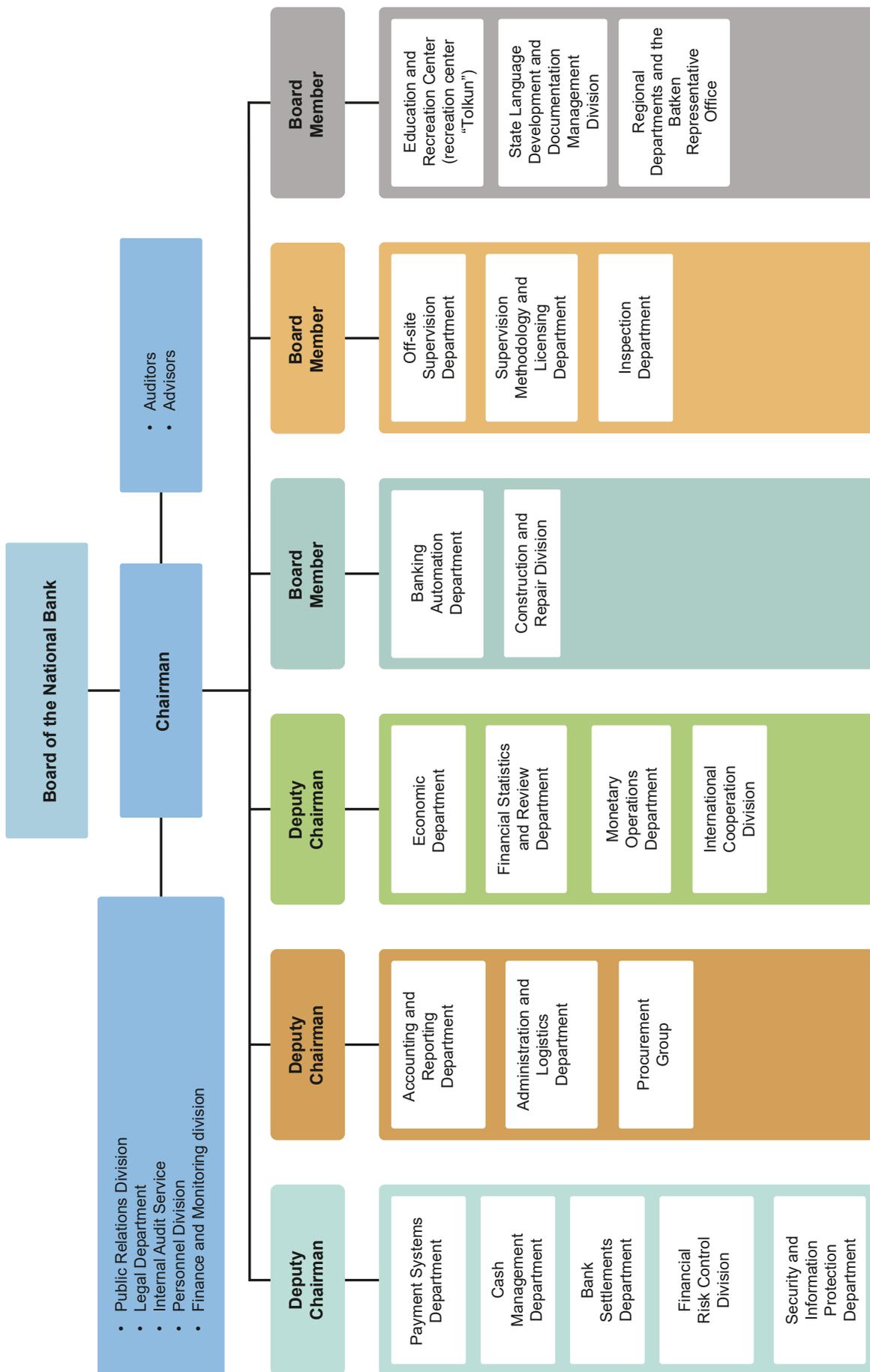
The main objectives are to review, approve and monitor the implementation of the investment strategy; to assess the effectiveness of investment, taking into account the situation in the financial markets, and to develop the tactical decisions under the approved strategy, to recommend and propose the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

Supervision Committee

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

<i>Audit Committee</i>	assists the Board of the National Bank in ensuring proper internal control system, control over accounting procedures and preparation of the National Bank financial statements;
<i>Payment System Committee</i>	makes decisions on the issues of its competence in the sphere of development, regulation and supervision (oversight) of the payment system in the Kyrgyz Republic, as well as licensing, regulation and prudential supervision over the payment systems operators and the payment organizations;
<i>Risk Committee</i>	takes timely measures on minimization of risks in the activities of the National Bank by coordinating operations of the structural units in the area of identification, evaluation, and constraints of risks inherent in activities of the National Bank;
<i>Coordination Committee on Information Technologies</i>	determines the main directions for development of the information technologies and controls fulfillment of the activities for implementation of information technology development in the National Bank and coordinates planned information technologies (IT) projects, changes, approval of technical solutions and business processes relevant to these projects or IT;
<i>Commission of Prevention of Corruption</i>	was established to implement measures to prevent and combat corruption in the National Bank through implementation and monitoring of activities against corruption;
<i>Methodological Commission</i>	considers drafts of individual regulatory acts with a view to their methodological elaboration; approves terms and their explanations, used in the regulatory acts of the National Bank;
<i>Commission for Organizational Development of the National Bank</i>	examines the issues and prepares proposals on organizational development of the National Bank. The main objectives are to consider the proposals and elaborate recommendations for optimization of the business processes, and for changing the organizational structure of the National Bank; to coordinate and supervise the activities related to optimization of business processes carried out in the National Bank.

Organizational Chart of the National Bank of the Kyrgyz Republic as of December 31, 2017



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

The Board is the supreme governing body of the National Bank and approves its main activity. Powers of the Board are determined by the Law “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity”.

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

The Board of the National Bank activity is carried out in accordance with the approved annual and quarterly action plans. In 2017, it held 73 meetings (including 19 information exchange meetings), with 463 considered issues and 260 adopted resolutions.

Consideration of monetary policy issues

The Board of the National Bank made decisions on the policy rate on a regular basis in accordance with the schedule of meetings to be held by the Board of the National Bank approved for 2017.

As part of the reviews of quarterly Monetary Policy Reports, information was heard on the purpose and results of monetary policy, inflation factors, analysis and medium-term forecast of the key macroeconomic indicators.

In December 2017, the Board of the National Bank approved the Main Directions of Monetary Policy for the medium term. This document focused on the conceptual policy issues: goals, objectives and the basis of monetary policy.

At the end of the reporting year, the Board approved the Statement of the National Bank of the Kyrgyz Republic on the monetary policy for 2018. The statement is part of the Joint Statement of the Government of the Kyrgyz Republic and the National Bank on the Main Directions of Economic Policy for the coming period. The schedule of meetings of the Board for 2018 on the policy rate of the National Bank was approved and posted on the official website.

The Board of the National Bank annually reviews and approves the investment policy and the report on the international reserves management in the area of international reserves management and ensuring the safety of reserve assets.

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

The Board of the National Bank approved the relevant regulatory legal acts providing for the expansion and improvement of the monetary policy instruments range to develop the monetary market and stimulate subsequently the operations with precious metals.

In total, 30 issues were considered and 28 resolutions were adopted on the monetary policy issues and the international reserves management in 2017.

Consideration of issues of banking and non-banking organizations supervision

The Board of the National Bank adopted a series of resolutions to bring the regulatory framework for the licensing, supervision and regulation of the banks and non-banking financial-credit organizations, including the institutions implementing operations in accordance with the Islamic principles of banking and financing, in line with the banking legislation.

New versions of the regulatory legal acts were approved, these act related to the issues of licensing the activities of the banks and the specialized financial-credit organization OJSC “Financial Company of Credit Unions”, as well as the issues of corporate governance, internal control and audit, management of banking risks, operations with the affiliated and bank related parties, and pretrial dispute resolution between the supervisory

authority and the banks, as well as applying of the enforcement actions to the banks and non-banking financial-credit organizations.

In addition, the new regulatory legal acts were adopted as part of improvement of the enforcement actions system, these acts concerned conducting the interim administration, as well as voluntary and compulsory liquidation of the banks. Adoption of a regulatory legal act was among the innovations determining the criteria for the systemic significance of the commercial banks and non-banking financial-credit organizations.

Separate resolutions established the requirements for the minimum size of the authorized and equity (regulatory) capital of the banks, classification of the assets and accounting of other property, organization of internal control, internal and external audits, operations with precious metals and limits on open positions in precious metals, work with the bank accounts and safes.

The Board also adopted amendments related to the requirements for calculation of the capital adequacy, credit risk management and drawing up the periodic regulatory reports of the banks and non-banking financial-credit organizations, which carry out transactions in accordance with the Islamic principles of banking and financing.

In addition, the issues related to expansion of the commercial banks activities were considered. During the year, permissions were given to issue of an additional license for providing services for receiving, processing and issuing financial information (processing, clearing) on payments and settlements of third parties, issuance of e-money, for carrying out operations with precious metals of other issuers in an impersonalized form (in non-cash form), as well as the licenses for carrying out banking operations in accordance with the Islamic principles of banking and financing through the “Islamic window” in national and/or foreign currencies.

The Board of the National Bank approved the main directions for the banking system development in the microfinance sector of the Kyrgyz Republic for the medium term; these directions reflect the goals and objectives of the banking and non-banking financial-credit sectors for the medium term. Implementation of the measures envisaged in these programs will ensure further development of a favorable economic, legislative and regulatory environment for the institutional development of a viable, sustainable and socially responsible banking and non-banking financial-credit sectors.

In total, 89 issues were considered, 85 resolutions were adopted on the issues of the activities of the specific commercial banks and other financial-credit organizations licensed by the National Bank of the Kyrgyz Republic.

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

The draft resolution of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic “On Approval of the Third Stage of the State Program to Increase the Share of Non-cash Payments and Settlements in the Kyrgyz Republic for 2018-2022” was approved to further implement the State Program to Increase the Share of Non-cash Payments and Settlements in the Kyrgyz Republic. In addition, changes were made in the composition of the Interagency Commission to increase the share of non-cash payments and settlements in the Kyrgyz Republic to increase the efficiency of its work.

In total, the Board considered 28 issues and adopted 18 resolutions on the operation and management of the payments system.

In the reporting year, the Board of the National Bank also considered the issues on arranging the activity of the National Bank of the Kyrgyz Republic and other issues, on which 129 resolutions were adopted.

*Consideration
of payment
system issues*

6.3. Improvement of Banking Legislation

The most significant event of the reporting period was the entry into force of the Laws of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” and “On Enactment of the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” on June 22, 2017.

The Law “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” is aimed at reforming the banking legislation and provides for integration into the national legislation of the newest effective global banking practices. Among significant innovations are the norms on protection of the rights and legitimate interests of the clients. The main requirements are established for provision of banking services and information disclosure.

The Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” prohibits the banks to unilaterally change the contractual terms if this worsens the clients’ situation. These norms are very important because they are based on such principles of the banks’ interaction with their clients as honesty, conscientiousness, transparency, reliability, fairness, partnership, consideration of economic interests and opportunities, and social responsibility. The clients, in turn, shall make informed and responsible decisions when applying to the bank for the banking services.

The Law of the Kyrgyz Republic “On Enactment of the Law “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” was developed together with the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” and envisaged introduction of the appropriate amendments to the current legislation of the Kyrgyz Republic (in total in 23 codes and laws).

In the course of work on further modernization and updating of the banking legislation, the norms of the chapters “Loan and credit”, “Bank deposit”, “Banking account” and “Calculations” of the Civil Code of the Kyrgyz Republic were revised to bring the banking legislation in compliance with the most up-to-date needs of the state and society, the banks and their clients, the economic development of the country as a whole.

In accordance with the principles laid down in the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity”, the Civil Code is supplemented by a new chapter regulating the Islamic principles of banking and financing and defining the types and legal bases of the agreements entered into in accordance with the Islamic principles of financing.

In 2017, in compliance with the requirements of the Laws of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” and “On Enactment of the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity”, work was carried out to bring about 200 regulatory legal acts of the National Bank of the Kyrgyz Republic in line with by aforementioned laws.

The Law “On Amendments to Certain Legislative Acts of the Kyrgyz Republic (the Law “On Payment System of the Kyrgyz Republic”) and the Code of the Kyrgyz Republic “On Administrative Responsibility” were adopted in the reporting year.

The norms of the Law “On Payment System of the Kyrgyz Republic” were brought in line with the requirements of the Law “On the Licensing System in the Kyrgyz Republic” regarding mandatory licensing of the activities to facilitate payments in favor of the third parties, as well as processing and clearing activities.

The requirements for compulsory registration in the National Bank before starting activities in the Kyrgyz Republic were also introduced:

- for the operators of local and international money transfer systems without opening an account;

- for the international operators of the bank payment cards and international operators of e-money.

In addition, the Law “On Payment System of the Kyrgyz Republic” was amended in part related to the enforcement actions applied by the National Bank to the payment system participants and the measures to protect the rights of the payment services consumers.

Amendments introduced into the Code of the Kyrgyz Republic “On Administrative Responsibility” are aimed at fixing the rules on payment of fines at the place of law violation and in a non-cash form.

A draft Law “On Amendments to the Tax Code of the Kyrgyz Republic” was developed as part of further improvement of measures to increase the share of non-cash payments, coverage with the banking equipment in the remote regions of the country, timely payment of pensions, benefits and other state payments to the bank cards, including payment of salaries and other payments by the non-state sector.

This draft law is aimed at improving and expanding the country’s payment infrastructure in the remote regions by encouraging the banking system to install banking equipment for receiving and carrying out non-cash payments. Adoption of this draft law will help to increase the transparency of financial flows and, accordingly, to reduce the shadow economy.

Draft Laws

6.4. Performance of Duty of Financial Adviser

To perform the duty of a financial adviser to the President, the Jogorku Kenesh, and the Government of the Kyrgyz Republic, in 2017, the National Bank carried out the following activities:

- Provided information and analytical materials on the issues of implementing the monetary policy, on the status of the banking and payment systems on a regular basis;
- Examined the draft laws and other regulatory legal and decisions affecting the financial and banking issues or the area of authority of the National Bank;
- Provided advice to the Government of the Kyrgyz Republic when considering the republican budget;
- Consulted and made the recommendations on the financial and banking system issues.

Regularly provided analytical information included the main monetary policy guidelines of the National Bank, the forecast of key macroeconomic indicators, the situation in the external sector of the economy, the status of the banking system, the system of non-banking financial-credit organizations, and the situation in the foreign exchange market of the republic.

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

In the reporting year, the National Bank examined more than 40 draft laws, including:

- “On the Republican Budget for 2018 and the Forecast for 2019-2020”;
- The Code “On Non-tax Revenues”;
- “On Amendments to the Budget Code”;
- “On Amendments to the Tax Code”;
- “On Investments in the Kyrgyz Republic”;
- “On National Holding Companies”;
- “On Commodity Warehouses and Warehouse Certificates”;
- “On Amendments to the Law of the Kyrgyz Republic “On the Securities Market””;
- “On Amendments to the Law of the Kyrgyz Republic “On Joint Stock Companies””;
- “On Trust Management of State Property”;
- “On Amendments to Certain Legislative Acts Regarding Regulation of Guarantee Funds Activities” and others.

Examination of draft laws

In 2017, the National Bank also examined and prepared the proposals for more than 70 draft resolutions and orders of the Government of the Kyrgyz Republic and the acts of the President of the Kyrgyz Republic, including:

- On Approval of the Concept of Digital Transformation “Taza Koom”;
- On Action Plan for Implementation of the Program of the Government of the Kyrgyz Republic “Jany doorgo – kyrk kadam 2018-2023”;
- On the Project “Kadam 10: “Affordable credit”;
- On the Project “Agriculture Financing”;
- On Approval of the Concept of the Regional Policy of the Kyrgyz Republic.
- On Joint Statement of the Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic on Main Directions of Economic Policy for 2017 and 2018;
- On the Medium-Term Forecast of Social and Economic Development for 2018-2020;
- On the Council of the Government on the Fiscal and Investment policy of the Kyrgyz Republic;
- On Approval of the Strategy for Management of the Public Debt of the Kyrgyz Republic for 2017-2019;
- On Organizational Measures to Prepare the Main Directions of the Fiscal Policy of the Kyrgyz Republic for 2019-2021;
- On the Draft Sustainable Development Program of the Kyrgyz Republic for 2018-2022;
- On the Draft Concept of Fiscal Policy for 2017-2040;
- On the Strategy for the Central Asia Regional Economic Cooperation until 2030;
- On Action Plan to Improve the Position of the Kyrgyz Republic in the Rating of “Doing Business” for 2018;
- On Issue of Budget Loan to OJSC “State Mortgage Company” in Order to Continue Implementation of the Program of the Government of the Kyrgyz Republic “Affordable Housing 2015-2020”;
- On the Draft Government Regulation “On Procedure to Attract and Use International Grant and Technical Assistance in the Kyrgyz Republic”;
- On Approval of the Program of the Government of the Kyrgyz Republic on Kyrgyz Republic Export Development for 2018-2023;
- On Measures for State Support of Entrepreneurs;
- On Development of Agriculture in the Kyrgyz Republic;
- On Creation of Housing and Savings Credit Companies and others.

Development and implementation of state programs

In 2017, the National Bank participated in the development and implementation of a number of state programs and plans, including:

- The Plan for Implementation of the Program of the Kyrgyz Republic Government for 2018 “Jany doorgo – kyrk kadam”;
- The Action Plan for Implementation of the Digital Transformation Concept “Taza Koom”;
- The National Sustainable Development Strategy of the Kyrgyz Republic for 2013-2017;
- The Strategies of Social and Economic Development of the Kyrgyz Republic until 2040;
- The Program for Improving the Financial Literacy of the Population of the Kyrgyz Republic for 2016-2020;
- The State Program of Measures for Increasing the Share of Non-cash Payments and Settlements in the Kyrgyz Republic for 2012-2017;
- The Action Plan for Implementation of Memorandum on Economic and Financial Policy for 2015-2018;

- The Action Plan of the Kyrgyz Republic Government on Implementation of the Program of the Kyrgyz Republic Government “Trust and Unity for 2017”;
- The Food Security and Nutrition Programs in the Kyrgyz Republic for 2015-2017;
- The Plan of the Government of the Kyrgyz Republic for Kyrgyz Republic Export Development for 2015-2017;
- The Programs for Development of Integration in the EAEU statistics for 2016-2020 and others.

Examination of international agreements

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

- The Protocol between the Kyrgyz Republic and the Russian Federation on Writing-off the Debt of the Kyrgyz Republic;
- The draft Agreement between the Government of the Kyrgyz Republic and the Government of the United States of America on Improving Compliance with the International Taxation Regime and the FATCA Implementation;
- The draft Agreement of the Member States of the Commonwealth of Independent States on Combating the Financing of Terrorism, Anti-Money Laundering and Financing of Weapons of Mass Destruction;
- The draft Agreement on Consolidated Financial Statements of National Economic Entities of the Commonwealth of Independent States;
- The draft Rules for Implementation of Common Processes in the EAEU Financial Markets;
- The draft Concept for Formation of the EAEU Common Financial Market;
- The draft Agreement on Harmonization of the Member States Legislation in the Financial Sector;
- The draft Agreement on Interaction between the EAEU member states of for Exchange of Information that is Part of Credit Records;
- The draft Agreement on the Advisory Council for the Exchange Rate Policy of the EAEU Member States;
- The draft Agreement on Coordinated Approaches to Regulation of Foreign Exchange Legal Relations and Liberalization Measures;
- The first and second draft of the Report on Mutual Evaluation of the AML/CFT System of the Kyrgyz Republic prepared by the EAG experts and others.

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

In the reporting year, the representatives of the National Bank participated in 25 interagency working groups and committees on the following issues:

- The Action Plan “Kadam 10: “Affordable credit” from the Program of the Government of the Kyrgyz Republic “Jany doorgo – kyrk kadam”;
- Increase in the share of non-cash payments and settlements in the Kyrgyz Republic;
- Implementation of the Action plan on improvement the poor’s standard of living in the Kyrgyz Republic for 2016-2017;
- Elaboration of the draft Program for Development of the Kyrgyz Republic for 2018-2023;
- Improving the Methods for calculation of macroeconomic indicators, determining the sustainability of economic development in the EAEU member states and others.

Work in interagency commissions

Based on the results of participation in work of the interagency working groups and commissions, the National Bank provided information and made proposals on the issues within the competence of the National Bank.

6.5. Internal Audit and Internal Control System

Legal framework

In accordance with the Law “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity”, the National Bank shall have an adequate internal control system. The Board of the National Bank appoints the Audit Committee to provide an adequate internal control system, as well as control over the accounting procedures and preparation of the financial statements of the National Bank. The Internal Audit Service carries out internal audit of the National Bank, reporting to the Board of the National Bank.

Implementation of activities

The main goals and objectives of the Internal Audit Service are independent assessment of adequacy and effectiveness of the internal control system, risk management and corporate governance at the National Bank, interaction with external auditors on the annual audit of the National Bank financial statements and the Audit Committee of the National Bank.

Activity of the Internal Audit Service is implemented according to the International Professional Practice Framework.

In 2017, the internal audits were carried out in accordance with the annual work plan of the Internal Audit Service. In the reporting period, the internal audits were carried out on the main directions of activity of the National Bank, including macroeconomic analysis, forecasting macroeconomic indicators, organization of bank settlements, consumers rights protection, combating the financing of terrorism and anti-money laundering, international cooperation, legislative work of the bank, management of operational risks, as well as other areas.

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

Interaction with external auditors

The internal audit results were submitted to the Board of the National Bank in the form of independent reports on compliance of the activities implemented by the bank’s structural units with their assigned tasks and functions, identified violations, inconsistencies and problem areas. The Internal Audit Service carried out regular monitoring of the recommendations implementation by the structural units based on the results of internal audits.

The Internal Audit Service coordinated interaction with the external auditors of the National Bank. In 2016 the independent external audit of the National Bank’s financial statements was carried out by the audit organization – LLC “Deloitte and Touche” and in 2017, the external audit was carried out by the audit organization LLC “Grant Thornton” – these audit organizations were selected based on the results of tenders and were approved by the Jogorku Kenesh of the Kyrgyz Republic in accordance with the legislation.

Interaction with Audit Committee

The Internal Audit Service arranged and held the meetings of the National Bank Audit Committee. The Audit Committee comprises three members: the member of the Board of the National Bank and two independent experts who are not employees of the National Bank.

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

Report of the Audit Committee

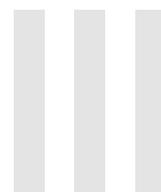
Eighteen meetings of the Audit Committee were held in 2017 to consider the issues and make decisions regarding its competence. The Internal Audit Service submitted information on the monitoring of the implementation of internal and external audit recommendations and on review of the internal control system. The Audit Committee on a

semi-annual basis provided information on its activities for consideration to the Board of the National Bank.

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

The Audit Committee members met with the senior representatives of LLC “Deloitte and Touche” and LLC “Grant Thornton” to guarantee the independence of the external auditors. The results of the external audit of financial statements for 2016, carried out by the representatives of LLC “Deloitte and Touche”, and also the plans for the audit of the financial statements for 2017 and the results of the preliminary audit of the National Bank financial statements for nine months of the reporting year, carried out by the representatives of LLC “Grant Thornton” were discussed during these meetings.

FINANCIAL STATEMENTS
OF THE NATIONAL BANK
OF THE KYRGYZ REPUBLIC
FOR 2017



CHAPTER 7. FINANCIAL STATEMENTS OF THE NATIONAL BANK OF THE KYRGYZ REPUBLIC FOR THE YEAR ENDED 31 DECEMBER 2017

CONTENTS

Independent Auditors' Report	91
Statement of Financial Position	94
Statement of Profit or Loss	95
Statement of Other Comprehensive Income	96
Statement of Cash Flows	97
Statement of Changes in Equity	99
Notes to the Financial Statement	101



«Грант Торнтон» ЖЧКсы
И.Раззаков атындагы көчө 15-үй.
720040 Бишкек, Кыргызстан
Т + 996 312 98 60 40
F + 996 312 98 60 40
E info@kg.gt.com

ОсОО Грант Торнтон
ул. Раззакова, д. 15
720040 Бишкек, Кыргызстан
Т + 996 312 98 60 40
F + 996 312 98 60 40
E info@kg.gt.com

Grant Thornton LLC
15 Razzakova str
720040 Bishkek, Kyrgyzstan
T + 996 312 98 60 40
F + 996 312 98 60 40
E info@kg.gt.com

www.grantthornton.kg

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of the National Bank of the Kyrgyz Republic (the “National Bank”), which comprise the statement of financial position as at 31 December 2017, and the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the National Bank as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with the Financial Reporting Principles disclosed in Note 2 to the financial statements.

Basis for Opinion

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

Other information

Management is responsible for the other information. The other information obtained at the date of this auditor’s report is information included in the Annual report of the National Bank as at 31 December 2017, but does not include the financial statements and our auditor’s report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the

other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the National Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the National Bank or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Grant Thornton LLC
14 March 2018

7.2. Statement of Financial Position as at 31 December 2017

	Note	2017 KGS'000	2016 KGS'000
ASSETS			
Gold	5	19 936 798	11 809 886
Cash on hand, due from banks and other financial institutions	6	86 782 689	89 974 925
Loans extended	7	7 519 897	7 438 576
Investments available-for-sale	8	43 009 884	34 359 544
Investments held-to-maturity	9	251 313	312 535
Property and equipment	10	1 741 359	1 809 043
Intangible assets		148 836	65 284
Other assets	11	1 718 734	1 945 210
Total assets		161 109 510	147 715 003
LIABILITIES			
Banknotes and coins in circulation	12	91 104 265	74 838 799
Due to banks and other financial institutions	13	20 609 050	25 724 792
Due to the Government of the Kyrgyz Republic	14	9 235 231	8 048 904
Debt securities issued	15	5 212 268	5 243 448
Loans received	16	925 499	1 718 629
Liabilities to the IMF in respect of SDR allocations	17	8 311 236	7 863 988
Other liabilities		97 086	97 992
Total liabilities		135 494 635	123 536 552
EQUITY			
	18		
Charter capital		2 000 000	1 000 000
Obligatory reserve		7 036 083	6 902 942
Gold and foreign currency revaluation reserve		14 284 368	12 502 379
Revaluation reserve for investments available-for-sale		(6 425)	(4 007)
Retained earnings		2 300 849	3 777 137
Total equity		25 614 875	24 178 451
Total liabilities and equity		161 109 510	147 715 003

Abdygulov T. S.
Chairman of the National Bank

14 March 2018

Bishkek
Kyrgyz Republic

Alybaeva S. K.
Chief Accountant

14 March 2018

Bishkek
Kyrgyz Republic

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 101-145.

7.3. Statement of Profit or Loss for the year ended 31 December 2017

	Note	2017 KGS'000	2016 KGS'000
Interest income	19	1 808 795	1 746 168
Interest expense	19	(220 564)	(188 833)
Net interest income		1 588 231	1 557 335
Fee and commission income		62 494	50 385
Fee and commission expense		(7 175)	(7 124)
Net fee and commission income		55 319	43 261
Impairment charge/(reversal)	20	(15 724)	11 991
Net gain on gold and foreign currencies operations	21	1 860 747	3 250 599
Other income		270 344	335 504
Net non-interest income		2 115 367	3 598 094
Operating income		3 758 917	5 198 690
Banknotes and coins production expenses		(308 008)	(277 962)
Administrative expenses	22	(947 598)	(931 741)
Other expenses		(202 462)	(211 850)
Operating expenses		(1 458 068)	(1 421 553)
Profit for the year		2 300 849	3 777 137

Abdygulov T. S.
Chairman of the National Bank

14 March 2018

Bishkek
Kyrgyz Republic

Alybaeva S. K.
Chief Accountant

14 March 2018

Bishkek
Kyrgyz Republic

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 101-145.

7.4. Statement of Other Comprehensive Income for the year ended 31 December 2017

	2017 KGS'000	2016 KGS'000
Profit for the year	2 300 849	3 777 137
Items that will be reclassified subsequently to profit or loss		
Revaluation reserve for foreign currency and gold:		
- Net gain/(loss) on revaluation of assets and liabilities in foreign currency and gold	3 476 149	(10 158 958)
- Net gain on foreign currency and gold transferred to profit or loss	(1 694 160)	(2 815 141)
Net gain/(loss) on investments available-for-sale	(2 418)	27 083
Other comprehensive income for the year	1 779 571	(12 947 016)
Total comprehensive income for the year	4 080 420	(9 169 879)

Abdygulov T. S.
Chairman of the National Bank

14 March 2018

Bishkek
 Kyrgyz Republic

Alybaeva S. K.
Chief Accountant

14 March 2018

Bishkek
 Kyrgyz Republic

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 101-145.

7.5. Statement of Cash Flows for the year ended 31 December 2017

	2017 KGS'000	2016 KGS'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and fee and commission received	1 289 552	2 083 518
Interest and fee and commission payments	(175 630)	(129 495)
Realized gain on foreign exchange operations	62 218	435 459
Other income	269 244	226 503
Payroll expenses	(528 708)	(522 226)
Expenses on banknotes and coins, issued into circulation	(324 094)	(229 198)
Administrative expenses	(459 702)	(439 312)
Cash flow from operating activities before changes in operating assets and liabilities	132 880	1 425 249
(Increase)/decrease in operating assets		
Gold	(6 051 933)	(976 369)
Due from banks and other financial institutions	9 232 838	(8 341 930)
Loans extended	(7 364 977)	(1 505 544)
Investments available-for-sale	(106 821)	(5 179 350)
Other assets	(253 978)	(736 129)
Increase/(decrease) in operating liabilities		
Banknotes and coins in circulation	16 265 465	16 440 784
Due to banks and other financial institutions	(5 084 688)	7 372 321
Accounts of the Government of the Kyrgyz Republic	(1 722 130)	(10 993 668)
Debt securities issued	(31 180)	3 117 419
Other liabilities	(17 727)	(419)
Net cash from operating activities	4 997 749	622 364

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 101-145.

7.5. Statement of Cash Flows for the year ended 31 December 2017

	2017 KGS'000	2016 KGS'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and intangible assets	(185 788)	(332 171)
Proceeds on redemption of investments held-to-maturity	64 352	1 072 800
Interest received on investments held-to-maturity	16 140	70 718
Dividends received	1 184	1 401
Net cash from/(used in) investing activities	(104 112)	812 748
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loans	(875 082)	(906 123)
Net cash used in financing activities	(875 082)	(906 123)
Net increase in cash and cash equivalents	4 018 555	528 989
Effect of changes in exchange rates on cash and cash equivalents	1 319 383	(7 359 614)
Cash and cash equivalents as at the beginning of the year	49 144 007	55 974 632
Cash and cash equivalents as at the end of the year (Note 6)	54 481 945	49 144 007

Abdygulov T. S.
Chairman of the National Bank

14 March 2018

Bishkek
Kyrgyz Republic

Alybaeva S. K.
Chief Accountant

14 March 2018

Bishkek
Kyrgyz Republic

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 101-145.

7.6. Statements of Changes in Equity for the year ended 31 December 2017

KGS'000	Charter capital	Obligatory reserve	Gold and foreign currency revaluation reserve	Revaluation reserve for investments available-for-sale	Retained earnings	Total
Balance as at 1 January 2016	1 000 000	4 940 164	25 476 478	(31 090)	6 542 591	37 928 143
Total comprehensive income						
Profit for the year	-	-	-	-	3 777 137	3 777 137
Other comprehensive income						
Net gain on investments available-for-sale	-	-	-	27 083	-	27 083
Loss on revaluation of assets and liabilities in foreign currency and gold	-	-	(10 158 958)	-	-	(10 158 958)
Net gain on foreign currencies and gold transferred to profit or loss	-	-	(2 815 141)	-	-	(2 815 141)
Total other comprehensive income	-	-	(12 974 099)	27 083	-	(12 947 016)
Total comprehensive income for the year						
Transactions recorded directly in equity						
Distribution of prior year profit to the state budget	-	-	-	-	(4 579 813)	(4 579 813)
Transfer to obligatory reserve	-	1 962 778	-	-	(1 962 778)	-
Total						
	-	1 962 778	-	-	(6 542 591)	(4 579 813)
Balance as at 31 December 2016	1 000 000	6 902 942	12 502 379	(4 007)	3 777 137	24 178 451

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 101-145.

7.6. Statements of Changes in Equity for the year ended 31 December 2017

KGS'000	Charter capital	Obligatory reserve	Gold and foreign currency revaluation reserve	Revaluation reserve for investments available-for-sale	Retained earnings	Total
Balance as at 1 January 2017	1 000 000	6 902 942	12 502 379	(4 007)	3 777 137	24 178 451
Total comprehensive income						
Profit for the year	-	-	-	-	2 300 849	2 300 849
Other comprehensive income						
Net loss on investments available-for-sale	-	-	-	(2 418)	-	(2 418)
Gain on revaluation of assets and liabilities in foreign currencies and gold	-	-	3 476 149	-	-	3 476 149
Net gain on foreign currencies and gold transferred to profit or loss	-	-	(1 694 160)	-	-	(1 694 160)
Total other comprehensive income	-	-	1 781 989	(2 418)	-	1 779 571
Total comprehensive income for the year	-	-	1 781 989	(2 418)	2 300 849	4 080 420
Transactions recorded directly in equity						
Distribution of prior year profit to the state budget	-	-	-	-	(2 643 996)	(2 643 996)
Transfer to charter capital	1 000 000	(1 000 000)	-	-	-	-
Transfer to obligatory reserve	-	1 133 141	-	-	(1 133 141)	-
Total	1 000 000	133 141	-	-	(3 777 137)	(2 643 996)
Balance as at 31 December 2017	2 000 000	7 036 083	14 284 368	(6 425)	2 300 849	25 614 875

Abdygulov T. S.

Chairman of the National Bank

14 March 2018

Bishkek, Kyrgyz Republic

Alybaeva S. K.

Chief Accountant

14 March 2018

Bishkek, Kyrgyz Republic

The statement of financial position is to be read in conjunction with the notes to, and forming part of, the financial statements set out on pages 101-145.

7.7. Note to the Financial Statements for the year ended 31 December 2017

1 BACKGROUND

(a) Organisation and operations

The National Bank of the Kyrgyz Republic (the “NBKR” or the “National Bank”) is a legal successor of the State Bank of the Kyrgyz Republic which was renamed by the Law “On the National Bank of the Kyrgyz Republic” dated 12 December 1992 as the National Bank of the Kyrgyz Republic. On 16 December 2016, the Jogorku Kenesh (Parliament) of the Kyrgyz Republic adopted the new Law “On the National Bank of the Kyrgyz Republic, banks and banking activity”, which regulates the activities of the National Bank at the current moment.

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

The address of the National Bank’s registered office is 168 Chuy Street, Bishkek, Kyrgyz Republic, 720001.

As at 31 December 2017 and 2016 the National Bank has 5 branches and one representative office operating in regions of the Kyrgyz Republic.

As at 31 December 2017 and 2016 the number of the National Bank’s employees is 664 and 692, respectively.

The subsidiary of the National Bank is Kyrgyz Cash Collection CJSC, where the National Bank has a 100% interest. In addition, the National Bank possess an investment in the associated company “Interbank Processing Center” CJSC. The financial statements of “Kyrgyz Cash Collection” CJSC and “Interbank Processing Center” CJSC are not consolidated in the financial statements of the National Bank, since the impact on the National Bank’s accounts is insignificant.

These financial statements were authorised for issue by the Management Board of the National Bank on 14 March 2018.

(b) Business environment

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

2 BASIS OF PREPARATION

(a) Statement of compliance

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

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

These financial statements have been designed to present fairly the financial position of the National Bank and the results of its operations and have been prepared in accordance with the accounting policy of the National Bank which was approved by the Management Board of the National Bank on 10 December 2003 with all amendments last of which was made on 27 December 2017 and which the National Bank considers to be appropriate to the nature of central bank activities.

(b) Basis of measurement

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

(c) Functional and presentation currency

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

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

(d) Use of estimates and judgments

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

3 SIGNIFICANT ACCOUNTING POLICIES

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

(a) Gold

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

(b) Foreign currency transactions

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

Rates of exchange

The exchange rates used by the National Bank in the preparation of the financial statements as at 31 December 2017 and 2016 are as follows:

	<u>31 December 2017</u>	<u>31 December 2016</u>
Som/US Dollar	68,8395	69,2301
Som/Euro	82,5936	72,8439
Som/Special drawing rights	97,9656	92,7744
Som/Canadian Dollar	55,0152	51,3139
Som/Australian Dollar	53,8477	49,9703
Som/Great British Pound Sterling	93,1320	85,0769
Som/Chinese Renminbi	10,5900	9,9647
Som/Norwegian Krone	8,3854	8,0189
Som/troy ounce of gold	90 517,0586	80 244,6089

(c) Cash and cash equivalents

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

(d) Financial instruments

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

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

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

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

(i) *Recognition*

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

(ii) *Measurement*

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

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

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

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

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

(iii) *Fair value measurement principles*

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

(d) Financial instruments

(iii) *Fair value measurement principles*

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognised in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

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

(iv) *Gains and losses on subsequent measurement*

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

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

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

(v) *Derecognition*

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

(d) Financial instruments

(v) *Derecognition*

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

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

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

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

The National Bank writes off assets deemed to be uncollectible.

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

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

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

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

(vii) *Derivative financial instruments*

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

(e) Property and equipment

(i) Owned assets

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

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

(ii) Depreciation

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

- Buildings	75 years
- Constructions	20 years
- Furniture and equipment	5 to 7 years
- Computer equipment	7 years
- Motor vehicles	7 years

(f) Intangible assets

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

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

Amortisation is charged to the statement of profit or loss on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 5 years.

(g) Impairment

(i) Financial assets carried at amortised cost

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

(g) Impairment

(i) *Financial assets carried at amortised cost*

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

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

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

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

When a loan is uncollectable, it is written off against the related allowance for loan impairment. The National Bank writes off a loan balance (and any related allowances for loan losses) when management determines that the loans are uncollectible and when all necessary steps to collect the loan are completed.

(ii) *Financial assets carried at cost*

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

(g) Impairment

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

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

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

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

(iv) *Non-financial assets*

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

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

(h) Banknotes and coins in circulation

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES

(h) Banknotes and coins in circulation

(i) *Charter capital and reserves*

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

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

(j) Taxation

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

(k) Income and expense recognition

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

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

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

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

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

(l) Fiduciary assets

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

(m) Offsetting

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

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

4 NEW AND REVISED IFRSs

(a) New and revised IFRSs

While preparing the financial statements the National Bank has adopted all of the new and revised standards that are relevant to its operations and effective for annual reporting periods beginning on January 1, 2017. The new standards have not had material effect on the financial statements of the National Bank.

(b) New standards and interpretations not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as at 31 December 2017, and are not applied in preparing these financial statements.

Of these pronouncements, potentially the following will have an impact on the financial position and performance. The National Bank plans to adopt these pronouncements when they become effective.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. The new standard includes revised instructions for classification and further measurement of financial assets with losses from impairment, and supplement new methods of hedging accounting. The National Bank will apply IFRS 9 on 1 January 2018. The adoption of the new standard may have a material impact on classification of financial instruments according to business-models in frames of IFRS 9 and on the formation of reserves on impairments of financial assets as of 1 January 1 2018. All the works of transition to IFRS 9 are on the stage of completion.

Other standards

The following amended standards and interpretations are not expected to have significant impact on the National Bank's financial statements at initial implementation:

- IFRS 15 Revenue from Contracts with Customers (Amendments to IFRS 15);
- IFRS 16 Leases;
- Amendments to IFRS 2 Share-based Payment: Classification and Measurement of Share-based Payment Transactions;
- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Investment entities: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture;
- Amendments to IFRS 9 Financial instruments and IFRS 4 Insurance contracts;
- IFRIC 22 Foreign Currency Transactions and Advance Consideration;
- IAS 40 Investment Property;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- IAS 28 Investments in Associates and Joint Ventures;
- IFRS 17 Insurance contracts.

5 GOLD

	2017 KGS'000	2016 KGS'000
Gold in accounts with foreign banks		
Gold in deposits	7 415 975	6 667 667
Gold bullion in the National Bank depository	12 520 823	5 142 219
	19 936 798	11 809 886

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

Concentration of gold in accounts with foreign banks

As at 31 December 2017 the National Bank placed all gold deposits with banks with rating from AA- to A+ (31 December 2016: banks with rating from AA- to A+).

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

	2017 KGS'000	2016 KGS'000
Placements with foreign banks and other financial institutions		
Nostro accounts with foreign banks		
- rated AAA	19 483 569	21 168 559
- rated from A to AA +	6 756 189	8 537 381
- rated from BBB- to BBB+	777 609	81 527
- not rated	-	54 967
Total nostro accounts with foreign banks	27 017 367	29 842 434
Term deposits with foreign banks		
- rated from AA- to AA+	15 180 417	28 012 410
- rated from A- to A+	13 857 394	8 660 947
- not rated	266 027	267 536
Total term deposits with foreign banks	29 303 838	36 940 893
Accounts with the Bank for International Settlements (BIS)		
- BIS Nostro	14 796 067	5 583 513
- BIS Deposit	3 262 933	4 157 561
Accounts with the International Monetary Fund	11 657 336	12 706 257
Total due from banks and other financial institutions	86 037 541	89 230 658
Cash on hand in foreign currency	1 011 175	1 011 803
Impairment allowance	(266 027)	(267 536)
	86 782 689	89 974 925

As at 31 December 2017 and 2016 an impaired term deposit of KGS 266 027 thousand and 267 536 thousand was overdue, and the National Bank created an impairment reserve for the full outstanding amount.

Concentration of due from banks and other financial institutions

As at 31 December 2017 the National Bank has balances with eight banks and other financial institutions (2016: ten banks and other financial institutions rated from AAA to A-) rated from AAA to A- whose amounts exceed 10% of equity. The gross value of these balances as at 31 December 2017 is KGS 44 973 079 thousand (2016: KGS 59 957 101 thousand).

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

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

Cash and cash equivalents

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

	2017 KGS'000	2016 KGS'000
Nostro accounts with international banks	27 017 367	29 842 434
Nostro accounts with the Bank for International Settlements	14 796 067	5 583 513
Accounts with the IMF	11 657 336	12 706 257
Cash on hand in foreign currencies	1 011 175	1 011 803
Cash and cash equivalents in the statement of cash flows	54 481 945	49 144 007

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

7 LOANS EXTENDED

	2017 KGS'000	2016 KGS'000
Loans to resident commercial banks	5 694 787	5 838 757
Loans to financial institutions	1 950 682	1 884 317
	7 645 469	7 723 074
Impairment allowance	(125 572)	(284 498)
Net loans	7 519 897	7 438 576

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

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

Analysis of collateral

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

	2017 KGS'000	% of unimpaired loan portfolio	2016 KGS'000	% of unimpaired loan portfolio
Deposits in foreign currencies	3 041 444	40	3 798 634	51
Loans to customers	2 800 707	37	3 156 825	42
Government securities	1 677 746	23	483 117	7
	7 519 897	100	7 438 576	100

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

7 LOANS EXTENDED

Concentration of loans extended

As at 31 December 2017 the National Bank does not have loans to commercial banks, whose balances exceed 10% of equity (2016: one commercial bank exceeded 10% of equity).

8 INVESTMENTS AVAILABLE-FOR-SALE

	2017 KGS'000	2016 KGS'000
Debt instruments		
Government bonds		
Australian Government Treasury bills	8 825 030	9 981 164
Canadian Government Treasury bills	4 939 440	5 979 396
US Government Treasury bills	3 444 476	-
British Government Treasury bills	512 134	-
Russian Government Treasury bills	70 571	141 355
Total government bonds	17 791 651	16 101 915
- Debt securities of international financial institutions	16 337 997	3 799 644
- Debt instruments of agencies with credit ratings from AA to AAA	8 880 236	14 457 985
Total debt instruments	43 009 884	34 359 544

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

9 INVESTMENTS HELD-TO-MATURITY

	2017 KGS'000	2016 KGS'000
Held by the National bank		
Treasury bills of the Ministry of Finance of the Kyrgyz Republic	251 313	312 535
	251 313	312 535

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

10 PROPERTY AND EQUIPMENT

KGS'000	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/ equipment not yet installed	Total
Cost						
Balance at 1 January 2017	613 359	268 715	365 032	74 078	861 754	2 182 938
Additions	6 766	27 891	30 361	10 208	97 404	172 630
Disposals	(3 704)	(1 177)	(6)	(9 241)	-	(14 128)
Transfers	16 164	16 786	473 189	-	(609 760)	(103 621)
Balance at 31 December 2017	632 585	312 215	868 576	75 045	349 398	2 237 819
Depreciation and impairment losses						
Balance at 1 January 2017	(103 431)	(92 632)	(151 650)	(26 182)	-	(373 895)
Depreciation for the year	(10 851)	(35 421)	(79 526)	(9 263)	-	(135 062)
Disposals	3 514	1 157	5	7 820	-	12 496
Balance at 31 December 2017	(110 768)	(126 896)	(231 171)	(27 625)	-	(496 460)
Carrying amount						
At 31 December 2017	521 817	185 319	637 405	47 420	349 398	1 741 359

10 PROPERTY AND EQUIPMENT, CONTINUED

KGS'000	Land, buildings and constructions	Furniture and equipment	Computer equipment	Motor vehicles	Construction in progress/ equipment not yet installed	Total
<i>Cost</i>						
Balance at 1 January 2016	575 564	207 731	342 741	38 112	740 968	1 905 116
Additions	23 366	54 627	12 731	36 934	248 045	375 703
Disposals	(46 537)	(47 275)	(2 306)	(968)	(100)	(97 186)
Transfers	60 966	53 632	11 866	-	(127 159)	(695)
At 31 December 2016	613 359	268 715	365 032	74 078	861 754	2 182 938
<i>Depreciation and impairment losses</i>						
Balance at 1 January 2016	(97 262)	(100 365)	(92 447)	(18 475)	-	(308 549)
Depreciation for the year	(14 119)	(38 227)	(61 472)	(8 674)	-	(122 492)
Disposals	7 950	45 960	2 269	967	-	57 146
Balance at 31 December 2016	(103 431)	(92 632)	(151 650)	(26 182)	-	(373 895)
<i>Carrying amount</i>						
At 31 December 2016	509 928	176 083	213 382	47 896	861 754	1 809 043

There are no capitalised borrowing costs related to the acquisition or construction of plant and equipment during 2017 and 2016.

During 2017 property and equipment of KGS 103 621 thousand was transferred to intangible assets (2016: KGS 695 thousand).

11 OTHER ASSETS

	2017	2016
	KGS'000	KGS'000
Other receivables	302 440	254 740
Impairment allowance	(24 253)	(8 443)
Total other financial assets	278 187	246 297
Non-monetary gold	446 658	720 648
Inventories	603 632	668 270
Other investments	185 079	185 079
Prepayments	98 609	16 109
Other assets	106 569	108 807
Total other non-financial assets	1 440 547	1 698 913
	1 718 734	1 945 210

Movements in impairment allowance on other assets for the years ending 31 December 2017 and 2016 are disclosed in Note 20.

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

12 BANKNOTES AND COINS IN CIRCULATION

As at 31 December 2017 and 2016 banknotes and coins in circulation comprise:

	2017	2016
	KGS'000	KGS'000
Banknotes and coins in circulation	93 429 341	77 013 316
Less banknotes and coins on hand and in vaults	(2 325 076)	(2 174 517)
	91 104 265	74 838 799

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

13 DUE TO BANKS AND OTHER FINANCIAL INSTITUTIONS

	2017	2016
	KGS'000	KGS'000
Current accounts of commercial banks	18 089 870	22 213 517
Current accounts of other financial institutions	2 519 180	3 511 275
	20 609 050	25 724 792

As at 31 December 2017 the National Bank has one bank whose balances exceed 10% of equity (2016: has no bank with balances exceed 10% of equity).

14 DUE TO THE GOVERNMENT OF THE KYRGYZ REPUBLIC

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

	2017	2016
	KGS'000	KGS'000
In national currency	8 120 502	7 157 877
In foreign currency	1 114 729	891 027
	9 235 231	8 048 904

15 DEBT SECURITIES ISSUED

As at 31 December 2017 debt securities issued (notes of the National Bank) comprise the following issues:

Emissions	Carrying amount KGS'000	Issue date	Maturity date	Effective interest rate
BD001180103	774 820	27 December 2017	3 January 2018	2.87%
BD002180103	104 974	20 December 2017	3 January 2018	3.09%
BD002180110	1 148 954	27 December 2017	10 January 2018	3.38%
BD004180103	310 882	6 December 2017	3 January 2018	4.74%
BD004180110	499 321	13 December 2017	10 January 2018	5.08%
BD004180117	139 680	20 December 2017	17 January 2018	5.03%
BD013180103	209 907	4 October 2017	3 January 2018	5.17%
BD013180110	349 509	11 October 2017	10 January 2018	5.17%
BD013180117	19 947	18 October 2017	17 January 2018	5.17%
BD013180124	48 827	25 October 2017	24 January 2018	5.17%
BD013180131	229 010	1 November 2017	30 January 2018	5.17%
BD013180214	131 171	15 November 2017	14 February 2018	5.17%
BD013180221	30 773	22 November 2017	21 February 2018	5.17%
BD013180228	230 107	29 November 2017	28 February 2018	5.17%
BD013180307	227 906	6 December 2017	7 March 2018	5.17%
BD013180314	222 736	13 December 2017	14 March 2018	5.17%
BD013180321	207 688	20 December 2017	21 March 2018	5.17%
BD013180328	326 056	27 December 2017	28 March 2018	5.17%
	5 212 268			

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

Emissions	Carrying amount KGS'000	Issue date	Maturity date	Effective interest rate
BD002170111	3 999 481	28 December 2016	11 January 2017	0.43%
BD001170104	1 243 967	28 December 2016	4 January 2017	0.24%
	5 243 448			

16 LOANS RECEIVED

As at 31 December 2017 and 2016 terms and conditions of loans received are as follows:

<u>Issuer</u>	<u>CCY</u>	<u>Interest rate</u>	<u>Issue date</u>	<u>Maturity date</u>	<u>2017 KGS'000</u>	<u>2016 KGS'000</u>
IMF, PRGF	SDR	0%	19 December 2001	31 May 2018	99 435	317 845
IMF, ESF	SDR	0%	24 December 2008	7 June 2019	815 564	1 390 224
Accrued interest	USD				10 500	10 560
					925 499	1 718 629

Borrowings in relation to the Poverty Reduction and Growth Facility (“PRGF”) are denominated in SDR and are part of the IMF poverty reduction program. The aims of the loans are support of fiscal reforms and national currency. PRGF borrowings carry a zero interest rate and have a maturity of 10 years from the beginning of the facility. As at 03 October 2016 IMF prolonged 0% interest rate till the end of 2018. Conditions of PRGF credits are standard for all credit receivers.

Borrowing in relation to the Exogenous Shocks Facility (“ESF”) is denominated in SDR and is given to support the Kyrgyzstan authorities in addressing several exogenous shocks. The loan bears 0% interest rate. As at 03 October 2016 IMF prolonged 0% interest rate till the end of 2018. This condition was declared for all recipients of ESF credits around the globe.

Reconciliation in the National Bank’s liabilities arising from financing activities can be classified as follows:

Loans received	31 December 2017
As of 1 January 2017	1 718 629
Repayments	(875 082)
Foreign exchange gain/loss	81 952
As of 31 December 2017	925 499

During the years ended 31 December 2017 and 2016 the National Bank has not had any defaults of principal, interest or other breaches with respect to its liabilities.

17 LIABILITIES TO THE IMF IN RESPECT OF SDR ALLOCATIONS

	2017 KGS'000	2016 KGS'000
Liabilities to the IMF in respect of SDR allocations	8 311 236	7 863 988

Special Drawing Rights (SDR) allocation is a distribution of SDR amounts to IMF members by decision of the IMF. A general SDR allocation became effective 28 August 2009. The allocation is a cooperative monetary response to the global financial crisis by providing of significant unconditional financial resources to liquidity constrained countries, which have to smooth the need for adjustment and add to the scope for expansionary policies, where needed in the face of deflation risks, designed to provide liquidity to the global economic system by supplementing the IMF member countries’ foreign exchange reserves. The general SDR allocations were made to IMF members in proportion to their existing IMF quotas (Note 26). Separately, on 10 August 2009, the Fourth Amendment to the IMF Articles of Agreement providing for a special one-time allocation of SDRs entered into force to boost global liquidity. According to the amendment, the special allocation was made to IMF members, which includes Kyrgyzstan, on 9 September 2009. Members and prescribed holders may use their SDR holdings to conduct transactions with the IMF. The Kyrgyz Republic received the right to use SDR allocations in the amount of SDR 84 737 thousand. In 2017 and 2016 this right has not yet been utilized. Interest is accrued on the amount that a country uses. The interest rate is determined weekly by the IMF, and is the same for all recipients of SDR allocations in the world.

18 CHARTER CAPITAL

Issued capital

As at 31 December 2017 charter capital of the National Bank in accordance with the Law “On the National Bank of the Kyrgyz Republic, banks and banking activity” amounts to KGS 2,000,000 thousand. As at 31 December 2016 charter capital of the National Bank amounts to KGS 1,000,000 thousand.

Distribution to the state budget and obligatory reserve

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

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

In accordance with the Clause 23 of the Law “On the National Bank of the Kyrgyz Republic, banks and banking activity”, profit shall be distributed upon the financial year end, once the independent external audit is completed and the annual report is approved by the Management Board of the National Bank.

On 15 March 2017 the net profit earned for 2016 and distributable to the state budget of the Kyrgyz Republic was approved in the amount of KGS 3 777 137 thousand (2016: KGS 4 579 813 thousand), and KGS 1 133 141 thousand (2016: KGS 1 962 778 thousand) was transferred to the obligatory reserve.

Capital management

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

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

No external capital requirements exist for the National Bank, except for the size of the charter capital stipulated by the Law “On the National Bank of the Kyrgyz Republic, banks and banking activity”, which is KGS 2,000,000 thousand.

19 NET INTEREST INCOME

	2017 KGS'000	2016 KGS'000
Interest income		
Due from banks and other financial institutions	939 155	574 368
Loans extended	431 776	736 205
Investments available-for-sale	413 587	366 599
Investments held-to-maturity	19 269	54 082
Other	5 008	14 914
	1 808 795	1 746 168
Interest expense		
Debt securities issued	(109 966)	(59 606)
Liabilities to the IMF in respect of SDR allocations	(42 954)	(6 519)
Due to banks and other financial institutions	(16 642)	(49 471)
Due to the Government of the Kyrgyz Republic	(44 734)	(64 673)
Other	(6 268)	(8 564)
	(220 564)	(188 833)
	1 588 231	1 557 335

No interest income was accrued on impaired assets during 2017 and 2016.

20 ALLOWANCES FOR IMPAIRMENT

	Due from banks and other financial institutions KGS'000	Loans extended KGS'000	Other financial assets KGS'000	Total KGS'000
31 December 2015	293 430	526 301	19 429	839 160
Net recovery	(109)	(865)	(11 017)	(11 991)
Assets write-off on behalf of reserves	-	(213 161)	-	(213 161)
Effect of foreign currency translation	(25 785)	(27 777)	31	(53 531)
31 December 2016	267 536	284 498	8 443	560 477
Creation of reserve	-	-	19 011	19 011
Net recovery	-	(71)	(3 216)	(3 287)
Assets write-off on behalf of reserves	-	(158 443)	-	(158 443)
Effect of foreign currency translation	(1 509)	(412)	15	(1 906)
31 December 2017	266 027	125 572	24 253	415 852

21 NET GAIN ON GOLD AND FOREIGN CURRENCIES OPERATIONS

	2017 KGS'000	2016 KGS'000
Realised gain from operations with foreign currencies and gold	1 694 160	2 815 141
Income from spot transactions	166 587	435 458
	1 860 747	3 250 599

22 ADMINISTRATIVE EXPENSES

	2017 KGS'000	2016 KGS'000
Personnel expenses		
Employee compensation	442 498	445 158
Payments to the Social fund	76 947	77 073
	519 445	522 231
Depreciation and amortization	161 539	147 579
Repairs and maintenance	134 727	125 748
Security	36 574	37 272
Communications and information services	23 570	22 509
Staff training	15 512	8 907
Professional services	10 233	10 005
Publication and subscription	9 584	9 927
Expenses for social events	9 466	9 167
Professional services	7 781	15 432
Office supplies and stationery	3 526	5 569
Other	15 641	17 395
	947 598	931 741

23 ANALYSIS BY SEGMENT

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

24 RISK MANAGEMENT

Risk management is fundamental to the National Bank's activities and is an essential element of the National Bank's operations. The major risks faced by the National Bank are those related to market risk, credit risk and liquidity risk.

(a) Risk management policies and procedures

The National Bank's risk management policies aim to identify, analyse and manage the risks faced by the National Bank, to set appropriate risk limits and controls, and to continuously monitor risk levels and adherence to limits. Risk management policies and procedures are reviewed regularly to reflect changes in market conditions, products and services offered and emerging best practice.

The management of the National Bank has overall responsibility for the oversight of the risk management framework, overseeing the management of key risks and reviewing its risk management policies and procedures as well as approving significantly large exposures.

The Board, committees, commissions and related working groups review regularly matters related to the monetary, investing and currency policies of the National Bank and set up limits on the scope of transactions, as well as requirements for the assessment of the National Bank's counterparties.

In accordance with Investment Strategy on International Reserve Management of the National Bank («the Investment Strategy») approved by the Board on 21 December 2016, the main goals of risk management are safety and liquidity of the National Bank's assets and profitability growth. Operations are conducted within the limitations imposed by this strategy.

In accordance with these goals gold and foreign currency assets of the National Bank are separated into the following portfolios: working portfolio and investment portfolio.

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency risk, interest rate risk and other price risks. Market risk arises from open positions in interest rate, currency and equity financial instruments, which are exposed to general and specific market movements and changes in the level of volatility of market prices.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, whilst optimising the return on risk.

The National Bank manages its market risk mainly by conducting regular assessment of all open positions. In addition, the National Bank continuously monitors open position limits in relation to financial instruments, interest rate, maturity and currency positions and balance of risks and profitability.

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The National Bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may also reduce or create losses in the event that unexpected movements occur.

Average interest rates

The table below displays average effective interest rates for interest bearing assets and liabilities as at 31 December 2017 and 2016.

These interest rates are an estimation of the yields to maturity of these assets and liabilities.

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(i) Interest rate risk (continued)

	2017 Weighted average effective interest rate, %	2016 Weighted average effective interest rate, %
Interest bearing assets		
Gold		
<i>Gold deposits with foreign banks</i>	0.1	0.03
Due from banks and other financial institutions		
<i>Nostro accounts</i>		
- USD	1.44	0.48
- EUR	(0.40)	(0.40)
- CAD	0.60	0.09
- AUD	0.25	0.35
- GBP	0.10	0.03
-CNH	0.35	0.35
- NOK	0.10	0.26
<i>Term deposits</i>		
- USD	1.61	0.94
- CAD	1.10	0.84
- GBP	0.48	0.39
- AUD	1.61	-
- RUB	5.90	6.90
-CNH	3.67	3.88
- NOK	0.52	0.90
- SGD	0.58	0.52
Investments available-for-sale		
- USD	1.49	0.83
- AUD	1.84	1.82
- CAD	1.04	0.53
- GBP	0.24	-
Loans extended		
- KGS	4.97	8.76
Investments held-to-maturity		
- KGS	6.35	6.35
Interest bearing liabilities		
Debt securities issued		
- KGS	4.35	0.39
Liabilities to the IMF in respect of SDR allocations	0.743	0.244

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(i) Interest rate risk (continued)

Interest rate sensitivity analysis

An analysis of sensitivity of profit or loss and equity as a result of changes in the fair value of financial assets available-for-sale due to changes in the interest rates based on positions existing as at 31 December 2017 and 2016 and a simplified scenario of a 20 basis point (bp) symmetrical fall or rise in all yield curves is as follows:

	2017		2016	
	Profit or loss KGS'000	Equity KGS'000	Profit or loss KGS'000	Equity KGS'000
20 bp parallel rise	-	(16 451)	-	(18 484)
20 bp parallel fall	-	6 743	-	27 438

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

The sensitivity analysis does not take into consideration that the National Bank's assets and liabilities are actively managed. Additionally, the financial position of the National Bank may vary at the time that any actual market movement occurs. For example, the National Bank's financial risk management strategy aims to manage the exposure to market fluctuations. In case of sharp negative fluctuations, management actions could include selling investments, changing investment portfolio allocation and taking other protective action. Consequently, the actual impact of a change in the assumptions may not have any impact on the liabilities, whereas assets are held at market value on the statement of financial position. In these circumstances, the different measurement bases for liabilities and assets may lead to volatility in equity.

(ii) Currency risk

The National Bank has assets and liabilities denominated in several foreign currencies.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign currency exchange rates. Although the National Bank hedges its exposure to currency risk, such activities do not qualify as hedging relationships in accordance with IFRS.

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(ii) Currency risk (continued)

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2017 is presented in the table below:

	KGS	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other	Total
ASSETS												
Gold in deposits	-	7 415 975	-	-	-	-	-	-	-	-	-	7 415 975
Cash on hand, due from banks and other financial institutions	-	-	52 705 932	2 239 213	1 581 391	1 733 339	11 657 336	2 195 964	2 162 941	9 659 657	2 846 916	86 782 689
Loans extended	7 519 897	-	-	-	-	-	-	-	-	-	-	7 519 897
Investments available-for-sale	-	-	28 361 123	-	4 939 440	8 825 030	-	-	884 291	-	-	43 009 884
Investments held-to-maturity	251 313	-	-	-	-	-	-	-	-	-	-	251 313
Other financial assets	278 187	-	-	-	-	-	-	-	-	-	-	278 187
Total assets	8 049 397	7 415 975	81 067 055	2 239 213	6 520 831	10 558 369	11 657 336	2 195 964	3 047 232	9 659 657	2 846 916	145 257 945
LIABILITIES												
Banknotes and coins in circulation	91 104 265	-	-	-	-	-	-	-	-	-	-	91 104 265
Due to banks and other financial institutions	14 416 114	-	6 182 612	10 324	-	-	-	-	-	-	-	20 609 050
Due to the Government of the Kyrgyz Republic	8 120 502	-	109 197	930 899	-	-	-	-	-	-	74 633	9 235 231
Debt securities issued	5 212 268	-	-	-	-	-	-	-	-	-	-	5 212 268
Loans received	-	-	10 500	-	-	-	914 999	-	-	-	-	925 499
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	-	8 311 236	-	-	-	-	8 311 236
Other financial liabilities	70 777	-	15 843	429	-	-	-	-	-	-	-	87 049
Total liabilities	118 923 926	-	6 318 152	941 652	-	-	9 226 235	-	-	-	74 633	135 484 598
Net balance sheet and off balance sheet positions	(110 874 529)	7 415 975	74 748 903	1 297 561	6 520 831	10 558 369	2 431 101	2 195 964	3 047 232	9 659 657	2 772 283	9 773 347

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(ii) Currency risk (continued)

The National Bank's exposure to foreign currency exchange rate risk by currencies as at 31 December 2016 is presented in the table below:

KGS'000	Gold	USD	EUR	CAD	AUD	SDR	NOK	GBP	CNH	Other	Total
ASSETS											
Gold in deposits	-	6 667 667	-	-	-	-	-	-	-	-	6 667 667
Cash on hand, due from banks and other financial institutions	-	56 016 905	2 606 624	1 385 194	124 976	12 706 257	2 086 226	3 697 868	9 048 569	2 302 306	89 974 925
Loans extended	7 438 576	-	-	-	-	-	-	-	-	-	7 438 576
Investments available-for-sale	-	18 398 984	-	5 979 396	9 981 164	-	-	-	-	-	34 359 544
Investments held-to-maturity	312 535	-	-	-	-	-	-	-	-	-	312 535
Other financial assets	246 297	-	-	-	-	-	-	-	-	-	246 297
Total assets	7 997 408	6 667 667	74 415 889	7 364 590	10 106 140	12 706 257	2 086 226	3 697 868	9 048 569	2 302 306	138 999 544
LIABILITIES											
Banknotes and coins in circulation	74 838 799	-	-	-	-	-	-	-	-	-	74 838 799
Due to banks and other financial institutions	18 350 546	7 374 246	-	-	-	-	-	-	-	-	25 724 792
Due to the Government of the Kyrgyz Republic	7 157 877	41 068	776 782	-	-	-	-	-	-	73 177	8 048 904
Debt securities issued	5 243 448	-	-	-	-	-	-	-	-	-	5 243 448
Loans received	-	10 560	-	-	-	1 708 069	-	-	-	-	1 718 729
Liabilities to the IMF in respect of SDR allocations	-	-	-	-	-	7 863 988	-	-	-	-	7 863 988
Other financial liabilities	71 968	15 981	803	-	-	-	-	-	-	-	88 752
Total liabilities	105 662 638	7 441 855	777 585	-	-	9 572 057	-	-	-	73 177	123 527 312
Net balance sheet and off balance sheet positions	(97 665 230)	6 667 667	66 974 034	1 829 039	10 106 140	3 134 200	2 086 226	3 697 868	9 048 569	2 229 129	15 472 232

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(ii) Currency risk (continued)

A weakening of KGS, as indicated in the table below, against following currencies as at 31 December 2017 and 2016 would have given a rise to the below increase (decrease) of equity and other comprehensive income. The given analysis is based on the change of exchange rates, which, according to the National Bank's opinion, are reasonably possible as at the end of reporting period. The given level of sensitivity is used within the National Bank for preparation of report on currency risk for the key management of the National Bank. The analysis implies that all other variables, especially interest rates, are constant.

	2017		2016	
	Profit or loss KGS'000	Equity KGS'000	Profit or loss KGS'000	Equity KGS'000
10% appreciation of USD against KGS	-	7 474 890	-	6 697 403
10% appreciation of AUD against KGS	-	1 055 837	-	1 010 614
10% appreciation of CNH against KGS		965 966		904 857
10% appreciation of CAD against KGS	-	652 083	-	736 459
10% appreciation of GBP against KGS	-	304 723	-	369 787
10% appreciation of NOK against KGS	-	219 596	-	208 623
10% appreciation of EUR against KGS	-	129 756	-	182 904

A strengthening of the KGS against the above currencies at 31 December 2017 and 31 December 2016 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Limitations of sensitivity analysis

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

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

(iii) Other price risk

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

As at 31 December 2017 and 2016 the National Bank was exposed to price risk of gold in accounts with foreign banks.

An increase or decrease in prices in KGS equivalent of the gold, as indicated below, at 31 December 2017 and 2016 would have increased or decreased equity and other comprehensive income by the amounts shown below. This analysis is based on precious metal pricing movements that the National Bank considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables remain constant.

24 RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

(iii) Other price risk (continued)

KGS'000	31 December 2017		31 December 2016	
	Profit or loss	Comprehensive income and equity	Profit or loss	Comprehensive income and equity
10% appreciation of gold prices in KGS equivalent	-	741 598	-	666 767
10% depreciation of gold prices in KGS equivalent	-	(741 598)	-	(666 767)

(c) Credit risk

Credit risk is the risk of financial losses occurring as a result of default by a borrower or counterparty of the National Bank. The National Bank has developed policies and procedures for credit risk management, including guidelines to limit portfolio concentration. There is an Investment Committee, which is responsible for the monitoring of credit risk on management of international reserves.

In order to minimize the credit risk, the National Bank uses risk management policy, which sets out requirements for the counterparty of the National Bank. According to this policy, the counterparties of the National Bank can only be central banks, financial institutions or commercial banks with high rating classification of Moody's Investors Service and / or the same rating level classification of other leading rating agencies (Standard & Poor's Corporation, Fitch IBCA).

Financial assets are graded according to the current credit rating they have been issued by an internationally regarded agency such as Moody's. The highest possible rating is AAA. Investment grade financial assets have ratings from AAA to Baa. Financial assets which have ratings lower than Baa of Moody's Investors Service are classed as speculative grade. Taking into consideration the National Bank's status as a central bank the counterparties are divided into 2 categories:

Category A

- central banks of advanced develop industrial countries with stable economic and political situation and sovereign rating not less than A3 per Moody's Investors Service classification;
- international financial organizations, institutions and banks, such as IMF, BIS, EBRD, ADB, KfW, etc;
- foreign commercial banks with rating not less than A3 per Moody's Investors Service classification.

Category B

- central banks of countries with sovereign rating less than A3 per Moody's Investors Service classification;
- financial institutions indicated in international agreements signed by the Kyrgyz Republic;
- foreign commercial banks with rating less than A3 but not less than Baa2 per Moody's Investors Service classification.

Decisions on investment deals with the counterparties of the Category A, i.e. limitations on certain counterparties, investment instruments and amount of deals are established based on power of the Investment Committee of the National Bank. Decisions on investment deals with each counterparty of Category B are approved by the Management Board of the National Bank upon submission by the Investment Committee.

24 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

One of the criteria for control of credit risk is the maximum exposure to credit risk per one counterparty, as well as the geographical segments.

The National Bank's maximum exposure to credit risk per one counterparty varies significantly and is dependent on both individual risks and general market economy risks. The National Bank's maximum exposure to on balance sheet credit risk is generally reflected in the carrying amounts of financial assets in the statement of financial position. The impact of possible netting of assets and liabilities to reduce potential credit exposure is not significant.

The maximum exposure to credit risk from financial assets at the reporting date is as follows:

	2017	2016
	KGS'000	KGS'000
ASSETS		
Gold in deposits	7 415 975	6 667 667
Cash on hand, due from banks and other financial institutions*	85 771 514	88 963 122
Loans extended	7 519 897	7 438 576
Investments available-for-sale, except equity investments	43 009 884	34 359 544
Investments held-to-maturity	251 313	312 535
Other financial assets	278 187	246 297
Total maximum exposure	144 246 770	137 987 741

* The amount does not include cash balances in foreign currency.

24 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

Geographical concentrations

The Investment Committee of the National Bank monitors the country risk of its counterparties. This approach allows the National Bank to minimize potential losses from investment climate fluctuations in those countries where the National Bank's currency reserves are placed.

The following table shows the geographical concentration of assets and liabilities at 31 December 2017:

KGS'000	Kyrgyz Republic	OECD countries	Non- OECD countries	International financial institutions	31 December 2017 Total
ASSETS					
Gold in deposits	-	7 415 975	-	-	7 415 975
Cash on hand, due from banks and other financial institutions	1 011 175	46 272 397	9 782 780	29 716 337	86 782 689
Loans extended	7 519 897	-	-	-	7 519 897
Investments available-for-sale	-	26 601 316	70 571	16 337 997	43 009 884
Investments held-to-maturity	251 313	-	-	-	251 313
Other financial assets	278 187	-	-	-	278 187
Total assets	9 060 572	80 289 688	9 853 351	46 054 334	145 257 945
LIABILITIES					
Banknotes and coins in circulation	91 104 265	-	-	-	91 104 265
Due to banks and other financial institutions	20 405 881	-	128 290	74 879	20 609 050
Due to the Government of the Kyrgyz Republic	9 235 231	-	-	-	9 235 231
Debt securities issued	5 212 268	-	-	-	5 212 268
Loans received	10 500	-	-	914 999	925 499
Liabilities to the IMF in respect of SDR allocations	-	-	-	8 311 236	8 311 236
Other financial liabilities	70 314	648	16 087	-	87 049
Total liabilities	126 038 459	648	144 377	9 301 114	135 484 598
Net balance sheet position	(116 977 887)	80 289 040	9 708 974	36 753 220	9 773 347

24 RISK MANAGEMENT (CONTINUED)

(c) Credit risk (continued)

The following table shows the geographical concentration of assets and liabilities at 31 December 2016:

KGS'000	Kyrgyz Republic	OECD countries	Non- OECD countries	International financial institutions	31 December 2016 Total
ASSETS					
Gold in deposits	-	6 667 667	-	-	6 667 667
Cash on hand, due from banks and other financial institutions	1 011 803	58 151 431	8 364 361	22 447 330	89 974 925
Loans extended	7 438 576	-	-	-	7 438 576
Investments available-for- sale	-	30 418 545	141 355	3 799 644	34 359 544
Investments held-to-matu- rity	312 535	-	-	-	312 535
Other financial assets	246 297	-	-	-	246 297
Total assets	9 009 211	95 237 643	8 505 716	26 246 974	138 999 544
LIABILITIES					
Banknotes and coins in circulation	74 838 799	-	-	-	74 838 799
Due to banks and other financial institutions	25 640 120	-	39 264	45 408	25 724 792
Due to the Government of the Kyrgyz Republic	8 048 904	-	-	-	8 048 904
Debt securities issued	5 243 448	-	-	-	5 243 448
Loans received	10 560	-	-	1 708 069	1 718 629
Liabilities to the IMF in respect of SDR allocations	-	-	-	7 863 988	7 863 988
Other financial liabilities	71 303	1 520	15 929	-	88 752
Total liabilities	113 853 134	1 520	55 193	9 617 465	123 527 312
Net balance sheet position	(104 843 923)	95 236 123	8 450 523	16 629 509	15 472 232

(d) Liquidity risk

Liquidity risk is the risk that the National Bank will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk exists when the maturities of assets and liabilities do not match. The matching and/or controlled mismatching of the maturities of assets and liabilities is fundamental to the management of financial institutions, including the National Bank. It is unusual for financial institutions ever to be completely matched since business transacted is often of an uncertain term and of different types.

The National Bank maintains liquidity management with the objective of ensuring that funds will be available at all times to honor all cash flow obligations as they become due. The National Bank's liquidity policy is reviewed and approved by the Board.

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

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

24 RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The liquidity management policy requires:

- projecting cash flows by major currencies and considering the level of liquid assets necessary in relation thereto;
- maintaining a diverse range of funding sources;
- maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any interruption to cash flow;
- maintaining liquidity and funding contingency plans;
- monitoring balance sheet liquidity ratios against regulatory requirements.

24 RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The maturity analysis for financial liabilities as at 31 December 2017 is as follows:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to banks and other financial institutions	20 609 050	-	-	-	-	20 609 050	20 609 050
Due to the Government of the Kyrgyz Republic	9 235 231	-	-	-	-	9 235 231	9 235 231
Debt securities issued	3 840 000	1 390 000	-	-	-	5 230 000	5 212 268
Loans received	10 500	-	425 661	326 225	163 288	925 674	925 499
Liabilities to the IMF in respect of SDR allocations	8 301 310	9 926	-	-	-	8 311 236	8 311 236
Other financial liabilities	41 934	1 737	1 123	24 677	17 578	87 049	87 049
Total liabilities	42 038 025	1 401 663	426 784	350 902	180 866	44 398 240	44 380 333

The maturity analysis for financial liabilities as at 31 December 2016 is as follows:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 6 months	From 6 to 12 months	More than 1 year	Total gross amount outflow/ (inflow)	Carrying amount
Non-derivative liabilities							
Due to banks and other financial institutions	25 724 792	-	-	-	-	25 724 792	25 724 792
Due to the Government of the Kyrgyz Republic	8 048 904	-	-	-	-	8 048 904	8 048 904
Debt securities issued	5 244 000	-	-	-	-	5 244 000	5 243 448
Loans received	10 560	-	426 669	414 887	866 679	1 718 795	1 718 629
Liabilities to the IMF in respect of SDR allocations	7 861 424	2 564	-	-	-	7 863 988	7 863 988
Other financial liabilities	34 505	6 725	2 281	29 000	16 241	88 752	88 752
Total liabilities	46 924 185	9 289	428 950	443 887	882 920	48 689 231	48 688 513

The tables above show the undiscounted cash flows of non-derivative financial liabilities.

24 RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2017:

KGS'000 ASSETS	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
Gold in deposits	4 292 129	3 123 846	-	-	-	-	7 415 975
Cash on hand, due from banks and other financial institutions	56 067 441	10 998 023	19 717 225	-	-	-	86 782 689
Loans extended	212 393	2 594 221	4 711 336	1 947	-	-	7 519 897
Investments available-for-sale	26 748 341	10 188 573	6 002 399	70 571	-	-	43 009 884
Investments held-to-maturity	-	-	62 720	188 593	-	-	251 313
Other financial assets	24 989	4 488	15 714	86 235	146 761	-	278 187
	87 345 293	26 909 151	30 509 394	347 346	146 761	-	145 257 945
LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	91 104 265	91 104 265
Due to banks and other financial institutions	20 609 050	-	-	-	-	-	20 609 050
Due to the Government of the Kyrgyz Republic	9 235 231	-	-	-	-	-	9 235 231
Debt securities issued	3 835 831	1 376 437	-	-	-	-	5 212 268
Loans received	10 500	-	751 886	163 113	-	-	925 499
Liabilities to the IMF in respect of SDR allocations	8 301 310	9 926	-	-	-	-	8 311 236
Other financial liabilities	41 934	1 737	25 800	17 578	-	-	87 049
	42 033 856	1 388 100	777 686	180 691	-	91 104 265	135 484 598
Net position	45 311 437	25 521 051	29 731 708	166 655	146 761	(91 104 265)	9 773 347

24 RISK MANAGEMENT (CONTINUED)

(d) Liquidity risk (continued)

The table below shows an analysis, by expected maturities, of the amounts recognised in the statement of financial position as at 31 December 2016:

KGS'000	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	No maturity	Total
ASSETS							
Gold in deposit	1 852 917	4 814 750	-	-	-	-	6 667 667
Cash on hand, due from banks and other financial institutions	64 298 820	9 714 905	15 961 200	-	-	-	89 974 925
Loans extended	245 517	4 593 479	2 596 075	3 505	-	-	7 438 576
Investments available-for-sale	7 950 178	11 068 779	13 827 508	1 513 079	-	-	34 359 544
Investments held-to-maturity	-	-	62 407	250 128	-	-	312 535
Other financial assets	40 552	3 093	13 018	67 122	122 512	-	246 297
	74 387 984	30 195 006	32 460 208	1 833 834	122 512	-	138 999 544
LIABILITIES							
Banknotes and coins in circulation	-	-	-	-	-	74 838 799	74 838 799
Due to banks and other financial institutions	25 724 792	-	-	-	-	-	25 724 792
Due to the Government of the Kyrgyz Republic	8 048 904	-	-	-	-	-	8 048 904
Debt securities issued	5 243 448	-	-	-	-	-	5 243 448
Loans received	10 560	-	841 556	866 513	-	-	1 718 629
Liabilities to the IMF in respect of SDR allocations	7 861 424	2 564	-	-	-	-	7 863 988
Other financial liabilities	34 505	6 725	31 281	16 241	-	-	88 752
	46 923 633	9 289	872 837	882 754	-	74 838 799	123 527 312
Net position	27 464 351	30 185 717	31 587 371	951 080	122 512	(74 838 799)	15 472 232

25 COMMITMENTS

(a) Insurance

The insurance industry in the Kyrgyz Republic is in a developing state and many forms of insurance protection common in other parts of the world are not yet generally available. The National Bank does not have full coverage for its premises and equipment, business interruption, or third party liability in respect of property or environmental damage arising from accidents on its property or relating to operations. Until the National Bank obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on operations and financial position.

(b) Litigation

In the ordinary course of business, the National Bank is subject to legal actions and complaints. Management of the National Bank believes that the ultimate liability, if any, arising from such actions or complaints, will not have a material adverse effect on the financial conditions or the results of future operations of the National Bank.

(c) Taxation contingencies

The taxation system in the Kyrgyz Republic is relatively new and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are often unclear, contradictory and subject to varying interpretation by different tax authorities. Taxes are subject to review and investigation by a number of authorities who have the authority to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open for six calendar years.

Taking into consideration that the National Bank has exemption from income tax and several other taxes, tax liabilities origination is not obvious and their influence on the financial statements of the National Bank is not significant.

26 AGENCY FUNCTIONS

Membership quota of the Kyrgyz Republic in the International Monetary Fund (the “IMF”)

In 1992 the Kyrgyz Republic joined the IMF. A membership quota expressed in Special Drawing Rights (“SDRs”) is assigned to each member of the IMF. The membership quota is the basis for determining access of the country to the IMF financing. On 11 January 2017 the quota of the Kyrgyz Republic was increased by SDR 88,800 thousand and as at 31 December 2017 amounted to SDR 177,600 thousand and as at 31 December 2016 amounted to SDR 88,800 thousand.

To secure a part of the membership quota, the Ministry of Finance of the Kyrgyz Republic issued securities in favour of the IMF. The other part was secured by funds placed on the current account of the IMF with the National Bank.

The National Bank was designated as a depository for these securities and funds and as a financial agency authorised to carry out transactions with the IMF on behalf of the Government of the Kyrgyz Republic.

26 AGENCY FUNCTIONS (CONTINUED)

The following assets and liabilities are not assets and liabilities of the National Bank and were not included in the National Bank's financial statements:

	2017 KGS'000	2016 KGS'000
IMF membership quota	17 487 372	8 284 819
Securities in favor of the IMF	(17 434 520)	(8 261 171)
IMF current accounts	(46 510)	(20 949)
	(17 481 030)	(8 282 120)

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

On 28 June and 22 December 2016 the IMF provided loans to the Ministry of Finance of the Kyrgyz Republic amounting to SDR 19,028 thousand for supporting the state budget. On 27 December 2017 IMF provided loans to the Ministry of Finance of the Kyrgyz Republic amounting to SDR 19,028 thousand for the same aims. These loans are not accounted in the statement of financial position of the National Bank as a liability to the IMF as there is an agreement between the Ministry of Finance of the Kyrgyz Republic and the National Bank under which the Ministry of Finance of the Kyrgyz Republic is liable for rendering obligations under this loan agreement. As at 31 December 2017 the outstanding balance of this loan amounted to KGS 12,862,400 thousand (2016: KGS 11,268,620 thousand).

27 RELATED PARTY TRANSACTIONS

(a) Control relationships

In considering each possible related party, substance of the relationship is focused and not only the legal form.

In accordance with the Law of the Kyrgyz Republic "On National Bank of the Kyrgyz Republic, banks and banking activity" the National Bank is the central bank of the Kyrgyz Republic and is owned by the Kyrgyz Republic. The National Bank independently manages its activities within the limits of authority determined by the Law.

Transactions with related parties are conducted at market prices.

According to IAS 24 transactions with the following parties are exempted from disclosures:

- a) The Government of the Kyrgyz Republic, and
- b) other entities that are controlled, jointly controlled or have a significant influence of the Government of the Kyrgyz Republic.

The Government of the Kyrgyz Republic is represented by the Ministry of Finance of the Kyrgyz Republic. Operations with the Ministry of Finance of the Kyrgyz Republic are investments in debt securities held to maturity (Note 9), as well as accounts of the Ministry of Finance of the Kyrgyz Republic (Note 14). Interest incomes on investments held to maturity are presented in Note 19.

27 RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Transactions with the members of the Management Board

The remuneration to the members of the National Bank's Management Board for the years ended 31 December 2017 and 2016 comprised KGS 21 100 thousand and KGS 19 334 thousand, respectively. The remuneration consists of salary and other payments. The outstanding balances of loans issued to the members of the Management Board as at 31 December 2017 and 2016 comprised KGS 24 948 thousand and KGS 19 837 thousand, respectively. The loans are in KGS and repayable by 2032. Interest income from loans to the Management Board for the years ended 31 December 2017 and 2016 comprised KGS 489 thousand and KGS 274 thousand respectively.

(c) Transactions with other related parties

Corresponding income and expense on transactions with other related parties for the year ended 31 December 2017 are as follows:

	Subsidiaries	Associates	Total KGS'000
Statement of profit or loss			
Other income	1 515	336	1 851

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

	Subsidiaries	Associates	Total KGS'000
Statement of profit or loss			
Other income	1 561	220	1 781

28 FINANCIAL ASSETS AND LIABILITIES: FAIR VALUES AND ACCOUNTING CLASSIFICATIONS

(a) Accounting classifications and fair values

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2017:

KGS'000	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
Gold deposits	-	-	7 415 975	-	7 415 975	7 415 975
Cash on hand, due from banks and other financial institutions	-	86 782 689	-	-	86 782 689	86 782 689
Loans extended	-	7 519 897	-	-	7 519 897	7 519 897
Investments available-for-sale	-	-	43 009 884	-	43 009 884	43 009 884
Investments held-to-maturity	251 313	-	-	-	251 313	251 313
Other financial assets	-	278 187	-	-	278 187	278 187
	251 313	94 580 773	50 425 859	-	145 257 945	145 257 945
Banknotes and coins in circulation	-	-	-	91 104 265	91 104 265	91 104 265
Due to banks and other financial institutions	-	-	-	20 609 050	20 609 050	20 609 050
Due to the Government of the Kyrgyz Republic	-	-	-	9 235 231	9 235 231	9 235 231
Debt securities issued	-	-	-	5 212 268	5 212 268	5 212 268
Loans received	-	-	-	925 499	925 499	925 499
Liabilities to the IMF in respect of SDR allocations	-	-	-	8 311 236	8 311 236	8 311 236
Other financial liabilities	-	-	-	87 049	87 049	87 049
	-	-	-	135 484 598	135 484 598	135 484 598

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

(a) Accounting classifications and fair values (continued)

The table below sets out the carrying amounts and fair values of financial assets and financial liabilities as at 31 December 2016:

KGS'000	<u>Held-to-maturity</u>	<u>Loans and receivables</u>	<u>Available-for-sale</u>	<u>Other amortised cost</u>	<u>Total carrying amount</u>	<u>Fair value</u>
Gold deposits	-	-	6 667 667	-	6 667 667	6 667 667
Cash on hand, due from banks and other financial institutions	-	89 974 925	-	-	89 974 925	89 974 925
Loans extended	-	7 438 576	-	-	7 438 576	7 438 576
Investments available-for-sale	-	-	34 359 544	-	34 359 544	34 359 544
Investments held-to-maturity	312 535	-	-	-	312 535	312 535
Other financial assets	-	246 297	-	-	246 297	246 297
	<u>312 535</u>	<u>97 659 798</u>	<u>41 027 211</u>	<u>-</u>	<u>138 999 544</u>	<u>138 999 544</u>
Banknotes and coins in circulation	-	-	-	74 838 799	74 838 799	74 838 799
Due to banks and other financial institutions	-	-	-	25 724 792	25 724 792	25 724 792
Due to the Government of the Kyrgyz Republic	-	-	-	8 048 904	8 048 904	8 048 904
Debt securities issued	-	-	-	5 243 448	5 243 448	5 243 448
Loans received	-	-	-	1 718 629	1 718 629	1 718 629
Liabilities to the IMF in respect of SDR allocations	-	-	-	7 863 988	7 863 988	7 863 988
Other financial liabilities	-	-	-	88 752	88 752	88 752
	<u>-</u>	<u>-</u>	<u>-</u>	<u>123 527 312</u>	<u>123 527 312</u>	<u>123 527 312</u>

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

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

(b) Fair value hierarchy

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

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

The table below analyses financial instruments measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KGS'000	Level 1	Level 2	Level 2	Total
Gold deposits	7 415 975			7 415 975
Available-for-sale financial assets				
- Debt and other fixed income instruments	43 009 884	-	-	43 009 884
	50 425 859	-	-	50 425 859

The table below analyses financial instruments measured at fair value at 31 December 2016, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KGS'000	Level 1	Level 2	Level 2	Total
Gold in deposits	6 667 667			6 667 667
Available-for-sale financial assets				
	34 359			
- Debt and other fixed income instruments	544	-	-	34 359 544
	41 027 211	-	-	41 027 211

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

(b) Fair value hierarchy (continued)

The table below analyses financial instruments not measured at fair value at 31 December 2017, by the level in the fair value hierarchy into which the fair value measurement is categorised:

KGS'000	Level 1	Level 2	Level 2	Total
Cash on hand, due from banks and other financial institutions	-	86 782 689	-	86 782 689
Loans extended	-	7 519 897	-	7 519 897
Investments held-to-maturity	-	251 313	-	251 313
Other financial assets	-	278 187	-	278 187
Total	-	94 832 086	-	94 832 086
Banknotes and coins in circulation	-	91 104 265	-	91 104 265
Due to banks and other financial institutions	-	20 609 050	-	20 609 050
Due to the Government of the Kyrgyz Republic	-	9 235 231	-	9 235 231
Debt securities issued	-	5 212 268	-	5 212 268
Loans received	-	925 499	-	925 499
Liabilities to the IMF in respect of SDR allocations	-	8 311 236	-	8 311 236
Other financial liabilities	-	87 049	-	87 049
Total	-	135 484 598	-	135 484 598
NET VALUE	-	(40 652 512)	-	(40 652 512)

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

KGS'000	Level 1	Level 2	Level 2	Total
Due from banks and other financial institutions	-	89 974 925	-	89 974 925
Loans extended	-	7 438 576	-	7 438 576
Investments held-to-maturity	-	312 535	-	312 535
Other financial assets	-	246 297	-	246 297
Total	-	97 972 333	-	97 972 333
Banknotes and coins in circulation	-	74 838 799	-	74 838 799
Due to banks and other financial institutions	-	25 724 792	-	25 724 792
Due to the Government of the Kyrgyz Republic	-	8 048 904	-	8 048 904
Debt securities issued	-	5 243 448	-	5 243 448
Loans received	-	1 718 629	-	1 718 629
Liabilities to the IMF in respect of SDR allocations	-	7 863 988	-	7 863 988
Other financial liabilities	-	88 752	-	88 752
Total	-	123 527 312	-	123 527 312
NET VALUE	-	(25 554 979)	-	(25 554 979)

29 OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

As at December 31, 2017 and 2016 the National Bank did not have financial assets and financial liabilities in the statement of financial position which were presented in net amount or would have been offset due to presence of the master netting arrangements or similar agreements.

30 EVENTS AFTER THE REPORTING PERIOD

At the date of issue of the financial statements, there were no significant subsequent events that required disclosure.

APPENDICES

IV



Appendix 1
to the Report of the National Bank of the Kyrgyz Republic for 2017

Chronology of Major Events in the Monetary Sphere in 2017

Date	Contents
January 1	Modified banknotes of the IV series of the national currency with denomination of 200, 500 and 1000 Soms of 2016 year of issue were put in circulation.
January 9	The certificate of accounting registration was issued to the Public Fund MCA “Eldos”.
January 11	The Board of the National Bank decided to issue an additional license to CJSC “Demir Kyrgyz International Bank” to provide services for receiving, processing and issuing financial information (processing, clearing) on payments and settlements of third parties to the participants in the payment system of this processing, clearing center.
January 17	Extension of the direct banking supervision regime in OJSC RK “AMANBANK” for six months.
February 9-15	Visit of the IMF Mission to discuss the latest trends in the monetary and credit sector, budget implementation for 2017 and implementation of the reforms envisaged by the three-year economic program supported by the IMF within the framework of the Extended Credit Facility (ECF).
February 14	Press conference with participation of the Board of the National Bank dedicated to the results of 2016.
February 15	Meeting of the Interagency Coordination Council of the National Bank and the Ministry of Finance of the Kyrgyz Republic, during which the results of 2016, the targets for monetary and fiscal policy and measures to achieve them for 2017, as well as the issues of further cooperation were discussed.
February 17	The banking round-table meeting was held by the Union of Legal Entities “Union of Banks of Kyrgyzstan” jointly with the National Bank, in the course of this meeting the issues of the financial sector development in the Kyrgyz Republic, interaction of the regulator and market participants, as well as other issues were discussed.
February 21	The regular 25 th meeting of the Interbank Payment System Council was held with participation of representatives of the commercial banks to discuss the draft Provisional Regulation “On Special Regime for Introduction of Innovative Banking Services in the Kyrgyz Republic”, the State Program to increase the share of non-cash payments and settlements in the Kyrgyz Republic for 2018-2022 years (the third stage) and the Main Directions of the Payment System Development in the Kyrgyz Republic for 2018-2020.
February 22	The Board of the National Bank approved the amendments and additions to a number of the regulatory legal acts on assets classification and related allocations to the loan loss provision.
February 24	The certificate of accounting registration was issued to LLC MCC “Asia invest”.
February 27	The Board of the National Bank decided to keep unchanged the policy rate of the National Bank at 5.00 percent.

Date	Contents
February 28	Press conference with participation of the Board of the National Bank regarding the decision of the Board on the size of the policy rate.
March 1	Modified banknotes of the IV series of the national currency with denomination of 50 and 100 Soms of 2016 year of issue were put in circulation.
March 13	The Government of the Kyrgyz Republic and the Board of the National Bank approved the Joint Statement of the Government and the National Bank of the Kyrgyz Republic on the main directions of economic policy for 2017.
March 24	The 23rd meeting of the Interagency Commission on the increase of the share of non-cash payments and settlements in the Kyrgyz Republic.
March 27	The Board of the National Bank decided to keep unchanged the policy rate of the National Bank at 5.00 percent.
March 27- April 2	Arrangement of events to improve the financial literacy of children and young people through participation of the Kyrgyz Republic in the Global Money Week.
March 27- April 5	Visit of the mission of appraisers within the framework of the 2 nd round of mutual assessment of the national AML/CFT system compliance with the international standards.
March 28	Press conference with participation of the Board of the National Bank regarding the decision of the Board on the size of the policy rate.
March 30	The round table meeting was held with participation of the commercial banks, payment system operators, payment organizations, and the international e-money operators to discuss the draft amendments and additions to the Regulation “On E-Money in the Kyrgyz Republic”.
March 31	A scientific and practical conference dedicated to the 25 th anniversary of the National Bank of the Kyrgyz Republic.
April 2-6	Participation in the 37 th Meeting of the Central Banks Governors’ Club of the Central Asia, Black Sea Region and Balkan Countries, Antalya, the Republic of Turkey.
April 5-18	Visit of the IMF Mission for the purpose of conducting the fourth review of the three-year economic program implementation within the framework of the ECF and consultations in accordance with Article IV of the IMF’s Articles of Agreement.
April 6	The round table meeting was held with participation of the Association of Payment System Operators of the Kyrgyz Republic, the Union of Banks of Kyrgyzstan, the representatives of the commercial banks, payment system operators, payment organizations, mobile operators to discuss the draft Provisional Regulation “On Special Regime for Introduction of Innovative Banking Services in the Kyrgyz Republic”.
April 7	Participation in the 54 th meeting of the Council of the Interstate Bank, Moscow, Russian Federation.
April 21-23	Participation of the Board of the National Bank in the 2017 Spring Meetings of the World Bank Group and the International Monetary Fund, Washington D.C. United States.

Date	Contents
April 26	<ul style="list-style-type: none"> • The Board of the National Bank approved the amendments and additions: <ul style="list-style-type: none"> – in the instruction on defining the capital adequacy standards for the commercial banks operating in the Kyrgyz Republic; – in the instruction on defining the capital adequacy standards for the banks carrying out operations in accordance with the Islamic principles of banking and financing. • The decision of the Board of the National Bank to provide OJSC “BAKAI BANK” with an additional license to issue e-money.
April 27-28	Participation in the 36 th meeting of the Eurasian Council of Central (National) Banks, Dilijan, Republic of Armenia.
May 13	The round table meeting on implementation of the project for the electronic interagency cooperation system (EICS “Tunduk”), and on creation of the state payment gateway was held with participation of the commercial banks.
May 14-18	Participation of the Chairman of the National Bank in the 42 nd Annual Meeting of the Governors of the Islamic Development Bank (IDB) Member States, Jeddah, Saudi Arabia.
May 17	The Board approved the amendments and additions to a number of the regulatory legal acts of the National Bank regarding their bringing in compliance with the Law of the Kyrgyz Republic “On the Basics of Administrative Activities and Administrative Procedures”.
May 21-23	Visit of the experts of the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) to the National Bank of the Kyrgyz Republic, during this visit presentation of the Shariah standards translated into Russian was held.
May 26	The license for the activities of the credit bureau was issued to CB “Ishenim” CSJC.
May 29	The Board of the National Bank decided to keep unchanged the policy rate of the National Bank at 5.00 percent.
May 30	Press conference with participation of the Board of the National Bank regarding the decision of the Board on the size of the policy rate.
May 31	<ul style="list-style-type: none"> • The Board of the National Bank approved the amendments and additions to the Regulation “On Credit to Maintain Liquidity”. • The Board of the National Bank decided to provide OJSC “Aiyl Bank” with an additional license on the right to issue e-money.
June 2	The representatives of the National Bank participated in the Bishkek International Financial Forum (BIFF).
June 5	A license to buy and sell foreign currency on its own behalf was issued to LLC MCC “Ak-Nur Capital”.
June 6-10	Visit of the delegation of the Bank of Mongolia headed by the chairman of the bank to the National Bank of the Kyrgyz Republic.

Date	Contents
June 13	A certificate of accounting registration was issued to LLC MCC “KORKY CREDIT”.
June 14	The Board of the National Bank approved a new version of the Regulation “On Last Resort Loan”.
June 15	<ul style="list-style-type: none"> • The Board of the National Bank approved a resolution on inclusion in the reserve assets 100 percent of assets in the form of gold on the depersonalized metal accounts of the banks with the National Bank to comply with the mandatory reserve requirements. • A registration certificate was issued to LLC MCC “Ak-Niet Finance”.
June 17	Extension of the direct banking supervision regime in OJSC RK “AMANBANK” for six months.
June 22	<ul style="list-style-type: none"> • Entry into force of the Laws of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” No. 206 dated December 16, 2016 and “On Enactment of the Law of the Kyrgyz Republic “On the National Bank of the Kyrgyz Republic, Banks and Banking Activity” No. 207 as of December 16, 2016. • Entry into force of amendments and additions to the regulatory legal acts of the National Bank concerning the licensing and regulation of the banks, non-banking financial-credit organizations supervised by the National Bank, approved by the Board of the National Bank. • Extension of the direct banking supervision regime in OJSC “Eurasian Savings Bank” for six months.
June 23	<ul style="list-style-type: none"> • The 24th meeting of the Interagency Commission on the increase of the share of non-cash payments and settlements in the Kyrgyz Republic. • Transformation of the conservation regime in OJSC “Ak Bank” into a special regime of the provisional administration.
June 26	The Board of the National Bank decided to keep unchanged the policy rate of the National Bank at 5.00 percent.
June 27	Press conference with participation of the Board of the National Bank regarding the decision of the Board on the size of the policy rate.
July 6	The Board of the National Bank decided to provide OJSC “Commercial Bank KYRGYZSTAN” with a permission to issue e-money.
July 10-13	<ul style="list-style-type: none"> • Joint participation with the Government of the Kyrgyz Republic in the third roundtable meeting of the Arab Coordination Group, where the issues of development of the Islamic financial product “sukuk” was discussed. • An international seminar “Islamic banking. Banking supervision” for the representatives of the CIS central banks.
July 12	Participation in the 14 th meeting of the Advisory Council on the monetary policy of the central (national) banks in the member states within the Eurasian Economic Union Agreement as of May 29, 2014, St. Petersburg, Russian Federation.

Date	Contents
August 3	A license to operate as an operator of the payment system and payment institution was issued to LLC “Green Telecom Service”.
August 4	A round table meeting was held with the representatives of the Union of Legal Entities “Association of Payment System Operators KG”, CJSC “Interbank Processing Center”, a number of international payment systems, the Association of entities of the national payment system “National Payment System”, the commercial banks, payment system operators and payment organizations to discuss the draft Law “On Amendments to the Law of the Kyrgyz Republic “On Payment System of the Kyrgyz Republic”.
August 16	<p>The Board of the National Bank approved:</p> <ul style="list-style-type: none"> – the Provisional Regulations “On Criteria for Selection of a Settlement Agent for the Project of Integration of the National System of Settlements with “Elcard” Payment Cards with the National / International Payment Systems of Other Countries”; – the amendments to a number of regulatory legal acts on the issues of periodic regulatory reporting.
August 28	<ul style="list-style-type: none"> • The Board of the National Bank decided to keep unchanged the policy rate of the National Bank at 5.00 percent • The Retail Payments Council held a meeting to discuss draft amendments and additions to the Regulation “On E-Money in the Kyrgyz Republic” and the Main Directions of the Payment System Development for 2018-2021.
August 29	Press conference with participation of the Board of the National Bank regarding the decision of the Board on the size of the policy rate.
August 30	<p>The Board of the National Bank:</p> <ul style="list-style-type: none"> – adopted the Regulation “On Sale and Repurchase of Gold by the National Bank of the Kyrgyz Republic in the Interbank Domestic Market through the Automated Trading System of the National Bank of the Kyrgyz Republic”; – made a decision on expanding the list of authorized banking operations to the license of OJSC “BAKAI BANK”.
September 5	The certificate of accounting registration under the Islamic principles of financing was issued to LLC MCC “United Finance”.
September 6-7	The meeting of the Advisory Committee on financial markets of the member states of the Eurasian Economic Union, Issyk-Kul oblast, Kyrgyz Republic.
September 6-8	A round table meeting entitled “Approaches to formation of a single payment space in the EAEU countries” was held with participation of the representatives of the central (national) banks of the EAEU countries, Poland, as well as the EEC representatives and payment system operators of the Republic of Belarus and the Kyrgyz Republic.
September 7-13	Visit the IMF Mission to discuss the latest trends in the economy of the Kyrgyz Republic and to conclude consultations in accordance with Article IV of the IMF’s Articles of Agreement.

Date	Contents
September 11-14	A face-to-face meeting on the results of the fifth draft report on the mutual evaluation of the national AML/CFT system, Moscow, Russian Federation.
September 14	The National Bank held, together with the American University of Central Asia, a scientific and practical conference entitled “Monetary policy in developing countries: current trends”.
September 19	A license for microfinance activities was issued to “First MFC” CJSC.
September 21-24	Participation in the 15 th meeting of the governors of the central banks from the countries participating in the Organization of Islamic Cooperation, during which a joint communiqué on cooperation was adopted.
September 22	The 25 th meeting of the Interagency Commission on the increase of the share of non-cash payments and settlements in the Kyrgyz Republic.
September 25	The Board of the National Bank decided to keep unchanged the policy rate of the National Bank at 5.00 percent.
September 26	Press conference with participation of the Board of the National Bank regarding the decision of the Board on the size of the policy rate.
September 29	Participation in the 38 th Meeting of the Central Banks Governors’ Club of the Central Asia, Black Sea Region and Balkan Countries, Moscow, Russian Federation.
October 9-30	Arrangement of events to improve the financial literacy of the population through participation of the Kyrgyz Republic in the Global Savings Day.
October 13-15	Participation of the Board of the National Bank in the 2017 Annual Meetings of the World Bank Group and the International Monetary Fund, Washington D.C. United States.
October 20	The National Bank held a banking round table meeting jointly with the Union of Banks of Kyrgyzstan, during which the main directions of the banking sector development, the issues of organizing an effective information security system, the introduction of innovative banking services in the Kyrgyz Republic, as well as interaction and improvement of supervision approaches were discussed.
October 25	<p>The Board of the National Bank adopted the Resolution on the issues of mandatory reserve requirements (MRR):</p> <ul style="list-style-type: none"> – about inclusion in the rules of compliance with the daily minimum level of the MRR assets in the form of gold on the depersonalized metal account of the bank with the National Bank, along with the correspondent account with the National Bank; – about establishment of the MRR standards for microfinance companies that accept deposits, in particular, the size of mandatory reserves, the list of obligations included in the calculation base, the amount of fees for depositing mandatory reserves and the penalty for non-compliance.
October 26- November 8	Visit of the IMF Mission to complete the fourth and fifth reviews of implementation of the three-year economic program within the ECF.

Date	Contents
October 26	A round table meeting entitled “Main directions of the microfinance sector development for 2018-2021”.
October 31- November 1	Participation in the 37 th meeting of the Eurasian Council of Central (National) Banks, Kaliningrad, Russian Federation.
November 16	The Board of the National Bank decided to issue a license to OJSC “BAKAI BANK” to carry out banking operations in accordance with the Islamic principles of banking and financing through the “Islamic window” in national and/or foreign currency.
November 17	<ul style="list-style-type: none"> • Issue of the first commemorative banknote of the national currency with denomination of 2000 Soms. • Participation in the 15th meeting of the Advisory Council on the monetary policy of the central (national) banks in the member states within the Eurasian Economic Union Agreement as of May 29, 2014, Minsk, Republic of Belarus.
November 20-25	Participation in the 27 th Plenary meeting of the EAG on review of the report on mutual evaluation of the national system of the Kyrgyz Republic on AML/CFT, Moscow, Russian Federation.
November 2 2-23	Participation in the meeting of the representatives of the national payment systems and the central (national) banks of the Republic of Armenia, the Kyrgyz Republic, the Russian Federation, the Republic of Belarus, the Republic of Tajikistan, the Republic of Uzbekistan and signing of the Action Plan (“road map”) on integration of the payment infrastructures of “Mir” and “Elcard” payment systems for 2018.
November 26-30	The delegation of the Urumqi branch of the People’s Bank of China headed by the deputy president of the branch visited the National Bank of the Kyrgyz Republic.
November 27	The Board of the National Bank decided to keep unchanged the policy rate of the National Bank at 5.00 percent.
November 28	Press conference with participation of the Board of the National Bank regarding the decision of the Board on the size of the policy rate.
November 29	The Board of the National Bank decided to issue permission to OJSC “Aiyl Bank” for carrying out transactions with precious metals of other issuers in an impersonal form (in non-cash form).
December 1	The regular 26 th meeting of the Interbank Payment System Council was held to discuss issues of in-country settlements (organization of settlements for local transactions with the cards of international payment systems in the Kyrgyz Republic), inter-system integration of “Mir” and “Elcard” payment systems, and expansion of the infrastructure for receiving bank payment cards.
December 7	Putting into circulation the silver and copper-nickel collection coins “Heavily armed warrior of the Kyrgyz kaganate” of the series “Age of the Kyrgyz kaganat” and the silver collection coin “Demoiselle” of the series “Red book of Kyrgyzstan”.
December 8	Participation in the 55 th meeting of the Council of the Interstate Bank, Moscow, Russian Federation.

Date	Contents
December 13	The Board of the National Bank adopted: <ul style="list-style-type: none"> – The Main Directions of the Monetary Policy for the medium term; – The draft State Program to increase the share of non-cash payments and settlements in the Kyrgyz Republic for 2018-2022 (the third stage); – The Main Directions of the Payment System Development for 2018-2022; – The draft Main Directions for Development of the Microfinance Sector for 2018-2021; – The amendments and additions to the forms of the periodic regulatory report, intended for filling by the financial-credit organizations, which carry out operations in accordance with the Islamic principles of banking and financing, including within the framework of the “Islamic window”.
December 15	The 26 th meeting of the Interagency Commission on the increase of the share of non-cash payments and settlements in the Kyrgyz Republic.
December 18	Extension of the direct banking supervision regime in OJSC RK “AMANBANK” for six months.
December 20	The Board of the National Bank of the Kyrgyz Republic adopted the Statement of the National Bank of the Kyrgyz Republic on monetary policy for 2018.
December 23	Extension of the special regime of the provisional administration in OJSC “Ak Bank” for six months.
December 25	The Board of the National Bank decided to keep unchanged the policy rate of the National Bank at 5.00 percent.
December 26	Press conference with participation of the Board of the National Bank regarding the decision of the Board on the size of the policy rate.
December 27	The Board of the National Bank adopted the amendments and additions to the Regulation “On Implementation of the Islamic Principles of Financing in the Kyrgyz Republic within in the Framework of a Pilot Project” in the case of regulation of the agency agreements.
December 28	Extension of the direct banking supervision regime in OJSC “Eurasian Savings Bank” for six months.

Appendix 2
to the Report of the National Bank of the Kyrgyz Republic for 2017

Statistical Information (tables and charts)

Tables

Table 1.	Macroeconomic Indicators
Table 2.	GDP Composition
Table 3.	Composition of Capital Investment by Sources of Financing
Table 4.	Monetary Base and Monetary Aggregates (end-of-period)
Table 5.	Analytical Balance of the National Bank of the Kyrgyz Republic (end-of-period)
Table 6.	External Economic Indicators
Table 7.	Monetary Policy Instruments
Table 8.	Policy rate of the National Bank of the Kyrgyz Republic (end-of-period)
Table 9.	Interest Rates of Deposits in National Currency (for the period)
Table 10.	Interest Rates of Deposits in Foreign Currency (for the period)
Table 11.	Interest Rates of Loans of Commercial Banks in National Currency (for the period)
Table 12.	Interest Rates of Loans of Commercial Banks in Foreign Currency (for the period)
Table 13.	Interest Rates of Loans of Non-banking Financial-Credit Organizations (end-of-period)
Table 14.	Annual Average Interest Rate of Interbank Credits
Table 15.	Balance of Payments of the Kyrgyz Republic
Table 16.	Structure of Public and Government Guaranteed External Debt of the Kyrgyz Republic by Creditors
Table 17.	Information of Authorized (Bank Stock) Capital of Commercial Banks (end-of-period)
Table 18.	Consolidated Regulatory Report of Commercial Banks of the Kyrgyz Republic
Table 19.	Information on Head Offices and Branches of Commercial Banks as at the end of 2017
Table 20.	Composition of Circulating Cash of Commercial Banks and Its Rate of Collection in 2017
Table 21.	Pattern of Payments in the Gross System of Settlements
Table 22.	Volume and Number of Clearing Payments by Regions
Table 23.	Information on Transactions with Payment Cards at Trade Outlets

Charts

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

Table 1.

Macroeconomic Indicators

	unit of measurement	2013	2014	2015	2016	2017
Real sector						
Nominal GDP ¹	millions of KGS	355,294.8	400,694.0	430,489.4	476,331.2	520,958.6*
Rate of growth of real GDP ¹	percent	10.9	4.0	3.9	4.3	4.6*
Rate of growth of industrial output ¹	percent	35.9	-1.6	-3.1	5.9	10.3*
Rate of growth of gross agricultural output ¹	percent	2.7	-0.5	6.2	2.9	2.2*
Rate of growth of wholesale and retail trade; repair of motor vehicles and motorcycles ¹	percent	7.3	8.6	7.1	8.0	3.5*
Growth of CPI (in % December to December)		4.0	10.5	3.4	-0.5	3.7
- food products		1.8	13.9	-4.2	-5.0	2.7
- alcoholic beverages and tobacco products		7.3	12.3	12.4	4.3	4.0
- non-food products		6.3	6.8	12.3	1.6	3.2
- services		4.3	5.9	6.7	5.2	6.9
Growth of PPI ² (in % to the corresponding period of the previous year)		-2.1	1.5	8.8	6.4	1.7
Unemployment rate	percent	2.3	2.3	2.2	2.2	2.3
Average nominal wage	KGS	11,426.0	12,435.0	13,277.0	14,492.0	15,391.0
Estimated minimum subsistence level	KGS	4,599.2	4,981.5	5,183.0	4,794.3	4,900.8
Financial sector						
NBKR policy rate (end-of-period)	percent	4.17	10.50	10.00	5.00	5.00
State Treasury Bills Market (average yield for the period) with maturity of:						
- 3 months	percent	4.9	5.2	8.1	3.6	2.1
- 6 months	percent	6.5	8.8	12.1	8.1	4.1
- 12 months	percent	9.5	9.7	13.0	11.3	5.7
Interbank Domestic Market						
Credits in National Currency:						
- volume (for the period)	millions of KGS	1,843.3	563.4	1,059.0	1,852.0	748.0
- interest rate (average for the period)	percent	7.3	10.5	14.1	6.9	3.4
Credits in Foreign Currency:						
- volume (for the period)	millions of KGS	-	115.2	420.8	35.6	35.3
- interest rate (average for the period)	percent	-	0.5	1.4	2.0	2.6
Repo Operations						
- volume (for the period)	millions of KGS	8,680.6	49,459.7	32,077.1	4,515.2	10,291.7
- interest rate (average for the period)	percent	3.8	6.8	9.3	4.0	1.8
Foreign Exchange Market						
Non-cash Transactions at Interbank Foreign Exchange Auctions	millions of USD	1,144.1	1,583.0	1,212.1	757.3	518.5
Deposit and Credit Market						
Credits in National Currency:						
- volume (for the period)	millions of KGS	26,672.4	34,929.0	38,982.6	59,062.9	69,989.2
- interest rate (average for the period)	percent	21.3	20.1	23.6	24.5	19.8
- interest rate (end-of-period)	percent	20.7	19.6	22.8	22.2	18.8
Credits in Foreign Currency:						
- volume (for the period)	millions of KGS	32,626.6	44,610.5	39,454.9	36,881.4	35,991.1
- interest rate (average for the period)	percent	17.7	15.0	14.3	12.4	10.5
- interest rate (end-of-period)	percent	16.4	16.1	15.7	13.4	11.3
Deposits in National Currency:						
- volume (for the period)	millions of KGS	146,229.3	179,549.2	190,092.6	249,003.8	289,676.4
- interest rate (average for the period)	percent	2.3	2.5	2.5	2.4	2.8
- interest rate (end-of-period)	percent	5.6	6.9	7.2	6.5	6.2
Deposits in Foreign Currency:						
- volume (for the period)	millions of KGS	141,539.3	213,238.3	210,082.7	214,848.5	237,864.0
- interest rate (average for the period)	percent	0.8	0.9	1.1	0.6	0.6
- interest rate (end-of-period)	percent	2.8	3.2	3.5	2.7	2.1
State Budget						
Revenue	millions of KGS	101,802.1	119,378.7	128,291.9	130,569.6	149,384.5 *
including the share of tax revenue	percent	71.6	69.2	66.0	71.8	69.2 *
Expenditure	millions of KGS	86,599.7	95,584.6	105,252.4	115,948.1	124,903.7*
Net purchase of non-financial assets	millions of KGS	17,532.9	25,669.6	29,188.8	35,499.6	40,967.4*
Deficit (-) / Surplus (+)	millions of KGS	-2,330.5	-1,875.5	-6,149.3	-20,878.1	-16,486.6*
in percent of GDP	percent of GDP	-0.7	-0.5	-1.4	-4.4	-3.2*
External Economic Sector						
Export of goods and services	percent of GDP	54.0	45.9	37.9	35.7	35.4*
Import of goods and services	percent of GDP	93.2	88.6	75.1	69.8	66.8*
Current account balance ³ (including transfer)	percent of GDP	-14.1	-17.2	-16.2	-11.5	-3.1*
Gross international reserve assets	months of import of next year's goods and services	4.1	4.8	4.5	4.7	4.8*

* preliminary data

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

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

Table 2.
GDP Composition
(percent)

	2013	2014	2015	2016	2017*
Total	100.0	100.0	100.0	100.0	100.0
Agriculture, forestry and fishery	14.6	14.7	14.1	12.8	12.3
Extraction of minerals	0.7	0.7	0.8	0.6	1.0
Processing industry	15.8	13.7	14.1	15.4	15.1
Provision (supply) of electricity, gas, steam, and conditioned air	1.8	1.9	1.7	1.9	1.9
Water supply, waste treatment and production of secondary raw materials	0.3	0.3	0.2	0.2	0.2
Construction	6.3	7.4	8.4	8.4	8.2
Wholesale and retail trade; repair of motor vehicles and motorcycles	16.5	17.8	18.8	17.9	17.9
Transport operations and storage of goods	3.9	3.7	3.9	3.8	3.9
Hotel and restaurant activity	1.6	1.8	1.9	1.8	1.7
Information and communication	4.4	4.3	4.3	3.5	3.6
Financial intermediation and insurance	0.8	0.7	0.5	0.5	0.5
Real estate transactions	2.3	2.5	2.6	2.5	2.3
Professional, scientific and technical activities	1.5	1.7	1.6	1.4	1.3
Administrative and support service activities	0.4	0.5	0.4	0.4	0.4
Public administration and defense, compulsory social security	5.0	5.3	5.4	5.4	5.5
Education	5.3	4.9	5.3	5.9	6.1
Health care and social services to the population	3.1	2.8	2.8	2.7	3.3
Arts, entertainment and recreation	0.6	0.5	0.5	0.5	0.5
Other service activities	1.1	1.0	1.2	1.1	1.0
Net (less subsidies) taxes on products	13.9	14.0	11.8	13.1	13.3

* preliminary data

Source: NSC KR

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

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

	2013	2014	2015	2016	2017*
Total	100.0	100.0	100.0	100.0	100.0
Domestic investment	64.1	59.4	57.8	57.4	57.5
including those financed through:					
Republican budget	3.4	3.0	3.6	7.5	5.6
local budget	0.8	0.8	1.0	1.0	1.1
funds of enterprises and organizations	38.2	33.6	30.5	24.6	25.5
bank loans	0.3	0.5	0.9	0.04	2.0
public funds, including charitable aid to residents of the Kyrgyz Republic	21.5	21.4	21.8	24.4	23.4
Foreign investment	35.9	40.6	42.2	42.6	42.5
including those financed through:					
foreign loan	24.0	31.1	30.6	28.4	29.1
foreign direct investments	9.5	7.2	9.8	11.5	9.0
foreign grants and humanitarian aid	2.4	2.2	1.8	2.7	4.3

* preliminary data

Source: NSC KR

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

	2013	2014	2015	2016	2017*
Monetary base	73,139.4	64,471.9	67,055.3	85,584.1	100,019.0
Currency in circulation	66,954.2	57,074.6	58,398.0	74,838.8	91,104.3
Money outside banks (M0)	61,907.2	51,904.1	53,118.0	69,338.8	84,450.9
Monetary aggregate (M1)	79,707.6	69,264.5	70,452.7	97,656.6	118,144.1
Money supply (M2)	90,962.7	82,386.4	82,267.2	115,444.1	142,859.1
Monetary aggregate (M2X)	120,903.4	124,544.4	143,143.0	164,017.4	193,390.6
Multiplier M1	1.09	1.07	1.05	1.14	1.18
Multiplier M2	1.24	1.28	1.23	1.35	1.43
Multiplier M2X	1.65	1.93	2.13	1.92	1.93
Velocity M1	4.90	5.37	6.45	5.80	4.41
Velocity M2	4.35	4.62	5.48	4.92	3.65
Velocity M2X	3.29	3.26	3.33	3.23	2.69
Money outside banks/Deposits	1.05	0.71	0.59	0.73	0.78
Deposits/Monetary Aggregate (M2X)	0.49	0.58	0.63	0.58	0.56

* preliminary data

Source: NBKR, NSC KR, Commercial banks of KR

Currency in circulation = banknotes and coins issued by the NBKR minus banknotes and coins in circulating cash in vaults of the National Bank;

Money outside banks (M0) = currency in circulation less notes and coins in national currency in vaults of commercial banks;

Monetary aggregate (M1) = M0 + settlement (current) accounts and residents' demand deposits in national currency;

Money supply (M2) = M1 + residents' time deposits in national currency;

Monetary Aggregate (M2X) = M2 + settlement (current) accounts and deposits in foreign currency;

Multiplier = the ratio of monetary aggregate to the monetary base;

Velocity of money = the ratio of nominal GDP to the volume of the monetary aggregate.

Table 5.

Analytic Balance Sheet of the National Bank of the Kyrgyz Republic (end-of-period)

(millions of KGS)

	2013	2014	2015	2016	2017
Net foreign assets	99,924.8	104,770.3	123,166.9	126,836.9	140,716.9
Net international reserves	106,115.8	105,935.6	108,489.7	121,249.6	134,613.7
Gold	6,885.7	8,992.4	10,932.2	11,810.1	19,937.3
Foreign currency (assets)	103,200.2	100,274.6	100,507.0	111,148.3	115,591.8
Foreign currency (liabilities)	-3,970.1	-3,331.5	-2,949.5	-1,708.9	-915.4
Other external assets	235.3	6,067.6	23,605.9	13,451.3	14,414.4
SDR allocation	-6,426.3	-7,232.9	-8,928.6	-7,864.0	-8,311.2
Long-term external liabilities	0.0	0.0	0.0	0.0	0.0
Net domestic assets	-26,785.4	-40,298.4	-56,111.6	-41,252.8	-40,697.9
<i>Net domestic credits</i>	-13,496.8	-16,882.4	-20,283.0	-20,325.4	-18,244.2
Net claims to General Government	-6,973.9	-18,190.9	-13,714.2	-7,746.9	-8,994.4
Net claims to Government	-6,973.9	-18,190.9	-13,714.2	-7,746.9	-8,994.4
Securities	1,511.6	1,453.6	1,402.0	312.5	251.3
Credits to Government in foreign currency	0.0	0.0	0.0	0.0	0.0
Deposits	-8,425.7	-19,618.4	-15,104.6	-8,048.9	-9,235.2
Budget accounts	-6,015.0	-10,736.9	-11,620.9	-6,322.4	-7,014.4
Counterpart funds	0.0	0.0	0.0	0.0	0.0
Other Government accounts	-1,927.1	-2,360.5	-712.8	-835.5	-1,106.1
Government deposits in foreign currency	-483.7	-6,520.9	-2,770.9	-891.0	-1,114.7
Government Credit	-59.7	-26.1	-11.6	-10.6	-10.5
Net claims to special funds	0.0	0.0	0.0	0.0	0.0
Net claims to other depository corporations	-6,522.9	1,308.8	-2,204.5	-10,993.1	-8,818.2
Credits	1,204.7	4,115.6	5,119.5	5,718.6	5,569.2
including: "overnight" credits	0.0	0.0	0.0	0.0	0.0
credits in foreign currency	227.3	121.1	156.1	40.8	0.0
Securities	-7,220.4	-1,325.7	-2,126.4	-5,243.4	-5,212.3
including: notes issued by the NBKR	-6,634.6	-1,325.7	-2,126.4	-5,243.4	-5,212.3
securities under repo agreements	-585.7	0.0	0.0	0.0	0.0
Deposits	-507.2	-1,481.0	-5,197.5	-11,468.3	-9,175.1
including: deposits in foreign currency	-507.2	-606.5	-2,591.5	-3,910.8	-3,811.3
Derivatives	0.0	0.0	0.0	0.0	0.0
Net claims to other financial corporations	0.0	-0.3	-4,364.3	-1,585.3	-431.6
<i>Capital account</i>	-14,851.2	-25,090.3	-37,928.1	-24,178.1	-25,614.9
<i>Other items</i>	1,562.6	1,674.3	2,099.5	3,250.7	3,161.2
Monetary base	73,139.4	64,471.9	67,055.3	85,584.1	100,019.0
Currency in circulation	66,954.2	57,074.6	58,398.0	74,838.8	91,104.3
Reserves of other depository corporations in national currency	6,185.2	7,397.3	8,657.3	10,745.3	8,914.7
<i>Reference:</i>					
Monetary base-broad definition	73,646.6	65,952.9	72,252.8	97,052.3	109,194.1
Currency in circulation	66,954.2	57,074.6	58,398.0	74,838.8	91,104.3
Reserves of other depository corporations	6,692.5	8,003.9	10,000.7	12,337.6	11,530.6
Reserves of other depository corporations in national currency	6,185.2	7,397.3	8,657.3	10,745.3	8,914.7
Reserves of other depository corporations in foreign currency	507.2	606.5	1,343.4	1,592.3	2,615.9
Deposits in foreign currency	0.0	874.5	3,854.1	9,876.0	6,559.2

Source: NBKR

Note: Methodology of the analytical balance sheet preparation complies with the concept and principles of the IMF Monetary and Financial Statistics Manual 2000

Table 6.

External Economic Indicators

	unit of measurement	2013	2014	2015	2016	2017*
Balance of payments indicators						
Total balance	<i>millions of USD</i>	101.2	-238.0	-41.4	338.5	147.1
	<i>percent of GDP²</i>	1.4	-3.2	-0.6	4.9	1.9
Current account balance ¹	<i>millions of USD</i>	-1,016.1	-1,269.4	-1,058.6	-792.0	-232.1
	<i>percent of GDP²</i>	-14.1	-17.2	-16.2	-11.5	-3.1
Export of goods (FOB)	<i>millions of USD</i>	2,833.2	2,482.7	1,619.0	1,607.9	1,840.4
	<i>percent of GDP²</i>	39.3	33.7	24.8	23.4	24.3
Import of goods (FOB)	<i>millions of USD</i>	5,613.6	5,290.2	3,859.8	3,744.4	4,187.3
	<i>percent of GDP²</i>	77.8	71.8	59.1	54.5	55.4
Gross international reserve assets	<i>months of next year's import of goods and services</i>	4.1	4.8	4.5	4.7	4.8
Public external debt						
Public external debt ³	<i>millions of USD</i>	3,158.7	3,437.1	3,601.1	3,742.7	4,080.6
	<i>percent of GDP⁴</i>	44.4	50.9	64.5	54.4	53.9
	<i>percent of export of goods and services</i>	81.2	101.6	145.7	152.8	152.3
Public external debt servicing (actual)	<i>millions of USD</i>	95.1	115.5	130.0	144.8	157.4
	<i>percent of GDP²</i>	1.3	1.6	2.0	2.1	2.1
	<i>percent of export of goods and services</i>	2.4	3.4	5.3	5.9	5.9

* - preliminary data

Source: NBKR, NSC KR, MF KR

¹ Positive balance - "+", negative balance - "-"² In the calculation of indicators USD equivalent of GDP calculated at the average rate for the year was used³ Including IMF loans⁴ According to NBKR estimates; in the calculation of indicators USD equivalent of GDP calculated to the rate to the end of the year was used.

Table 7.
Monetary Policy Instruments

	unit of measurement	2013	2014	2015	2016	2017
NBKR Credits						
intraday credits	millions of KGS	-	4,345.6	139.4	-	-
"overnight" credits	millions of KGS	8,095.2	56,724.6	26,663.3	2,045.6	13,816.5
7-day credits	millions of KGS	-	1,100.0	-	-	-
credit auctions*	millions of KGS	900.9	3,260.0	1,475.0	1,440.0	4,810.0
maintaining liquidity	millions of KGS	-	-	702.3	-	538.3
credits to international organizations created within the framework of the EAEU	millions of KGS	-	-	1,200.0	678.2	72.5
"Overnight" Deposits	billions of KGS	-	137.6	325.6	1,986.5	1,903.0
NBKR Policy Rate (end-of-period)	percent	4.17	10.50	10.00	5.00	5.00
NBKR Notes						
maturity:						
7 days						
sales volume	millions of KGS	2,280.0	68,172.6	67,139.7	102,293.4	54,718.0
average yield	percent	3.2	6.1	9.9	2.6	1.3
14 days						
sales volume	millions of KGS	1,234.5	-	800.0	8,000.0	3,638.0
average yield	percent	3.9	-	9.9	0.7	2.5
28 days						
sales volume	millions of KGS	41,050.6	10,583.6	-	-	20,969.8
average yield	percent	3.6	4.8	-	-	3.1
91 days						
sales volume	millions of KGS	-	-	-	-	5,614.5
average yield	percent	-	-	-	-	4.9
Open Market Transactions						
Direct repo transactions	millions of KGS	-	-	-	-	49.6
Reverse repo transactions	millions of KGS	3,225.8	421.4	-	-	-
NBKR Deposit Operations in Foreign Currency**						
	millions of USD	174.3	768.8	-	-	-
	thousands of Euro	0.4	1.2	-	-	-
NBKR Foreign Exchange Interventions						
Purchase	millions of USD	-	20.5	44.0	191.9	34.5
Sale	millions of USD	14.7	536.7	339.1	162.7	107.2
NBKR Foreign Exchange Swaps						
Purchase	millions of Euro	-	1.3	1.3	-	-
Sale	millions of Euro	-	-	-	-	-
Reserve Requirements						
Reserve requirement ratio (end-of-period)***						
in national currency	percent	9.0	9.0	4.0	4.0	4.0
in foreign currencies of the EAEU countries and the PRC	percent	9.0	9.0	4.0	4.0	4.0
in foreign currencies except for the EAEU countries and the PRC	percent	9.0	9.0	12.0	12.0	12.0
Required reserves (annual average)	millions of KGS	4,488.3	5,882.1	7,100.3	7,333.3	7,519.6
Excess reserves (annual average)	millions of KGS	2,333.8	1,095.6	740.0	1,369.9	1,321.7

Source: NBKR

** The amount of actually issued loans for a reporting period

*** The Regulation "On the Procedure of the National Bank of the Kyrgyz Republic for Deposit Operations in Foreign Currency" of 28 March 2013 No 10/12" was revoked by the Resolution of the Board of the National Bank of the Kyrgyz Republic of 14 November 2014 No 50/2

*** According to the Resolution of the Board of the National Bank of the Kyrgyz Republic dated 23 December 2015 No 78/7 RR ratios are set separately by liabilities in national currency, in foreign currencies of the EAEU countries, the PRC and other countries.

Table 8.

Policy rate of the National Bank of the Kyrgyz Republic (end-of-period)

(percent)

	2013	2014	2015	2016	2017
January	3.05	4.11	11.00	10.00	5.00
February	2.83	4.47	11.00	10.00	5.00
March	2.98	6.00	11.00	8.00	5.00
April	2.88	6.00	11.00	8.00	5.00
May	2.96	6.00	9.50	6.00	5.00
June	3.20	6.00	9.50	6.00	5.00
July	4.09	6.50	8.00	6.00	5.00
August	4.16	6.50	8.00	6.00	5.00
September	4.25	7.00	10.00	6.00	5.00
October	4.20	9.00	10.00	6.00	5.00
November	4.18	10.00	10.00	5.50	5.00
December	4.17	10.50	10.00	5.00	5.00

Source: NBKR

Table 9.
Interest Rates of Deposits in National Currency (for the period)
(percent)

	2013	2014	2015	2016	2017
Deposits of Legal Entities	2.0	2.5	2.5	2.1	2.3
<i>demand deposits</i>	<i>1.1</i>	<i>0.8</i>	<i>0.7</i>	<i>0.7</i>	<i>0.6</i>
<i>time deposits:</i>	<i>8.4</i>	<i>10.8</i>	<i>13.1</i>	<i>11.9</i>	<i>9.2</i>
<i>of which:</i>					
up to 1 month	4.0	4.2	7.7	6.3	8.0
1-3 months	5.8	7.2	7.7	6.6	5.6
3-6 months	7.1	7.5	11.1	10.4	7.5
6-12 months	11.8	13.6	16.2	13.4	9.8
over 1 year	12.3	12.5	15.0	14.5	12.5
Deposits of Individuals	2.5	2.4	2.4	2.5	2.8
<i>demand deposits</i>	<i>1.6</i>	<i>1.6</i>	<i>1.5</i>	<i>1.5</i>	<i>1.9</i>
<i>time deposits:</i>	<i>10.7</i>	<i>11.0</i>	<i>12.5</i>	<i>12.8</i>	<i>11.0</i>
<i>of which:</i>					
up to 1 month	3.8	3.5	4.8	5.5	6.4
1-3 months	5.8	6.0	7.0	6.3	5.7
3-6 months	9.1	8.9	9.8	9.6	7.8
6-12 months	11.9	12.0	13.2	13.4	11.1
over 1 year	13.4	13.4	14.3	15.1	13.0
Deposits on Non-residents	2.0	1.3	1.5	2.0	2.1
<i>demand deposits</i>	<i>0.2</i>	<i>0.0</i>	<i>0.0</i>	<i>0.1</i>	<i>0.2</i>
<i>time deposits:</i>	<i>10.7</i>	<i>11.0</i>	<i>11.3</i>	<i>13.3</i>	<i>11.3</i>
<i>of which:</i>					
up to 1 month	5.7	7.0	5.4	6.5	6.9
1-3 months	6.2	5.8	5.8	7.9	7.2
3-6 months	8.5	8.6	9.0	9.8	6.9
6-12 months	11.5	11.8	12.4	13.0	11.2
over 1 year	13.1	12.9	14.6	15.2	13.2
Average Weighted Rate	2.3	2.5	2.5	2.4	2.8

Source: Commercial banks of KR

Table 10.
Interest Rates of Deposits in Foreign Currency (for the period)
(percent)

	2013	2014	2015	2016	2017
Deposits of Legal Entities	0.7	0.9	1.0	0.3	0.2
<i>demand deposits</i>	<i>0.3</i>	<i>0.3</i>	<i>0.2</i>	<i>0.1</i>	<i>0.1</i>
<i>time deposits:</i>	<i>4.1</i>	<i>3.8</i>	<i>4.8</i>	<i>3.2</i>	<i>2.6</i>
<i>of which:</i>					
up to 1 month	1.5	2.5	1.7	2.2	4.2
1-3 months	3.1	2.5	2.1	1.9	3.6
3-6 months	4.4	3.6	3.9	2.2	2.9
6-12 months	5.7	5.4	5.2	3.7	3.2
over 1 year	7.3	7.2	7.9	4.3	3.4
Deposits of Individuals	0.8	0.9	1.2	1.0	1.0
<i>demand deposits</i>	<i>0.1</i>	<i>0.1</i>	<i>0.1</i>	<i>0.3</i>	<i>0.5</i>
<i>time deposits:</i>	<i>6.4</i>	<i>6.4</i>	<i>6.5</i>	<i>5.0</i>	<i>4.2</i>
<i>of which:</i>					
up to 1 month	1.5	1.4	1.9	3.7	3.5
1-3 months	3.3	2.9	3.0	3.9	3.6
3-6 months	5.7	5.4	4.6	3.4	3.8
6-12 months	8.0	7.4	6.5	5.4	4.4
over 1 year	9.8	8.9	8.5	5.5	4.3
Deposits on Non-residents	0.5	0.5	1.1	0.6	0.9
<i>demand deposits</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.1</i>	<i>0.1</i>
<i>time deposits:</i>	<i>6.4</i>	<i>6.9</i>	<i>7.0</i>	<i>4.9</i>	<i>5.2</i>
<i>of which:</i>					
up to 1 month	1.4	1.2	2.5	6.8	4.0
1-3 months	3.2	3.5	2.6	3.4	4.1
3-6 months	4.9	5.6	4.5	2.5	3.8
6-12 months	7.2	7.3	6.9	5.6	4.5
over 1 year	9.1	8.6	8.1	5.4	5.5
Average Weighted Rate	0.8	0.9	1.1	0.6	0.6

Source: Commercial banks of KR

Table 11.

Interest Rates of Loans of Commercial Banks in National Currency (for the period)

(percent)

	2013	2014	2015	2016	2017
Average Weighted Rate	21.3	20.1	23.6	24.5	19.8
Industry	16.9	14.3	16.4	15.8	13.6
Agriculture	19.6	19.2	22.2	24.0	20.3
Transport and communication	23.8	23.9	27.6	26.9	20.3
Trade	22.0	19.8	22.4	23.7	17.7
Procurement and processing	25.0	14.6	27.8	17.7	9.7
Construction	21.1	21.1	26.7	25.3	18.8
Mortgage	21.2	19.9	19.7	19.3	14.3
Consumer loans	26.5	26.6	30.8	31.0	27.4
Other	19.8	20.4	26.0	24.4	19.4
up to 1 month	28.8	20.5	20.0	21.7	18.6
Industry	14.2	12.6	16.5	16.6	16.6
Agriculture	28.0	20.0	-	35.0	34.0
Transport and communication	-	-	22.0	-	12.0
Trade	27.4	15.1	15.6	16.7	15.2
Procurement and processing	-	-	-	-	-
Construction	13.0	18.0	-	25.0	20.4
Mortgage	-	-	-	-	-
Consumer loans	32.6	31.7	30.8	30.1	27.2
Other	23.5	23.0	18.4	25.4	26.0
1-3 months	20.9	16.9	22.3	25.6	24.6
Industry	18.8	14.8	17.1	26.0	23.5
Agriculture	31.1	29.7	32.0	32.3	31.0
Transport and communication	33.3	-	33.5	33.7	-
Trade	25.8	25.6	23.2	30.7	26.9
Procurement and processing	30.0	32.5	-	-	-
Construction	13.0	18.0	30.0	31.6	20.4
Mortgage	-	-	9.3	7.5	0.0
Consumer loans	32.0	27.4	29.8	30.7	30.1
Other	19.9	18.6	21.5	22.0	23.6
3-6 months	25.8	24.2	27.7	31.1	29.7
Industry	27.0	20.2	20.6	30.9	29.2
Agriculture	29.2	28.9	28.6	31.8	31.3
Transport and communication	29.7	29.7	32.5	29.8	28.5
Trade	25.1	24.5	25.9	29.2	26.6
Procurement and processing	33.1	28.7	32.1	35.4	-
Construction	23.9	24.1	31.6	30.3	26.5
Mortgage	32.5	29.3	-	28.4	20.7
Consumer loans	29.9	30.3	33.2	34.0	31.5
Other	26.7	25.5	27.6	27.8	26.2
6-12 months	25.3	22.2	26.3	28.5	26.0
Industry	21.4	20.6	22.6	23.4	20.1
Agriculture	25.3	20.3	23.2	25.9	22.8
Transport and communication	27.6	27.4	30.2	29.9	24.8
Trade	25.8	22.0	25.5	27.3	23.6
Procurement and processing	30.0	29.3	34.4	34.0	29.1
Construction	25.4	26.1	32.8	30.4	26.9
Mortgage	29.3	22.3	25.7	25.4	20.0
Consumer loans	29.2	29.5	32.6	33.1	31.1
Other	22.6	25.5	28.8	28.6	26.3
over 1 year	20.2	20.0	23.7	23.7	18.7
Industry	17.3	15.3	16.4	15.4	13.3
Agriculture	18.3	19.4	22.2	23.5	19.8
Transport and communication	23.4	23.6	28.9	26.7	20.7
Trade	21.4	20.9	24.8	25.3	18.3
Procurement and processing	24.5	15.0	25.9	15.7	8.1
Construction	21.6	21.1	26.0	24.9	18.6
Mortgage	21.0	20.0	20.1	19.3	14.3
Consumer loans	23.5	24.0	29.7	29.9	25.9
Other	19.8	20.8	26.5	24.1	18.1

Source: Commercial banks of KR

Table 12.

Interest Rates on Loans of Commercial Banks in Foreign Currency (for the period)
(percent)

	2013	2014	2015	2016	2017
Average Weighted Rate	17.7	15.0	14.3	12.4	10.5
Industry	13.8	13.4	13.8	11.8	10.3
Agriculture	18.1	18.9	17.6	13.2	11.4
Transport and communication	17.9	17.5	17.0	14.8	12.1
Trade	18.9	14.5	13.7	12.5	11.0
Procurement and processing	20.2	15.8	14.7	14.4	10.6
Construction	13.2	13.5	14.0	12.3	9.5
Mortgage	17.6	17.6	16.8	15.8	12.3
Consumer loans	18.9	19.1	18.9	16.2	12.4
Other	15.7	14.9	14.6	12.2	9.8
up to 1 month	25.5	12.9	12.6	12.6	11.2
Industry	17.0	13.9	14.3	14.0	14.8
Agriculture	-	-	-	17.0	-
Transport and communication	-	-	-	-	0.0
Trade	26.0	12.5	12.3	12.4	11.2
Procurement and processing	-	-	-	-	-
Construction	10.5	0.0	3.8	0.0	8.0
Mortgage	22.1	27.9	17.0	22.0	11.0
Consumer loans	22.7	19.0	16.7	12.3	7.9
Other	13.4	21.2	31.6	13.0	5.9
1-3 months	16.8	14.1	14.8	14.1	13.0
Industry	18.0	14.6	13.6	13.0	15.4
Agriculture	-	25.7	23.7	14.8	-
Transport and communication	-	14.5	-	20.0	20.0
Trade	15.9	14.3	15.7	15.1	13.2
Procurement and processing	-	-	-	-	-
Construction	23.0	7.6	10.5	8.0	-
Mortgage	22.6	-	-	30.0	-
Consumer loans	18.4	18.9	17.9	16.4	17.4
Other	14.6	16.0	22.6	17.3	14.4
3-6 months	15.0	12.4	14.6	13.6	10.7
Industry	13.3	13.7	14.0	13.2	14.2
Agriculture	24.8	22.9	24.5	23.3	19.8
Transport and communication	21.0	20.5	22.0	-	-
Trade	15.4	16.9	16.4	14.1	11.6
Procurement and processing	-	25.0	13.5	-	-
Construction	13.3	6.6	6.3	10.7	-
Mortgage	18.2	-	20.0	10.6	13.0
Consumer loans	19.8	22.0	18.9	17.6	17.6
Other	16.4	17.7	18.3	16.8	18.2
6-12 months	15.3	15.3	15.3	13.5	11.8
Industry	15.5	15.2	15.3	14.7	10.7
Agriculture	21.9	22.3	21.7	19.5	27.7
Transport and communication	21.2	20.7	19.5	22.0	17.3
Trade	15.9	16.2	15.6	12.9	11.3
Procurement and processing	17.9	15.0	23.5	-	-
Construction	12.3	7.4	9.2	18.1	15.5
Mortgage	17.7	19.0	17.6	15.5	6.7
Consumer loans	20.4	21.5	21.6	23.0	24.8
Other	15.8	18.6	16.9	15.6	19.2
over 1 year	16.3	15.6	15.0	12.5	10.5
Industry	13.8	13.4	13.6	11.2	9.9
Agriculture	17.9	18.8	17.6	12.5	11.3
Transport and communication	17.8	17.5	17.0	14.7	12.1
Trade	16.5	15.3	14.7	12.9	10.9
Procurement and processing	22.0	15.9	14.4	14.4	10.6
Construction	13.8	15.2	15.2	12.5	9.6
Mortgage	17.3	17.6	16.9	15.8	12.5
Consumer loans	18.7	19.4	19.5	18.5	14.9
Other	16.3	14.9	14.5	12.1	10.3

Source: Commercial banks of KR

Table 13.

Interest Rates on Loans of Non-banking Financial-Credit Organizations (end-of-period)
(percent)

	2013	2014	2015	2016	2017
Microfinance organizations	31.0	30.0	32.2	31.4	31.1
Industry	27.9	26.3	26.9	25.8	27.9
Agriculture	31.9	31.5	33.2	31.7	30.9
Transportation	25.2	25.6	24.6	26.7	29.8
Communication	28.0	30.0	35.3	39.6	36.1
Trade and commerce	31.1	29.6	32.6	31.0	29.2
Procurement and processing	13.3	23.7	20.5	13.7	15.0
Construction and mortgage	30.4	24.2	31.0	33.3	31.8
Services	34.7	32.4	34.0	33.8	33.1
Consumer loans	34.0	32.6	34.2	34.0	33.6
Loans to financial-credit organizations	18.4	18.9	21.2	21.0	17.4
Other	26.3	26.6	22.9	26.9	31.1
Credit Unions	27.3	25.6	27.9	27.8	25.9
Industry	29.2	29.0	30.0	31.7	31.3
Agriculture	25.8	25.7	27.7	28.3	27.2
Transport and communication	25.7	25.2	25.6	25.4	26.9
Trade and commerce	28.0	24.4	27.5	27.0	24.1
Procurement and processing	27.0	25.5	26.7	29.3	28.4
Construction and mortgage	25.1	24.0	22.8	23.3	22.5
Services	34.7	26.6	26.9	31.3	30.0
Other	28.7	28.7	31.1	29.8	27.6
SFCO OJSC "FC CU"	15.4	15.9	16.5	16.6	16.5

Source: Non-banking Financial-Credit Organizations of KR

Table 14.
Annual Average Interest Rate of Interbank Credits
(percent)

	2013	2014	2015	2016	2017
Interbank Repo Operations	3.8	6.8	9.3	4.0	1.8
up to 1 day	3.8	6.8	8.9	4.8	1.9
2 - 7 days	3.7	6.8	9.2	3.7	1.5
8 - 14 days	4.3	7.7	10.1	4.6	1.9
15 - 30 days	-	9.5	10.7	1.5	2.8
31 - 60 days	7.5	-	-	-	2.9
61 - 90 days	-	-	-	-	-
91 - 180 days	-	-	-	-	-
181 - 360 days	-	-	-	-	-
over 360 days	-	-	-	-	-
Interbank Credits in National Currency	7.2	10.5	14.1	6.9	3.4
up to 1 day	-	-	-	-	-
2 - 7 days	3.9	7.0	11.0	8.3	4.1
8 - 14 days	3.0	11.8	13.0	3.3	3.4
15 - 30 days	6.5	-	-	6.7	1.7
31 - 60 days	-	-	13.0	2.0	4.1
61 - 90 days	-	-	-	10.0	-
91 - 180 days	7.4	7.5	18.0	12.0	-
181 - 360 days	7.7	9.8	-	10.6	3.5
over 360 days	9.8	-	-	-	6.7
Interbank Credits in Foreign Currency	-	0.5	1.4	2.0	2.6
up to 1 day	-	-	-	-	-
2 - 7 days	-	0.5	1.4	2.0	1.3
8 - 14 days	-	-	-	2.0	1.3
15 - 30 days	-	-	-	-	-
31 - 60 days	-	-	-	-	-
61 - 90 days	-	-	-	-	-
91 - 180 days	-	-	-	-	-
181 - 360 days	-	-	-	-	4.0
over 360 days	-	-	-	-	-

Source: Commercial banks of KR

Note: interest rates are specified without taking account the transactions with non-residents.

Table 15.

Balance of Payments of the Kyrgyz Republic

(millions of USD)

	2013	2014	2015	2016	2017*
Current Account	-1,016.1	-1,269.4	-1,058.6	-792.0	-232.1
Goods and services	-2,831.1	-3,138.0	-2,428.7	-2,340.0	-2,374.9
Trade balance	-2,780.4	-2,807.5	-2,240.8	-2,136.5	-2,346.9
Export (FOB) ¹	2,833.2	2,482.7	1,619.0	1,607.9	1,840.4
CIS	1,810.7	1,480.6	711.5	638.5	798.2
Non-CIS	1,022.4	1,002.1	907.4	969.4	1,042.2
Import (FOB)	5,613.6	5,290.2	3,859.8	3,744.4	4,187.3
CIS	2,787.1	2,580.4	2,078.7	1,638.8	1,930.8
Non-CIS	2,826.5	2,709.8	1,781.1	2,105.6	2,256.5
Balance of services	-50.7	-330.5	-187.9	-203.5	-27.9
Transportation services	-358.0	-450.4	-257.2	-239.4	-218.7
Travels	179.2	32.6	26.4	-28.6	148.3
Other services	148.8	107.2	62.9	84.5	62.6
Technical assistance	-20.7	-20.0	-20.0	-20.0	-20.0
Income	-423.0	-307.1	-257.9	-355.6	-223.3
Direct investment income	-348.1	-223.2	-191.0	-276.6	-143.9
Portfolio investment income	0.0	0.0	0.0	0.0	0.0
Other investment income	-53.0	-60.6	-49.1	-62.7	-64.5
Interest on loans	-70.0	-78.6	-66.5	-67.6	-75.6
Other income on other investment	16.9	18.0	17.4	4.9	11.1
Compensation of employees	-21.8	-23.3	-18.7	-16.3	-14.9
Current transfers	2,238.0	2,175.8	1,628.1	1,903.6	2,366.0
Official transfers	84.1	133.7	113.2	83.8	106.3
Private transfers	2,153.9	2,042.1	1,514.9	1,819.7	2,259.7
Capital and Financial Account	1,013.0	617.8	804.8	717.1	154.8
Capital account	280.3	65.8	79.1	112.6	131.9
Capital transfers	280.3	65.8	79.1	112.6	131.9
Financial account	732.7	552.0	725.7	604.5	22.9
Direct investment ¹	626.1	232.9	1,009.1	579.0	123.1
Portfolio investment	4.8	0.1	-129.0	-7.2	-24.9
Financial derivatives	-0.1	-0.5	5.3	6.3	2.8
Other investment	101.9	319.6	-159.7	26.5	-78.0
Assets ("-") increase)	-224.0	-472.5	-410.2	-108.7	-275.2
Commercial banks	-81.5	-21.7	-157.1	92.1	-5.5
Accounts receivable	-28.7	-184.0	-26.2	-174.3	-125.9
Accounts of enterprises abroad	29.2	-24.6	-201.3	-193.5	145.4
Other assets ¹	-143.0	-242.2	-25.6	167.0	-289.3
Liabilities ("+" increase)	325.9	792.1	250.5	135.2	197.2
Commercial banks	24.7	22.0	17.4	-33.7	-13.2
Loans	191.6	699.1	232.6	111.5	209.9
Loans to public sector	177.8	442.6	260.5	256.8	228.5
Loans to private sector	13.8	256.5	-28.0	-145.4	-18.6
Accounts payable	109.6	71.0	0.6	57.4	0.5
Other liabilities	0.0	0.0	0.0	0.0	0.0
Errors and Omissions	104.3	413.6	212.4	413.4	224.5
Total Balance	101.2	-238.0	-41.4	338.5	147.1
Financing	-101.2	238.0	41.4	-338.5	-147.1

* preliminary data

Source: NBKR, NSC KR, MF KR other organizations

¹Including NBKR additional estimates.

Table 16.

Structure of External Public and Government Guaranteed Debt of the Kyrgyz Republic by Creditors
(millions of USD)

	2013	2014	2015	2016	2017
External public and government guaranteed debt (1+2+3):	3,158.7	3,437.1	3,601.1	3,742.7	4,080.6
1. Multilateral debt:	1,629.8	1,558.9	1,531.3	1,523.8	1,648.7
World Bank	697,1	671,5	639,3	618,2	666,8
Asian Development Bank	607,1	583,6	575,4	567,9	600,8
International Monetary Fund	202,7	185,2	188,2	188,0	200,3
Islamic Development Bank	64,0	59,0	59,5	64,6	76,9
European Bank for Reconstruction and Development	40,0	40,6	41,0	42,5	49,7
International Fund for Agricultural Development	9,0	9,4	9,9	12,2	15,6
Nordic Development Fund	6,1	5,2	4,6	4,3	4,7
OPEC	3,9	4,0	4,5	4,8	4,7
Eurasian Development Bank	-	0,4	3,5	5,5	11,3
European Union	-	-	5,4	15,8	18,0
2. Bilateral debt:	1,528.9	1,878.2	2,069.7	2,219.0	2,431.9
2.1. CIS countries:	300,0	300,0	300,0	270,0	240,0
Russia	300,0	300,0	300,0	270,0	240,0
2.2. other:	1,228.9	1,578.2	1,769.7	1,949.0	2,191.9
China	758,4	1,115,9	1,296,4	1,482,8	1,701,2
Japan	263,1	229,4	229,0	236,0	243,6
Germany	98,4	102,4	100,1	81,7	92,6
Korea	17,4	16,7	15,6	15,1	17,0
Kuwait Fund	9,3	8,6	9,7	8,6	7,5
Turkey	70,5	90,0	97,0	97,0	97,0
France	6,1	5,4	4,8	4,7	5,3
Denmark	3,3	3,3	3,2	3,1	3,0
Saudi Development Fund	1,3	3,9	7,4	11,2	15,5
UAE	1,1	2,6	6,4	8,8	9,1
3. Government guaranteed external debt	-	-	-	-	-

Source: MF KR

Table 17.
Information on Authorized (Stock) Capital of Commercial Banks (end-of-period)
(millions of KGS)

	Банктардын аталышы														
	2013			2014			2015			2016			2017		
	a	b	c	a	b	c	a	b	c	a	b	c	a	b	c
Total	10,482.8	10,442.3	3,815.4	11,199.6	11,170.9	3,999.2	16,188.4	16,088.4	6,885.7	19,047.2	18,977.2	8,349.0	22,621.8	21,893.8	10,906.0
1 OJSC "Aiyl Bank"	600.0	600.0	-	600.0	600.0	-	1,797.5	1,697.5	-	1,922.3	1,922.3	-	2,083.7	2,083.7	-
2 OJSC RK "AMANBANK"	372.0	372.0	0.1	600.0	600.0	0.1	680.0	680.0	0.1	750.0	680.0	0.1	853.4	725.4	0.1
3 CJSC "Bank of Asia"	271.0	230.4	179.0	299.7	271.0	210.5	335.6	335.6	260.8	400.0	400.0	310.8	500.0	400.0	310.8
4 CJSC Bank "Bai-Tushum"	715.0	715.0	329.9	715.0	715.0	329.9	715.0	715.0	329.9	790.0	790.0	404.9	790.0	790.0	404.9
5 OJSC "BAKAI BANK"	339.9	339.9	-	384.9	384.9	-	475.9	475.9	-	482.8	482.8	-	501.2	501.2	-
6 CJSC "BTA Bank"	1,000.0	1,000.0	-	1,000.0	1,000.0	-	1,000.0	1,000.0	710.0	1,000.0	1,000.0	710.0	2,000.0	2,000.0	1,710.0
7 CJSC "Demir Kyrgyz International Bank"	132.5	132.5	132.5	132.5	132.5	132.5	300.0	300.0	300.0	400.0	400.0	400.0	500.0	500.0	500.0
8 OJSC "DOS-KREDOBANK"	270.7	270.7	-	304.4	304.4	-	304.4	304.4	-	404.4	404.4	-	522.5	522.5	-
9 OJSC "Eurasian Savings Bank"	300.0	300.0	119.9	300.0	300.0	119.9	300.0	300.0	156.9	300.0	300.0	156.9	300.0	300.0	156.9
10 OJSC IB "Issyk-Kul" ¹	271.0	271.0	0.3	271.0	271.0	0.3	-	-	-	-	-	-	-	-	-
11 OJSC "Capital Bank"	310.1	310.1	-	310.1	310.1	-	382.6	382.6	-	432.9	432.9	-	522.9	522.9	-
12 CJSC "Bank Companion" ²	-	-	-	-	-	-	-	-	-	1,000.6	1,000.6	1,000.6	1,000.6	1,000.6	1,000.6
13 CJSC "Kyrgyz-Swiss Bank"	242.4	242.4	242.4	242.4	242.4	242.4	422.4	422.4	422.4	566.4	566.4	566.4	566.4	566.4	566.4
14 CJSC "Kyrgyz Investment Credit Bank"	861.8	861.8	775.6	1,030.5	1,030.5	927.5	1,328.2	1,328.2	1,195.4	1,211.5	1,211.5	1,090.4	1,204.7	1,204.7	1,084.2
15 OJSC "Kyrgyzkommertsbank" ³	153.5	153.5	147.0	153.5	153.5	147.0	300.0	300.0	0.1	400.0	400.0	0.1	1,000.0	1,000.0	529.2
16 OJSC "Commercial Bank KYRGYZSTAN"	622.2	622.2	-	782.0	782.0	-	921.3	921.3	-	1,080.8	1,080.8	-	1,126.4	1,126.4	-
17 CJSC "Manas Bank" ⁴	377.7	377.7	377.7	377.7	377.7	377.7	-	-	-	-	-	-	-	-	-
18 OJSC "Optima Bank"	700.0	700.0	680.0	700.0	700.0	680.0	700.0	700.0	680.0	1,050.0	1,050.0	1,020.0	1,050.0	1,050.0	1,020.0
19 OJSC "Rosinbank"	40.9	40.9	36.8	40.9	40.9	36.8	647.2	647.2	582.5	647.2	647.2	356.4	1,082.2	782.2	402.6
20 OJSC "RSK Bank"	1,244.0	1,244.0	-	1,244.0	1,244.0	-	1,741.0	1,741.0	-	1,846.0	1,846.0	-	1,926.3	1,926.3	-
21 CJSC JSCB "Tolubay"	235.0	235.0	3.9	268.0	268.0	4.4	322.0	322.0	5.2	412.0	412.0	6.3	500.0	500.0	7.4
22 OJSC "FinanceCreditBank KAB"	300.0	300.0	54.5	300.0	300.0	54.5	300.0	300.0	54.5	550.0	550.0	-	750.0	550.0	-
23 CJSC "FINCA Bank" ⁵	-	-	-	-	-	-	1,353.8	1,353.8	1,353.8	1,353.8	1,353.8	1,353.8	1,474.8	1,474.8	1,474.8
24 OJSC "Halyk Bank Kyrgyzstan"	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	534.2	600.0	600.0	600.0
25 OJSC "Chang An Bank" ⁶	-	-	-	-	-	-	600.0	600.0	-	600.0	600.0	-	600.0	600.0	600.0
26 CJSC "EcolslamicBank"	387.4	387.4	-	407.4	407.4	-	427.3	427.3	-	512.3	512.3	38.3	666.8	666.8	38.3
27 Bishkek Branch of the National Bank of Pakistan	201.5	201.5	201.5	201.5	201.5	201.5	300.0	300.0	300.0	400.0	400.0	400.0	500.0	500.0	500.0

Source: Commercial banks of KR

Note: a - announced authorized capital, b - paid-in authorized capital, c - including the share of foreign investors

¹ After 3 June 2015 banking license was revoked

² Upon reorganization of CJSC MFC "Financial Group Companion", bank CJSC "Bank Companion" was established, which was provided with the licenses on 12 January 2016 for carrying out banking operations in national and foreign currencies.

³ After 17 June 2015 OJSC "Kazkommertsbank Kyrgyzstan" was renamed as OJSC "Kyrgyzkommerts"

⁴ After 23 June 2015 banking license was revoked

⁵ Upon reorganization of CJSC "Microcredit Company "Finca", bank CJSC "FINCA Bank" was established, which was provided with the licenses on 3 March 2015 for carrying out banking operations in national and foreign currencies.

⁶ On 7 October 2015 OJSC "Investment Bank "Chang An" was provided with the licenses for carrying out banking operations in national and foreign currencies.

Table 18.

Consolidated Regulatory Report of Commercial Banks of the Kyrgyz Republic

(millions of KGS)

	2013	2014	2015	2016	2017*
ASSETS					
Cash assets	8,705.2	11,482.9	10,748.1	13,289.3	13,092.9
Correspondent account with the NBKR	6,685.5	7,935.4	9,852.1	12,303.3	11,464.4
Correspondent accounts with other banks	11,157.9	12,923.6	26,991.2	15,960.5	15,464.1
Deposits in other banks	5,649.6	3,975.7	9,719.1	7,571.3	10,136.0
Securities portfolio	10,285.0	6,444.5	7,710.7	13,044.9	17,690.6
Securities purchased under repo agreements	584.4	209.1	325.3	15.1	400.0
"Net" loans and financial lease	54,672.8	78,524.0	90,804.2	87,108.1	101,352.3
Loans and financial lease to financial and credits organizations ¹	3,724.6	3,779.4	3,179.8	1,245.3	1,128.0
Loans and financial lease to clients ²	53,961.6	78,756.3	93,953.5	93,499.0	108,325.0
(less) Special LLP for credits and financial lease	-3,013.3	-4,011.8	-6,329.1	-7,636.2	-8,100.7
Fixed assets	6,033.8	6,546.6	7,684.8	9,172.7	10,603.2
Investment and financial participation	149.4	208.9	228.0	291.6	342.8
Other assets	7,168.3	9,370.4	13,964.5	19,421.5	17,464.8
TOTAL: ASSETS	111,092.0	137,621.0	178,028.2	178,178.3	198,011.0
LIABILITIES					
Liabilities to the NBKR	850.2	3,735.1	4,686.8	5,515.0	5,549.4
Settlement accounts and deposits of banks	3,908.6	3,611.5	7,068.1	2,216.1	1,301.0
Resident banks	1,296.1	423.2	3,300.6	382.1	317.4
Non-resident banks	2,612.5	3,188.4	3,767.4	1,834.0	983.6
Settlement accounts	21,309.9	24,941.3	29,233.5	34,522.2	39,003.2
Settlement accounts of financial-credit organizations	1,129.8	1,233.5	841.8	687.7	521.7
Settlement accounts of clients ³	20,180.1	23,707.8	28,391.7	33,834.5	38,481.5
Demand deposits	15,222.6	16,115.8	21,805.7	24,574.6	30,205.8
Demand deposits of financial-credit organizations	1,860.4	1,384.3	719.7	368.0	199.2
Demand deposits of clients ³	13,362.2	14,731.5	21,086.0	24,206.6	30,006.5
Time deposits	22,048.6	31,059.8	38,315.3	34,865.1	39,084.3
Time deposits of financial-credit organizations	550.1	1,880.8	889.5	665.4	556.8
Time deposits of clients ³	21,498.5	29,178.9	37,425.8	34,199.7	38,527.5
Deposits of non-residents ⁴	2,719.8	4,165.0	6,415.1	5,862.0	7,079.7
Government deposits	6,033.3	6,252.8	7,108.1	7,255.3	6,224.0
Government loans	1,566.6	1,504.7	1,943.6	2,600.1	3,445.8
Securities sold under repo agreements	0.0	209.1	325.3	15.1	400.0
Loans received	9,113.7	12,374.4	21,630.7	19,325.0	19,905.5
Other liabilities	9,516.1	12,821.1	13,412.4	12,811.5	13,582.9
TOTAL LIABILITIES	92,289.4	116,790.6	151,944.6	149,562.1	165,781.6
CAPITAL					
Stock capital	10,848.4	11,642.4	16,132.1	19,189.5	21,760.5
Reserves for future needs of the bank	862.6	1,027.2	723.6	597.9	631.2
Undistributed profit of previous years	5,053.3	5,664.3	7,173.9	7,171.3	7,083.6
Current year profits/losses	1,327.1	1,910.2	1,531.4	890.9	2,138.4
Revaluation accounts	711.1	586.4	522.5	766.6	615.8
TOTAL: CAPITAL	18,802.5	20,830.5	26,083.6	28,616.1	32,229.4
TOTAL: LIABILITIES AND CAPITAL	111,092.0	137,621.0	178,028.2	178,178.3	198,011.0

* - preliminary data

Source: Commercial banks of KR

^{1/} Includes loans to banks and other financial-credit organizations, resident and non-resident.^{2/} Includes loans to legal entities and individuals, resident and non-resident.^{3/} Includes accounts of legal entities and individuals.^{4/} Includes accounts of financial-credit organizations, legal entities and individuals.

Table 19.
Information on Head Offices and Branches of Commercial Banks as at the end of 2017

Bank	Head Office Location	Total Branches	Bishkek	Batken oblast	Jalal-Abad oblast	Issyk-Kul oblast	Naryn oblast	Osh oblast	Talas oblast	Chui oblast
Total branches		319	68	25	49	39	20	59	18	41
Branches of resident banks										
1 OJSC "Aiyyl Bank"	Bishkek	33	4	4	6	3	2	7	2	5
2 OJSC RK "AMANBANK"	Bishkek	13	2	0	1	2	0	5	1	2
3 CJSC "Bank of Asia"	Bishkek	9	3	0	1	2	0	1	0	2
4 CJSC Bank "Bai-Tushum"	Bishkek	7	1	1	1	1	1	1	1	0
5 OJSC "BAKAI BANK"	Bishkek	9	1	1	1	1	1	1	1	2
6 CJSC "BTA Bank"	Bishkek	14	2	1	2	3	0	4	0	2
7 CJSC "Demir Kyrgyz International Bank"	Bishkek	13	6	1	1	1	1	2	1	0
8 OJSC "DOS-KREDOBANK"	Bishkek	10	2	0	1	2	1	1	1	2
9 OJSC "Eurasian Savings Bank"	Bishkek	3	1	0	1	0	0	1	0	0
10 OJSC "Capital Bank"	Bishkek	5	0	1	1	1	0	2	0	0
11 CJSC "Bank Companion"	Bishkek	17	3	2	4	2	2	2	1	1
12 CJSC "Kyrgyz-Swiss Bank"	Bishkek	0	0	0	0	0	0	0	0	0
13 CJSC "Kyrgyz Investment Credit Bank"	Bishkek	17	6	1	2	1	1	3	1	2
14 OJSC "Kyrgyzkommertsbank"	Bishkek	3	2	0	0	0	0	1	0	0
15 OJSC "Commercial Bank KYRGYZSTAN"	Bishkek	35	8	2	7	3	3	6	1	5
16 OJSC "Optima Bank"	Bishkek	18	7	1	1	3	0	2	1	3
17 OJSC "Rosinbank"	Bishkek	13	6	1	1	2	0	1	1	1
18 OJSC "RSK Bank"	Bishkek	51	3	5	10	7	5	9	4	8
19 CJSC JSCB "Tolubay"	Bishkek	2	2	0	0	0	0	0	0	0
20 OJSC "FinanceCreditBank KAB"	Bishkek	6	0	0	1	1	1	2	0	1
21 CJSC "FINCA Bank"	Bishkek	24	3	3	5	2	2	4	2	3
22 OJSC "Halyk Bank Kyrgyzstan"	Bishkek	9	4	0	1	1	0	2	0	1
23 OJSC "Chang An Bank"	Bishkek	0	0	0	0	0	0	0	0	0
24 CJSC "EcoIslamicBank"	Bishkek	8	2	1	1	1	0	2	0	1
Branches of non-resident banks										
25 Bishkek Branch of the National Bank of Pakistan ¹	Karachi	0	0	0	0	0	0	0	0	0

Source: "Register of Issued Banking Licenses and Register of Branches of Banks, maintained in NBKR"

¹ The branch of the non-resident bank was entered into the "Register of Issued Banking Licenses" on 24 April 2000, with the right to conduct banking operations

Table 20.
Composition of Circulating Cash of Commercial Banks and Its Rate of Collection in 2017
(billions of KGS)

	Receipt				Issue				Deviation (+/-) (9-4)	Collection Rate (%) (4/9)	
	Taxes, customs duties and fees	From sales of foreign exchange	Other	Total	To Treasury for salary payments	For payments of pensions and allowances	Purchases of foreign exchange	Other expenses			Total
	1	2	3	4	5	6	7	8	9	10	11
Total for the Republic	38.9	103.0	1,299.1	1,441.0	4.8	9.1	163.1	1,280.0	1,457.0	16.0	98.9
Bishkek city	7.8	74.9	585.4	668.1	1.8	1.2	72.7	579.3	655.0	(13.1)	102.0
Batken oblast	0.8	1.9	62.9	65.6	0.2	2.3	11.7	51.3	65.5	(0.1)	100.2
Jalal-Abad oblast	1.0	5.1	148.5	154.6	0.6	3.1	24.4	139.1	167.2	12.6	92.5
Issuk-Kul oblast	0.6	1.8	76.8	79.2	0.5	0.3	5.1	77.0	82.9	3.7	95.5
Naryn oblast	0.3	0.3	30.9	31.5	0.7	0.8	0.7	32.8	35.0	3.5	90.0
Osh city	2.5	12.3	175.9	190.7	0.3	0.8	24.9	168.8	194.8	4.1	97.9
Osh oblast	4.7	2.5	75.0	82.2	0.1	0.2	13.7	68.0	82.0	(0.2)	100.3
Talas oblast	0.4	0.6	33.3	34.3	0.2	0.2	2.6	36.8	39.8	5.5	86.2
Chui oblast	20.8	3.6	110.4	134.8	0.4	0.2	7.3	126.9	134.8	0.0	100.0

Source: Commercial banks of KR

Table 21. Pattern of Payments in the Gross System of Settlements

	2013			2014			2015			2016			2017		
	Volume, millions of KGS	Number of payments	Number of millions of KGS	Volume, millions of KGS	Number of payments	Number of millions of KGS	Volume, millions of KGS	Number of payments	Number of millions of KGS	Volume, millions of KGS	Number of payments	Number of millions of KGS	Volume, millions of KGS	Number of payments	Number of millions of KGS
payments up to 1 thousand KGS	5	10,982	7	16,300	20,399	9	19,360	11	22,708						
from 1 thousand to 100 thousand of KGS	1,797	70,277	2,947	116,444	155,027	4,149	157,127	4,479	167,625						
from 100 thousand to 1 million of KGS	18,174	41,370	25,106	59,885	76,502	31,570	77,611	39,660	90,980						
from 1 million to 10 million of KGS	137,931	43,872	162,910	54,235	59,272	178,151	64,140	231,140	79,715						
from 10 million to 100 million of KGS	288,134	9,552	398,924	12,726	14,664	485,813	14,009	460,744	13,828						
payments of over 100 million of KGS	305,314	1,206	821,947	2,900	3,571	1,050,286	6,474	4,015,959	5,850						
Total	751,355	177,259	1,411,841	262,490	329,435	1,746,219	338,721	4,751,993	380,706						

Source: Gross Settlement System in Real Time Regime

Table 22. Volume and Number of Clearing Payments by Regions

	2013			2014			2015			2016			2017		
	Volume, millions of KGS	Number of payments	Number of millions of KGS	Volume, millions of KGS	Number of payments	Number of millions of KGS	Volume, millions of KGS	Number of payments	Number of millions of KGS	Volume, millions of KGS	Number of payments	Number of millions of KGS	Volume, millions of KGS	Number of payments	Number of millions of KGS
Bishkek city and Chui oblast	60,661	1,988,223	70,620	2,435,059	2,208,200	87,302	2,465,931	158,177	5,228,672						
Batken oblast	3,915	77,628	4,195	120,649	202,667	4,965	232,242	2,920	467,413						
Jalal-Abad oblast	6,143	126,271	6,853	191,453	200,343	7,503	280,840	4,806	672,091						
Issyk-Kul oblast	5,117	143,736	5,564	201,049	184,411	6,222	197,542	4,080	413,574						
Naryn oblast	2,738	58,531	3,151	69,662	55,923	2,964	68,752	1,252	205,052						
Osh city and Osh oblast	7,883	181,981	9,042	306,371	328,148	11,588	426,333	13,180	1,139,616						
Talas oblast	1,670	37,930	2,154	77,444	90,760	2,226	98,823	1,111	204,600						
Total	88,127	2,614,300	101,579	3,401,687	3,270,452	102,481	3,770,463	185,526	8,331,018						

Source: Bulk Clearing System

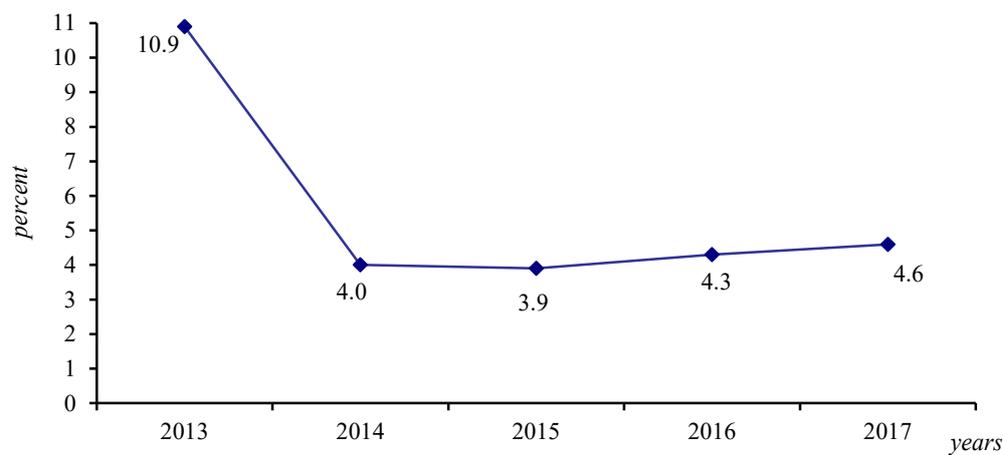
Table 23. Information on Transactions with Payment Cards at Trade Outlets

Type of Cards	2013			2014			2015			2016			2017		
	Number of transactions	Volume, thousands of KGS	Number of transactions	Volume, thousands of KGS	Number of transactions	Volume, thousands of KGS	Number of transactions	Volume, thousands of KGS	Number of transactions	Volume, thousands of KGS	Number of transactions	Volume, thousands of KGS	Number of transactions	Volume, thousands of KGS	
Elcard	30,423	19,710	70,562	51,057	129,504	200,231	178,248	773,582	942,533						
Elcard-UPI	-	-	-	-	-	4,680	5,606	8,711	14,587						
Zolotaya Korona (Alai Card)	299,006	52,987	361,468	70,047	109,513	476,069	133,956	311,177	127,262						
Visa	671,377	1,877,463	975,746	2,529,638	3,097,967	1,841,129	3,964,267	2,668,500	5,928,123						
Master Card	12,350	204,772	19,870	229,595	340,141	79,643	413,775	133,885	508,276						
American Express	2,479	80,046	2,128	64,683	72,513	1,895	60,536	2,607	58,375						
Union Pay	3	38	356	3,973	7,546	12,667	11,741	7,650	9,371						

Source: Commercial banks of KR

Chart 1.

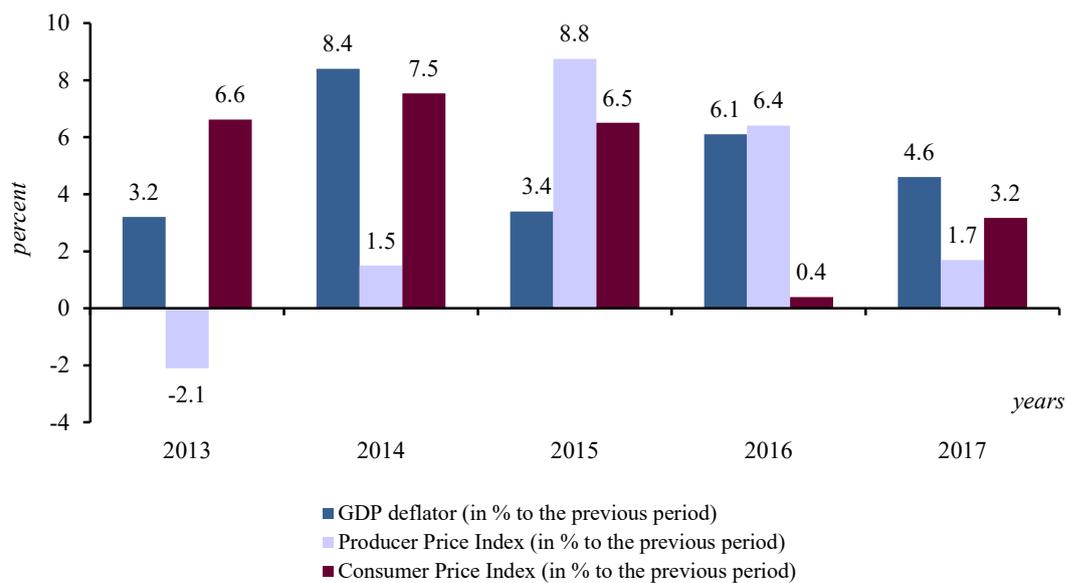
Rates of Growth of Real Gross Domestic Product



Source: NSC KR

Chart 2.

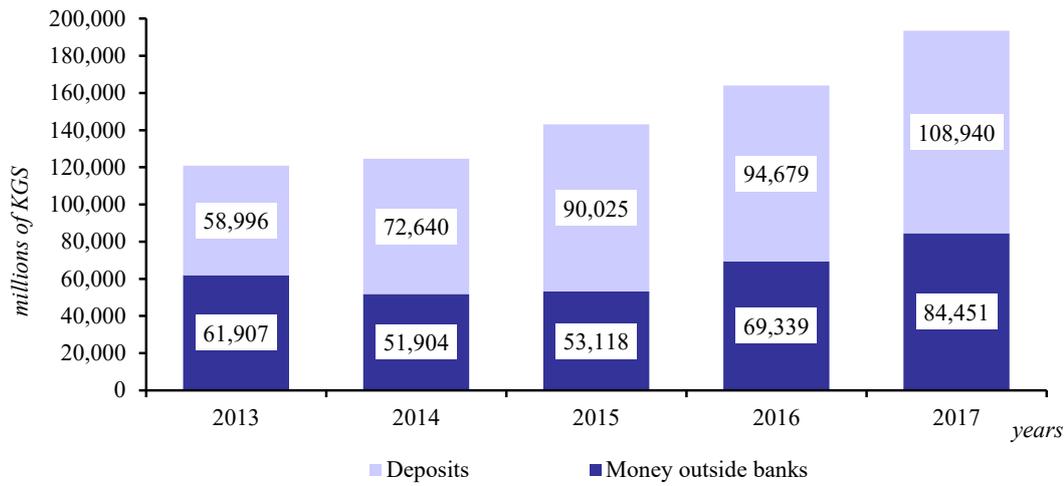
Rates of Growth of Consumer and Producer



Source: NSC KR

Chart 3.

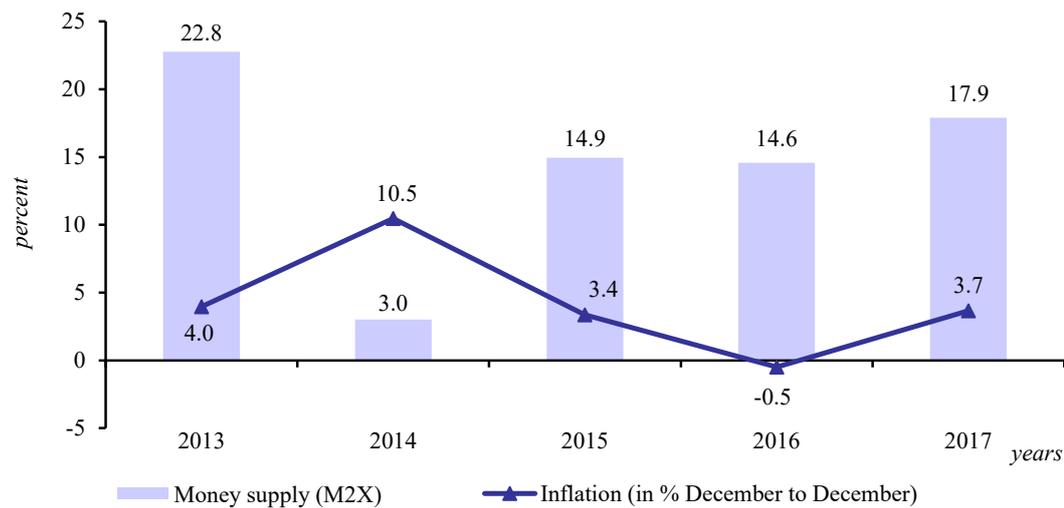
Monetary Aggregates M2X Structure



Source: NBKR

Chart 4.

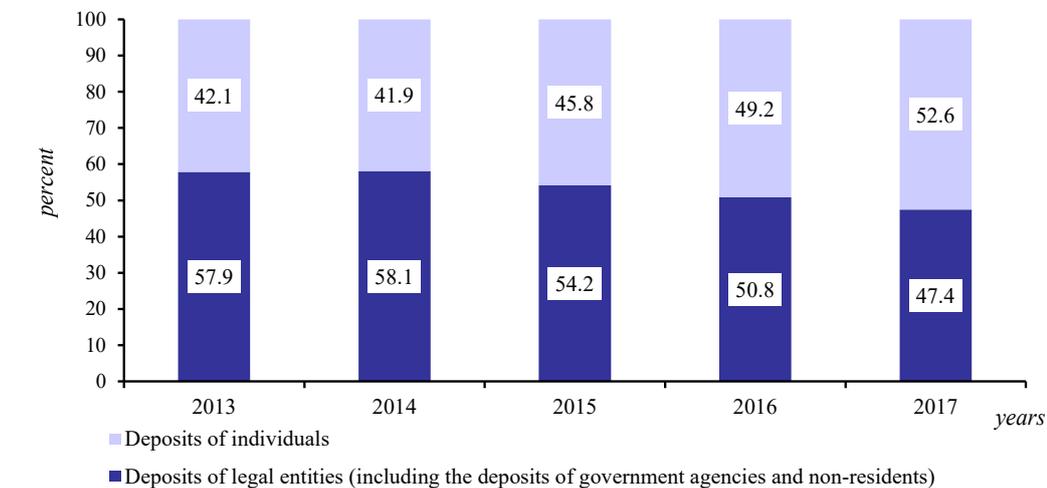
Rates of Growth of Money Supply and Inflation



Source: NBKR, NSC KR

Chart 5.

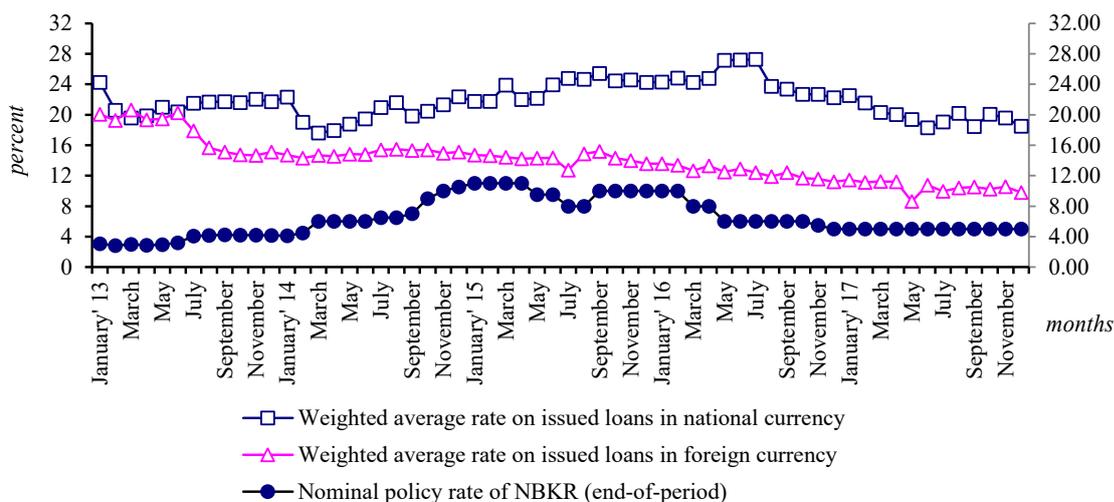
Structure of Deposit Base of Commercial Banks (end-of-period)



Source: Commercial banks of KR

Chart 6.

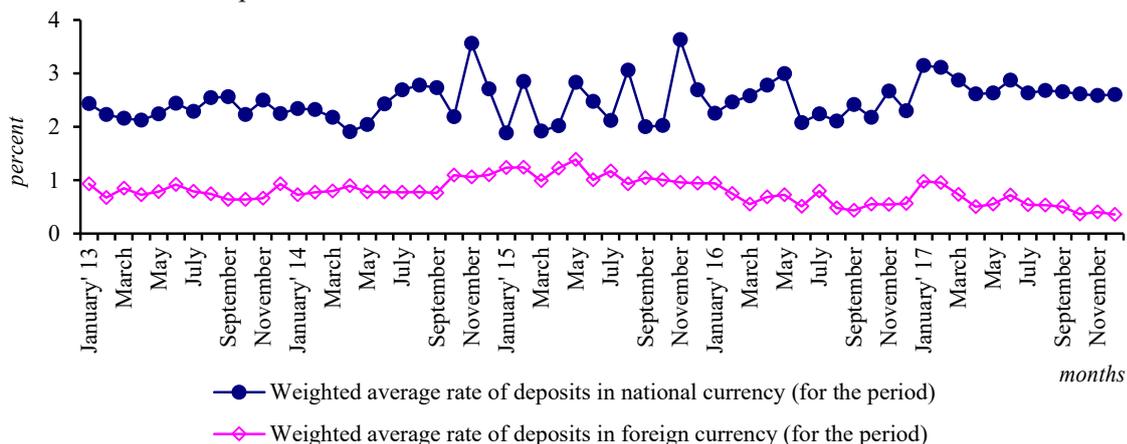
Interest Rates of Loans Issued by Commercial Banks and Policy Rate of the NBKR



Source: NBKR, Commercial banks of KR

Chart 7.

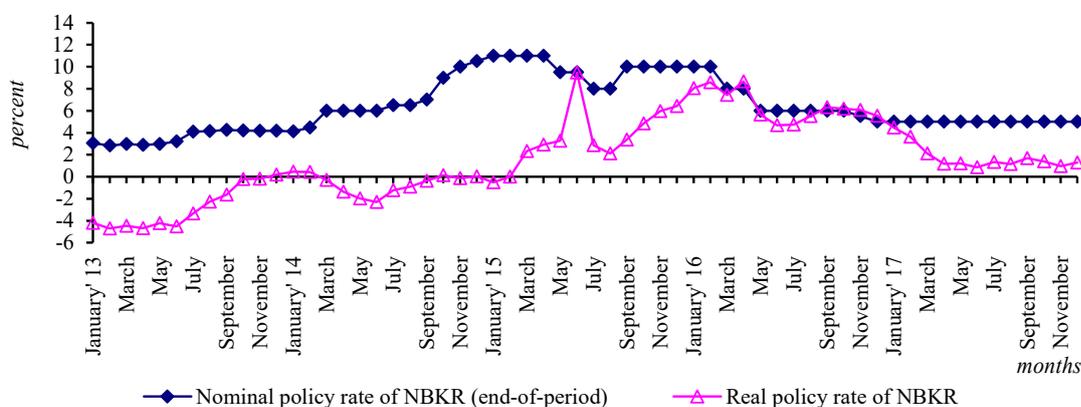
Interest Rates of Deposits of Commercial Banks



Source: NBKR, Commercial banks of KR

Chart 8.

Nominal and Real Policy Rate Developments

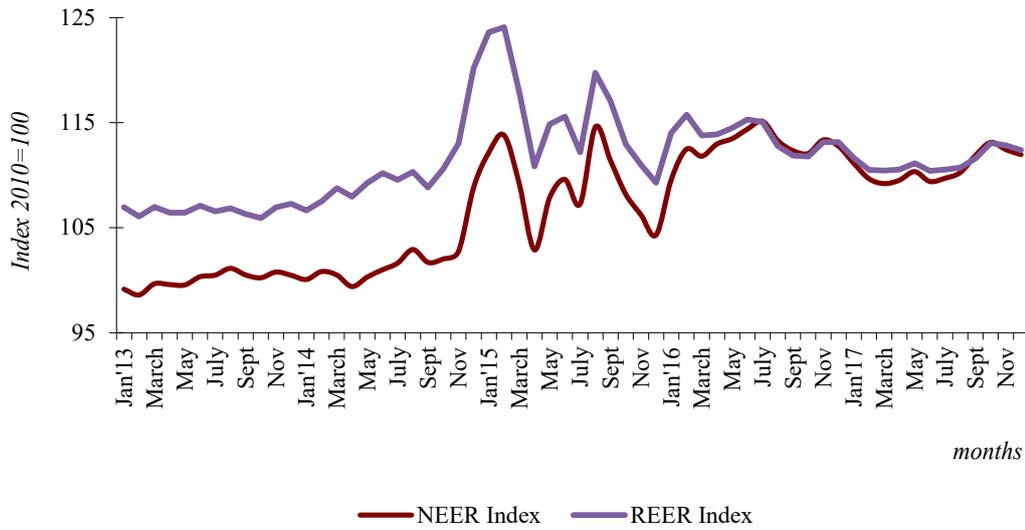


Source: NBKR

Note: the following formula was used to calculate the real interest rate $r = (i - p) / (p + 100) * 100$, where i - the nominal interest rate, r - the real interest rate, p - annual rate of inflation.

Chart 9.

Nominal and Real Effective Exchange Rate Indices



* According to NBKR data

Periodical Publications and Other Information Tools of the National Bank of the Kyrgyz Republic

№	Title	Language of Publication	Periodicity	Contents	Distribution
1.	Bulletin of the National Bank of the Kyrgyz Republic	In the state, official, English languages	Monthly	The publication provides the statistical data on basic economic and financial indicators. The data of the National Statistic Committee of the Kyrgyz Republic, Ministry of Finance of the Kyrgyz Republic, commercial banks, Financial Market Supervision and Regulation State Service under the Government of the Kyrgyz Republic and the data of the National Bank of the Kyrgyz Republic are used in preparation of the bulletin.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and departments, commercial banks, libraries of the Kyrgyz Republic, representative offices of international organizations accredited in the Kyrgyz Republic. Electronic version is published on the official website of the National Bank.
2.	Annual Report of the National Bank of the Kyrgyz Republic	In the state, official, English languages	Annually	The report on the activity of the National Bank for the reporting year contains assessment of changes in the real, financial and external sectors of economy, the description of decisions and actions of the National Bank in the monetary sphere, about banking and payment systems; it includes financial statements and general information on the National Bank, as well as the statistical appendices.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, the Supreme Court of the Kyrgyz Republic, ministries and departments, commercial banks, libraries of the Kyrgyz Republic, CIS central banks, integration institutions, representative offices of international organizations and embassies of countries accredited in the Kyrgyz Republic. Electronic version is published on the official website of the National Bank.
3.	Regulatory Acts of the National Bank of the Kyrgyz Republic	In the state, official languages	Monthly	These are the regulations, instructions and other regulatory acts adopted by the National Bank.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, commercial banks, financial-credit organizations, courts of the Kyrgyz Republic, ministries and departments, higher educational institutions and libraries of the Kyrgyz Republic. Electronic version is published on the official website of the National Bank.

4.	Monetary Policy Report	In the state, official, English languages	Quarterly	The objective of the Report is to inform the public of the decisions made by the National Bank in the monetary policy area based on the analysis and forecast of the key inflation factors and assessment of the economic development in the external and internal environment of the Kyrgyz Republic.	Electronic version is published on the official website of the National Bank.
5.	Financial Sector Stability Report of the Kyrgyz Republic	In the state, official, English languages	Biannually	The objective of the Report is to inform the public of the general assessment of financial system stability and sustainability in the Kyrgyz Republic.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, ministries and departments. Electronic version is published on the official website of the National Bank.
6.	Balance of Payments of the Kyrgyz Republic	In the state, official, English languages	Quarterly	The publication describes the recent development trends in the external sector and contains the statistical data on the balance of payments, external trade, international reserves, external debt, and the international investment position, as well as the metadata and the information base of the balance of payments.	The Jogorku Kenesh of the Kyrgyz Republic, the Administration of the President of the Kyrgyz Republic, the Office of the Government of the Kyrgyz Republic, higher educational institutions and libraries of the Kyrgyz Republic, integration institutions. Electronic version is published on the official website of the National Bank.

7.	Official website of the National Bank www.nbkr.kg	In the state, official, English languages	It is updated in the real time mode	<p>Information on activity of the National Bank, including:</p> <ul style="list-style-type: none"> - information on the banking legislation; - information on regulatory and legal acts of the National Bank that regulate its monetary policy, activity of commercial banks and other FCOs, on the issue of organizing the payment system and the cash and money turnover; - draft documents submitted for discussion; - the regularly updated list of commercial banks and NBFCCOs, licensed by the National Bank; - documents on establishment of FCOs; - the data on the tariffs for commercial banking services the list of money transfer systems registered with the National Bank; - operational information on the official rates of exchange, the policy rate of the National Bank, the interest rates on “overnight” credits and deposits, and data on the operations involving the National Bank, as well as on the weighted average interest rate of loans of the commercial banks and the FCOs by sectors; - news block. <p>The following information is also posted on the website:</p> <ul style="list-style-type: none"> - reviews on the commercial banking system and the non-banking financial sector; - the statistical data on monetary surveys, foreign economic indicators, balance of payments, international reserves, external debt, and on the international investment position of the country; 	Free access to information.
----	--	---	-------------------------------------	--	-----------------------------

7.	Official website of the National Bank www.nbkr.kg	In the state, official, English languages	It is updated in the real time mode	<p>- information on the history of the national currency;</p> <p>- information and analytical materials and Internet versions of such official publications of the National Bank as: "Bulletin", "Annual Report", "Regulatory Acts", "Monetary Policy Report", "Financial Sector Stability Report of the Kyrgyz Republic", "Balance of Payments of the Kyrgyz Republic";</p> <p>- the special section "Information for Consumers of Financial Services", which includes excerpts from the regulatory legal acts on the requirements set for the financial-credit organizations and directed to protect the rights of consumers of financial and payment services, as well as memos for the holders of electronic cards, the borrower, the depositor as well as the memo for cases of implementation of foreign exchange operations.</p> <p>The special sections are devoted to:</p> <p>- the issues of combating corruption, with the phone numbers of the "hot line" indicated therein;</p> <p>- vacancies, procurement, sales and other competitions held by the National Bank.</p>	Free access to information.
8.	Radio Program "Uluttuk Bank Bildiret" ("The National Bank reports")	In the state, official languages	Biweekly	<p>The basic aspects of the National Bank activity are highlighted therein in the form of the interviews of the Bank's specialists on the current issues of monetary policy, banking and payment systems, banking legislation and other issues.</p> <p>Answers to popular questions of the citizens are covered under the heading "Public Information Service of the National Bank answers your questions".</p>	Broadcast on the radio "Birinchi Radio"
9.	TV Program "Natsbank Soobschayet" ("The National Bank reports")	In the state, official languages	Bimonthly	<p>The basic aspects of the National Bank activity are highlighted therein in the form of the interviews of the Bank's specialists on the current issues of monetary policy, banking and payment systems, banking legislation and other issues.</p>	Broadcast on the TV channel "Public Broadcasting Corporation"

Appendix 4
to the Report of the National Bank of the Kyrgyz Republic for 2017

List of Abbreviations

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ACFEP	Advisory Council on Foreign Exchange Policy
ADB	Asian Development Bank
ALE	Association of Legal Entities
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
BCS	Bulk Clearing System
BFR	Budget Funds Recipient
BIS	Bank for International Settlements
CAMELS	Rating System of Commercial Banks (Capital adequacy, Asset quality, Management quality, Earnings, Liquidity, Sensitivity of bank to market risk)
CIF	Price at the border of the importing country (cost, insurance, freight)
CIS	Commonwealth of Independent States
CJSC	Close Joint Stock Company
CT MF KR	Central Treasury of the Ministry of Finance of the Kyrgyz Republic
CU	Credit Union
EAG	Eurasian Group on combating money laundering and financing of terrorism
EBRD	European Bank for Reconstruction and Development
ECF	Extended Credit Facility
EAEU	Eurasian Economic Union
EEC	Eurasian Economic Commission
ESF	Exogenous Shocks Facility
EurAsEC	Eurasian Economic Community
DPA	Deposit Protection Agency
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force on Money Laundering
FCCU	Financial Company of Credit Unions
FCO	Financial-Credit Organization
FOB	Price at the Frontier of Country-Exporter (Free on Board)
FPAS	Forecasting and Policy Analysis System
FSDP	Financial Sector Development Project
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
GS	Government Securities
GVA	Gross Value Added

IAS	International Auditing Standards
IASC	International Accounting Standards Committee
ICIP	Investment Climate Improvement Program
IDB	Islamic Development Bank
IFRS	International Financial Reporting Standards
IFSB	Islamic Financial Services Board
IMF	International Monetary Fund
IPC	Interbank Processing Center
ISB	Interstate Bank
IT	Information Technologies
JVI	Joint Vienna Institute
KR	Kyrgyz Republic
LLC	Limited Liability Company
LLP	Loan Loss Provision
MCA	Microcredit Agency
MCC	Microcredit Company
MFC	Microfinance Company
MFKR	Ministry of Finance of the Kyrgyz Republic
MFO	Microfinance Organization
MRC	Monetary Regulation Committee
NBFCO	Non-Banking Financial-Credit Organizations
NBKR	National Bank of the Kyrgyz Republic
NEER	Nominal Effective Exchange Rate
MP	Monetary Policy
NPCS	National Payment Card System
NSC KR	National Statistical Committee of the Kyrgyz Republic
OJSC	Open Joint Stock Company
OPEC	Organization of Petroleum Exporting Countries
PRBR	Periodic Regulatory Bank Reporting
PRC	People's Republic of China
PRR	Periodic Regulatory Report
PS	Payment System
RBS	Risk-Based Supervision
REER	Real Effective Exchange Rate
RLA	Regulatory Legal Acts
ROA	Return on Assets

ROE	Return on Equity
RR	Reserve Requirement
RTGS	Real Time Gross Settlement System
SCEA	State Classifier “Economic activities”
SCO	Shanghai Cooperation Organization
SDR	Special Drawing Rights
SECO	State Secretariat for Economic Affairs of Switzerland
SFCO	Specialized Financial and Credit Organization
SFIS	State Financial Intelligence Service
SIPC	Single Interbank Processing Center
ST-Bills	State Treasury Bills
ST-Bonds	State Treasury Bonds
T-Obligations	Treasury Obligations
UAE	United Arabian Emirates
USA	United States of America
VAT	Value Added Tax
WB	World Bank