

March 2, 2018

Lead analysts:

Elena Anisimova, Expert
+7 (495) 139-0486
elena.anisimova@acra-ratings.ru

Andrey Piskunov, Senior Director
+7-495-139-04-85
andrey.piskunov@acra-ratings.ru

Key rating assessment
factors

Key assumptions

ACRA affirms Kursk Region's credit rating at A(RU), outlook Stable, and affirms bond issues credit rating

The credit rating of the [Kursk Region](#) (hereinafter, the Region) is based on medium development of the economy, relatively high fiscal discipline, low debt load, and sufficient liquidity of the budget.

The Kursk Region is located in the Central Federal District and borders Ukraine and five regions of Russia. 0.8% of Russia's population (1.1 mln people) live in the Region. The Region's GRP amounted to RUB 369 bln in 2016 (it was RUB 335 bln, or 0.5% of the total GRP of Russia). The Region is part of the Central Black Earth Region. A part of the Kursk Magnetic Anomaly is located in the Region.

The Region's geographic location determines its economic development. Although low GRP per capita and moderate per capita income (around 69% and 85% of the national average figures for 2014-2017) limit the Region's economic development, the Agency notes the emerging positive trend these indicators demonstrate. The Region's economy is regarded as diversified: Agricultural sector and the related food production industry generate 20% of GRP and a quarter of the industrial output, respectively; on average, mineral production generates 10% of GRP and a quarter of the industrial output; power generation accounts for 8% of GRP and 20% of the industrial output. Tax revenues are recognized as relatively diversified, although revenues from a single industry (iron ore production) are increasing: the share of revenues equaled 23% in 2017 vs 14% in the previous year.

Fiscal discipline is driven by sufficient share of own revenues and support of the agricultural industry by the federal government. The share of own revenues in the Region's budget averaged 75% of total revenues (excluding subventions) in 2014-2017. High share of capital expenditures is largely due to federal subsidies supporting agricultural producers, which the Region has no independent control over and constituting no reserve for cutting capital expenditures in favor of the current expenses. As a result, the operating balance that accounted for around 25% of regular revenues in 2014-2017 is largely dependent on the amount of federal support.

Low debt coupled with a conservative debt policy and a comfortable debt repayment schedule. The Region placed a bond issue and restructured its fiscal loans in 2017; as a result, 70% of its debt are long-term borrowings with a comfortable repayment schedule. The rest of the debt is a short-term loan provided by the Federal Treasury Department and refinanced with banks. The current debt load in the Region's budget corresponds to the minimum risk. The debt and interest payments are unburdensome. According to ACRA estimates, the Region would be capable of complying with the terms and conditions of the agreements with the Ministry of Finance providing for no increase of its debt load.

High liquidity. The Region's administration has no right to place deposits with banks; however, sufficient liquidity allows for prompt performance of expenditure commitments including interest payments. Current month expenses exceed budget accounts balance as at month start. The Region's need in short-term liquidity is satisfied by short-term loans from the Federal Treasury Department and by bank loans.

- The conservative debt policy is maintained.
- Maintaining significant federal support of the Region's agribusiness;
- Transfer amounts in 2019 and 2020 are comparable to those received in 2017 and planned for 2018;

- Mandatory budget spending of the Region does not exceed 75%.

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:

- Growing share of products with high value added and outperforming GRP growth;
- Increasing number of manufacturing enterprises with high wages, which would drive higher average income per capita and tax revenues of the budget;
- Increased own liquidity of the budget.

A negative rating action may be prompted by:

- Changes in debt policy to substantially increase public debt level;
- Substantial reduction of support of agricultural enterprises by the federal budget, or changes in the share of subsidies provided by the federal and regional budgets;
- Underperforming salary growth in the Region (lagging behind average growth rates in Russia);

Issue ratings

[The Kursk Region, 35001 \(ISIN RU000A0ZYCD1\)](#), redemption: October 12, 2025, issue volume: RUB 4 bln. — A(RU).

Rationale. In ACRA's opinion, the above bond issued by the Kursk Region is senior unsecured debt instrument, and its credit rating is equal to the rating assigned to the [Kursk Region](#).

Regulatory disclosure

The credit ratings have been assigned to the Kursk Region and to bond issued by the Kursk Region (ISIN RU000A0ZYCD1) 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 issue, the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation was also used.

For the first time, the credit rating of the Kursk Region and credit rating of government securities of the Kursk Region (ISIN RU000A0ZYCD1) were published by ACRA on September 1, 2017 and on October 10, 2017, respectively. The credit rating of the Kursk Region and its outlook as well as the credit rating of government securities issues of the Kursk Region (ISIN RU000A0ZYCD1) are expected to be revised within 182 days after the rating action date (February 28, 2018) in compliance with the [2018 calendar of planned sovereign credit rating revisions and publications](#).

The credit ratings were assigned and affirmed based on the data provided by the Kursk 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 Kursk Region Administration participated in their assignment.

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

ACRA provided no additional services to the Kursk Region Administration. No conflicts of interest were discovered in the course of credit rating assignment.

(C) 2018

Analytical Credit Rating Agency (Joint-Stock Company), ACRA (JSC)
75, Sadovnicheskaya embankment, Moscow, Russia
www.acra-ratings.com

Analytical Credit Rating Agency (ACRA) was founded in 2015, with its 27 shareholders representing major Russian corporate and financial institutions and its authorized capital exceeding RUB 3 bn. ACRA's main objective is to provide the Russian financial market with high-quality rating products. Methodologies and internal documents of ACRA are developed in compliance with the Russian legislation and with regard to global rating industry best practices.

The provided information, including, without limitation, credit and non-credit ratings, rating assessment factors, detailed credit analysis results, methodologies, models, forecasts, analytical reviews and materials, as well as other information placed on the ACRA website (further referred to as Information), coupled with the ACRA website software and other applications, are intended for information purposes only. Information must not be modified, reproduced or distributed by any means, in any way or form, either in whole, or in part, in marketing materials, as part of public relations events, in news bulletins, in commercial materials or reports without a prior written consent from, and reference to, ACRA. Any use of Information in violation of these requirements or the law is prohibited.

ACRA credit ratings reflect ACRA's opinion about the ability of a rated entity to meet its financial obligations or about the credit risk of individual financial obligations and instruments of a rated entity at the time of publication of the relevant Information.

Non-credit ratings reflect ACRA's opinion about certain non-credit risks assumed by interested parties interacting with a rated entity.

The assigned credit and non-credit ratings reflect all material information pertaining to a rated entity and known by ACRA (including the information received from third parties), the quality and reliability of which ACRA considers appropriate. ACRA shall not be responsible for the accuracy of information provided by clients or relevant third parties. ACRA does not audit or otherwise verify the provided data and shall not be held responsible for their accuracy and completeness. ACRA conducts rating analysis of information provided by customers using its own methodologies, with the texts thereof available on ACRA's website – www.acra-ratings.ru/criteria.

The only source that reflects the latest Information, including the one about credit and non-credit ratings assigned by ACRA, is ACRA's official website – www.acra-ratings.com. Information is provided on an "as is" basis.

Information shall be considered by users exclusively as ACRA's statement of opinion and must not be regarded as advice, recommendation or suggestion to buy, hold or sell securities or other financial instruments of any kind, nor shall it be viewed as an offer or advertisement.

Neither ACRA, nor its employees and persons affiliated with ACRA (further referred to as the ACRA Parties) provide any direct or implied guarantee expressed in any form or by any means regarding the accuracy, timeliness, completeness or applicability of Information for making investment and other decisions. ACRA does not act as a fiduciary, auditor, investment or financial advisor. Information must be regarded solely as one of the factors affecting an investment decision or any other business decision made by any person who uses ACRA's information. It is essential that each of such persons conduct their own research and evaluation of a financial market participant, as well as an issuer and its debt obligations that may be regarded as an object of purchase, sale or possession. Users of Information shall make decisions on their own, involving their own independent advisors, if they deem it necessary.

ACRA Parties shall not be responsible for any action taken by users based on Information provided by ACRA. ACRA Parties shall under no circumstances be responsible for any direct, indirect or consequential damages or losses resulting from interpretations, conclusions, recommendations and other actions taken by third parties and directly or indirectly connected with such information.

Information provided by ACRA is valid only as of the date of preparation and publication of materials and may be amended by ACRA in the future. ACRA shall not be obliged to update, modify or supplement Information or inform anyone about such actions, unless the latter was recorded separately in a written agreement or is required by the legislation of the Russian Federation.

ACRA does not provide advisory services. ACRA may provide additional services, if this does not create a conflict of interest with rating activities.

ACRA and its employees take all reasonable measures to protect all confidential and/or material non-public information in their possession from fraud, theft, unlawful use or inadvertent disclosure. ACRA provides protection of confidential information obtained in the course of its business activities as required by the legislation of the Russian Federation.