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**АКЦИОНЕРНОЕ ОБЩЕСТВО  
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### АО «Казахстанская фондовая биржа»

АО «Фонд финансовой поддержки сельского хозяйства» (далее - Общество) настоящим сообщает вам о том, что 11.10.2016 г. международное кредитное рейтинговое агентство «Moody's Investors Service» подтвердило долгосрочный кредитный рейтинг Общества на уровне: «Ba2», прогноз - «негативный».

Приложение: на 5 листах.

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## CREDIT OPINION

11 October 2016

Update

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# Fund Of Financial Support for Agriculture

## Semiannual Update

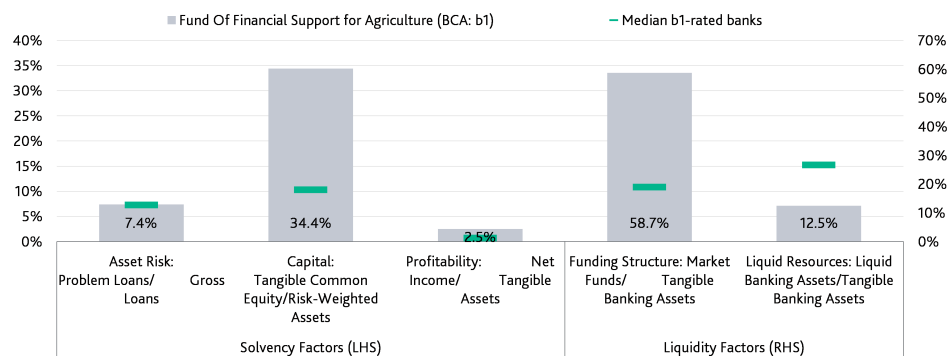
### Summary Rating Rationale

In accordance with Moody's government-related issuer (GRI) rating methodology, Fund of Financial Support for Agriculture's (FFSA) Ba2 long-term issuer and debt rating reflects the combination of the following inputs:

- » A baseline credit assessment (BCA) of b1. The rationale for the BCA is described more fully below
- » Kazakhstan's Baa3 government bond rating, which also acts as the "anchor" for support
- » Moody's assessment of a moderate probability of government support
- » Moody's assessment of a high default dependence

Exhibit 1

### Rating Scorecard - Key Financial Ratios



Source: Moody's Financial Metrics

### Credit Strengths

- » Government support translates into strong earnings before credit costs; thanks to interest-free long-term funding and capital injections
- » Strong capital adequacy means good loss absorption capacity and mitigates high asset risks
- » Low leverage and limited debt repayments in the next few years

## Credit Challenges

- » Very rapid loan growth in risky asset classes
- » High reliance on wholesale sources of funding refinancing risk
- » Liquidity buffers and generally long-term duration of the company's assets

## Rating Outlook

FFSA's Ba2 long-term issuer ratings carry a negative outlook. The outlook is in line with the negative outlook on the Baa3 ratings of the Kazakhstan Government.

## 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 for the institution.

## Factors that Could Lead to a Downgrade

- » Downwards pressure on FFSA's issuer ratings would develop if Kazakhstan's sovereign rating faced negative pressure. In addition, any indication of a weakening of the Kazakhstan authorities' willingness to support FFSA - or other state-owned companies that facilitate development of the agriculture sector - could negatively affect FFSA's issuer rating. Concurrently, FFSA's issuer rating would be negatively affected by any deterioration in asset quality and profitability as well as any evidence of increasing leverage beyond the level currently anticipated by Moody's.

## Key Indicators

Exhibit 2

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

	12-15 <sup>2</sup>	12-14 <sup>2</sup>	12-13 <sup>2</sup>	12-12 <sup>2</sup>	12-11 <sup>2</sup>	Avg.
Total Assets (KZT billion)	74	57.6	40.4	24.6	24.3	32.1 <sup>3</sup>
Total Assets (USD billion)	0.2	0.3	0.3	0.2	0.2	7.3 <sup>3</sup>
Tangible Common Equity (KZT billion)	23.3	22.7	24.6	21.7	21.4	2.1 <sup>3</sup>
Tangible Common Equity (USD billion)	0.1	0.1	0.2	0.1	0.1	-17 <sup>3</sup>
Problem Loans / Gross Loans (%)	7.4	5.3	6.6	8.6	4.1	6.4 <sup>4</sup>
Tangible Common Equity / Risk Weighted Assets (%)	34.4	43.1	69.1	111.2	143.1	80.2 <sup>5</sup>
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	17.3	11.6	9.3	8	2.8	9.8 <sup>4</sup>
Net Interest Margin (%)	9.7	8.5	7.3	6.2	4.9	7.3 <sup>4</sup>
PPI / Average RWA (%)	9.1	6.4	5.5	5.5	3.1	5.9 <sup>5</sup>
Net Income / Tangible Assets (%)	1.4	1.6	1.7	1.2	0.7	1.3 <sup>4</sup>
Cost / Income Ratio (%)	30.9	42.9	50.6	53.2	67	48.9 <sup>4</sup>
Market Funds / Tangible Banking Assets (%)	58.7	46.5	30.4	9.8	10.6	31.2 <sup>4</sup>
Liquid Banking Assets / Tangible Banking Assets (%)	12.5	4.9	6.8	9.7	33.2	13.4 <sup>4</sup>

[1] All figures and ratios are adjusted using Moody's standard adjustments [2] Basel I; IFRS [3] Compound Annual Growth Rate based on IFRS reporting periods [4] IFRS reporting periods have been used for average calculation [5] Basel I & IFRS reporting periods have been used for average calculation

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's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## Detailed Rating Considerations

### Baseline Credit Assessment (BCA):

The BCA of b1 is underpinned by the standalone strength of FFSA and reflects the entity's resilient financial fundamentals, evidenced by its substantial capital buffers, historically strong profitability and limited repayments in the next several years. The BCA also reflects risks associated with FFSA's weakly performing and rapidly growing loan portfolio, as well as the cyclical nature of the agriculture sector and the recently deteriorated and operating environment in Kazakhstan.

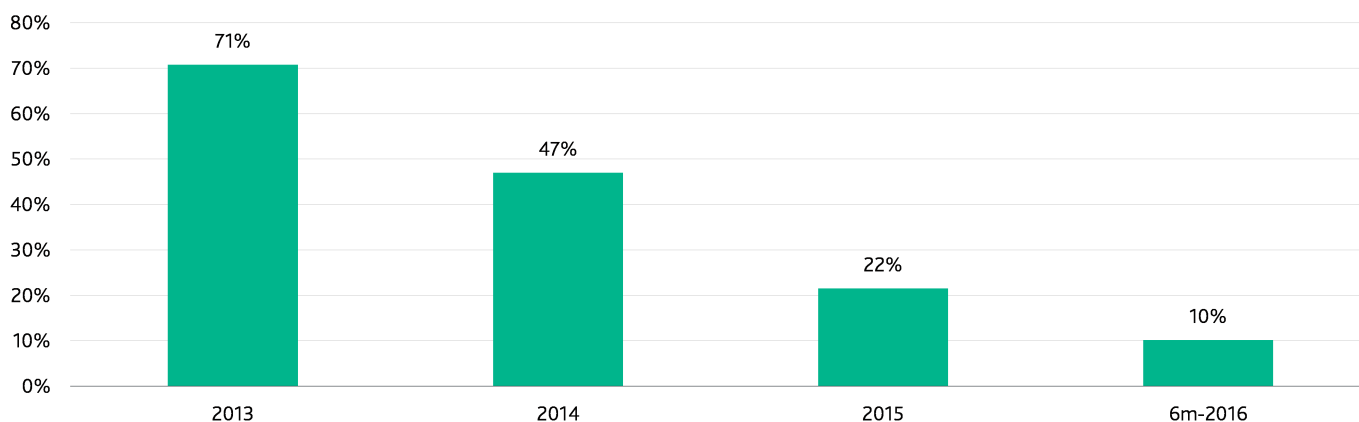
### VERY RAPID LOAN GROWTH IN RISKY ASSET CLASSES

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 micro-loans 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 was rapidly expanding its loan book, backed by substantial long-term government funding and capital injections. Most of these funds were received under the national programme "Employment 2020". The programme's mission is to promote job creation in rural area and will determine FFSA's future loan book profile. Therefore, most of the recent loan growth is generated from loan origination to finance new or expand the existing business in the 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 mitigate potential asset quality risks that FFSA might face once these loans start to season. Most of these loans are small amounts, and are provided to borrowers who exhibit relatively weak financial knowledge that, together with the high-risk nature of agriculture segment, exposes FFSA to high asset quality risks.

Exhibit 3

### FFSA's loan growth in 2013-H12016



Source: FFSA's IFRS reports

Most recently, problem loans are on the rise because FFSA's loan book is seasoning and historically rapid loan growth decelerates to 10% in H1 2016 from 22% in 2015, 47% in 2014 and 71% in 2013. As at year-end 2015, problem loans (individually impaired loans) increased to 7.4% of gross loans from 5.3% in 2014 and we expect problem loans to further increase as the loan book seasons. Despite the weak loan book performance FFSA's strong pre-provision income enables to build-up loan loss reserves without any pressure on capital.

### STRONG CAPITAL ADEQUACY WITH GOOD LOSS ABSORPTION CAPACITY AND SOUND PROFITABILITY METRICS

In our view, the risks associated with FFSA's loan portfolio are mitigated by the company's low leverage, with an equity-to-loans ratio of 58% (unaudited report) as of 30 June 2016. This ratio provides a significant loss absorption cushion to the institution, thereby protecting creditors.

FFSA's reported profitability is also strong, despite its predominantly not-for-profit development mandate. Its profit before tax stood at KZT3.2 billion for the six months of 2016 despite credit costs that amounted for KZT0.9 billion in the same period. As a result, FFSA's pre-provision income accounted for a strong 5.4% of total average assets in H1 2016. The major drivers for such strong earnings are: (1) a full reliance on capital and interest-free funding; and (2) strong commission income thanks to FFSA's involvement as a government agent in the rural mortgage lending programme. Fee and commission from the company's services accounted for about one fifth of FFSA's pre-tax income in H1 2016.

### Liquidity Analysis

We note the company's low leverage, with an equity-to-assets ratio of 35% as of 30 June 2016, down from 68% in December 2013 following the attraction of long-term loans from local municipalities under the state programme "Employment 2020". We expect leverage will continue to build-up as the fund plans to continue increasing its assets in the next few years. We note that most of FFSA's non-equity funding is due in 2018-19; therefore FFSA enjoys a favourable repayment schedule in the next few years.

Although the loan book duration (contractual terms) is shorter than debt repayments scheduled beginning 2018, a significant deterioration in the loan book might substantially challenge FFSA's ability to repay its wholesale debts in 2018-19. However, we note these potential refinancing risks related to asset quality performance are remote, and are mitigated by the high likelihood that the company will be able to rollover these facilities attracted from the state upon the maturity or might even convert these into capital.

### Government Support

Moody's assumption of a moderate probability of government support is underpinned by FFSA's 100% ultimate government ownership, the absence of any imminent plans for privatisation 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 its development of rural territories via providing low-cost micro-loans to local farmers and the rural population.

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

In addition, the government is well known to be an active shareholder of the company, therefore a default by FFSA would likely have a negative impact for other state-owned companies as it will challenge them to refinance.

Moody's 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:

- » Clear operational linkages to the government, whereby FFSA has an explicit and recognized 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 4

Category	Moody's Rating
<b>FUND OF FINANCIAL SUPPORT FOR AGRICULTURE</b>	
Outlook	Negative
Issuer Rating	Ba2
Senior Unsecured -Dom Curr	Ba2
ST Issuer Rating	NP

Source: Moody's Investors Service

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