



010000, Астана қ., А. Иманов көш., 11,  
«Нұрсәулет-1» БО  
Тел.(факс) 8 (7172) 55-99-90, 55-99-85  
e-mail: [info@agrocredit.kz](mailto:info@agrocredit.kz)

010000, г. Астана, ул. А.Иманова, 11,  
БЦ «Нұрсәулет-1»  
Тел.(факс) 8 (7172) 55-99-90, 55-99-85  
e-mail: [info@agrocredit.kz](mailto:info@agrocredit.kz)

01.07.2016г. № 22-17/2625

На № \_\_\_\_\_ от \_\_\_\_\_

**АО «Казахстанская фондовая биржа»**

АО «Аграрная кредитная корпорация» (далее - Корпорация) сообщает о подтверждении 30 июня 2016 года рейтинговым агентством Standard & Poor's рейтингов Корпорации на уровне «BB+/негативный/B, kzAA-».

**Первый заместитель  
Председателя Правления**

**Сейсенбаев Н.Р.**

Исп.: Абдулла А.Б.  
Тел.: 8 (717-2) 55-99-39

# RatingsDirect®

---

## Research Update:

# Ratings On Kazakh Agrarian Credit Corp. Affirmed At 'BB+/B'; Outlook Negative

### Primary Credit Analyst:

Maxim Rybnikov, London (44) 20-7176 7125; maxim.rybnikov@spglobal.com

### Secondary Contact:

Suren Asaturov, Moscow (7) 495-662-34-90; suren.asaturov@spglobal.com

## Table Of Contents

---

Overview

Rating Action

Rationale

Outlook

Related Criteria And Research

Ratings List

## Research Update:

# Ratings On Kazakh Agrarian Credit Corp. Affirmed At 'BB+/B'; Outlook Negative

## Overview

- In our view, Kazakh Agrarian Credit Corp. (KACC) remains a strategically important institution within the KazAgro group and we believe that the government of Kazakhstan is highly likely to provide timely and extraordinary support to KACC in a financial stress scenario.
- We are therefore affirming our 'BB+/B' ratings on KACC.
- The negative outlook mirrors that on the sovereign. We are likely to lower the ratings on KACC if we lower our ratings on Kazakhstan over the next 12 months.

## Rating Action

On June 30, 2016, S&P Global Ratings affirmed its 'BB+/B' long- and short-term issuer credit ratings on Kazakh Agrarian Credit Corp. (KACC). The outlook is negative.

We also affirmed the Kazakhstan national scale ratings on KACC at 'kzAA-'.

## Rationale

The ratings on KACC (or the corporation) are primarily supported by its strategically important status within the KazAgro group. The group consists of development institutions operating in the agricultural sector of Kazakhstan. We assess the KazAgro group's credit profile (GCP) at 'bbb-', that is, in line with our sovereign rating on Kazakhstan. This is because we expect the group to almost certainly benefit from extraordinary government support in case of need due to its critical importance for, and integral link with, the government. Owing to KACC's strategically important status within the group, our ratings on KACC are three notches higher than the institution's 'b+' stand-alone credit profile (SACP). The ratings on KACC also reflect our view that the government of Kazakhstan is highly likely to provide timely and extraordinary support to the company in a financial stress scenario.

KACC was established in 2001 in accordance with the government decree. The institution implements several government programs and aims to develop Kazakhstan's agricultural sector through extending loans at favorable rates. Development goals include, among others, increasing the sector's productivity and improving its export potential. Since 2007, KACC has operated as part of the KazAgro group, which includes several other companies contributing to the development of the sector. The corporation is fully owned by the parent company of the group, KazAgro National Management Holding. The holding company, in turn, is fully owned by the government.

In our view, KACC remains among the key institutions within the KazAgro group. It is one of the largest in the group (with assets amounting to about 15% of the group's consolidated assets at end-2015) and its primary mandate of extending government support to the agricultural sector and rural areas remains important to the group's long-term strategy. Moreover, we understand that KACC's functions within the KazAgro group may be expanded in the near future. The corporation has obtained the status of financial agency and intends to take over financing of the spring harvest work from 2017 onwards--a function previously performed by the KazAgro holding company.

KACC also aims to increase support of the agricultural sector through closer cooperation with international financial institutions (IFIs). Although government financing will continue to play a key role in the institution's funding mix, a sizable part of the company's balance sheet expansion over the next few years is contemplated on the back of direct borrowing from the IFIs. We understand that some of this borrowing may involve the provision of a sovereign guarantee.

The corporation also plans to expand its cooperation with commercial banks. KACC has already started financing the agricultural sector by funding commercial banks in 2015. At the end of last year, lending to banks amounted to about Kazakhstani tenge (KZT) 9 billion or close to 6% of KACC's balance sheet. We expect this share to gradually increase.

The potential for KACC's expanded responsibilities within the group is balanced by the medium-term prospect of the entity increasingly transferring some of its functions to the private sector. In the near future, KACC will maintain its focus on financing the agricultural credit unions and support several strategic spheres including raising the livestock quantity, developing meat processing, milk production, and others. Over the longer-term, however, KACC envisions the agricultural credit unions becoming increasingly self-financing rather than reliant on government support.

We view KACC as playing a strategically important role within the KazAgro group. Our assessment balances the key role KACC currently plays for the agricultural sector and the potential for some expansion of the entity's functions against the long-term goal of rising private sector involvement in the agricultural sphere. As we assess the KazAgro group's credit profile at 'bbb-' and owing to KACC's strategically important status within the KazAgro group, our ratings on KACC are three notches higher than its 'b+' stand-alone credit profile (SACP).

According to our criteria for rating government-related entities, we also believe that there is a high likelihood of timely extraordinary government support for KACC in the event of financial distress. Our view is based on the entity's:

- Important role for the government. In addition to the aforementioned functions, KACC provides cheap loans to non-agricultural businesses in rural areas throughout Kazakhstan. Moreover, its wide presence across Kazakhstan and accumulated expertise in the sector means another entity would not easily be able to replicate its functions; and
- Very strong link with the government of Kazakhstan, which wholly owns KACC through

KazAgro Holding. Privatization is not currently on the agenda and the government closely monitors KACC's activities through KazAgro Holding. We also understand that in 2016 the government has decided to inject KZT25 billion of capital into KazAgro Holding, which, in turn, would capitalize KACC for about KZT23 billion.

We assess KACC's SACP at 'b+', reflecting the 'bb-' anchor that we apply to banks operating only in Kazakhstan, as well as KACC's moderate business position, very strong capital and earnings, moderate risk position, below average funding, and moderate liquidity.

KACC is relatively small with KZT166 billion (around US\$0.5 billion) in assets as of March 31, 2016, which is comparable to the Kazakh banks in the third tier of the domestic system. It is concentrated in the agricultural sector and therefore plays a publicly important role as a sizable proportion of the Kazakh population is working in this sector. Specifically, the institution is the key lender to small agricultural producers as well as to certain subsectors--for example meat production and processing--which are currently less attractive for commercial banks. That said, KACC's overall share in the agricultural sector lending is estimated at about 10%.

Our very strong capital and earnings assessment reflects S&P Global Ratings' risk-adjusted capital (RAC) ratio for KACC of 31.2% at the end of 2015. Furthermore, historically, the RAC has not been lower than 25% reflecting a robust capitalization policy. However, the main source of capital has been the equity injections from the government. Since the beginning of 2011, the government has injected around KZT46 billion of new equity. Earnings are not sufficient to generate capital internally, with the entity recording around 0.5% return on adjusted assets (ROAE) during 2011-2015. We note, however, that as a development institution, KACC is not targeting profit maximization.

We expect the RAC ratio to be higher than 15% in 2016-2017, based on the following assumptions:

- Loan growth of 40% in 2016 and 50% in 2017 under the state development programs;
- A KZT23 billion equity injection in 2016;
- Dividend payouts equal to 50% of net income in 2016-2017;
- Credit costs of around 3.5%-4.0% in 2016-2017, up from 2.7% in 2015 due to the worsening macroeconomic environment; and
- ROAE of around 0.7% in 2016-2017.

Our moderate risk position assessment balances lending concentration in the cyclical and weather-dependent agricultural sector with low single-name concentrations and low foreign currency lending. Asset quality is broadly in line with peers and we do not expect sharp improvements in the quality of the loan book (KACC's loans overdue by more than 90 days formed 21% of the total lending as of March 31, 2016) in 2016-2017 due to the difficult economic environment. Single-name concentrations are low compared with those of Kazakh banks, with the 20 largest borrowers representing 49% of KACC's total adjusted capital on April 1, 2016. Foreign exchange risks are minimal as the company's loan portfolio and liabilities are nominated in tenge.

Our below average funding and moderate liquidity assessments reflect a concentrated funding profile--as almost 100% of KACC's funding is from the parent--and cyclical liquidity because a substantial portion of loans have bullet redemptions in the fourth quarter of each year, which coincide with the repayment of the budget loans provided via the parent. KACC does not have access to a central bank funding mechanism, nor does it have a deposit license. As of March 31, 2016, cash and money market instruments represented 5.9% of the asset base, which we consider to be low.

We note some positive developments in diversity and availability of funding, namely KACC being included in the list of financial agencies that can directly receive budgetary funding from the government of Kazakhstan through a simplified procedure. It is also negotiating some direct funding from the IFIs. We see vulnerabilities from those funds being denominated in foreign currency, consequently lifting market risks if the local currency were to weaken further. That said, we understand those risks would most likely be hedged.

## **Outlook**

The negative outlook on KACC mirrors our outlook on the sovereign ratings on Kazakhstan. We would likely revise the outlook or lower the ratings on KACC if we took similar rating actions on the sovereign over the next 12 months. This is because a sovereign downgrade would likely lead us to revise our assessment of KazAgro's GCP, in turn affecting the ratings on KACC.

Any weakening in KACC's SACP, which could follow a material deterioration in the quality of its loan book and sharply increased credit costs, might prompt us to consider lowering the ratings on KACC. A broad deterioration in the standalone creditworthiness of the KazAgro group's entities could also indicate weakening government supportiveness, which might lead us to lower the GCP and hence the ratings on KACC.

We might consider a positive rating action if we observed a material increase in the importance of KACC's role for the government, leading us to conclude that the likelihood of the institution receiving extraordinary government support in a stress scenario has increased.

## **Related Criteria And Research**

### **Related Criteria**

- General Criteria: S&P Global Ratings' National And Regional Scale Mapping Tables - June 01, 2016
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions - March 25, 2015
- General Criteria: National And Regional Scale Credit Ratings - September 22, 2014
- General Criteria: Group Rating Methodology - November 19, 2013
- Criteria - Financial Institutions - Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions - July 17, 2013
- Criteria - Financial Institutions - Banks: Revised Market Risk Charges For Banks

In Our Risk-Adjusted Capital Framework - June 22, 2012

- Criteria - Financial Institutions - Banks: Banking Industry Country Risk Assessment Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Banks: Rating Methodology And Assumptions - November 09, 2011
- Criteria - Financial Institutions - Banks: Bank Capital Methodology And Assumptions - December 06, 2010
- General Criteria: Use Of CreditWatch And Outlooks - September 14, 2009
- Criteria - Financial Institutions - Banks: Commercial Paper I: Banks - March 23, 2004

## Related Research

- Research Update: Republic of Kazakhstan 'BBB-/A-3' Ratings Affirmed On Strong Fiscal And Debt Position; Outlook Negative - March 11, 2016
- Research Update: Outlook On Kazakh Agrarian Credit Corporation Revised To Negative; 'BB+/B' Ratings Affirmed - February 24, 2016
- Credit FAQ: A Closer Look At Recent Rating Actions On Kazakhstan Government-Related Entities - July 22, 2015

## Ratings List

	Rating	
	To	From
Kazakh Agrarian Credit Corp.		
Issuer Credit Rating		
Foreign and Local Currency	BB+/Negative/B	BB+/Negative/B
Kazakhstan National Scale	kzAA-/--/--	kzAA-/--/--
Senior Unsecured		
Local Currency	BB+	BB+
Kazakhstan National Scale	kzAA-	kzAA-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com) and at [spcapitaliq.com](http://spcapitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3605; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Copyright © 2016 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, [www.standardandpoors.com](http://www.standardandpoors.com) (free of charge), and [www.ratingsdirect.com](http://www.ratingsdirect.com) and [www.globalcreditportal.com](http://www.globalcreditportal.com) (subscription) and [www.spcapitaliq.com](http://www.spcapitaliq.com) (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at [www.standardandpoors.com/usratingsfees](http://www.standardandpoors.com/usratingsfees).

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.