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Key rating assessment factors

ACRA upgrades the Samara Region to AA(RU), outlook Stable, and bonds to AA(RU)

The credit rating of the [Samara Region](#) (hereinafter, the Region) has been upgraded based on the improvement of budget discipline indicators due to the growth of tax revenues and the improvement of the Region's debt repayment schedule. The rating is supported by a decline in the debt load and a high level of liquidity. The rating is restricted by economic development indicators, some of which are below the national average.

The Region is located in the Volga Federal District and ranks 11th in the Russian Federation in gross regional product (GRP). The Region's population is 3.2 mln people.

Highly self-sufficient budget with limited flexibility in budget expenses. In 2018, the Region executed its budget with a surplus of RUB 16 mln, while the Region's tax and non-tax revenues (TNTR) and operating balance (according to ACRA's methodology) increased by 15%. According to regional budget law, the Region could execute its budget with a surplus of 7.5% TNTR in 2019. ACRA believes the surplus could be substantially lower as most of it will be covered by balances accumulated in previous years. High levels of proprietary revenues characterize the Region's budget: this indicator should amount to 90% for 2016-2019. Mandatory (according to ACRA) expenses should average 71% for this period. However, the Region's operating balance is consistently around 25-32%, which indicates increased flexibility in budget expenses.

Moderate debt load with balanced deadline structure. In 2018, the Region reduced its debt by RUB 10 bln (15%) by paying off bank loans. At the beginning of 2019, the Region's public debt amounted to RUB 55 bln, of which bonds and budget loans accounted for RUB 37 bln and RUB 18 bln, respectively. According to ACRA, the Region's total debt at the end of 2019 should remain the same, while the debt to operating balance ratio and debt to TNTR ratio should stay below 125 and 40%, respectively. According to the Region's debt repayment schedule, the annual repayment (refinancing) sum of the current debt does not exceed 16% (i.e., no more than RUB 8.7 bln). Interest expenses on debt are not burdensome. The debt load is reducing significantly ahead of the rates established by the budget loan restructuring agreements.

High budget liquidity. The Region regularly places funds in deposits in amounts comparable to the budget's monthly expenses. As of May 1, 2019, the Region placed funds in bank deposits in the amount of around 53% of its debt liabilities. Managing temporarily free budget balances allows the budget to take in additional revenues and partially offset debt-servicing expenses.

Diversified economy with developed industry. The Region's main economic drivers are the processing industry (22.2% of GRP in 2017) and oil production (16.5% of GRP in 2017). Vehicle manufacturing and chemical production dominate the Region's processing industry, accounting for 41 and 16% of goods shipped in 2017, respectively.

Per capita GRP and per capita income over the reviewed period amount to 85 and 87% of the national average, respectively, with unemployment being below the national average.

Key assumptions

- Reducing TNTR in 2019 by no more than 2% compared to 2018;
- Controlling the growth rates of mandatory budget expenses in 2019;
- 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:

- Improvement in economic indicators compared to national averages;

- Reduction of mandatory budget expenses.

A negative rating action may be prompted by:

- Reduction in revenues from the main sources of tax income due to worsening market conditions and reduced industrial production;
- Substantial reduction in capital expenses;
- Increase in debt load.

Issue ratings

[The Samara Region, 35009 \(ISIN RU000A0JU2H5\)](#); maturity date: July 31, 2020, issue volume: RUB 8.3 bln — **AA(RU)**.

[The Samara Region, 35010 \(ISIN RU000A0JUQP7\)](#); maturity date: July 1, 2021, issue volume: RUB 12.0 bln — **AA(RU)**.

[The Samara Region, 34011 \(ISIN RU000A0JVK00\)](#); maturity date: June 18, 2020, issue volume: RUB 7.0 bln — **AA(RU)**.

[The Samara Region, 35012 \(ISIN RU000A0JWM56\)](#); maturity date: June 21, 2024, issue volume: RUB 10.0 bln — **AA(RU)**.

[The Samara Region, 35013 \(ISIN RU000A0JXT41\)](#); maturity date: May 31, 2024, issue volume: RUB 10.0 bln — **AA(RU)**.

[The Samara Region, 35014 \(ISIN RU000A0ZZ9P8\)](#); maturity date: June 04, 2026, issue volume: RUB 8.0 bln — **AA(RU)**.

Credit rating rationale. Bonds issued by the Samara Region are a senior unsecured debt, and their credit rating is on par with the rating of the [Samara Region](#).

Regulatory disclosure

The credit ratings were assigned to the Samara Region and the bonds (ISIN RU000A0JXT41, RU000A0JU2H5, RU000A0JUQP7, RU000A0JVK00, RU000A0JWM56, RU000A0ZZ9P8) issued by the Samara Region under the national scale for the Russian Federation based on the [Methodology for Credit Ratings Assignment to Regional and Municipal Authorities of the Russian Federation](#) and the [Key Concepts Used by Analytical Credit Rating Agency within the Scope of Its Rating Activities](#). To assign credit ratings to the above bond issues, ACRA also applied the Methodology for Assigning Credit Ratings to Individual Issues of Financial Instruments under the National Scale of the Russian Federation.

The credits ratings assigned to the Samara Region and the government bonds (ISIN RU000A0JXT41, RU000A0JU2H5, RU000A0JUQP7, RU000A0JVK00, RU000A0JWM56, RU000A0ZZ9P8) issued by the Samara Region were first published by ACRA on December 28, 2016, June 5, 2017, July 7, 2017, July 7, 2017, July 7, 2017, July 7, 2017, June 6, 2018, respectively. The credits ratings assigned to the Samara Region and the government bonds (ISIN RU000A0JXT41, RU000A0JU2H5, RU000A0JUQP7, RU000A0JVK00, RU000A0JWM56, RU000A0ZZ9P8) issued by the Samara Region are expected to be revised within 182 days following the publication date of this press release as per the [Calendar of planned sovereign credit rating revisions and publications](#).

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

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

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

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