«АУЫЛ ШАРУАШЫЛЫҒЫН ҚАРЖЫЛАЙ ҚОЛДАУ ҚОРЫ» АКЦИОНЕРЛІК ҚОҒАМЫ

АКЦИОНЕРНОЕ ОБЩЕСТВО «ФОНД ФИНАНСОВОЙ ПОДДЕРЖКИ СЕЛЬСКОГО ХОЗЯЙСТВА»

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АО «Казахстанская фондовая биржа»

АО «Фонд финансовой поддержки сельского хозяйства» (далее – Общество) сообщает о подтверждении 29 января 2016 года рейтинговым агентством Moody's Investors Service LLP, международного кредитного рейтинга Общества на уровне «Ba2/ стабильный/NP, Baa1. kz».

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Credit Opinion: Fund Of Financial Support for Agriculture

Global Credit Research - 29 Jan 2016

Kazakhstan

Ratings

Category	Moody's Rating
Outlook	Stable
Issuer Rating	Ba2
Senior Unsecured -Dom Curr	Ba2
ST Issuer Rating	NP

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Key Indicators

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

	[2]6-15	[2]12-14	[2]12-13	[2]12-12	[2]12-11	Avg.
Total Assets (KZT billion)	70.9	57.6	40.4	24.6	24.3	[3]30.7
Total Assets (USD billion)	0.4	0.3	0.3	0.2	0.2	[3]23.5
Tangible Common Equity (KZT billion)	22.6	22.7	24.6	21.7	21.4	[3]1.4
Tangible Common Equity (USD billion)	0.1	0.1	0.2	0.1	0.1	[3]-4.2
Problem Loans / Gross Loans (%)	--	3.9	6.6	8.6	4.1	[4]5.8
Tangible Common Equity / Risk Weighted Assets (%)	--	43.1	69.1	111.2	143.1	[5]91.6
Problem Loans / (Tangible Common Equity + Loan Loss Reserve) (%)	--	8.5	9.3	8.0	2.8	[4]7.1
Net Interest Margin (%)	8.7	8.5	7.3	6.2	4.9	[4]7.1
PPI / Average RWA (%)	--	6.4	5.5	5.5	3.1	[5]5.1
Net Income / Tangible Assets (%)	2.3	1.6	1.7	1.2	0.7	[4]1.5
Cost / Income Ratio (%)	31.5	42.9	50.6	53.2	67.0	[4]49.0
Market Funds / Tangible Banking Assets (%)	53.8	46.5	30.4	9.8	10.6	[4]30.2
Liquid Banking Assets / Tangible Banking Assets (%)	13.3	4.9	6.8	9.7	33.2	[4]13.6

Source: Moody's

[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

Opinion

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 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 Baa2 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

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 years, 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:

(1) Clear operational linkages to the government, whereby FFSA has an explicit and recognized mandate to implement specific government policies;

(2) The geographic focus of FFSA's activities, with all of its assets concentrated in Kazakhstan; and

(3) The company's high business reliance on the government's long-term loans that are obtained on special terms.

Rating Drivers

- Moderate probability of government support, as described above

- Very rapid growth in the risky asset classes and unseasoned loan book

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

- Favourable liquidity with almost no debt repayments in the next few years

Rating Outlook

FFSA's foreign-currency issuer ratings of Ba2 have a stable outlook.

What Could Change the Rating - Up

A sustained track record of strong asset performance and maintenance of healthy capital and liquidity profiles could have upward rating implications for the institution.

What Could Change the Rating - Down

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.

DETAILED RATING CONSIDERATIONS

The BCA of b1 is underpinned by the standalone strength of FFSA and reflects the entity's strong financial fundamentals, evidenced by its substantial capital buffers, adequate profitability, and favourable repayment schedule for the next several years. The BCA also reflects risks associated with FFSA's risky and, until recently, rapidly growing loan portfolio, as well as the cyclical nature of the agriculture sector and the recent headwinds in the economy of Kazakhstan.

VERY RAPID GROWTH IN THE RISKY ASSET CLASSES AND UNSEASONED LOAN BOOK

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 determines FFSA's asset risk 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. Most of these loans are secured by real estate but 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.

As at year-end 2014, problem loans (individually impaired loans) accounted for 4.1% of gross loans despite rapid loan book growth in the recent years (49% growth in 2014, and 71% growth in 2013). High growth rates will likely remain in 2015-2016 (according to unaudited IFRS data gross loan book increased by 23% in January-September 2015).

STRONG CAPITAL ADEQUACY WITH GOOD LOSS ABSORPTION CAPACITY AND 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-total assets ratio of 42% as of end-September 2015 as per unaudited IFRS data. This ratio provides a significant loss absorption cushion to the institution, thereby protecting creditors.

FFSA's reported profitability is also healthy, despite its predominantly not-for-profit development mandate. According to unaudited IFRS data its annualised return on average assets(before tax) stood at 3.5% in the first nine months of 2015 (2014: 2.6%; 2013: 1.9%). The strong result is despite credit costs that accounted for 1.6% of average gross loans. We also note that almost the full amount of interest expenses that FFSA booked in its IFRS statement were not paid because the company amortises one-off gains (gains were booked in capital upon receiving an interest-free government loan) via its income statement. Given the above-mentioned conditions, we note that that the company's actual recurring earnings power is strong, with pre-provision income adjusted for interest expenses accounting for a strong 7.7% of total average assets in 9m2015. The major drivers for such strong earnings are: (1) a full reliance on capital and interest-free funding; and (2) FFSA's involvement as a government agent in the rural mortgage lending programme that generates strong commission income. Fee and commission derived from these services accounted for about 20% of FFSA's pre-provision income as of end-September 2015.

FAVOURABLE LIQUIDITY WITH VIRTUALLY NO REPAYMENTS IN THE NEXT FEW YEARS

We note the company's low leverage, with an equity-to-assets ratio of 42% as of end-September 2015, down from 51% in 2014 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 company plans to increase its assets above KZT100 billion in the next few years from KZT72.5 billion reported in September 2015, However, we are not aware of any plans to substantially increase capital. We note that most of non-equity funding is due to mature in 2018-19 that means a very favourable repayment schedule for the next few years.

Although the loan book's average duration (contractual terms) is shorter than debt repayments, any significant deterioration in the loan book might significantly challenge FFSA's ability to repay these government debts in 2018-19. However, we note these potential liquidity risks related to asset quality performance are remote, and are mitigated by the high likelihood that the company will be able to roll-over these loans upon the maturity or might even ask the Government to convert these into equity.

Note on data

Unless noted otherwise, all figures shown in this report are sourced from the bank's latest annual and interim financial reports and additional information from the bank. In addition, where indicated thought the document we use reference to Moody's Banking Financial Metrics which are based on our own chart of account, and are adjusted for analytical purposes. Please refer to the documents entitled "Financial Statement Adjustments in the Analysis of Financial Institutions" published on 15 June 2015.

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