



BANKING & FINANCE

INDUSTRY AND LEGAL UPDATE

**KALIKOVA &
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Industry Update

The National Bank of the Kyrgyz Republic (KR-BN) proposed to forbid microfinance institutions from charging prepayment penalties

NB KR proposed forbidding microfinance organizations (hereinafter MFOs) of Kyrgyzstan from charging prepayment penalties on loans. The representatives of MFOs protested against such initiative. According to the Director General of Oxus MFO, the companies deal with the borrowed funds and incur losses as a result of prepayment, therefore, they have to charge prepayment penalties, at least to the extent of a monthly interest rate.

Despite the protests of the representatives of MFOs, the members of the Parliament reported that they are in process of drafting the amendments to the Civil Code abolishing the prepayment penalties.

Kyrgyzstan: The average interest rate on loans

The weighted average interest rate on loans in Kyrgyzstan is maintained at the level of 21-23%. Since the beginning of 2012 the NBKR discount rate fell by more than a half: from 13.61 to 5.16 percent.

"According to experts, interest rates of commercial banks are determined depending on supply and demand. Commercial banks are guided by their own interest-rate policy, which is based on their operative administrative costs, prime costs and credit risks associated with the cost of borrowed resources: deposits or credits. The main credit resources come from 3-month term deposits. Such deposits make a little more than one-quarter of the total deposit portfolio of

Legal Update

Law "On State Development Bank of Kyrgyz Republic" dated August 9, 2012 N 161 (hereinafter - the "Law")

This Law defines the purposes and legal and organizational framework for the formation and operation of the State Development Bank of the Kyrgyz Republic whose funds will be used to develop and promote top-priority and strategic sectors of the Kyrgyz economy.

The Bank's sole shareholder is the Government of the Kyrgyz Republic, represented by the State Property Fund under the Kyrgyz Government. The Bank's minimum share capital is 2,000,000,000 (two billion) KGS.

The Bank's primary objective is to ensure the diversification and stimulation of the Kyrgyz economy through facilitation of investment, including investment in major national projects upon commercially sound terms.

The Law regulates the relationships between the Bank and the state bodies of the Kyrgyz Republic, the National Bank of the Kyrgyz Republic, the international financial institutions and foreign banks. The Law also defines the procedure for attracting and using financial resources.

Kyrgyz commercial banks' Guide to Renting Individual Bank Safe Deposit Boxes of September 12, 2012 N 37/2 (the "Guide")

The Guide is developed in accordance with Kyrgyz legislation and defines the procedure for renting Kyrgyz commercial banks' individual

commercial bank. The rest of the deposit portfolio does not allow lending due to being short-term. The weighted average interest rate on term deposits of three to six months is more than 12 percent. The weighted average interest rate on new loans is maintained at 21-23%.

According to statistics from the National Bank of the Kyrgyz Republic, the volume of lending to commercial banks is increasing. In the first half of 2012, they increased by 11.8%. The average daily volume of excessive reserves for the first half of 2012 amounted to 1 billion 857.2 million KGS.

Apart from their own resources, commercial banks have access to loans of international financial institutions. Of 1 billion KGS at 7% per annum provided by the Government in the framework of the Affordable Farm Loans Project 2 in 2012, the real sector has drawn down 700 million KGS.

In comparison, in 2011, under the Affordable Farm Loans Project, the loans were issued at 9%. At that time, of 1 billion KGS, only 564 million KGS were drawn down. This indicates that the banking system has resources for financing the economy at below market rates, but the real sector cannot always offer cost-effective projects.

NBKR offers Kyrgyz microfinance organizations to disclose their effective interest rate in commercials

NBKR offers Kyrgyz MFOs to disclose their effective interest rate in advertisements. According to Deputy Chairman of the National Bank of the Kyrgyz Republic, it is important to give truthful information about the cost of a loan and interest rate limits. The representatives of the MFO industry agreed that they should disclose the effective interest rate in their advertisements, publications, and disseminations of information about the interest rates on loans. As the head of one of the largest microfinance companies explained, the MFOs do observe this requirement now, but they cannot indicate such rate in their advertisements because it is calculated individually for each loan, depending on its amount, maturity, and remoteness of the region. The effective interest rate is disclosed to each client at the time of signing the contract, whereas the purpose of advertisement is to

bank safe deposit boxes.

The purpose of this Guide is to establish minimum requirements for Kyrgyz commercial banks' activities related to renting of safe deposit boxes in order to minimize their operational, financial and reputational risks.

The Guide regulates the procedure for executing the bank's safe deposit box rental contracts and the procedure for using such boxes. It also defines the procedure for handing over the safe deposit box by the client to the bank, and the procedure for keeping the records and registrations of safe deposit boxes.

Regulation on real estate transactions/operations of Kyrgyz commercial banks and microfinance companies dated August 29, 2012 N 36/2

The purpose of this Regulation is to establish minimum requirements for transactions of commercial banks and microfinance companies eligible to accept deposits (the "banks") in respect of the real estate acquired by the banks in the course of the loan enforcement actions as well as requirements for transactions in respect of the bank premises meant for sale.

The Regulation establishes the requirements for the period of use of other real estate. By "other real estate" the following assets are meant:

a) a real estate acquired by the bank as a result of enforcement of the customer's full or partial debt to the bank on loans;

b) any real estate of the bank, including the unused bank premises, which are not used nor will be used for the bank's activities and are meant for sale.

According to the Regulation, other real estate cannot be kept by the bank for more than three years. The bank must start active search for the purchaser. In addition to the requirements for the period of use of other real estate, the Regulation also sets out the requirements for transactions in respect of other real estate, as well as the requirements for the evaluation, accounting and sale of other real estate.

Guide to limits of financing in accordance with the Islamic principles of banking and finance

attract customers.

The sides agreed that the advertisements will indicate either a per annum interest rate or the limits of the interest charged. A decision on this matter will be made after consideration by the Parliamentary committee.

Kyrgyzstan has already received \$45 million of \$106 million allocated by the IMF for economic program

The IMF's permanent representative in Kyrgyzstan noted that Kyrgyzstan has already received \$45 million for an economic program. He reminded that the economic program was approved in June 2011. The total amount of funding is \$106 million. The rest of the money will go to the state budget by mid-2014. The IMF does not provide any other loans to Kyrgyzstan, but provides technical assistance", the IMF's permanent representative added.

dated October 12, 2012 N 40/1

The purpose of this Guide is to establish the limits on financing in accordance with the Islamic principles of banking and finance, as well as the requirements and procedures binding the Islamic banks and banks having an "Islamic window".

Limits of financing mean limits of the risk per customer / supplier and persons related thereto, defined by the National Bank of the Kyrgyz Republic as 'maximum exposure to a single customer / supplier'

The Guide specifies the procedure for calculating standard maximum risk per customer / supplier, standard procedure for calculating maximum risk per customer / supplier for the bank with "Islamic window" and calculating the risk of a large bank with "Islamic window". The Guide also specifies the requirements for pledge, which ensures the exception from calculation of maximum risk per customer / supplier and limits the risk of concentration.



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www.akipress.kg, www.24.kg, www.parus.kg, www.kyrgyz-el.kg

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