

**TENDER PROPOSAL
EVALUATION GUIDELINES**

OJSC Kairat Bank

May 2004

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QUALIFICATION OF FINDINGS

“Tender Proposal Evaluation Guidelines” (the “Document”) dated May 2004 is an output of BearingPoint LP, from a project funded by the FIRST Initiative, www.firstinitiative.org, entitled Kyrgyzstan – Assistance on the Privatisation of Kairat Bank (Confirmation # CNTR IDA.F.12, C15). The views expressed are not necessarily those of FIRST. The Document is protected by copyright and other applicable intellectual property rights owned by and/or licensed to the FIRST Initiative.

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I. Introduction

The purpose of these *Guidelines* is to provide an overview of the Tender Evaluation Procedures as well as a set of practical instructions and evaluation forms to members of the Tender Commission (“TC”) upon receiving Tender Proposals from Tender Participants. **These Guidelines are meant to supplement, not replace, the Rules of Tender.**

II. Tender Proposal Evaluation Procedures

1. Receipt of Tender Proposals

The Tender Commission member, responsible for accepting proposals, will time and date stamp the received outer package, containing both the original and the copies of the Tender Proposal, and record same in a registry established for that purpose.

TC will acknowledge receipt of Tender Proposals in writing, indicating the date and time the Tender Proposals were actually received by the TC.

If a Tender Proposal is received by mail, the Tender Commission member, responsible for accepting proposals, shall mail the receipt to the address shown on the envelope, or shall fax the receipt. If a Tender Proposal is delivered by an authorized representative of the Tender Participant, the receipt will be handed to him on delivery.

2. Opening of Tender Proposals

A minimum of $2/3$ of the Tender Commission members shall at any given time be present for the entirety of the Opening.

The TC shall notify each Tender Participant as to the location, date and time of the Opening at least two Business Days before the Opening.

During the Opening of Tender Proposals the following actions will take place:

- opening of the outer package of the Tender Proposals;
- opening of the two sealed envelopes, marked “Original” and “Copies”;
- opening of the original of the Covering Letter and the original of the Technical Proposal;
- initial review of Tender Proposals;
- Each Tender Commission member will receive a copy of the Covering Letter and Technical Proposal for his/her review.

Tender Commission members should utilize the attached checklist (Form # 1) when performing an initial review of Tender Proposals. Any problems and/or questions regarding the information received from Tender Participants should be directed to the Chairman of the Tender Commission.

Generally, if additional information/clarifications are required from Tender Participants, the Tender Commission should contact the Tender Participants' Authorized Representative to expeditiously follow up on the matter.

3. Evaluation of Technical Proposals

Tender Commission members should utilize the *Rules of Tender, Technical Proposal Evaluation Guidelines* and evaluation worksheets to assess the Technical Proposals.

The Tender Commission shall evaluate the Technical Proposals within five (5) business days of the Opening. The Tender Commission members will have approximately 4 business days to perform their own assessment of the Technical Proposals.

The Tender Commission may decide to invite representatives of the Licensing department of the National Bank of Kyrgyz Republic to obtain their professional opinion on the Technical Proposals.

BearingPoint, in their capacity of Advisors to the Tender Commission, will present their independent assessment of the Technical Proposals.

In conducting the Technical Evaluation, Tender Commission members should adhere to the following procedure:

- Each Tender Commission member should first perform a detailed review of each Technical Proposal and complete an “Individual Technical Proposal Evaluation Form” (Form # 3) for each Proposal received.
- The Tender Commission Chairman will subsequently convene a meeting of the Tender Commission members, at which will be discussed the initial assessment of each of the Proposals. At this meeting, members should be prepared to discuss and arrive at a consensus regarding the final decision for each of the Technical Proposals. The aim of this session will be to foster a common approach to the evaluation of Technical Proposals, as well as to ensure that an appropriate discussion of each Proposal has taken place. Each Technical Proposal will be evaluated against each one of the four criteria set in the Rules of Tender. If the Tender Commission does not reach a consensus on the assessment of the Proposal against any of the criteria, voting should take place. As per art. 10.10. of the Rules of Tender a majority vote of the entire membership of the Tender Commission is needed for accepting or rejecting the Technical Proposals. The four criteria are divided into two critical and two supplementary criteria.

The critical criteria are:

- Investor credibility, corporate capabilities, financial strength and industry experience; and
- Quality of the proposed business strategy/operating plan.

The supplementary criteria are:

- Commitment to environmentally friendly lending practices; and
- Human Resources development plans.

In the event that the Technical Proposal does not meet one of the critical criteria, it will be rejected by the Tender Commission.

- Once the Tender Commission has arrived at a decision to whether the Technical Proposal meets the criteria and the Tender Participant has successfully passed the first round of evaluation, this data should be entered into a final Tender Commission Summary Worksheet (this will form the substance of the Technical Proposal Evaluation Report, however, at its decision, the Tender Commission Chairman may also opt to include further information in this Report.) Upon its finalization, all members of the Tender Commission should sign this Worksheet.

In two business days upon the completion of the technical evaluation, the Tender Commission shall inform all Tender Participants as to whether they passed the first evaluation round.

4. Opening of Financial Proposals

Only the Financial Proposals of those Tender Participants who have passed the first evaluation round shall be opened and evaluated.

Tender Commission members should utilize the attached checklist when performing an initial review of Financial Proposals (Form # 2). Any problems and/or questions regarding the information received from Tender Participants should be directed to the Chairman of the Tender Commission.

5. Evaluation of Financial Proposals

Each Tender Commission member will be given a copy of the Financial Proposal of each Tender Participant for his/her review.

BearingPoint, in their capacity of Advisors to the Tender Commission, will present their independent assessment of the Financial Proposals.

Tender Commission members should utilize the *Rules of Tender, Financial Proposal Evaluation Guidelines* and evaluation worksheets (Form # 6) to assess the Financial Proposals.

Ranking of the Financial Proposals shall be made based on the Offered Purchase Price, adjusted to reflect any proposed amendments to the DSPA which may result in financial implications to the Seller.

6. Selection of Preferred Acquirer

Based on the results of the evaluation of the Financial Proposals, the Tender Commission may:

- a) Select a Preferred Acquirer, who has offered the highest price and initiate the negotiation process;

- b) Invite two or more Tender Participants to increase their offered price, in the event that their initial offered price differs within a range of 7% of the highest offer. In this case, Tender Participants will be given 3 business days to submit a revised Bid Certification Form. After receiving the revised offers, the Tender Commission will evaluate the offers and:
- select a Preferred Acquirer and start the negotiating process, **or**
 - reject all offers, in case that the new offers are below the minimum asking price.
- c) Reject all offers, in the event that:
- all offers are below the minimum asking price and there are no offers that differ within a range of up to 7% of the highest offered price;
 - other reasons, listed under art. 10.23. of the Rules of Tender.

III. Potential Problems and Suggestions for Resolution

In the case that there are problems in receiving the Tender Proposals, the points below are meant to assist the Tender Commission members in resolving the issues. In the event that problems cannot be resolved immediately, or if there are other problems, members should consult with the Chairman of the Tender Commission.

- **Tender Proposal not initialed correctly:** Contact/summon the Authorized Representative in order to discuss a way to resolve the issue.
- **Evidence of Tender Deposit not provided:** Check whether the deposit has been paid to the State Committee's account prior to the deadline for submission of offers (this information will be available for the opening of Proposals).
- **Signed copy of the Rules of Tender is omitted:** Advise the Authorized Representative of the requirement and see if it is possible to obtain a signed version immediately.

Above all, the Commission should be reasonable with respect to unintentional or minor problems in the submission of Tender Proposals and should assist the Authorized Representatives in correcting any such discrepancies.

IV. Technical Proposal Evaluation Guidelines

The Rules of Tender for Kairat Bank's privatization stipulate that the Tender Proposals submitted by Tender Participants shall include a Cover Letter, Technical and Financial Proposal.

The goal in evaluation of the Technical Proposal is to be determined whether the Tender Participant meets the objective of the Seller to attract a strategic investor, who will develop the bank; introduce new products, services and know-how; increase efficiency of management and activities; improve financial results; as well as introduce decent lending practices.

The role of the Tender Commission is to evaluate the Technical Proposals by applying the evaluation criteria specified in the Rules of Tender. The result of the evaluation is either:

- **Yes**, the Technical proposal meets the criteria and the Tender Participant may participate in the second round; or
- **No**, the Technical proposal does not meet the criteria and the Tender Participant is not allowed to participate in the second round.

The purpose of this guide is to assist members of the Tender Commission in conducting this evaluation of the Technical Proposals.

There are four major criteria:

- (1) Investor credibility, corporate capabilities, financial strength and industry experience;
- (2) Quality of the proposed business strategy/operating plan;
- (3) Commitment to environmentally friendly lending practices;
- (4) Human resources development plans.

These criteria are a combination of qualitative and quantitative measurements. Explained below is some further detail concerning each of the criteria.

1. Investor Credibility, Corporate Capabilities, Financial Strength and Industry Experience

The evaluation will be based on the *Information Regarding the Tender Participant* to be submitted along with the Tender Proposal, such as:

- (a) Tender Participant's business profile and corporate structure, with a detailed description of its commercial banking operations (and its associate company(ies) operations, in the case of a consortium);
- (b) Audited annual financial statements for the last three (3) fiscal years (in case of a public corporation, annual reports to shareholders);
- (c) List of shareholders owning more than five (5) percent of the Tender Participant's capital stock; and
- (d) Any other additional information that the Tender Participants views as relevant to the Tender and wishes to submit.

Financial Strength

Assets

- size of the total assets, compare with Kairat's total assets and with the total assets of the Kyrgyz banking sector
- comment on the structure of the assets
- comment on the trend (for the last 3 years)
- comment on the size of the loan portfolio, diversification, clients and trend
- other relevant information

Liabilities and Equity

- comment on the deposit base, trend
- comment on the increase of the shareholding capital, if any, for the last three years
- size of the equity, compare with Kairat's equity and with the equity of the Kyrgyz banking sector
- comment on the changes in the equity
- other relevant information

Income and Expense

- comment on operating earnings and operating expenses, operating-expense ratio, trend
- other relevant information

Profit

- comment on the profit/loss for the last three years

Ratios

- comment on ROA, ROE; compare with the average for the Bidder's banking sector and for the Kyrgyz banking sector
- operating-expense ratio, compare with the average for the Bidder's banking sector and for the Kyrgyz banking sector
- comment on capital adequacy ratio and liquidity ratio
- other relevant information

Market Share

- total assets
- equity
- deposits
- loans
- others

Industry Experience

- years in business
- comment on products and services
- comment on branches (domestic and foreign)
- comment on subsidiaries, international banking facilities
- other relevant information

Corporate Capabilities

- comment on management and personnel
- operates subsidiaries, international banking facilities
- other relevant information

Investor Credibility

- comment on credit ratings
- comment on shareholding structure
- overall assessment of the industry experience, financial strength and corporate capabilities
- other relevant information

Strengths and Weaknesses

- comment on strengths and weaknesses

2. Quality of the Proposed Business/Operating Plan**Sub-criteria:****(a) Business/Operating Plan Clarity and Comprehensiveness:**

- (1) Overall strategic objectives with specific regard to preserving and making future investments in the core business operations of the Bank
 - Are the strategic objectives clearly set up
 - Is the strategy adequate
 - Does the Buyer plan to reserve the core business operations of the Bank
 - Size of the investments the Buyer is planning to invest in the Bank
 - Other relevant comments
- (2) Proposed/chosen target markets for the Bank
 - Are the target markets clearly defined
 - Are they adequate
 - Other relevant comments
- (3) Product development (products, services, activities)
 - What kind of new products and services will be introduced
 - Are they adequate for the local market
 - Other relevant comments
- (4) Key financial objectives such as return on assets/equity; capital adequacy as well as three (3) year financial projections (Profit and Loss Statements, Balance Sheets and Cash Flow Statements)
 - Does the Buyer provide all the requested information
 - Are the financial projections of the Buyer adequate
 - Other relevant comments
- (5) Plan of investment in the Bank's IT/physical infrastructure with cost estimates and proposed timing, in case such investment is envisioned

- (6) Human Resources Plan including level of employment (number of full-time staff by year), training programs, organizational and management development, number and designations of non-Kyrgyz management staff
- Does the Buyer provide the requested information in their Human Resources Plan
 - What are the intentions of the Buyer in terms of keeping the level of employment
 - In what areas the Buyer is planning to provide training, adequacy of the planned training
 - How the Buyer plans to introduce best practices and know how
 - Other relevant comments

Strengths and Weaknesses

- Comment on strengths and weaknesses

(b) Adequacy of Business/Operating Plan to Seller’s objectives:

- (1) Performance of Kairat Bank shall be enhanced and its competitiveness shall be improved to compete at the regional level
- (2) Modern banking skills and corporate governance shall be introduced to allow Kairat Bank to move toward best international banking practices

Strengths and Weaknesses

- Comment on strengths and weaknesses

3. Commitment to Environmentally Friendly Lending Practices

Evaluation will be based on Tender Participants’ commitment to: introduce environmentally friendly lending practices, including the basic project lending standards; employ satisfactory risk management techniques and safeguards and provide greater access to a variety of high quality, reasonably priced banking services to business and individuals. For comparison basic loan products offered on the Kyrgyz market will be used.

Strengths and Weaknesses

- Comment on strengths and weaknesses

4. Human Resources Development Plans

The plan must be evaluated based on an assessment of the Purchaser’s contribution of “human capital” into the Bank through the introduction of modern banking skills and the development of new products and services.

Strengths and Weaknesses

- Comment on strengths and weaknesses

V. Financial Proposal Evaluation Guidelines

In evaluating Financial Proposals, the Tender Commission will select financial proposals with the highest offered purchase price taking into account the proposed amendments of the Tender Participant to the Share Purchase Agreement.

In order to make a comparison of all offers on an equal basis, the Tender Commission shall evaluate the proposed amendments through assigning risk factors for the modifications and subsequently comparing the Final adjusted value of the offers. The modifications of the DSPA will be divided into:

- 1) Material changes to the DSPA which may have a financial impact on the Seller; and
- 2) Material non-financial aspects of offer.

Final adjusted value of offer, which will serve as a basis for selecting the highest financial proposal will be assessed as:

$$\begin{array}{r} \text{Proposed Purchase Price} \\ - \text{Risk Adjustment for Material Financial Amendments} \\ \hline \text{Total Net Value of Offer} \end{array}$$

The following examples are theoretical and may only serve as illustration of calculating the Total Net Value of Offer:

- 1.) Bidder A offers a purchase price of \$1,000,000. In the revised Draft Share Purchase Agreement he suggests that the Representations and Warranties of the Seller are up to 35% of the purchase price (the Seller offers 25%).

$$\begin{array}{r} \text{Purchase Price} \\ - \text{Adjustment for the difference of 10\%} \\ \hline \text{Total Net Value of Offer} \end{array} \quad \begin{array}{r} 1,000,000 \\ - 100,000 \\ \hline 900,000 \end{array}$$

- 2.) Bidder B offers a purchase price of \$1,200,000. In the revised Draft Share Purchase Agreement he includes a clause that he will pay 10% of Kairat Bank's net profit for year 2003 to the Seller.

$$\begin{array}{r} \text{Purchase Price} \\ + \text{Adjustment for the additional payment} \\ \hline \text{Total Net Value of Offer} \end{array} \quad \begin{array}{r} 1,200,000 \\ + 15,000 \\ \hline 1,215,000 \end{array}$$

Tender Proposal Evaluation Checklists and Forms

TENDER COMMISSION
OJSC Kairat Bank

Tender Proposal Checklist
(to be completed for each Tender Proposal received)

Tender Participant's Name: _____

Item	Status (check appropriate box)		Comments/Steps taken to resolve any issues
	Yes	No	
Tender Proposal received by 16:00 Bishkek Time, 7 May 2004 by the SCSP			
Cover Letter, Technical Proposal & Financial Proposals in Separate Sealed Envelopes			
One (1) original and ten (10) copies of each Tender Proposal			
Authorized Rep. signed Technical Proposal and initialed all pages.			
Information regarding the Tender Participant provided			
Business Strategy/Operating Plan provided			
Evidence of Tender Deposit provided			
Copy of signed Rules of Tender provided			
Evidence of decision of legal entity's governing body authorizing its participation in the Tender is provided			

TENDER COMMISSION
OJSC Kairat Bank

Financial Proposal Checklist
(to be completed for each Financial Proposal received)

Tender Participant's Name: _____

Item	Status (check appropriate box)		Comments/Steps taken to resolve any issues
	Yes	No	
Technical Proposal has passed the first round of evaluation			
Bid Certification form, signed by the Authorized Representative			
Authorized Rep. signed Financial Proposal and initialed all pages			
Revised Draft Share Purchase Agreement			
A statement as to the source of funds for the Purchase Price			
The resolution/decision of the Participant's governing body authorizing the signing of the Share Purchase Agreement			

TENDER COMMISSION
OJSC Kairat Bank

Individual Technical Proposal Evaluation Form

Tender Commission Member: _____

Name of Tender Participant: _____

Criteria/Sub-Criteria	Strengths	Weaknesses	Assessment
1. Investor credibility, corporate capabilities, financial strength and industry experience			
Criteria sub-total			Yes____ No____
2. Quality of the Proposed Business/Operating Plan and its responsiveness to the Seller's objectives			
- Clarity and Comprehensiveness			
- Adequacy to Seller's Objectives			
Criteria sub-total			Yes____ No____
3. Commitment to Environmentally Friendly Lending Practices			
Criteria sub-total			Yes____ No____
4. Human Resources Development Plans			
Criteria sub-total			Yes____ No____
Overall Evaluation			Yes____ No____

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Tender Commission Summary Worksheet

Criteria/Sub-Criteria	Tender Participant meets criteria:			
	Bidder A	Bidder B	Bidder C	Bidder D
1. Investor credibility, corporate capabilities, financial strength and industry experience.	Yes ____ No ____	Yes ____ No ____	Yes ____ No ____	Yes ____ No ____
2. Quality of the Proposed Business/Operating Plan and its Responsiveness to the Seller's Objectives	Yes ____ No ____	Yes ____ No ____	Yes ____ No ____	Yes ____ No ____
- Clarity and Comprehensiveness	Yes ____ No ____	Yes ____ No ____	Yes ____ No ____	Yes ____ No ____
- Adequacy and Responsiveness to Conditions of Sale	Yes ____ No ____	Yes ____ No ____	Yes ____ No ____	Yes ____ No ____
3. Commitment to Environmentally Friendly Business and Lending Practices	Yes ____ No ____	Yes ____ No ____	Yes ____ No ____	Yes ____ No ____
4. Human Resources Development Plans	Yes ____ No ____	Yes ____ No ____	Yes ____ No ____	Yes ____ No ____
Overall evaluation	Yes ____ No ____	Yes ____ No ____	Yes ____ No ____	Yes ____ No ____

Tender Commission:

Chairman (Print name) Signature

Member (Print name) Signature

_____ 2004 (Date)

TENDER COMMISSION
OJSC Kairat Bank**Technical Proposal Evaluation Report (template only)****1. Background**

The information below reports the results of the Technical Evaluation for the Tender of 340,000 state-owned shares of the OJSC Kairat Bank (which account for 100 percent of the total common shares issued and outstanding). The Tender was conducted in compliance with the Law on Privatization of Kyrgyz Republic and the Government Decree No _____ of _____(date) “Rules of Tender for Privatization of 100 percent state shareholding in Open Joint Stock Company Kairat Bank”.

As a result of the undertaken pre-qualification procedures, the following Applicants were granted the status of Tender Participants:

- CenterCredit Bank, Kazakhstan;
- Caspian Bank, Kazakhstan;
- Halyk Bank, Kazakhstan; and
- Alianz Bank, Kazakhstan.

By May 7, 2004, which was the deadline for submission of Tender Proposals, the following Tender Participants submitted Tender Proposals:

2. Technical Evaluation

Describe briefly the meetings and actions taken by the Tender Commission: evaluation guidelines and criteria (as indicated in the Rules of Tender); procedure followed for evaluation (in compliance with the Rules of Tender); and outside assistance (as provided by BearingPoint/NBKR).

Present results of the technical evaluation (attach Form #4 as Annex 1), along with an explanation of the strengths and weaknesses of each proposal (most important part of the report).

- (a) Strengths: Explain strengths according to the 4 criteria used for evaluation. This could include elaboration on industry experience and/or financial strength, quality of the business/operating plan, human resources development plans or environmental policies.
- (b) Weaknesses: Similar to above, explain any weaknesses that were presented in the proposal.

Items presenting difficulty in the evaluation (comments here will be used to further refine the Tender Process in future privatizations).

TENDER COMMISSION
OJSC Kairat Bank

Financial Proposal Evaluation Form

Name of Tender Participant: _____

Item	Description
Purchase Price	
Material Financial Amendments to the DSPA	
Final Adjusted Value of Offer	
Material Non-Financial Amendments to the DSPA	

TENDER COMMISSION
OJSC Kairat Bank

Financial Proposal Evaluation Report

Tender Participant Name	Purchase Price (USD)	Net Value of Offer	% of Highest Offer	Price/Book Price/Earnings
Award recommendation (To highest financial offer)	Tender Participant Name:			

Chairman of Tender Commission (Print name)

(Signature)

(Date)