April 12, 2018

Russian regions have become net lenders for financial institutions

Russian regions' financial reserves and commercial debt overview

- **In 2017, Russian regions earned RUB 99.4 billion as bank deposit interest…** 12 Russian regions earned additional revenues, of which 74.7% is the share of Moscow. Bank deposits placed by regions include surplus funds of previous periods, intra-year cash surpluses and temporary free cash balances of state-owned enterprises.

- **… and spent RUB 110.1 billion to pay loan interest.** Most payments (in absolute terms) were made by Krasnoyarsk Region and Moscow Region (RUB 6.8 billion and RUB 6.6 billion, respectively). Moscow Region earned about RUB 7 billion from its bank deposits, which completely covered its debt service costs. Note that, in 2017, the interest earnings on bank deposits exceeded debt service costs in nine Russian regions.

- **Regions' bank deposits and commercial debt are comparable in volume:** as of March 1, 2018, the volume of bank deposits placed by regions amounted to RUB 1.122 trillion, while the volume of commercial debt (bonds and bank loans) was RUB 1.069 trillion (RUB 1.309 trillion including the commercial debt of municipalities). In 2017, the volume of regions' bank deposits exceeded their commercial debt for over seven months, reaching RUB 1.363 trillion.

- **Regions place deposits with one banks and borrow from the other.** As of March 1, 2018, the aggregate share of Bank GBP (JSC), Bank VTB (PJSC) and RSHB (JSC) in the total deposits placed by regions was 90.2%, while the share of Sberbank was 1.5%. At the same time, Sberbank issued about 84% of loans to regions (including municipalities), while the shares of Bank GBP (JSC), Bank VTB (PJSC) and RSHB (JSC) were 3.0%, 2.5% and 0.3%, respectively.

- **According to ACRA estimates, 11 Russian regions have financial reserves.** For comparison: in the USA, where states are active in the debt market, 44 out of 50 states have Rainy Day Funds. The availability of financial reserves supports the credit quality of the largest Russian regions and U.S. states and allows them to cover budget deficits and maneuver in the debt market and raise funds under comfortable rates.

Alexander Shurakov

Expert, Sovereign and Regional Ratings Group

+7 (495) 139-0345

alexander.shurakov@acra-ratings.ru

Natalia Porokhova

Senior Director, Head of Research and Forecasting Group

+7 (495) 139-0490

natalia.porokhova@acra-ratings.ru

Media contact

Alexey Churilov, Assistant Manager, External Communications

+7 (495) 139-0480 ext. 169

Liquidity rent: regions earn additional budget revenues through management of free liquidity

Main criteria:

- Absence of overdue budget loans obtained by a region to replenish balances (short-term treasury loans);

- Federal budget transfers (excluding subventions) have not exceed 20% of own revenues of a consolidated regional budget within two out of three last years.

Maximum bank deposit term:

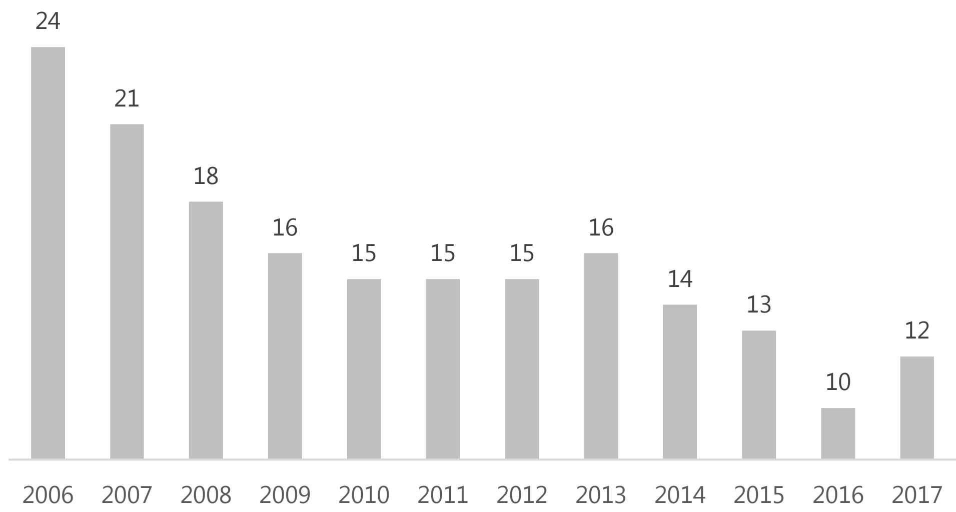
- One month, for those regions that obtained federal budget loans after January 1, 2018;

- Six months, for other regions meeting the above criteria.

Those Russian regions that meet certain criteria are authorized to place temporarily free funds to bank deposits. Therefore, high liquidity and effective liquidity management allow such regions to earn additional revenues, in other words, to get a liquidity rent.

In 2017, 12 Russian regions earned liquidity rent, while 12 years ago, their number was twice as high (see Fig. 1).

Figure 1. Number of Russian regions earning liquidity rent*



* Only regions that earn additional revenues from bank deposits were taken into account (in the mid-2000s, some municipalities also earned such revenues, but in recent years, almost all such income has been concentrated at the regional level).

Source: RF Ministry of Finance, ACRA estimates

In 2017, regional budget revenues** earned from liquidity management amounted to RUB 99.4 billion, which is comparable with regions' debt service costs of RUB 110.1 billion (including loan interest and bond coupon payments) (another RUB 23.8 billion were spent by municipalities).

Therefore, regional debt service costs almost reached liquidity management revenues, while the federal budget debt service costs was much higher than the federal liquidity management revenues (see Fig. 2.1 and 2.2).

** Revenues from placement of temporarily free funds in regional budgets were taken into account (Form 317, revenue code 11102020020000120).

Figure 2.1. Regional budgets: liquidity rent and debt service costs, RUB bln

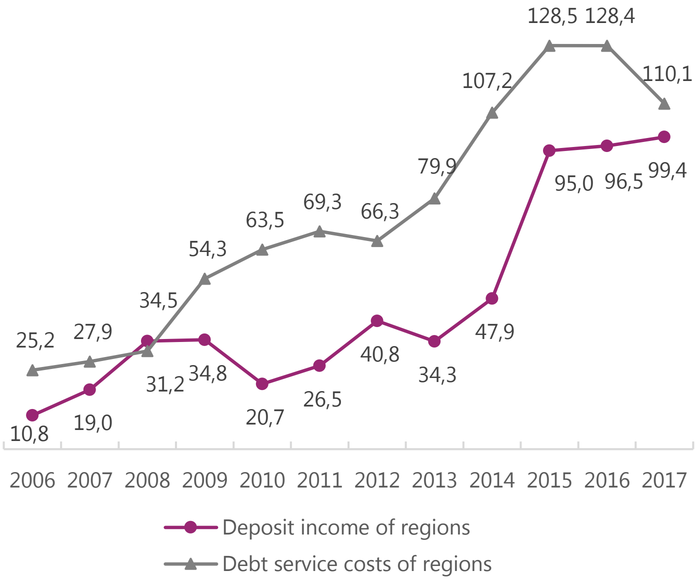
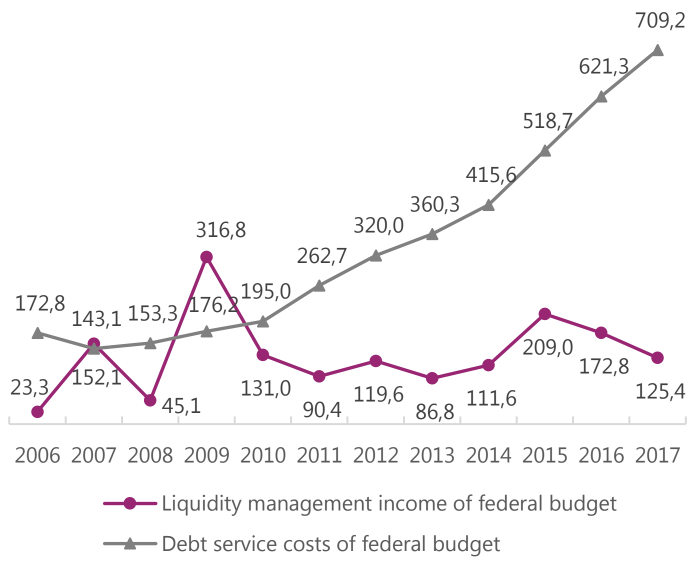


Figure 2.2. Federal budget: liquidity rent and debt service costs, RUB bln



Source: RF Ministry of Finance, ACRA estimates

In 2017, liquidity rent exceeded debt service costs in nine regions

In 2017, liquidity rent exceeded debt service costs in nine regions. For Tyumen Region (AAA(RU)), Sakhalin Region and Leningrad Region, this is caused by near-zero debt service costs. For Moscow (AAA(RU)), Moscow Region (AA(RU)), Bashkortostan and KhMAO-Yugra (AAA(RU)), deposit interest allowed them to compensate substantial (in absolute terms) debt service costs.

Table 1. Regions that earned from bank deposits in 2017

Region	Liquidity rent, % of TNTR*	Debt service costs, RUB mln	Liquidity rent, RUB mln	Balance: liquidity rent – debt service costs, RUB mln
Moscow	3,6%	-3 309	74 244	70 934
Moscow Region	1,7%	-6 603	6 986	383
Tyumen Region	2,9%	-0,3	3 861	3 860
Bashkortostan	2,3%	-1 123	3 042	1 920
Sakhalin Region	2,6%	0,0	2 842	2 842
Saint-Petersburg	0,5%	-253	2 607	2 354
KhMAO-Yugra	1,1%	-1 597	1 954	357
Leningrad Region	2,0%	-38	1 915	1 877
Samara Region	0,5%	-4 337	680	-3 657
Chelyabinsk Region	0,6%	-190	655	465
Kemerovo Region	0,4%	-2 937	441	-2 496
Sverdlovsk Region	0,1%	-3 788	157	-3 631

* TNTR means tax and non-tax revenues of a Russian region's budget.
Source: RF Ministry of Finance, ACRA estimates

In the last ten years (from 2008 to 2017), the liquidity rent has stably exceeded the debt service costs in three regions (Tyumen Region (AAA(RU)), Saint Petersburg (AAA(RU)) and Bashkortostan). In contrast, the debt service costs of KhMAO-Yugra and Moscow exceeded the liquidity rent for two years within the above period (see Table 2).

Table 2. Regions where liquidity rent exceeded debt service costs within the last ten years (from 2008 to 2017)

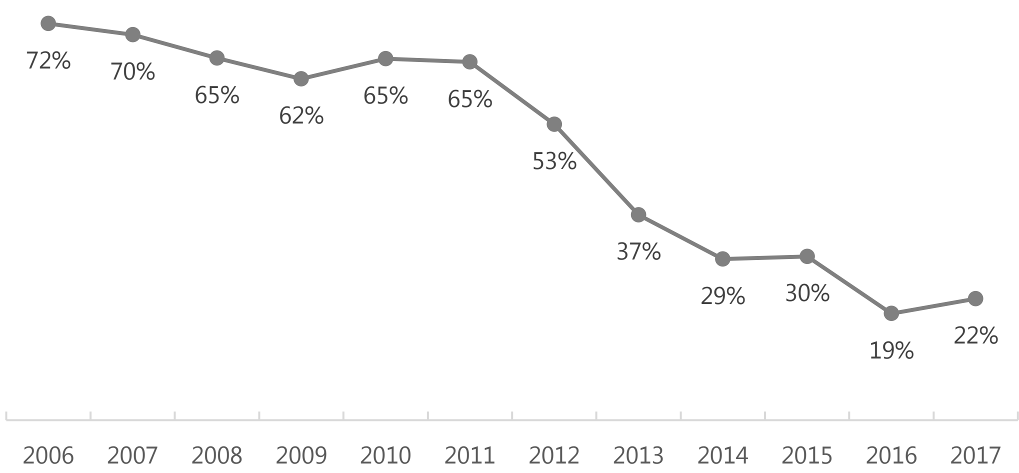
Region	Number of years*, when liquidity rent exceeded debt service costs	Region	Number of years*, when liquidity rent exceeded debt service costs
Tyumen Region	10	Tatarstan	4
Bashkortostan	10	Moscow Region	3
Saint-Petersburg	10	YaNAO	3
KhMAO-Yugra	8	Orenburg Region	3
Moscow	8	Krasnoyarsk Region	1
Sakhalin Region	6	Chelyabinsk Region	1
Leningrad Region	6	Sverdlovsk Region	1
Perm Region	6	Crimea	1

* The maximum is 10 years.
Source: RF Ministry of Finance, ACRA estimates

Liquidity rent and debt service costs differ by region

At the aggregated level, the regions' liquidity rent covers the debt service costs. Until 2011 (inclusive), the liquidity rent and the debt service costs were distributed by region relatively equally: the average share of regions earning the liquidity rent was 66% of the total debt service costs (see Fig. 3).

Figure 3. Share of total debt service costs of regions that earned liquidity rent

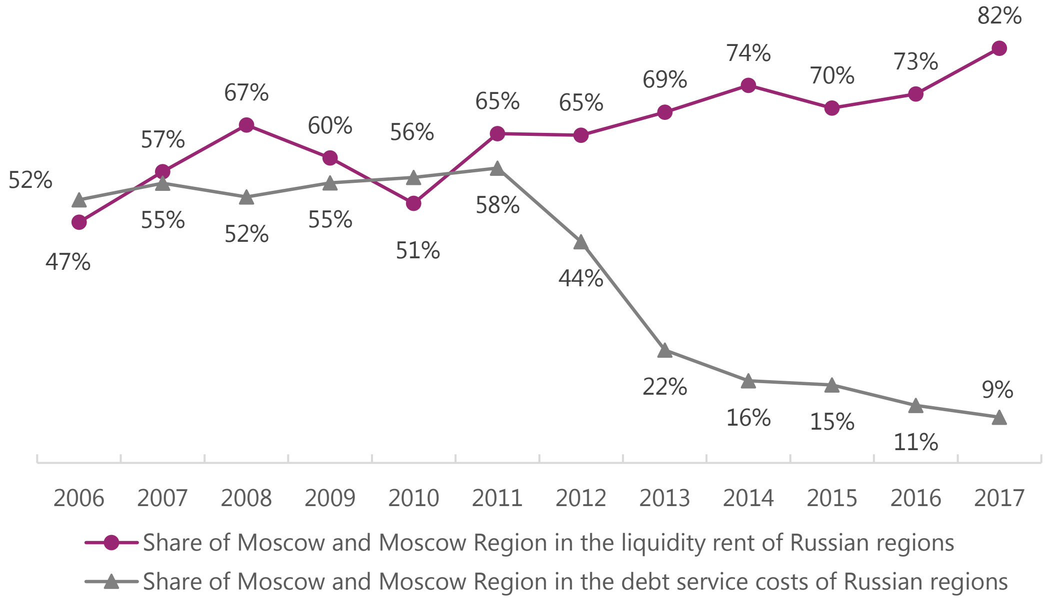


Source: RF Ministry of Finance, ACRA estimates

As seen from Fig. 3, after 2012, the difference by region budget in terms of distribution of debt service costs and liquidity rent started to increase. In 2017, the share of 12 Russian regions that earned liquidity rent on bank deposits (RUB 99.4 billion) amounted to mere 22% (RUB 24.18 billion) of the total debt service costs of regions.

Such difference is a result of substantial decline in debt service costs and increase in liquidity rent of Moscow and Moscow Region.

Figure 4. The aggregate share of Moscow and Moscow Region in the total regions' liquidity rent and debt service costs



Source: RF Ministry of Finance, ACRA estimates

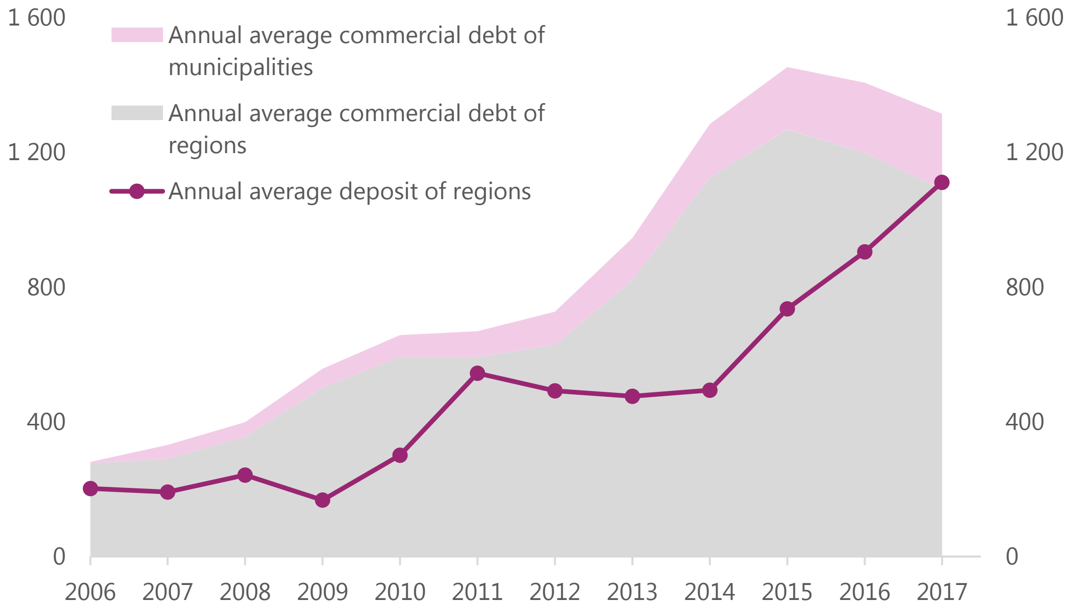
Regions' deposits and commercial debt are comparable in volume

In 2017, the annual average volume* of bank deposits placed by Russian regions amounted to RUB 1.11 trillion, which is higher than the annual average volume of commercial debt (RUB 1.09 trillion). 2011 was the last year when the annual average volumes of deposits and commercial debt were comparable. In crisis years (2014 and 2015), the commercial debt of Russian regions exceeded their annual average deposits (by RUB 632 billion and RUB 533 billion, respectively).

The 2017 annual average consolidated debt of regions, including municipalities, is still higher than the annual average volume of deposits, though the excess is not that high as in previous years (RUB 1.31 trillion against RUB 1.11 trillion).

* The annual average volume of deposits was estimated based on the monthly data of Form 101 "Turnover balance sheet by account" reported by credit institutions. The annual average volume of regions' deposits in year t was calculated as an arithmetic mean of deposits as of the first date in each month in the period from 01.01.t to 01.01.t+1. Similarly, the annual average volume of commercial debt of regions and municipalities was estimated based on the monthly data from the RF Ministry of Finance.

Figure 5. In 2017, the commercial debt of Russian regions was comparable with the volume of their bank deposits, RUB bln



Source: RF Ministry of Finance, the Bank of Russia, ACRA estimates

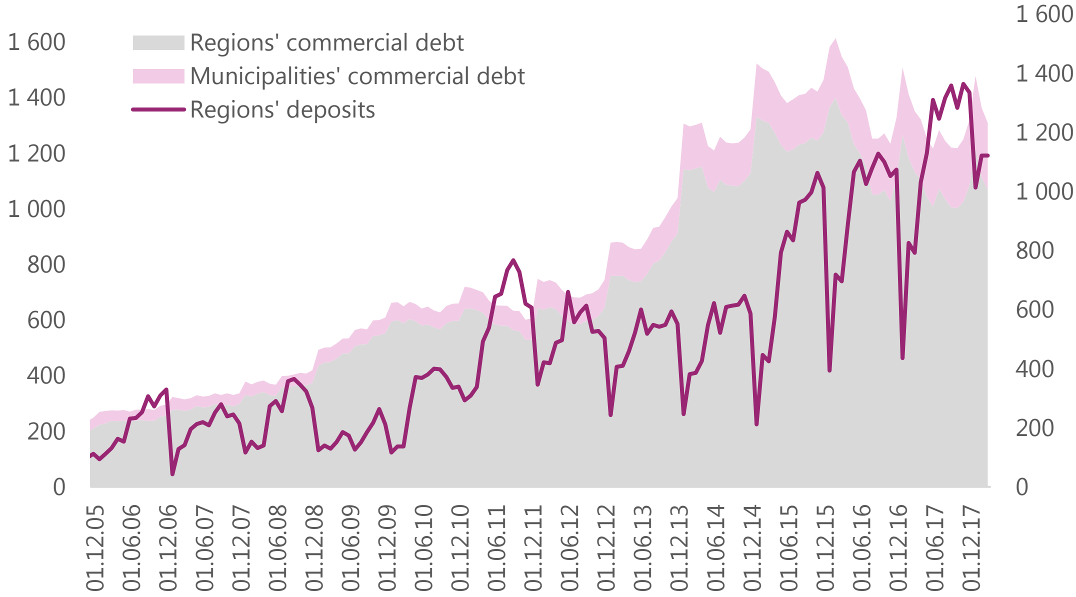
In 2017, on the first day of each month (from May 1 to December 1), the volume of bank deposits held by regions was higher than the volume of their commercial debt. It is worth noting that the same situation was in 2016, but the difference was not so high.

The maximum volume of deposits amounted to RUB 1.363 trillion (as of November 1, 2017) and the maximum volume of commercial debt amounted to RUB 1.266 trillion (as of January 1, 2017).

In 2018, we see that this trend is continuing: as of March 1, the volume of deposits (RUB 1.122 trillion) exceeded the volume of commercial debt (RUB 1.069 trillion).

As of June 1 and from August 1 to December 1, 2017, the volume of deposits exceeded even the consolidated commercial debt of regions, including municipalities. Over the last 12.5 years, such situation took place only in 2H2011 (for six months in a row) and in 2006 (three months).

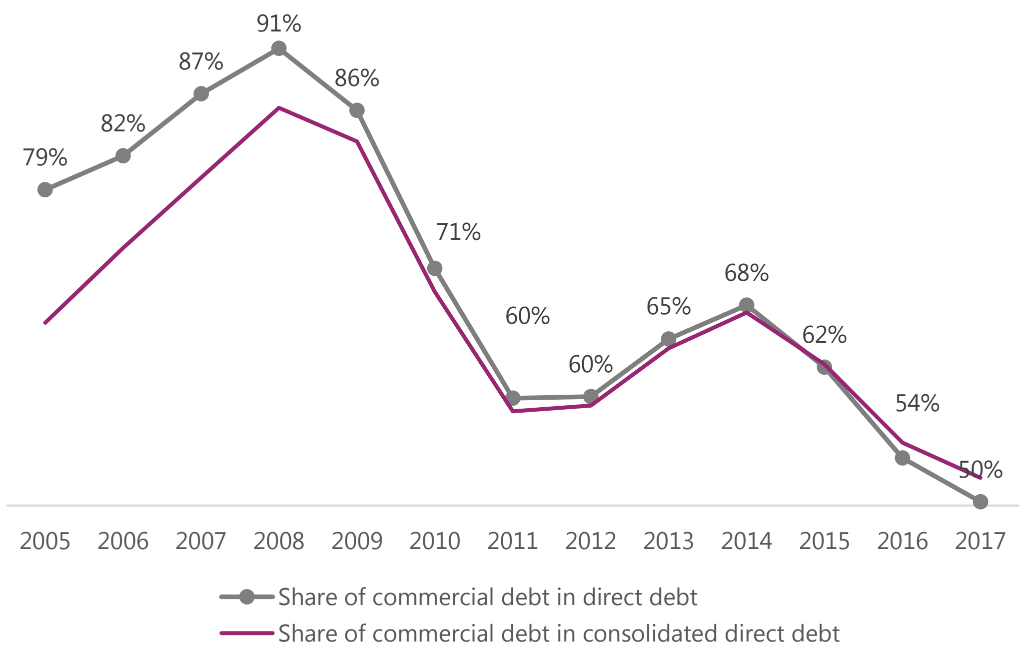
Figure 6. In 2011 and 2017, regions' deposits exceeded consolidated commercial debt within six months*, RUB bln



* In crisis years, the regions' bank deposits was substantially lower than their commercial debt.
Source: RF Ministry of Finance, the Bank of Russia, ACRA estimates

In 2017, the annual average share of commercial debt in the direct debt (state debt excluding state guarantees) amounted to 50% (the average share of budget loans was 49%). In 2006–2008, such share exceeded 80% and reached 91% (see Fig. 7), therefore, 10–11 years ago, the volume of regions' deposits was comparable not only with their commercial debt but with their direct debt also.

Figure 7. Share of commercial debt in the direct debt of Russian regions



Source: RF Ministry of Finance, ACRA estimates

Regions place deposits with one banks but borrow from the other

As of March 1, 2018, 90.2% of the volume of regions' deposits were held with three banks, including Bank GPB (JSC) (AA(RU)), Bank VTB (PJSC) and RSHB (AA(RU)). But the main lender of regions and municipalities is Sberbank (AAA(RU)) that issued about 84% of total bank loans granted to regions and municipalities.

In other words, Russian regions and municipalities borrow mainly from Sberbank and place deposits with Bank VTB (PJSC), Bank GPB (JSC) and RSHB (see Table 3).

Table 3. Loans borrowed and deposits placed by regions, a breakdown by bank, as of March 01, 2018, RUB bln

Loans issued to regions and municipalities	Bank	Region's deposits
623,7	Sberbank	16,8
21,9	Bank VTB (PJSC)	371,4
18,4	Sovcombank	6,5
12,5	Bank GPB (JSC)	364,8
8,4	SMP Bank	0,0
10,6	Alfa-Bank	42,2
2,0	RSHB	276,2

Source: RF Ministry of Finance, the Bank of Russia, ACRA estimates

The breakdown of loans granted to regions and municipalities is quite stable: the main player is Sberbank, with the average share of 75%* in 2012–2017.

At the same time, the distribution of regional deposits by bank is more volatile: the share of Sberbank declined from 46% as of January 01, 2015 to less than 1% as of January 01, 2018.

* Calculated as averaged volume of loans issued as of January 1 in a corresponding year, data for the period from January 01, 2012 to January 01, 2018.

Figure 8.1 Banks' shares of loans issued to regions and municipalities

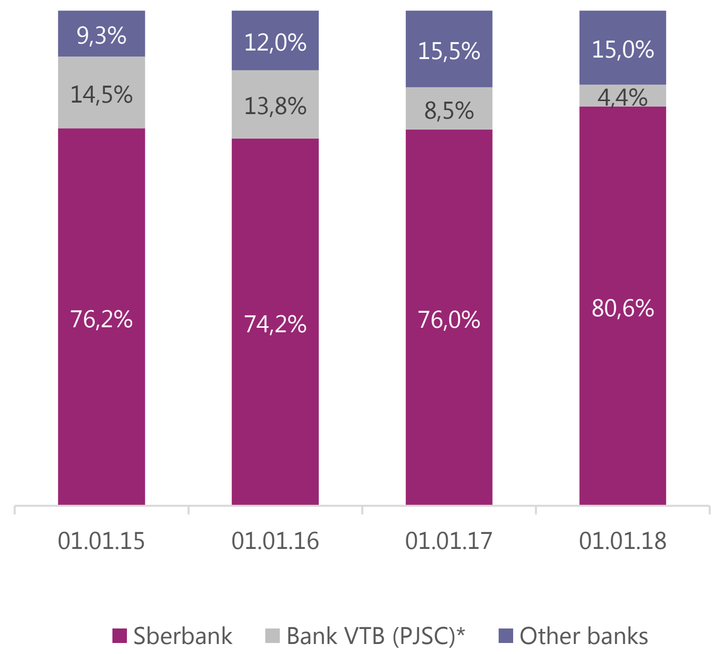
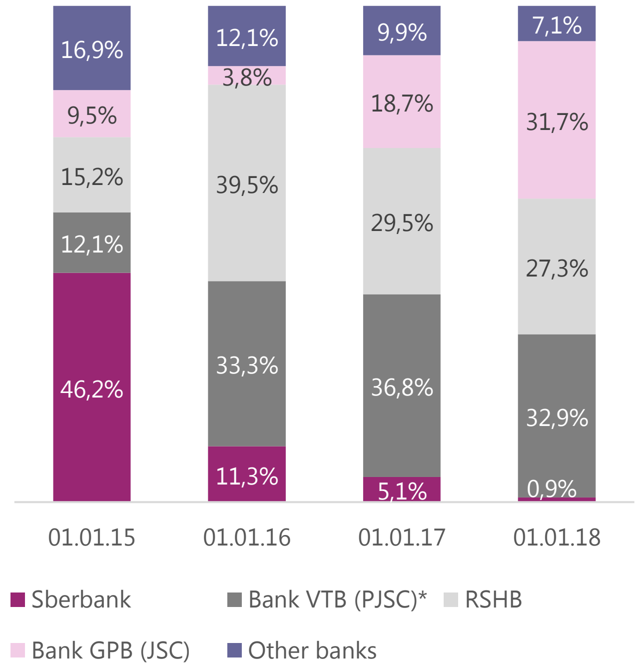


Figure 8.2. Banks' shares of deposits placed by regions



* Including VTB24 (CJSC) and Bank of Moscow (OJSC).
Source: the Bank of Russia, ACRA estimates

Three sources of regional deposits

Regional authorities have the following three sources of funds deposited with banks:

- Surpluses accrued in previous years; regions may use such funds as a safety cushion in periods of declining revenues or growing expenditures.
- Intra-year cash surpluses arising out of differing flows of revenues and expenditures (e.g., large tax payments come in the beginning of year and corresponding expenses are made in the end of year).
- Temporary free cash balances of subordinate budgetary institutions. Regional administrations have the right to place such funds in bank deposits. According to the regional budget laws, a regional administration transfers funds to its subordinate budgetary institutions to finance budget investments, purchase materials, etc., and such transfers are accounted for as regional budget expenses. However, until the date a budgetary institution transfers the funds to its contractor, service provider or other counterparty, such funds are deemed a free cash balance, which may be deposited with a bank.

See press release ACRA assigns AA-(RU) to the Perm Krai, outlook Stable dated December 4, 2017.

Surplus funds accrued in previous years and placed in bank deposits were used by some regions to finance their budget deficits, without any additional borrowings. For example, the 2013 budget deficit of Perm Krai (AA-(RU)) amounted to RUB 11.2 billion, because higher budget expenditures caused by the need to comply with the "May decrees" coincided in time with budget revenues going down. Such deficit was completely covered by the financial reserves of the region, so that the region's debt remained low (less than RUB 0.5 billion) until April 01, 2014.

A part of regional deposits, including intra-year cash surpluses and cash balances on accounts of subordinate budgetary institutions, includes funds reserved for specific short-term expenses and such funds are therefore not deemed "safety cushion."

Until recently, the rule was as follows: if a regional administration placed temporarily free cash balances of subordinate budget institutions in bank deposits, then, at the year-end, it was obliged to return such funds to the accounts of the relevant institutions. For this reason, in Figure 6, the regional deposits show strong "gaps" as of January 1 in the period from early 2012 to early 2017, since only regional "safety cushion" remained in bank deposits at the beginning of the year.

For example, as of December 1, 2016, the volume of regions' bank deposits was RUB 1.074 trillion, but by January 1, 2017, it decreased by RUB 638 billion (down to RUB 436 billion). By February 1, 2017, the volume of deposits increased to RUB 826 billion, including through the "return" of temporarily free balances of budget institutions to bank deposits.

According to ACRA estimates, in 2017, the average annual volume of regional deposits (RUB 1.11 trillion) included about 40% (RUB 447 billion) of surpluses accrued in previous years. The remaining amount of RUB 664 billion included intra-year surpluses of regional budgets and cash balances on accounts of subordinate budget institutions.

After the legislative changes that have taken place, the regions did not have to "restore" the cash balances of budget institutions at the end of 2017, so that the volume of regional deposits fell only by RUB 321 billion (from RUB 1.334 trillion as of December 1, 2017 to RUB 1.013 trillion as of January 1, 2018). By February 1, 2018, the volume of regional deposits increased to RUB 1.121 trillion.

Table 5. Bank deposits and direct debts of Russian regions that earned liquidity rent in 2017, RUB bln

Region	Actual values as of January 01, 2017		Estimated** annual average deposit in 2017
	Direct debt	Deposits*	
Moscow	62	301	**830**
Moscow Region	98	0,0	78
Tyumen Region	0,3	38	43
Bashkortostan	23	30	34
Sakhalin Region	0,0	19	32
Saint-Petersburg	14	5	29
KhMAO-Yugra	17	29	22
Leningrad Region	4	23	21
Samara Region	67	0	8
Chelyabinsk Region	14	0	7
Kemerovo Region	63	0	5
Sverdlovsk Region	71	1,0	2
Total	**435**	**447**	**1111**

* Actual deposits are shown based on data indicated in Form 0503320 "Regional budget execution balance"

** Estimations are based on publicly available data, including the actual liquidity rent earned by regions and the estimated average interest rate on bank deposits held by regions. The average annual deposit estimations may differ from actual deposits averaged only for those months when deposits were not equal to zero.

Source: RF Ministry of Finance, the Bank of Russia, ACRA estimates

Note that on each January 1 in the period from 2013 to 2017, the balance sheet of Moscow Region included no bank deposits, while, according to the RF Ministry of Finance, the region's balances on budget accounts with the Federal Treasury were high: RUB 56.3 billion and RUB 69.4 billion as of January 01, 2016 and January 01, 2017, respectively, which is comparable with our estimations of average annual deposits (RUB 56 billion and RUB 78 billion). Thus, financial reserves, namely, surpluses accrued in previous years, were placed by Moscow Region in bank deposits within the year and then transferred to Federal Treasury accounts by the year-end.

Russian vs U.S. sub-sovereigns' financial reserves

In other countries, financial reserves at the sub-sovereign level is a common practice. Such reserves are widely used in the U.S.A., where states are active in the debt market: 44 of 50 U.S. states hold Rainy Day Funds that may be used to support the budget in case of falling revenues and imbalanced revenues and expenditures.

Rainy Day Funds exceed the annual budget expenditures (General Fund) in two oil-producing states (Alaska and Wyoming). In 2017, the median value of Rainy Day Funds across all states was 5.4% of annual expenditures. In six U.S. states, the amount of Rainy Day Funds exceeded 10% of budget expenditures, in twenty U.S. states it was in range from 5% to 10%, and in seventeen others, it was 1% to 5% of budget expenditures. Other seven U.S. states had no Rainy Day Funds.

According to ACRA estimates, as of January 1, 2017, 11 Russian regions had financial reserves: eight regions that held bank deposits, plus three regions (Moscow Region, Lipetsk Region (AA-(RU)) and YaNAO), which showed a significant balance of funds in Federal Treasury budget accounts as of January 1, 2017 and previous years.

As of January 1, 2017, the volume of financial reserves of the Russian regions ranged from 0.5% to 28.2% of their expenditures in 2017.

Table 6. U.S. states and RF regions ranged by their financial reserves (as of January 01, 2017)

	RF region	Financial Reserves*, % of expenditures**
1	Tyumen Region	28,2%
2	Bashkortostan	24,9%
3	Leningrad Region	22,2%
4	Sakhalin Region	17,0%
5	Moscow Region	16,0%
6	KhMAO-Yurga	15,4%
7	Moscow	14,7%
8	Lipetsk Region	10,7%
9	YaNAO	8,0%
10	Saint-Petersburg	0,9%
11	Sverdlovsk Region	0,5%

U.S. state	Rainy Day Fund, % of expenditures***
Alaska	104,9%
Wyoming	103,0%
Texas	19,2%
Nebraska	15,7%
W. Virginia	15,4%
S. Dakota	10,2%
Idaho	9,7%
Indiana	9,5%
Alabama	9,3%
Minnesota	9,1%
Oregon	8,6%

* According to data of Form 0503320 (except Moscow Region, Lipetsk Region and YaNAO, who used funds on the budget accounts with the Federal Treasury).
** Expenditures for 2017 less expenses funded by gratuitous payments.
*** General Fund expenses of a relevant state in 2017.

Source: RF Ministry of Finance, the Bank of Russia, National Association of State Budget Officers (NASBO), ACRA estimates

Financial reserves impact sub-sovereigns' credit quality

The availability and volume of financial reserves is one of the factors affecting the sub-sovereign's credit quality, i.e. ability to execute budgets as planned. Among the top 10 U.S. states in terms of budget spending in 2017, lowest ratings are assigned to those U.S. states that do not have financial reserves.

See press release ACRA assigns AA+(RU) to the Republic of Tatarstan, outlook Stable dated November 17, 2017.

Similarly, for Russian regions: the availability of financial reserves has a positive impact on the region's credit quality. Among the top 10 Russian regions in terms of absolute expenditures, the highest credit ratings (from AA to AAA) are assigned to those that have significant financial reserves. The only exception is the Republic of Tatarstan rated by ACRA at AA+(RU) on the national scale, "Stable" outlook, although formally (according to Form 0503320), the region's budget includes no financial reserves in the form of bank deposits.

Table 7. Financial reserves support the credit quality of major (in terms of budget expenditures) RF regions and U.S. states

	RF region	2017 expenditures, $ bln*	ACRA rating	Financial reserves, % of expenditures	U.S. state	2017 expenditures, $ bln	S&P rating**	Rainy Day Fund, % of expenses
1	Moscow	35,1	AAA	14,7%	California	121	AA-	6,1%
2	Saint-Petersburg	9,2	AAA	0,9%	New-York	68	AA+	2,6%
3	Moscow Region	7,4	AA	16,0%	Texas	54	AAA	19,2%
4	Tatarstan	3,4	AA+	0%	Massachusets	41	AA	3,2%
5	Sverdlovsk Region	3,4	A-	0,5%	Ohio	35	AA+	5,8%
6	KhMAO-Yugra	3,2	AAA	15,4%	New-Jersey	34	A-	0%
7	Krasnoyarsk Region	3,1	A	0%	Pennsylvania	32	A+	0%
8	Krasnodar Region	3,0	A	0%	Florida	31	AAA	4,5%
9	YaNAO	2,5	-	8,0%	Illinois	30	BBB-	0%
10	Tyumen Region	2,3	AAA	28,2%	N. Carolina	22	AAA	8,3%

* As calculated using the annual average USD/RUB exchange rate for 2017.
** Credit rating of General Obligation Bond of a relevant state.

Source: RF Ministry of Finance, the Bank of Russia, NASBO, California State Treasurer's Office, ACRA estimates

Russian regions have almost interest free instrument to maintain their short-term liquidity: short-term treasury loans issued up to 50 days, with the maximum amount of up to 1/12 of annual expenditures and the interest rate of 0.1%, an additional condition is the absence of bank deposits.

Such treasury loans are applied by regions to cover their cash gaps within a year, as well as to reduce debt service costs via the following "passive account management" mechanism. A region opens a credit line in a commercial bank and applies it to fund a budget deficit. At the beginning of a year, the region borrows a treasury loan from the Federal Treasury and applies it to reduce the principal under the credit line and to save on interest. 50 days later, region draws further amount under the credit line (thus increasing the principal) to repay the treasury loan, and few days later, it borrows a new treasury loan and reduces the credit line principal again.

Within a calendar year, some regions manage to conduct such a cycle up to five or six times, and such "credit turnover" allows them to cut their debt service costs significantly.

Treasury loans are available to regions in the period from January to November, and in November all short-term treasury loans should be repaid. Therefore, this instrument help regions to smooth out intra-year cash gaps only, but does not allow absorbing the shocks of falling revenues or growing expenditures.

In the period from 2013 to 2017, the Federal Treasury was quite active in disbursing medium-term budget loans to regions. The intention was not only to absorb regional budget shocks but also to encourage regions to conduct a budget policy "reasonable" from the viewpoint of the federal center (such loans were granted against the covenant to restrict budget deficit and other non-credit covenants). In addition, such loans led to a rivalry between the regions before the RF Ministry of Finance and to an imbalance in the cost of public debt between regions. In other words, if budget loans prevailed in the region's debt, the resulting interest rate on such debt could be significantly lower than the rate for those regions where the debt was mostly commercial.

In the mid-term, the credit quality of Russian regions will depend on which instruments will be available to regions to absorb financial shocks, whether negative or positive.

Provided that Russian regions retain a certain degree of budgetary independence and remain active in the debt markets (including the bond market and the bank loan market), they should follow a counter-cyclic budget policy in the mid-term, which may allow them to form financial reserves and to overcome possible budget shocks without recourse to bank loans offered under high interest rates.

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 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 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.com/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 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 legislation of the Russian Federation.