



**National Bank
of the Kyrgyz Republic**

THE FINANCIAL SECTOR STABILITY REPORT OF THE KYRGYZ REPUBLIC

2013

June 2014

Bishkek

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This publication is released 2 times a year – in June and December. It is published in three languages: Kyrgyz, Russian and English.

Other publications of the National Bank of the Kyrgyz Republic

Annual Report of the National Bank of the Kyrgyz Republic

This document is an overall report of the National Bank of Kyrgyz Republic (NBKR) for the last year. It contains summary on economic development of the republic and monetary policy, as well as the National Bank financial statement, general information about NBKR, statistical annexes. It is published in 3 languages: Kyrgyz, Russian and English.

Bulletin of the National Bank of the Kyrgyz Republic

This monthly informational publication includes statistical data on the basic macroeconomic indicators and economy sectors of the Kyrgyz Republic. It is published in 3 languages: Kyrgyz, Russian and English.

Balance of Payments of the Kyrgyz Republic

“The Balance of Payments of the Kyrgyz Republic” reflects development trend of the external sector and information about the balance of payment, foreign trade, international reserves, foreign debt and the international position of the Kyrgyz Republic. It is published quarterly in January, May, July and October in Kyrgyz, Russian and English.

Inflation Report

This publication describes dynamics of consumer prices in the republic and regions, analysis of the main inflation factors, informs about the National Bank decisions on monetary policy and provides with inflation preview for the oncoming period. It is published quarterly in Kyrgyz, Russian and English.

Press-Release of the National Bank of the Kyrgyz Republic

«Press-release of the National Bank» describes current events, which take place in National Bank and provides with the major data on the financial market. It is published weekly in Kyrgyz and Russian languages.

Statutory Acts of the National Bank of the Kyrgyz Republic

The purpose of the document is to publish statutory acts of the National Bank in order to provide commercial banks and public with statutory acts and official information on the National Bank activity, as well as propaganda of the Kyrgyz Republic banking legislation. Presumable publication frequency is once a month in Kyrgyz and Russian languages.

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PREAMBLE

National Bank of the Kyrgyz Republic has been publishing the Financial Sector Stability Report of the Kyrgyz Republic since 2012. The objective of the report is to inform the public of the general assessment on the stability and sustainability of the financial system of the Kyrgyz Republic.

Financial stability in this publication means smooth and uninterrupted operation of financial institutions, financial markets and payment systems enabling to perform functions of the financial intermediation even in conditions of financial imbalances and shocks.

Results of the monitoring and analysis of financial stability are considered by the National Bank in forming main directions of monetary policy of NBKR, regulating the banking activity and development of the strategy for financial and credit institutions of the Kyrgyz Republic.

The Financial Sector Stability Report of the Kyrgyz Republic is oriented at financial market participants and the audience interested on the issues of financial stability.

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MAJOR CONCLUSIONS

The financial sector of the Kyrgyz Republic is evaluated in general as stable and sustainable on the basis of the results of 2013. Results of macroprudential analysis, econometric modeling, direct and “reverse” stress tests of systemic risks indicate to the presence of financial strength and capacity in the banking sector of Kyrgyzstan to withstand certain shocks.

There is a consecutive growth in assets, loan portfolio, resource base, net profit and financial intermediation level, which, in general, is a proof of the stability of the banking sector and the system of Non-Bank Financial Credit Institutions. Banks are characterized with a relatively high level of liquidity.

System risks in the financial sector of the Kyrgyz Republic remain moderate.

According to the results of macro-prudential analysis and stress tests, the major risks in the banking sector is credit risk through the impact of indirect currency risk. Due to a quite significant level of dollarization, credit risks associated with foreign currency liabilities are significant. While the direct impact of currency risk is minimal. The main source of these risks for the banking sector are the borrowers of the banks who received loans in foreign currency but do not have income in that currency.

Moderate risk of capital outflows in the financial sector remains against moderate country risk. Kyrgyz banking sector is still relatively isolated and poorly integrated into the international financial capital markets, which is typical for a moderate country risk. The main sources of funding for banks are domestic resources (85.0 percent of total liabilities are drawn from residents of the Kyrgyz Republic). The largest share in the resource base of banks falls under the savings of households (31.1 percent of the total liabilities of the banking sector). Assets of the banking sector are also largely concentrated in Kyrgyzstan (85.9 percent of total assets are disposed in the Kyrgyz Republic). Significant proportion of resources falls under the loans from international financial institutions (donors) in the non-bank sector, the purpose of which is to support development of the private sector on a long term basis.

The results of the “reverse” stress tests indicate to a slight decline in stocks of financial strength of banks by the end of 2013 compared with 2012.

Risks posed by the real estate market are moderate; however, persistence of the current rate of growth in property prices may create risks in the future. Risks of the real estate market to the financial sector remain moderate due to the underdevelopment of mortgage lending. At the same time the volume of classified loans for construction and mortgage decreased.

On the background of a low-level of inter-bank lending, the contagion risk¹ is negligible. It is also due to the presence of collateral in interbank lending and weak relationships between commercial banks of the Kyrgyz Republic.

Credit risks in the banking sector² are moderate. Information provided by the banks as a result of the survey indicates that in average credit risks remain on the moderate level in the banking sector.

¹ Risk of contagion in interbank lending.

² Based on the aggregated information on collateralized property presented by the bank to the clients.

I. MACROECONOMIC AND FINANCIAL ENVIRONMENT

1.1. Macroeconomic Conditions and Risks. Risk map

Macroeconomic risks associated with the volatility of economic growth, budget deficit and weak economy diversification remain despite the improvement in the macroeconomic situation.

Gross Domestic Product

A significant growth was observed in the economy of Kyrgyzstan in 2013 driven mainly by revival of the volume of production by the companies on the development of the gold deposit “Kumtor”, as well as moderate growth in other sectors of the economy: economic growth, excluding companies for the development of gold deposit “Kumtor” showed growth by 5.8 percent against the same period in 2012 (based on 2012 GDP, excluding companies for the development of gold deposit “Kumtor” growth made up 6.3 percent). GDP deflator was at the level of 2.0 percent against 8.7 percent in 2012.

In the service sector, an increase in trade by 7.0 percent is noted compared with 2012, while the gross turnover of operations in the reporting period amounted to 325.8 billion KGS. There was an increase throughout the structure; in particular, the turnover of retail trade of petrol rose by 13.7 percent, retail trade, except for motor vehicles and petrol- by 7.5 percent. In the structure of trade, the main share falls under the retail trade, except for the trade with motor vehicles and petrol (53.3 percent). The share of wholesale trade and trade through agents was 31.8 percent, the share of retail trade with petrol - 11.3 percent. While the share of retail trade, except for motor vehicles and petrol compared with 2012 increased by 0.8 percent, retail trade of automotive fuel increased by 0.1 percent; and the share of wholesale trade and trade through agents decreased by 0.7 percent.

It should be noted an important contribution of agriculture to GDP formation; the physical volume of production of the latter grew by 2.9 percent against 1.2 percent in 2012. Growth of gross agricultural products has been achieved through the increase in the production of sugar beet (91.6 percent), wheat (51.6 percent), cereals (without bean cultures, rice and buckwheat) (27.5 per cent), and fruit cultures (4.9 percent), as well as by increasing the cultivated area by 0.4 percent. Favorable weather and climatic conditions, as well as implementation of the project “Financing agriculture” became the basis for the sector’s growth. (Table 1.1.1).

Table 1.1.1. The contribution of individual activities in the growth/decline in GDP
percents

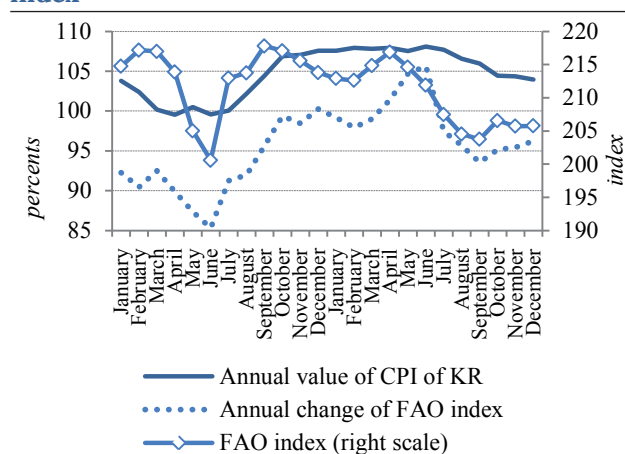
	2012			2013		
	Ratio, percents	Rate of increase, percents	Contribution to increase, percentage points	Ratio, percents	Rate of increase, percents	Contribution to increase, percentage points
GDP	100.0	-0.1	-0.1	100.0	10.5	10.5
Agriculture	16.7	1.2	0.2	15.2	2.9	0.5
Industry	15.7	-20.8	-4.7	16.1	34.5	5.4
Mineral resource industry	0.9	37.6	0.3	0.7	-4.6	-0.04
Manufacturing industry	12.1	-28.0	-5.1	13.4	45.4	5.5
Production and distribution of electric energy, gas, water	2.7	5.2	0.2	2.0	-1.7	-0.05
Construction	6.5	29.7	1.5	6.8	12.4	0.8
Trade; repair of vehicle	16.0	10.7	1.6	16.1	7.0	1.1
Transport and communication	9.2	9.4	0.8	9.5	12.3	1.1
Others	22.9	2.5	0.5	22.0	0.9	0.2
Hotels and restaurants	1.4	11.7	0.2	1.5	11.1	0.2
Financial activity	0.6	4.1	0.02	0.5	3.7	0.02
Real estate transaction	4.4	-0.4	-0.02	4.1	-1.8	-0.1
State administration	5.1	1.6	0.1	5.1	-1.2	-0.1
Education	6.0	4.8	0.3	5.6	1.0	0.1
Health care and social services	3.5	1.3	0.04	3.4	2.1	0.1
Public facilities	1.9	-0.5	-0.01	1.8	1.6	0.03
Net (after subsidies) taxes for products	13.1	-0.1	-0.01	14.4	10.5	1.4

Source: NSC KR

In general, despite the high rates of economic growth in the industrial and trade sector unstable situation is observed and there are certain risks in the manufacturing industry, which may significantly affect GDP and the stability of the financial sector of the country.

Inflation

Easing of inflationary pressure from food prices had a restraining effect on the rise of domestic prices in 2013. Inflation during the year was 4.0 percent, while the corresponding figure in 2012 constituted 7.5 percent. Reduction in the level of core inflation was observed in the reporting period, which constituted 5.3 percent according to the National Statistics Committee of the Kyrgyz Republic.

Graph 1.1. The dynamics of CPI KR and the FAO index

High dependence on import for many socially important food products on the market of the country remains the main factor that affects domestic prices.

The average value of the FAO Food Price Index constituted 209.8 points, which is by 1.6 points lower than last year. In general, food markets in 2013 were relatively stable. Food market saturation with rich harvest in 2013-2014 MY allowed to balance supply and demand in world markets and, as a result, to maintain reasonable price stability.

In general, inflation does not have a negative impact on the financial stability of the country and was in the range of values defined in the main directions of the monetary policy for 2013-2015.

State budget

According to the Central Treasury of the Ministry of Finance of the Kyrgyz Republic, state budget deficit in 2013 amounted to 2.3 billion KGS or 0.7 percent to GDP³. Total financing of the budget deficit in view of budget surpluses at the end of the reporting period (5.5 billion KGS) was carried out entirely by external sources in the amount of 17.7 billion KGS (5.1 percent to GDP), while in the internal sources negative balance of 9.9 billion KGS was established (2.8 percent to GDP). Based on the previously existing methodology of calculation, the budget deficit amounted to 13.4 billion KGS or 3.8 percent to GDP, which also shows the risks in the fiscal sector.

Macroeconomic risks

The economic growth in the Kyrgyz Republic is largely dependent on the volume of production and performance of enterprises on the development of gold deposits of “Kumtor”. In the case of changes in the physical volume of production or the price of gold on the world market, the volume of output and export may be adjusted. In addition, the delay of the period of uncertainty regarding the resolution of the situation created around the gold mining company continues to put pressure on the formation of the resource part of the budget. Thus, the share of the tax on gross income of “Kumtor” in operating state budget expenditures in 2013 amounted to 3.5 percent or 3.6 billion KGS.

There is a high dependence on the situation in world food markets, which increases the vulnerability of the domestic economy and creates risks to price stability.

Closure of the US quantitative easing program led to a weakening of the national currency of many countries. Taking into account the dependence on import of the Kyrgyz economy, the dynamics of the U.S. dollar in world currency markets and in the countries- major trading partners creates some risk of inflation in the country.

On the other hand, about half of all revenues are provided at the expense of taxation of foreign economic activity that directly depends on the terms of trade with other countries. Significant change in the existing rules may lead to increased risk of formation of budget revenues.

Uneven distribution of the budget within the year and the high proportion of expenditures for current consumption is an additional factor for increasing inflationary background.

In the segment of the public finances, the risks are concentrated in the field of formation of the resource part of the budget and problems of macro- fiscal vulnerability. As expected, the budget deficit financing in 2013 was carried out entirely at the expense of foreign income. According to forecasts, the status of its financing remains the same in 2014, which entails a high risk of underfunding of the budget.

Continued high level of deficit over a long period can result in a high inflationary background and complicate efforts to stabilize inflation processes in the economy. A significant excess of budget expenditure over income leads to higher costs for the conduct of monetary policy. Among other risk factors stimulating inflation continues to be uneven distribution of budget funds during the year (mainly due to arrhythmic resource revenues), possible significant monthly financial gaps and the prevalence of expenditures for current consumption.

³ According to the recommendations of the Accounting Chamber as a result of the audit of the report on execution of the republican budget for 2012, the Ministry of Finance made amendments to the Programme of State Investments in part of re-credited funds which were registered not as expenses from September 2013 but as financial assets and accordingly be reflected in the sources of budget deficit coverage (source: Rationale to the draft Decree of the Government of the Kyrgyz Republic ‘On the draft Law “On amendments to the Law of the Kyrgyz Republic “On the republican budget of the Kyrgyz Republic for 2013 and forecasts for 2014-2015”’).

Box 1. Risk Assessment Map⁴

According to the results of 2013, group of indicators characterizing the external conditions effecting the macroeconomic stability and reserve adequacy of the country were among the risk groups. Risks remain moderate on other group of indicators.

Aggravation of risks on group “External conditions affecting the macroeconomic stability” was explained by the slowdown of growth rates of the economy of Russia, one of the main trade economic

partners of Kyrgyzstan, as well as decrease of world prices for gold. Economic growth rates of Russia in 2013 against 2012 decreased from 3.4 percent to 1.3 percent. Price for gold according to the results of 2013 decreased against 2012 by 27.8 percent.

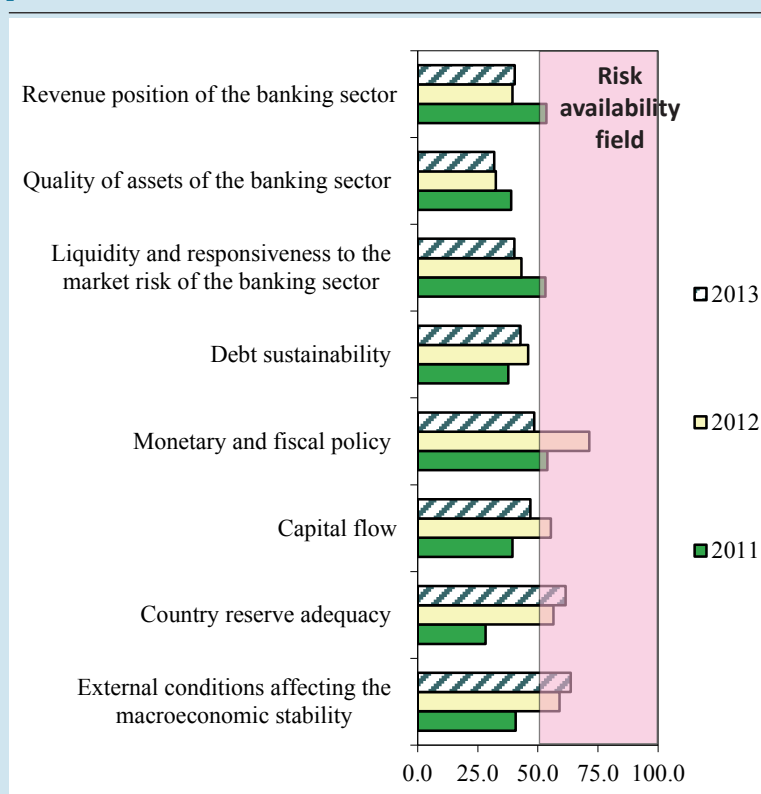
Increase of import revenues as well as reduction of indicators of coverage with net foreign assets of NBKR with money supply in 2013 led to the increase of risks on group “Adequacy of country reserves”.

Decrease of risk level on group “Monetary and fiscal policy” is based by the decrease in 2013 against 2012 of the ratio of public spending to GDP.

Reduction of the level of risk in the group “Capital flows” is due to the growth of exports in 2013 compared with 2012 on the background of a slowdown in import growth.

Changes of the risk level in the group “Debt sustainability” according to the results of 2013 are insignificant.

Chart 1.1.2. Risk Assessment Map
percents



⁴ Methodology of the risk assessment map was published by NBKR “Report on the stability of the financial sector of the Kyrgyz Republic for the first half of 2012”.

1.2. Structure of the Financial Sector

Institutional structure of the financial sector in Kyrgyzstan is represented by commercial banks and other financial companies (non-banking financial and credit institutions, insurance companies, and investment and pension funds, stock exchanges).

Table 1.2.1. Institutional structure of the financial sector
(number of financial institutions)

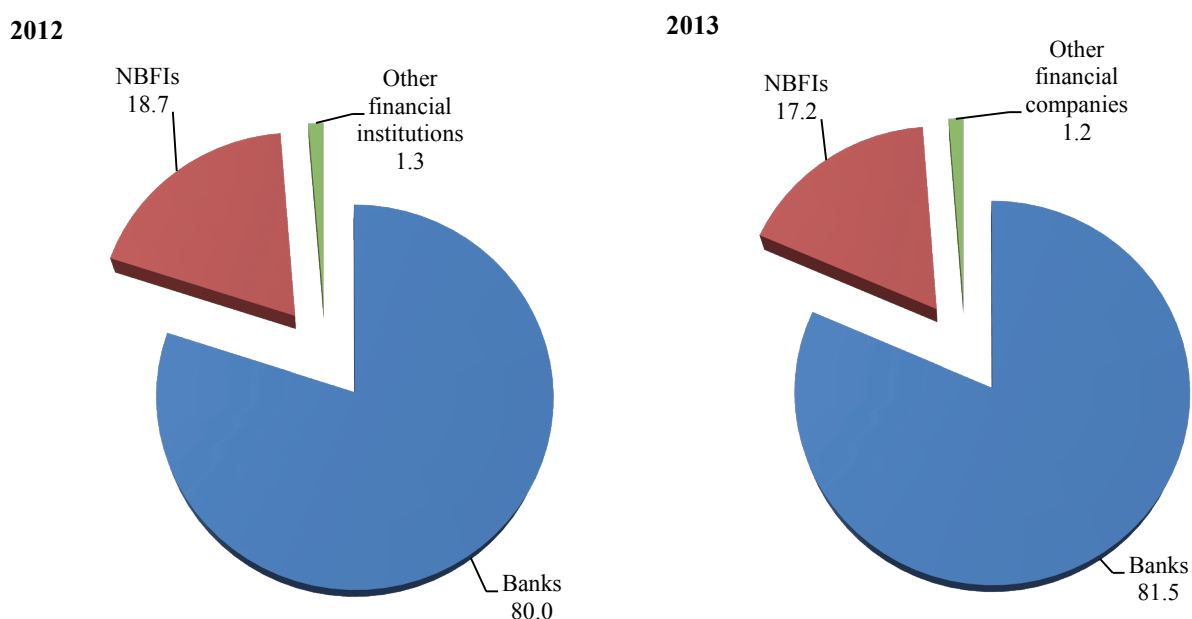
Financial institutions	2009	2010	2011	2012	2013
Commercial banks	22	22	22	23	24
Other financial companies, including:	1234	936	958	837	794
<i>Non-bank financial institutions (NBFI), including:</i>	1203	906	931	810	765
Financial organizations, including:	359	397	454	320	277
Micro-crediting companies	226	266	340	242	208
Micro-crediting agencies	129	127	110	74	65
Micro-financial companies	4	4	4	4	4
LLC "SFRB"	1	1	-	-	-
CJSC "Development Fund"	1	-	-	-	-
OJSC "FCCU"	1	1	1	1	1
Credit unions	238	217	197	183	153
Exchange offices	372	290	279	306	334
<i>Insurance companies</i>	19	19	16	16	18
<i>Investment funds</i>	6	6	8	8	8
<i>Stock exchanges</i>	3	2	1	1	1
<i>Pension fund</i>	3	3	2	2	2

Source: NBKR, NSC KR

At the end of 2013, assets of the financial sector constituted 133.0 billion KGS or 38.0 percent to GDP, an increase compared with 2012 was 23.3 billion KGS.

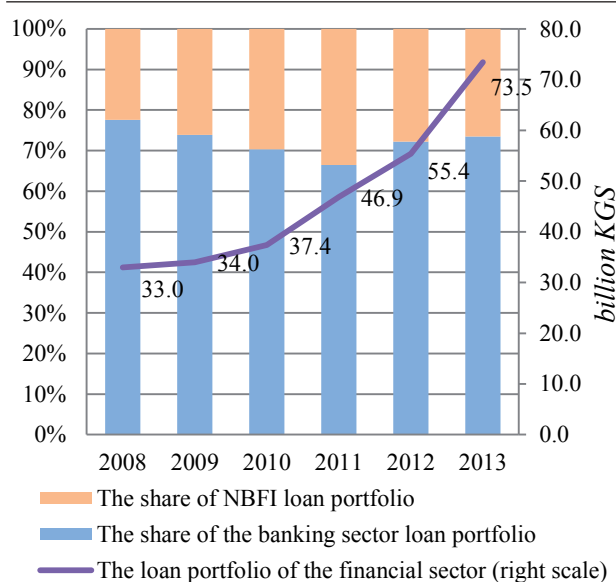
The banking sector's share in the total assets of the financial sector constituted 81.5 percent. The share of NBFI and other financial companies accounted for 17.2 percent and 1.2 percent, respectively (Chart 1.2.1).

Chart 1.2.1. Institutional structure of the financial sector assets of Kyrgyzstan
percents



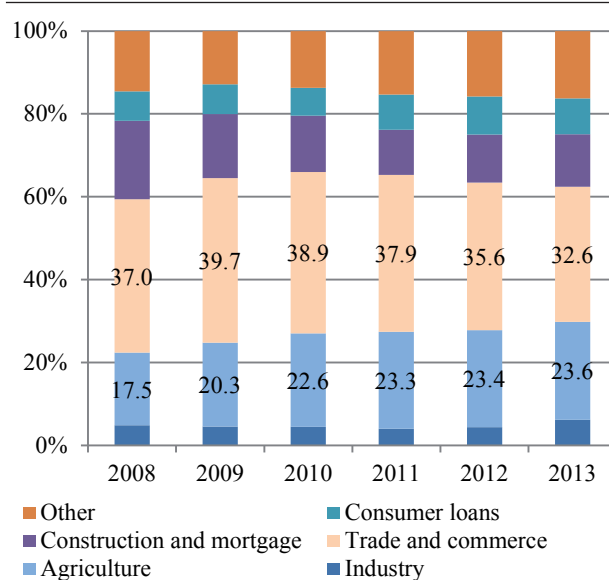
The total loan portfolio of banks and NBFIs in 2013 increased up to 32.6 percent compared with 2012 and amounted to 73.5 billion KGS or 21.0 percent to GDP. Bank loans in the loan portfolio of the financial sector has changed slightly and the end of 2013 achieved 3.5 percent (Chart 1.2.2).

Chart 1.2.2. The structure of the loan portfolio



Source: NBKR

Chart 1.2.3. The sectoral structure of the loan portfolio



Source: NBKR

The concentration was observed in the trading industry (banks) and agriculture (NBFI) in the sectoral structure of the loan portfolio of the financial sector. The aggregate share of the loan portfolio of the financial sector in the above-noted sectors of the economy at the end of 2013 constituted 56.2 percent of total issued loans (Chart 1.2.3) or 41.3 billion KGS.

1.3. Status of the Financial Markets

The situation in the domestic foreign exchange market remained relatively stable. Foreign exchange market intervention was conducted to smooth out exchange rate jumps, without affecting the formation of the general trend defined by market assumptions.

In the market of interbank borrowings was noted decrease of activity against the growth a daily average volume of excess reserves of commercial banks. Despite the observed volatility of interbank borrowing, since the beginning of 2013 there has been a steady decline in the cost of resources in the interbank market. In general, the interbank market functioned sustainably, ensuring redistribution of liquidity among commercial banks.

Securities market represented by the State treasury bills and bonds issued by the Ministry of Finance varied in different directions.

1.3.1. Status of the currency and money market

Currency market

There was an increase in demand in the currency market, which is largely determined by the dynamics of the exchange rate of KGS, and ongoing intervention of the National Bank were aimed at smoothing exchange rate volatility on the background of the impact of external and internal factors. In general, the situation in the domestic market of the Kyrgyz Republic in 2013 remained relatively stable. The official exchange rate of the US dollar in 2013 rose by 3.9 percent to 49.2470 KGS/US dollar.

Export operations and remittances to the country remained the main sources of foreign exchange inflow. An additional factor in maintaining demand for foreign currency was the increase in consumer activity and demand for import. In this regard, the exchange rate risk remained significant in the operations of economic entities. The main currency of trade remained the US dollar. Stable situation in the currency market in 2013 allowed the National Bank to significantly minimize its presence in the interbank market. Thus, a single intervention on selling of foreign currency in the amount of 14.7 million US dollars (-65.9 percent from the corresponding figure in 2012) was conducted in April.

The volume of bank operations on purchase and sale of foreign currency on the domestic market amounted to 379.8 billion KGS, having increased up to 34.6 percent compared with the figure for 2012.

The total amount of swap operations performed on the domestic market, as well as with non-resident banks reached 4.1 billion KGS having increased twice against the same period in 2012.

Monetary market

Conservative policy of commercial banks predetermined high level of liquidity in the financial sector. In 2013, the growth trend of KGS segment of the market of interbank borrowings remained under the decrease of the annual average interest rates on all types of loans. The greatest activity was observed in the domestic market in the second and fourth quarters of fiscal year due to uneven distribution of excess reserves in the banking system.

The situation in the interbank borrowing was characterized by decreased activity compared to 2012 against the increase of the daily average volume of excess reserves of commercial banks by 2.4 billion KGS. The biggest money market participants continued to follow a conservative strategy, maintaining a high level of liquid assets in the accounts. Demand for liquidity was mainly due to uneven distribution of excess reserves in the banking sector between the dominant banks and other market participants. Overall, the market functioned stably, ensuring redistribution of liquidity among commercial banks at the expense of inter-bank transactions.

The total volume of transactions made in the interbank credit market in 2013 amounted to 10.5 billion KGS, which is lower by 36.8 percent against 2012. The main part of committed transactions accounted for repo transactions. Besides, the volume of transactions in the national currency on standard credit terms increased (up to 1.8 billion KGS). However, in the reporting period, the share of these transactions decreased by 0.2 percentage points to 17.5 percent.

Significant increase of overnight loans received by the banks from the National Bank to maintain short-term liquidity in the national currency was observed, which rose compared to the same period in 2012 up to 64.8 percent to 8.1 billion KGS.

Weighted average interest rate on interbank loans in the national currency issued in 2013 was formed at a rate of 7.2 percent (in 2012 - 7.7 percent). Following the dynamics of changes in the discount rate, the average cost of the overnight loan for 2013 decreased from 8.5 to 4.1 percent.

In addition to providing interbank loans in the domestic market, some banks conducted operations with non-resident banks. The total volume of transactions with non-resident banks committed in 2013 decreased by 52.1 percent to 13.5 billion KGS.

1.3.2. Status of the securities market

Securities market represented by the state treasury bills and bonds, issued by the Ministry of Finance changed in different directions. ST-Bills output to finance the budget deficit increased. ST-Bills sales volume increased to 5.7 billion KGS (up 20.7 percent), while sales of ST-Bonds, by contrast, fell to 2.4 billion KGS (decrease by 10.1 percent).

The National Bank actively conducted open market operations in order to achieve the targets of monetary policy. Volume of sterilization operations constituted 44.6 billion KGS, which is higher than the corresponding figure in 2012 by 56.1 percent.

Supply volumes of treasury bills issued by the Ministry of Finance of the Kyrgyz Republic increased, while the revenue position of these instruments declined. Thus, the price indicators of state treasury bills fell by 1.4 percentage points and amounted to 8.5 percent, the revenue on treasury bonds fell by 0.1 percentage points, reaching 14.8 percent and the revenue on the National Bank notes was 3.5 percent (-2.8 percentage points).

Demand for 2-year treasury bonds was maintained mainly due to the activity of the two dominant investors in the face of one of the largest commercial banks and one institutional investor (more than 90 percent of all treasury bonds in circulation). Other categories of investors showed little activity in this segment of state securities market, buying securities with shorter maturities.

Within 2013 the total volume of announced issuance of state treasury bills amounted 5.9 billion KGS (increase by 21.1 percent), treasury bonds – 1.9 billion KGS (decrease by 29.4 percent), National Bank notes – 50.6 billion KGS (increase by 62.2 percent).

1.4. REAL ESTATE MARKET

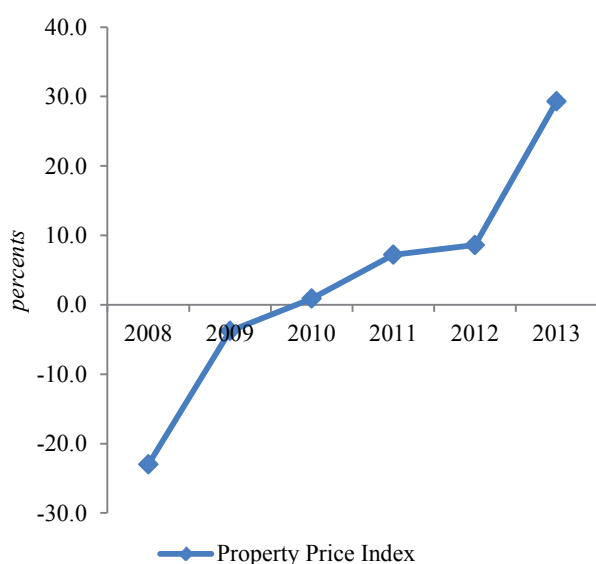
The real estate market experienced an increase in the price index due to the high demand for real estate in the cities of Bishkek and Osh, and insufficient new housing.

Increase in real estate prices, in turn, influenced the deterioration of housing affordability index, characterizing the deterioration of self-sustainment of affordable real estate.

Risks to the financial sector from the real estate market remain moderate due underdeveloped mortgage credit lending⁵. The share of classified loans for construction and mortgage credit lending and their volume decreased.

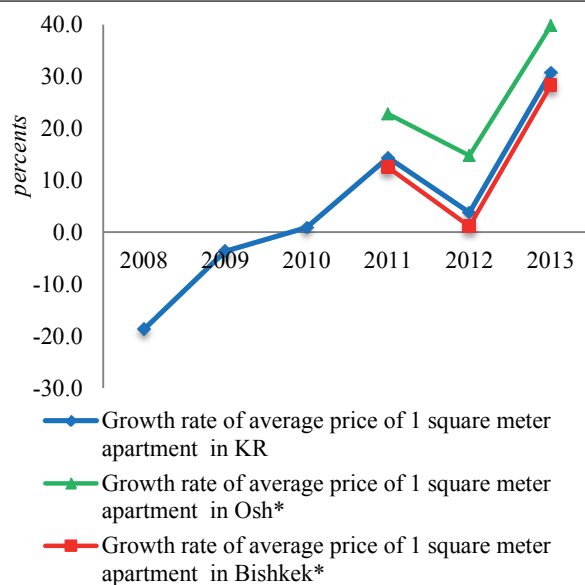
An increase in property price index⁶ (29.3 percent) was observed in 2013 compared with 2012 (Chart 1.4.1).

Chart 1.4.1. Index of prices in the real estate market of Kyrgyzstan



Source: SRS KR

Chart 1.4.2. Dynamics of real estate price changes (apartments)



Source: NSC and SRS, computed by NBKR

* data on Bishkek and Osh cities up to 2010 missing

By the end of 2013 the average price of 1 square meters of housing in Bishkek and Osh grew by 28.3 percent and 39.7 percent, respectively, compared with 2012 (Chart 1.4.2).

The main volume of real estate transactions accounted for Bishkek and Osh (66.1 percent of total purchase and sale of real estate in Kyrgyzstan).

⁵ In conditions of the Kyrgyz Republic, mortgage credit lending means, as a rule, a long term credit provided under the collateral for the real estate property right.

⁶ Laspeyres index method was used in developing the index of real estate price. In general, the Laspeyres index is computed as following:

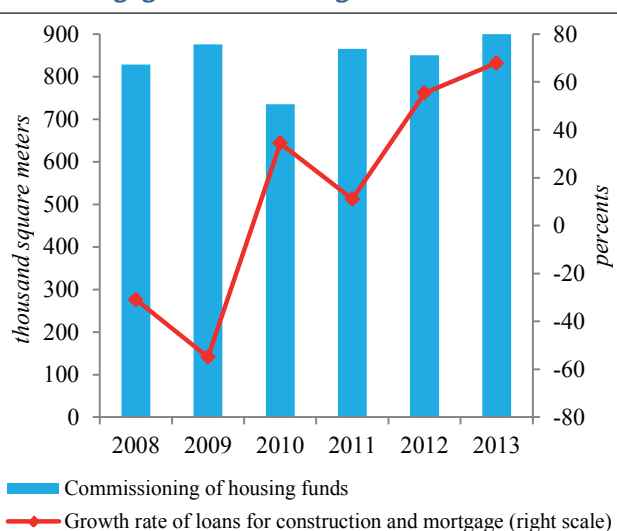
$$L = (\sum_{i=1}^K Q_{oi} P_{ti} / \sum_{i=1}^K Q_{oi} P_{oi}) * 100,$$

Where K = number of type of estate;

Q_{oi} = number of estate of type i in the base period;

P_{oi} = price of real estate of type i in the base period;

P_{ti} = price of the real estate of type i in the current period.

Chart 1.4.3. Dynamics of commissioning of housing and credits issued for the construction and mortgage credit lending

Source: NSC and SRS, computed by NBKR

Note: data for the reporting period

The increase in the aggregate level of commissioning of housing funds constituted 6.6 percent in 2013 compared with 2012 (Chart 1.4.3). It should be noted that commissioning of housing is carried out mainly by commercial business entities (96.9 percent of the total living space).

The main share of commissioned housing accounted for Bishkek, Chui oblast and Osh city of Osh oblast (Table 1.4.1).

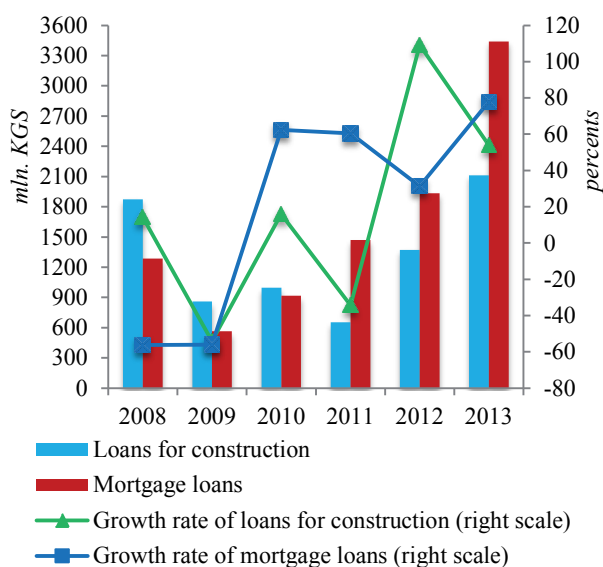
Table 1.4.1. Geographic structure of commissioned housing

	2012		2013	
	Total area commissioning, thousand square meters	The share of the total area, %	Total area commissioning, thousand square meters	The share of the total area, %
Bishkek city and Chui oblast	329.3	38.7	316.1	34.9
Osh city and Osh oblast	330.7	38.9	198.3	21.9
Other oblasts of KR	190.5	22.4	392.3	43.3
Total	850.5	100	906.7	100

Source: NSC KR

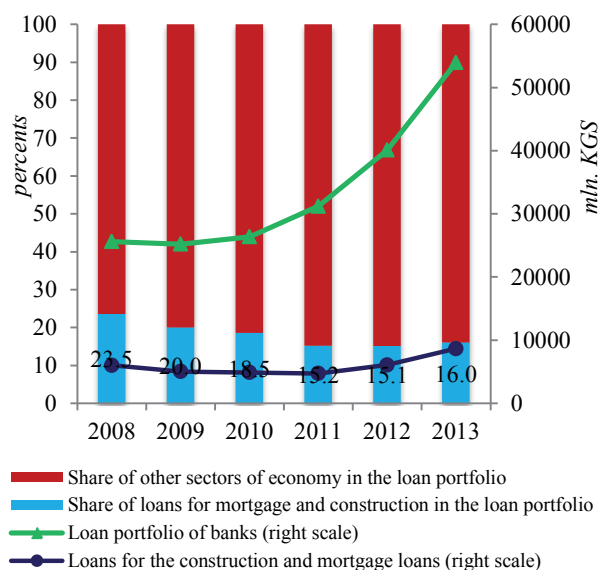
In 2013, the volume of mortgage loans and loans to finance the construction rose by 77.8 and 54.0 percent, respectively, and constituted 5.6 billion KGS (Chart 1.4.4).

In the reporting period, total loans for mortgages and construction grew by 38.4 percent compared with 2012, amounting to 8.7 billion KGS or 16.0 percent of the total loan portfolio of commercial banks (Chart 1.4.5).

Chart 1.4.4. Issued credits for construction and mortgage credit lending

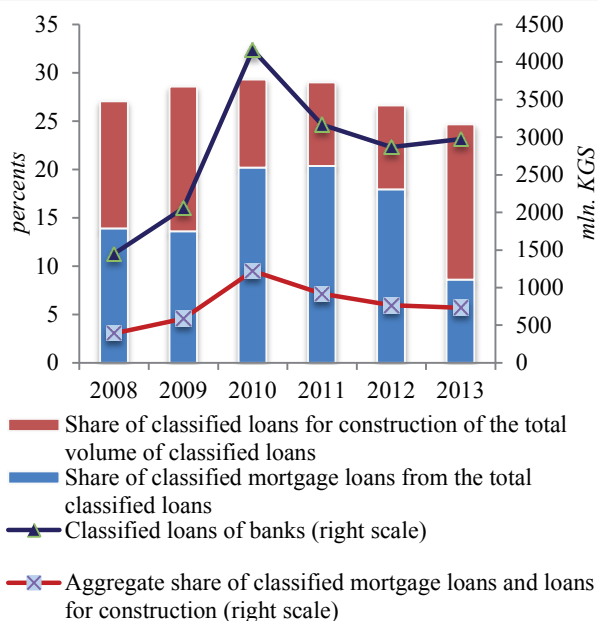
Source: NBKR

Note: data for the reporting period

Chart 1.4.5. Aggregate share of credits for mortgage lending and construction in the loan portfolio of commercial banks

Source: NBKR

Note: data for the reporting period

Chart 1.4.6. Dynamics of classified credits for mortgage lending and financing of construction

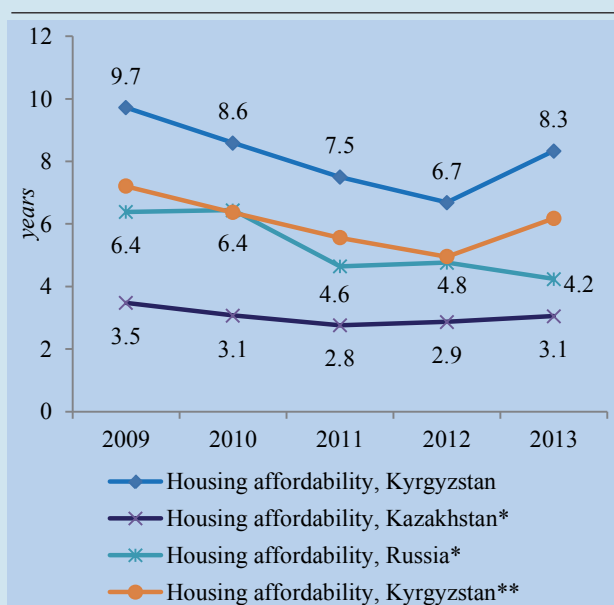
Source: NBKR

The share of total gross troubled mortgages and construction loans in total classified loans by the end of 2013 decreased by 2.0 percentage points compared with 2012 and amounted to 24.7 percent or 733.5 million KGS (decreasing by 30.0 million KGS compared with 2012) (Chart 1.4.6).

Box 2. Housing Affordability Index

The situation with housing affordability in the Kyrgyz Republic deteriorated slightly⁷ (index value greater than 5.1) compared with 2012. This is due to growth in property prices over the growth rates of average wages (Chart 1.4.7).

Chart 1.4.7. Housing affordability index without minimal consumer budget (apartments)

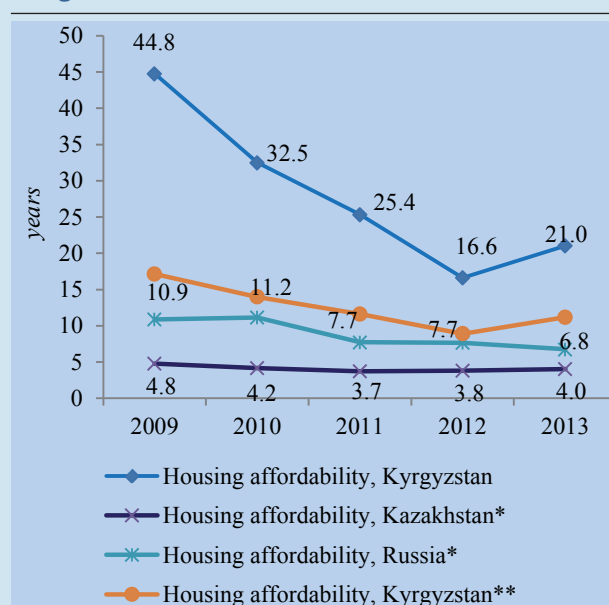


Source: NSC KR, SRS KR, Agency of RK on statistics, State Statistics Committee of Russia, computed by NBKR

* average prices were used in computing the index on Russia and RK in the secondary housing market

** including non-registered income

Chart 1.4.8. Housing affordability index (apartments) including minimal consumer budget



Source: NSC KR, SRS KR, Agency of RK on statistics, State Statistics Committee of Russia, computed by NBKR

* average prices were used in computing the index on Russia and RK in the secondary housing market

** including non-registered income

To acquire an apartment of 54 square meters in Kyrgyzstan one should save all wages for 8.3 years (including unrecorded income⁸ – 6.2 years) as of the end of 2013.

The best indicator of housing affordability among the countries concerned was registered in Kazakhstan – 3.1 years. In Russia, this figure was 4.2 years.

By the end of 2013, a family in Kyrgyzstan with the minimum consumer budget of 13 797.6 KGS (60.4 percent of total family income) will need 21.0 years (including unrecorded revenues – 11.2 years) in order to procure housing, whereas in Kazakhstan (excluding unrecorded income as of 2013) – 4.0 years and in Russia (excluding unrecorded income as of 2013) – 6.8 years (Chart 1.4.8).

⁷ The calculation of housing affordability index methodology can be accessed at the NBKR publication “Report on the stability of the financial sector of the Kyrgyz Republic for the first half of 2013”.

⁸ According to the conclusions of the Working Group on the research of the black economy of the Kyrgyz Republic, the level of shadow income of the population constituted around 35 percent of the wages fund. This research was held by the Public Association “Investment Roundtable”, Bishkek, December 2012.

II. BANKING SECTOR

Growth of financial intermediation of banks has been maintained against the advancing of growth rates of main indicators of the banking sector over the rates of economic growth.

In general, the development of the banking sector was characterized by escalating of the volumes of crediting against some diversification of the loan portfolio. Increase in the basic indicators of the banking sector was observed: assets, loan portfolio, resource base and net income.

Stress test results indicate a moderate level of systemic risk of the banking sector. The banking sector has sufficient financial strength.

2.1. MAIN TRENDS

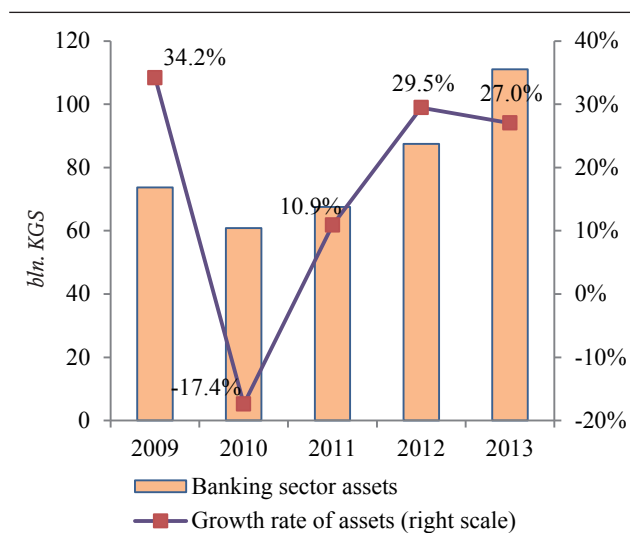
As of December 12, 2013⁹, 24 commercial banks (including the Bishkek branch of the National Bank of Pakistan) and 287 of their branches were operating in the Kyrgyz Republic. This list included 16 banks with foreign capital share, 10 banks with foreign share of more than 50 percent. All banking institutions of the republic are universal by their activity.

Three bank: CJSC “Manas Bank”, OJSC “KyrgyzCredit Bank”, OJSC IB “Issyk-Kul” operated in conservation mode.

Assets

In general, the reporting period marked by the growth of all kinds of banking sector assets. At the end of 2013, banking sector assets amounted to 111.1 billion KGS, an increase compared with 2012 to 27.0 percent (Chart 2.1.1).

Chart 2.1.1. Dynamics of banking sector assets



Asset growth in 2013 was mainly due to the increase of the:

- Loan portfolio by 34.7 percent or 13.9 billion KGS;
- Correspondent accounts and cash flow by 25.2 percent or 6.5 billion KGS.

Share of the loan portfolio in total assets was 48.6 percent, an increase compared with 2012 by 2.7 percentage points.

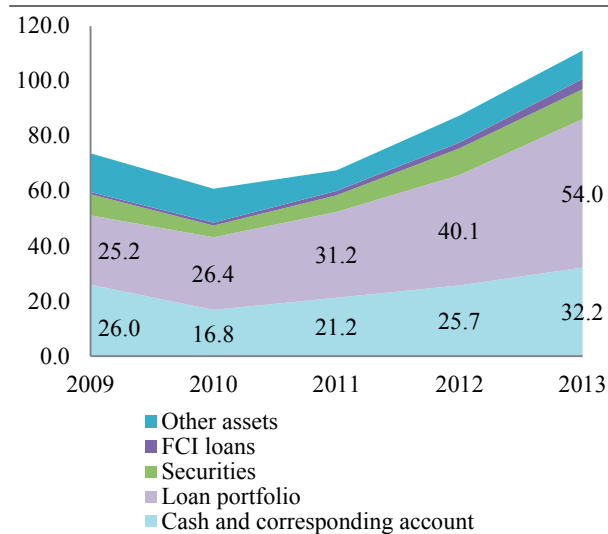
No significant changes were observed in the structure of the banking sector assets in breakdown by sector by the end of 2013 (Chart 2.1.3).

The aggregate share of liquid assets of banks (cash, correspondent accounts and securities) at the end of 2013 decreased by 1.8 percentage points compared with the same period in 2012 and amounted to 38.8 percent of total assets or 43.1 billion KGS.

⁹ The data is provided according to the Periodic Regulatory Reporting of commercial banks.

Chart 2.1.2. Change of the structure of banking sector assets

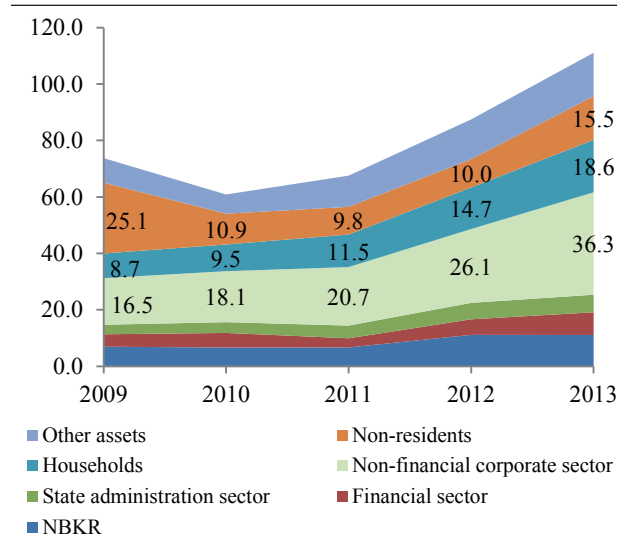
bln. KGS



* Loans and financial lease to the clients

Chart 2.1.3. Institutional structure of the banking sector assets

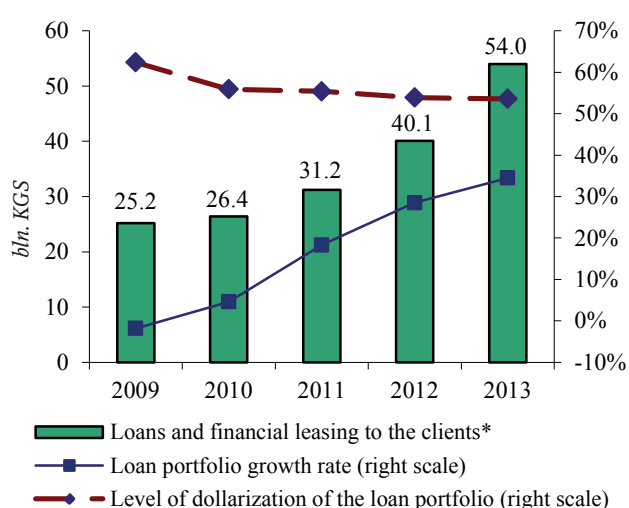
bln. KGS



Loan portfolio

Increase in banks' loan portfolio in 2013 was mainly due to the buildup of agricultural lending and trading industry. Loan portfolio branches of trade and agriculture for 2013 increased by 32.2 percent, or 7.1 billion KGS.

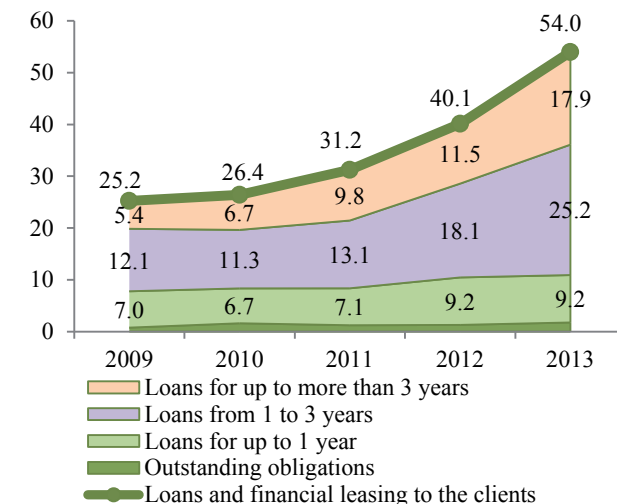
By the end of 2013 the level of dollarization of the loan portfolio of the banking sector remained almost unchanged at 53.6 percent (a decrease of 0.3 percentage points) (Chart 2.1.4).

Chart 2.1.4. Dynamics of the loan portfolio of the banking sector

* Without loans provided by the FCI and special loan loss provision

Chart 2.1.5. Structure of the loan portfolio by its maturity

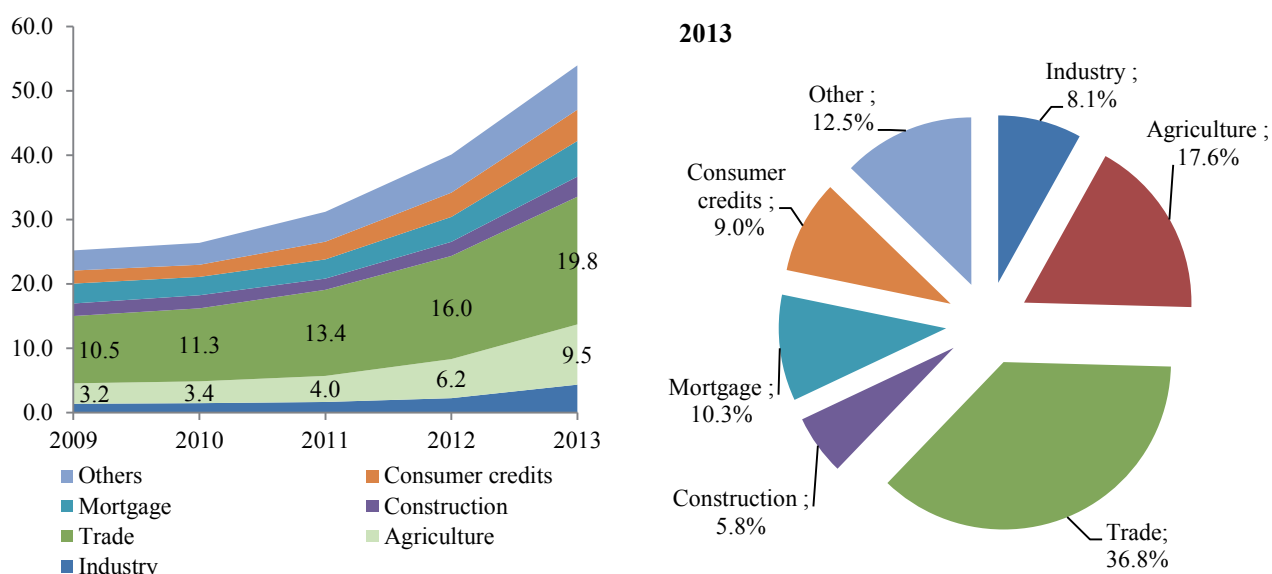
bln. KGS



In the structure of banks' loan portfolio by maturity, the main share fell within medium-term loans from 1 to 3 years and at the end 2013 constituted 46.7 percent (Chart 2.1.5).

Chart 2.1.6. The sectoral structure of loan portfolio of banks

bln. KGS



In the sectoral structure of the loan portfolio, a decrease of the concentration level of trade credits was noted against increased lending to the agricultural sector (Chart 2.1.6). The share of trade loans in the loan portfolio for 2013 decreased from 40.0 percent to 36.8 percent, the share of agricultural loans increased from 15.4 percent to 17.6 percent. Lending volume in the agricultural sector at the end of 2013 increased by 1.5 times compared with 2012 and amounted to 9.5 billion KGS.

Obligations. Status of the external debt of commercial banks

Banking sector obligations by the end of 2013 amounted to 92.3 billion KGS having increased by 29.3 percent compared to the same period in 2012.

In the institutional structure of the obligation, the dynamics of increasing the proportion of equity of households and non-financial enterprises (Chart 2.1.7) maintained. Funds of households still are the primary source of banks' resources.

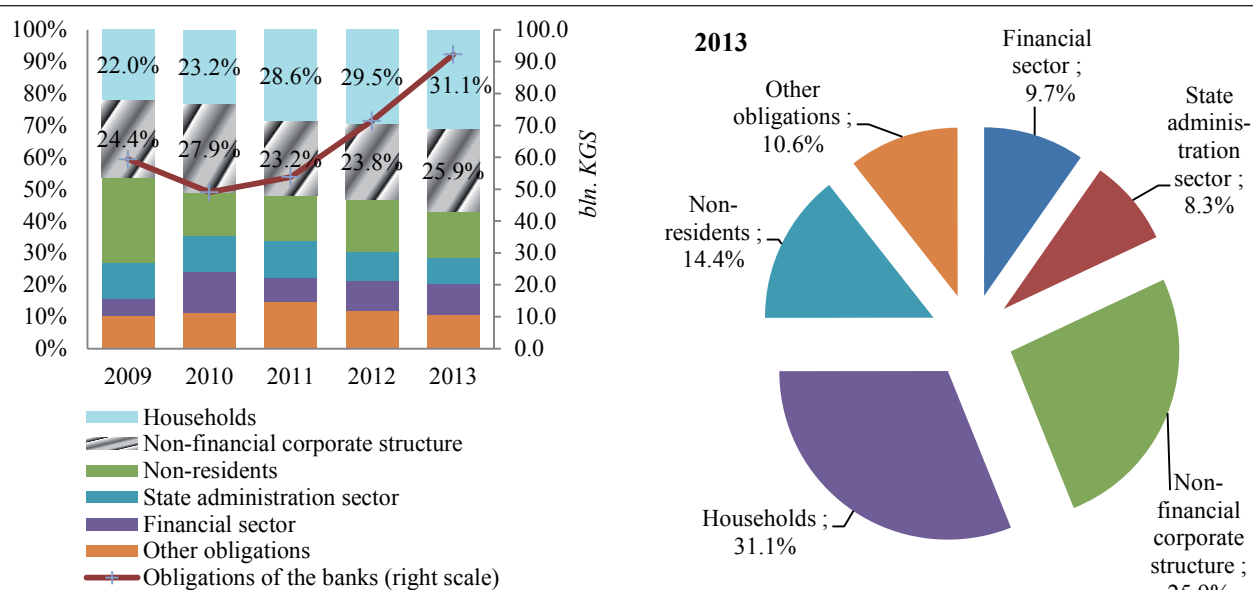
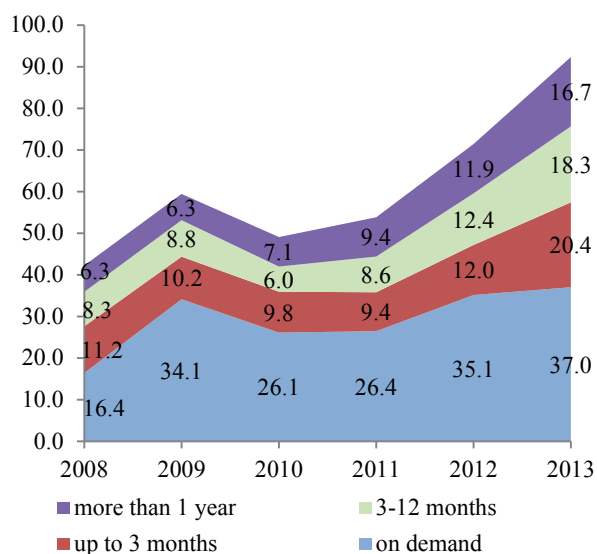
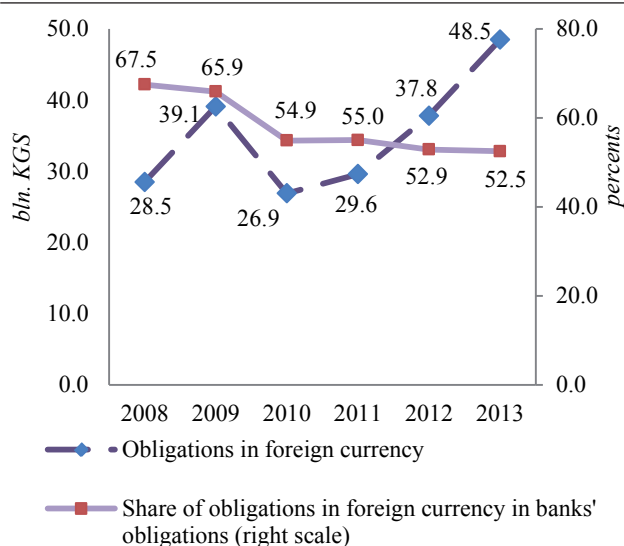
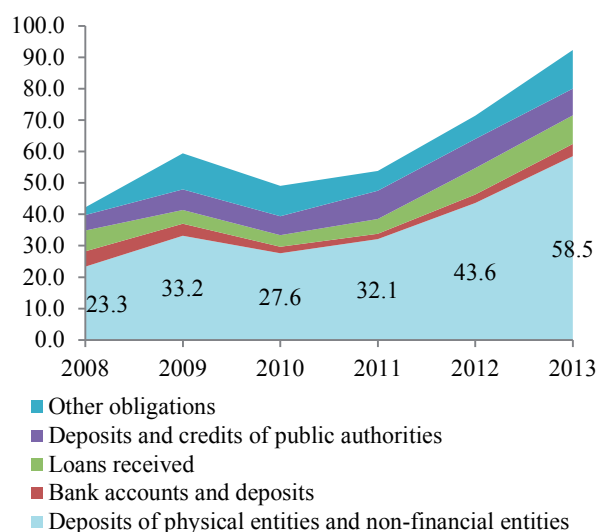
Chart 2.1.7. Institutional structure of obligations

Chart 2.1.8. Structure of banking sector obligations by maturity*bln. KGS*

The share of demand liabilities declined from 49.2 percent (as of end 2012) to 40.1 percent (Chart 2.1.8) by the end of 2013.

Obligations for more than 1 year for 2013 increased by 40.3 percent compared with 2012, or 18.0 percent of total bank obligations and amounted to 16.7 billion KGS.

The share of liabilities in foreign currency in total attracted funds changed slightly and by the end of 2013 amounted to 52.5 percent or 48.5 billion KGS (Chart 2.1.9).

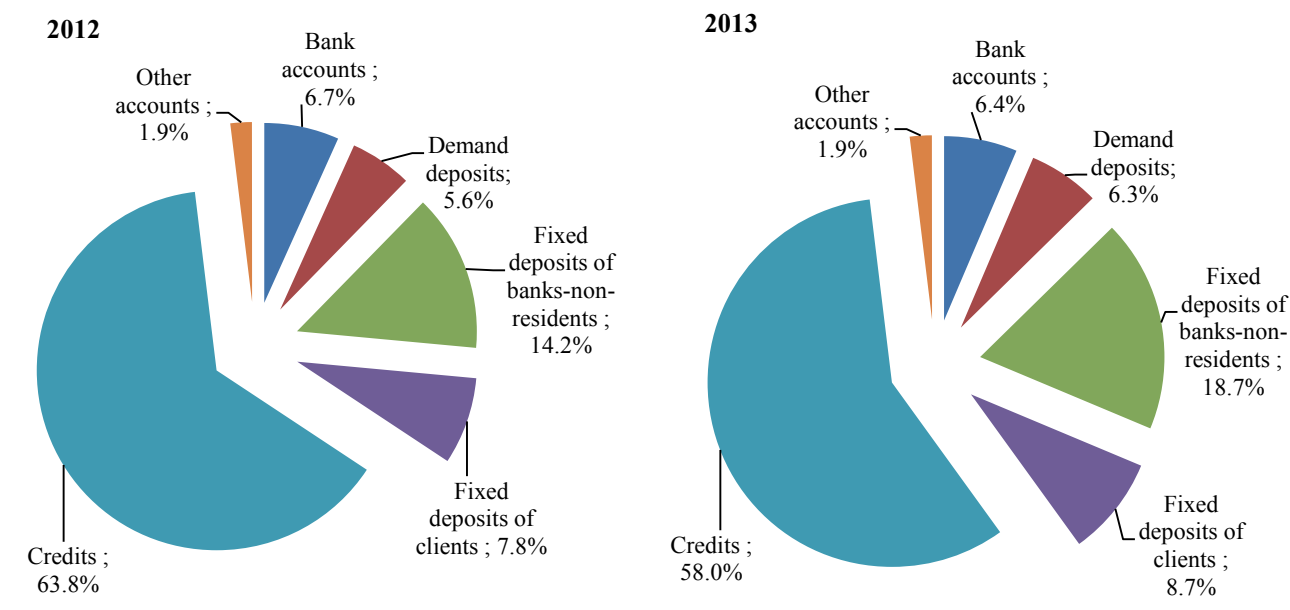
Chart 2.1.9. Banks' obligations in foreign currency**Chart 2.1.10. Structure of banks' obligations by sources of resources***bln. KGS*

Deposits of individuals and non-financial enterprises in 2013 increased by 34.2 percent and amounted to 58.5 billion KGS (Chart 2.1.10). The share of deposits of individuals and non-financial enterprises in banks' obligations increased by 2.3 percentage points and amounted to 63.4 percent by the end of 2013.

State of the external debt of banks

Banks' obligations to non-residents in 2013 rose by 17.5 percent compared with this index in 2012 and amounted to 13.3 billion KGS or 14.4 percent of the total liabilities of the banking sector. Growth of liabilities to non-residents was mainly due to the involvement of fixed deposits from non-resident banks.

Chart 2.1.11. Structure of banks' obligations before non-residents

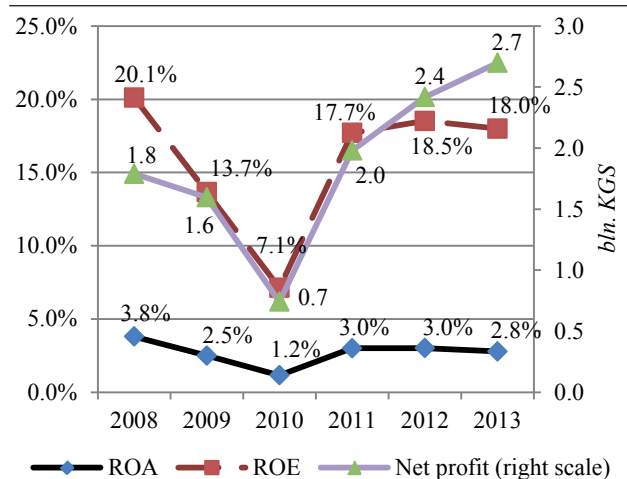


In the section on the banks, the main share of banks' obligations to non-residents fell under two banks and constituted 50.7 percent of total liabilities to non-residents, or 6.8 billion KGS by the end of 2013.

While foreign loans for the given banks were provided by international financial institutions, which are the shareholders of these banks. The rest of the loans from non-residents, from the point of view of creditors, remained fairly diversified.

Financial outcomes¹⁰

Chart 2.1.12. Cost-efficiency of banking sector indicators for the reporting period



In general, the results in 2013 showed a slight decline in profitability compared with 2012 (Chart 2.1.12):

- ROA declined from 3.0 percent to 2.8 percent;
- ROE declined from 18.5 percent to 18.0 percent.

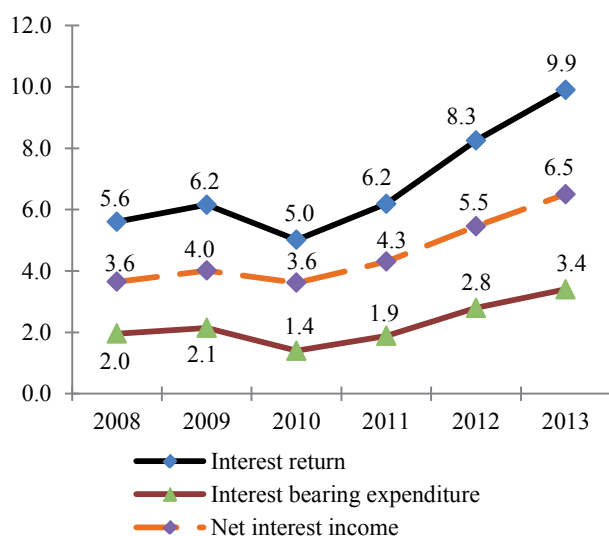
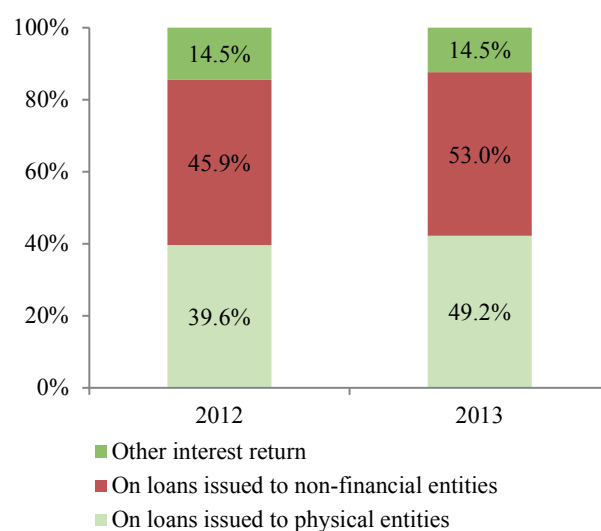
The net profit of the banking sector increased by 11.6 percent compared with a profit in 2012 and amounted to 2.7 billion KGS. The decline in profitability in the background of the net profit growth of banks was due to growth of balance sheet ratios (assets, capital) over the rates of growth in net profit.

In 2013, net interest income increased by 18.2 percent compared with the rate in 2012 to 6.5 billion KGS, which is due to faster growth in interest income over interest expense growth of the banking sector (Chart 2.1.13).

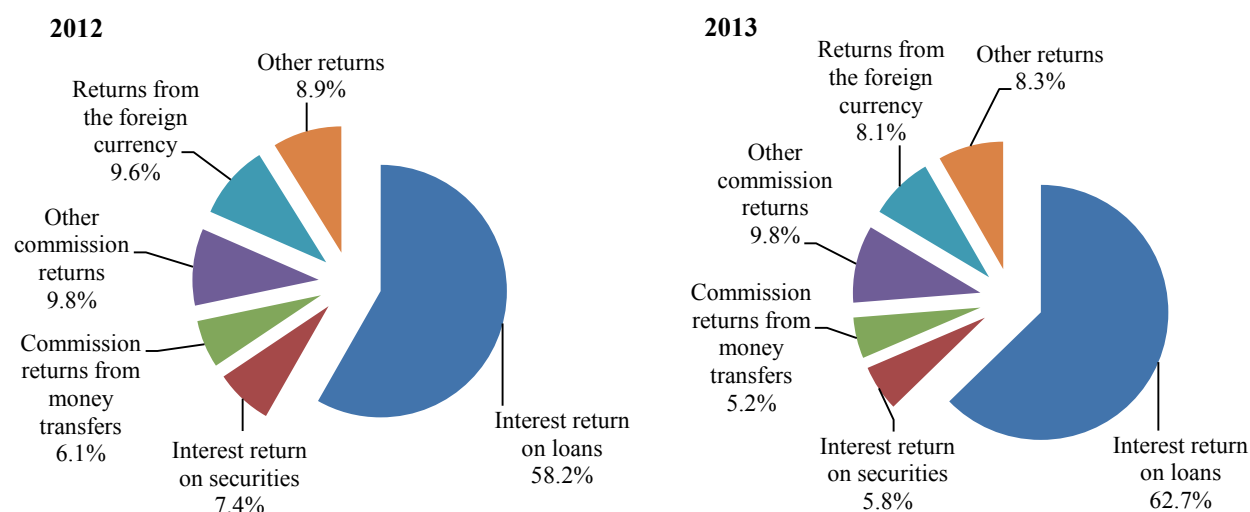
¹⁰ For the purposes of this publication the main indicator of profitability of the banking activity is rate of return on assets (ROA), defined as the ratio of profits to average assets, as well as the rate of return on equity (ROE), defined as the ratio of profits to the average size of the regulatory capital of the 1 level.

Chart 2.1.13. Revenue position of the banking sector within the reporting period

bln. KGS

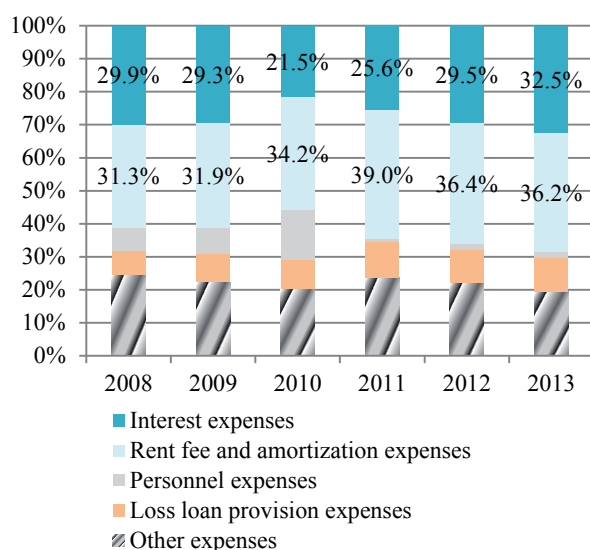
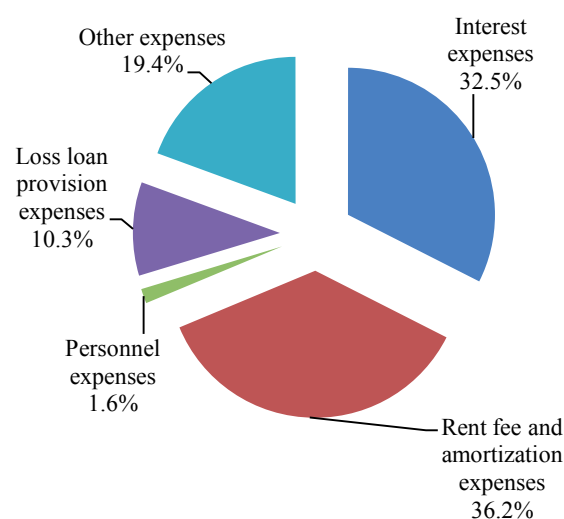
**Chart 2.1.14. Institutional structure of the interest return of banks**

The share of interest income on loans in the total revenue of the banking sector in 2013 increased from 58.2 percent (in 2012) to 62.7 percent (Chart 2.1.15).

Chart 2.1.15. The structure of banking sector revenues

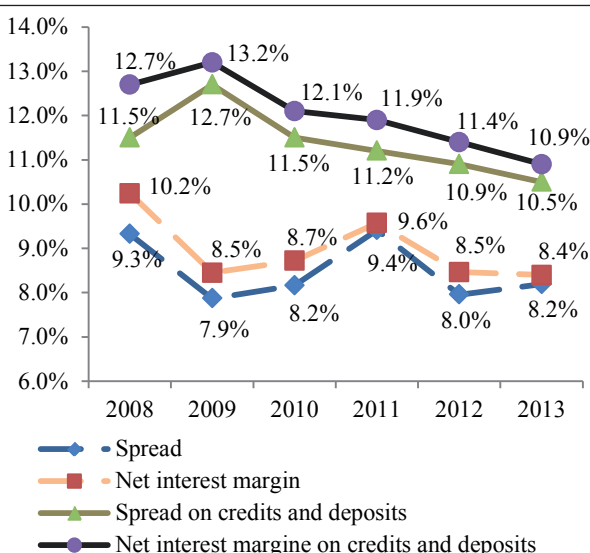
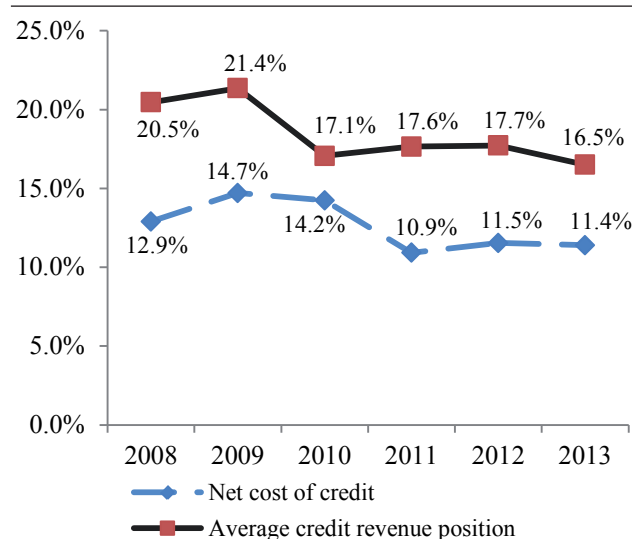
During the reporting period, expenses increased by 10.3 percent compared to the 2012 and amounted to 10.5 billion KGS.

Interest expenses increased by 21.5 percent compared with the rate in 2012 to 3.4 billion KGS or 32.5 percent of the total expenditure of the banking sector due to the growth of interest liabilities of banks.

Chart 2.1.16. The structure of expenditures of the banking sector**2013**

Non-interest expenses increased by 5.6 percent compared with the expenditures in 2012 and for the period under review amounted to 7.1 billion KGS. The main share in the structure of expenditure falls under personnel expenses (Chart 2.1.16).

During the reporting period, significant changes in terms of the spread and net interest margin¹¹ (reflect the efficiency of interest bearing assets management and liabilities by banks) were observed (Chart 2.1.17). These figures on the results of 2013 were 8.2 percent and 8.4 percent respectively.

Chart 2.1.17. Spread and net interest margin**Chart 2.1.18. Net cost and average loan revenue position**

Net cost of bank loans¹² for 2013 was 11.4 percent. The average loan revenue position¹³ based on the results of the reporting period decreased compared with this index in 2012 from 17.7 percent to 16.5 percent (Chart 2.1.18).

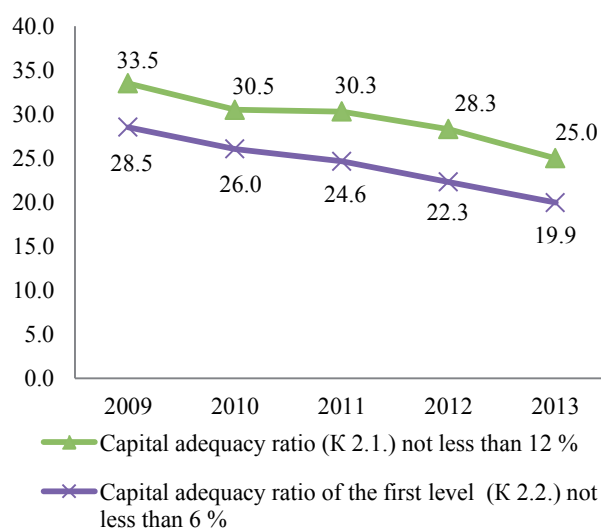
¹¹ Formulas to compute indicators are presented in the NBKR publication "Report on sustainability of the financial sector of the Kyrgyz Republic" for the first half 2013.

¹² Formulas to compute indicators are presented in the NBKR publication "Report on sustainability of the financial sector of the Kyrgyz Republic" for the first half 2013r.

¹³ Formulas to compute indicators are presented in the NBKR publication "Report on sustainability of the financial sector of the Kyrgyz Republic" for the first half 2013.

Capital adequacy

Chart 2.1.19. Dynamics of capital adequacy ratio percents



The prescribed minimum value of capital adequacy at 12 percent, the figure at the end of 2013 reached the level of 25.0 percent (Chart 2.1.19), decreased by 3.3 percentage points compared with the end of 2012.

Decrease of capital adequacy was due to the accelerated growth of assets and risk-weighted and off-balance commitments (+33.7 percent) over the growth of net total capital (+18.0 percent).

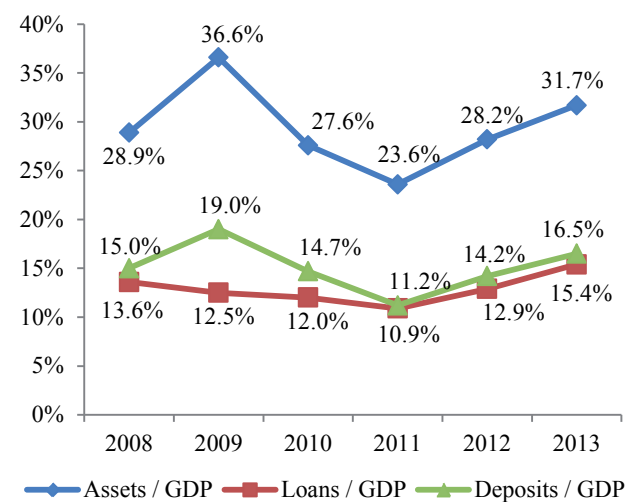
While the actual level of capital adequacy, which was formed at the end of 2013, allowing further increase of risk and earning assets twice without exceeding the allowable standard level of risk in the banking sector as a whole.

The aforementioned indicates the relative stability of the banking sector to negative shocks, as well as availability of some potential to increase

the level of financial intermediation and efficiency of the banking sector operation in the future.

Financial intermediation of the banking sector

Chart 2.1.20. Indicators of financial intermediation



The role of the banking sector as a financial intermediary, accumulating financial resources for further redistribution between creditworthy borrowers and sectors of the economy directly depends on the level of development and efficiency of banks.

The level of financial intermediation (Chart 2.1.20) kept growing by the end of 2013. The growth rate of the main indicators of the banking sector outpaced the economic growth rates. There is a deepening of financial penetration of the banking sector due to dynamic growth in the number of borrowers and depositors.

An increase in indicators of financial intermediation of the banking sector of Kyrgyzstan by the end of 2013 against 2012 constituted:

- Assets to GDP - from 28.2 percent to 31.7 percent;
- Loans to GDP - from 12.9 percent to 15.4 percent;
- Deposits to GDP - from 14.2 percent to 16.5 percent.

2.2. RISKS IN THE BANKING SECTOR

2.2.1. Credit risk¹⁴

Credit risk is one of the main risks that accompany banking activity. This section highlights the banking operations that carry credit risk.

There was a slight increase in credit risk in the banking sector by the end of 2013 despite the improvements in the quality of the loan portfolio.

Increase of the credit risk is based by the increase of risk-weighted assets due to the increase of the volume of lending to the economy (Chart 2.2.1).

Chart 2.2.1. The structure of risk-weighted assets
mln. KGS

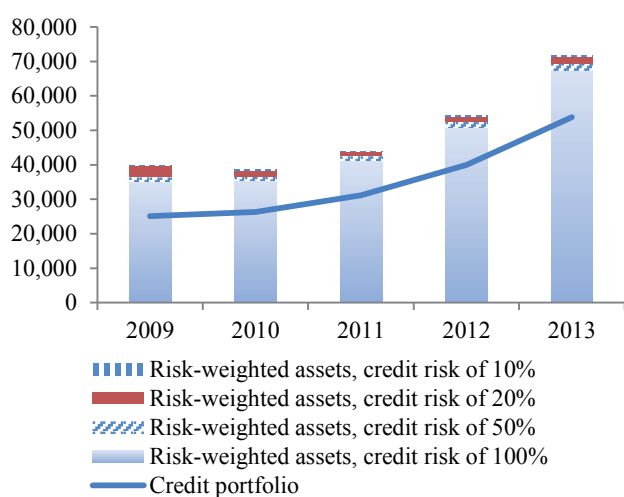
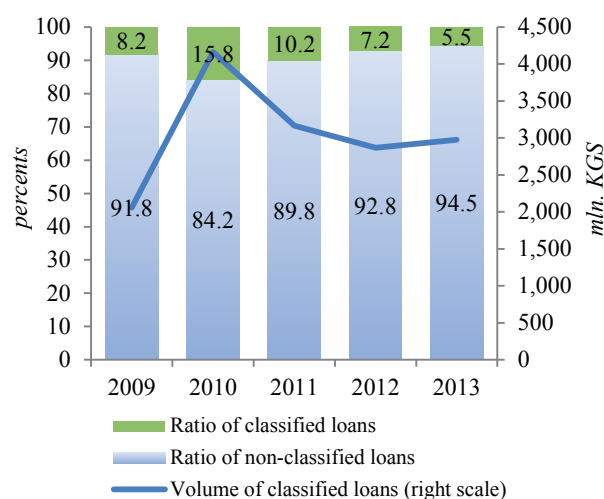


Chart 2.2.2. Quality of the loan portfolio



To assess the quality of the loan portfolio of commercial banks, loan classification system¹⁵ is used, which makes it possible to determine the possible level of potential losses from loan defaults and timely compensate them through the establishment of relevant reserves.

When analyzing the quality of the loan portfolio, overdue loans reflecting the first signs of deterioration in the quality of the loan portfolio require the most significant attention. By the end of 2013 the trend of reducing the share of classified and non-performing loans as well as loans in the status of non-accrual of interest remained (Chart 2.2.3).

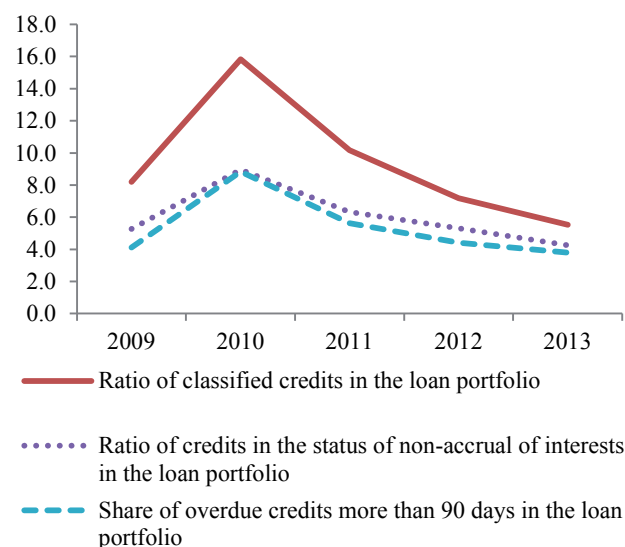
Indicator of the risk of assets default (ratio LLP and special loans) on the basis of 2013 constituted 3.3 percent.

¹⁴ Assessment of the so-called indirect currency risk.

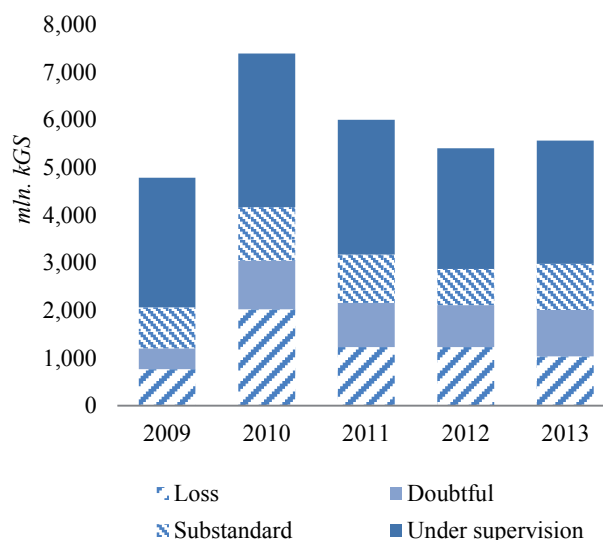
¹⁵ To assess the quality of the loan portfolio, all loans are divided into six categories, depending on the current capabilities of clients to fulfill their obligations to the bank (listed in order of decreasing classification): normal, satisfactory, under supervision, substandard, doubtful and loss. Loans of the last three categories as having the most negative characteristics in terms of repayment of credits are usually attributed to the "idle" or "classified." Each of the six categories specified shall have a reserve appropriate to this category established by the bank, defined from the amount of issued loans.

Chart 2.2.3. Indicators of the quality of loan portfolio

percents

**Chart 2.2.4. Change of the classification of the loan portfolio of the banking sector**

mln. KGS

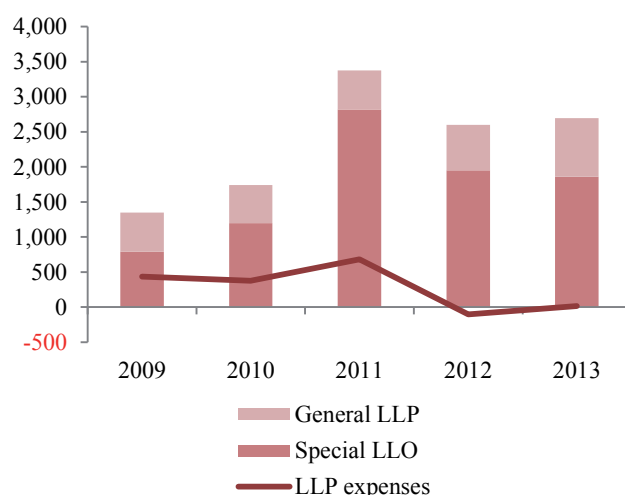


One of the factors which in the future may affect the improvement or decline in the quality of the loan portfolio is the change in the volume of loans classified as loans “under supervision” (Chart 2.2.4). The share of these loans in 2013 decreased by 1.5 percentage points of the total loan portfolio and amounted to 4.8 percent.

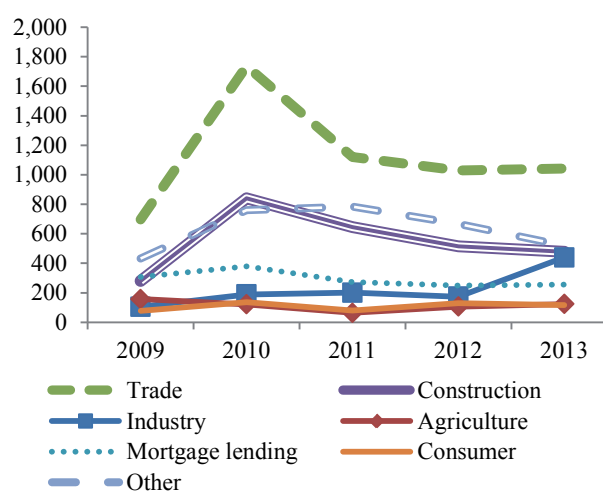
The total volume of reserves created by commercial banks amounted to 5.3 percent of the total loan portfolio (as of the end of 2012 the figure was 6.7 percent). While the share of special LLP at the end of 2013 amounted to 61.8 percent of total reserves (Chart 2.2.5).

Chart 2.2.5. General and special reserves

mln. KGS

**Chart 2.2.6. Volume of classified loans by branches of economy**

mln. KGS

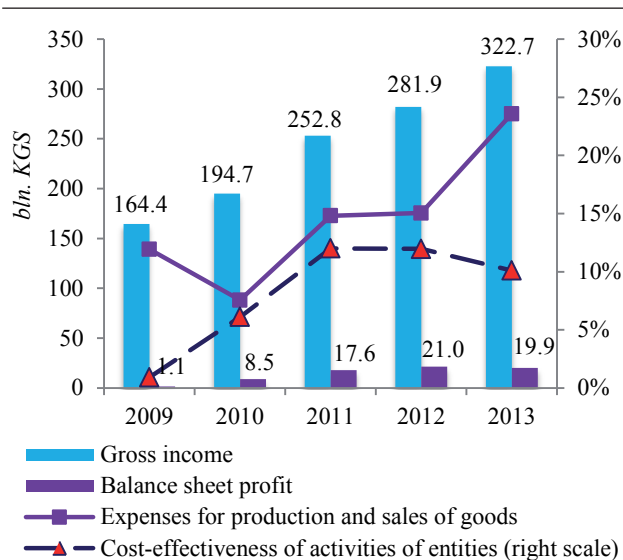


No significant changes in the volume of classified loans by industries were observed by the end of 2013, except for the growth of classified loans in the industrial sector to 266.3 million KGS (due to the growth of classified loans in the one bank) (Chart 2.2.6).

The relatively higher concentration of credit risk of banks by the end of 2013, as before, was observed in the trade and construction sectors.

Financial status of corporate sector¹⁶

Chart 2.2.7. Results of the financial activity of the entities



Source: NSC KR

There was a slight decrease in the balance profit and profitability of enterprises on the background of the whole trend towards growing debt of the corporate sector according to the results of the reporting period.

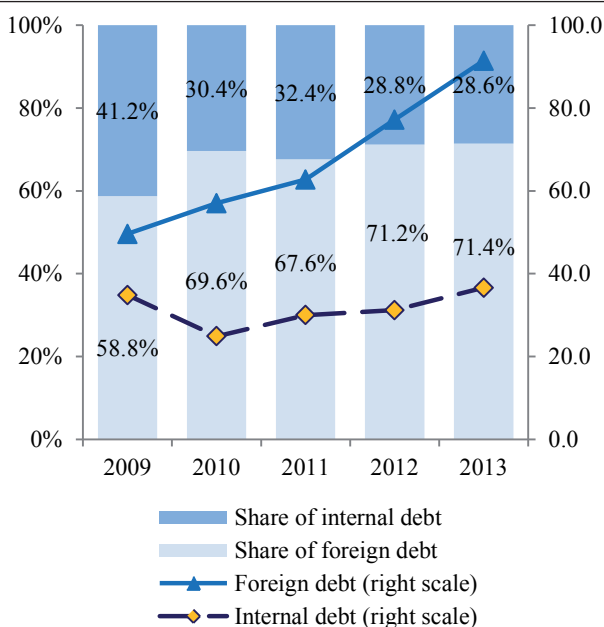
By the end of 2013 the following financial results of the corporate sector were marked (Chart 2.2.7):

- gross profit increased by 14.5 percent and amounted to 322.7 billion KGS;
- expenses for production and sales increased by 56.7 percent and constituted 275.1 billion KGS;
- balance sheet profit decreased by 5.2 percent and constituted 19.9 billion KGS;
- business profitability dropped to 10.1 percent.

Gross debt of the corporate sector¹⁷ in 2013 increased by 18.1 percent and amounted to 127.9

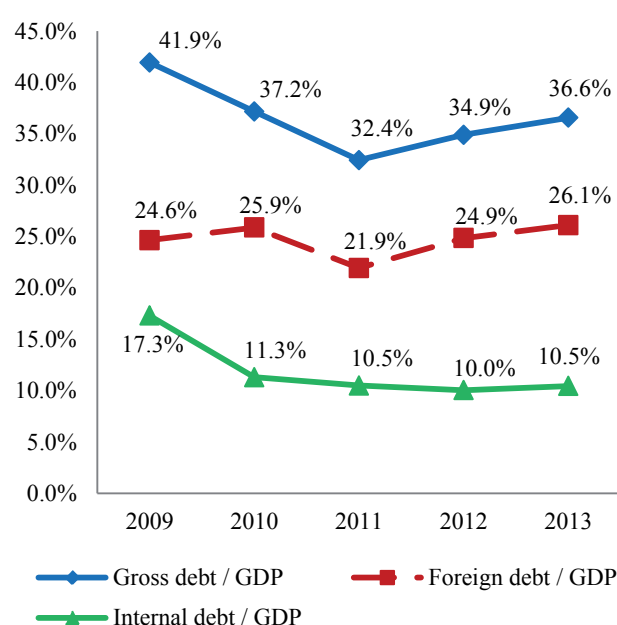
billion KGS or 36.6 percent to GDP.

Chart 2.2.8. Dynamics of foreign and internal debt of corporate sector



Source: NSC KR, computed by NBKR

Chart 2.2.9. Indicators of debt sustainability of corporate sector



Foreign debt of the corporate sector on the basis of 2013 as compared with 2012 increased by 18.5 percent and developed at a rate of 91.4 billion KGS or 26.1 percent up to GDP (Chart 2.2.8).

¹⁶ According to the official statistics data of NSC KR on corporate sector.

¹⁷ According to NSC KR. Gross debt does not cover loans of entities under the guarantee of the Government of the Kyrgyz Republic.

The internal debt of the corporate sector in 2013 increased up to 17.3 percent and amounted to 36.6 billion KGS or 10.5 percent to GDP. By the end of 2013 the internal debt of the corporate sector was as follows:

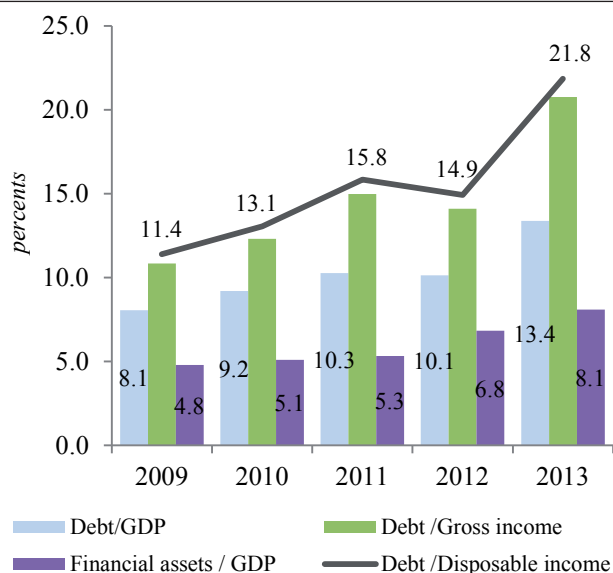
- to the banking sector - 33.6 billion KGS;
- to the NBFIs system - 1.0 billion KGS;
- accumulated debt on other loans and borrowings - 2.0 billion KGS.

Financial status of households¹⁸

There was a slight deterioration in the financial stability of households due to growth of household debt to the financial sector over the growth of their incomes.

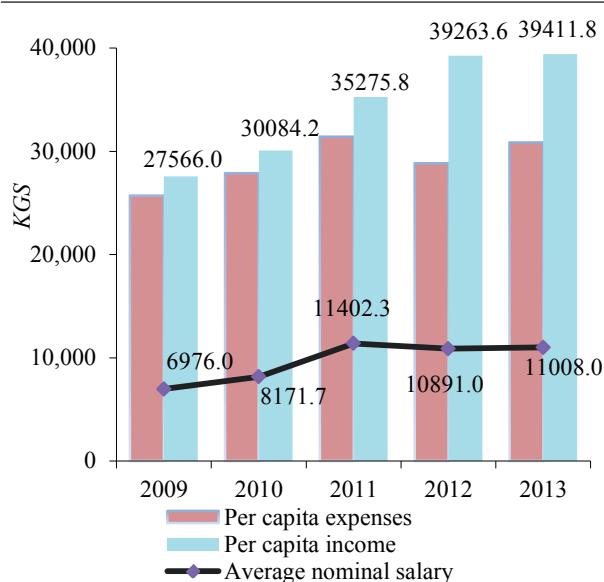
Growth of debt sustainability indicators was due to the increase of loans granted by banks and NBFIs to the population (Chart 2.2.10). At the end of 2013 the ratio of household debt to gross disposable income compared with the ratio of 2012 increased from 14.1 percent to 20.8 percent and from 14.9 percent to 21.8 percent respectively.

Chart 2.2.10. Financial sustainability indicators of households



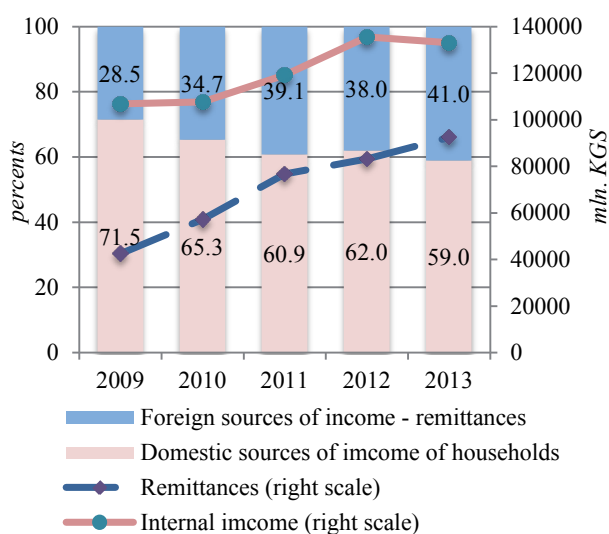
Source: NSC KR, computed by NBKR

Chart 2.2.11. Factors of financial balance sustainability of the population



Source: NSC KR, computed by NBKR

¹⁸ According to the official statistics data of NSC KR based on the random sampling method of households' survey.

Chart 2.2.12. The structure of households' income by sources

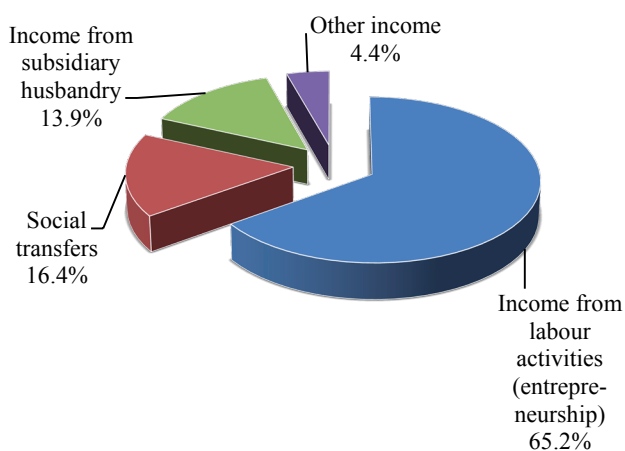
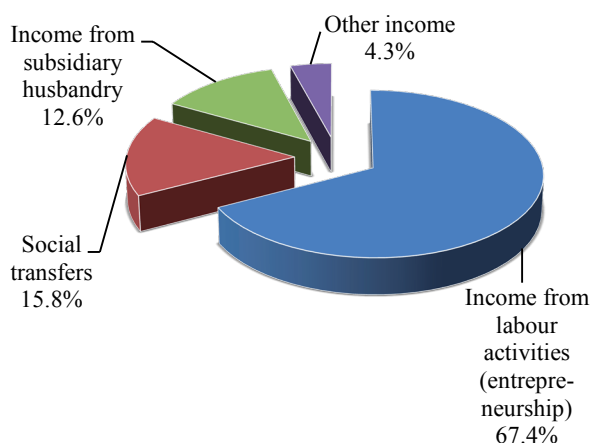
Source: NSC KR, computed by NBKR

The main share in the structure of household income fell under the labor income within the reporting period, which accounted for 68.6 percent of disposable income.

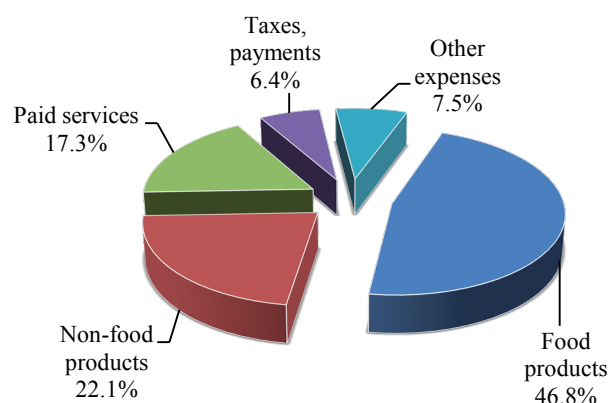
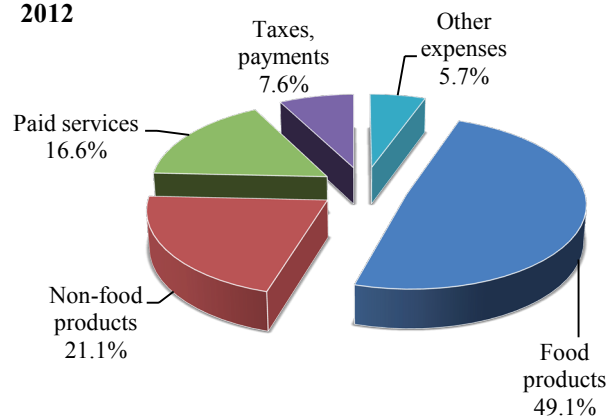
Remittances of labor migrants were an important source of household income for 2013 and amounted to 41.0 percent of gross income.

In the structure of household expenditure the main share was given to consumption that restrained the growth of savings and costs for investment purposes.

High proportion of consumer spending that constituted 86.1 percent of total expenditure in 2013 may influence the ability of households to meet their obligations in the case of a reduction of revenues.

Chart 2.2.13. Revenue structure of the population**2013****2012**

Source: NSC KR

Chart 2.2.14. Expenditure structure of the population**2013****2012**

Source: NSC KR

Box 3. Evaluation of credit risk through the affect of the currency risk on debt burden of a borrower (Indirect Currency Risk)

42.5 percent of the total loan portfolio by the end of 2013 constituted loans repayment on which was made in foreign currency, and the income of borrowers was generated in local currency (Chart 2.2.15). These loans are potentially exposed to credit risk in the event of a possible currency risk (for example, Indirect Currency Risk).

Indirect confirmation of the impact of currency risk on credit risk is shown in Chart 2.2.16, which displays the share of classified loans by the group of loans:

- Group 1 - 6.9 percent, the main borrower's income is generated in the national currency and loans are repayable in foreign currency;
- Group 2 - 3.4 percent, the main income and loans repayable by the borrower are in a single currency.

Credit quality of the Group 1 is more than two times lower than loans reflected in Group 2. Thus, Group 1 (the main borrower's income is generated in the local currency, loans are repayable in foreign currency) are relatively more exposed to indirect currency risk.

Chart 2.2.15. Loan portfolio by credit groups*

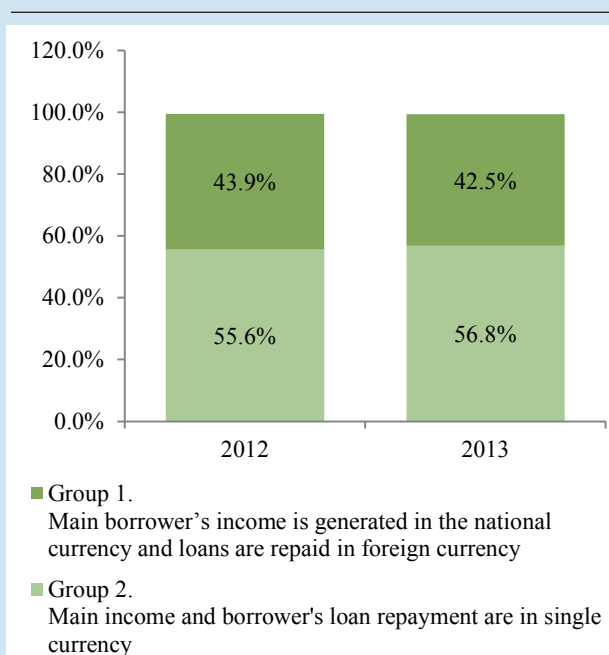
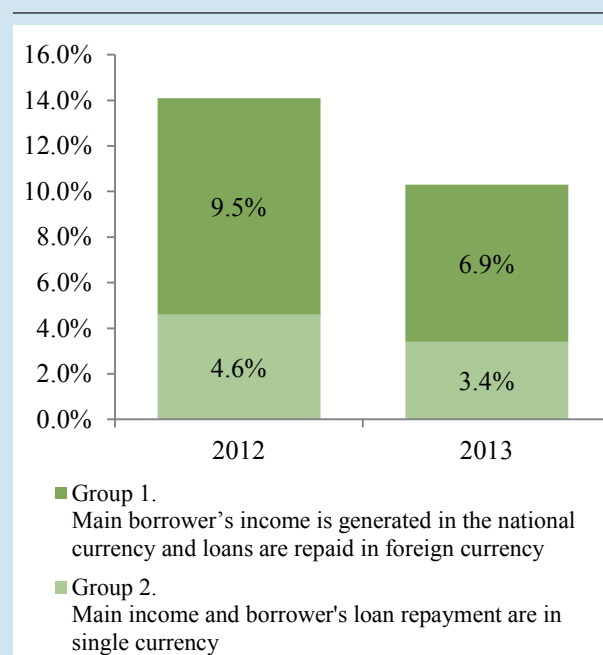


Chart 2.2.16. Ratio of classified loans by credit groups*



* The Chart above does not reflect the Group 3 "Main borrower's income is generated in the foreign currency and loans are repayable in national currency" due to the insignificant share of loan portfolio of this Group (0.7 percent of the total loan portfolio as of the end of 2013).

Box 4. Results of the survey of the clients of commercial banks¹⁹

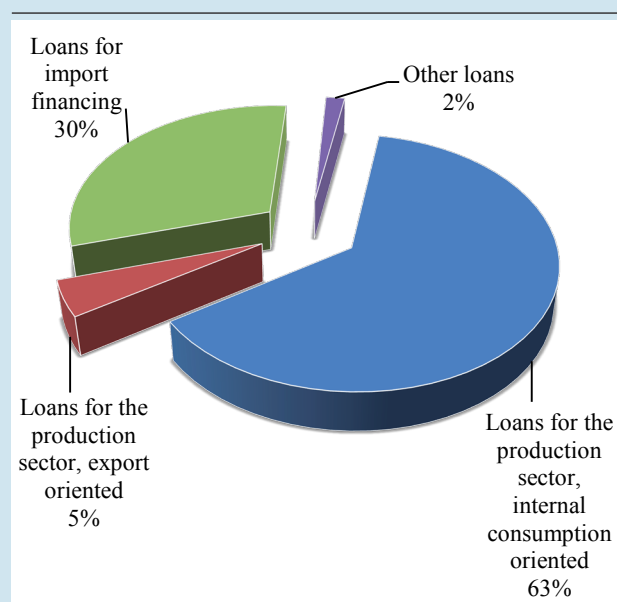
In general, the level of debt-to-income of the borrowers (DTI²⁰) and the provision of the loan-to-value ratio (LTV²¹) was at a sufficient level, which further indicates a moderate level of credit risk in the banking sector.

A significant portion of the loans (68.0%) given to 20 largest borrowers is used in the manufacturing sector of the economy, thereby creating contribution to the country's GDP.

Sectoral focus of borrowers²²

The major share of loans by the end of 2013 was concentrated in the manufacturing sector²³ (68.0 percent of total loans borrowers). The share of loans financing the imports amounted to 30.0 percent (Chart 2.2.17) and (Chart 2.2.18).

Chart 2.2.17. The structure of loans of 20 largest borrowers on crediting lines as of December 31, 2013



Source: Data of commercial banks, computed by NBKR

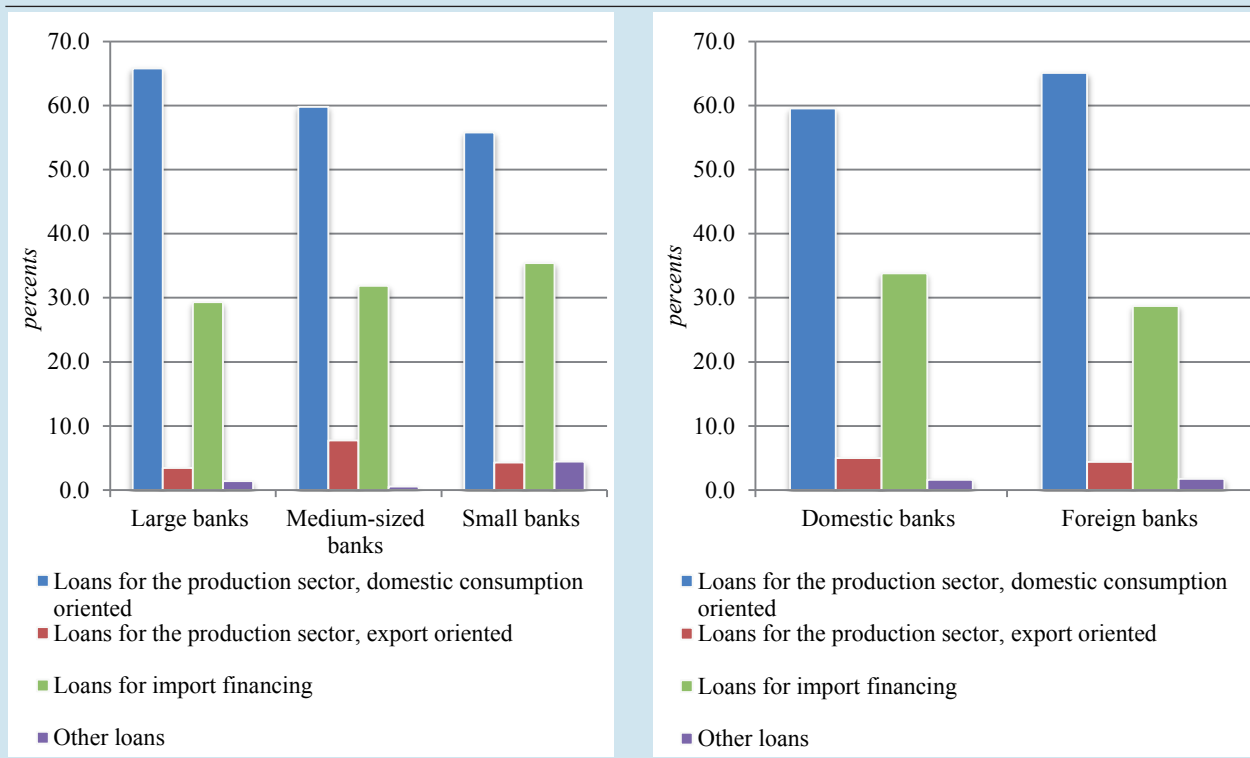
¹⁹ According to the information received as a result of the survey of banks, loans given to 20 largest borrowers constituted 24.3 percent of total volume of loan portfolio of commercial banks.

²⁰ DTI (debt-to-income) – the ratio of payments to borrowers on loans (including principal and interest payments during the reporting period to the declared one (announced or declared) at the time of the loan issuance to the principal annual income of the borrower. The data include information on the debt of the 20 largest bank borrowers.

²¹ LTV (loan-to-value ratio) - the ratio of issued loans to the value of collateral. The data include information on loans and collateral of borrowers. Low level of LTV of banks implies a high level of coverage of bank loans with collateral. Conversely, high LTV means the lowest level of coverage of bank loans with collateral.

²² The analysis of the bank clients is based on the data of 20 largest borrowers of each bank.

²³ The production sector means the activity of the bank clients connected with the production of goods and services.

Chart 2.2.18. The structure of loans of the largest borrowers of banks by crediting lines based on the bank groups as of the end 2013

Source: Data of commercial banks, computed by the NBKR

Paying capacity of borrowers

Debt burden of largest clients of banks calculated by DTI indicator according to the reporting period constituted 42.6 percent. In terms of groups of banks, the highest debt burden was observed with the largest borrowers of **medium-sized banks** (60.1 percent of total income of borrowers) (Table 2.2.1). At the same time, the lowest debt level was noted in the largest borrowers of **large banks** (32.6 percent of total income borrowers).

Table 2.2.1. Debt burden of clients of the banks as of 2013*

	Banking sector	Large banks	Medium-sized banks	Small banks
Balance of debt under credit, billion KGS	13 070,8	7 545,4	3 472,8	2 052,6
Specific weight of loans of 20 largest borrowers in the general banking sector loan portfolio	24,3	14,0	6,5	3,8
Ratio of expenses for debt maintenance on loans to the aggregate income of borrowers, in %	42,6	32,6	60,1	48,3

Source: Data of commercial banks, computed by NBKR

* Data on 20 largest borrowers of each commercial bank

Level of debt burden in foreign banks is lower than in domestic banks (Table 2.2.2).

Table 2.2.2 Debt burden of clients of domestic and foreign banks on the results of 2013*

	Domestic banks	Foreign banks
Balance of debt under credit, billion KGS	4 787,5	8 282,8
Specific weight of loans of 20 largest borrowers in the general banking sector loan portfolio, in %	8,9	15,4
Ratio of expenses for debt maintenance on loans to the aggregate income of borrowers, in %	82,5	69,0

Source: Data of commercial banks, computed by NBKR

* Data on 20 largest borrowers of each commercial bank

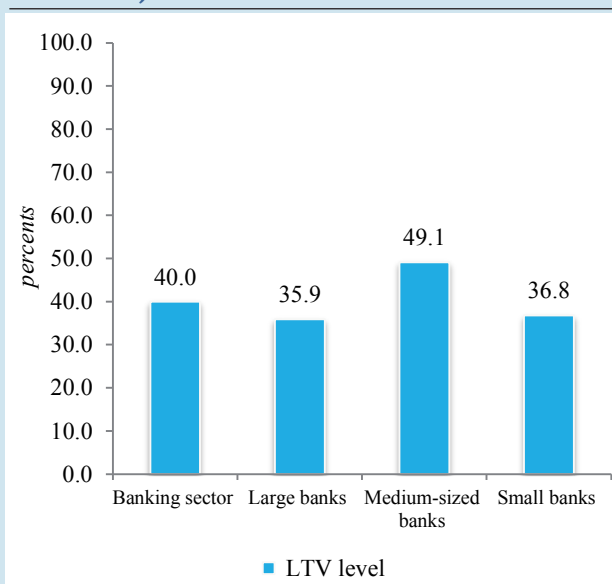
Provision status of loans of the borrowers

Table 2.2.3. Examples of LTV limit, in %

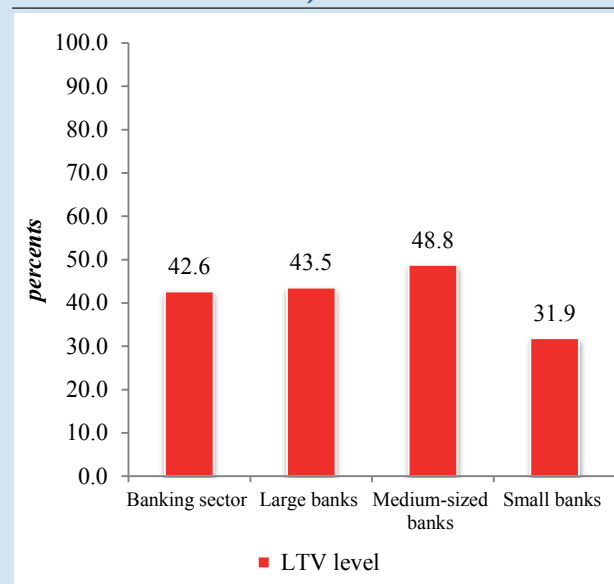
Country	Level of LTV limit
Canada	85
Finland	90
Hungary	75
India	80
Israel	60
Malaysia	70
Norway	90
Sweden	85

Source: Crowe (2011), IMF (2011)

By the end of 2013 the actual level of LTV in the banking sector of Kyrgyzstan amounted to 40 percent (Chart 2.2.19-a), which is below the limits set by some countries in terms of LTV (Table 2.2.3). The value of LTV in large and small banks is lower than in medium-sized banks and the banking sector as a whole (Chart 2.2.19-a).

Chart 2.2.19-a. Level of LTV in the banking sector as of the end of 2013 (data on all borrowers)

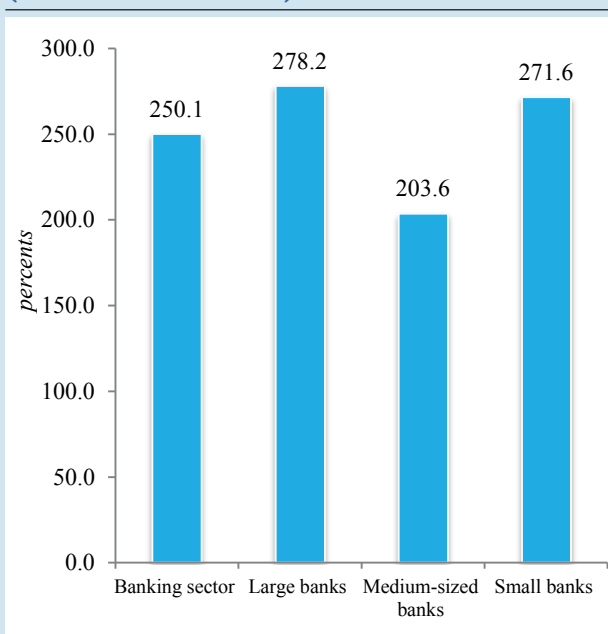
Source: Data of commercial banks, computed by NBKR

Chart 2.2.19-b. Level of LTV in the banking sector as of the end of 2013 (data on 20 largest borrowers of each bank)

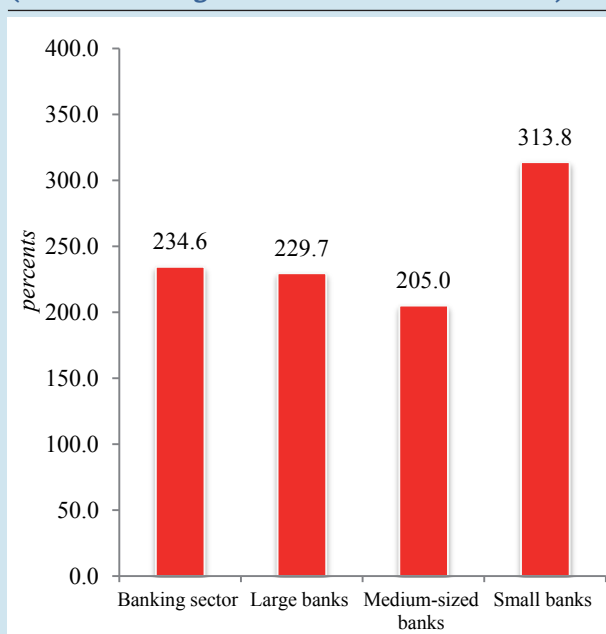
Source: Data of commercial banks, computed by NBKR

Value of LTV calculated based on data from 20 major borrowers of banks shows a higher level rather than on all borrowers of the banking sector (Chart 2.2.19-b).

In order to determine how much the market value of collateral covers the volume of issued loans, the return rate of LTV was calculated, i.e. the ratio of collateral to the volume of issued loans (Chart 2.2.20-2.2.20-a and b).

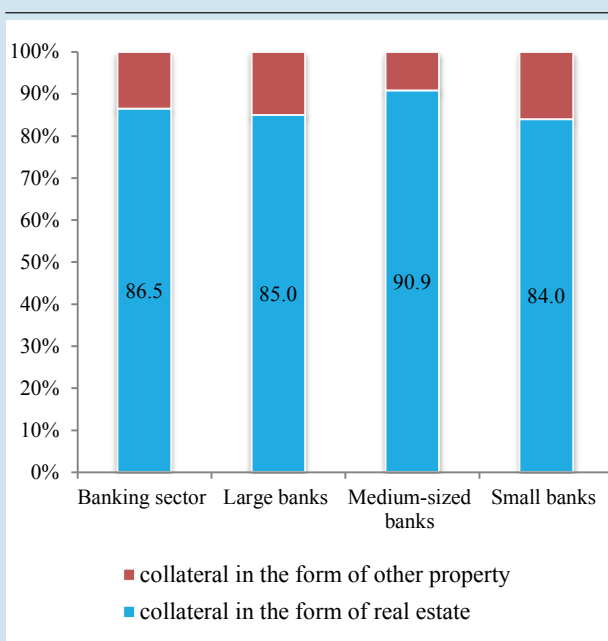
Chart 2.2.20-a. Ratio of the collateral to the volume of loan portfolio by the end of 2013 (data on all borrowers)

Source: Data of commercial banks, computed by NBKR

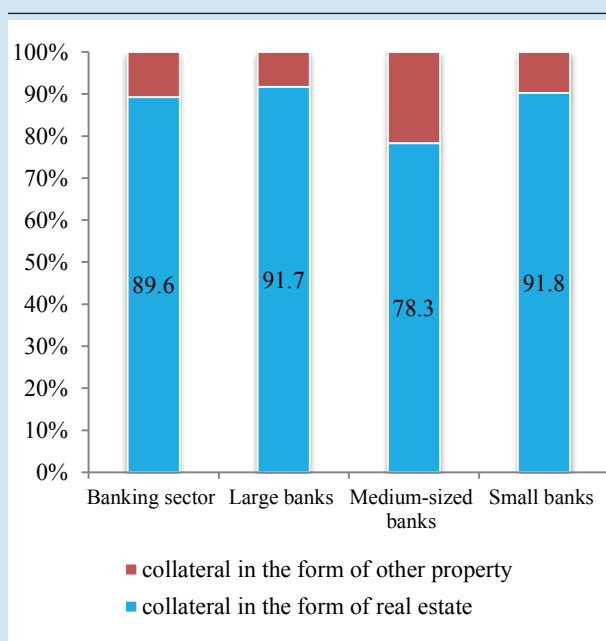
Chart 2.2.20-b. Ratio of the collateral to the volume of the loan portfolio by the end of 2013 (data on 20 largest borrowers of each banks)

Source: Data of commercial banks, computed by NBKR

By the end of the reporting period, the share of collateral in the form of real estate in the structure of collateral of banks amounted to 86.5 percent (Chart 2.2.21-a). According to the data on 20 largest borrowers of each bank, the share of collateral in the form of real estate in the structure of collateral of banks was at 89.6 percent (Chart 2.2.21-b).

Chart 2.2.21-a. The structure of the collateral in the banking sector by the end of 2013 (data on all borrowers)

Source: Data of commercial banks, computed by NBKR

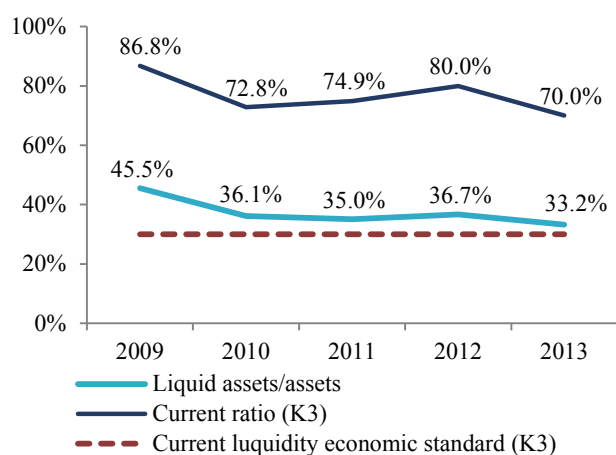
Chart 2.2.21-b. The structure of the collateral in the banking sector by the end of 2013 (data on 20 largest borrowers of each banks)

Source: Data of commercial banks, computed by NBKR

2.2.2. Liquidity risks

Public confidence in the banking sector depends on the timely implementation of obligations by banks, which suggests availability of sufficient liquidity in the banks. For regulatory purposes, *liquidity risk* is assessed using economic current liquidity ratio²⁴.

Chart 2.2.22. Liquidity indicators



Current liquidity ratio decreased from 80.0 percent to 70.0 percent by the end of 2013 (Chart 2.2.22). Decrease in the level of liquidity was due to the decrease of liquid assets and an increase in the proportion of the loan portfolio due to expansion of lending to the economy.

At the same time, the actual level of liquidity to support the banking sector remained fairly high, exceeding the established economic standard of the NBKR by more than 2 times.

Table 2.2.4. provides information on maturities of financial assets and liabilities of banks as of the end of 2013. In general, a negative gap (excess of financial liabilities over financial assets) was observed with a maturity period of up to 1 year.

Due to the persistent gap of assets and liabilities, banks kept a substantial amount of low-income high quality liquid assets in the structure of assets.

Table 2.2.4. Cumulative gap²⁵ by maturity of financial assets and liabilities

mln. KGS

Total	up to 1 month	up to 3 months	up to 1 year	up to 3 years	Total
Total financial assets	35,619	40,625	59,358	98,168	98,168
Total financial liabilities	43,783	50,950	65,663	78,102	78,102
Gap (gap interval)	-8,164	-10,325	-6,304	20,067	20,067
Gap in % of assets	-8.3%	-10.5%	-6.4%	20.4%	20.4%
Gap in % of net total capital	-50.6%	-64.1%	-39.1%	124.5%	124.5%

in foreign currency	up to 1 month	up to 3 months	up to 1 year	up to 3 years	Total
Total financial assets	19,918	22,215	28,104	46,168	46,168
Total financial liabilities	23,652	27,404	35,320	42,095	42,095
Gap (gap interval)	-3,735	-5,189	-7,216	4,073	4,073
Gap in % of assets	-8.1%	-11.2%	-15.6%	8.8%	8.8%
Gap in % of net total capital	-23.2%	-32.2%	-44.8%	25.3%	25.3%

in national currency	up to 1 month	up to 3 months	up to 1 year	up to 3 years	Total
Total financial assets	15,702	18,410	31,254	52,000	52,000
Total financial liabilities	20,131	23,546	30,343	36,006	36,006
Gap (gap interval)	-4,429	-5,136	912	15,994	15,994
Gap in % of assets	-8.5%	-9.9%	1.8%	30.8%	30.8%
Gap in % of net total capital	-27.5%	-31.9%	5.7%	99.2%	99.2%

²⁴ Economic current liquidity ratio is one of the mandatory standards for the bank established by NBKR, according to which the liquid assets (for calculation of this indicator including funds of banks in cash and correspondent accounts) must be at least 30 percent of short-term liabilities.

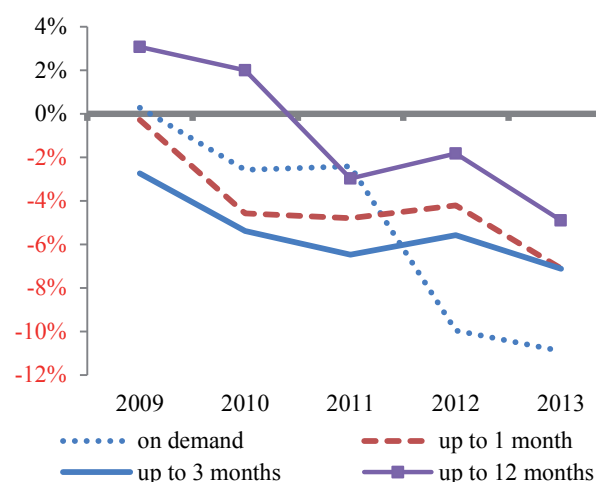
²⁵ Cumulative gap is the amount of possible expenses for support of solvency, estimated for each range of maturity.

Table 2.2.5. Maturity of financial assets and liabilities
mln. KGS

Name	Maturity				Total
	1-3 months	3-6 months	6-12 months	more than 12 months	
Total financial assets	5,005	6,341	12,393	38,810	98,168
Including loans and financial leasing to the clients	2,327	4,104	7,600	30,633	46,880
Total financial liabilities	7,166	7,086	7,627	12,439	78,102
Including deposits of individuals and fixed deposits of legal entities	4,088	5,051	4,479	3,565	30,873
Gap	-2,161	-746	4,766	26,371	20,067
Including on loans and deposits	-1,761	-948	3,121	27,068	16,007

In the reporting period, negative cumulative gap increased on all categories of maturity.

Chart 2.2.23. Cumulative gap
in percents of the total volume of assets



Increase in the negative cumulative gap in national and foreign currencies was due to increased volume of placements of short-term liabilities of banks in the medium-and long-term assets.

Chart 2.2.24. Cumulative gap in the national currency
in percents of the total volume of assets

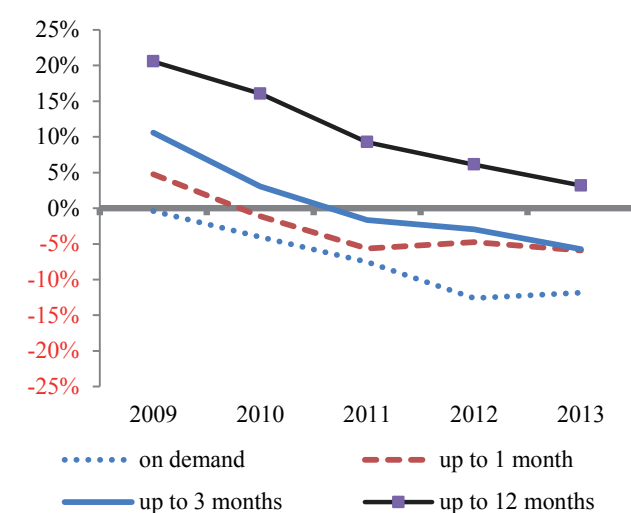
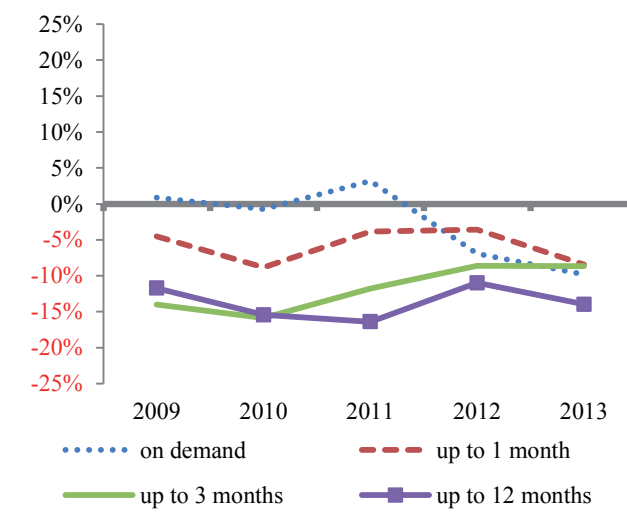


Chart 2.2.25. Cumulative gap in foreign currency
in percents of the total volume of assets



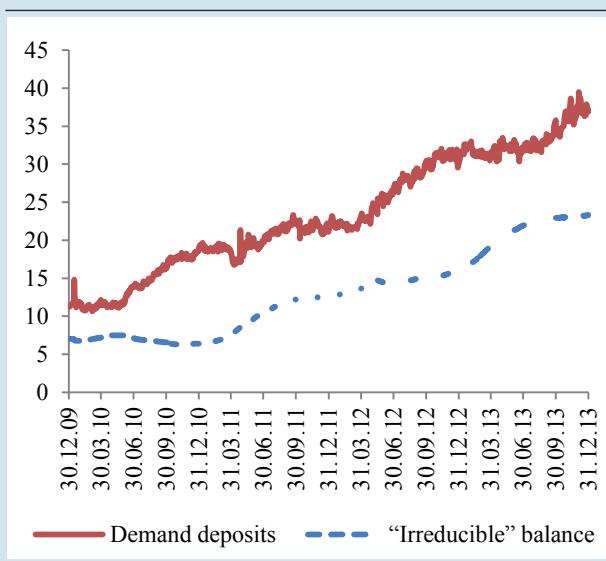
Box 5. Assessment of Stable “Irreducible” level of Demand Deposits during the Period 2009 – 2013 (“Irreducible” Balance of Deposits)²⁶

The purpose of determining the “irreducible” level of deposits is to reveal volumes of banks’ demand deposits, which are permanently at banks’ disposal and will be used in assessment of so called “excess liquidity”.

In 2013, demand deposits of commercial banks had a fairly weak volatility. Level of demand deposits did not fall below estimates of “irreducible” balances²⁷ (with a probability of 99 percent²⁸).

Chart 2.2.26. Volume of “irreducible” balances deposits on demand

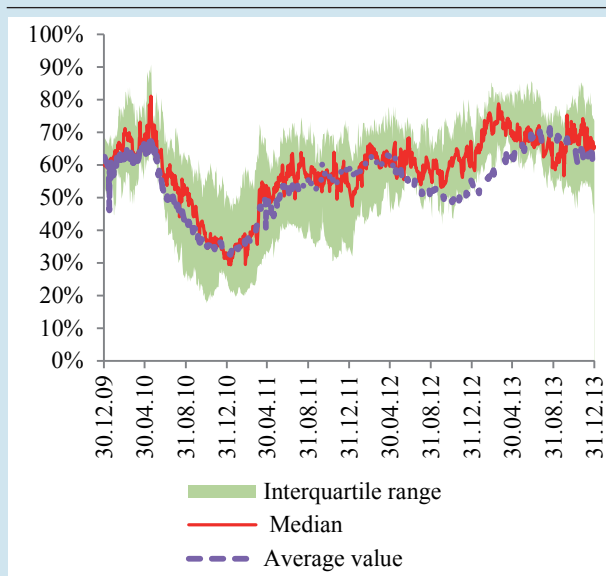
bln. KGS



The minimum stable level of demand deposits amounted to 23.3 billion KGS (Chart 2.2.26) by the end of 2013. Thus, for the period of 2009 - 2013 years the difference between total demand deposits and the “irreducible” level constituted 10.4 billion KGS in average.

The proportion of the minimum “stable” deposits volume of total demand deposits amounted to 63.2 percent in fifteen banks, and unstable part constituted 36.8 percent, respectively. IQR minimum of “stable” level of demand deposits ranged from 45.5 percent to 73.5 percent (Chart 2.2.27).

Chart 2.2.27. Volume of “irreducible” balances in demand deposits



As a result, taking into account “irreducible” balances of demand deposits, the gap between the maturities of financial assets and liabilities of banks changes from negative to positive.

²⁶ Exclusive of deposits of troubled banks.

²⁷ Volumes of “irreducible” balances of commercial banks are calculated on the basis of demand deposit daily balances since 2009 as the difference between arithmetical average and 2.33 of standard deviations.

²⁸ For security purposes credibility level of 99 percent was chosen.

2.2.3. Risk of Concentration

Generally, slight increase of *concentration risk* was observed by the end of 2013 compared to the same period of 2012.

Concentration of deposits

According to the results of stress testing, it can be concluded that the three banks (one medium and two small banks) cannot withstand the shock associated with the outflow of one to five largest contributors (liquidity ratio falls below the standard of 30-percent level).

Concentration of loans

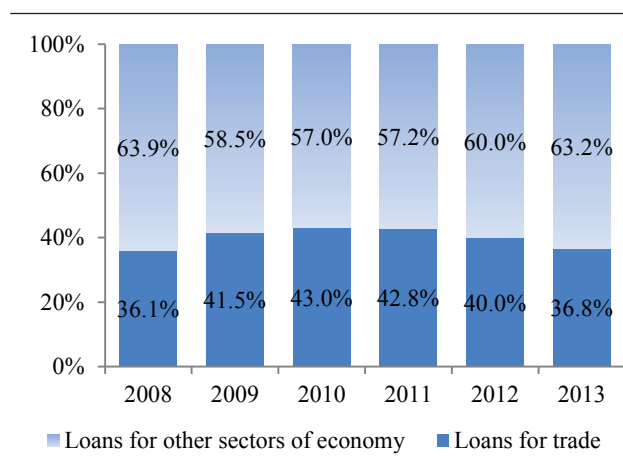
Potential defaults of five largest borrowers²⁹ in the five banks may reduce regulatory capital below the economic standard of the NBKR.

Stress test results show that two major banks, 2 medium and 1 small banks cannot withstand shock due to the default of 1 to 5 largest borrowers. CAR data of banks falls below the 12 percent threshold.

Table 2.2.6. Risk of loan concentration of five banks

Number of large borrowers, which default can decrease CAR below 12%	
Large banks:	
Bank 1.	4
Bank 2.	3
Medium banks:	
Bank 1.	4
Bank 2.	1
Small banks	
Bank 1.	4

Chart 2.2.28. Sectoral concentration of the loan portfolio



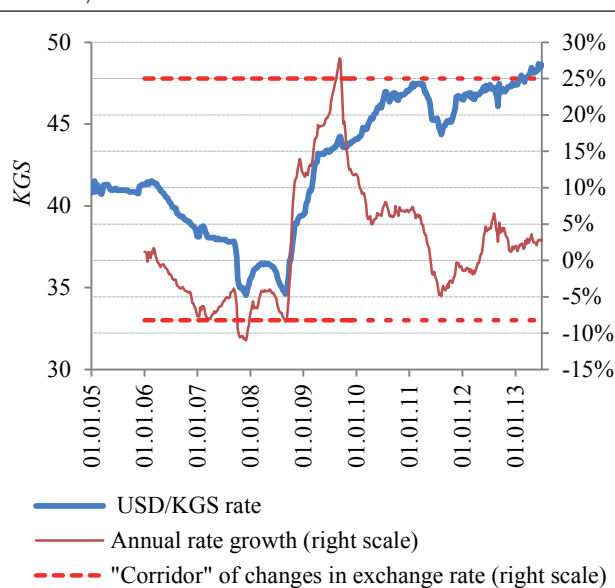
In the sectoral structure of the loan portfolio, decrease in concentrations of trade loans was observed against the increased lending to the agricultural sector. By the end of 2013 the share of loans to trade decreased from 40.0 percent to 36.8 percent (Chart 2.2.28).

²⁹ Total debt of five large borrowers of the bank is meant.

2.2.4. Currency risk

2013 indicators demonstrate that direct *currency risk* remains in moderate level.

Chart 2.2.29. Dynamics of nominal exchange rate of USD/KGS

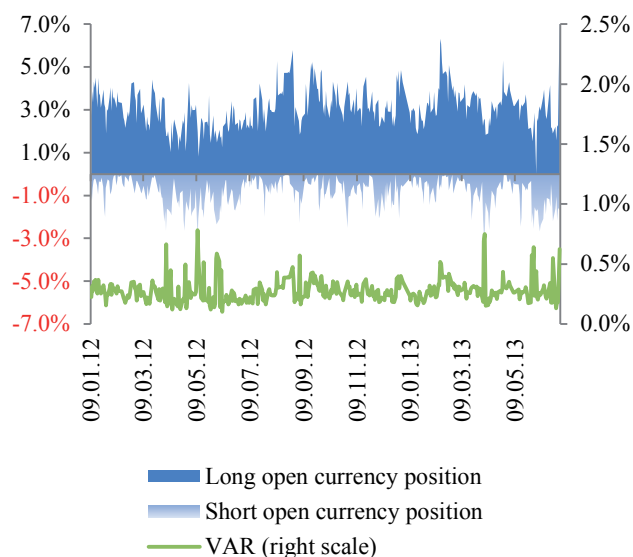


In general, banks kept open currency positions of assets and liabilities within the economic standards of the NBKR.

Risk of the revaluation of currency position of the banking sector was at its lowest level (VAR: 0.1-0.5 percent of net total capital, Chart 2.2.30).

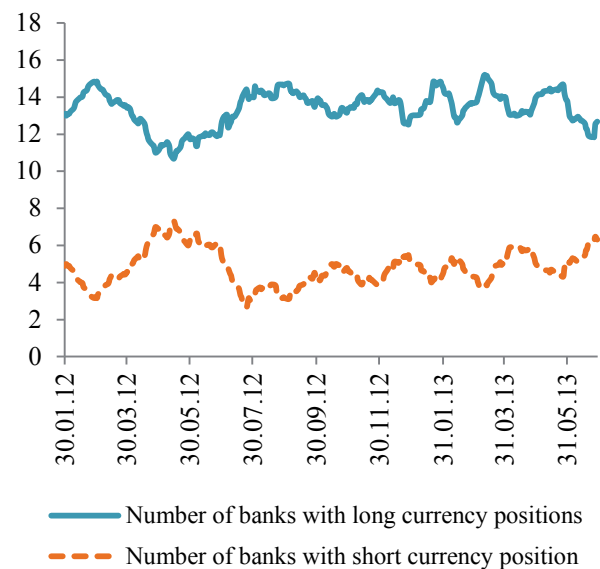
On average twelve banks had a long currency position in US dollars in 2013; eight banks had a short position (Chart 2.2.31).

Chart 2.2.30. Dynamics of Open Currency Position (OCP) and revaluation risk (VAR)* in percents of NTC



* Exclusive of troubled banks.

Chart 2.2.31. Currency position of banks* units

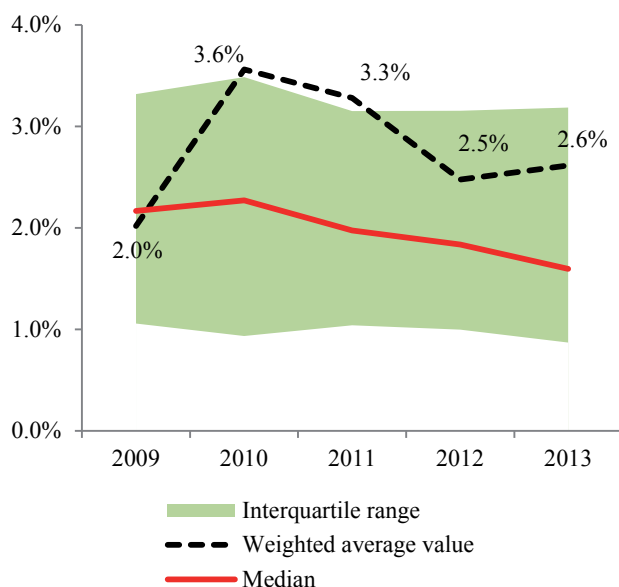


* Exclusive of troubled banks.

2.2.5. Interest risk

By the end of 2013 the *interest risk* in was moderate.

Chart 2.2.32. Dynamics of interest risk (VaR)
in percents of NTC



Increase in interest rate risk (VAR) from 2.5 percent to 2.6 percent of net total capital (or from 16.3 percent to 17.8 percent of net profit) was due to increased maturity gaps between financial assets and liabilities that are sensitive to changes of interest rates.

The average size of the interest rate risk for the period of 2008-2013 was within the acceptable range (2-4 percent of net total capital).

Chart 2.2.33. Dynamics of average weighted interest rate of time deposits of physical entities
percents

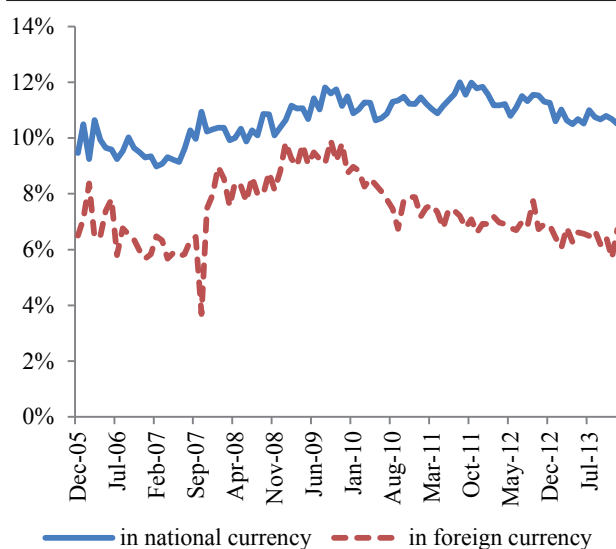
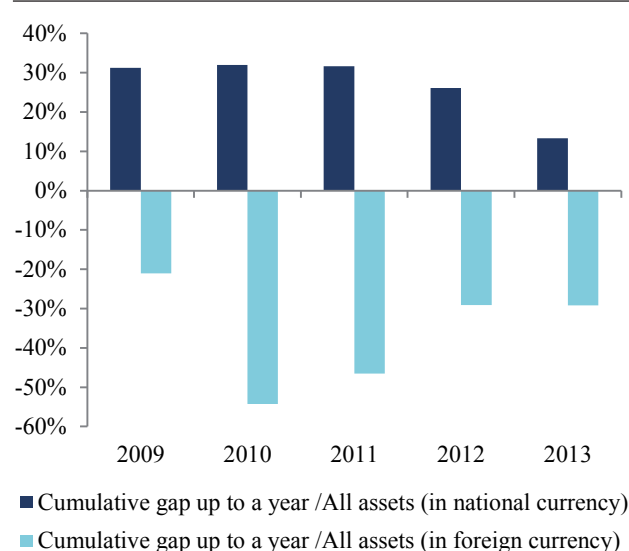


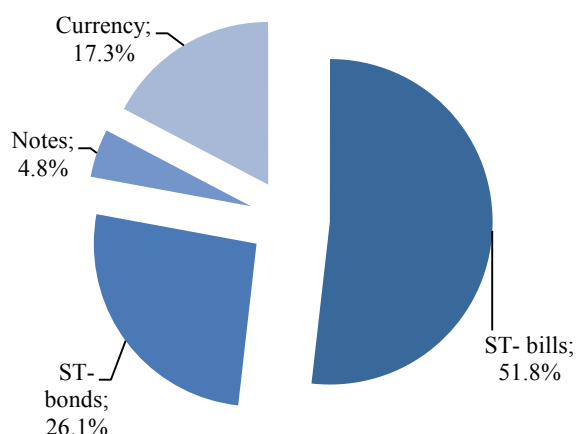
Chart 2.2.34. Cumulative gap of assets and liabilities subject to interest rate



2.2.6. Contagion Risk

The purpose of this analysis is to assess the contagion risk in the inter-bank lending, which can cause a chain reaction in the event of liquidity problems in one or more banks.

Loans in the interbank market are covered by collateral in the form of highly liquid government securities or foreign exchange (Chart 2.2.35) in the banking sector of the Kyrgyz Republic. Kyrgyz banks did not grant interbank loans without collateral.

Chart 2.2.35. The structure of the collateral in interbank crediting within 2013 between banks-residents

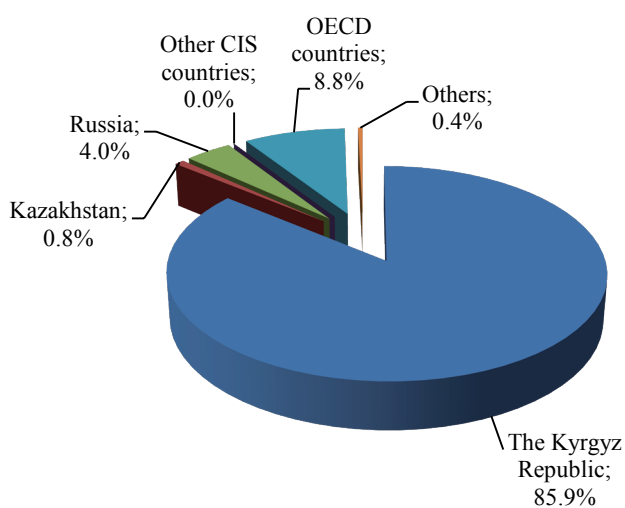
As of December 31, 2013, one bank is the borrower in the interbank money market, the transaction of which was performed in the form of swap operations. Other commercial banks in Kyrgyzstan had no mutual debts.

In general, the contagion risk in the interbank credit market of Kyrgyzstan was insignificant.

2.2.7. Country risk

The banking sector in Kyrgyzstan by the end of 2013 remained fairly isolated and poorly integrated into the global financial markets.

The volume of disposed assets of non-residents constituted 15.9 billion KGS or 14.1 percent of total banking sector assets. Relatively higher concentrations of dispositions of banks were observed in the countries of the OECD - 8.8 percent of total assets (Chart 2.2.36).

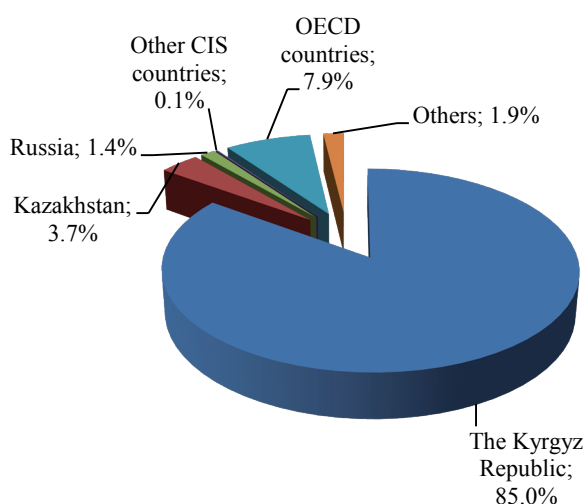
Chart 2.2.36. Geographic structure of disposition of assets as of the end of 2013

The main share of the assets placed abroad focused on of correspondent or deposit accounts constituted 15.3 billion KGS or 96.2 percent of total disposed assets of non-residents.

While 60.7 percent of total assets disposed abroad accounted for in 5 banks. By the end of 2013, banks' obligations to non-residents of Kyrgyzstan totaled 13.3 billion KGS or 14.4 percent of the total obligations of the banking sector. Main volume of the resources was drawn from non-resident banks in the form of loans and deposits amounted to 10.1 billion KGS or 74.7 percent of total liabilities to non-residents.

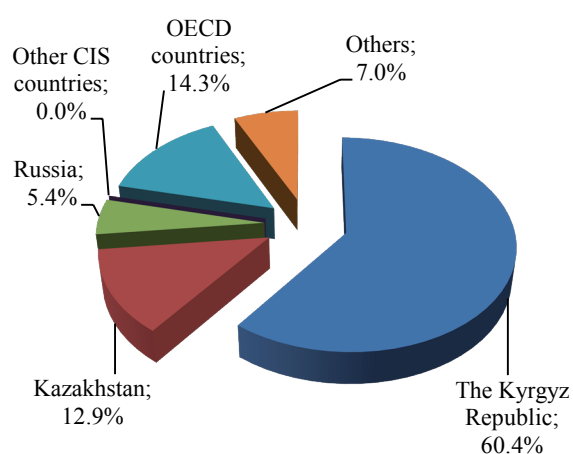
In terms of urgency of liabilities to non-residents, the main share fell under the medium-term loans.

Chart 2.2.37. Geographic structure of obligations as of the end of 2013



72.9 percent of total liabilities attracted from non-residents accounted for 5 banks by the end of 2013.

Chart 2.2.38. Nominal capital by countries as of the end of 2013



Foreign capital amounted to 4.4 billion KGS or 32.4 percent of the total authorized capital of the banking sector. The main share of foreign capital fell under (Chart 2.2.38):

- Residents of OECD countries – 14.3 percent;
- Residents of Kazakhstan – 12.9 percent;
- Residents of Russia – 5.4 percent.

Foreign capital is present in sixteen banks of Kyrgyzstan. Whereas in 10 commercial banks the control stock of shares³⁰ belongs to non-residents.

³⁰ More 50% of shares.

2.3. Reverse stress tests

2.3.1. Reverse stress tests of credit risks³¹

This method allows to detect a buffer stock of capital (net total capital) of banks, which can cover the additional allocations to LLP in connection with the transformation of “unclassified” (performing loans) loans into the category of troubled loans³².

In addition, this method allows to calculate the growth rate of classified (troubled) loans under which the capital adequacy (K2.1) will drop to the threshold level of 12 percent.

The results of the reverse stress tests show that the proportion of possible “unclassified” (performing loans) loans, which can be problematic, where the capital adequacy ratio can go down to the threshold level of 12 percent, constituted an average of 30.0 percent (Chart 2.3.1).

Thus, the banking sector has the potential to sustain a significant deterioration in the quality of the loan portfolio, which may require the creation of additional loss provisions to an average of 49.1 percent of net total capital (Chart 2.3.2).

Chart 2.3.1. Maximum permissible share of “operating”³³ loans that may become “classified”³⁴ loans
in percents of unclassified loans

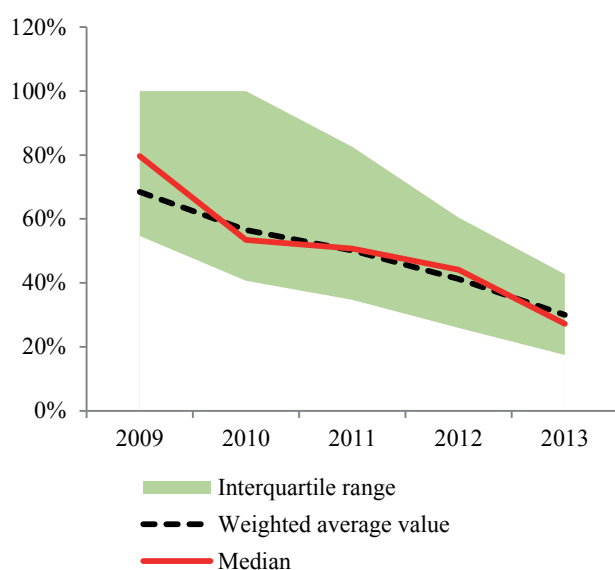
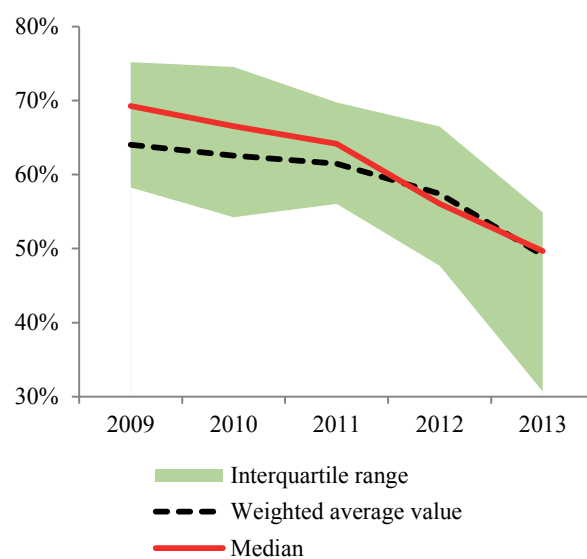


Chart 2.3.2. Additional loss provisions, in creating thereof CAR decreases to 12 percent
in percents of NTC



The most exposed to credit risk among the banks are two banks, for which the possible transition, respectively, 5.0 and 9.8 percent of loans to the category of “classified loans” may reduce the capital adequacy ratio to the threshold of 12 percent.

³¹ Exclusive of troubled banks.

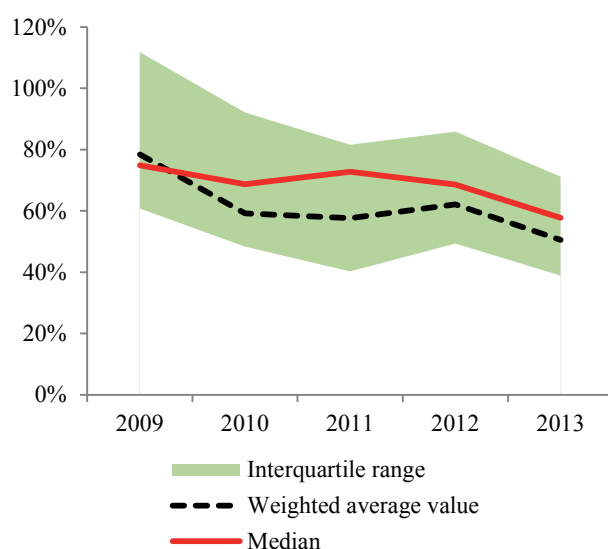
³² Herewith, transition of “operating” loans to the category of “classified” loans is fulfilled smoothly by three categories (“substandard”, “doubtful” and “losses”).

³³ Exclusive of “normal” loan category.

³⁴ When CAR decreases to the level of 12 percent.

2.3.2. Reverse stress testing of the liquidity risk

Chart 2.3.3. Scope of potential outflow of deposits where K3 may drop to 30 percent
in percents of the total volume of clients' deposits



Reserve of liquid assets that can potentially cover the outflow of deposits of population and non-financial enterprises was calculated to assess the risk of banking sector liquidity, without compromising economic standard of the National Bank on current liquidity:

Shock – the maximum amount of the outflow of deposits of individuals and non-financial companies, which may reduce the liquidity ratio to the threshold level of 30 percent.

The results of the reverse stress tests show (Chart 2.3.3) that at the end of 2013 the actual amount of liquid assets of the banking sector was able to potentially cover the outflow of an average of 50.6 percent of total deposits of population and non-financial enterprises (Table 2.3.1.).

2.3.3. Reverse stress testing of the market risk

In general, the results of the reverse stress testing of the market risk indicate that the banking sector at the end of 2013 has little sensitivity to the direct interest rate and currency risks.

Interest risk

Shock 1 – decrease of average weighted interest rate on loans, when the level of capital adequacy decreases to the threshold level (12 percent).

The results of the reverse stress tests indicate little sensitivity of the banking sector to the direct interest rate risk. Decrease of the average interest rates on loans by 17.7 percentage points can reduce the level of capital adequacy ratio to 12 percent (Table 2.3.1.).

Shock 2 – decrease of average weighted interest rate on loans, when net profit of the commercial banks declines to the zero level.

The results of stress testing show that upon decrease of interest rates on loans by 6.5 percentage points, net profit of the commercial banks decreases to the zero level (Table 2.3.1.).

Generally, the results of stress testing show that the banking sector is characterized by low level of interest rate risk.

Currency risk (revaluation risk)

Maximum increase/decrease level of the U.S. dollar exchange rate, which will influence capital adequacy and net profit, will be calculated for valuation of the currency risk in the banking sector.

Shock 1 – maximum increase/decrease level of the USD/KGS exchange rate, when the level of capital adequacy (K2.1) declines to the threshold level (12 percent).

Calculations of the stress testing indicate that the banking sector is characterized by low risk of assets and liabilities revaluation and confirms availability of low sensitivity to direct currency risk (Table 2.3.1.).

Shock 2 – maximum increase/decrease level of the USD/KGS exchange rate, when net profit of the commercial banks decreases to the zero level.

The results of stress testing indicate that with increase/decrease of the USD/KGS exchange rate by 590.8 percent, net profit of the commercial banks drops to the zero level (Table 2.3.1).

Table 2.3.1. General results of the reverse stress tests as of December 31. 2013

		Banking sector	Large banks	Medium banks	Small banks	Foreign banks	Domestic banks
Credit risk							
Shock 1	Share of unclassified loans transferring to the category of “classified” loans, <i>in percent</i>	30.0	26.5	23.5	55.3	32.1	27.8
Interest risk							
Shock 1	Decrease of interest rate on loans, when CAR declines to 12%, <i>in percentage points</i>	17.7	16.6	13.5	31.3	18.9	16.5
Shock 2	Decrease of interest rate on loans, when net profit declines to the zero level, <i>in percentage points</i> .	6.5	9.3	3.7	5.0	8.3	4.6
Currency risk							
Shock 1	Growth rate of USD/KGS (±) exchange rate, when CAR declines to 12%, <i>in percent</i>	Commercial banks overcome the effect of the direct currency risk (change of currency rate for more than 100 percent)					
Shock 2	Growth rate of USD/ KGS (±) exchange rate, when net profit declines, <i>in percent</i>						
Liquidity risk							
Shock 1	Outflow of clients’ deposit share of the total deposits, when current liquidity ratio declines to 30%, <i>in percent</i>	50.6	43.5	67.7	53.6	44.0	60.2

III. NON-BANK FINANCIAL INSTITUTIONS

In general, the state of the system of NBFI is assessed as stable. An increase in the basic indicators, in particular, assets, loan portfolio, resource base and net income is noted. The share of troubled loans in the non-banking sector remains low (2.9% of the total loan portfolio). Stress test results indicate that the credit risk of the NBFI is moderate.

There is a high concentration of institutional assets of NBFIs (63.8% of the microfinance market accounted for by the three largest NBFI), showing a tendency to increase the risk concentration.

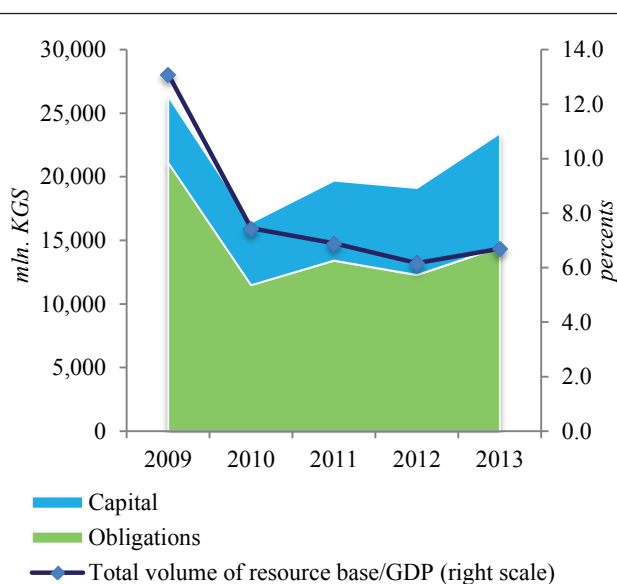
The trend of gradual decline in the weighted average interest rate on loans (MFIs - by 3.9 percentage points compared with 2012, CU- by 1.8 percentage points).

3.1. Main trends

The system of non-bank financial and credit institutions subjected to licensing and regulation by the National Bank as of December 31, 2013 in the Kyrgyz Republic included: a specialized financial institution - OJSC "FCCU"; 153 credit unions; 277 microfinance institutions (including four microfinance companies, 208 microcredit companies and 65 microcredit agencies) and 334 exchange offices.

Resources

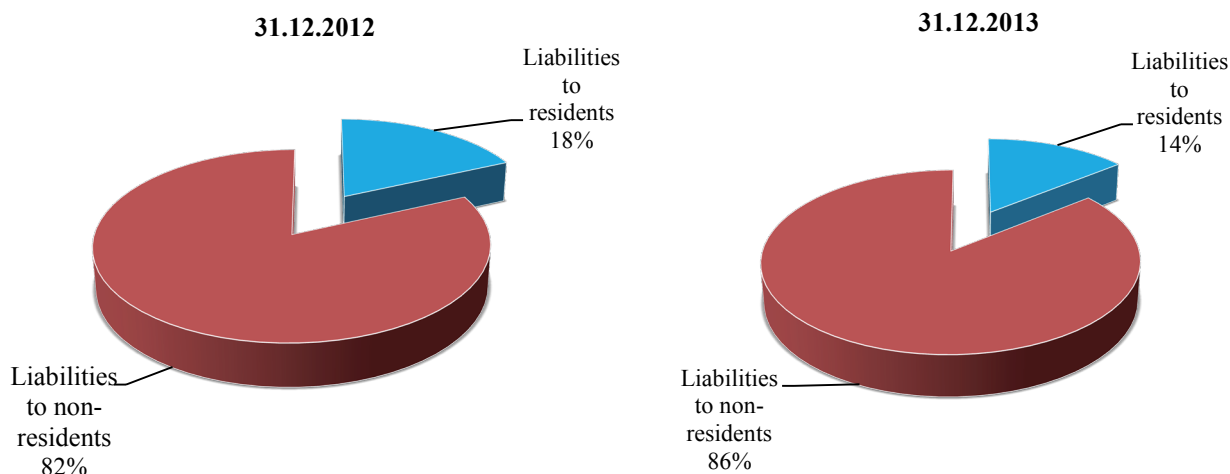
Chart 3.1.1. Dynamics of NBFIs liabilities and capital



Source: NBKR

In 2013, commitments of NBFIs increased by 17.8 percent and were formed at 14 452.9 million KGS. NBFI capital increased by 30.8 percent and amounted to 8 982.6 million KGS within the reporting period (Chart 3.1.1). Resource base growth was due to mainly the increase in share capital and general reserves of NBFIs, as well as increased external financing of the non-banking financial sector.

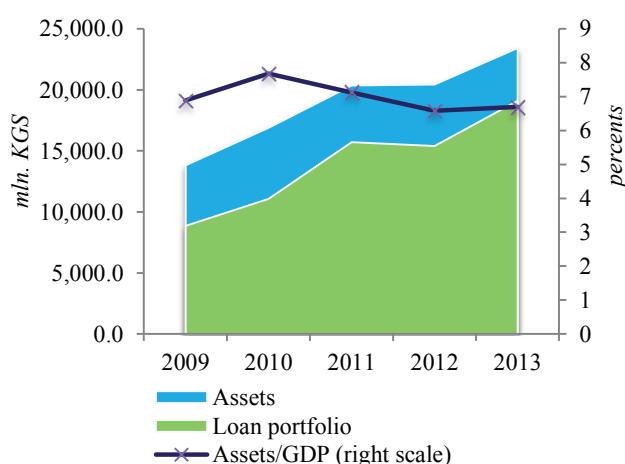
Chart 3.1.2. Structure of NBFIs liabilities



The main volume of the resource base of the NBFIs falls under the loans received from non-residents (Chart 3.1.2).

Assets

Chart 3.1.3. Dynamics of NBFIs assets and loans



Source: NBKR

According to periodic regulatory reporting, the total assets of NBFIs in the reporting period increased by 14.7 percent and amounted to 23 435.5 million KGS. This growth was due to growth in the loan portfolio of NBFIs (Chart 3.1.3).

The main activity of NBFIs remains lending. During the reporting period, growth of the loan portfolio of NBFIs constituted 24.0 percent and was formed of 19 106.9 million KGS (Chart 3.1.3).

The number of borrowers fell by 4.1 percent by the end of 2013 compared with this index in 2012 and amounted to 441,783.

Table 3.1.1. The structure of assets in NBFIs

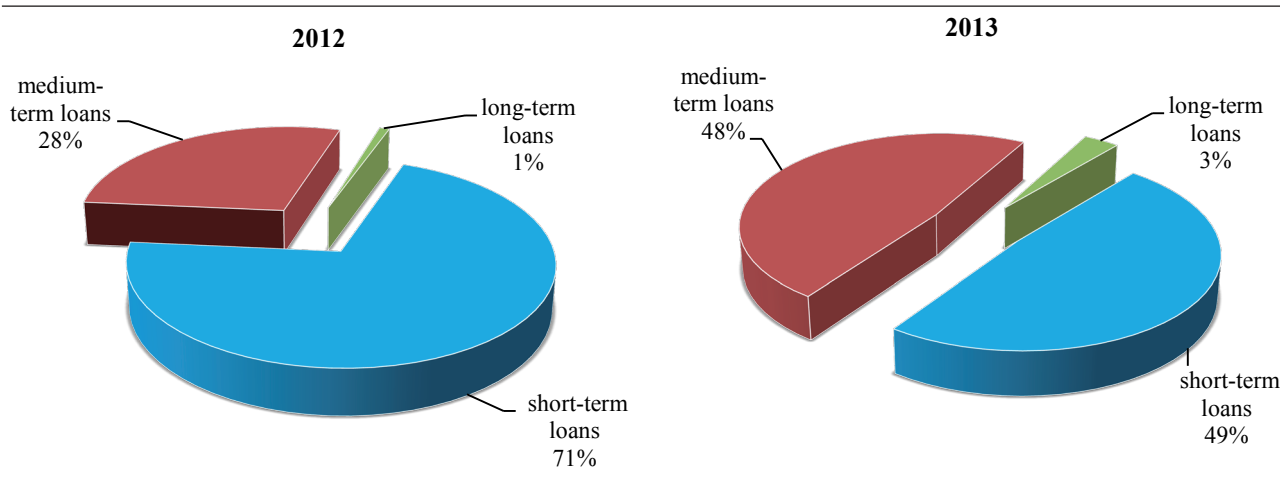
	2012		2013	
	mln. KGS	ratio, %	mln. KGS	ratio, %
Financial assets, including:	19,597.8	95.9	22,008.2	93.9
<i>net loans and borrowings *</i>	15,405.5	75.4	18,678.3	79.7
<i>correspondent accounts in commercial banks</i>	2,265.1	11.1	1,525.9	6.5
<i>deposits in commercial banks</i>	1,131.1	5.5	815.9	3.5
<i>other financial assets</i>	796.1	3.9	988.1	4.2
Non-financial assets, including:	842.6	4.1	1,427.3	6.1
<i>fixed assets</i>	744.9	3.6	826.8	3.5
<i>other non-financial assets</i>	97.7	0.5	600.5	2.6
Total assets	20,440.4	100.0	23,435.5	100.0

Source: NBKR

* Exclusive of LLP

There have been slight changes in the structure of the loan maturity provided by NBFIs. An increase in the share of medium-term credit resources³⁵ and the decline in short-term loans were noted according to the results of 2013 (Graph 3.4).

Chart 3.1.4. The structure of the loan portfolio of NBFIs by maturity



Source: NBKR

The main regions where the major share of loan portfolio of NBFIs is concentrated (63.7 percent of total loan portfolio) are Osh, Jalal-Abad and Chui oblasts and Bishkek city (Table 3.1.2).

Table 3.1.2. Geographic structure of the loan portfolio of NBFIs

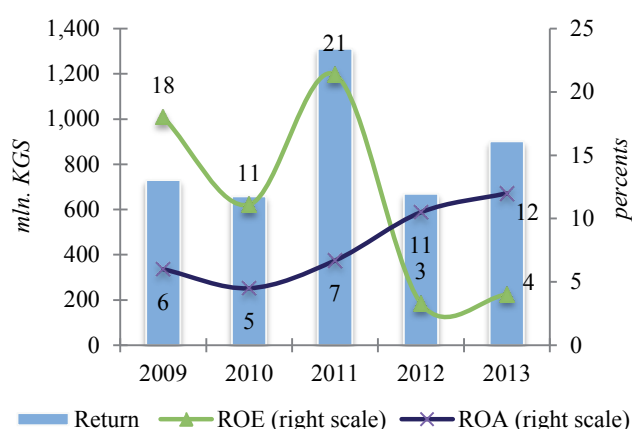
	2012		2013	
	mln. KGS	share, %	mln. KGS	share, %
Bishkek city and Chui oblast	5,639.0	36.6	6,241.2	32.7
Jalalabad oblast	2,230.8	14.5	2,903.6	15.2
Osh oblats	2,245.1	14.6	3,020.5	15.8
Batken oblast	1,460.2	9.5	1,611.8	8.4
Issyk-Kul oblast	1,544.6	10.0	1,643.7	8.6
Naryn oblast	1,076.8	7.0	1,154.6	6.0
Talas oblast	1,064.3	6.9	964.7	5.0
Outside Kyrgyzstan	144.6	0.9	1,566.8	8.2
Total	15,405.4	100.0	19,106.9	100.0

Source: NBKR

³⁵ Maturity date is from 1 to 3 years.

Revenue position

Chart 3.1.5. Dynamics of NBFIs revenue position*



Source: NBKR

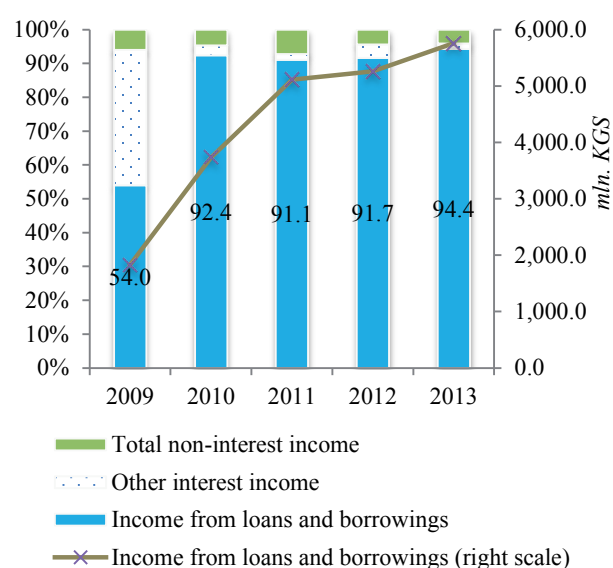
* Exclusive of FCCU

Net profit of NBFIs increased by 34.5 percent according to the results of 2013 compared with a profit in 2012 and amounted to 901.1 million KGS. Both ROA and ROE for the reporting period increased by 2 and 1 percentage points compared with those in 2012 and amounted to 12.0 and 4.0 percent, respectively (Chart 3.1.5).

The most significant item in the formation of revenues of NBFIs remain income from loans and borrowings that constituted 5 756.9 million KGS within the reporting period (Chart 3.1.6).

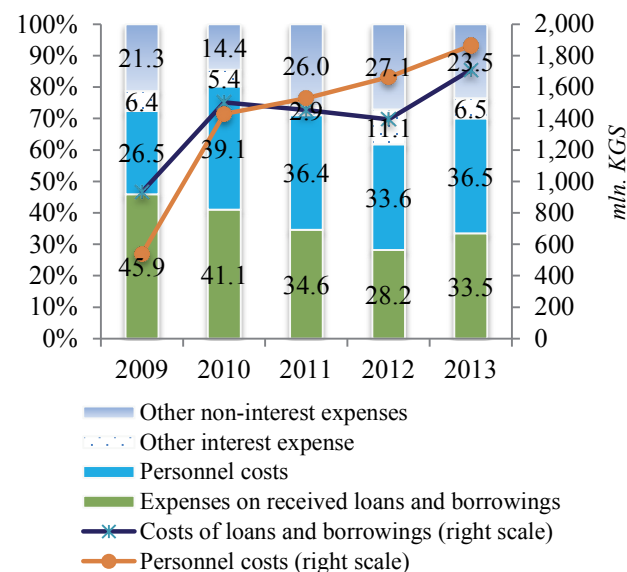
In the structure of expenditures, an increase in the share of NBFI staff costs and costs of loans received (Chart 3.1.7) was noted.

Chart 3.1.6. The structure of revenue of NBFIs



Source: NBKR

Chart 3.1.7. The structure of expenses of NBFIs



Source: NBKR

3.2. RISKS OF NON-BANK FINANCIAL INSTITUTIONS

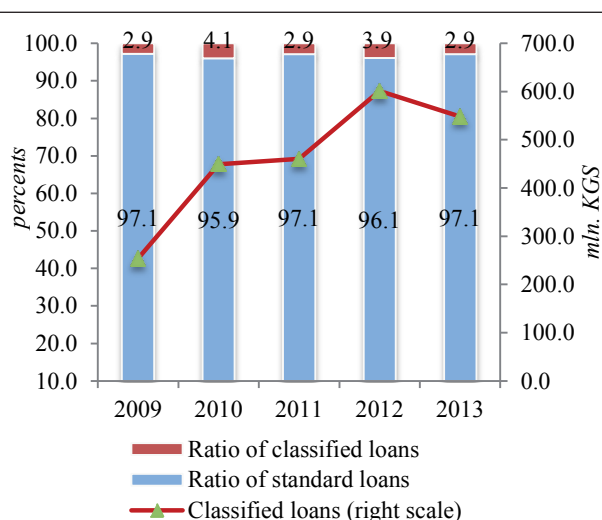
Major risk factors of the coordinated activities of NBFIs are the quality of the loan portfolio, industrial and institutional concentration, as well as status of the external debt of NBFIs.

Quality of the loan portfolio of NBFIs

There was a slight improvement in the quality of the loan portfolio within the reporting period, with increased volume of the loan portfolio and the reduction of the nominal volume of troubled loans (a decrease by 52.7 million KGS or 8.8 percent compared with 2012, Graph 3.2.1).

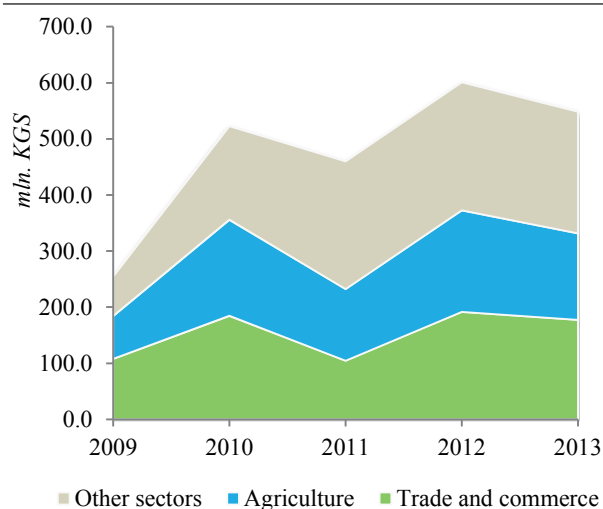
The structure of classified loans of NBFIs by the end of 2013 noted decline in the share of non-performing agricultural loans (14.9 percent compared with 2012), as well as commercial loans (7.4 percent) of the total classified loans of NBFIs (Chart 3.2.2.).

Chart 3.2.1. Quality of loan portfolio of NBFIs



Source: NBKR

Chart 3.2.2. The structure of classified NBFIs by sectors of economy



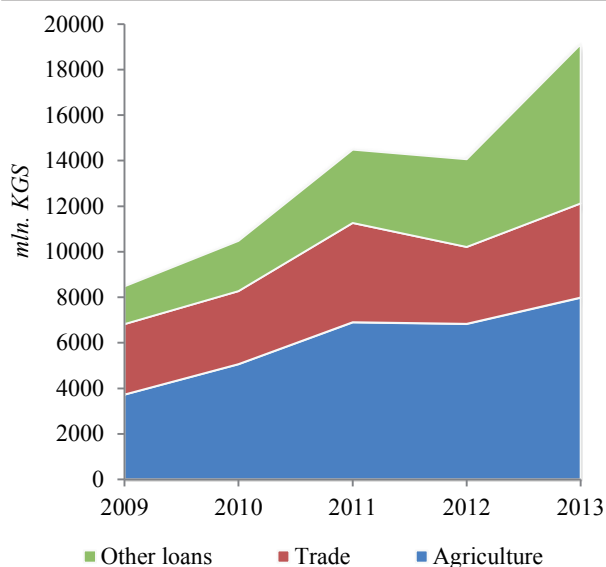
Source: NBKR

Sectoral concentration

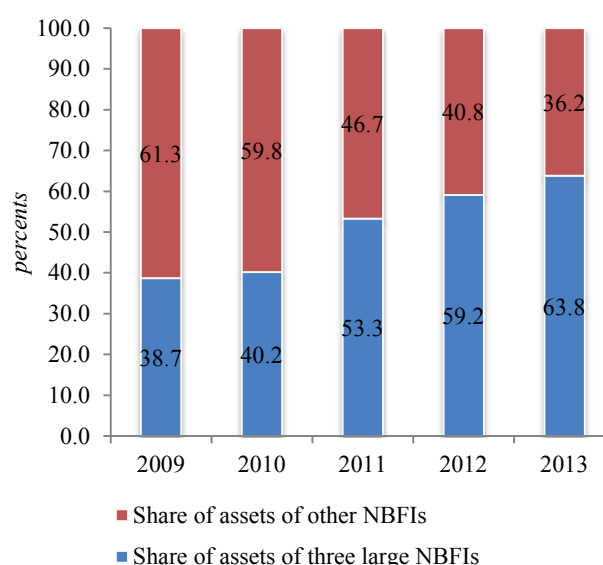
NBFI loan portfolio is concentrated in agriculture (41.8 percent of total loans of NBFIs) and trade (21.6 percent of the total loan portfolio, Graph 3.2.3). Lending of agriculture is associated with a high risk because of their dependence on climatic conditions and relatively low level of income in the regions.

Institutional concentration

The share of assets of the three largest NBFIs increased by 4.6 percentage points in 2013 compared with this index of 2012 and amounted to 63.8 percent of total assets of NBFIs (Chart 3.2.4).

Chart 3.2.3. Sectoral structure of NBFIs loan portfolio

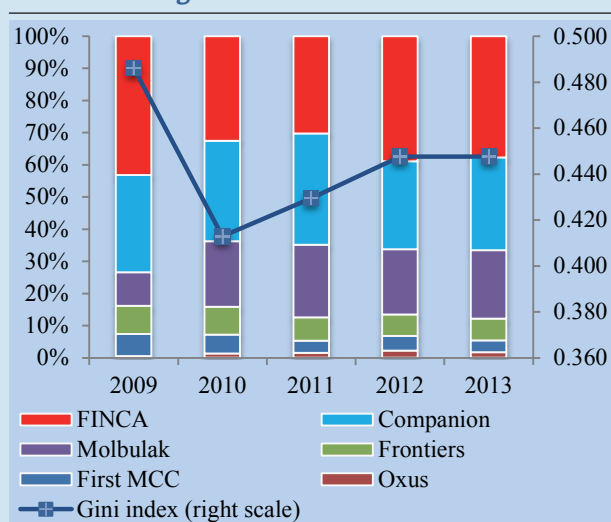
Source: NBKR

Chart 3.2.4. Institutional structure of NBFIs assets

Source: NBKR

Box 6. Assessment of NBFIs system activity on the basis of concentration indices³⁶**— The Herfindahl-Hirschman Index**

Herfindahl-Hirschman index was calculated for the purposes of concentration risk analysis in the NBFIs system³⁷. At the end of 2013, Herfindahl-Hirschman index for the NBFIs system constituted 2 774.4 points. According to the rule of thumb³⁸, resulting value indicates availability of significant concentration of NBFIs assets or high concentration of microfinance market. Thus, microfinance market of the Kyrgyz Republic is characterized by oligopolistic nature.

Chart 3.2.5. Dynamics of the Gini index and assets of 6 largest NBFIs

Source: NBKR

— The Gini Index

The Gini index was calculated for estimating the uniformity of NBFIs assets distribution among microfinance organizations. In 2013 the index value constituted 0.446, which indicated to the moderate distribution of assets among the largest microfinance institutions. At the same time, slight decrease of the concentration level (by 0.002 points) was noted against 2012 (Chart 3.2.5).

³⁶ Concentration indices are calculated on the basis of data submitted by 6 largest NBFIs.

³⁷ $H = \sum_{i=1}^n (\text{share}_i)^2$

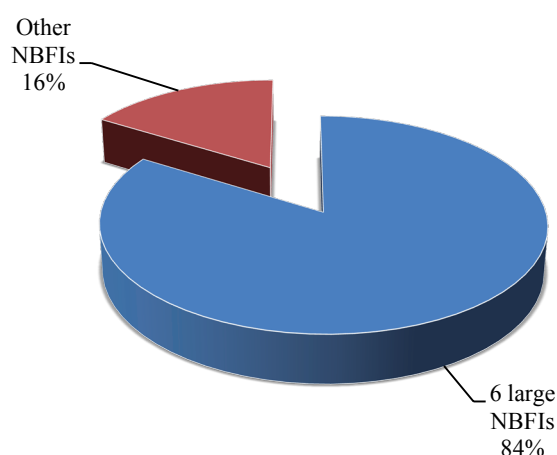
³⁸ The following rule of thumb was used for determining the level of market concentration:

- index value is below 0.1 (or 1,000) – insignificant market concentration,
- index value is from 0.1 to 0.18 (or from 1,000 to 1,800) – average market concentration,
- index value is above 0.18 (or 1,800) – high market concentration.

External debt status of NBFIs

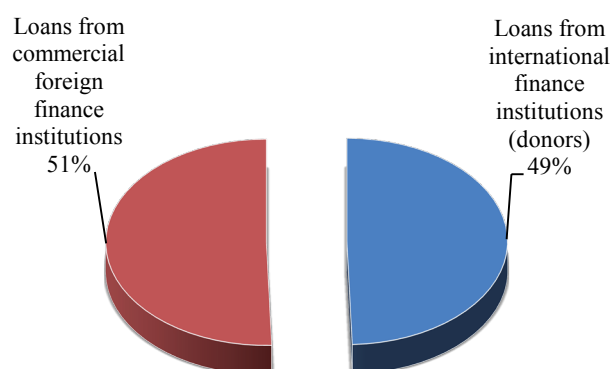
By the end of 2013 the external debt of NBFIs amounted to 231.9 million US dollars. In the institutional structure of the external debt of NBFIs, a substantial proportion falls under the six largest NBFIs established and funded by international financial institutions (Chart 3.2.6). More than half of the external debt of NBFIs (Chart 3.2.7) are loans from foreign commercial financial institutions (51.0 percent of total external debt of NBFIs) and the rest are loans from international financial institutions (49.0 percent of total external debt of NBFIs), the purpose of the latter is the development of the private sector on a long term basis.

Chart 3.2.6. Institutional structure of external debt of NBFIs



Source: NBKR

Chart 3.2.7. External debt structure of NBFIs

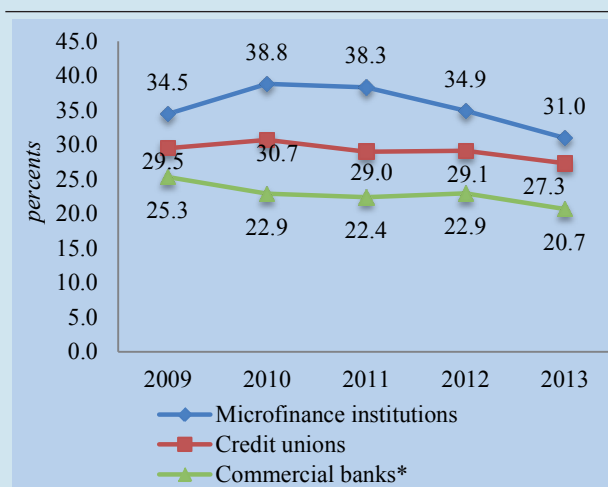


Source: NBKR

Box 7. Overview of interest rates, cost value and profitability of the NBFIs loans

In the reporting period the tendency of decrease of interest rates on NBFIs loans was observed.

Chart 3.2.8 Dynamics of average interest rates on NBFIs loans



Source: NBKR

* Interest rates of commercial banks are presented in the national currency

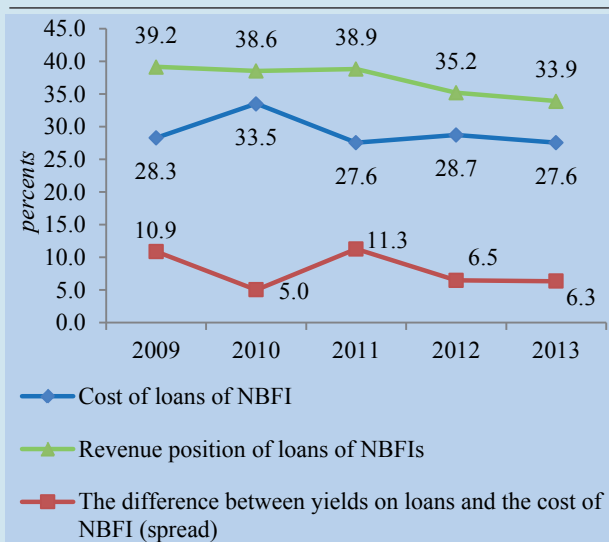
The weighted average interest rates of MFIs decreased by 3.9 percentage points and CU - by 1.8 percentage points (Chart 3.2.8) within the reporting period.

In 2013, the cost³⁹ of loan resources of NBFIs decreased by 1.1 percentage points due to the reduction of the cost of the six largest NBFIs loans by 1.6 percentage points (Chart 3.2.9 and Chart 3.2.10).

³⁹ Loans net cost or breakeven point = (Gross expenditures – Non-credit incomes)/ Annual average loan portfolio.

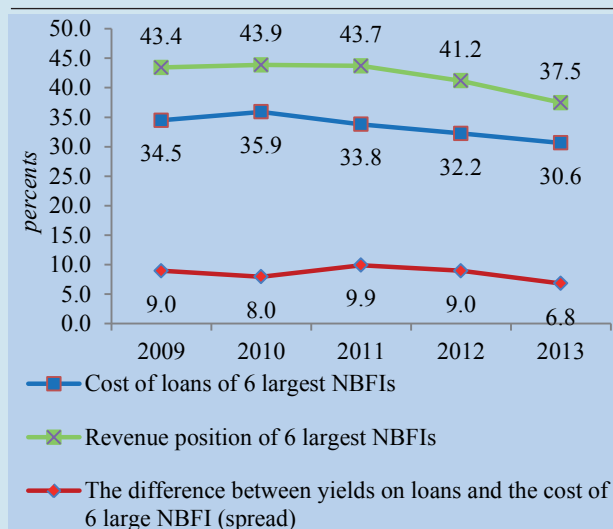
While the cost of loans of largest NBFIs was above the average cost of NBFIs loans in general. The main reason for reducing the cost of loans of the six largest NBFIs was higher growth rate over the average loan portfolio growth rate of gross expenditures.

Chart 3.2.9. Dynamics of costs and revenue position of NBFIs credit resources



Source: NBKR

Chart 3.2.10. Dynamics of costs and revenue position of credit resources of 6 largest NBFIs



Source: NBKR

Growth rates of annual average loan portfolio exceeding growth rates of interest incomes in the reporting period affected decrease of NBFIs loan profitability⁴⁰.

3.3. Stress testing of the NBFIs system

During the implementation of all scenarios of stress tests the level of loan risk of NBFIs remained relatively moderate.

Stress testing of the loan risk of NBFIs

Sensitivity analysis in which the effect of deterioration of the loan portfolio quality on the system of NBFIs as a whole is computed was conducted.

Three scenarios were considered when conducting stress testing:

Scenario 1: 50% of loans transition from one category to another;

Scenario 2: 75% of loans transition from one category to another;

Scenario 3: 100% of the loans transition from one category to another.

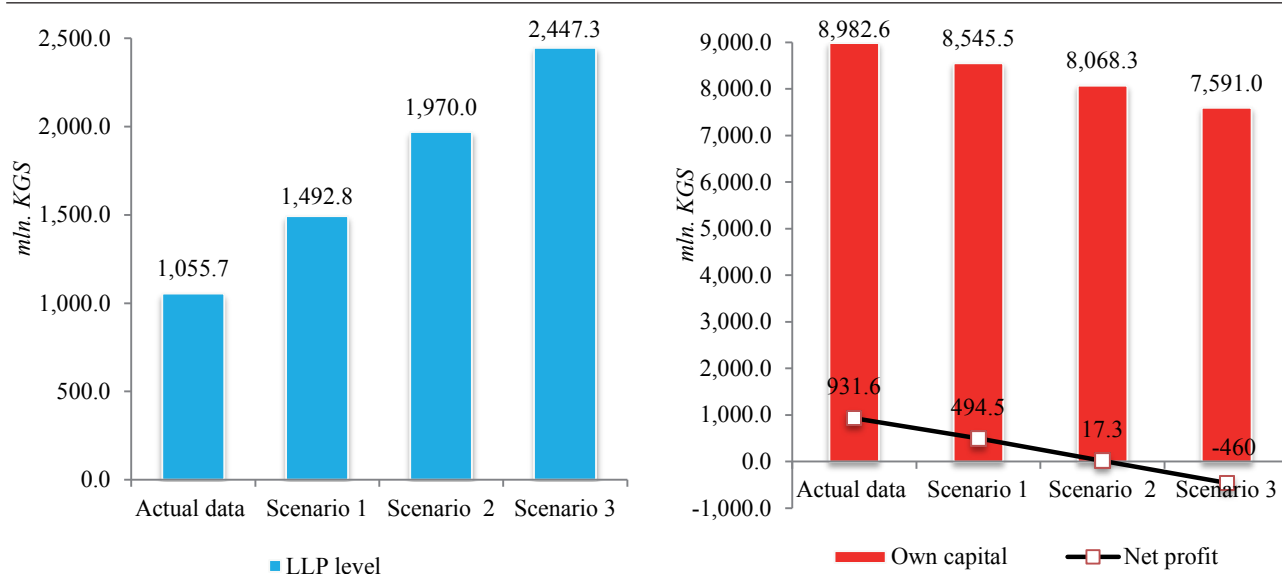
The transition of loans from one category to another occurs uniformly along the following categories: “standard”, “under supervision”, “substandard”, “doubtful” and “loss.”

The level of LLP⁴¹ in the loan portfolio of NBFIs increased from 41.0 to 132.0 percent, depending on the scenario (Chart 3.3.1) in conducting the stress testing.

⁴⁰ Loan profitability is calculated as a ratio of interest incomes to loan portfolio.

⁴¹ MFIs create general and special LLPs for relevant categories of classifications implementing the following allocations indicated in percentage from the amount of assets:

- Standard- from 0% to 5%
- Assets under supervision – 10%
- Substandard - 25%
- Doubtful - 50%
- Losses - 100%

Chart 3.3.1. Results of stress tests of the loan risk as of December 31, 2013

Source: NBKR, computed by NBKR

It should be noted that the deterioration of the loan portfolio entails a gradual decline in equity and net profit of NBFIs. In the case of the first scenario, net profit of NBFIs can be reduced by 46.9 percent or 437.1 million KGS. The result of the second scenario may be a significant decline in net profit of NBFIs. Implementation of the third scenario leads to the fact that the NBFIs sector becomes unprofitable and begins to bear a loss of 460 million KGS (Chart 3.3.1).

Table 3.3.1. Results of stress tests of the loan risk, percents

	Share of classified loans in the loan portfolio of NBFIs
Scenario 1: transition of 50% of loans from one category to another	6.7
Scenario 2: transition of 75% of loans from one category to another	8.6
Scenario 3: transition of 100% of loans from one category to another	10.5

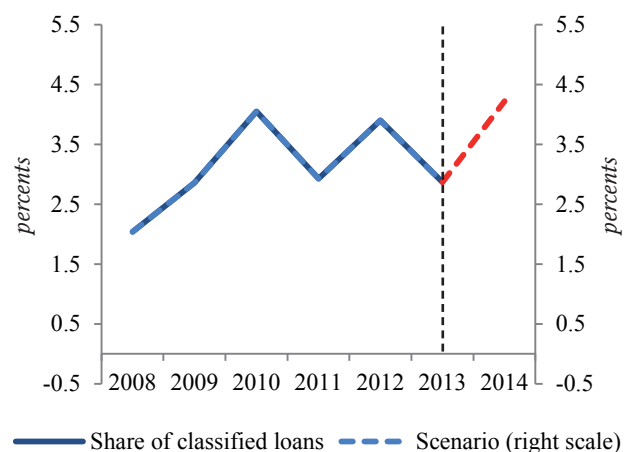
Source: NBKR, computed by NBKR

The result of the first scenario would be an increase in the share of troubled loans in the loan portfolio of NBFIs by 3.9 percentage points to a level of 6.7 percent. In the case of the second scenario, troubled loans may increase by 5.8 percentage points to a level of 8.6 percent, and in the implementation of the third scenario - by 7.7 percentage points and may reach the level of 10.5 percent.

Stress testing of the loan risk of NBFIs based on the econometric model

This stress test was carried out on the basis of an econometric model, which characterizes the dependence of classified loans of NBFIs on macroeconomic factors.

Chart 3.3.2. Dynamics of troubled loans of NBFIs



Source: NBKR

In order to assess the impact of macroeconomic shocks on the dynamics of the share of classified credits of NBFIs the following scenario was considered:

- *Reducing the rate of growth of GDP by 10 percent.*

An increase in the share of troubled loans in the loan portfolio by 1.3 percentage points up to the level of 4.2 percent may occur in the implementation of this scenario.

IV. PAYMENT SYSTEMS

In the reporting period, a set of measures taken in the reporting period aimed at minimizing the financial and operational risks in the important payment systems, the establishment of clear regulation of the participants' access to the systems, ensuring smooth functioning of the system through controlling the operation of the payment infrastructure helped to minimize the impact of potential risks to financial sector stability.

The continued relatively low level of financial risks of systemically important payment systems was due to high levels of liquidity of the participants, as well as a relatively low level of operational risks.

By the end of 2013 the following components of the payment system were operating in the Kyrgyz Republic:

Chart 4.1. Dynamics of changes of average indicator of payment volumes and liquidity in Real Time Gross Settlement

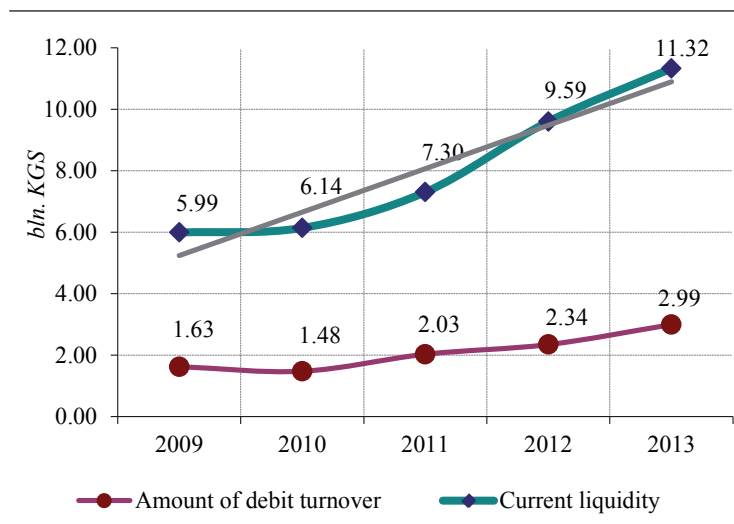
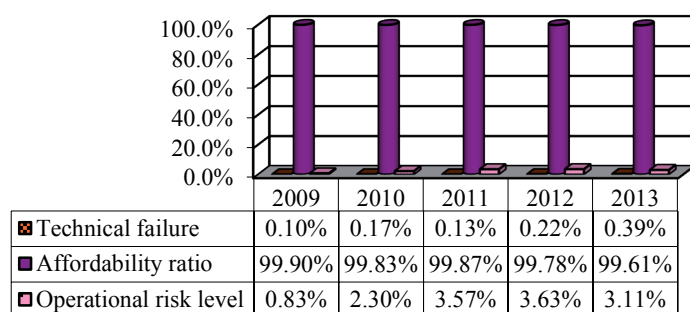


Chart 4.2. Ratio of affordability and operational risk in the RTGS



Source: Computed by NBKR

1. Interbank Payment System - Real Time Gross Settlement (RTGS).
2. Clearing payments system - the System of Batch Clearing of Small Retail and Regular Payments (SBC).
3. Systems of Payment Cards Settlement.
4. Money Transfer Systems.

Overall in 2013 RTGS system, the SBC and ElCard functioned normally.

The level of financial risk in RTGS remained low due to the continuing high level of liquidity in relation to the turnover in the system (liquidity ratio was 3.8, the turnover ratio - 0.3). Average daily volume of liquid assets of participants in 2013 showed an increase of 17.8 percent to 11.3 billion KGS.

The analysis of RTGS operation showed that taking into account the trading day renewals and technical errors such as risk factors, the affordability ratio⁴² in 2013 constituted 99.6 percent, having decreased by 0.2 percentage points compared with 2012; and the level of operational risk constituted 3.1 percent.

Besides, Payments in queue and outstanding payments for insufficiency of participants' funds are the indicators of possible financial risks in the RTGS⁴³. 210

⁴² Affordability ratio is an indicator, characterizing system affordability as a possibility of access to available services and information for system users upon their request. System shutdown due to technical failures, power outages, late opening or early closure of the system trading day reduce the time of access to the system.

⁴³ Such situation occurs in case of the participants' insufficient funds in the correspondent account opened in the National Bank.

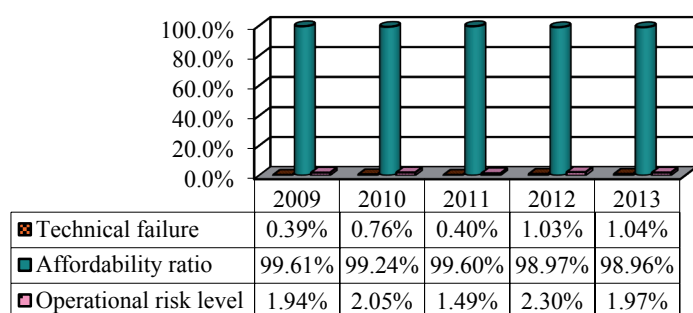
payments in queue were registered in 2013 (Table 4.1.), which is by 2.3 percent less than in 2012. Average downtime of payment in queue within the RTGS system was about 50 minutes.

Table 4.1. Summary data on payments of RTGS

Name	2009	2010	2011	2012	2013	Growth (%)	Increase
Payments in queue:							
- Quantity	46	40	204	215	210	-2.3	-5.0
- Total time (minutes)	1,987	1,312	6,904	11,469	10,730	-6.4	-739.0
Outstanding payments for lack of liquidity:							
- Quantity	2	3	8	4	7	75.0	3.0
- Volume (mln. KGS)	185.4	22.0	32.3	1.3	17.2	-	15.9

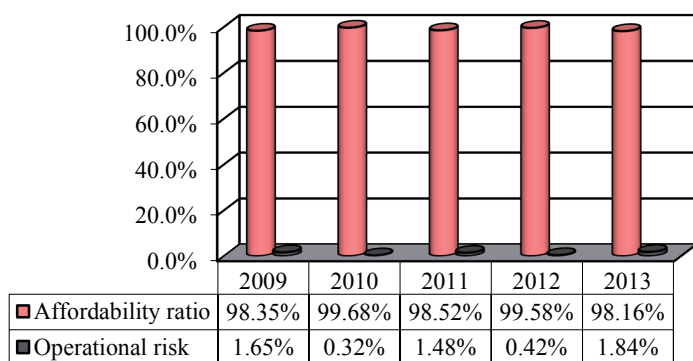
Source: Computed by NBKR

Chart 4.3. Ratio of affordability index and operational risk in SBC



Source: Computed by NBKR

Chart 4.4. Ratio of affordability index and operational risk in the Unified Interbank Processing



Source: Computed by NBKR

Fixed payments in queue did not entail financial risks to other participants, as they were related to the time lag between the receipt of funds from the correspondent account of the participant and sending payment system. In accordance with the rules of the system, in case of lack of liquidity of the individual participants, these payments are automatically rejected by the system at the end of the trading day.

In the SBC for the reporting period, participants reserved more funds for the final payment than was necessary, while maintaining a high level of liquidity. Exhibited reserves by the participants to cover a debit net position were 2.6 times higher than the required level. Accessibility index system for 2013 remained high and amounted to 99.0 percent. By extending the work schedule and technical failures, operational risk level was 2.0 percent.

The affordability index system in the national system "ElCard" for 2013 constituted 98.2 percent, and the level of operational risk - 1.8 percent.

Penetration level of bank payment cards remained at a low level (on average only every 6th person in Kyrgyzstan had a map). At the same time, there was a positive trend of increasing the number of issued payment cards. The total number of bank payment cards in circulation by the end of 2013 amounted to 650.6 thousand units having increased by 59.1 percent compared with the number of cards in 2012.

Commercial banks offered diverse range of additional banking services through using credit cards at affordable rates. At the same time, a relatively low level of penetration of banking products, including bank card payment was noted due to low levels of financial literacy, lack of stimulation, and informing

the public about the services offered and banking products, as well as insufficient provision of peripheral devices for acceptance and maintenance of bank payment cards, particularly in regions.

For the purpose of addressing this issue, within the framework of the State Program implementation on increasing the share of non-cash payments and settlements in the Kyrgyz Republic for 2012-2017 (approved by Joint Resolution of the Government of the Kyrgyz Republic and the National Bank as of May 14, 2012 under No.289/5/1), the commercial banks are working to further expand the infrastructure of bank payment cards in all regions of the country.

Thus, the total number of operating ATMs and terminals at the end of 2013 amounted to 818 ATMs and 3485 terminals installed throughout the country (compared to the number of ATMs and terminals in 2012 they grew by 34.1 percent and 40.1 percent respectively).

V. IMPROVEMENT OF THE CONTROL OVER THE FINANCIAL SECTOR

In the reporting period the National Bank of Kyrgyz Republic took measures on improvement of regulatory and legal base regulating the activity of financial and credit institutions. Special attention was given to issue related to enhancement of effectiveness of supervision function of the National Bank, protection of financial services consumer's rights, as well as bringing regulation in compliance with international standards and amendments in legislation of the Kyrgyz Republic.

Licensing of the Banks Operation

The National Bank approved changes and additions to the Regulation "On licensing of banks activity" in terms of specifying the procedure of approval of acquisition of shares of banks, the minimum requirements for officials of banks, funds from foreign banks to the Kyrgyz Republic for the formation or capital increase of resident banks. Besides, amendments to the order of consideration of the application of microfinance companies and microcredit agencies on the issuance of banking licenses were made.

Requirements to the external audit

To improve supervision of banks and microfinance companies that attract deposits, as well as to reduce bank risks, amendments to the Regulation "On the minimum requirements for external audit of banks and other financial institutions licensed by the National Bank of the Kyrgyz Republic" were introduced. Amendments to the requirements for rotation period of the external auditor, to contract on conducting external audit, as well as requirements to conduct unscheduled audits were made.

Antimonopoly regulation

In order to improve antimonopoly regulation amendments to the policy and the basic principles of antimonopoly regulation, development of competition and consumer protection in the banking market of the Kyrgyz Republic were introduced, according to which the antimonopoly regulation mechanism was extended, in which the National Bank uses the methods combining licensing regime, organization of external supervision and inspection on the ground. The Regulation "On the minimum requirements for the pricing policy of banking services and services provided by microfinance institutions" containing the minimum requirements for a pricing policy on banking services and disclosure of components that make up the interest rates on loans and deposits was approved.

Enforcement Measures

During the reporting period, amendments to a number of legal framework were made in line with the improvement of legal acts of the National Bank of the Kyrgyz Republic on taking measures towards the commercial banks and non-bank financial and credit institutions licensed and regulated by the National Bank, as well as bringing the regulatory framework in line with the Administrative Code.

Regulatory reporting of banks

In order to improve oversight functions, the periodic regulatory bank report had a new section introduced, according to which the National Bank will receive information about each loan of a borrower from banks. This information will improve the quality of loan risk assessment in terms of the banking system, as well as commercial bank separately, and identify loan up borrowers of commercial banks. Methodic guidelines on developing periodic regulatory banking report in order to clarify the procedure for developing the new section was amended.

Risk Management

Amendments to some regulations concerning issues of reducing bank risks, including those

associated with lending activities, including group lending, operations of banks with insiders-employees, work procedure of banks with real estate and on leasing of bank safes.

Regulation of non-bank financial institutions

In connection with the adoption of amendments and additions to the legislation governing the activities of non-bank financial and credit institutions, the National Bank adopted a set of regulations, and some regulations governing the activities of microfinance institutions, credit unions and exchange offices were amended. This helped to extend the scope of activities of microfinance institutions and credit unions, which were granted the right to conduct operations in accordance with the Islamic principles of banking and financing, holding agency banking and a number of foreign currency transactions.

Regulation “On the minimum requirements for credit risk management for microfinance institutions not attracting deposits” was adopted in order to protect the rights of consumers of financial services, increase transparency of microfinance institutions not attracting deposits and to prevent loan up of borrowers

In the reporting period, respective instruction was developed in order to bring the activity inspections of microfinance institutions not attracting deposits into order.

Some legal acts of the National Bank were amended in connection with the establishment of requirements for internal control of microfinance companies on the issues of countering Money Laundering and Financing of Terrorism and to strengthen existing requirements for microfinance institutions and credit unions.

A number of requirements were introduced for the exchanged offices: minimum size of working capital needed when opening exchange offices was increased and a limit on the number of opening additional offices was introduced. The right to conduct exchange operations was granted only to legal entities.

Islamic Principles of Financing

Relevant regulatory acts were developed and adopted pursuant to the laws “On Amendments to the Law “On the National Bank of the Kyrgyz Republic” and “On Amendments to the Law of the Kyrgyz Republic “On Banks and Banking Activities in the Kyrgyz Republic”, adopted in order to ensure equal conditions for all participants in the banking sector and create conditions to promote Islamic banking in the Kyrgyz Republic, as well as to bring in accordance with the approved amendments to the Laws of the Kyrgyz Republic “On Microfinance Organizations in the Kyrgyz Republic”, “On credit unions” that provide the right to microfinance institutions and credit unions to conduct operations in accordance with the Islamic principles of finance. Approved documents concerned, including the issues of credit risk limits for funding in accordance with the Islamic principles of banking and finance.

The System of Deposit Protection

In order to improve maintenance of database of commercial banks for the purpose of accounting of deposits of individuals to be compensated in accordance with the Law of the Kyrgyz Republic “On protection of bank deposits”, amendments to the Guidelines on management of databases on the bank’s liabilities to depositors were made.

Financial sustainability indicators of the Kyrgyz Republic⁴⁴

(in percent)

	2010	2011	2012	2013
Banking sector				
<i>Indicators of the capital adequacy</i>				
Regulatory capital to assets, weighted by risk	30.5	30.3	28.3	25.0
Tier I capital to assets, weighted by risk	26.5	24.6	22.3	19.9
Equity to total assets	21.7	21.6	19.7	19.3
Ratio of classified loans to equity	33.1	21.9	16.8	13.8
Equity to total liabilities	27.7	27.6	24.4	23.3
Quality of assets				
Ratio of classified loans to loan portfolio	15.8	10.2	7.2	5.5
Loan loss provisions to loan portfolio	10.7	6.3	4.7	3.3
Loan loss provisions to classified loans	67.7	61.6	64.9	59.6
Ratio of currency loans to loan portfolio	55.7	55.2	53.7	53.6
Returns indicators				
ROA	1.1	3.0	3.0	2.8
ROE	7.1	17.7	18.5	18.0
Interest margin to total income	48.9	45.0	44.7	44.1
Spread between reference rate on deposits and loans	8.2	9.4	8.0	7.7
Liquidity indicators				
Ratio of high liquid assets to total assets	36.1	35.0	36.8	38.8
Ratio of high liquid assets to short-term liabilities	72.8	74.9	80.0	70.0
Sensitivity to market risk				
Ratio of net foreign exchange position to equity	-10.3	4.1	2.4	4.9
Other financial corporations*				
Ratio of assets to total assets of the financial system	22.3	23.0	18.7	17.2
Ratio of assets to GDP	7.7	7.1	6.6	6.7
Corporate sector (medium- and large-sized enterprises)				
Return on assets (ROA)	2.9	5.9	6.7	5.5
Return on equity (ROE)	6.2	12.7	16.3	16.4
Ratio of total liabilities to equity (leverage)**	2.2	2.1	2.1	2.1
Current liquidity ratio	1.3	1.4	1.4	1.3
Households sector				
Ratio of the households' debt to GDP	8.4	8.5	9.1	13.4
Ratio of households' debt to disposable income	11.9	13.2	13.4	21.8

Source: NBKR, NSC KR, calculations: NBKR

* - other financial corporations are presented by NBFIs

** - equity of the corporate sector is represented exclusive of shares

⁴⁴ Indicators of financial sustainability are calculated according to the methodology of the IMF ("Instruction on identification of financial soundness indicators", IMF, 2007).

Glossary and Abbreviations

A *bank deposit* is the amount of money, accepted by a financial and credit institution under contract from another person on the terms of repayment, payment and maturity. Deposits can be term and demand. Demand deposits are made without specifying the shelf life, and time deposits are made for a certain period.

A *bank loan* is money provided by a bank for a fixed period under the terms of repayment and payment of loan interest.

A *foreign exchange market* is a market in which the purchase/sale of foreign currencies is made. By the economic content, it is a sector of the money market, where supply and demand for a specific product such as currency are balanced. According to its purpose and form of organization, it is a set of specific institutions and mechanisms that in concert provide an opportunity to freely sell and/or buy domestic and foreign currency on the basis of supply and demand.

A *money market* is a market in which there is the giving and receiving of funds in the form of loans and securities for a short term within the range of participants.

Deposit institutions are financial corporations, except the central bank, the main activity of which is to accept deposits and subsequently place these funds on their behalf.

Household is an individual or a group of individuals who live together, run a joint household, combine all or part of their income and property and who consume certain types of goods and services (mainly, housing and food). Households may exercise any economic activity, including the production.

Return on securities is the ratio of the annual return on the security to its market price; the rate of return received by the owner of the security.

Duration is the weighted average term to maturity of the instrument. Can be used as a measure of the sensitivity of the cost of financial assets to interest rate changes, but not as maturity as such.

The housing affordability index is an indicator of the state of the housing market in terms of the possibility of acquiring apartments by the people. Calculated as the ratio of the average market value of a standard apartment (total area of 54 sq. m.) to the average annual income of a family of three (two adults and a child).

The payment system affordability index is a measure of the availability of the system as access to services and information for users of the system on their demand. Downtime of the system due to technical failures, power outages, late opening or early closing of the trading day of the system reduce the time to access the system.

The liquidity ratio of payment systems characterizes sufficiency of liquid funds in the accounts of the participants of the system for the payments and settlements.

Minimum consumer budget is the cost of a set of minimum benefits and services to the subsistence minimum.

Living wage is the valuation of the minimum set of benefits and services that are equal to the value of the minimum consumer basket, necessary for the preservation of human life and his/her health, and the amount of required payments and fees.

Disposable income is income that goes to private consumption and is free from tax. Personal disposable income is the difference between personal income and the amount of taxes or, appropriately, is the sum of consumption and the amount of savings.

A *real interest rate* is the nominal interest rate adjusted for inflation.

A *securities market* is organized exchanges and structures such as securities depository companies, accounting and clearing houses, as well as other companies that provide services related to the activities of the exchange. This category includes depositories and electronic clearing systems, the activity of which is ensured by financial corporations and national self-regulatory organizations of oversight over the activities of stock exchanges and related institutional units or their regulation.

An *unemployment rate* is the percentage of the actual number of unemployed to the total economically active population.

Financial assets include equity instruments and units/shares of investment funds, debt instruments, derivatives, stock options for employees and monetary gold.

A *financial market* is defined as a market in which economic actors sell and purchase financial claims in accordance with the established rules of behavior of participants

ADB	– Asian Development Bank
GDP	– Gross Domestic Product
SRS GKR	– State Registration Service under the Government of the Kyrgyz Republic
POL	– Petroleum and Oil
GS	– Government Securities
CAR	– Capital Adequacy Ratio
CSJC	– Closed Joint-Stock Company
CPI	– Consumer Price Index
KR	– Kyrgyz Republic
KSE	– Kyrgyz Stock Exchange
IMF	– International Monetary Fund
MF KR	– Ministry of Finance of the Kyrgyz Republic
NBKR	– National Bank of the Kyrgyz Republic
NSC KR	– National Statistical Committee of the Kyrgyz Republic
NBFIs	– Non-Bank Financial and Credit Institutions
NGS	– Non-Government Securities
OJSC	– Open Joint-Stock Company
RK	– Republic of Kazakhstan
LLP	– Loan Loss Provisions
RF	– Russian Federation
CIS	– Commonwealth of Independent States
SFBR	– Specialized Fund for Banks Refinancing
USA	– United States of America
FAO	– Food Agriculture Organization of the United Nations
FI	– Financial Institution
CBRF	– Central Bank of the Russian Federation
NTC	– Net Total Capital