



Structured and Securitized Products



Chuvash Republic

HIGHLIGHTS

- RUB 1bn (US\$34.7mn equivalent) 5-year bond issued by the Chuvash Republic (Russian Federation) to finance its capital expenditure program
- First sub-national bond in Russia issued with a guarantee from a third party
- IFC partial credit guarantee covering up to 23% of the outstanding principal
- The enhanced bond received a Ba2 international scale rating and Aa2.ru national scale rating from Moody's, one level above the Chuvash Republic's standalone rating at the time of issuance

THE PROJECT

The Chuvash Republic (the Republic), one of 88 regional governments of the Russian Federation, is located about 650 kilometers east of Moscow and has a population of 1.3 million people. Its gross regional product, RUB 76.6bn in 2005 (US\$2.7bn equivalent), constitutes about 0.4% of national GDP. There has been strong growth in tax revenues in the Republic in recent years. Annual revenue for the Republic in 2005 was RUB 12,039mn (US\$422.4mn equivalent). Total expenditures in 2005 were RUB 12,140mn (US\$426mn equivalent), 19.6% of which were for capital investments.

The Republic is regarded as one of the more progressive and better performing regional governments, despite a per capita income of roughly half the Russian average. It has an Aa3.ru credit rating from Moody's Interfax Rating Agency and has previously issued three bonds in the local capital markets, one in each of 2003, 2004 and 2005 (RUB 285mn, RUB 500mn, and RUB 750mn respectively), but none over four years in maturity.

FINANCING OBJECTIVES

The Chuvash Republic has extensive infrastructure needs, mostly at the municipal level for which it is seeking financing both from public and private funding sources. The Republic estimated that its most substantial challenges in 2006 were in addressing the needs for improved water supply, transport infrastructure, and

housing construction. In particular, 29.5% of its centralized sources of water supply do not meet sanitary norms, over 70% of the sewerage network requires immediate replacement, and 41% of roads connecting populated areas and schools are in need of reconstruction. The proceeds of this 2006 bond will be used to finance the Republic's capital expenditure program for 2006, especially investments in water supply and road construction.

THE STRUCTURE

The RUB 1bn 5-year unsecured bullet bond was issued in June 2006 with a fixed coupon of 7.85%, and is the Republic's largest issuance to date. The bond is unsecured and will be repaid from general tax revenues of the Republic. The IFC credit enhancement successfully attracted new longer tenor investors to the Republic's Bond issuance program.

The IFC guarantee covers a RUB amount up to 23% of the outstanding principal of the bond (initially RUB 230mn). It can be drawn to cover up to 100% of interest payable to bondholders on any interest payment date and/or to pay principal at maturity (subject to the guarantee limit) if the Republic is unable to make such payments.

OUTCOME

The Republic's 2006 bond is the first sub-national bond in Russia issued with a guarantee from a third party. The credit enhancement by IFC, a triple A-rated institution, increased the credit rating of the bond to Ba2 on the Moody's international scale and to Aa2.ru on Moody's national rating scale, one notch above the Republic's standalone ratings. The bond was arranged by Rosbank, oversubscribed, and placed in one day. The 7.85% yield represented a spread of 141 basis points over the benchmark (RUB Treasury due 2011). The 2005 bond was issued with an 11.8% yield (428 basis points over the benchmark).

IFC's guarantee supported the Chuvash Republic's effort to tap the local capital markets for the longer term funding needed for basic infrastructure improvement. These improvements are essential to make the Republic more attractive to private investors and developing industry and to improve the living standards of the population.

TERMS AND CONDITIONS

Amount	RUB 1bn (approximately US\$34.7mn)
Currency	Russian Ruble
Issue Date	June 05, 2006
Maturity	5 years
Interest Payment	7.85% fixed rate, payable semi-annually
Principal Payment	Bullet payment at maturity
Rating	Ba2 International rating scale / Aa2.ru National rating scale by Moody's
Enhancement	IFC guarantee of principal and interest for up to 23% of bond principal amount outstanding