



# INVESTMENT PROPOSAL



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# 1 | EXECUTIVE SUMMARY

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This document purpose is to propose to potential investors to repurchase shares of Bai Tushum Bank CJSC, one of the leading commercial banks of the Kyrgyz Republic with total assets of KGS 7.5 billion (USD 107 million) and capital in the amount of KGS 908 million (USD 13 million).

At the present time Bai-Tushum Bank is negotiating with potential strategic investors who are interested in acquiring a shareholding in the amount up to 95% that belongs to current shareholders who have invested funds with a withdrawal condition within a specified period.

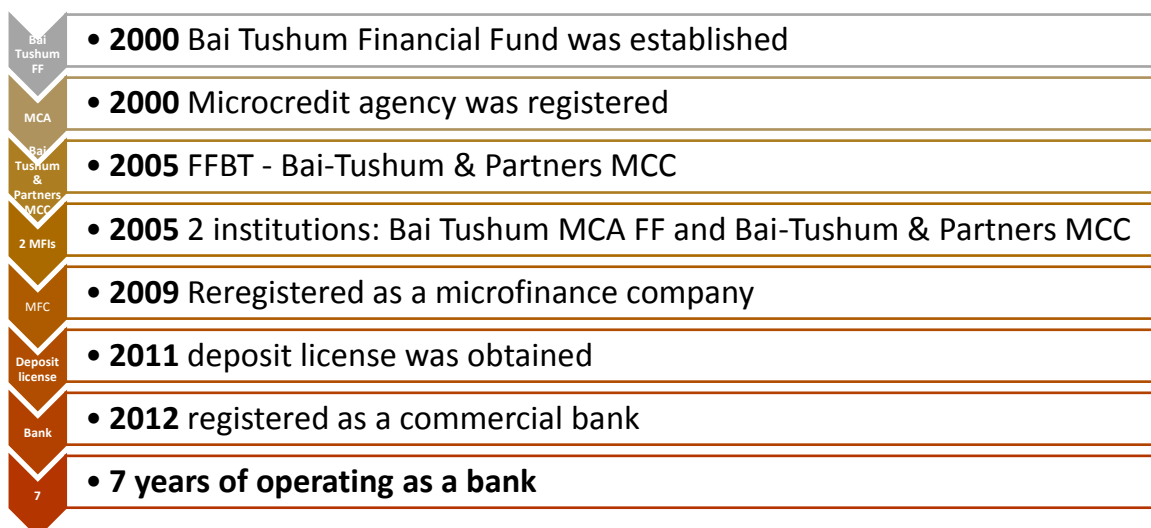
For further asset and profitability growth, the Bank needs investments in increasing the share capital in the amount of about KGS 700 million (USD 10 million). These investments will allow increasing the presence in all market segments, building a competitive ecosystem through E-commerce for financial and related industries in order to cover every third Kyrgyz citizen with Bank services. Besides, entering the market of the Eurasian Economic Union (Russia, Kazakhstan, Belarus, Armenia).

Due to the fact that it is planned to create a common financial market until 2025, under the EEU, of which the Kyrgyz Republic is a member. In addition, the processes taking place in Uzbekistan - the easing of foreign policy, broad economic reforms that promote greater transparency and improve the business climate in the banking and financial sector make it possible for the Bank to consider this market for opening new representative offices and branches of the Bank.

## 2 | BANK PERFORMANCE

Bai-Tushum Bank is one of the leading financial institutions of the Kyrgyz Republic, one of the top ten banks of the banking sector with total assets of KGS 7.5 billion (USD 107 mln) and a client base of more than 136 thousand people. According to the results of 2018, the Bank takes the following positions in the ratings of the Kyrgyzstan's banking system: 8th (3.1%) in deposit portfolio, 9th (4.5%) in loan portfolio, 10th in assets (3.5 %) and net profit (2.4%).

### HISTORY OF THE BANK:



### KEY AREAS IN DEVELOPMENT

The Bank pursues a policy of developing a universal business model, offering a full package of

#### *With a long-term strategic investor*

*The Bank plans to rank in the TOP 5 banks of the country, including through development of a corporate segment and E-commerce*

banking services to target segments: retail customers, individual entrepreneurs, small and medium businesses. Historically, most of the serviced customer segment was represented by microbusiness and retail customers with an average loan size of USD 2,700; with the purpose of maintaining profitability, the Bank plans to subsequently maintain its share in this segment with a subsequent portfolio increase. Increasing funding of a corporate segment is the

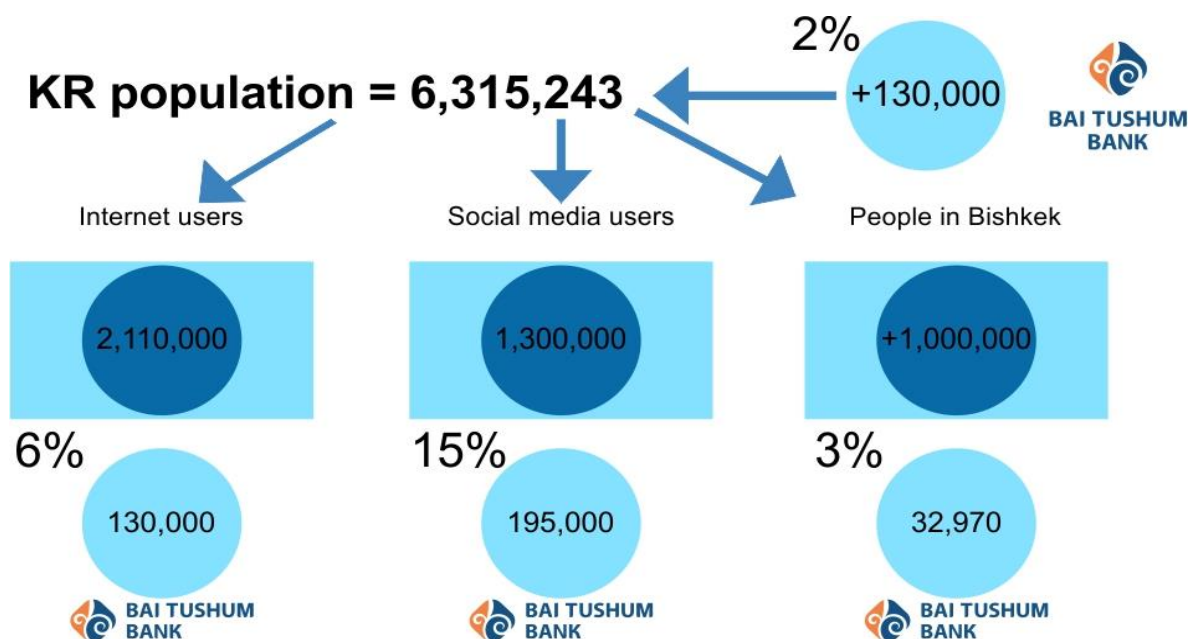
particular area of development of the Bank, which will allow making a significant breakthrough and ranking in the TOP 5 largest banks of the country.

Besides the development of digital technologies will allow the Bank to achieve the goal of ranking in the TOP-5. In the EEU, the share of the digital economy in GDP is about 3%, or USD 85 billion. According to global estimates, by 2020 the global retail sales in e-commerce will be USD 4 trillion, which is almost 15% of projected retail spending. With current projections, by 2020, online retail trade will occupy approximately 40% of the global market, therefore the Bank sees this trend as quite promising for development.

The Bank has already implemented such projects as account management in a mobile phone or via a computer, accepting payment by card through mPOS mobile payment terminals, in the process of implementing contactless payment (payWave), NFC-acquiring, online ordering of virtual, credit, deposit card products, the use of QR and barcodes, 3D-Secure for transfers, which makes the service of the Bank more convenient and accessible.

The Bank has strong competitive advantages that allow building an ecosystem and E-commerce for financial and related industries. Today, the Bai-Tushum ecosystem combines online payments, personal finance management services, offline services and a number of other services and projects.

The client base of the Bank is 136 thousand clients in 6 million population of the country - this is only 2% of the population, therefore, with the implementation of projects such as E-commerce, the Bank will be able to significantly expand its client base: every third Kyrgyz citizen will use the services of the Bank's ecosystem.





The financial market of Bai-Tushum Bank that is in the process of development is an online Marketplace with a range of electronics products and other popular goods, and the possibility to make a purchase online by a card or by installments (online loan) in one click. The new ambitious project allows the Bank to believe in the implementation of the task of increasing the client base, to be the first in this field and to develop in accordance with global trends.

## CONFIDENCE OF INTERNATIONAL FINANCIAL AND INVESTMENT INSTITUTIONS

In order to provide financing to small and medium businesses, as well as to the general public, the Bank has been cooperating with the following international lenders and social investors for 18 years: Triodos Investment Management, responsAbility, Deutsche Bank, Blue Orchard, Symbiotics, Oikocredit, EBRD, FMO, KFW, IFC, ADB, KIVA, Bank Im Bistum Essen and Triple Jump.

## 3 | INVESTMENT PROSPECTS

### FAVORABLE INVESTMENT CLIMATE

#### Liberal legislation



- ◆ Equal operating conditions for foreign and local companies;
- ◆ Investor's right of access to international arbitration;
- ◆ Guarantee protection against the expropriation of investments and reimbursement of losses to investors;
- ◆ Freedom of monetary transactions;
- ◆ Protection of rights of foreign investors by law "On investments of the Kyrgyz Republic";



### Credit rating

#### Comparison of Central Asian countries

Rating of Central Asian countries	SAP	Moody's	Fitch
Kazakhstan	BBB- negative	Baa3 negative	BBB stable
Kyrgyzstan	B stable	B2 stable	n/a
Tajikistan	n/a	n/a	n/a
Uzbekistan	n/a	n/a	n/a

- ◆ Access to all sectors of economy;
- ◆ Participation in privatization, purchase of shares and securities of Kyrgyz companies;
- ◆ Freedom of selection of the form and projects of investments.

## Advantageous taxation<sup>1</sup>

Tax	Kyrgyz Republic	Tajikistan	Uzbekistan	Kazakhstan	China
VAT	12%	20%	20%	12%	17%
Income tax	10%	8-13%	10%	10%	5-45%
Profit tax	10%	25-30%	9-35%	10-20%	15-25%

## STRATEGIC LOCATION

### Access to external markets

The Kyrgyz Republic is located in the center of the Eurasian continent, having an advantageous geographical location has the ability to access the markets of neighboring countries: Uzbekistan, Tajikistan, Kazakhstan, Belarus, Armenia, etc., this is especially timely in the conditions of the EEU and that ensures freedom of movement of goods, services, financial and human capital across the borders of member states. Easing of foreign policy, broad economic reforms contribute to greater transparency of improving the business climate in the banking and financial sector in Uzbekistan, as well as in other countries of the EEU enables considering this market for opening new representative offices and branches of the Bank.

<sup>1</sup> <http://www.invest.gov.kg/>



## OPEN FINANCIAL MARKETS WITHIN THE EEU BY 2025

By 2025 within the EEU it is planned to create a common financial market in the field of the banking sector, the securities market sector and the insurance sector. This will allow participants in the financial markets of the EEU Member States to have easier access to each other's markets, thus increasing the depth and coverage of the national financial markets of the Member States.

In accordance with the Agreement on the EEU, the common financial market will meet the following main criteria:

- ◆ harmonized requirements for regulation and supervision of the financial markets of the Member States of the Union;
- ◆ mutual recognition of licenses in the banking and insurance sectors, as well as in the services sector of the securities market;
- ◆ provision of financial services throughout the Union without the additional establishment of a legal entity;
- ◆ administrative cooperation between financial regulators, including through the exchange of information.





# 4 | FINANCIAL PROPOSAL

As of December 31, 2018, there were 25 commercial banks operating in the Kyrgyz Republic. As of December 31, 2018, total assets of the banking sector increased from the beginning of the year by 12.1 percent and were KGS 222.0 billion (USD 3.2 billion).

The loan portfolio volume of the banking sector as of December 31, 2018 was KGS 127.9 billion (USD 1.8 billion). The share of foreign participation in the capital of the banking sector as of December 31, 2018 was 47.3 percent or KGS 11.1 billion (USD 159 million) of the paid chartered capital of the banking sector. The return on banking sector assets (ROA) was 1.4 percent, and the return on invested capital (ROE) was 9.5 percent.

By the end of 2018, the Bank earned a profit in the amount of KGS 60.3 million (USD 863 thousand), reaching a profit after three years of losses.

The Bank forecasts reaching ROE performance of at least 15% based on the results of a three-year strategy.

Key financial indicators projected for the period 2019-2021. (million KGS) (without increase in share capital):

(million KGS)	<u>2019</u>	<u>2020</u>	<u>2021</u>
<b>Loan portfolio (gross)</b>	6 522	7 300	8 500
<b>Deposit portfolio</b>	4 766	5 630	6 500
<b>Attracted loans</b>	2 290	2 400	2 300
<b>Capital</b>	999	1 125	1 313
<b>Net profit</b>	91	126	188
<b>ROE</b>	9.5%	11.9%	15.4%
<b>ROA</b>	1.1%	1.4%	1.8%

At the date of presenting this investment proposal, the value of the registered and paid-up share capital was KGS 790,000 thousand. The share capital of the Bank consists of 7,900,000 ordinary shares with a nominal value of 100 soms.

The structure of shareholders of Bai-Tushum Bank CJSC as at

December 31, 2018 and 2017:

<b>Microcredit agency Financial Fund BT Innovations</b>	<b>41.9%</b>
Pettelaar Effectenbewaarbedrijf N.V. in favor of ASN-Novib Fund, represented by Triple Jump	16.9%
Bamboo Financial Inclusion Fund S.C.A., SICAV-SIF	16.9%
Microfinance Fund responsAbility Management Company S.A	16.9%
Individuals	7.4%

If you have any questions or need to discuss this proposal, and would like to receive additional information, please contact at the following numbers or email address:

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**Regards,**

**Maksatbek Ishenbaev,**

**Chief Executive Officer  
Bai-Tushum Bank CJSC**

# Maksatbek Ishenbaev

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**Education:** Higher education

1. Kyrgyz State University, Economic faculty (1988 – 1993).
2. The Graduate School of Policy Science, Saitama University, Japan (1995-1996)
3. Academy of Management under the President of the Kyrgyz Republic, MBA (2000 – 2002)

## **Experience:**

**Organization:** *“Bank Bai-Tushum” Closed Joint-Stock Company*

- CEO (01.2018 - currently)
- Acting CEO (12.2017 – 01.2018)

## **Basic responsibilities:**

- Crisis management;
- Develop an efficient Team;
- Prepare and implement the strategic and annual plans and ensure that these are formally updated on a regular basis;
- Provide the highest level of customer relations and service and ensures compliance with Bank policies and procedures;
- Work on profitability of the Bank and attract right corporate clients;
- Enhance the development of the Bank: strategy, organizational structure, market, new products etc.;
- Work with potential strategic investors.

**Organization:** *“AYU Holding”*

- Adviser of the President of “AYU Holding” (05.2016 – 12.2017)

**Organization:** *“AYU Garant” Insurance company*

- CEO (09.2013 – 01.2014)

## **Basic responsibilities:**

- Responsible for the overall operational activity and services provided by the company;

- Report to the Board of Directors and Investor as the highest ranking official of the company;
- Provide the highest level of customer relations and service and ensures compliance with Company's policies and procedures;
- Prepare and implement the strategic and annual plans and ensure that these are formally updated on a regular basis;
- Asset and liability management etc.

***Organization: "Zalkar Bank" Open Joint-Stock Company***

- CEO (01.2011 – 05.2012)

***Basic responsibilities:***

- Crisis management (the bank was established on the base of Asia Universal Bank which got bankrupt); My main task was to restart basic operations of the bank in all 36 branches;
- Develop an efficient Team;
- Dealing with bad loans and declining the NPL of the bank;
- Funding, asset development, cost control, risk management, regulatory discussions;
- Work on profitability of the Bank and attract foreign investors to the bank. After two years in 2013 Zalkar bank was finally purchased by Russian investors and was renamed as Rosinbank.

***Organization: "Center Credit Bank" Joint – Stock Company (Kazakhstan)***

- Resident Representative in Kyrgyz Republic (05.2007 – 12.2010)

***Basic responsibilities:***

- Reporting on situation in Kyrgyz Republic including political, economic and also financial market analysis;
- Preparation of all documents to be submitted in National bank in order to get banking license for subsidiary of the "CenterCredit Bank".

***Organization: National Bank of the Kyrgyz Republic***

- Deputy Chairman (07.2004 – 03.2007)

***Basic responsibilities:***

- Management and supervision of Foreign exchange department (management of foreignexchange reserves of NBKR, management of external debt of the country;
- Monetary operations department (open market operations, interbank foreign exchange, interbank credit operations, financial market analyses);
- Economic department (inflation, monetary counts of NB, balance of payment) and Economic research group;
- Management of Monetary adjustments committee (interventions in foreign exchange market, REPO operations – volumes and rates, adjustments of NB deposits – volumes and rates etc.);

- Management of Investment committee (foreign exchange reserves management);
- Submitting necessary documents to the Board;
- Preparing documents to the Parliament of Kyrgyz Republic;
- In absence of Chairman used to be acting Chairman.

***Organization: “Energo Bank” Joint - Stock Company***

- Chairman of the Board (05.2000 – 07.2004)
- Acting Chairman (01.2000 – 05.2000)
- Deputy Chairman (11.1998 – 01.2000)

***Basic responsibilities:***

- Crisis management (I was appointed as Deputy Chairman to the bank just after the temporary administration from NBKR had left the bank);
- Develop an efficient Team;
- Prepare and implement the strategic and annual plans and ensure that these are formally updated on a regular basis;
- Provide the highest level of customer relations and service and ensures compliance with Bank policies and procedures;
- Work on profitability of the Bank and attract right corporate clients;
- Enhance the development of the Bank: strategy, organizational structure, market, new products etc.;
- Work with potential strategic investors; In 2002 we could attract to the bank ATF Bank from Kazakhstan. Nowadays this bank called “Optima” and is one of the leading bank in Kyrgyzstan.

***Organization: The National Bank of the Kyrgyz Republic***

- Head of division, Dealing division, of Monetary operations department (07.1998 - 11.1998)
- Senior economist, Open market operations division, Economic Department (10.1996 - 07.1998)
- Chief Economist, Dealers group, Open market operations division, Economic Department(10.1995 - 10.1996)
- Economist of 1- category, Dealers group, Open market operations division, Economic Department (11.1994 - 10.1995)
- Economist, credit division (06.1993 - 11.1994)

**Languages:** Kyrgyz – native, Russian – excellent, English - fluent

**Rewards:** Certificate of merit of the Kyrgyz Republic for endowment contribution in banking system

**Attending in additional seminars and courses:**

- Shanghai University of Finance, Shanghai, China – Introductory course in macroeconomics (certificate) (04.1995 – 06.1995)
- Joint Vienna Institute, Vienna, Austria – seminar on macroeconomics (certificate) (03.1997 – 04.1997)



- The Educational Center of the Central Bank of England, London – seminar on capital markets (certificate) (11.1997)
- And many others (certificates)

**Experience in providing trainings:**

- Member of working group for introducing the Center of banking education, NBKR(1995 – 1996)
- Trainer, the Bishkek press center - “Improving financial literacy of journalists”(May, June 2010)
- Trainer, the “Companion” micro credit agency – “Liquidity management in the bank” (June 2015)