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**АО «Казахстанская фондовая биржа»**

АО «Фонд финансовой поддержки сельского хозяйства» (далее - Общество) настоящим сообщает вам о том, что 31.07.2017 года международное кредитное рейтинговое агентство «Moody's Investors Service» подтвердило долгосрочный кредитный рейтинг Общества на уровне: «Ba2», прогноз – «стабильный».

Вместе с тем, отмечаем, что по 1-му выпуску облигаций (FAGRb1 НИН KZR01Y05E798) и по 2-му выпуску облигаций (FAGRb2 НИН KZR02Y05E796) в пределах 1-ой облигационной программы подтвержден рейтинг до аналогичного уровня.

Приложение: на 6 листах.

**Заместитель  
Председателя Правления**

**Д. Оспанов**

CREDIT OPINION  
31 July 2017

Update

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# Fund Of Financial Support for Agriculture JSC

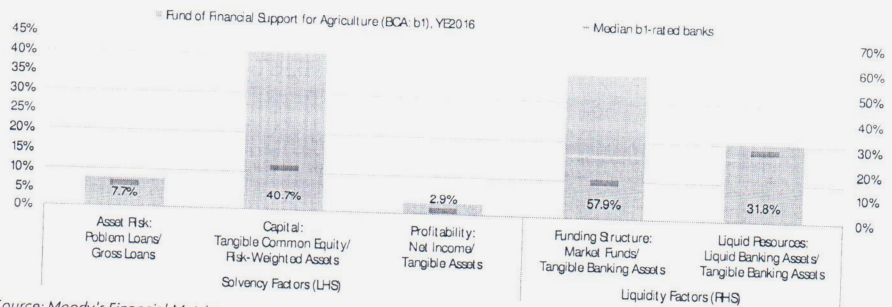
Update following rating action

## Summary rating rationale

In accordance with our Government-Related Issuers rating methodology, Fund of Financial Support for Agriculture's (FFSA) Ba2 long-term issuer and debt ratings reflect the combination of the following inputs:

- » A Baseline Credit Assessment (BCA) of b1 (the rationale for the BCA is described in greater detail below)
- » Kazakhstan's Baa3 government bond rating, which also acts as the anchor for support
- » Our assessment of a moderate probability of government support
- » Our assessment of a high default dependence

Exhibit 1  
Rating Scorecard - Key financial ratios



Source: Moody's Financial Metrics

## Credit strengths

- » Strong capital adequacy, with good loss absorption capacity and sound profitability metrics
- » Large liquidity buffers and low refinancing risks, despite the full funding reliance on wholesale sources
- » Moderate probability of government support

## Credit challenges

- » Rapid loan growth in a risky asset class, which translates into weak loan performance

## Rating outlook

FFSA's Ba2 long-term issuer rating carries a stable outlook. The outlook is in line with the stable outlook on the Baa3 sovereign rating of Kazakhstan.

## Factors that could lead to an upgrade

- » A sustained track record of strong asset performance and maintenance of healthy capital and liquidity profiles could have upward rating implications on FFSA's long-term issuer rating.

## Factors that could lead to a downgrade

- » Downward pressure on FFSA's issuer rating would develop if Kazakhstan's sovereign rating faces negative pressure.
- » Any indication of a weakening of the Kazakh authorities' willingness to support FFSA, or other state-owned companies that facilitate development of the agriculture sector, could negatively affect FFSA's issuer rating.
- » Deterioration in asset quality and profitability, as well as any evidence of increased leverage beyond our current expectations, could lead to downward pressure on the rating.

## Key Indicators

Exhibit 2

### Fund Of Financial Support for Agriculture JSC (Consolidated Financials) [1]

	12-16 <sup>2</sup>	12-15 <sup>2</sup>	12-14 <sup>2</sup>	12-13 <sup>2</sup>	12-12 <sup>2</sup>	CAGR/Avg. <sup>3</sup>
Total Assets (KZT billion)	120	74	58	40	25	48.7 <sup>4</sup>
Total Assets (USD billion)	0.4	0.2	0.3	0.3	0.2	21.8 <sup>4</sup>
Tangible Common Equity (KZT billion)	35	21	23	25	22	12.7 <sup>4</sup>
Tangible Common Equity (USD billion)	0.1	0.1	0.1	0.2	0.1	-7.6 <sup>4</sup>
Problem Loans / Gross Loans (%)	7.7	7.4	5.3	6.6	8.6	7.1 <sup>5</sup>
Tangible Common Equity / Risk Weighted Assets (%)	40.7	28.9	42.7	69.1	111.2	58.5 <sup>6</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	15.3	19.1	11.6	9.3	8.0	12.7 <sup>5</sup>
Net Interest Margin (%)	10.2	11.7	8.5	7.3	6.2	8.8 <sup>5</sup>
PPI / Average RWA (%)	11.0	10.6	6.4	5.5	5.5	7.8 <sup>6</sup>
Net Income / Tangible Assets (%)	2.9	1.4	1.6	1.7	1.2	1.8 <sup>5</sup>
Cost / Income Ratio (%)	24.3	27.0	42.9	50.6	53.2	39.6 <sup>5</sup>
Market Funds / Tangible Banking Assets (%)	57.9	58.7	46.5	30.4	9.8	40.7 <sup>5</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	31.8	10.8	4.9	6.8	9.7	12.8 <sup>5</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel I; IFRS [3] May include rounding differences due to scale of reported amounts [4] Compound Annual Growth Rate (%) based on time period presented for the latest accounting regime [5] Simple average of periods presented for the latest accounting regime. [6] Simple average of Basel I periods presented

Source: Moody's Financial Metrics

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody.com](http://www.moody.com) for the most updated credit rating action information and rating history.

## Detailed rating considerations

### Baseline Credit Assessment

The BCA of b1 is underpinned by the standalone strength of FFSA and reflects the entity's resilient financial fundamentals, illustrated by its substantial capital buffers, historically strong profitability and low refinancing risks. The BCA also reflects the risks associated with FFSA's weakly performing and rapidly growing loan portfolio given the cyclical nature of the agriculture sector and the modest GDP growth prospects in Kazakhstan for the next 2 years.

### Rapid loan growth in risky asset classes, which translates into weak loan performance

We expect nonperforming loans (NPLs) to grow because FFSA's loan book is seasoning and its historically rapid loan growth is decelerating (Exhibit 3). Previous rapid loan book growth elevates the risks of asset-quality deterioration, especially in the context of the modest economic development in the country and the cyclical nature of the agriculture sector.

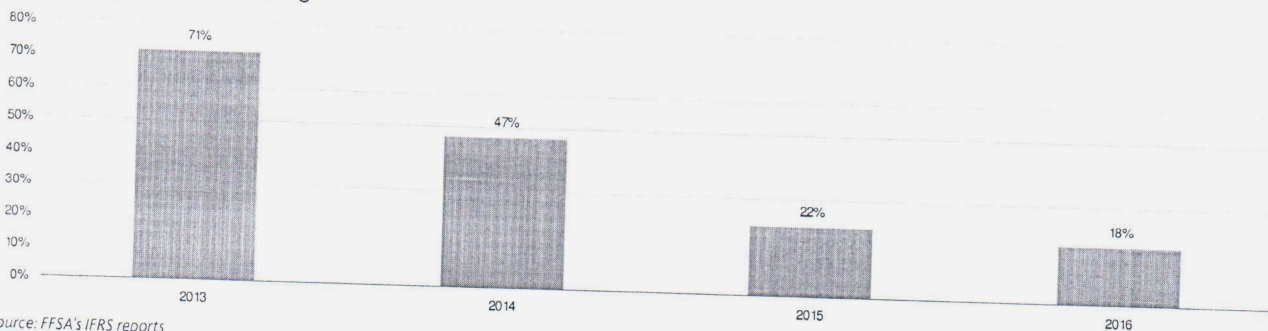
As of year-end 2016, for the seasoned part of the loan book, NPLs (loans overdue by more than 90 days) exceeded 14% and stood at 10.3% for the entire loan portfolio. Typically, FFSA's borrower has to start repaying its loan after two years from the disbursement date, and NPLs sharply increase accordingly with a time lag after.

FFSA's policy role is to promote business development and to foster job creation in Kazakhstan's remote rural territories through the provision of low-cost microloans to local farmers and the rural population. This remit determines FFSA's loan profile because many loans are of investment nature originated to finance start-ups and business expansion in the risky small business segment. The company also provides low-cost loans to finance turnover capital, predominantly in the non-grain agriculture sector.

In recent years, FFSA has rapidly expanded its loan book, backed by substantial long-term government funding and capital injections. Most of these funds were received under national programmes. Most of the recent loan growth was generated from loan origination to finance new businesses or expand existing businesses in rural territories. Although most of these loans are secured by real estate, the liquidity of this real estate is low and, in our view, does not fully mitigate the potential asset-quality risks that FFSA is facing. Most of these loans are small amounts and are provided to borrowers who exhibit relatively weak financial knowledge, which, together with the high-risk nature of the agriculture segment, exposes FFSA to high asset-quality risks.

Exhibit 3

### FFSA's loan growth is decelerating



Source: FFSA's IFRS reports

### Strong capital adequacy, with good loss-absorption capacity and sound profitability metrics

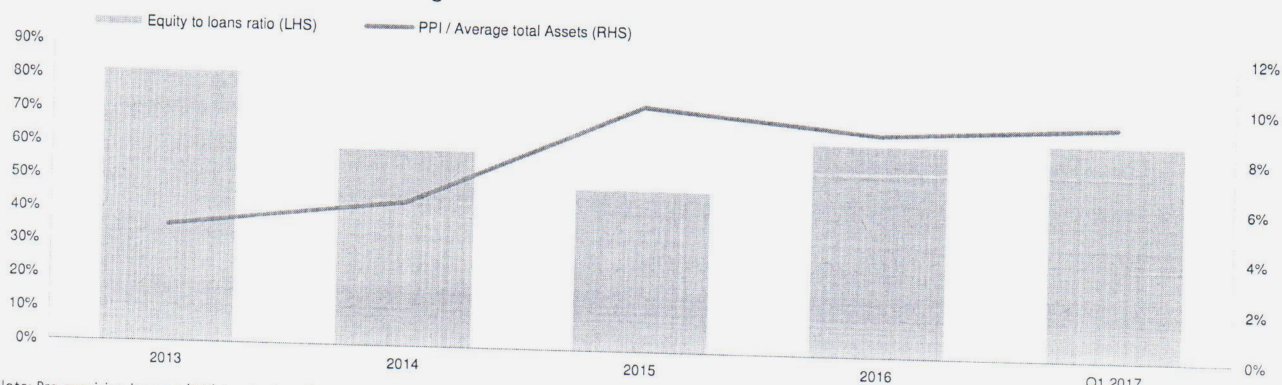
We expect FFSA's leverage to grow but remain modest in the next 12-18 months (despite rapid loan book growth), thanks to capital injections from the state (for example, the government increased the company's capital by over 35% in 2016) and profit generation. The company's leverage has recently increased but remains modest, with equity/assets of 39% as of the end of Q1 2017, down from 68% in December 2013, following the attraction of long-term loans from local municipalities under the state program Employment 2020.

In our view, the risks associated with FFSA's loan portfolio are mitigated by the company's high loss absorption capacity, with equity/loans ratio of above 60% (unaudited report) as of 31 March 2017. Despite the weak loan book performance, FFSA's strong pre-provision

income enables it to build up loan-loss reserves without any pressure on capital. As of year-end 2016, loan-loss reserves totaled 8% of gross loans, covering NPLs by about 77%, which mainly reflects the discounted value of a collateral.

Exhibit 4

#### Leverage is low, while profitability metrics are good



Note: Pre-provision income (PPI) is calculated based on the actual interest expenses (does not include annual amortisation of discount on borrowings from the related parties attracted at lower-than-market rates).

Source: Moody's Financial Metrics

FFSA's reported profitability is strong, despite its predominantly not-for-profit development mandate. The company's profit before tax stood at KZT4.4 billion in 2016, despite credit costs that amounted to KZT1.5 billion in the same period. FFSA's pre-provision income accounted for over 8% of total average assets during 2016 and Q1 2017 (over 5%, if annual amortisation of discount on funding attracted at lower-than-market rates is included). The major drivers for such strong earnings were the company's (1) full reliance on capital and low-cost government funding, and (2) strong commission income, thanks to its involvement as a government agent in the rural mortgage lending program. Fee and commission from the company's services accounted for 9% of its total net revenue in Q1 2017.

#### Large liquidity buffers and low refinancing risks, despite the full funding reliance on wholesale sources

Potential refinancing risks related to asset/liability mismatch in case of asset quality problems are remote and are mitigated by the currently large liquidity buffers and the high likelihood that the company will replace maturing obligations with new facilities attracted from the state. Government funds (from local governments) represent the bulk of non-equity funding (over 80% as of 31 March 2017 [part of government funding is recognized in equity, given the funding attracted at lower-than-market rates]), partially mitigating the refinancing pressure. As of 31 December 2016, FFSA's liquid assets and state-approved additional upcoming long-term funding from the state in total exceeded KZT60.0 billion, compared with KZT71.6 billion in total non-equity funding.

At end-2016, over half of FFSA's non-equity funding is due after 2019. The company will have to refinance its debt due in 2018 and 2019, which account for around 20% and 30% of non-equity funding, respectively. Although the loan book duration (contractual terms) is shorter than debt repayments, in the long term, a significant deterioration in the loan book might create some asset/liability mismatches.

#### Government support

Our assumption of a moderate probability of government support is underpinned by FFSA's 100% ultimate government ownership, the absence of any imminent plans for privatization and the lack of any legal barriers for timely support of FFSA. In addition to these factors, which demonstrate the government's ability to support FFSA, the government's willingness to support is reflected in FFSA's policy role in carrying out development of rural territories by providing low-cost microloans to local farmers and the rural population.

The nature of this relationship is demonstrated by FFSA's business operations, which are designed to fulfill the government's investment priorities, including supporting the development of the agriculture sector and promoting entrepreneurship. Over the past year, FFSA's links with the government have strengthened through the company's participation in various government programs, including the national strategic program Employment 2020.

Despite the FFSA's economic importance is relatively low, the government is well known to be an active shareholder of the company. Therefore, a default by FFSA would likely have a negative impact on other state-owned companies as it will challenge them to refinance, potentially exerting some pressure on the government's budget.

Our assessment of a high default dependence reflects the strong possibility that in the event of a sovereign credit default, there would be a high risk of fiscal problems affecting FFSA, given:

- » FFSA's clear operational links with the government, whereby the company has an explicit and recognised mandate to implement specific government policies
- » The geographic focus of FFSA's activities, with all of its assets concentrated in Kazakhstan
- » The company's high business reliance on the government's long-term loans that are obtained on preferential terms.

## Ratings

Exhibit 5

Category	Moody's Rating
<b>NO PB2</b>	
Outlook	Stable
Issuer Rating	Ba2
Senior Unsecured -Dom Curr	Ba2
ST Issuer Rating	NP

Source: Moody's Investors Service

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