

February 8 - 12, 2010

Weekly digest on business and market related news focused on Kyrgyzstan, produced by MGN Capital's Research Department

Top Stories

Economic News

- Kyrgyzstan's 2010 Exports to Increase by 2.2%
- Kyrgyzstan's m-o-m GDP Growth Hit 16.6% in January 2010
- Deposit Protection Fund Covers 96% of Depositors

Business News

- CADII to Initiate Negotiations with Reemtsma-Kyrgyzstan
- AUB CEO: AUB- Agro to Bring Banking Services to Villages
- AUB-Agro May Take Up to 8-9% of the Market

Industry News

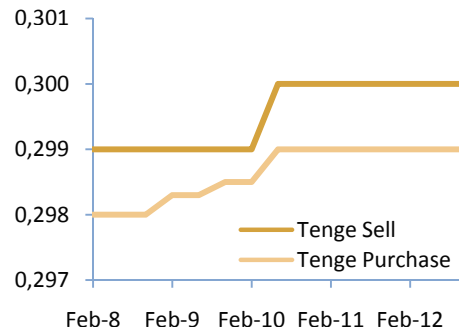
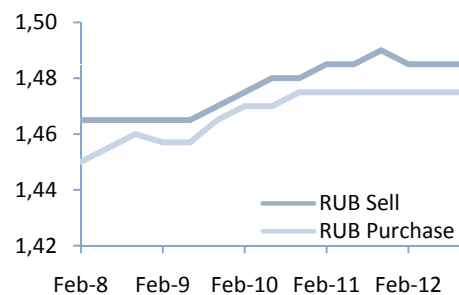
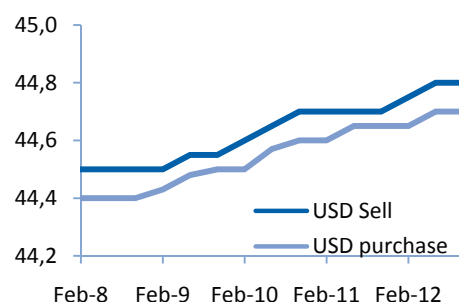
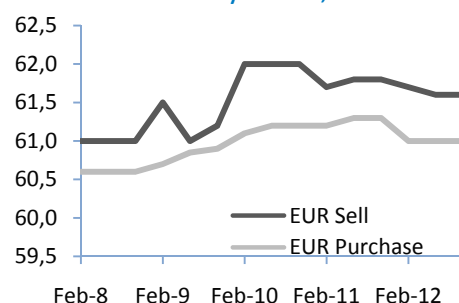
- Monetary Base for January 2010 at 41.6bln KGS
- Collateral to Be Realized Primarily Through Public Auction
- DF to Launch a SME Financing Project

Stock Market

- Auctions of Government Treasury Bills
- GTB Duration Reduced From 214 to 183 Days
- Demand Exceeds Supply on the Primary Government Securities Market

Changes in Major Currency Rates

February 8 - 12, 2010

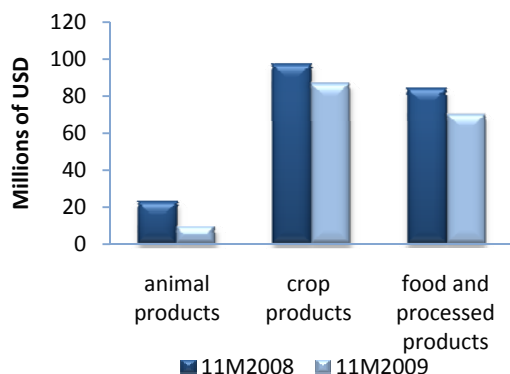


Authors:

Seyitbek Usmanov
+996 312 66 12 17
seyitbek.usmanov@mgncapital.com

Dinara Soltobaeva
+996 312 66 12 17
dinara.soltobaeva@mgncapital.com

Exported agricultural, food and processed goods



Kyrgyzstan 2010 Exports to Increase by 2.2%

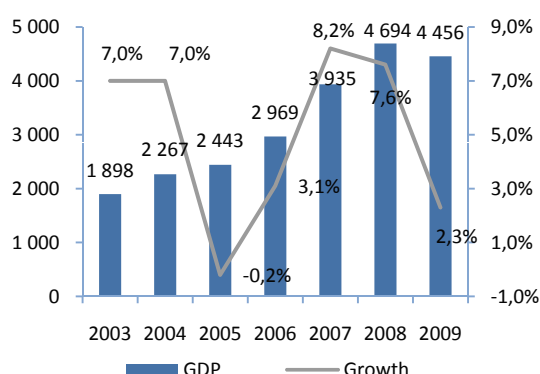
2010 imports growth is expected to be 2.6% lower due to a lower consumer demand across the private sector, reports the KR Ministry of economic regulation. Additionally, export surplus is estimated to grow by 2.2%.

Kyrgyzstan's m-o-m GDP Growth Hit 16.6% in January 2010

Kyrgyzstan's real gross domestic product (GDP) reached 16.6% in January 2010, the Kyrgyz Ministry of Finance reported.

According to the Ministry, the nominal volume of Kyrgyzstan's GDP will make up 12.3mln KGS.

GDP, USD Mln



The real growth of the economy hit 8.5% mostly due to growth in the industrial development (by 77.7%), construction (by 37.2%), agriculture (by 2%) sectors and the services industry (by 1.7%).

Deposit Protection Fund Covers 96% of Depositors

Zh. Kasymov, the executive director of the KR Deposit protection fund, reported that as of December 31, 2009 the Deposit protection fund reached 339.3mln KGS.

The Fund is made up with 284.6mln KGS worth of one-time contributions made by the KR Government and 54.7mln KGS worth of recurrent contributions of commercial banks.

As explained by the head of the fund, the current size of the fund will guarantee compensations up to 100 000 KGS to each bank customer while covering 96% of all deposits.

Investment operations of the Agency in 2009 yielded 5.58mln KGS of returns. Returns on GTB amounted to 4.48mln KGS, NBKR notes – to 0.84mln KGS while interest income with regard to Fund's account balance with NBKR made up 0.259mln KGS.



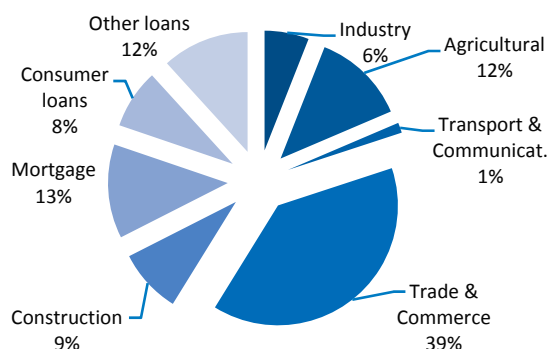
REEMTSMA

CADII to Initiate Negotiations with Reemtsma-Kyrgyzstan

According to Maxim Bakiev, head of CADII, Reemtsma is currently purchasing tobacco from two large suppliers for its Kyrgyzstan operations. "We would like to incentivize local producers", stressed Mr. Bakiev.

He noted that Agroprodcorporation was likely to purchase tobacco from local farming units for subsequent supply to Reemtsma.

2009 Loans Portfolio structure of the Banking System



AUB CEO: AUB-Agro to Bring Banking Services to Kyrgyz Villages

Newly established Microcredit Company will provide banking services in Kyrgyz villages.

Nurdin Abdrazakov, CEO of AUB stressed that 25-30 field offices and cash offices will be established in order to make microcredit more accessible even for farmers in the most remote regions.

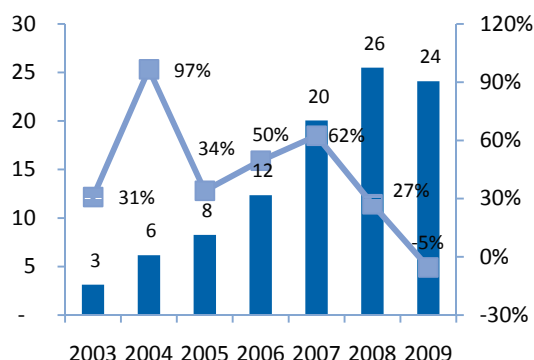
AUB-Agro May Take Up to 8-9% of the Market

A newly established state microcredit company is expecting to allocate 1bln KGS towards funding of agricultural initiatives. This may amount to 8.7-9.1% of the entire Kyrgyz microlending market in 2010.

With regard to agricultural projects alone, their share in the microcredit market makes up around 44% (or 4.5-5bln KGS per year). In this case the share of the microcredit company in the agricultural lending market may comprise 20-22%.2

The average loan will amount to 100 000 KGS. Returning borrowers will be able to enjoy a raised loan limit of additional 10 000 KGS with a decreased interest rate. Loans will be issued for an average period of 12 months with a 3-month grace period. The microcredit company is expected to serve around 100 000 people.

2009 Gross Loans, KGS bln.



Kyrgyz Monetary Base for January of 2010 at 41.6bln KGS

As reported by the National Bank of the Kyrgyz Republic, monetary base as of January of 2010 amounted to 41.5bln KGS, having increased by 18.3% compared to the year 2008.

Year-end loan portfolio of the banking system for 2009 made up 25bln KGS, having dropped by 2.8% since the beginning of the year (while in 2008 the portfolio grew by 26.4%).

Collateral to Be Realized Primarily Through Public Auction

On February 10 the NBKR put out a proposal for public discussion with regard to introducing changes to the KR Law "On banks and banking in the Kyrgyz Republic".

Proposed changes include adding the following paragraphs to clause 6 of Article 35:

"For performing enforcement on collateral the bank shall include a compulsory condition regarding the means of pledge realization primarily through a public auction. Such stipulation shall be included in the pledge agreement between the bank and the pledger or in the agreement on pledge holder's claim satisfaction made at the same time as the pledge agreement or during its term.

As grounds for performing enforcement on collateral in an out-of-court settlement arise, the bank and the pledger shall not be entitled to resort to, by means of an addendum, another way of realizing the pledge other than that provided for by the pledge agreement."

Development Fund to Launch a New SME Financing Project

The Development Fund of Kyrgyzstan is going to launch a new project of concessional financing of small and medium business, Riffat Utyashev, Financial Director of Asia Universal Bank told the news agency 24.kg at the pres-conference.

The company plans to grant credits in national currency to the amount of 100,000 KGS. "The Development Fund will provide resources and commercial banks will finance projects of small and medium business", he said. "Power, manufacturing, agriculture (agricultural produce processing) and tourism have been identified and the four industries of top priority".

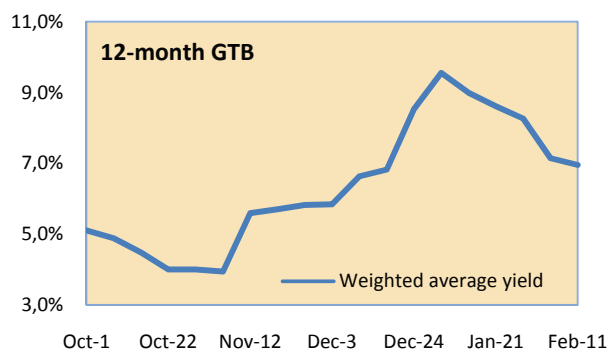
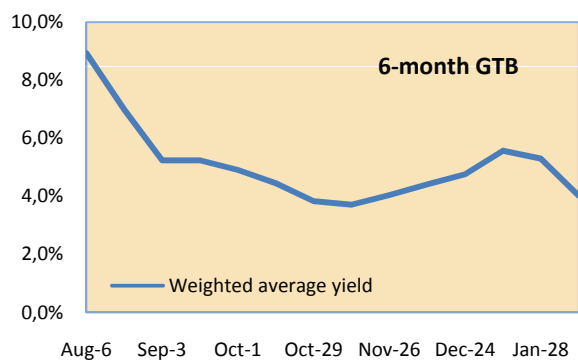
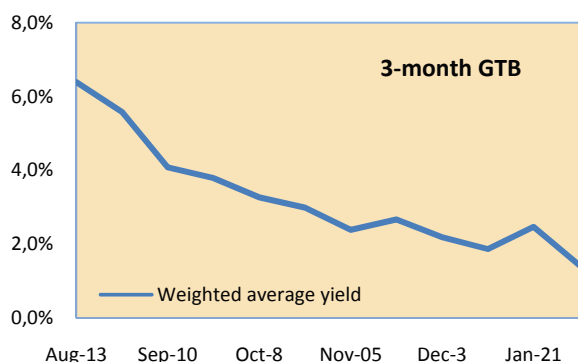
The loans will be issued for 8 years. Interest rates will not exceed 14% of annual interest rates.

Stock Market

February 8 - 12, 2010

CHANGE IN WEIGHTED AVERAGE RETURN ON GTBs February 8 - 12, 2010

Type of securities	Date	Demand (‘000 KGS)	Sale (‘000 KGS)	Min yield	Max yield	Weighted average yield
3-month GTB	Dec-17	106 690	25 000	1,79%	1,91%	1,87%
	Jan-21	39 150	25 000	1,51%	3,15%	2,47%
	Feb-4	101 846	25 000	1,39%	1,59%	1,43%
6-month GTB	Jan-14	33 880	30 000	4,49%	6,60%	5,57%
	Jan-28	120 477	30 000	4,00%	5,55%	5,30%
	Feb-11	147 802	30 000	3,50%	4,14%	4,02%
12-month GTB	Jan-14	186 180	60 000	8,01%	9,29%	8,99%
	Jan-21	155 648	60 000	7,81%	9,10%	8,61%
	Jan-28	211 787	60 000	7,00%	8,40%	8,26%
	Feb-4	172 079	60 000	6,98%	7,50%	7,14%
	Feb-11	110 008	60 000	6,50%	7,15%	6,95%



Auctions of Government Treasury Bills

Weighted average return on 6-month GTBs at the close of the last trading on February 11, 2010 amounted to 4.02%. 30mln KGS worth of 6-month maturity GTBs were put up for sale on. The demand reached 147.8mln KGS. With regards to 12-month GTBs, their sales reached 60mln KGS, demand amounted to 110mln KGS. Weighted average return on 12-month GTBs amounted to 6.95% which is 0.19% points lower than the last sale week before.

GTB Duration Reduced From 214 to 183 Days

According to data provided by the National Bank, the primary Government Securities (GS) market was concurrently divided between the two issuers. As a result, the NBKR acts as an issuer of short-term GS with up to one month maturity which corresponds better with the money market. The Ministry of Finance of the Kyrgyz Republic issues GS with maturity starting at 3 months through over one year. The Ministry of Finance also classified its issued securities by maturity date, keeping State Treasury Bills (STB) as short-term (up to one year) GS and launching GTB, medium-term GS with over one year maturity. Therefore, STB duration was reduced from 214 to 183 days over the period from January through November of 2009.

Demand Exceeds Supply on the Primary Government Securities Market

As per the NBKR, in January-October of 2009 on the primary government securities market demand exceeded supply with regard to securities issued by the NBKR (NBKR notes) and the Ministry of Finance (GTB). High demand in this market segment along with a high level of excessive liquidity across the banking system is a result of banks' asset placement preference during recessionary times when assets are placed in highly liquid financial instruments. As a result, despite a 14.0% increase in NBKR average monthly notes and a 58.6 percent increase in Ministry of Finance GTB emission in January-November of 2009 (compared to the same period one year prior), GS returns have decreased significantly while, since the second half of 2008, primary government securities market returns demonstrated growth. Average monthly returns in November dropped across the board - falling from 19.3 to 4.5% on STB and from 12.4 to 1.4% on notes.