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Key rating assessment
factors

Key assumptions

ACRA upgrades the Novosibirsk Region to AA-(RU), outlook Stable, and bond issues to AA-(RU)

ACRA has upgraded the credit rating of the [Novosibirsk Region](#) (hereinafter, the Region) due to its positive budget dynamics, the reduction of its relative debt load, and its flexible debt repayment schedule.

The Novosibirsk Region is part of the Siberian Federal District and borders Kazakhstan. The Region is home to almost 2% of Russia's population and generates around 1.5% of Russia's total GRP. The Novosibirsk Region is a large scientific center in the Siberian Federal District. Professional, scientific, and technical activities account for 5% of the Region's GRP.

The liquidity accumulated in 2018 could allow the Region to finance potential deficit in 2019. The Region executed its 2018 budget with a surplus of RUB 7.4 bln. Tax and non-tax revenues (TNTR) increased by 15% from RUB 106.6 bln to 122.6. According to ACRA's methodology, the Region's operating balance increased by 27% to RUB 39 bln. The regional budget's deficit could amount to as much as RUB 9 bln in 2019, with funds accumulated from the previous year being the main source of financing. The Region finances its budgetary expenses independently; its proprietary income (excluding subventions) for 2016-2019 should average 86%. Capital expenses amount to around 18% of total expenses and the Region finances them independently for the most part. However, mandatory expenses are high (should amount to 74% for 2016-2019), meaning that the majority of budgetary funds are aimed at current needs and social spending. According to ACRA, the Region will maintain this budget structure in the medium-term.

The Region has a low relative debt load and a smooth debt repayment schedule. The Region's debt to operating balance ratio decreased from 1.6 to 1.1x in 2016-2018, while absolute debt size decreased by 6%, from RUB 47 bln to 44. In a conservative scenario, this ratio could amount to 1.4x at the end of 2019, with debt increasing to RUB 47 bln. The Region exhibits a balanced approach to debt structure management regarding terms of maturity and is part of the budget loan restructuring program. The debt to TNTR ratio amounted to 36% at the end of 2018, 6% under the 42% cap that the program stipulates. The debt servicing ratio at the end of each year indicates the Region's low level of refinancing risk. The Region uses a passive account management mechanism. Therefore, the turnover on taking out and repaying loans within each year increases, while the amount of debt within the year decreases compared to this indicator as of January 1 of each year. As a result, the Region saves in interest expenses, whose ratio to the operating balance is consistently at a low level.

The Region's economy is diversified and features highly developed transport and logistics, research and production segments. The first of these segments has a noticeable influence on the Region's budget and makes a tangible contribution to the regional economy (about 15% of GRP and 10% of tax revenues). The second has only a slight impact, as the commercialization of scientific and technical developments takes a long time. Per capita GRP and per capita income do not exceed 83% of the national levels in the period under review; unemployment in the Region remains above the national average.

- Maintaining the share of mandatory expenses within 75% of budgetary expenses;
- Maintaining capital expenses at a stable level;
- Maintaining a conservative debt policy.

Potential outlook or rating change factors

The **Stable outlook** assumes that the rating will most likely stay unchanged within the 12 to 18-month horizon.

A positive rating action may be prompted by:

- Regional economic growth with increases in economic indicators relative to national averages;
- Decrease in the regional budget's mandatory expenses.

A negative rating action may be prompted by:

- Decreased GRP growth rates lower than the national average in the medium-term;
- Decreased proprietary funds by 5% or more of ACRA's projected values;
- Increase in relative debt load higher than 1.8x.

Issue ratings

Credit rating rationale. In ACRA's opinion, the below bonds issued by the Novosibirsk Region are senior unsecured debt instruments, and their credit rating is equal to the rating assigned to the [Novosibirsk Region](#) — AA-(RU).

[The Novosibirsk Region, 34016 \(RU000A0JUR46\)](#), maturity date: October 8, 2019, issue volume: RUB 7 bln — **AA-(RU)**;

[The Novosibirsk Region, 34017 \(RU000A0JWUV3\)](#), maturity date: October 3, 2021, issue volume: RUB 5 bln — **AA-(RU)**;

[The Novosibirsk Region, 34018 \(RU000A0ZYBD3\)](#), maturity date: September 27, 2022, issue volume: RUB 5 bln — **AA-(RU)**;

[The Novosibirsk Region, 34019 \(ISIN RU000A0ZZPB4\)](#), maturity date: October 15, 2023, issue volume: RUB 5 bln — **AA-(RU)**.

Regulatory disclosure

The credit ratings have been assigned to the Novosibirsk Region and to bonds issued by the Novosibirsk Region (ISIN RU000A0JUR46, RU000A0JWUV3, RU000A0ZYBD3, RU000A0ZZPB4) under the national scale for the Russian Federation based on the [Methodology for Credit Rating Assignment to Regional and Municipal Authorities of the Russian Federation](#), and the [Key Concepts Used by the Analytical Credit Rating Agency Within the Scope of Its Rating Activities](#). In the process of credit rating assignment to the above issues, the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also used. The credit rating of the Novosibirsk Region and credit ratings of government securities of the Novosibirsk Region (ISIN RU000A0JUR46, RU000A0JWUV3, RU000A0ZYBD3) were published by ACRA for the first time on November 9, 2017. The credit rating of the government security of the Novosibirsk Region (ISIN RU000A0ZZPB4) was published by ACRA for the first time on October 15, 2018.

The credit rating of the Novosibirsk Region and its outlook as well as the credit ratings of government securities issues of the Novosibirsk Region (ISIN RU000A0JUR46, RU000A0JWUV3, RU000A0ZYBD3, RU000A0ZZPB4) are expected to be revised within 182 days following the publication date of this press release in compliance with the [Calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings were assigned based on the data provided by the Novosibirsk Region, information from publicly available sources (the Ministry of Finance, the Federal State Statistics Service, and the Federal Tax Service), as well as ACRA's own databases. The credit ratings are solicited, and the Novosibirsk Region Government participated in their assignment.

No material discrepancies between the data provided and the data officially disclosed by the Novosibirsk Region in its financial report have been discovered.

ACRA provided no additional services to the Novosibirsk Regional Government. No conflicts of interest were discovered in the course of credit rating assignment.

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