

## Credits

(January-September 2012)

During the first 9 months of 2012 the situation in the market of bank crediting was characterized by preservation of the upward trend that began in 2011. An improvement in the quality of the credit portfolio of the banking system decreased rates of outstanding and extended credits. The cost of credits remained relatively high: the average rate on newly issued credits in the national currency was observed at the level of 2011, while credits in foreign currency rate decreased. The main contribution to the formation of the portfolio was made by the volumes of credits for trade sector. The share of credits to agriculture increased in the structure of banks' credit portfolio due to the actions of the Government to subsidize the agricultural sector.

The credit portfolio of operating commercial banks at the end of September 2012 amounted to 36.1 billion KGS having increased since the beginning of the year by 15.8 percent. At the same time, the KGS part of the credit portfolio increased by 13.3 percent and was formed at 15.8 billion KGS. The volume of credits in foreign currencies at the end of September amounted to 20.3 billion in KGS equivalent, exceeding the corresponding figure at the beginning of the year by 17.8 percent.

In January-September 2012, the weighted average interest rate on bank credits in national currency decreased by 0.6 percentage points to 21.8 percent; the rates in foreign currency fell by 0.3 percentage points and amounted to 17.5 percent.

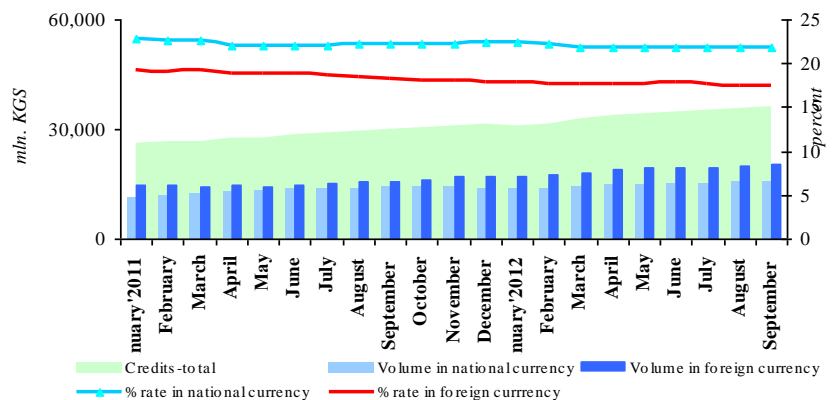
At the end of the reporting period, the credit portfolio of banks by sectors was as follows. Trade remained the main sector of crediting. The share of credits for trade that occupies the major part of the credit portfolio decreased by 2.1 percentage points (up to 40.7 percent). Besides, the share of credits to "other" credits decreased from 12.9 to 11.8 percent; to mortgage from 9.6 to 9.4 percent; construction from 5.6 to 5.4 percent; communications sector from 0.2 to 0.1 percent.

The share of agricultural (by 1.2 percentage points to 13.9 percent), consumer credits (by 0.9 percentage points to 9.7 percent), industry (by 0.2 percentage points, up to 5.5 percent) increased. Credits in the sphere of transport, procurement and processing, as before, amounted to about 0.6 percent.

In turn, the portfolio of most banks remained highly concentrated in certain industries. Thus, the index showing the concentration of banks' credit portfolio in the industry constituted 0.45, which indicated to the distribution of credits of most banks mainly between the two industries. In addition, the concentration of credits separately in each sector was average: in 7 out of 11 sectors the index value was more than 0.17, which indicates to the presence of a small number of banks in these sectors.

The total concentration rate of the credit market remained at the level of 0.10, which is equivalent to the division of the market between 10 banks.

Chart 1. Dynamics of credits, issued by the commercial banks over a period



The total share of long-term credits, including credits from 1 to 3 years, increased to 74.2 percent (+1.0 percentage points), which in turn led to an equivalent reduction in the share of short-term component of the banks' credit portfolio to 22.4 percent (-0.4 percent). Thus, the duration index in the first nine months of the year fell slightly from 28.3 to 27.9 months, which generally reflects the situation with relatively more active growth of credits issued for a period of at least 3 years.

In the reporting period, there was improvement in the quality of the credit portfolio: at the end of September, the share of outstanding credits constituted 3.4 percent (at the beginning of 2012 - 3.9 percent); while the share of extended credits constituted 4.1 percent (at the beginning of 2012 - 4.7 percent).

The volume of newly issued credits for the first nine months of 2012 amounted to 26.9 billion KGS, which is 15.5 percent higher than the amount issued in the same period of 2011. Credits in the national currency increased by 7.4 percent, and in foreign currency - by 23.6 percent.

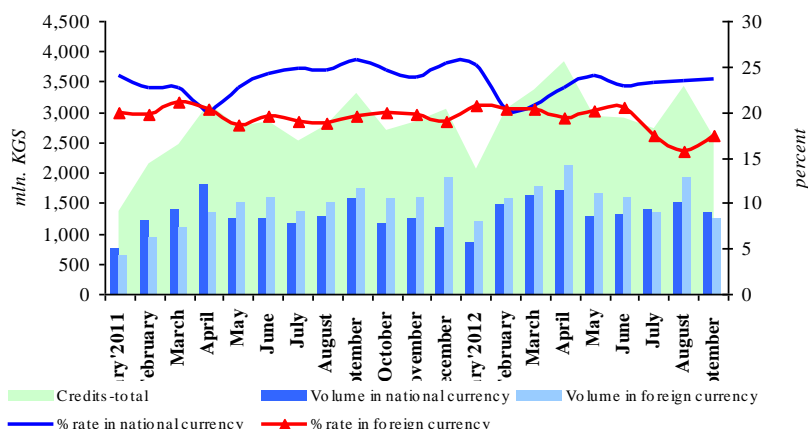
The weighted average interest rate on newly issued credits in the national currency decreased as compared with 2011 by 0.6 percentage points, reaching 22.8 percent. The rate in the foreign exchange also decreased by 0.5 percentage points and constituted 19.1 percent.

The main volume of credits was granted for a period from one to three years (12.4 billion KGS), but due to the increase in the share of short-term credits by 2.0 percent to 29.0 percent, the share of long-term credits in the time structure of newly issued credits decreased by 2.0 percentage points to 71.0 percent. In the structure of short-term credits, the share of credits issued for a period of 3-6 months - by 11.5 percent, respectively increased significantly. For this reason the duration index of newly issued credits fell from 25.9 to 25.4 months.

Increase in the volumes of trade crediting still remains as the most important factor in the growth of the total credit portfolio of banks. The volume of credits for trade sector increased by 4.1 percent. In the structure of newly issued credits, this sector is still the most significant (49.8 percent). In this period, there was an increase in lending to agriculture (20.3 percent) with a share of 12.9 percent. Consumer credits increased by 31.5 percent, resulting in an increase in their share by 1.4 percentage points to 11.5 percent.

In addition, there was an increase in the volume of mortgage credits by 23.9 percent, while their share increased from 4.4 to 4.7 percent. The share of credits to industry, transport, communications, procurement and processing, construction and social services constituted 10.1 percent. The share of "other" credits increased by 1.3 percentage points and amounted to 10.9 percent.

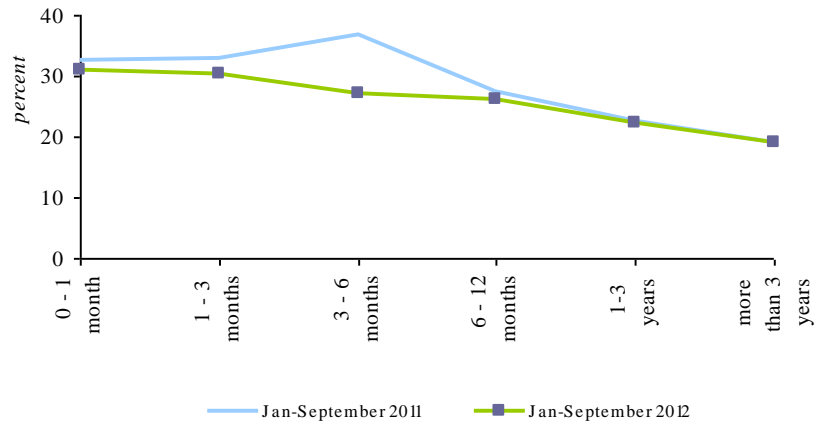
**Chart 2. Dynamics of credits, issued by the commercial banks over a period**



In terms of industries, the changes in interest rates on newly issued credits both in the national and foreign currencies were diverse. On credits in the national currency the rate reduction was observed in such sectors as transportation, communications, trade, and consumer and “other” loans. In this case, the credits with the lowest rates in the national currency were issued for agriculture, housing and “other” loans (average for the period 21.0, 21.0 and 20.4 percent, respectively), the highest rates - for consumer purposes (27.1 percent).

The rates in foreign currency fell in all sectors except for the social services and the harvesting and processing. Credits at the highest rates in foreign currency were issued for transport and harvesting and processing (an average of 22.2 and 20.8 percent, respectively), while credits at the lowest rates were issued for construction (on average over the period at 14.0 percent).

**Chart 3. Average level of interest rates on new credits in national currency by term categories**



**Chart 4. Average level of interest rates on new credits in foreign currency by term categories**

