



BANKING & FINANCE

INDUSTRY AND LEGAL UPDATE

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Industry Update

Banks rating: Over the past year, the loan portfolio decreased at the branches of the National Bank of Pakistan, Amanbank OJSC and Kazkommertsbank Kyrgyzstan OJSC

According to the National Bank of Kyrgyzstan, 24 commercial banks and 294 branches of commercial banks (including Bishkek branch of the National Bank of Pakistan) operated in the Kyrgyz Republic as of June 30, 2014. Over the third quarter, the total volume of the loan portfolio of Kyrgyz banks has increased by 5 billion 716 million 823 thousand KGS or 8.58%, which is worse than the results of the first two quarters of 2014 (13.7% and 8.8%, respectively).

By October 1, the volume of the loan portfolio of commercial banks amounted to 72 billion 297 million 258 thousand KGS. Since the beginning of the year, the loan portfolio increased by 18 billion 464 million 785 thousand KGS or 34.3%. The amount of loans granted by commercial banks since the beginning of 2014, amounted to 58 billion 779.3 million KGS: the national currency loans amounting to 26 billion 173.9 million KGS, the foreign currency loans amounting to 32 billion 605.9 million KGS.

Over 3 months, commercial banks issued loans amounting to 18 billion 851.9 million KGS. In the third quarter, in the structure of loans, trade finance and commercial operations accounted for the largest share - 8 billion 309.7 million KGS, agriculture accounted for 2 billion 140.3 million KGS, industry accounted for 2 billion 9.6 2 million KGS.

Classified loans in the loan portfolio of the banking

Legal Update

Credit Information Exchange Act of the Kyrgyz Republic of November 25, 2014 (hereinafter – “the Act”).

The Act governs the exchange of credit information which refers to status of credit transaction, performance of security obligations (pledge, warrant, guarantee and other forms of security), as well as other information on credit worthiness, financial condition, solvency, payment discipline and other qualities of the subject of credit information.

The Act defines the legal status of the credit bureau as a legal entity which is a commercial organization acting in accordance with law and providing services related to exchange of credit information. The credit bureau operates on the basis of the license issued by the competent authority.

This Act establishes the procedure for state registration of the credit bureau and issuing the license to engage in the credit bureau operations. Also, the Act defines the grounds for refusal of registration and licensing of the credit bureau. Thus, one of the grounds is the lack of the software and hardware package protecting the credit information against unauthorized access, destruction, modification, usage, disclosure or non-compliance with the established requirements.

Pursuant to the Act, the National Bank of the Kyrgyz Republic is a public authority in charge of licensing, regulation and supervision of credit bureaus. The latter issues credit information exchange regulations within its scope of authority, issues, suspends or revokes licenses in the manner prescribed by law and performs

system as of September 30, 2014 accounted for 4.2% or 3 billion 41 million KGS (at the end of the II quarter of 2014 - 4.6% or 3.1 billion KGS, I quarter 2014 year - 5.3% or 3 billion 295 million KGS, at the end of 2013 - 5.5% or 3 billion KGS). This figure shows that the proportion of non-performing loans in the total loan market is reduced in comparison to the beginning of the year.

Based on the rating results for the first 9 months of 2014, Optima Bank OJSC ranks the first with its loan portfolio amounting to 12 billion 731 million 671 KGS at the end of the third quarter of 2014 (compared to 8 billion 98 million 380 thousand KGS as of September 30, 2013).

Kyrgyz Investment and Credit Bank ranks the second with its net loans amounting to \$ 9 billion 571 million 558 thousand KGS (compared to 6 billion 566 million 113 thousand KGS in 2013), Aiyl Bank OJSC ranks the third with its loans amounting to 6 billion 374 million 390 thousand KGS (compared to 4 billion 295 million 568 thousand KGS in 2013).

Rosinbank ranks the fourth largest bank with its 6 billion 81 million 82 thousand KGS net loans and Demir Kyrgyz International Bank ranks the fifth with its 5 billion 905 million 261 thousand KGS net loans.

At the end of the third quarter of 2014, the amount of net loans of the banks such as Bishkek branch of the National Bank of Pakistan, Amanbank RK OJSC and Kazkommertsbank Kyrgyzstan OJSC has decreased compared to the third quarter of 2013:

- Bishkek branch of the National Bank of Pakistan - from 153 million 14 thousand KGS in 2013 to 89 million 753 thousand KGS in 2014, or 41.3%;

- Amanbank RK OJSC - from 1 billion 520 million 269 thousand KGS in 2013 to 1 billion 173 million 479 thousand KGS in 2014, or 22.1%;

- Kazkommertsbank Kyrgyzstan OJSC - from 89 million 553 thousand KGS in 2013 to 82 million 650 thousand KGS in 2014, or 7.7%.

The highest growth rates among banks in terms of the loan portfolio were demonstrated by the following commercial banks: Rosinbank OJSC with its 157.6% increase, Capital Bank OJSC with its 112.6% increase, Bakai Bank with its by 82.1% increase, Optima Bank OJSC with its 57.2% increase, Bank Bai-Tushum CJSC with its 54.8% increase.

In addition, concentration of bank lending has decreased. The share of the five largest banks was 55.6% at the end of the II quarter, compared

other functions.

Credit information is provided by the suppliers (financial and lending institutions) of credit information to credit bureaus under the agreement on exchange of credit information. Credit information suppliers shall provide credit information to credit bureaus with the consent of the subject of credit information (borrower, lessee, guarantor, guarantor or any person having other financial debt and obligation to the creditor). Credit bureaus may exchange credit information only with the consent of the subject of credit information. The Act establishes that the provision and exchange of the credit information shall be made only for the purposes of risk assessment during the execution, modification and monitoring of the credit transaction by using the rating system for evaluation of the subjects of credit information.

Regulation on classification of assets and loan loss provisions for microfinance institutions operating in accordance with the Islamic principles of banking and financing dated September 24, 2014 № 42/8 (hereinafter – “the Regulation”)

This Regulation defines general principles of classification of assets and loan loss provisions (hereinafter - LLPs) for non-deposit taking microfinance institutions (hereinafter - the MFIs), operating in accordance with the Islamic principles of financing on the basis of certificates/licenses of the National Bank of the Kyrgyz Republic (hereinafter - the National Bank).

According to the Regulation, for the purposes of timely addressing potential loan losses and assessing the actual financial condition and performance efficiency, the MFIs shall on a regular basis assess the quality of assets (classified) and ensure the appropriate LLPs to the extent sufficient for addressing potential losses and damages. LLPs are formed in case of devaluation of assets as a result of actual or threatened default or improper performance of contractual obligations by the client/partner/supplier (hereinafter - the client) of the MFIs.

In accordance with the Regulation provisions, a decrease in asset value is defined as a difference between the book value of asset (balance of the debt on asset) at the time of asset quality assessment and its actual (current) value at the time of assessment. MFIs can develop the internal system of assets classification to the extent not inconsistent with

to 56.2% on September 30, 2014.

The loan portfolio of banks at the end of the I half of 2014: Rosinbank OJSC demonstrated the highest growth rates - 249.2%

The loan portfolio of the banking sector amounted to 66 billion 760 million 352.3 thousand KGS on June 30, 2014, compared to 46 billion 955 million 632.2 thousand KGS on June 30, 2013.

In this rating, Optima Bank ranks the first with its loan portfolio amounting to 11 billion 337 million 246 thousand KGS at the end of the first quarter of 2014 (compared to 7 billion 400 million 116 thousand KGS as of June 30, 2013).

Kyrgyz Investment and Credit Bank ranks the second with its net loans amounting to 8 billion 666 million 948 thousand KGS (compared to 6 billion 348 million 799 thousand KGS in 2013), Aiyl Bank ranks the third with its 6 billion 233 million 732 thousand KGS (compared to 4 billion 79 million 197 thousand KGS in 2013). The highest growth rates are demonstrated by three banks: Rosinbank OJSC with its 249.2% increase, Capital Bank with its 161.2% increase and Bakai Bank with its 95.9% increase.

In the first half year of 2014, Ecolslamic Bank OJSC, Amanbank RK OJSC, Kazkommertsbank Kyrgyzstan OJSC, Bishkek branch of the National Bank of Pakistan decreased the amount of net loans as compared to the first half of 2013:

- Ecolslamic Bank OJSC - from 1 billion 188 million 712 thousand KGS in 2013 to 1 billion 92 million 486 thousand KGS (8%);

- Amanbank RK OJSC - from 1 billion 568 million 417 thousand KGS in 2013 to 1 billion 402 million 212 thousand KGS (10.6%);

- Bishkek branch of the National Bank of Pakistan - from 160 million 509 KGS in 2013 to 95 million 4 thousand KGS (40.8%);

- Kazkommertsbank Kyrgyzstan OJSC - from 153 million 50 thousand KGS in 2013 to 71 million 644 thousand KGS in 2014 (53.1%).

Target parameters of microfinance development strategy for 2015 predict the loan portfolio to reach 20-22 billion KGS, according to the National

the amount of LLPs established in the Regulation.

MFIs classify assets and form LLPs for the timely coverage of potential losses and damages from assets at risk. Classification of assets is based on the analysis of the financial condition of the MFI client, quality of pledge, type of ownership of the client, industry, availability and types of asset guarantees and reliability of guarantors, evaluation of performance of earlier obligations in respect of the bank assets, prospects for further development of the client's business and other factors.

The Regulation establishes the following categories of assets for the purposes of asset classification and LLPs formation:

- 1) standard assets;
- 2) assets under supervision;
- 3) substandard assets;
- 4) doubtful assets;
- 5) losses.

Standards assets refer to those loans which are less than 30 days overdue. According to classification of assets, the required amount of the LLPs is calculated for each asset at risk in accordance with the established standard of allocations. Required allocations for each financing are summed and the final LLPs are determined at the end of the reporting period. To determine the adequacy of the LLPs the calculated amount of provisions is compared with the size of the reserve defined in the previous classification. In case if the LLPs in the books is less than its final size, the MFIs must make additional allocations to the LLPs in order to bring the LLPs in compliance with the calculated amount as at the end of the reporting period.

Additional allocations to the LLPs are not made if the amount of the actual reserve on the balance sheet is greater than or equal to the estimated amount of the LLPs.

Resolution of the Executive Committee of the National Bank of the Kyrgyz Republic approving the daily minimum level of required reserves of banks dated November 14, 2014 (hereinafter - the

Bank of the Kyrgyz Republic

Target parameters of microfinance development strategy for 2015 predict the loan portfolio to reach 20-22 billion KGS. The Chief Inspector of non-banking lending institutions oversight division of the National Bank, Nurlan Ibraev reports that, according to the strategy, the number of customers will reach up to 550-600 thousand persons, the amount of savings will reach up to 5 billion KGS, 10-11% of the population will be covered, loan portfolio to GDP ratio will reach 6.5-7.5% and deposits to GDP ratio will reach 1.5%.

The purpose of microfinance development strategy for 2011-2015 years is to increase access of low-income population to financial services on a permanent and sustainable basis. As Nurlan Ibraev explained, the main current problems of non-banking financial lending institutions are the high cost of financial resources, violations of the rights of microfinance services consumers, low financial literacy of the population and low level of financial penetration (loans and deposits).

In July-September 2014, commercial bank loans continued to increase

In July-September 2014, the loans by commercial banks continued to increase due to the issuance of loans, both in national and foreign currencies. This was stated in the report of the National Bank of Kyrgyzstan on the monetary policy for the III quarter of 2014. As stated in the document, one of the credit sources is the project "Financing Agriculture - 2". At the end of the reporting period, the amount of loans provided amounted to 4.8 billion KGS.

By the end of September 2014, the loan portfolio of commercial banks amounted to 72.5 billion KGS, having increased by 34.3% since the beginning of the year. Among them, national currency loans amounted to 32.3 billion KGS, having increased by 29%, foreign currency loans amounted to 40.2 billion KGS having increased by 38.9%. At the end of the reporting period, the dollarization of the loan portfolio was 55.4%, having increased by 1.8% since the beginning of the year.

The weighted average interest rate for the third quarter of 2014 for newly issued national currency loans decreased by 0.8% and amounted to 20.8%, foreign currency loans also decreased by 0.8% and amounted to 15.4%. The share of non-performing loans at the end of the period under review amounted to 2.3% (-1% YTD), the share of long-acting amounted to- 3.4% (+ 0.2%).

"Resolution")

By this resolution, the National Bank of the Kyrgyz Republic establishes that the amount of the funds in the correspondent account of every commercial bank in the National Bank in order to perform ORT (obligatory reserve requirements) on a daily basis must be at least 80.0 per cent of the bank's obligatory level of reserves established for relevant period.

The decision shall enter into force from November 18, 2014.

In Kyrgyzstan, more than 5 billion KGS preferential agricultural loans were issued since the beginning of the year

The Ministry of Finance reported that 5 billion 298 million KGS preferential agricultural loans were issued in Kyrgyzstan since the beginnings of the year. According to the data, loans were received by 15 thousand 522 farmers. Most of the loans were provided for the development of livestock: 13 thousand 630 loans for the amount of 4 billion 114 million 890.4 thousand KGS. The crop production loans were granted to 1 thousand 687 farmers for the amount of 404 million 717.5 thousand KGS. Agricultural cooperatives, seed and breeding farms received 205 loans for the amount of 77.892 million KGS.



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