



## **BANKING & FINANCE**

INDUSTRY AND LEGAL UPDATE

**KALIKOVA &**  
**ASSOCIATES**  
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### **Industry Update**

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#### **Rating of banks: Assets of top 5 banks account for 52.6% of total assets of banking sector**

According to the National Bank of Kyrgyzstan, 24 commercial banks (including the Bishkek branch of the National Bank of Pakistan) and 294 branches of commercial banks are operating in the Kyrgyz Republic as of June 30, 2014.

In the 1st half of 2014, the total asset value of the banks being rated amounted to KGS 114,784,230,000 as opposed to KGS 91,009,985,000 in the 1st half of 2013, representing a 26.12% increase.

In terms of the total asset value, Optima Bank was rated as the first top bank with its assets amounting to KGS 17,008,320,000 in the first half of 2014 (as opposed to KGS 14,325,334,000 in 2013).

Kyrgyz Investment and Credit Bank was rated as the second top bank with its total asset value amounting to KGS 15,809,914,000 (as opposed to KGS 11,436,943,000 in 2013) and RSK Bank was rated as the third top bank with its total asset value amounting to KGS 11,358,336,000 (as opposed to KGS 11,739,420,000 in 2013).

The top 5 commercial banks total asset value amounted to KGS 64,696,522, accounting for 56.36% of total asset value of all banks being rated, and representing a 22.7% increase.

According to the National Bank, in the 1st half of 2014, the banking sector's total asset value amounted to KGS 123 billion representing a 10.7% increase from the beginning of the year.

### **Legal Update**

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#### **Rules governing credit unions engaged in Islamic banking and finance dated July 16, 2014 No. 32/5 (hereinafter - the "Rules")**

These Rules establish economic standards, requirements and restrictions binding on credit unions engaged in operations carried out in accordance with the principles of Islamic banking and finance in order to protect the interests of the participants of the credit union and to reduce the risk of the credit unions operations.

Credit unions can establish higher economic standards and restrictions in order to further reduce the risks, without prejudice to the standards and restrictions imposed by these Rules and other regulations of the National Bank of the Kyrgyz Republic (hereinafter - the "National Bank").

The Rules establish economic standards and procedures for their calculation binding on the credit unions, including the following:

- 1) Standard maximum amount of external financing of the credit union;
- 2) Standard maximum risk per customer;
- 3) Standard maximum amount of investment in the capital of financial institutions licensed by the National Bank;
- 4) Standard maximum amount of investment in the fixed assets;
- 5) Standard liquidity;
- 6) Standard capital adequacy.

Supervision over activities of credit unions shall

Thus, the top 5 banks assets account for 52.6% of the overall banking sector's assets.

In the first half of 2014, the number of billionaire banks reached 19 as opposed to the same number in 2013, 17 in 2012 and in 2011, and 14 in 2010.

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**As of the end the 1st half of 2014, the Kyrgyz banking sector's loan portfolio was KGS 66.8 billion**

In the 1st half of 2014 ending on June 30, 2014, the banking sector's loan portfolio amounted to KGS 66.8 billion, representing a 23.7% increase from the beginning of the year (as opposed to KGS 54 billion as of the end of 2013). This is stated in the Kyrgyz National Bank monetary policy report for the second quarter of 2014.

Of this amount, KGS 31.9 billion account for national currency loans, representing a 27.5% increase, and KGS 34.8 billion account for foreign currency loans, representing a 20.4% increase. At the end of the reporting period, the loan portfolio dollarization was 52.2 %, representing a 1.4 percentage points decrease from the beginning of the year.

In April-June 2014, commercial bank loans kept growing on account of both foreign currency loans and local currency loans. The Agriculture Financing Project 2 was one of the sources of financing, with the amount of issued loans reaching KGS 4 billion by the end of the reporting period.

In April - June 2014, the weighted average interest rate for issued national currency loans amounted to 18.7% representing a 1.7% decrease, and for issued foreign currency loans amounted to 14.7% representing a 5% decrease.

At the end of the period under review, the non-performing loans amounted to 2.9% (representing a 0.4% decrease from the beginning of the year) and the loan renewals amounted to 3.9% representing a 0.7% increase.

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**In the 1st half of 2014, the banking sector's total deposit base amounted to KGS 69.5 billion, representing a 9% increase from the beginning of the year**

In the 1st half of 2014, the banking sector's total

be performed by a structural unit of the National Bank responsible for offsite supervision, regional departments and representative offices of the National Bank.

According to the Rules, compliance by the credit unions with economic standards and restrictions can be checked at any time through review and analysis of their performance based on their submitted reports and information, as well as through on-site inspections.

Upon detection of non-compliance by credit unions with economic standards and restrictions, submission of false data, late submission or non-submission of report and information or violation of banking legislation, the National Bank shall take preventive measures and sanctions as provided in the legislation of the Kyrgyz Republic.

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**Rules governing microfinance companies engaged in Islamic banking and finance dated May 30, 2014 No.24/11 (hereinafter - the "Rules")**

These Rules apply to microfinance companies operating in accordance with the Islamic principles of banking and finance (hereinafter - the microfinance companies / MFC). The purpose of these Rules is to establish economic standards and requirements binding on microfinance companies.

Under these Rules, MFCs can engage in the permitted deposit-taking transactions (contracts) in accordance with the principles of Islamic banking and finance under standard agreements approved by the Sharia Committee and meeting the requirements of regulations of the National Bank.

The Rules govern both deposit-taking and non-deposit-taking microfinance companies. The Rules establish economic standards and procedures for their calculation for deposit-taking microfinance companies. The Rules establish requirements for microfinance companies seeking a license to engage in deposit-taking.

According to the Rules, microfinance companies should monitor compliance with economic standards and requirements of the National Bank, at least weekly. Verification of compliance with economic standards and requirements established for MFCs can be performed by the National Bank as of any date. Monthly, no later than the twelfth day of the month following the reporting period, MFCs

deposit base amounted to KGS 69.5 billion, representing a 9% increase from the beginning of the year. This is stated in the review of the National Bank of Kyrgyzstan.

Of this amount:

- KGS 29.2 billion account for deposits of legal entities, representing a 9.5% increase from the beginning of the year;
- KGS 31.2 billion account for deposits of individuals, representing a 10% increase from the beginning of the year;
- KGS 5.6 billion account for deposits of government bodies, representing a 6.4% decrease from the beginning of the year;
- KGS 3.5 billion account for deposits of non-residents, representing a 27.3% increase from the beginning of the year.

The general dollarization of deposits of enterprises and population in the banking system as of June 30, 2014 amounted to 53.7%, representing a 2.5% increase from the beginning of 2014

### **Deposit portfolio of 5 banks decreases over the 1st half of 2014**

According to the National Bank of Kyrgyzstan, 24 commercial banks (including the Bishkek branch of the National Bank of Pakistan) and 289 branches of commercial banks are operating in the Kyrgyz Republic.

The deposit portfolio of banks being rated (current accounts and deposits of clients) amounted to KGS 70,380,035,000 in the 1st half of 2014, as opposed to KGS 55,765,919,000 in the 1st half of 2013, representing a 26.2% increase.

In terms of the deposit portfolio, Optima Bank is rated as the first top bank with its current deposit portfolio amounting to KGS 13,017,641,000 as opposed to KGS 9,824,821,000 in 2013.

Demir Kyrgyz International Bank is rated as the second top bank with its deposit portfolio amounting to KGS 9,685,112,000 in the first half of 2014 as opposed to KGS 8,478,752,000 in 2013.

Kyrgyz Investment and Credit Bank is rated as the third top bank with its deposit portfolio amounting to KGS 9,063,023,000 in 2014 as opposed to KGS 6,180,563,000 in 2013.

RSK Bank is rated as the fourth top bank with its deposit portfolio amounting to KGS 8,096,745,000 as opposed to KGS 8,557,804,000 in 2013.

Kyrgyzstan Commercial Bank is rated the fifth top

must submit reports to the National Bank in the manner prescribed by regulations of the National Bank.

### **Provisional Regulation governing payment cards of the Central Treasury of the Ministry of Finance of the Kyrgyz Republic dated 30 May 2014 No.24/b (hereinafter - the "Provisional Regulation")**

This Provisional Regulation determines the procedure for issue by the Central Treasury of the Ministry of Finance of the Kyrgyz Republic (hereinafter - the Treasury) of corporate payment cards (hereinafter - the payment cards of the Treasury) and their transfer to organizations within the scope of the pilot project "Card of recipient of budgetary funds", as well as the procedure for acquiring payment cards of the Treasury and processing of treasury transactions by the commercial banks of the Kyrgyz Republic (hereinafter - the banks). Acquirer - a commercial bank engaged in acquiring (accepting a payment card) of the payment cards of the Treasury under the terms and conditions set forth in the operating system of rules and laws of the Kyrgyz Republic.

The Provisional Regulation defines a payment card of the Treasury as a payment instrument which allows an organization to carry out operations on corporate cards according to a contract concluded between the Treasury and an operator of the national system of payments by payment cards.

Operations on card of the Treasury are conducted by the card holder within the amount of the funds transferred by the Treasury. Card is the property of the Treasury and is provided for use of budgetary organizations in accordance with this Regulation, established procedure of the Treasury and the terms of the contract with the operator of the national payment system. The organization assigns the use of the card to the cardholder.

According to the Provisional Regulation, for the implementation of activities of issuing of payment cards the Treasury shall conclude a general agreement with the National Bank and the operator of the national system of payments by payment cards.

The Provisional Regulation governs the following issues relating to payment cards of the Central Treasury of the Ministry of Finance:

- 1) a procedure for issue of payment

bank with its deposit portfolio amounting to KGS 5,746,774,000 as opposed to KGS 4,274,698,000 in 2013.

The overall deposit portfolio of top 5 commercial banks amounted to KGS 45,609,295,000, accounting for 64.8% of the total deposit base of commercial banks being rated and representing a 22.22% increase.

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### **National Bank warns of problems in local banks after Kyrgyzstan's joining the Customs Union**

According to the National Bank Chairman, Tokunbek Abdygulov, Kyrgyzstan's joining the Customs Union will create problems for the local banks. He said that the National Bank anticipates structural changes in the overall financial system as a result of joining the Customs Union. Also, he expressed the hope that joining the CU will have a positive impact on the financial system of Kyrgyzstan and will facilitate the entry of new commercial banks based in the Russian Federation and having large amounts of capital. At the same time, T. Abdygulov noticed that minor local banks will face problems. This is an inevitable process. In order to be competitive, they will have either to merge or consolidate, or to look for new niches, he added.

According to T. Abdygulov, no currency corridor will be introduced in Kyrgyzstan. During negotiations, all members of the CU agreed that the Kyrgyz monetary system and the method of determining the exchange rate will remain intact.

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### **Total amount of retail deposits in Kyrgyz banking system exceeds KGS 30 billion, the Deposit Protection Agency can provide coverage of KGS 8 billion**

As mentioned by Director of the Deposit Protection Agency, Jyrgalbek Kassymov, at the international conference – Microfinance: Progress, Problems and Solutions – held on June 25 of this year, the total amount of deposits made by individuals in the banking system of Kyrgyzstan is about KGS 30 billion. In the case of collapse of the banking system, the Deposit Protection Agency is able to provide coverage ranging from KGS 100,000 up to KGS 8 billion.

Deposits amounting to KGS 100,000 or less account for 96% of total deposits. Deposits over

cards by the Treasury and their transfer to the organization;

- 2) a procedure for making payments by using credit cards of the Treasury;
- 3) blocking, entering on a stop list and withdrawal of payment cards of the Treasury;
- 4) the duties and functions of the Treasury during issue of the payment cards;
- 5) requirements for the acquirer and acquiring;
- 6) requirements for processing and the processing center and the order of the final calculation and other issues.

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### **Manual on compliance with limits of open currency positions credit unions dated May 30, 2014 No. 4/9 (hereinafter - the "Guide")**

This Manual is designed to prevent exchange rate risks influence of credit unions (hereinafter – CUs) as a result of taking deposits from participants of CUs in foreign currency, providing to participants of CUs loans on terms of maturity, repayment and interest payment in foreign currency in the presence of license of the CUs issued by the National Bank to engage in additional services (operations) in foreign currency.

In the development of internal policies and procedures to monitor compliance with the limits of open currency positions CUs should be guided by the requirements of this Manual.

The Manual defines currency risk as the risk of losses of the CUs due to change in value of claims (assets) / liabilities of the CUs denominated in foreign currency, in case of adverse change in the exchange rate at the time when the CU has open currency position on a given currency. Currency position arises when making currency transactions and is an indicator of the degree of the CU's exposure to foreign currency risk.

According to the Manual, at the end of each trading day the CU should calculate the following indicators:

- net foreign exchange position for each foreign currency;
- total foreign currency position.

In order to regulate the currency risk of the CUs the National Bank sets the following limits on the open currency positions:

- 1) at the end of the trading day the amount of open long/short currency position for each

KGS 100,000 account for 4% of total deposits.

According to General Manager of Bai Tushum Microfinance Bank, Gulnara Shamshieva, to date the portfolio of four major lending institutions is over KGS 22 billion, while the customer base is over 400,000 persons.

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### **National Bank reports paid-in share capital of commercial banks to be KGS 10.44 billion in 2013**

The total paid-in share capital of commercial banks amounted to KGS 10.44 billion in 2013, with foreign participation representing 36.5% or KGS 3.8 billion. This is stated in the annual report of the National Bank for 2013.

As noted in the document, 24 commercial banks were operating in the Kyrgyz Republic at the end of 2013.

Over 2013, the total authorized capital of banks increased by 0.6 billion KGS or 6%. The banking sector attracted foreign investment: a Swiss investor completed the rehabilitation of Kyrgyzdyikanbank; a Russian investor acquired a controlling stake in Zalkar Bank.

In accordance with the legislation of the Kyrgyz Republic, the National Bank reviewed applications submitted by other investors for acquisition of shares in commercial banks and coordinated the process with officers of banks.

In 2013, three banks were renamed: UniCredit Bank was renamed to Optima Bank, Zalkar Bank was renamed to Rosinbank, Akylinvestbank was renamed to Capital Bank.

Over the reporting period, the number of branches of banks and thrifts increased thus facilitating wider access to the banking services for people in the regions of the country. Over the reporting period, the banks opened 11 branches, 49 thrifts and 24 outreach offices in the regions of the country.

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### **Islamic Corporation for Development of Private Sector and Kazakh partners sign constitutive documents establishing first finance leasing company in Kyrgyzstan**

The representatives of the Islamic Corporation for the Development of the Private Sector and

foreign currency shall not exceed:

- 15% of the total capital of the CU, calculated as of the 1st day of the reporting month for currencies which exchange rates are determined by the National Bank;

- the net foreign currency position should be closed for currencies which exchange rates are not determined by the National Bank;

2) at the end of the trading day the amount of the total foreign exchange position in all foreign currencies, exchange rates are determined by the National Bank shall not exceed 20% of the total capital of the CU, calculated on the 1st day of the reporting month.

CUs must follow the limits of open currency positions at the end of each trading day. In case of violation by the CU of the established limits of open currency positions, the National Bank applies remedial measures against the CU in accordance with the regulations of the National Bank.

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### **Manual on the procedure for compliance with the limits of open currency positions by microfinance companies dated May 30, 2014 No. 24/8 (hereinafter - the "Manual")**

The Manual is designed to prevent the foreign currency risk in the activity of the microfinance companies (hereinafter - MFCs). In the development of internal policies and procedures to monitor compliance with the limits of open currency positions MFCs must follow the requirements of this Manual.

The Manual defines currency risk as the risk of losses of the MFC due to changes in value of claims (assets) / liabilities of the MFC denominated in foreign currency, in case of adverse change in the exchange rate at the time when the MFC had open currency position on a given currency. Currency position arises when making currency transactions and is an indicator of the degree of the MFC's exposure to foreign currency risk.

The Manual governs the calculation of open currency positions. So, at the end of each trading day, MFCs should calculate the following indicators:

- net foreign exchange position for each foreign currency;
- the total foreign currency position.

In this case, the calculation of the net foreign exchange position for each foreign currency is

Kazakh partners (Eurasia Group AG, Kazakhstan Ejarah Company, Tredstone Investment Advisors) signed the constitutive documents establishing the first finance leasing company in Kyrgyzstan at the Bishkek International Financial Forum BIFF 2014 held on May 15 of this year.

As stressed by the head of the Union of Banks of the Kyrgyz Republic, Anwar Abdraev, this event represents excellent achievements of the forum. He noted that the company with a capital of more than USD 20 million will contribute to the reduction of the rates involved in the finance leasing operations.

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made in the Som equivalent converted at the exchange rate of the National Bank valid as of the reporting date.

According to the Manual, the MFCs which borrow funds from the founders (shareholders) within the limits set by the National Bank, or borrow funds from the legal entities and place the borrowed funds on the terms and conditions stipulated by the legislation of the Kyrgyz Republic, are subject to the following limits:

1) the amount of total open currency positions in foreign currencies which exchange rates are set by the National Bank as of the end of the trading day shall not exceed 20% of the MFC's equity calculated as of the 1st day of the reporting month;

2) the total foreign currency position in foreign currencies which exchange rates are not set by the National Bank, as of the end of the trading day shall be closed.

In case of violation by the MFC of the established limits of open currency positions, the National Bank shall impose sanctions in the form of a fine in the amount of 5% of the amount exceeding the limit of open currency position, but not more than 1% of the equity capital of the MFC.

For non-deposit-taking microfinance companies, this Manual shall come into effect from the 1st of January of 2015 (please see Resolution of the Board of the National Bank of the Kyrgyz Republic dated July 16, 2014 No.32/4).

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The sources of news contained in the Update are websites:  
[www.akipress.kg](http://www.akipress.kg), [www.24.kg](http://www.24.kg), [www.parus.kg](http://www.parus.kg), [www.kyrgyz-el.kg](http://www.kyrgyz-el.kg)

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