

LEGAL ADVISORY COLUMN

How to start a bank
in the Kyrgyz Republic

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The banking industry in the Kyrgyz Republic is an attractive investment. Presently, there are 22 commercial banks in the country. Investors interested in the banking services market have questions on how to start a bank in Kyrgyzstan and what legal requirements are there for starting a bank.

Starting a bank in Kyrgyzstan is a quite complicated and costly task in terms of money, time and labor, but as practice shows, these costs are recoverable since banking is a profitable and promising business.

General requirements for starting banks in the Kyrgyz Republic

The National Bank of the Kyrgyz Republic (the National Bank) is the primary bank regulation authority in the republic which decides whether to allow or deny a new bank access to the national banking market. Kyrgyz law establishes a number of requirements for starting a bank. The general requirements for legal form, authorized capital, founders and shareholders of a bank are set out below.

Requirements for legal form and authorized capital of a bank

In the Kyrgyz Republic, banks can be established and operate only as open or closed joint-stock companies.

The authorized capital of the bank must be formed using only the founders' (shareholders') funds in the national currency of the Kyrgyz Republic, the som (KGS), and must be not less than 600 million KGS, which is equivalent to \$12.685 million. The authorized capital of the bank must be free from claims for repayment of the funds invested by the founder (shareholders).

Requirements for founders and shareholders of a bank

A domestic or foreign legal entity or individual, and the Government of the Kyrgyz Republic, may become a founder or shareholder of a bank in the Kyrgyz Republic.

By the time of submitting the licensing documents to the National Bank, the founders (shareholders) being legal entities must be properly registered and operating for at least one year. The founders (shareholders) must have a satisfactory financial condition and perform their obligations to pay taxes and other charges.

The persons residing or registered in offshore zones or otherwise affiliated with offshore zones cannot be the founders (shareholders) of the bank.

Procedure for starting a bank

The procedure for starting a bank can conventionally be divided into several stages:

Obtaining the National Bank's permission prior to applying for a license

The National Bank gives its prior per-

mission after having reviewed the package of documents including the bank's constitutive documents, business plan, list of the founders (shareholders), members of the board of directors and management board, detailed organizational structure, etc.

Registration of the bank with the Ministry of Justice, tax, statistics, and Social Fund authorities

Upon receiving the National Bank's prior permission, applicants will be required to register as a legal entity with the Ministry of Justice, and simultaneously with the tax, statistics and Social Fund authorities. The registration of the bank must be completed within 10 calendar days from the date of submitting the required documents.

Registration of the initial offering of shares with the State Financial Market Regulation and Supervision Service (State Financial Supervision)

Upon completion of registration of the bank with the Ministry of Justice, the State Financial Supervision will perform state registration of the share offering and the report on results of the initial offering or refuse the registration within 30 days from the date of submitting all documents.

Obtaining a license from the National Bank

The license is issued to the bank only when the bank determines its personnel, pays the necessary minimum authorized capital, passes the state registration with the Ministry of Justice, and fulfills other requirements provided by Kyrgyz law.

A petition to issue the license is reviewed by the National Bank within the time limits not exceeding 6 months from the date of receipt of the petition and all documents necessary for issuing the license. The review period for issuing the license to the bank with foreign participation can be extended for another 6 months by the decision of the National Bank's management board.

Conclusion

Starting a bank is a time- and effort-consuming process. It will take at least 1 or 2 years for the investors willing to start a bank to collect necessary documents, including the license, and to hire skilled personnel. However, the government is doing its best to improve the investment climate in the banking sector, reduce the period of registration with the authorities, and optimize taxation of this sector. We hope that in the nearest future there will be a rapid development of the banking system in Kyrgyzstan as there is a large potential for expanding the financial services.