



BANKING & FINANCE

INDUSTRY AND LEGAL UPDATE

KALIKOVA &
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Information for effective business solutions

Issue 13, March 2014 (quarterly)

Industry Update

Tax will not be imposed on the income from deposits

On January 22, 2014 after long term discussions, the Government of the Kyrgyz Republic, decided to cancel the initiative of the Ministry of Finance on imposing of income tax on interests of individuals' bank deposits.

The draft law, according to which starting from January 1, 2014 the interest income on bank deposits was expected to be excluded from the list of the income exempt from the income tax, was initiated by the Ministry of Finance for the purposes of replenishment of the state budget revenues.

As of December 31, 2013, retail deposits of the physical persons composed 28.4 billion soms or 42.1% of total deposits of the banking system. According to preliminary data the average weighted interest rates on accepted deposits (flows) as of December 31, 2013 accounted for 6.7%.

Commercial banks have invested 790 million soms in the National Bank's "night overnight" service

Commercial banks have invested 790 million soms in the National Bank's "night overnight" service. This was announced on February 28, 2014 by Seilbek Urustemov, the Head of the Economic Department of NBKR, during his

Legal Update

Regulation on international operations of a commercial bank dated as of December 23, 2013 no. 52 (hereinafter - the "Regulation")

This Regulation determines the forms and order for the commercial banks of the Kyrgyz Republic (hereinafter - Banks) to provide information on foreign asset flow and liabilities, income and expenses upon them, as well as the banks' stock and profit distribution for compilation of balance of payments of the Kyrgyz Republic.

The Regulation determines the balance of payments of the Kyrgyz Republic as a statistical report which reflects summarized economic transactions between residents and non-residents of the Kyrgyz Republic for a certain period of time. The Regulation defines the order and terms for submission of the report.

The obtained data will be reflected in the balance of payments of the Kyrgyz Republic only in consolidated form without identifying specific banks.

According to the Regulation the Head of the Bank is personally responsible for the completeness of the content, submission dates and accuracy of records. In addition, there has to be a person in each Bank appointed to cooperate with the structural unit of the National Bank on all matters related to the submission of the report.

The report is submitted to the National Bank on a quarterly basis within 20 calendar days after the end of the reporting quarter. According to

meeting with the journalists.

According to his words, this is the total sum that was formed starting from February 17 till February 26, 2014. The essence of the "overnight" service is for the commercial banks of Kyrgyzstan to use their spare cash. The interest rate is 1%.

As it was noted by Raushan Seytkasymova, the Head of the monetary operations Department, the "overnight" service creates conditions unfavorable for keeping free cash. The commercial banks can use the received interest to cover their costs, thereby reducing the value of their credits.

In 2014, the farmers of Talas region will receive loans in the sum of 484.3 million soms on concessional terms

According to Kazybek Medetbekov, the Head of regional development Department, competent representation of the Government in the region, as of January 31, 2014, in the framework of "Agriculture Financing -2" program, there were 778 applications submitted for receiving the loan on concessional terms. In 2014, the farmers of Talas region will receive 484 million 300 thousand soms in the form of loans on concessional terms, which is 60 % or 181 million 608 thousand soms more than the indicator in 2013. In 2014, the repayment period of the loan increased by 2 years. The credit will be given at 9% per annum.

According to the results of the 4th quarter of 2013 the largest volume of loans granted by commercial banks was recorded in Bishkek, the smallest - in Naryn region

According to the results of the 4th quarter of 2013, the volume of the loans granted by the commercial banks reached 30.6 billion soms. Total volume of loans granted by commercial banks in Kyrgyzstan made up 53.8 billion soms. Bishkek's contribution to this is 56.8 %. Osh oblast takes up the second place (6.9 billion soms), Jalal-Abad region – third place (5.2 billion soms). The smallest amount of loans is recorded in the Naryn region (1.3 billion soms).

the Regulation the report submitted by the bank, shall contain the following information:

1. Information about the bank's capital
2. The distribution of dividends to the shareholders of the bank
3. Information on the bank's participation in the capital of the foreign company
4. Distributed dividends of the non-resident companies
5. Bank's assets flow
6. Income received upon foreign assets
7. Banks' foreign liabilities flow
8. Banks' expenses upon the foreign liabilities

Regulation on minimum requirements for credit risk management in credit unions which implement their operations in accordance with the Islamic principles of banking and finance dated as of December 23, 2013 N 52/7 (hereinafter - the "Regulation")

The Regulation applies to credit unions which have been issued license by the National Bank to conduct operations in accordance with the Islamic principles of banking and finance (hereinafter - credit unions) .

The purpose of this Regulation is to create adequate credit risk management system in credit unions while implementing operations in accordance with the Islamic principles of banking and finance. The Regulation defines credit risk as the risk of failure to perform obligations by the clients/providers/partners under the terms and conditions of the contract which could have a negative impact on the credit union's capital or its profits.

Herewith, the purpose of credit risk management is to identify the credit union's degree of exposure to the credit risk, reveal its causes and determine internal and external trends of increasing of the risk on the basis of which it's possible to predict credit risk, and undertake necessary measures to minimize it to an acceptable level. According to the Regulation operations and transactions carried out by the credit union must comply with Sharia law and the laws of the Kyrgyz Republic.

The Regulation covers the questions of effective management of credit risk. Moreover, the Regulation establishes that the policy of the credit union on conducting transactions according to Islamic principles of financing

(hereinafter - Policy) should determine the strategy, criteria, parameters and procedures, which must be followed by the staff of the credit union on providing and executing the transaction, monitoring and risk management. The Committee on Financing the credit union is the body that directly enforces the Policy; it is elected by the General Meeting of Founders of the credit union. All matters related to the issuance of assets bearing the credit risk should be decided only by the Committee on Financing or persons to whom the Committee may delegate this right.

The Regulation establishes the following order for functioning of the credit union on provision of assets bearing the credit risk:

1. Analysis of applications for receiving assets bearing the credit risk
2. Conclusion of a financing contract
3. Ensuring the return of the asset bearing the credit risk
4. Monitoring of the asset bearing the credit risk
5. Working with "distressed " assets that bear credit risk.

Regulation on the procedure of holding credit auctions by the National Bank of the Kyrgyz Republic for the purposes of refinancing and maintaining liquidity dated as of November 27, 2013 no. 45/13 (hereinafter - the "Regulation")

This Regulation determines the procedure for the National Bank of the Kyrgyz Republic (hereinafter - the National Bank) to grant loans on the basis of auction to the commercial banks (hereinafter - the Bank / Banks), operating on the basis of the license of the National Bank, for the purposes of refinancing and maintaining liquidity. The aim of holding the credit auctions is to provide the credit resources to the Banks for certain period of time for the purposes of refinancing and maintaining short-term liquidity of the Bank.

Credit resources are provided for a period from 1 to 6 months. The terms and volumes of the loan funds are determined by the decision of the National Bank's Committee on monetary control.

Participants of the credit auctions are the National Bank, from the one side, and the Banks meeting the requirements established by the Regulation and normative legal acts of the

National Bank, from the other side.

Credit resources given by the National Bank for the purposes of refinancing have designated purpose and shall be used by the Bank for project lending implemented on the territory of the Kyrgyz Republic by legal entities and physical persons who are residents of Kyrgyzstan in the following areas:

- manufacturing industry, with that the priorities are export oriented and import-substituting sectors;
- agriculture , procurement and processing including:
 - livestock farming;
 - crop production;
- transport, communications and service sector;
- trade and commerce (to pay for deliveries of products under agreements and contracts of businesses and individuals);
- construction;
- tourism sector .

The Regulation determines the procedural formalities and the order of filing applications for the auction, criteria for collateral loan and procedure for the levy of execution on the subject of the pledge. Also, the Regulation addresses the procedure of holding the credit auctions, prolongation and repayment of the loan, liabilities of the participants and sanctions.

Law of the Kyrgyz Republic “On introducing amendments and additions into several legislative acts of the Kyrgyz Republic” dated as of February 4, 2014 No.27

According to the amendments and additions, in case if the subject of the pledge is the only housing owned by an individual on the right of ownership, foreclose on the collateral may only be applied according to a court decision.

This provision does not apply to a mortgaged house or an apartment, acquired or constructed with borrowed money (credit) of the bank or other credit organization or the trust loan granted by another individual or legal person.

From now on, it is also prohibited to forcibly evict the mortgager and his/her family members living together with him/her if the subject of the pledge is the only housing owned by an

individual on the right of ownership.



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

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