



Public-Private Partnership Stories

Kyrgyz Republic: Zalkar Bank



In 2010, to reform the Kyrgyz Republic's financial sector during a period of political transition, the government nationalized several institutions, including the Kyrgyz Republic's then-largest bank. To launch the restructuring process and restore financial stability, the National Bank of the Kyrgyz Republic founded OJSC Zalkar Bank ("Zalkar"). Zalkar's Board of Directors and DEBRA (the Agency for Bank Reorganization and Debt Restructuring) retained IFC in March 2012 to guide them on the bank's sale.

In May 2013, Russia's Investment and Trade Business Holding Company (ITB Holding) purchased 90 percent of Zalkar Bank's shares for approximately \$4 million, with the remaining 10 percent of shares reserved for the State Property Management Fund of the Kyrgyz Republic. The sale of Zalkar Bank is expected to improve its technical and financial capacities, modernize its commercial practices, and provide new services to its customers, ultimately making it a sustainable financial institution.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

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The transaction has enabled the Kyrgyz Republic to become more stable, ultimately qualifying it for a \$14.4 million disbursement from the International Monetary Fund.

BACKGROUND

In April 2010, a wave of popular discontent in the Kyrgyz Republic brought a new government to power. Because of the political turmoil that ensued, the economy suffered a temporary downturn. To reform the financial sector, the transitional government nationalized several institutions, including the Kyrgyz Republic's then-largest bank, Asia Universal Bank (AUB).

The National Bank of the Kyrgyz Republic (NBKR) restored financial stability by taking over the administration and supervision of AUB and several other banks.

NBKR initiated bankruptcy proceedings for AUB and to launch the restructuring process, founded OJSC Zalkar Bank ("Zalkar").

DEBRA (the Agency for Bank Reorganization and Debt Restructuring) held four unsuccessful auctions to sell 100 percent of Zalkar's shares. After the four auctions failed, the President of the Kyrgyz Republic instructed DEBRA and other representatives of the Kyrgyz government to seek advice from the World Bank Group to develop a program to sell Zalkar to strategic investors.

IFC'S ROLE

Zalkar's Board of Directors and DEBRA retained IFC in March 2012 to guide them on the bank's sale. IFC prepared a valuation report and conducted due diligence.

IFC's goal was to identify a reputable investor with experience managing a retail branch network so that Zalkar conformed to the National Bank's minimum capital requirements. In order to achieve this goal, IFC contacted over 400 investors that could potentially be interested in acquiring Zalkar. Other goals were to strengthen bank operations and help instill investor and public confidence in the Kyrgyz Republic's banking sector.

The sale of Zalkar was considered a prerequisite for the International Monetary Fund to approve a \$14.4 million disbursement to the Kyrgyz Republic.

TRANSACTION STRUCTURE

The transaction was structured as a direct sale of 90 percent of Zalkar from DEBRA to a private investor.

The direct sale was made in accordance with the decision of the XV Kyrgyz-Russian intergovernmental commission held on April 22, 2013 and was registered on the Kyrgyz Stock Exchange (KSE) on May 3, 2013. It was essential for the KSE that the sale was transparent and that investors were provided maximum and objective information to make their decisions.

BIDDING

On April 15, 2013, following four failed attempts to auction off the bank, ITB Holding (Russia) made a direct offer for the shares of Zalkar Bank. The offer was conditional upon the retention of

10 percent of the bank's shares by the State Property Management Fund of Kyrgyz Republic. On May 3, 2013 DEBRA and ITB Holding signed the sales and purchase contract of 90 percent of Zalkar Bank's shares for approximately \$4 million, which was within IFC's valuation range.



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POST-TENDER RESULTS

- The transaction has enabled the Kyrgyz Republic to become more stable, ultimately qualifying it for a \$14.4 million disbursement from the International Monetary Fund.
- Additional charter capital may be required to bring Zalkar into conformity with NBKR's minimum capital requirements.
- Zalkar will undergo a complete rebranding to attract new clients and depositors.
- Operating expenses will be reduced to a more sustainable level.
- A restructuring will increase the profitability of Zalkar's existing client base.