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Research Update:

Kazakh Agrarian Credit Corp. Ratings Affirmed At 'BB/B/kzA+'; Outlook Stable

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Overview

- We believe there is a "high" likelihood of timely and sufficient extraordinary support to Kazakh Agrarian Credit Corp. (KACC) from the Kazakh government.
- We view KACC's stand-alone credit profile at 'b'.
- We are affirming our 'BB/B' and 'kzA+' ratings on KACC.
- The stable outlook reflects our expectations of continued strong ongoing support to KACC in 2012-2014, resulting in strong capitalization levels and adequate liquidity.

Rating Action

On Nov. 8, 2011, Standard & Poor's Ratings Services affirmed its 'BB' long-term and 'B' short-term issuer credit ratings and the 'kzA+' Kazakhstan national scale rating on Kazakh Agrarian Credit Corp. (KACC), a state-owned provider of subsidized credit to agricultural and nonagricultural businesses in rural areas throughout the Republic of Kazakhstan (foreign and local currency BBB+/Stable/A-2; Kazakhstan national scale 'kzAAA'). The outlook is stable.

Rationale

The ratings on KACC reflect a combination of its stand-alone credit profile, which we assess at 'b', and our opinion of a "high" likelihood of timely and sufficient extraordinary support the company may receive from the Kazakh government in the event of financial distress.

In accordance with our criteria for government-related entities, our view of a "high" likelihood of extraordinary government support is based on our current assessment of KACC's:

- "Important" role for the government. As a government instrument to subsidize the politically and socially important agricultural sector, KACC carries out a public-policy-based mandate of providing cheap credit to agricultural and nonagricultural businesses in rural areas throughout Kazakhstan. Furthermore, because KACC is present in 158 out of 177 districts in the country, is responsible for a large share (estimated at more than 16%) of the total loans provided to agricultural producers in Kazakhstan, and has accumulated expertise in the sector, its functions cannot be performed easily by any other entity.
- "Very strong" link with the Kazakh government. Kazakhstan's government wholly owns KACC through KazAgro Holding (not rated), and privatization

is not on the agenda. The government tightly monitors KACC's activities through KazAgro.

The 'b' stand-alone credit profile is constrained by KACC's high sector and single-name concentrations in the challenging operating environment that is Kazakhstan's agricultural sector. Moreover, the relatively weak quality of its lending decisions in the past results in current weak profitability.

It is buoyed in our view by significant ongoing state support to KACC, resulting in high and growing capitalization and the availability of cheap financing in the form of budget and national fund loans. More than 50% of loans are covered by equity. Although the government provides capital injections to finance specific lending programs in a given year, we believe KACC may use capital provided in previous years to offset losses and repay debt, while current-year injections might be redistributed if necessary.

The government will provide Kazakhstani tenge (KZT) 16.7 billion (about \$110 million) of new capital in 2011 and is expected to provide capital in 2012-2014, as well, with KZT4.0 billion expected in 2012 under various state programs.

KACC's loan portfolio suffers both from sector concentration, with almost 90% of loans to the agricultural sector, and single-name concentration, with the 20 largest borrowers representing about 45% of total loans as of midyear 2011. Furthermore, up to 70% of the portfolio is concentrated on grain producers, with modest exposure to other sectors.

The quality of KACC's loan portfolio is relatively weak. As of June 30, 2011, reported nonperforming loans comprised about 12% of total loans, while restructured loans were at about 11%.

Liquidity

KACC's liquidity remains volatile, but adequate for the rating level, in our opinion. As of Oct. 1, 2011, KACC's cash of KZT9.8 billion (\$65 million) in current accounts with the largest Kazakh banks was not sufficient to service debt of about KZT23 billion in late 2011. However, debt service largely consists of budget loans of KZT19 billion due in December 2011, to be covered by repaid customer loans. Market debt repayments of about KZT3.4 billion are well covered by the available liquidity

The remaining \$66 million of a loan from Commerzbank AG (A/Negative/A-1) to be gradually repaid by 2013 still contains some covenants, which we do not expect to be violated.

Outlook

The stable outlook reflects our expectations of continued strong ongoing support to KACC in 2012-2014, resulting in strong capitalization levels and

adequate liquidity. It also reflects our expectation that our assessment of a "high" likelihood of timely and sufficient extraordinary government support will not change.

A stronger probability of extraordinary support, or positive momentum in the stand-alone credit profile, with improving profitability, might lead to positive rating actions on KACC.

Negative rating actions on the sovereign, or signs of a lower probability of extraordinary support, might result in negative rating actions on KACC. Deterioration of the stand-alone credit profile, with weakening liquidity and growing problem assets in KACC's portfolio, might also result in negative rating actions.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Bank Rating Analysis Methodology Profile, March 18, 2004

Ratings List

Ratings Affirmed

Kazakh Agrarian Credit Corp.

Issuer Credit Rating	BB/Stable/B
Kazakhstan National Scale Rating	kzA+
Senior Unsecured	kzA+
	BB

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Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following Standard & Poor's 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.

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