



## **BANKING & FINANCE**

INDUSTRY AND LEGAL UPDATE

**KALIKOVA &**  
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*law firm*

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### **Industry Update**

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#### **The National Bank announces competition for best coverage of microfinance in Kyrgyz media**

As part of its public awareness campaign, the National Bank announced a countrywide competition among journalists for the best coverage of microfinance opportunities and challenges in media.

The purpose of the competition is to improve financial literacy of the general public by publishing high-quality articles about specific features of the microfinance market. The competition nominations include best articles in the Russian and Kyrgyz languages published in the central and local media, both print and online. The prize fund consists of valuable gifts and awards. The articles participating in the competition have to be published or broadcasted within the period from February 1 to October 1, 2014.

#### **National Bank discount rate**

On February 25, 2014, the Board of the National Bank reviewed the report on the monetary policy for 2013 and the medium-term outlook. The economics department presented a report on macroeconomic indicators of the country, the effects of the monetary policy, inflation processes, as well as assessment of the economic development in a mid-term perspective.

According to the report, in 2013, the inflation rate has been within the single-digit range and in

### **Legal Update**

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#### **Kyrgyz National Bank promulgates Regulation on Overnight Loans of March 28, 2013 N 10/7 (Regulation)**

The Regulation on Overnight Loans of the Kyrgyz National Bank (National Bank) defines the procedure for providing overnight loans by the National Bank to Kyrgyz commercial banks (Banks) licensed by the National Bank through its Automated Clearing House (ACH) network.

Overnight loan is a KGS loan provided by the National Bank to the Banks during the trading day and repayable no later than the next business day at a fixed interest rate secured by the possessory lien.

Overnight loans are provided to the Banks in order to maintain their short-term liquidity in the national currency on any business day, except the last business day of the quarter; they are repayable on the next business day after the date of disbursement, carry a fixed interest rate and are secured by the possessory lien.

The Banks' obligation to repay the overnight loan is secured by the possessory lien. The Banks provide government securities (GSs) as collateral. GSs pledged to the National Bank cannot be pledged or re-pledged to a third party.

To obtain an overnight loan, the Banks must meet the following requirements:

- have a banking license of the National Bank;
- not be placed under receivership or conservatorship. The Banks placed under conservatorship or receivership may obtain overnight loans subject to the respective decision of the National Bank;

compliance with the landmark defined in the Guidelines on monetary policy for 2013-2017. By the end of the year, the annual growth rate of the consumer price index fell to 4.0 percent. Real GDP growth rate was 10.5 percent. Without regard to Kumtor mining companies, GDP increased by 5.8 percent.

According to preliminary data, 2013 current account surplus is USD 143.8 million. Net inflow of transfers increased by 8.6 percent and totaled USD 2,171.1 million. Over the year, the domestic foreign exchange market was maintained balanced. The USD to KGS exchange rate increased by 3.9 percent over the year.

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### **IFC to help Kyrgyzstan promote financial literacy and public awareness**

International Finance Corporation (IFC) is launching a comprehensive financial literacy program to facilitate efforts of commercial banks and microfinance institutions towards promoting financial literacy of the general public in Kyrgyzstan.

According to IFC Project Coordinator Cholpon Kokumova, IFC works only with private institutions of the financial market such as banks and microfinance institutions. The program will include both train-the-trainer courses for prospective trainers and financial institution specialists, and extensive public awareness campaign. The main topics include loans and lending; deposits and savings; planning a family budget and credit history. IFC plans to introduce best practices in financial literacy through industry associations such as the Union of Banks and the Association of Microfinance Institutions.

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### **Microcredit loan portfolio totals KGS 19.1 billion in 2014**

According to the National Bank, the microcredit loan portfolio reached KGS 19.1 billion in 2014. Over the past 3 years, the microfinance sector has been steadily growing with the loan portfolio being increased twice as much or KGS 8 billion in 2014 compared to 2009, and the number of borrowers being increased by 35% or 114 thousand people.

The rate of non-performing loans is 2% - 3% of total loans. The level of penetration of microfinance services in Kyrgyzstan is one of the highest in the CIS.

Over the period of 2013 to 2014, international

- have a correspondent national currency account in the National Bank;
- have the general overnight loan agreement signed with the National Bank;
- have no overdue financial obligations to the National Bank under previous overnight loans and interest thereon;
- have no overdue financial obligations to the National Bank under other loans and interest thereon;
- have an adequate collateral meeting the requirements of the National Bank;
- be connected to the interbank communications network;
- be connected to the ATH network.

The overnight loans are provided by the National Bank through the ATH network.

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### **Regulation on classification of assets and maintenance of adequate loan loss reserves in credit unions operating in accordance with Islamic Principles of Banking and Finance dated April 23, 2014 № 16/3 (Regulation)**

This Regulation applies to credit unions licensed by the National Bank to operate in accordance with the Islamic principles of banking and finance (credit unions).

The Regulation establishes the minimum National Bank requirements for credit unions in respect of classification of assets and maintenance of adequate loan loss reserves (LLRs).

The Regulation requires credit unions to assess (classify) the quality of assets on an ongoing basis and to maintain adequate LLRs to cover potential losses and damages to assets, to ensure the timely recovery of potential losses and damages, as well as to assess the real financial condition and operational efficiency.

LLRs are created to address the risk of assets devaluation, i.e. reduction in their value due to non-performance or performance by the client/partner/ supplier (client) of the credit union of its asset obligations under the contract or to address a real threat of non-performance (improper performance) of its obligations.

The reduction in value of the asset is defined as a difference between the book value of the asset (outstanding debt on the asset) at the time of assessment of the asset quality and its actual (current) value at the time of assessment made in accordance with the provisions of this Regulation.

financial institutions have channeled more than KGS 12 billion (about USD 234 million) through microfinance institutions to promote entrepreneurship in Kyrgyzstan.

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### **Agricultural loans totaled more than KGS 3 billion in 2013**

In 2013, under the agricultural financing project, loans to farmers totaled KGS 3 billion 120 million, including KGS 292.7 million for crop farming, KGS 2 billion 775 million for livestock farming and KGS 52.3 million for agro-processing activities.

In Kyrgyzstan, agricultural loans are provided by five banks, including Ayil Bank which lent KGS 1 billion 609 million, RSK Bank (KGS 811.5 million), KICB (KGS 300.3), AKB Kyrgyzstan (KGS 299.3 million) and Zalkarbank (KGS 99.8).

Agricultural loans offered by microfinance institutions totaled KGS 7 billion 305.5 million, including KGS 10.9 million for harvesting and agro-processing activities. Agricultural loans offered by credit unions totaled KGS 191.9 million including KGS 1.2 million for harvesting and agro-processing activities. The overwhelming majority of microcredit borrowers live in Jalal-Abad, Osh and Chui regions.

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To conduct classification of assets, a credit union must constantly monitor the financial condition of the client and the progress of the contract. Considering the principles of Islamic banking and finance, each financing agreement must require the client to provide periodic financial and other reports to enable the credit union to assess the performance of the contract by the client.

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### **Regulation on 7-day loan of Kyrgyz National Bank dated January 29, 2014 N 2/5 (Regulation)**

The Regulation defines the procedure for providing liquidity loans by the Kyrgyz National Bank to commercial banks (Bank(s)) licensed by the National Bank for a period of 7 days.

7-day loan is a KGS loan provided by the National Bank to the Banks for a period of seven (7) calendar days at the interest rate determined at the auction and/or fixed interest rate declared by the National Bank, secured by collateral through an auction (at the initiative of the National Bank) and/or through a permanent point of contact (at the initiative of banks).

7-day loan is provided to the Bank in the national currency in order to maintain short-term liquidity for a period of seven (7) calendar days, carries an interest rate determined at the auction and/or fixed interest rate declared by the National Bank, and is secured by collateral.

The Banks' obligation to repay the 7-day loan is secured by collateral. The Banks provide government securities (GSs) as collateral. GSs pledged to the National Bank cannot be pledged or re-pledged to a third party.

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