



## **BANKING & FINANCE**

INDUSTRY AND LEGAL UPDATE

**KALIKOVA &**  
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*law firm*

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### **Industry Update**

#### **Kyrgyz commercial banks increase their deposit base**

The amount of deposits in national and foreign currencies increased, causing the increase in the deposit base to KGS 62.2 billion which is 22.8% higher than in January of this year. The data for the first 9 months were announced by the Information Support Unit of the Government of Kyrgyzstan.

The average monthly interest rate for new deposits in the national currency for the period between January and September 2013 was 2.3%, which is 0.1% higher than in the same period of the previous year, while for the foreign currency deposits it remained unchanged at 0.8% since the beginning of the year.

The total loan portfolio of commercial banks by the end of September increased by 24.9% reaching KGS 50.1 billion since the beginning of the year.

#### **Kyrgyz commercial bank deposits reach KGS 62.2 billion by end of September**

By the end of September 2013, Kyrgyz commercial bank deposit base increased by 22% reaching KGS 62.2 billion. Such increase occurred due to growth of deposits in the national and foreign currencies.

### **Legal Update**

#### **Regulations on minimum credit risk requirements for non-deposit-taking microfinance organizations of September 25, 2013 N35/14 (the Regulations)**

These Regulations apply to non-deposit-taking microfinance companies, micro-credit companies and micro-credit agencies in the Kyrgyz Republic. The purpose of the Regulations is to establish minimum requirements for drafting and executing credit agreements and establishing adequate credit risk management systems in MFOs.

According to these Regulations, MFOs must develop adequate internal regulations (policies and procedures) setting forth the following:

- 1) all conditions and basic requirements for lending operations and processes relating to review of applications, issue of loans, execution of loan agreements and keeping of relevant records;
- 2) identifying, measuring, monitoring and controlling credit risks. Detailed description of each loan product must be reflected in relevant internal regulations of MFOs.

MFO lending activity is carried out on the basis of its credit policy setting forth strategies, criteria, parameters and procedures for employees to follow while issuing, recording, monitoring and classifying loans and managing credit risks. The Regulations describe in detail the issues to be addressed in the MFO's credit policy.

The monthly average interest rate for new deposits in the national currency over the period from January to September 2013 increased by 0.1% compared to the same period of the previous year reaching 2.3%, while the interest rate for foreign currency deposits since the beginning of the year remained unchanged at 0.8%. By the end of September 2013, the loan portfolio of commercial banks increased by 24.9% reaching KGS 50.1 billion since the beginning of the year.

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### **Kyrgyzstan moves up two places in Doing Business 2014 rankings**

Kyrgyzstan moved up two places in Doing Business 2014 rankings, according to the International Finance Corporation and the World Bank Report "Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises".

In the 2014 rankings, Kyrgyzstan is ranked 68th, while in 2012, Kyrgyzstan was 70<sup>th</sup>. In a series of annual reports, Doing Business measures the regulations applying to domestic small and medium-size companies through their life cycle.

This year's report on the ease of doing business covers 10 indicator sets and 185 economies.

The rankings for other Central Asian economies are as follows: Kazakhstan – 50<sup>th</sup> (49<sup>th</sup> in 2012), Tajikistan – 143<sup>rd</sup> (141<sup>st</sup> in 2012), Uzbekistan – 146<sup>th</sup> (154<sup>th</sup> in 2012). Russia is ranked 92<sup>nd</sup>.

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### **Parliamentary committee on economic and fiscal policy supports the bill on credit data sharing**

On November 12, the Parliamentary Committee on Economic and Fiscal Policy supported the credit data sharing bill in the second and third readings.

According to the explanatory note for the bill, the intended purpose of the bill is to create conditions for effective interaction among financial institutions in setting up a transparent

The Regulations set forth the process of review of micro-credit applications. Thus, MFOs must specify in their internal regulations the period of review of the loan documents provided by the customer. MFOs provide loans to customers who meet the requirements and provide the documents stipulated in the Regulations. According to the Regulations, the review process consists of several stages starting with the registration of the loan applications in the registry and ending with the delivery of the loan award or rejection notifications to the customers. The Regulations also specify the rights of the MFO customers, the requirements for drafting and executing the credit agreement, and the minimum requirements for the borrower's credit record.

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### **Regulations on minimum credit risk requirements for Islamic banking and financial institutions of September 25, 2013 N35/13 (the "Regulations")**

The Regulations apply to commercial banks and time-deposit-taking microfinance companies engaged in Islamic banking and finance (the Banks).

The purpose of these Regulations is to promote the creation of adequate credit risk management systems in banks engaged in Islamic banking and finance.

The Regulations define a credit risk as the risk of default by the customers / suppliers / partners (the customers) on their contractual obligations, which may have a negative impact on the bank's capital or profit. The purpose of the credit risk management is to identify the degree of the bank's exposure to credit risks, to identify their reasons and internal and external risk factors which can be used to predict credit risks and to take appropriate measures to minimize them to an acceptable level.

The bank's policy with regard to its practice of Islamic banking and finance (the Policy) defines strategies, criteria, parameters and procedures for bank employees to follow while conducting and recording transactions, monitoring and managing risks, etc. The Policy should reflect the provisions stipulated in the Regulations with respect to the credit risk-bearing assets.

The bank's executive committee is responsible for its policies and strategies by ensuring the development and implementation of the bank's

and secure financial infrastructure. The presence of the system of collecting and sharing reliable and accurate credit data on borrowers of banks is one of the essential factors reducing credit risks and thus promoting stability of the financial and banking system.

The bill defines a credit bureau as an institution collecting credit data (credit history) on borrowers from lenders and other available and open source.

The credit bureau collects information on credit payments of individuals and/or small enterprises. Then it makes a comprehensive report which is offered to creditors on the principle of comity, i.e. only those who share credit data can receive the report. Credit bureaus provide invaluable assistance to creditors in making prompt and more reliable credit decisions.

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### **National Bank announces 23.39% nominal weighted average lending rate for the second half of the year**

The nominal weighted average lending rate for financial institutions licensed by the National Bank of the Kyrgyz Republic is set at 23.39% for the second half of FY 2013, announced the regulator on its website. Overnight rate is 5.03%, discount rate is 4.19%.

The weighted average lending rate is calculated using the reported data on actual interest rates for credit balances in local and foreign currencies by the end of the quarter provided by commercial banks, microfinance organizations and credit unions, regulated and licensed by the National Bank.

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### **National Bank announces banking sector profits total KGS 1.6 billion**

Profits in the banking sector over the period since the beginning of the year amounted to KGS 1.6 billion, announced Seytek Chalbaev, the head of the banking supervision unit of the external supervision department of the National Bank of the Kyrgyz Republic at the roundtable discussion "The NBKR's Role in Kyrgyzstan" held on September 30 of this year.

According to the bank official, as of September 1, the banking sector held KGS 98.4 billion in total assets, KGS 62.5 billion in total deposit base, KGS 49.2 billion in total loan portfolio,

policies and procedures for identifying, measuring, monitoring and controlling credit risks.

In case of engaging in Islamic banking and finance, general conditions of offering all products and standard contracts must be approved by the Sharia Board for compliance with the Sharia standards. If the terms and conditions of a specific contract are amended, the amendments must be also approved by the Sharia Board. The Sharia Board must comprise professionals who meet the relevant requirements of Kyrgyz legislation.

The Regulations govern the activities of the bank's financial policy committee. Also, the Regulations set forth the issues of monitoring credit risk-bearing assets and procedure for dealing with troubled assets bearing credit risks.

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### **Regulations on the procedure for electronic filing of tax returns without digital signature of August 6, 2013 (the Regulations)**

The Regulations define the general principles of electronic filing of tax returns without digital signature. Electronic filing of tax returns means the filing of a tax document in electronic form without digital signature specifying the amount of tax liability and other data necessary for assessment of tax liability.

Electronic filing of tax returns is performed by obtaining access to the information system. The information system is a service of the tax authorities used for electronic filing of tax returns. To gain access to the information system a business entity must file an application to the tax authority at the place of its tax registration. The application shall be filed together with:

- 1) a copy of the passport for individuals;
- 2) a copy of the certificate of registration for legal entities and individual entrepreneurs.

The tax authorities render a decision to grant or deny access to the information systems within 30 calendar days from the date of application. The reasons for denying access to the information system are as follows:

- 1) non-registration as a taxpayer;

and KGS 16.7 billion in total net capital.

It was also reported at the roundtable that as of September 1, 2013, there were 23 commercial banks, 281 commercial bank branches and 668 thrift institutions operating in Kyrgyzstan.

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### **The most profitable banks in Kyrgyzstan according to results for the first half of FY 2013**

According to the National Bank of Kyrgyzstan, as of June 30, 2013, there were 23 commercial banks (including the Bishkek branch of the National Bank of Pakistan) and 281 branches of commercial banks operating in the Kyrgyz Republic.

As of June 30, 2013, the overall profits of the banking sector totalled KGS 1 billion 130.2 million. In the same period of the previous year, the financial sector in Kyrgyzstan comprised 22 commercial banks (Bai Tyshym and Partners Microfinance Bank JSC received its banking license in the second half of FY 2012), with their profits amounting to KGS 1 billion 23.9 million.

The National Statistics Committee reported that the income of 23 commercial banks in Kyrgyzstan for the first half of FY 2013 increased by 19.3% compared to the same period of the previous year due to growth of interest income on loans. Expenses for the same comparative period increased by 22% or KGS 915.3 million.

According to the National Statistics Committee, 18 commercial banks made a profit of KGS 1 billion 325 million, while 5 banks made a loss of KGS 59.9 million for the first half of FY2013. Balanced financial result accounts for KGS 1 billion 265.1 million of profit, which is 9.8% higher than in the corresponding period of the previous year.

Thus, top 5 most profitable banks in Kyrgyzstan for the first half of FY2013 are:

- Optima Bank CJSC (KGS 362,844,000);
- Kyrgyz Investment and Credit Bank CJSC (KGS 216,990,000);
- Demir Kyrgyz International Bank CJSC (KGS 145, 903,000);
- RSK Bank OJSC (KGS 133,906,000);

Kyrgyzstan Commercial Bank OJSC (KGS

2) registration as a VAT taxpayer.

Electronic filing is performed via the official website of the State Tax Service of the Government of Kyrgyzstan.

Users must file tax returns electronically in the manner and within the timeframe established by the Tax Code.

Upon receipt of tax returns filed electronically by the user, the tax authority shall:

- record the time and date of acceptance of tax returns filed electronically;
  - ensure acceptance and processing of tax returns filed electronically and make an appropriate acknowledgment of receipt of tax returns filed electronically.
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86,228,000).

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