

**January 18 - 22, 2010**

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

## TOP STORIES

### Economic News

- Kyrgyzstan's GDP 2009 Growth at 2.3%
- Kyrgyzstan Extends Investment Resources to Deposit Protection Agency

### Business News

- Development Fund Establishes Microcredit Company
- Banking news
- The Monetary Base Declined by 4%

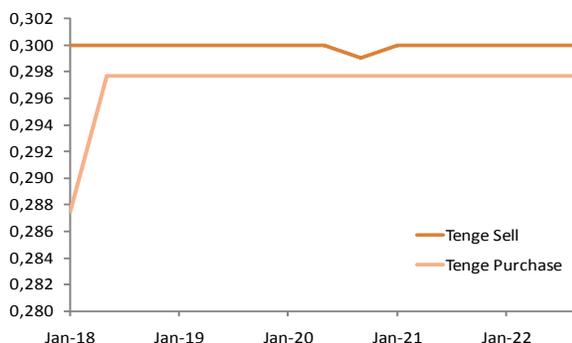
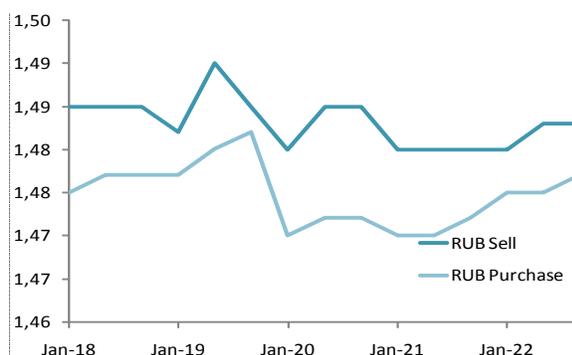
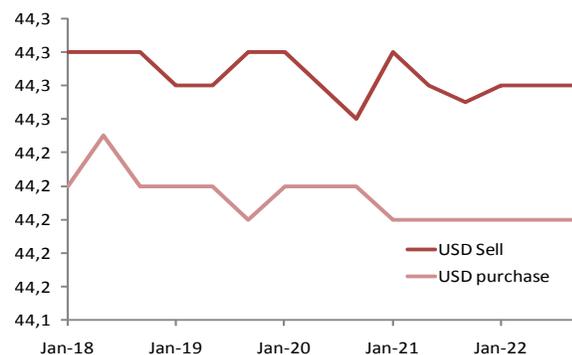
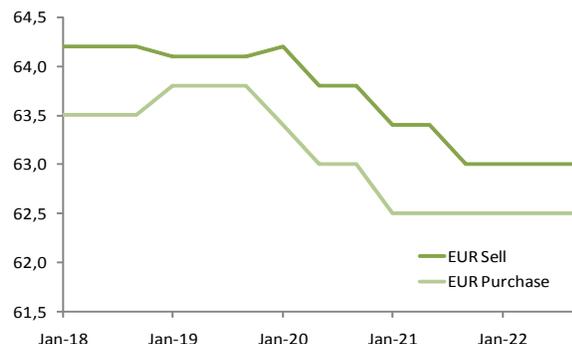
### Industry News

- Precious Metals to be exempted From VAT and Excise
- Insurance Industry Sees a Boom in 2009

### Stock Market

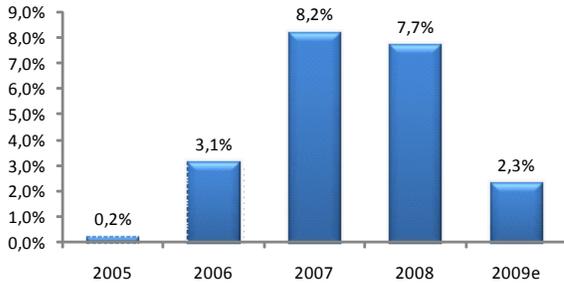
- Auctions of Government Treasury Bills

Changes in Major Currency Rates  
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*Economic News*

**REAL GDP GROWTH  
Y-O-Y (%)**



**Kyrgyzstan's 2009 GDP Growth at 2.3%**

According to preliminary estimates, Kyrgyzstan's GDP increased 2.3% in 2009, the National Statistics Committee ([www.stat.kg](http://www.stat.kg)) reported. The industries experiencing greatest growth in 2009 were agriculture and mining. The hardest hit industries were processing industries and trade turnover, declining by high double digits.

Sectors	2009 Growth/ (Decline)
Agriculture and forestry	7.4%
Mining sector	4.7%
Energy sector	(1.3%)
Industrial production	(6.4%)
Processing industry	(7.8%)
Trade turnover	(21.9%)
Imports	(26.8%)

**Kyrgyzstan to Extend Investment Resources of Deposit Protection Agency**

Budget and Finance Committee of the Kyrgyz Parliament passed a bill on extension of investment resources of the Deposit Protection Agency on January 19, 2009.

According to Marat Sultanov, Finance Minister of Kyrgyzstan, the Deposit Protection Agency "has right to invest collected funds only in the state securities and issues of the Kyrgyz National Bank. We offer to include an item about Agency's capability to invest in other securities," he said. Allowing for investment in other securities is a positive development for the the financial sector of Kyrgyzstan. The new law would allow for Deposit Agency's funds to be invested in bonds and securities of domestic companies.

## Business News

### Development Fund Established Microcredit Company

Tender Commission of the Development Fund of the KR chose AUB for the creation of rural micro-credit company, said Rifat Utyushev, Chief Financial Officer, of the Development Fund.

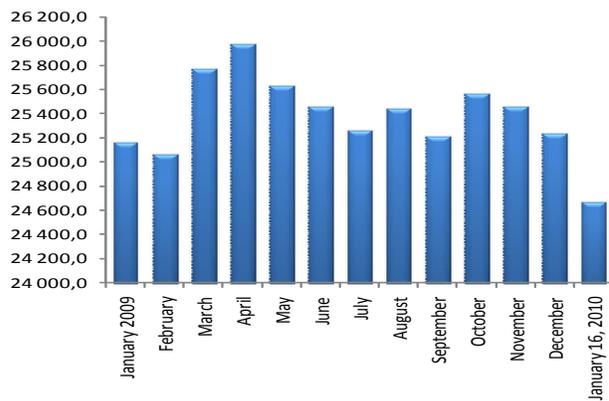
This decision of the tender commission must be approved by the Board of Directors of the Development Fund.

AUB and the Development Fund will have equal shares in the micro credit company but the Development Fund plans to withdraw within the medium term. According to Mr. Utyushev, the company will be established by February 2010.

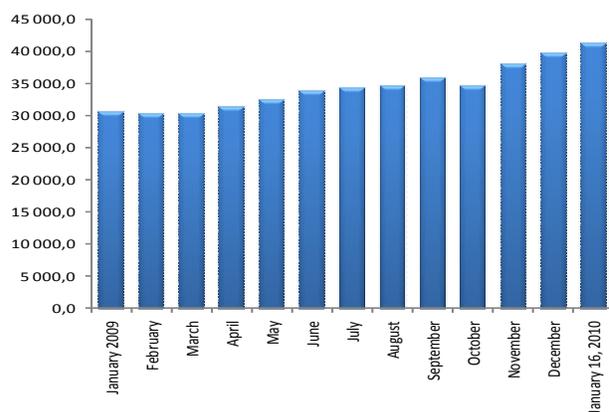
Planned volume of investments in the microfinance company in 2010 could reach 1b KGS. Tatiana Sheveleva, VP at AUB expressed bank's willingness to invest about 350m KGS.



**VOLUME OF LOANS  
(MILLIONS OF KGS)**



**VOLUME OF DEPOSITS  
(MILLIONS OF KGS)**



### Banking News

*The volume of deposits in commercial banks year rose by 1.6b KGS*

As of January 16 the volume of deposits in commercial banks amounted to 41.24b KGS, which is 1.6b KGS, or 4%, more than at the beginning of 2010. Cause of such rapid growth in deposits is that the volume of money outside banks declined by 1.69b KGS, or 5%. This is a very positive trend for bringing greater transparency into the economy.

The highest increase was recorded for deposits in foreign currency - to 1.48b KGS (5.7%), whereas the increase of deposits in national currency amounted to only 150m KGS.

*The volume of loans continues to decline*

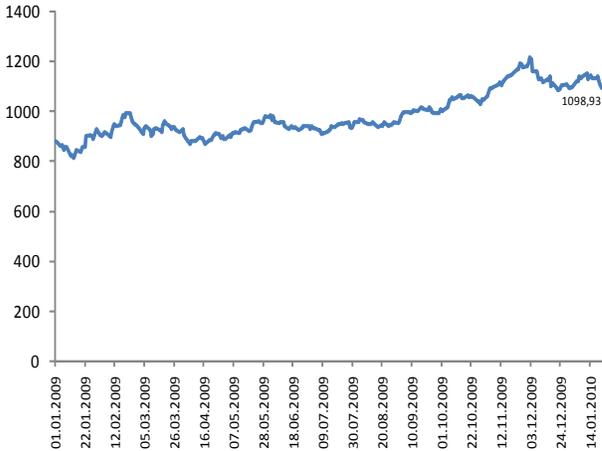
While, the amount of deposits is increasing the volume of loans of commercial banks has declined by 2.3%, or 560m KGS, since the beginning of 2010. This indicates that banks are very conservative and hesitant to increase lending.

### The Monetary Base Declined by 4%

On 16 January volume of the monetary base amounted to 40.03b KGS, decreasing since the beginning of the year by 1.56b KGS or 4%. A decrease in monetary base decreases inflationary pressure on the economy, which is a positive macro-economic indicator.

**Industry News**

**GOLD PRICE (\$/OUNCE)**



**Precious Metals to be Exempted From VAT and Excise Taxes**

Ministry of Economy and Regulations is drafting a law providing for the release of silver and gold from VAT and excise taxes.

According Ministry of Economy and Regulations, Kyrgyzstan annually extracts about 17 tonnes of gold and processes only 3.5%. Releasing gold from VAT and excise can enable Kyrgyzstan to become a center of production and trade of jewelry in the Central Asian region.

The aim of the draft law is to stimulate gold production and sales of jewelry, and to improve the investment climate.

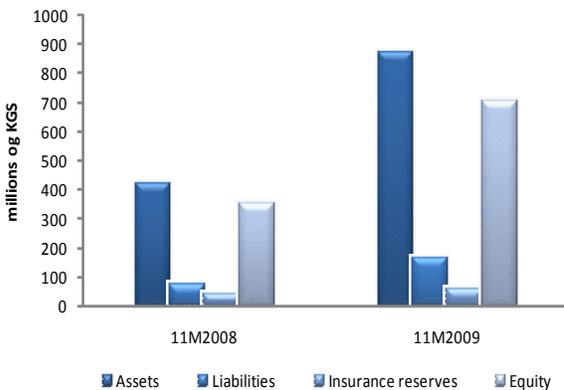
**Insurance Industry Sees Record Boom in 2009**

In 2009 the insurance sector reached record heights across many indicators. Insurance sector's assets as a share of GDP reached 0.38% in 2009, triple the level of 2006. In 2009 total assets of insurance companies for 11M2009 totaled 873.3m KGS, doubling over 2008. According Financial Supervisory Agency ([www.fsa.kg](http://www.fsa.kg)) the volume of insurance companies' premiums amounted to 440.0m KGS for 11M2009. This figure is double the level reached in 2008.

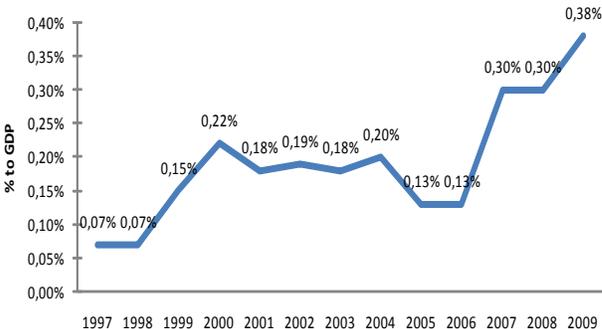
On the other hand the amount of insurance payments made by insurance companies for 11M2009 compared to the same period of 2008 increased only by 17,4% and amounted to 50m KGS.

19 insurance companies operate in Kyrgyzstan as of the end of 2009: of which 2 are reinsurance companies ("Insurance Reserve" and "Kyrgyz Reinsurance Company") and 7 have foreign non-residents. The largest insurance company was a recent entrant in the market, AUB-Insurance. The company specializes in property insurance, life/health insurance and other insurance and reinsurance services for bank's clients. AUB Insurance has the largest authorized capital of 132mln soms.

**INSURANCE SECTOR'S FINANCIAL HIGHLIGHTS**



**INSURANCE SECTOR'S ASSETS AS SHARE OF GDP**

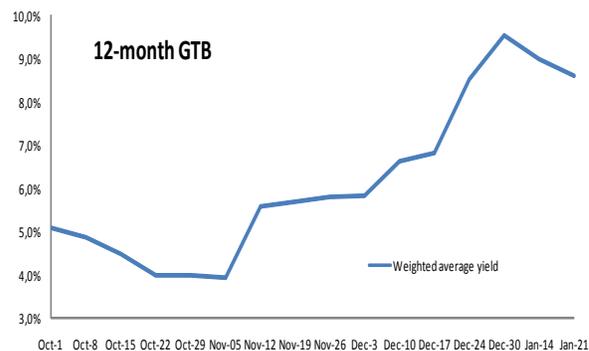
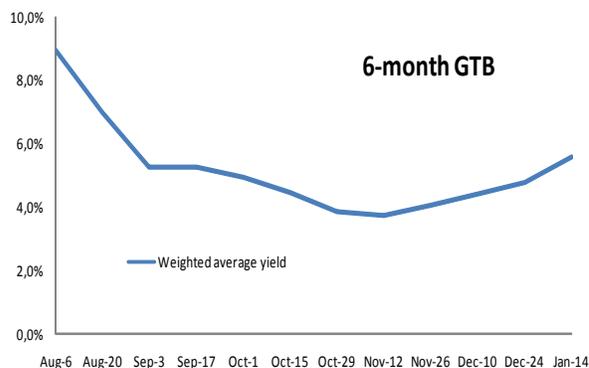
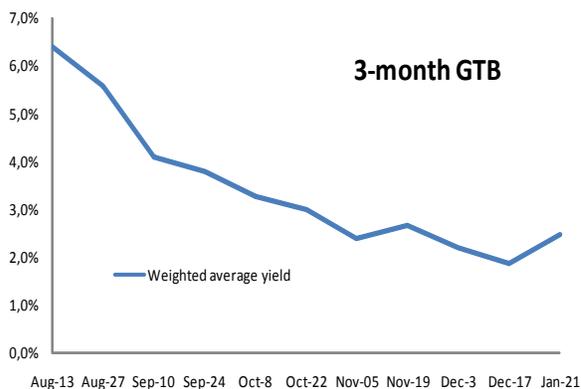


**Top 3 Insurance Companies as of November 1st, 2009 ('000 KGS)**

Insurance Companies	Assets	Liabilities	Insurance Reserves	Equity
AUB-Insurance	132,650	23,571	3,880	109,079
Kyrgyz Reinsurance Company	95,888	552	230	95,336
Insurance Reserve	82,119	53,631	3	28,488

## Stock Market

CHANGE IN WEIGHTED AVERAGE RETURN ON GTBs  
January 18 - 22, 2010



### Auctions of Government Treasury Bills

There were no sales of 6-month GTBs for the reporting period (January 18-22). On January 14, 2010, 30m KGS worth of 6-month maturity GTBs were put up for sale. Demand reached 33.88mln KGS. Weighted average return on 6-month GTBs amounted to 5.57%.

Weighted average return on 3-month GTBs at the close of the last trading on January 21, 2009 amounted to 2.47%, which is 0.6% points higher than the last sale on December 17. 25mln KGS worth of 3-month maturity GTBs were put up for sale on. The demand reached 39.15mln KGS.

With regards to 12-month GTBs, their sales reached 60mln KGS, demand amounted to 155.64mln KGS. Weighted average return on 12-month GTBs amounted to 8.61% which is 0.38% points lower than the last sale week before.

Type of securities	Date	Demand ('000 KGS)	Sale ('000 KGS)	Min yield	Max yield	Weighted average yield
3-month GTB	Nov-19	54 140	25 000	2,19%	2,99%	2,67%
	Dec-3	155 660	25 000	1,99%	2,31%	2,19%
	Dec-17	106 690	25 000	1,79%	1,91%	1,87%
	<b>Jan-21</b>	<b>39 150</b>	<b>25 000</b>	<b>1,51%</b>	<b>3,15%</b>	<b>2,47%</b>
6-month GTB	Nov-26	42 422	30 000	3,50%	5,01%	4,04%
	Dec-10	71 130	30 000	3,61%	5,01%	4,41%
	Dec-24	87 038	30 000	2,99%	5,20%	4,76%
	<b>Jan-14</b>	<b>33 880</b>	<b>30 000</b>	<b>4,49%</b>	<b>6,60%</b>	<b>5,57%</b>
12-month GTB	Nov-19	63 620	60 000	4,00%	7,00%	5,70%
	Nov-26	70 890	60 000	4,00%	6,50%	5,82%
	Dec-3	79 310	60 000	4,00%	7,00%	5,84%
	Dec-10	72 700	60 000	4,50%	7,00%	6,63%
	Dec-17	75 190	60 000	4,51%	8,50%	6,82%
	Dec-24	55 900	55 900	4,50%	15,00%	8,53%
	Dec-30	120 360	60 000	8,50%	20,00%	9,55%
	Jan-14	186 180	60 000	8,01%	9,29%	8,99%
	<b>Jan-21</b>	<b>155 648</b>	<b>60 000</b>	<b>7,81%</b>	<b>9,10%</b>	<b>8,61%</b>

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**MGN Research**

The MGN Research team provides support to both the Corporate Finance and Asset Management divisions. The chief task of the research department is to provide analysis of publicly available information from the global debt and equity markets to support internal investment and management decisions. Additionally, the team routinely provides clients with insightful and cutting-edge research about investment opportunities in the Central Asian Region.

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