



Russian City of Novosibirsk RUB2 Billion Bond Rated 'BB' and 'ruAA', With A '3' Recovery Rating

Primary Credit Analyst:

Karen Vartapetov, Moscow (7) 495-783-4018; karen_vartapetov@standardandpoors.com

Secondary Contact:

Alexandra Balod, Moscow (7) 495-783-4096; Alexandra_Balod@standardandpoors.com

MOSCOW (Standard & Poor's) Sept. 3, 2012--Standard & Poor's Ratings Services said today that it had assigned a 'BB' debt rating and an 'ruAA' Russia national scale rating to the five-year amortizing senior unsecured bond of up to Russian ruble 2 billion (about \$62 million) that the Russian City of Novosibirsk (BB/Positive/--; Russia national scale 'ruAA') plans to issue.

We are assigning a '3' recovery rating to this debt, indicating our expectation of meaningful (50%-70%) recovery for the debtholders in the event of a payment default.

The bond will have fixed-rate coupons of between a maximum of 9.59% and a minimum of 6.54% (with the first coupon at 8.44%), and an amortizing repayment schedule. In 2014, 30% of the bond is scheduled for redemption, a further 50% should be repaid in 2015, 10% in 2016, and the remaining 10% in 2017. The bond will be placed on Sept. 7, 2012.

The ratings on Novosibirsk are constrained by its limited financial flexibility and predictability and low economic productivity. The ratings are supported by Novosibirsk's moderate debt; prudent debt management, resulting in a favorable debt profile; and relatively diverse economy.

RECOVERY ANALYSIS

The '3' recovery rating on the bond is based on a hypothetical scenario, where, in our view, a default would be triggered by the city's inability to refinance, for instance as a consequence of turmoil in domestic financial

markets that would become inaccessible for local and regional governments (LRGs). This scenario would likely be exacerbated by economic difficulties in the city's economy that could result in a weaker budgetary performance and an increasing debt burden, as well as sizable short-term debt.

The recovery rating is supported by the importance of access to capital markets for Novosibirsk, which is one of the most visible borrowers in municipal capital and domestic bank lending markets. The recovery rating is constrained by a lack of assets available for the city to sell, weak budgetary flexibility, our view that the federal and oblast government's ability to bail out the city is limited, and the lack of an institutional framework for LRG defaults.

RELATED CRITERIA AND RESEARCH

- Methodology For Rating International Local And Regional Governments, Sept. 20, 2010
- Methodology And Assumptions: Assigning Recovery Ratings To International Local And Regional Governments' Speculative-Grade Debt, Feb. 3, 2009

Additional Contact:

International Public Finance Ratings Europe; PublicFinanceEurope@standardandpoors.com

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