



BANKING & FINANCE

INDUSTRY AND LEGAL UPDATE

KALIKOVA &
ASSOCIATES
law firm

Information for effective business solutions

Issue 18, June 2016 (quarterly)

Industry Update

May 17, 2016

More than 113 thousand borrowers are at risk of forced judicial sale of their property

In Kyrgyzstan, every 5th borrower is in default on his or her loan. According to economist Kuban Choroev, in quantitative terms, on the whole, throughout the country, 113,226 borrowers are under threat of forced judicial sale of their property.

At present, the total loan portfolio, including nonperforming loans, is 150 billion soms, he said.

As of the end of April 2016, the interdepartmental commission has received approximately 3,000 notices from troubled borrowers.

www.tazabek.kg

11 May 2016

USD loans reach 40% of all loans

In Kyrgyzstan, USD loans reach 40% of all loans.

National Bank CEO Tolkunbek Abdygulov noted success of de-dollarization efforts assuming a decrease in foreign-currency loans. According to him, the most reasonable correlation should be as follows: USD loans - 30% and KGS loans - 70% of all loans.

www.24.kg

Legal Update

May 18, 2016

Bill toughening penalties for violation of banking regulations passes third reading

The bill proposing amendments to the Administrative Code of the Kyrgyz Republic passed the third hearing in the Parliament.

The bill is purported to improve financial discipline of individuals and legal entities, banks and financial institutions, as well as to tighten administrative sanctions for violations of banking regulations. The bill proposes amendments increasing penalty for engaging in banking activities and taking deposits without proper licenses, as well as for violations of banking, microfinance, payment and credit information services regulations.

In particular, it is planned to increase penalties from 2,000 to 100,000 soms for individuals, from 3,000 to 150,000 soms for officials, and up to 250,000 soms for legal entities.

www.kenesh.kg

May 17, 2016

Budget Code to improve national budget law

President Almazbek Atambaev signed the Budget Code of the Kyrgyz Republic and the Law on its entry into force to optimize budget process and improve budget law of the country.

May 9, 2016

Guarantee Fund for Kyrgyz SMEs

In its explanatory note to the draft resolution proposed for public discussion, the Ministry of Economy stated that according to research, approximately 40-50% of potential borrowers seeking bank loans for business development are being denied due to insufficient collateral. Low supply and high demand for bank loans prevent from decreasing loan interest rates. Since 2011, the new financial system has been introduced - guarantee funds - which provide guarantees covering necessary loan amounts in cases of insufficient collateral. Currently, there are 6 operating funds in the country founded by local self-government authorities.

Reportedly, over 5 years of operations of the guarantee fund, banks have provided more than KGS 170 million loans to more than 400 entrepreneurs against KGS 35 million guarantees. Entrepreneurs who received guarantees earned KGS 600 million and created 332 new jobs. The recovery rate for the guarantee loans is 100%, the local budget raised more than KGS 5 million through taxation.

These results show that the creation of the Guarantee Fund OJSC will help support more SMEs including regional and export-oriented enterprises, the Ministry of Economy noted.

www.24.kg

May 7, 2016

Since the beginning of the year, farmers received preferential loans worth over KGS 2.1 billion

On January 26, 2016, the Government adopted Resolution №25 approving Agricultural Financing Project 4.

Under this project, commercial banks will offer preferential loans to rural commodity producers on the following terms:

- interest rate: 10% per annum; loan term: 3 years;
- grace period for principal: up to 6 months;
- no collateral for individual loans worth up to KGS 100,000 with a term of up to 12 months.

Currently, Agricultural Financing Project 4 is being implemented by 5 commercial banks with the total loan portfolio of KGS 2.7 billion.

Reportedly, as of April 28, 2016, Agricultural Financing Project 4 has provided financing to 6,416 agricultural producers for the total amount of KGS 2,139,656.1.

Among the main provisions of the Budget Code are:

- the size of government debt will be determined by the Government of the Kyrgyz Republic based on external debt sustainability indicators;
- the bills amending government financial obligations, increasing budget expenditures financed from national budget, or reducing its resources will be adopted only with the Government's consent;
- budget of the Mandatory Health Insurance Fund will be independent and approved by a separate law.

The Budget Code is enacted by the Law on its entry into force from January 1, 2017, except Article 87, which will enter into force from January 1, 2018.

The Law on entry into force of the Budget Code of the Kyrgyz Republic repealed 4 basic laws of the Kyrgyz Republic, such as the law on basic principles of budget law in the Kyrgyz Republic, the law on financial and economic fundamentals of local self-government, the law on main regulations of treasury of the Kyrgyz Republic, and the law on government and non-government debt of the Kyrgyz Republic.

www.president.kg

May 10, 2016

Amendments and modifications to regulations of the National Bank of the Kyrgyz Republic

On April 27, 2016, the Board of Managers of the National Bank of the Kyrgyz Republic approved the following resolutions:

- 1) Resolution № 19/5 approving amendments and modifications to some regulations of the National Bank of the Kyrgyz Republic, such as the regulation on sanctions against banks and some other credit and financial institutions licensed by the National Bank of the Kyrgyz Republic, the regulation on direct banking supervision; handbook on handling bank accounts, deposit accounts (deposits).
- 2) Resolution № 19/6 approving amendments and modifications to certain regulations of the National Bank of the Kyrgyz Republic such as handbook on determining capital adequacy requirements for commercial banks of the Kyrgyz Republic; handbook on determining capital adequacy requirements for banks operating under the principles of Islamic banking and finance, and a number of other regulations of the National Bank of the Kyrgyz Republic.

These regulations are available on the official website of the National Bank of the Kyrgyz Republic at www.nbkr.kg

May 4, 2016

IMF recommends liquidating 8 insolvent banks in Kyrgyzstan

The International Monetary Fund Mission recommends liquidating insolvent banks and eventually, Debt Recovery Agency (DEBRA).

According to IMF Mission Leader Edward Gemayel, 8 insolvent banks that got into trouble are currently administered by DEBRA. It is necessary to liquidate not only these banks but also DEBRA established in the mid-1990s.

This would be a signal that the troubled banks may not exist, he added.

He also noted that banks maintain adequate level of capital, and the National Bank does its best to keep the risk factors under control.

However, the level of dollarization and interest rates for loans and deposits remain high.

April 28, 2016

In Kyrgyzstan, 792 people have insured their homes

Public Insurance Organization CEO Bakyt Zhumashev reported that over the period from February 11 of this year to present, 792 insurance contracts have been signed throughout the country, including 363 in urban and 385 in rural areas.

The total amount of insurance contributions is KGS 1,200 per year in Bishkek and KGS 600 per year in rural areas. The maximum coverage is up to KGS 1 million. This amount is paid when a house becomes fully irreparable. We have detailed mechanisms for determining the exact amount of damages to be used as a basis for calculating and paying insurance benefits, he said.

Moreover, as noted by B. Zhumashev, even though citizens fail to insure their homes under public mandatory insurance, they will not be subject to any liability under law. "The law does not impose liability for failure to get a home insurance. But I urge people to be forward-looking and consider insurance as a tool providing necessary support and confidence in the future", he concluded.

April 30, 2016

The bill proposing amendments to the regulation approving minimum requirements for financial services and review of consumers' complaints approved by Resolution №35/10 of June 24, 2015 of the Board of Managers of the National Bank of the Kyrgyz Republic was submitted for public discussion.

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The bill is available through the NBRK's website, specifically, the National Bank's Regulations/Bills Section.

Comments and suggestions may be submitted to the Department of Consumer Protection and Financial Literacy or emailed at eboobekov@nbkr.kg by June 6, 2016.

April 25, 2016

Amendments to the Pledge Law

The amendments to the Pledge Law were adopted by the Parliament on March 17, 2016 and signed by the President on April 25, 2016.

The Pledge Law of March 12, 2005 № 49 was amended by adding new Article 36 (Collateralized Debt Obligations) establishing requirements for issuance, circulation and redemption of CDOs.

The law takes effect 15 days after official publication.

April 21, 2016

The bill proposing amendments to Business Partnerships and Companies

March 29, 2016

National Bank cuts discount rate to 8%

Since March 29, 2016, the discount rate remains at 8%, National Bank CEO Tolkunbek Abdygulov reported.

According to him, such decision has been necessitated by falling inflation and rising prices. For the first 18 days of March, a consumer price index fell by 0.71%, prices rose by 0.8% compared to the same period in the previous year. Low inflation facilitates lower prices for food, fuels and lubricants", the official added.

He also noted that the National Bank's main goal is to create conditions for Kyrgyz citizens to think in terms of the local currency.

In Spring, transactions in the local currency tend to increase. The National Bank keeps buying dollars because de-dollarization is primarily purported to protect average citizens. In Russia and Kazakhstan, people think in terms of the currency in which they receive salary. We are creating conditions for the same approach, he explained.

March 28, 2016

Standard & Poor's confirms credit rating of Kyrgyzstan

International rating agency Standard & Poor's (S&P) confirmed Kyrgyzstan's rating of B/B in view of a high vulnerability of the economy due to its dependence on Russia.

According to Finmarket agency's experts, the budget deficit of Kyrgyzstan may reach 4.5% of GDP in 2016-2017, and the government debt in the coming years may reach 70% of GDP.

Russia accounts for one-third of the foreign trade of the country and most of the international money transfers.

At the beginning of 2016 year, the total government debt of Kyrgyzstan amounted to \$3.695 billion. Over a year, it increased by 1.3%, Minister of Finance Adylbek Kasymaliev said earlier.

March 1, 2016

Law, Joint Stock Companies Law, Securities Market Law passed its third hearing

The bill proposing amendments to some legal acts of the Kyrgyz Republic (Business Partnerships and Companies Law, Joint Stock Companies Law, Securities Market Law) passed its third reading in the Parliament.

Among other things, it proposes to amend Business Partnerships and Companies Law and Joint Stock Companies Law by adding the new concept of Corporate Governance Code and the following requirements for bond issuers:

- reaching a breakeven point;
- ensuring continuity of operations;
- confirmation of financial indicators;
- clear corporate governance structure.

The Securities Market Law was amended to include a provision requiring bond issuers to provide necessary documents confirming their compliance with the requirements introduced by the bill.

April 15, 2016

Amendments and modifications to regulations of the National Bank of the Kyrgyz Republic

On April 11, 2016, the Board of Managers of the National Bank of the Kyrgyz Republic approved the following resolutions:

- 1) Resolution №17/2 approving amendments and modifications to some regulations of the National Bank of the Kyrgyz Republic such as: the Rules governing microfinance companies in the Kyrgyz Republic by increasing the size of micro-credit issued by microcredit agencies; the Regulation on periodic regulative report of micro-credit companies/microcredit agencies and the Regulation on periodic regulative report of microfinance companies (technical changes).
- 2) Resolution No. 17/3 approving amendments and modifications to some regulations of the National Bank of the Kyrgyz Republic such as handbook on review of administrative violations of banking regulations, in order to bring regulations of the National Bank into line with the administrative law of the Kyrgyz Republic; handbook on field inspections in the framework of introduction of risk-based supervision of commercial banks.

These regulations are available on the official website of the National Bank at www.nbkr.kg

Mortgage-backed securities as refinancing tool

Mortgage-backed securities (MBS) will be used by commercial banks as a tool for refinancing of previous mortgage loans. According to independent expert Andrei Zalepo, this tool is proposed for discussion at the parliamentary hearings of the MBS bill and amendments to the Pledge Law, and its approval will have a positive effect on the operations of the newly established public mortgage company.

MBS shall be issued by a borrower and registered with the State Registry. MBS holder shall be both mortgagee and creditor. In case of sale of MBS to another person, the borrower shall have a new creditor or mortgagee. If there are no MBS, there would be no bonds, as these two things are interrelated, Zalepo added.

He also mentioned that MBS would be nothing but one more document and would not be burdensome for a borrower in terms of time or money.

www.knews.kg

February 17, 2016

Commercial banks are forbidden from offering mortgage and consumer loans in dollars

Commercial banks of Kyrgyzstan are forbidden from offering consumer and mortgage loans in dollars. A respective order will take effect from February 28, the National Bank of the Kyrgyz Republic reported.

Earlier, the National Bank of the Kyrgyz Republic adopted the Provisional Regulation approving the National Bank's loans to commercial banks for the purposes of conversion of loans in foreign currency into loans in local currency.

Conversion will apply to more than 69% of all borrowers (approximately, 2,800 individuals). During conversion, the borrowers will sign new loan agreements stating the amount of debt in local currency at the interest rate of 16.76% (the weighted average interest rate for commercial banks' mortgage loans in local currency). Conversion will be carried out at the USD exchange rate as of July 1, 2015 (KGS 64.1422 per USD 1).

The total amount of convertible mortgage loans issued before July 1 of the previous year is KGS 3.1 billion.

www.zanoza.kg

April 5, 2016

Regulation on electronic money in Kyrgyz Republic

On March 30, 2016, the Board of Managers of the National Bank of the Kyrgyz Republic approved the Regulation on electronic money in the Kyrgyz Republic, which determines the procedure for issuance of electronic money by commercial banks, distribution and cashing (redemption), payment services using electronic money in the Kyrgyz Republic.

Electronic money in the Kyrgyz Republic shall be in local currency. Electronic money in foreign currencies is prohibited in the Kyrgyz Republic. The Regulation also set requirements for international electronic payments systems, their issuers and agents. Under the Regulation, to provide services paid with electronic money, the issuer of international electronic money in the Kyrgyz Republic shall submit necessary documents and register with the National Bank of the Kyrgyz Republic, as well as enter into contract with a local commercial bank.

www.nbkr.kg

March 23, 2016

Rules regulating specialized credit and financial institutions

On March 16, 2016, the Board of Managers of the National Bank of the Kyrgyz Republic approved the rules regulating specialized credit and financial institutions. These rules are purported to maintain stability of financial system and compliance of specialized financial institutions engaged in foreign exchange transactions with the requirements of laws and regulations of the Kyrgyz Republic. The approved rules introduce prudential standards, requirements and restrictions binding on specialized credit and financial institutions, the procedure and time limits for submitting regulative and other reports to the National Bank of the Kyrgyz Republic, as well as preventive measures and sanctions against them.

www.nbkr.kg

March 1, 2016

Regulations of the National Bank of the Kyrgyz Republic on licensing and payment operators and payment

organizations

On February 24, 2016, the Board of Managers of the National Bank of the Kyrgyz Republic approved the following regulations:

- Regulation on sanctions against payment system operators/payment service providers imposing sanctions on payment systems operators/payment service providers for violations of the Kyrgyz Republic laws.
- Regulation on pre-trial settlement of disputes between the National Bank of the Kyrgyz Republic and payment system operators/payment service providers, regulating the procedure for pre-trial settlement of disputes by appealing decisions of the Payment System Committee for imposition of sanctions on the payment system operators and payment service providers.

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If you have any comments, please contact Azima Bokoshova at abokoshova@k-a.kg.

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