



BANKING & FINANCE

INDUSTRY AND LEGAL UPDATE

KALIKOVA & ASSOCIATES

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Industry Update

In 2011 the banking system of Kyrgyzstan has received 1.98 billion soms of net profit

As of December 31, 2011, in the territory of the Republic there were 22 commercial banks (including the Bishkek branch of National Bank of Pakistan) and 254 branches of commercial banks.

According to the report of the Government of the Kyrgyz Republic for 2011 to the end of December 2011 the banking system as a whole has reached the net profit of \$ 1.98 billion soms (in 2010 - 742.2 million soms). Total assets of the banking system increased from the beginning of the year by 15.2% to 66.6 billion soms.

At the end of 2011, the deposit base of the banking system as a whole amounted to 38.7 billion soms, having increased from the beginning of the year by 13.5%. The total amount of deposits in credit unions at year end increased by 1.4% to \$ 35.5 million soms.

In this period, there was an increase in inflow of deposits in commercial banks. The volume of new deposits amounted to 203.2 billion soms, having increased in comparison with the corresponding figure for 2010 which is 56.9%, reflecting the preservation of confidence in the banking system from households / population.

The credit portfolio of banks at the end of 2011 amounted to 31.2 billion soms, having increased from the beginning of the year by 18.3 (at the end of 2010 - 26.4 billion soms).

This part of the KGS portfolio increased by 19.8% prevailing in the amount of 14.0 billion soms. The volume of loans in foreign currencies at the end of December 2011 stood at 17.2 billion som equivalent, exceeding the corresponding figure at the beginning of the year by 17.2%.

Loans in national currency increased by 26.9% and in foreign currency - by 54%.

Legal Update

Microfinance Development Strategy for 2011-2015 (hereinafter - the "Strategy") approved by the Resolution of Government of the Kyrgyz Republic and National Bank of the Kyrgyz Republic dated February 28, 2012 No 150/40/6

Strategy defines the vision, goals and principles for the development of microfinance sector in the next five years. Thus, the vision of the Strategy is to ensure the total economically active population of Kyrgyzstan with chance to access quality financial services. The aim of the Strategy is to increase access to financial services on a permanent and sustainable basis for people with low income.

The Strategy describes the challenges of the microfinance sector in Kyrgyzstan in the present period. It has a brief report on the investigation of the microfinance market, which includes three levels: 1) the macro level - which is a policy, legal and regulatory environment of the microfinance market; 2) meso level - financial infrastructure and wholesale crediting 3) micro level - micro-finance intermediaries and their clients.

There are recommendations in the Strategy to improve the legal and regulatory environment of the microfinance sector as a result of meetings of participants of the microfinance sector, relevant government authorities and experts. Also in Strategy developed plan of action, including the expected results to be achieved, with responsible parties to implement these measures.

Regulation on Loan Council of aiyl aimak (hereinafter - the "Regulation"), approved by the Resolution of Government of the Kyrgyz Republic dated April 12,

World Bank: Kyrgyz economy recovered from recession, demonstrating an increase by 5.7 percent

The Kyrgyz economy recovered from recession, demonstrating an increase by 5.7 percent. Such data on the basis of economic development in 2011 was presented today by the World Bank.

According to the World Bank, after the political crisis in 2010 the gold mining industry has become the engine of the economy. Only the Kumtor's contribution provided 0.7 percent of economic growth.

According to the World Bank, agriculture up to 2011 showed a growth of 2.3 percent, and services - 5.2 percent. In construction, on the contrary the fall by 3.9 percent was observed, mainly due to deleveraging.

Chokoev Zair: The situation with the four troubled banks in Kyrgyzstan remains difficult

"The situation with the four troubled banks in Kyrgyzstan remains difficult," - said at a press conference, Deputy Chairman of NBKR Chokoev Zair.

According to him, "KyrgyzCreditBank", Investment Bank "Issyk-Kul" and "Manas Bank" bogged down in litigation for long, and because there are a lot of claims, and each is at different stage of consideration, resolution of all disputes does not seem to occur soon

"KyrgyzCreditBank", despite the fact that it was in a difficult situation, works. It has closed the year of 2011 with a profit of 11 million soms" - said Chokoev Zair, explaining that the National Bank expects the early decisions of the courts in order to give it to new owners.

"Manas" bank is experiencing great difficulties with the fact that mortgages, which were used as collateral for loans, have been nationalized. "The bank has lost its assets, which badly impacted its work, and we are currently working with the government in this direction, since the return of collateral will immediately resolve the problems of the bank by transferring it from deep minus to a significant plus", - he said.

According to the deputy chairman of the NBKR, the criminal cases brought against the former shareholders, represent a serious obstacle to the settlement of disputes.

"Issyk-Kul" Investment Bank is also mired in litigation and bears losses, though they are not very significant. "We understand that the decisions of the courts will not be quick, because there are a tangle of disputes that last for two years" - he explained. And said that the situation with "Akylinvestbank" is quite stable.

2012 No 240

According to the Regulation, the Loan Council of aiyl aimak (hereinafter - the "Loan Council") is created for the purpose of making the list of unemployed people classified as poor to provide them with microcredits.

The Loan Council is a standing advisory body that carries out its activities on a voluntary basis.

The Regulation determines the following competence of the Loan Council:

- decision-making on inclusion to the list of unemployed people who registered in the prescribed manner in the employment agencies for purpose of organizing business activities in the spheres of crop, livestock, agro-processing, small production, craft, trade and services;
- providing to micro-credit agency "Ala-Too Finance" under the Ministry of Youth, Labor and Employment of the Kyrgyz Republic the lists of unemployed persons classified as poor, within 5 working days from the date of its making, for examination possibility of granting them micro-credits;
- informing the public about the activities of the Loan Council: it's decisions and their implementation on a regularly basis;
- providing annual progress reports in the meeting of inhabitants aiyl aimak;
- working out recommendations and suggestions for effective use of micro-credits and their subsequent recoveries;
- monitoring the proper use of microcredits by the borrowers.

The composition of the Loan Council should include representatives of local councils, civil society organizations, the board of elders, experts, social worker of local authority, local activists.

The quantitative composition of the Loan Council is determined by population of aiyl aimak from 5 to 11 members of the Loan Council.

The members of the Loan Council are elected for a term of 3 years. The same person may not be elected as a member of the Loan Council for more than two consecutive terms.

The Regulation on the Coordinating Council for the development of microfinance for the purpose of coordinating the implementation of the Microfinance Development Strategy for 2011-2015 and work out proposals for the development of

German investors are willing to invest in Kyrgyzstan more than 5 million euros

German investors are willing to invest in Kyrgyzstan more than 5 million euros in case if they find trustworthy partners. This is reported by the Chamber of Commerce after the meeting of its president Marat Sharshkeev with the Vice-President of the German Investment and Development DEG William Ikke.

As noted, Ikke William has arrived to Kyrgyzstan with an introductory visit. He was interested in the financial and banking sector, agricultural and mining industries. "Our company provides loans for a period of five to 15 years, with interest rates of 8-10%, taking into account all the risks and without the intermediation of commercial banks, - he said. - Minimum amount of investments is EUR 5 million, but we need reliable partners in the project, we want to build a relationship on trust."

Marat Sharshkeev noted that the Chamber is ready to assemble the active business and consulting companies in Kyrgyzstan and to identify the prospects for cooperation. "We conducted a survey among businessmen that hinders the development of domestic business, and almost all respondents mentioned the lack of finance" - he said, explaining that cooperation with such a large company would help the local entrepreneurs. The parties underlined the possibility of signing agreements on cooperation.

microfinance in the Kyrgyz Republic (hereinafter - the "Regulation") is approved by Resolution of Government of the Kyrgyz Republic and the National Bank of the Kyrgyz Republic dated February 28, 2012 No 150/40/6

The Regulation defines the Coordinating Council for the development of microfinance for the purpose of coordinating the implementation of the Microfinance Development Strategy for 2011-2015 and working out proposals for the development of microfinance in the Kyrgyz Republic (hereinafter - the "Coordinating Council") as a coordinating and consultative body that ensures coordination, working out/preparation of recommendations and proposals for the Government of the Kyrgyz Republic, the National Bank of the Kyrgyz Republic and other government agencies concerning questions on the development of microfinance and implementation of the Microfinance Development Strategy for 2011-2015.

The Coordinating Council consists of a number of government representatives, business associations and international financial institutions (donors).

The main objective of the Coordinating Council is to promote the Government of the Kyrgyz Republic, the National Bank of the Kyrgyz Republic, other state bodies and business associations in the preparation and implementation of measures for the development of microfinance in the country.

For implementation of this objective Coordinating Council shall have the following functions:

- review the implementation stages of the Strategy for Microfinance Development in 2011-2015;
 - carry out the study of legal and regulatory environment of microfinance in the country;
 - analyze the rates of microfinance development in the country;
 - study international best practices in microfinance;
 - work out proposals and recommendations for state agencies to improve the legal and regulatory environment for microfinance.
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