

**Temporary Rules  
for regulations of activity of microfinance companies  
in Kyrgyz Republic**

**1. General provisions.**

- 1.1 The present Temporary rules are developed in addition to the law “On microfinance organizations in Kyrgyz Republic “ in accordance with the functions and goals, assigned to the National bank by the law “On the National bank of Kyrgyz Republic”.
- 1.2 The National bank of Kyrgyz Republic (hereinafter - NBKR) establishes the economic norms and requirements mandatory for execution by the microfinance companies (hereinafter MFC) with the purposes of maintenance of steady development of microfinance organizations and maintenance of trust of the population to their activity.
- 1.3 The basic activity of the microfinance companies is microcrediting with the purposes of overcoming poverty, increase of an employment, development of social and enterprise activity of the population of Kyrgyz Republic.
- 1.4 The microfinance companies can establish the higher requirements on the economic norms, according to their internal policy of risk management without breaking thus the norms required for execution of the normative acts of the National of bank of Kyrgyz Republic.
- 1.5 The legal persons, specified in sub-clause 3 of item 2 of Article 16 of the law “On microfinance organizations in Kyrgyz Republic”, on top of the other documents, required for the reception of the license of NBKR on the right of attraction of the time deposits from the physical and legal persons as a microfinance company, should submit the documentation (finance reports and necessary additional information), which would confirm the compliance to the economic acts and requirements (for MFC which do not attract deposits) for the last 6 months up to a moment of submission of an application for receiving the license.
- 1.6 The microfinance companies carry out operations on microcrediting and deposit in national currency of Kyrgyz Republic.
- 1.7 The microfinance companies must carry out accounting of their operating activity and run their finance reporting according to the NBKR accounting and finance reporting requirements of commercial banks and microfinance institutions licensed by NBKR.

**2. Economic norms and requirements mandatory for observance by the microfinance companies.**

- 2.1 The microfinance companies cannot give out credits to the third party for purchase of securities issued by the MFC itself.
- 2.2 The microfinance companies have not the rights to give out the letters of credit and any other forms of guarantees.
- 2.3 MFC which does not attract deposits are obliged to observe the following economic acts and requirements, established by NBKR:
  - I Minimum size of the paid authorized capital;
  - I Maximum size of risk on one borrower;
  - I Adequacy of the capital;

- | Liquidity;
- | Maximum size of risk for unsecured credits;
- | Maximum size of risk of the transactions with affiliated persons and insiders;
- | Maximum size of the investments in other organizations.

2.4 MFC which attract deposits are obliged to observe the following economic acts and requirements, established by NBKR:

- | Minimum size of the paid authorized capital;
- | Maximum size of risk on one borrower;
- | Adequacy of the capital;
- | Liquidity;
- | Maximum size of risk on deposits of the physical persons;
- | Maximum size of risk of unsecured credits;
- | Maximum size of the investments in other organizations;
- | Types of deposits attracted.

### 3. Economic acts and requirements for the microfinance companies, which do not attract deposits and its calculations.

#### 3.1 Minimum size of the fully paid authorized capital.

- 3.1.1 The authorized capital of a MFC is formed in the national currency of Kyrgyz Republic.
- 3.1.2 The minimum size of the fully paid authorized capital for an MFC which does not take time deposits from the legal and physical persons on the terms of repayment aimed to accumulate the clients savings **is established in the amount of 10 million soms.**

#### 3.2 Maximum size of risk on one borrower.

- 3.2.1 The calculation of the maximum size of risk on one borrower (M1) is separate on the borrowers, not connected with an MFC (M1.1), and on the borrowers, connected (affiliated persons and insiders) with an MFC (M1.2).
- 3.2.2 The norms of the maximum size of risk on one borrower M1.1 and M1.2 is calculated by the formula:

$$M1 = CA / OC * 100 \%, \text{ where}$$

CA - cumulative arrears amount of the borrower on the credits (irrespective of terms), factoring, finance leasing, investments (in form of liabilities, shares, financial participation in the capital of the borrower).

OC - own capital of an MFC at the moment of an assessment, which includes:

- + fully paid authorized capital;
  - + capital, brought on top of the nominal value;
  - + reserves for future needs;
  - + reserves on overvaluation of the assets in the size, not exceeding 10 % of balance costs of the assets;
  - ± undistributed profit (losses) of last years;
  - ± profit (losses) of the current year;
  - + funds of donor organizations, of local and international financial organizations, of founders and shareholders of an MFC, having the attributes of the time subordinated debt.
- Time subordinated debt includes the unsecured by collateral obligations which should be fulfilled not earlier, than in 5 years from the moment of the contract is signed between an MFC and a person proving the funds. From the moment of the contract is signed and before the expiry of the term of the contract on a time subordinated debt

an MFC should annually exclude from its own capital the equal shares from the amount of the debt, calculated by a straight –line method depending on the terms of the contract. In case of liquidation of the microfinance company these attracted funds will be repaid after all the claims on the part of the investors and creditors, but before the settlements with the shareholders.

3.2.3 At the calculation of the normatives of the maximum size of risk on one borrower any debts of the different borrowers should be summarized and be considered as one risk, if:

- a) one borrower is supervised by the other borrower;
- b) several borrowers are supervised by the one and the same person;
- c) in case of the significant finance interdependence between the borrowers when more than 50 % of the annual total income / expense or of other incomes and payments of one borrower have taken place as the result of the transactions with other borrower;
- d) for the return of debts the same sources are used, including a secondary source of repayment (secured by a collateral);

3.2.4. Maximally acceptable normative of **M1.1** - no more than **10 %** and of **M1.2** - no more than **5 %**.

### **3.3 Adequacy of the capital.**

3.3.1 The normative of adequacy of the capital (M2) of MFC is calculated by the formula:

$$\mathbf{M2 = OC / AB * 100 \%, \text{ where}}$$

**OC** - own capital of the MFC at reporting date (see item 3.2.2).

**AB** – the sum of the balance assets, defined by the degree of risk after the deduction of special reserves for potential loss provisions.

3.3.2. The **M2** normative is necessary to be maintained at the level no less than **15 %**.

### **3.4 Liquidity.**

3.4.1 The normative of the liquidity of an MFC (M3) is calculated by the formula:

$$\mathbf{M3 = LA / LI, \text{ where}}$$

**LA** - liquid assets of an MFC (excepting the credits and assets, which can be equaled to the credits, irrespective of repayment terms), which can be inverted into money resources within the term not exceeding 30 days after reporting date.

**LI** - obligations of an MFC before the international and local financial organizations, banks and other finance and credit institutions.

3.4.2 MFC should develop liquidity risk management policy, taking into account the following factors:

- Ø as a minimum weekly measurement and monitoring of breaks in assets and liabilities repayment terms for the control of the need(requirement) in liquidity and fulfillment of the coming obligations;
- Ø ability to borrow in the money market;
- Ø Planning for the cases of liquidity crisis.

3.4.3 The normative for **M3** is necessary to be maintained at the level not below **15 %**.

### **3.5 Maximum size of risk of the individual unsecured credits.**

The cumulative size of the unsecured credits in individual crediting should not exceed **50 %** of the own capital of MFC (see 3.2.2).

### **3.6 Maximum size of risk of the transactions with the affiliated persons and insiders.**

The cumulative arrears of the affiliated persons and insiders before an MFC should not exceed **10 %** of the own capital of an MFC.

### **3.7 Maximum size of the investments in other organizations.**

3.7.1 The maximum size of the investments (including any other financial investments and credits) of an MFC in each organization is established according to subitem 3.2.4 of item 3.2. of the present Temporary rules.

3.7.2 The cumulative size of the investments (including any other financial investments and credits) of an MFC in all other organizations should not exceed **40 %** of the own capital of an MFC.

## **4. Economic normatives and requirements for the microfinance companies, attracting the deposits and its calculations.**

### **4.1 Minimum size of the fully paid authorized capital.**

4.1.1 The authorized capital of MFC is formed in national currency of Kyrgyz Republic.

4.1.2 The minimum size of the fully paid authorized capital for MFC taking time deposits from the physical and legal persons on terms of repayment aimed at the accumulations of the clients savings **is established in the amount of 25 million soms.**

4.1.3 The microfinance companies, attracting deposits have no right to redeem the own shares.

### **4.2 Maximum size of risk on one borrower.**

**4.2.1 MFC attracting deposits may not carry out operations with the affiliated persons and insiders.**

4.2.1 The calculation of the normative of the maximum size of risk on one borrower (M1) for MFC attracting deposits is similar to the calculation of the maximum size of risk on one borrower described in subitem 3.2.2 of item 3.2 of the present Temporary rules.

4.2.2 Maximally acceptable normative of **M1** – is no more than **10 %**.

### **4.3 Adequacy of the capital.**

4.3.1 The normative adequacy of the capital (M2) for MFC attracting deposits, is calculated similarly as described in subitem 3.3.1 of item 3.3 of the present Temporary rules.

4.3.2 The normative of **M2** is necessary to maintain at the level no less than **20 %**.

### **4.4 Liquidity.**

4.4.1 The liquidity normative (M3) for MFC attracting deposits, is calculated by the formula:

$$\mathbf{M3 = LA / LI, where}$$

**LA** - liquid assets of an MFC (excepting the credits and assets, which can be equaled to the credits, irrespective of repayment terms), which can be inverted into money resources within the term not exceeding 30 days after reporting date.

**LI** - all obligations of MFC, including all the sum of the attracted deposits.

4.4.2 MFC should develop liquidity risk management policy, taking into account the following factors:

- Ø as a minimum weekly measurement and monitoring of breaks in assets and liabilities repayment terms for the control of the need(requirement) in liquidity and fulfillment of the coming obligations;
- Ø structure and sustainability of deposit base;
- Ø ability to borrow in the money market;
- Ø planning on cases of liquidity crisis.

4.4.3 The normative of **M3** is necessary to maintain at the level not below **20 %**.

#### **4.5 The normative of the maximum size of risk on deposits from the physical persons**

4.5.1 The normative of the maximum size of risk on deposits of the physical persons (M4) is calculated by the formula:

$$M4 = DPP / OC * 100 \%, \text{ where}$$

DPP – the sum of the deposits of the physical persons.

OC - own capital of MFC.

4.5.2 This normative is established by the decision of NBKR for particular MFC in case of occurrence of problems of return of the deposits of the population.

#### **4.6 Maximum size of risk of the individual unsecured credits.**

The cumulative size of the individual unsecured credits of maintenance should not exceed **30 %** of the own capital of MFC.

#### **4.7 Maximum size of the investments in other organizations.**

4.7.1 The maximum size of the investments (including any other financial investments and credits) of MFC in each organization is established according to subitem 4.2.2 of item 4.2 of the present Temporary rules.

4.7.2 The cumulative size of the investments (including any other financial investments and credits) of MFC in all other organizations should not exceed **40 %** from the size of the own capital of MFC.

#### **4.8 Types of deposits attracted.**

The microfinance companies can attract only **time deposits** from the physical and legal persons, bringing the interest income to the customers of MFC.

### **5. Order of observance of the economic normatives and other requirements and information submission to NBKR.**

5.1 The control of observance of MFC of the economic normatives and of other requirements is carried out by the Banking Supervision Department of the National bank of Kyrgyz Republic.

5.2 Microfinance companies should do monitoring of observance of the economic normatives and requirements of NBKR on a weekly basis as minimum.

5.3 The control of observance of the economic normatives and requirements, established for MFC, can be conducted by the Banking Supervision Department of NBKR as of any date.

5.4 On a quarterly basis not later the 10 day of a month, following the last one of each quarter, MFC submits the regulatory reports to the Banking Supervision Department of the NBKR in an obligatory manner .

5.5 The forms of regulatory reporting should be signed by the Chairman of MFC Board (President of the Board) or any authorized person responsible for information preparation and submission.

5.6 At case of non-observance by the microfinance companies of the economic normatives and other requirements, of not submission of information or submitting the doubtful information the National bank of Kyrgyz Republic may take measures towards MFC according to the laws “On National bank of Kyrgyz Republic”, “On microfinance organizations in Kyrgyz Republic” and according to respective normative acts of NBKR.