

LAW OF THE REPUBLIC OF KYRGYZSTAN

"ON THE NATIONAL BANK OF THE REPUBLIC OF KYRGYZSTAN"

The present Law defines the status of the National Bank of the Republic of Kyrgyzstan as the central component of the Republic's banking system and the agency that is called upon to play an underlying role in formulating and conducting monetary and credit policy within the Republic.

CHAPTER I. GENERAL PROVISIONS

ARTICLE 1. The National Bank of the Republic of Kyrgyzstan

1. The National Bank of the Republic of Kyrgyzstan (the Bank of Kyrgyzstan) shall constitute the central bank of the Republic of Kyrgyzstan and shall fall under the ownership of the Republic.
2. The Bank of Kyrgyzstan shall be a juridical person and shall engage in its activities in compliance with the present Law.
3. The location of the Bank of Kyrgyzstan shall be the city of Bishkek. The Bank of Kyrgyzstan shall have the right to set up branch offices and agencies, and shall appoint the representatives thereof, both within the Republic of Kyrgyzstan and abroad.

The Bank of Kyrgyzstan shall have a seal bearing its name and the image of the Government Emblem of the Republic of Kyrgyzstan.

4. The Republic of Kyrgyzstan shall not bear responsibility for the obligations of the Bank of Kyrgyzstan. The Bank of Kyrgyzstan shall not bear responsibility for the obligations of the Republic of Kyrgyzstan.

ARTICLE 2. The principal Objectives of the Bank of Kyrgyzstan

1. The principal objectives of the Bank of Kyrgyzstan shall be ensuring the stability of the official currency of the Republic of Kyrgyzstan, effecting monetary and credit control within the Republic of Kyrgyzstan, protecting the interests of creditors and depositor, ensuring fair banking competition, and overseeing the observance of banking laws.
2. In realizing its objectives, the Bank of Kyrgyzstan shall interact with the central banks of other countries.

ARTICLE 3. The Organization of the Activities and the Property of the Bank of Kyrgyzstan

1. The Bank of Kyrgyzstan shall independently organize and conduct its activities. The interference of government agencies in the resolution of the questions relegated by the present Law to jurisdiction of the Bank of Kyrgyzstan shall not be permitted.
2. The Bank of Kyrgyzstan shall own, use, and dispose of the monetary resources, buildings, structures, equipment, and other material valuables which belong to it, and may, for the purpose of realizing its objectives, found organizations which have the rights of a juridical person.
3. The Bank of Kyrgyzstan shall not have the right to engage in activities which extend outside the realm of its objectives, to be the holder of stocks or to participate in any way in the activities of banks or other commercial organizations, or to acquire buildings, structures, or any other property, with the exception of those instances mentioned in Paragraph 2 of this Article, unless such property is essential to the safeguarding of the activities of the Bank of Kyrgyzstan and its employees.
4. The Government shall guarantee the protection of the legal property rights of the Bank of Kyrgyzstan and may not seize or reduce its statutory capital.

ARTICLE 4. Reporting by the Bank of Kyrgyzstan

1. The Bank of Kyrgyzstan shall submit a yearly report concerning its activities to the Supreme Soviet of the Republic of Kyrgyzstan by no later than 15 April of the year following the reporting year.

This report shall include financial statements which conform international standards, as well as information concerning the activities of the banking system of the Republic of Kyrgyzstan.

2. The Bank of Kyrgyzstan shall publish a yearly master balance sheet, together with data which characterize the status of currency circulation within the Republic of Kyrgyzstan.

CHAPTER II. CAPITAL, PROFITS, AND FUNDS

ARTICLE 5. The Statutory Capital of the Bank of Kyrgyzstan

1. The statutory capital of the Bank of Kyrgyzstan shall be put together entirely by the Republic of Kyrgyzstan in the amount of 2 billion rubles, with 30% of this statutory capital being paid in immediately. The ensuing shares of the subject statutory capital must be paid in within 2 years of the time that the present law comes into force. The amount of this statutory capital may be increased by the Bank of Kyrgyzstan in cooperation with the Government of the Republic of Kyrgyzstan.
2. The Bank of Kyrgyzstan may not expropriate its statutory capital or pledge this capital to anyone.

ARTICLE 6. The Profits and Funds of the Bank of Kyrgyzstan

1. The net profit of the Bank of Kyrgyzstan for a given fiscal year shall be determined in compliance with existing international standards.

2. The Bank of Kyrgyzstan shall form a reserve fund and other special-purpose funds. The size of this reserve fund, which is intended for use in covering possible losses, must be no larger than the amount of the Bank's statutory capital.

The amounts and the procedure for the formation and use of other special-purpose funds shall be determined by the Board of Directors of the Bank of Kyrgyzstan. Here, following the formation of the Bank's statutory capital and its reserve fund, no more than 30% of the profits of the Bank of Kyrgyzstan for a given fiscal year shall be channeled into special-purpose funds.

3. The free balance of profit for a given fiscal year shall be channeled into the government budget of the Republic of Kyrgyzstan. At the request of the Bank of Kyrgyzstan, the Government may increase the amount of the profit left at the disposal of the Bank of Kyrgyzstan.

4. The Bank of Kyrgyzstan and its institutions, with the exception of the economic organizations thereof, shall be exempt from the payment of all types of taxes, fees, and government duties.

CHAPTER III. MONETARY AND CREDIT CONTROL

ARTICLE 7. The Monetary and Credit Policy of the Bank of Kyrgyzstan

1. The monetary and credit policy of the Republic of Kyrgyzstan shall be formulated and administered by the Bank of Kyrgyzstan in cooperation with the Government of the Republic of Kyrgyzstan.

2. Should the Government of the Republic of Kyrgyzstan not agree with the monetary and credit policy conducted by the Bank of Kyrgyzstan, it shall make this known to the Supreme Soviet of the Republic of Kyrgyzstan, which, after consulting with the Bank of Kyrgyzstan and with the conclusions of the Control Office of the Republic of Kyrgyzstan in hand, may compel the Bank of Kyrgyzstan to change the monetary and credit policy it has adopted by means of passing a standard act that contains the reason for this change and its periods of validity.

ARTICLE 8. The Issue of Monetary Symbols

1. The Bank of Kyrgyzstan shall have the exclusive right to place monetary symbols (banknotes and coins) into circulation and to withdraw these symbols from circulation.

2. The use of emission to finance the government budget deficit of the Republic of Kyrgyzstan shall be prohibited.

ARTICLE 9. Regulation of the Supply of Money in Circulation

1. The Bank of Kyrgyzstan shall effect the regulation of the volume and structure of the supply of money in circulation within the Republic of Kyrgyzstan by means of:

- (1) modifying compulsory economic standards for banks;
- (2) purchasing and selling foreign currency and securities;
- (3) changing the volumes of credits granted by the Bank of Kyrgyzstan, as well as the interest rates for these credits;
- (4) altering the amounts of the target figures of compulsory reserves;
- (5) establishing a minimum interest rate for the deposits attracted by banks.

2. The Bank of Kyrgyzstan shall:

- (1) formulate and approve a procedure for conducting cash transactions within the Republic of Kyrgyzstan;
- (2) ensure that banknote and coin reserve funds are set up;
- (3) specify the rules governing the shipment, storage, and collection of monetary symbols in cooperation with the Ministry of Internal Affairs of the Republic of Kyrgyzstan;
- (4) specify the criteria and a procedure for determining the usability of monetary symbols in making payments, as well as a procedure for replacing and destroying banknotes and coins which have become damaged or which have gone out of circulation, and;
- (5) formulate and implement the currency policy of the Republic of Kyrgyzstan, and announce the rate of exchange of the official currency of the Republic of Kyrgyzstan with respect to the monetary units of other countries.

CHAPTER IV. RELATIONS BETWEEN THE BANK OF KYRGYZSTAN AND THE GOVERNMENT

ARTICLE 10. Operations Involving the Budget of the Republic of Kyrgyzstan

1. The Bank of Kyrgyzstan may grant short-term credits on general terms for a period of no longer than 6 months to the Ministry of Economics and Finance of the Republic of Kyrgyzstan for use in covering the gap between current budget revenues and expenditures. The amount of the indebtedness for such credits must not exceed 5% of the amount of the gross domestic product of the Republic of Kyrgyzstan.

2. It is forbidden for the Bank of Kyrgyzstan to directly credit the government budget deficit of the Republic of Kyrgyzstan or to purchase government securities during the initial distribution of these securities.

ARTICLE 11. The Servicing of the National Debt

The Bank of Kyrgyzstan shall undertake the servicing of the national debt of the Republic of Kyrgyzstan by means of engaging in operations involving the floating of government loans, the repayment of these loans, and the payment of interest on the subject loans.

ARTICLE 12. The Organization of the Cash Implementation of Budgets

1. The Bank of Kyrgyzstan, together with the Ministry of Economics and Finance of the Republic of Kyrgyzstan, shall specify a procedure for the implementation of the republican and local budgets.

2. The Bank of Kyrgyzstan shall effect the cash implementation of the republican and local budgets through other banks and may conduct those operations that are essential to budget implementation through its own institutions.

ARTICLE 13. The Role of the Bank of Kyrgyzstan as a Financial Adviser

1. The Bank of Kyrgyzstan shall be the financial adviser of the Supreme Soviet of the Republic of Kyrgyzstan, the President of the Republic of Kyrgyzstan, and the Government of the Republic of Kyrgyzstan in matters pertaining to the national reserve system and in other matters relating to banking activities.

3. The drafts of legislative and other standard acts concerning banking activities shall be reviewed by the Supreme Soviet, the President, and the Government of the Republic of Kyrgyzstan only after receiving the conclusions of the Bank of Kyrgyzstan.

CHAPTER V. RELATIONS BETWEEN THE BANK OF KYRGYZSTAN AND OTHER BANKS

ARTICLE 14. Operations and Transactions Involving Other Banks

On terms that it has specified, the Bank of Kyrgyzstan may:

- (1) open accounts for and accept the deposits of banks and other juridical persons;
- (2) purchase and sell precious metals, foreign currency, and securities issued or guaranteed by the Republic of Kyrgyzstan, foreign governments, or international organizations;
- (3) purchase, sell, or complete any other transactions involving

(4) grant short-term credits:

(a) for a period of no longer than 6 months:

-- in pledge of the assets listed in Subparagraphs 2 and 3 of this Article, or;

-- in emergency situations, at the decision of the Board of Directors of the Bank of Kyrgyzstan, without suitable security or in pledge of assets which are not envisioned by Subparagraphs 2 and 3 of this Article, or;

(b) for a period of no longer than 12 months, for the production of agricultural products according to a list developed in cooperation with the Government of the Republic of Kyrgyzstan;

(5) grant credits for a period of 1 year for the production of agricultural products according to a special list developed in cooperation with the Government and approved by the Supreme Soviet of the Republic of Kyrgyzstan;

(6) serve as guarantor for transactions and operations completed by banks which specify cash execution, and;

(7) serve as creditor in the latter instance.

2. The Bank of Kyrgyzstan shall have the right to engage in operations and transactions which conform to its objectives.

ARTICLE 15. Regulation of the Level of Interest Rates

The Bank of Kyrgyzstan shall undertake the regulation of the level of bank interest rates within the Republic of Kyrgyzstan through the instruments of the monetary and credit policy.

ARTICLE 16. The Arrangement of Settlements Between Banks

The Bank of Kyrgyzstan may render services in the area of effecting interbank payments and may assist in setting up an interbank system for clearing or other forms of settlements in compliance with the standard acts applicable thereto.

The Bank of Kyrgyzstan shall bear responsibility for payment extension time frames. In the event of a delay in payments over and above established time frames, the Bank of Kyrgyzstan shall pay twice the interest rate effective at that time for each overdue day.

ARTICLE 17. Bank Supervision

1. The Bank of Kyrgyzstan shall issue licenses for the performance of banking operations and shall undertake to oversee the activities of banks.

2. The Bank of Kyrgyzstan shall have the right:

- (1) to make inspections of the activities of banks or to order the performance of such inspections by independent auditors or auditing firms;
- (2) to require that banks submit balance sheets, reports, and other documents or information relating to bank activities;
- (3) within the scope of its authority, to issue standard acts which must be followed by banks and other juridical or physical persons, and;
- (4) at the written request of those law enforcement agencies which, under the laws currently in force, are charged with the detection of financial machinations and money "laundering" operations, to suspend for a period of 7 days any banking operations that appear to be suspicious, according to the standard act of the Bank of Kyrgyzstan, as concerns the "laundering" of monies obtained by illegal means.

3. The Bank of Kyrgyzstan may cooperate with foreign bank inspection agencies in matters relating to the surveillance of banks which engage in their activities under the corresponding jurisdictions of these agencies.

ARTICLE 18. Reserve Requirements

1. The Bank of Kyrgyzstan shall set for other banks the amounts of the compulsory reserves placed in the Bank of Kyrgyzstan for a fee.
2. The Bank of Kyrgyzstan shall have the right to impose a fine on any bank which does not comply with the specified level of compulsory reserves. The subject fine shall be exacted daily in an amount of no more than two times the existing rate of refinancing for the sum of the underpaid funds.

ARTICLE 19. The Economic Standards Set by the Bank of Kyrgyzstan

1. For the purpose of performing its duties in the area of the regulation of the activities of banks, the Bank of Kyrgyzstan shall, in compliance with international norms, set and announce the following economic standards:
 - (1) a minimum statutory capital amount;
 - (2) the maximum ratio between the amount of a bank's internal funds and the sum of its assets and liabilities, with allowance for risk assessment;
 - (3) balance liquidity indices;
 - (4) the maximum extent of risk per borrower;
 - (5) the limitation of the extent of price and interest risks, and;

(6) other standards that are essential to the assurance of the financial stability of banks.

2. When instances of the nonobservance of economic standards or the violation of banking laws by a bank come to light, the Bank of Kyrgyzstan shall issue compulsory instructions to this bank concerning the rectification of the violations detected within a specific period of time.

Should a bank fail to satisfy the requirements set forth in the present Law, fail to submit reports, submit inaccurate reports, or engage in unprofitable activities, or should a situation arise which threatens the interests of a bank's creditors, the Bank Of Kyrgyzstan shall have the right to take one or more of the following steps:

(1) to refer the bank or its institutions to the requirement:

- concerning the implementation of measures aimed at financial improvement;
- concerning the replacement of the bank's officials, or;
- concerning the reorganization or liquidation of the bank, or;

(2) to impose the following sanctions:

- an increase in compulsory reserve norms;
- the exaction of a monetary fine in accordance with the procedure and in the amounts specified by the Board of Directors of the Bank of Kyrgyzstan in each actual instance, but not to exceed 1% of the amount of the bank's statutory capital;
- the withdrawal into the budget of the profit derived as a result of unlawful acts on the part of the bank;
- the appointment of a temporary administration to manage the bank over the course of the time frame required for its financial improvement;
- the temporary suspension of licensed operations, or; the revocation of the license to conduct banking activities.

3. Banks or their founders may appeal the decisions made by the Bank of Kyrgyzstan in fulfilling its licensing and supervision functions to an arbitration court.

CHAPTER VI. FOREIGN ECONOMIC TIES AND CURRENCY OPERATIONS

ARTICLE 20. Operations Involving the Participation of the Republic of Kyrgyzstan in International Financial Credit Organization

1. In those instances envisioned by the laws and international treaties of the Republic of Kyrgyzstan, the Bank of Kyrgyzstan shall represent the interests of the Republic and

conduct operations and transactions in its name in relations with the central banks of other countries, the International Monetary Fund, or any other international financial credit organizations.

2. The Bank of Kyrgyzstan may grant credit to the Government of the Republic of Kyrgyzstan on approved terms and may conduct other operations which ensure that the dues or other disbursements resulting from the membership of the Republic of Kyrgyzstan in the International Monetary Fund or any other international financial credit organizations are paid.

ARTICLE 21. The Management of the Gold and Currency Reserves of the Republic of Kyrgyzstan

The Bank of Kyrgyzstan shall, in compliance with the laws of the Republic of Kyrgyzstan, manage the gold and currency reserves of the Republic, which shall be found on the balance sheet of the Bank of Kyrgyzstan, and shall conduct operations relating to the placement (in both domestic and foreign banks) of the official gold and currency reserves of the Republic of Kyrgyzstan, either independently or through banks authorized to do so by the Bank of Kyrgyzstan.

ARTICLE 22. The International Reserves of the Bank of Kyrgyzstan

1. For the purpose of meeting its obligations in foreign currency and to ensure the protection of its statutory capital against fluctuations in foreign exchange rates, the Bank of Kyrgyzstan shall retain a portion of its funds in foreign currency and in other international assets, the value of which is not subject to change on international markets. Here, the Bank of Kyrgyzstan shall establish an international reserve on the terms specified by the Board of Directors of the Bank of Kyrgyzstan, said reserve to consist of:

- (1) gold;
- (2) foreign currency in the form of banknotes and coins, including those placed abroad;
- (3) other reserve assets that are accepted around the world, including the right to purchase a portion of the subject reserve from the International Monetary Fund and the right to borrow funds from this organization;
- (4) bills of exchange and promissory notes, as well as treasury bills and other securities issued or guaranteed by foreign governments or international financial institutions in foreign currency and paid in the foreign currencies of the governments specified by the Board of Directors of the Bank of Kyrgyzstan, and;
- (5) any other foreign assets specified by the Board of Directors of the Bank of Kyrgyzstan.

2. The Bank of Kyrgyzstan shall manage its own international reserves for the purpose of protecting their purchasing power.

ARTICLE 23. Operations and Transactions in Foreign Currency

1. The Bank of Kyrgyzstan, both inside and outside the Republic, shall have the right:

(1) to conduct any operations in foreign currency, either within the Republic or outside its borders, which conform to the laws currently in force within the Republic and which are accepted in international banking practice;

(2) to purchase and sell treasury bills and other securities issued or guaranteed by foreign governments or international financial organizations, as well as to conclude other transactions which do not contradict the laws of the Republic of Kyrgyzstan and which are accepted in international banking practice;

(3) to open accounts in the central banks and financial institutions of foreign countries, and;

(4) to open accounts for and to represent the interests of the central banks or other financial institutions of foreign governments and international financial organizations within the Republic of Kyrgyzstan.

CHAPTER VII. ORGANIZATION OF THE MANAGEMENT OF THE BANK OF KYRGYZSTAN

ARTICLE 24. The Managerial Bodies of the Bank of Kyrgyzstan

1. The management of the Bank of Kyrgyzstan shall be undertaken by its Board of Directors, the Chairman of the Bank of Kyrgyzstan, and the individuals appointed by the Chairman.

2. The Board of Directors of the Bank of Kyrgyzstan shall consist of 9 persons, including the Chairman of the Bank and his deputies.

3. The Chairman of the Bank of Kyrgyzstan shall be appointed by the President of the Republic of Kyrgyzstan with the consent of the Supreme Soviet of the Republic of Kyrgyzstan for a term of 5 years and may be appointed for a subsequent term.

4. The official salary of the Chairman of the Bank of Kyrgyzstan shall be set by the President of the Republic of Kyrgyzstan.

5. The deputies of the Chairman of the Bank of Kyrgyzstan and the other members of the Board of Directors of the Bank shall be appointed by the President of the Republic of Kyrgyzstan with the guidance of the Chairman of the Bank for a term of 5 years and may be appointed to subsequent terms. The terms of office of the deputies of the Chairman of the Bank of Kyrgyzstan and the other members of the Board of Directors must not coincide. During the initial appointment, any 4 persons making up the Board of Directors must be appointed for a term of less than 5 years.

6. In addition to the Chairman of the Bank and his deputies, the membership of the Board of Directors of the Bank of Kyrgyzstan must include a representative from:

- (1) the Ministry of Economics and Finance, and;
- (2) the financial credit system and the branches of the national economy, including the scientific branch.

6. The Chairman of the Bank of Kyrgyzstan, his deputies, and the other members of the Board of Directors may be released prior to the expiration of their terms of office should they apply for retirement, abuse their official positions, or become unable to perform their duties.

ARTICLE 25. The Powers of the Board of Directors of the Bank of Kyrgyzstan

The Board of Directors of the Bank of Kyrgyzstan shall review and approve:

- (1) the monetary and credit policy of the Bank of Kyrgyzstan;
- (2) the types, amounts, and procedure for the formation of the special-purpose funds of the Bank of Kyrgyzstan;
- (3) the financial plan of the Bank of Kyrgyzstan and the report concerning the implementation of this plan,
- (4) the organizational structure of the Bank of Kyrgyzstan;
- (5) the amounts of the credits granted by the Bank of Kyrgyzstan to other banks and the interest rates for these credits;
- (6) decisions concerning the granting of credits to the Government of the Republic of Kyrgyzstan;
- (7) the standard acts of the Bank of Kyrgyzstan which are general in nature;
- (8) economic standards;
- (9) the types of assets needed by the Bank of Kyrgyzstan in its international reserves, and;
- (10) other matters relegated by the present Law to the jurisdiction of the Board of Directors of the Bank of Kyrgyzstan.

The Board of Directors shall have the right to review any other matter that it deems to be important.

ARTICLE 26. The Powers of the Chairman of the Board of Directors of the Bank of Kyrgyzstan

1. The Chairman of the Bank of Kyrgyzstan shall head the Board of Directors, shall sign its decrees, shall act without proxy in the name of the Bank of Kyrgyzstan, shall represent the interests of the Bank both within the Republic of Kyrgyzstan and abroad, shall conclude agreements, and shall make decisions on all matters relating to Bank activities, with the exception of those matters relegated to the jurisdiction of the Board of Directors of the Bank by the present Law.
2. The chairman of the Bank of Kyrgyzstan shall determine the official salaries of the members of the Bank's Board of Directors.
3. The Chairman of the Bank shall determine the official salaries of the employees of the Bank of Kyrgyzstan in cooperation with his deputies and the administrators of the Bank's structural subdivisions.
4. Should be Chairman of the Bank of Kyrgyzstan be absent, one of his deputies shall perform the Chairman's duties.

ARTICLE 27. Meetings of the Board of Directors of the Bank of Kyrgyzstan

1. The Board of Directors of the Bank of Kyrgyzstan shall hold its meetings as necessary, but no less frequently than once a month. Extraordinary meetings of the Board of Directors of the Bank of Kyrgyzstan may be called at the initiative of the Chairman of the Bank of Kyrgyzstan or any five members of the Board of Directors.
2. A quorum at a meeting of the Board of Directors shall consist of 6 members of the Board of Directors, one of which must be the Chairman of the Bank or one of his deputies.
3. The decrees of the Board of Directors shall be adopted by a simple majority of votes. In the event of a tie, the vote of the Chairman or a deputy who is acting as Chairman shall be decisive.
4. The Chairman of the Bank of Kyrgyzstan shall supervise the work and preside over the meetings of the Board of Directors.

ARTICLE 28. The Banning of the Holding of Other Positions by the Managerial Personnel of the Bank of Kyrgyzstan

Neither the Chairman of the Bank of Kyrgyzstan, his deputies, the administrators of the Bank's structural subdivisions, nor their deputies shall have the right to hold other positions in financial credit or other organizations, regardless of or not.

This prohibition shall not extend to the representation of the interests of the Bank of Kyrgyzstan by Bank employees in those organizations of which the Bank of Kyrgyzstan

is a participant, or to the holding of posts or positions in those international financial credit or other organizations of which the Republic of Kyrgyzstan is a participant.

PRESIDENT OF THE REPUBLIC OF KYRGYZSTAN

A. AKAYEV