



# Derivative-Based Products

## *Risk Management Products* *Partial Swap Guarantee*

### HIGHLIGHTS

- With dollar lenders/investors constrained by exposure to Brazil, Brazilian bank issued bonds in the yen market backed by flow of dollar receivables
- The yen-denominated bonds were hedged back into dollars through a currency swap
- IFC provided a partial swap guarantee which enabled the transaction

### THE COMPANY

Unibanco is Brazil's third largest private-sector bank (seventh overall) in terms of total assets. The Bank has a strong presence in both the wholesale and retail markets. It is one of the leading providers of import and export financing, as well as foreign exchange products and services including electronic remittances.

### FINANCING OBJECTIVES

Unibanco raised funding through issuance of JPY 25 billion (US\$ 227 million equivalent) of 10-year amortizing notes which were placed with Japanese institutional investors in the JPY market by Nomura International plc. Similar to past US\$-denominated notes issued, these notes, Series 2003-3, were backed by Unibanco's offshore US\$ remittance flows known as "MT-100" payments and issued through its special purpose offshore vehicle, UBB Diversified Payment Rights Finance Company ("UBB"). Credit rating agencies as well as Japanese institutional investors required that UBB fully hedge the currency mismatch between the JPY-denominated funding and UBB's US\$-denominated MT-100 receivables.

### THE STRUCTURE

To hedge this currency mismatch, UBB entered into a 10-year JPY/US\$ currency swap with Nomura. Nomura did not want to take full credit exposure (particularly on a long-tenor, cross currency swap) to UBB because the latter had a relatively low, albeit investment grade, credit rating. To induce Nomura to provide the currency hedge for the transaction, Unibanco requested IFC to provide credit enhancement on the swap.

IFC provided a partial swap guarantee that would be triggered if the hedging swap between Nomura and UBB terminated because of a default. IFC's payment to Nomura would be based on a percentage of the mark-to-market value of the hedging swap, subject to an overall payout cap.

### OUTCOME

The credit enhancement from IFC made possible long-tenor and favourably priced financing to Unibanco at a time when equivalent financing would not be possible without IFC's involvement. Unibanco was able to capitalise on investors' demand for MT-100 structures in the JPY market while many traditional financing avenues were closed to Brazilian companies.



**INTERNATIONAL  
FINANCE CORPORATION**  
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## TERMS AND CONDITIONS

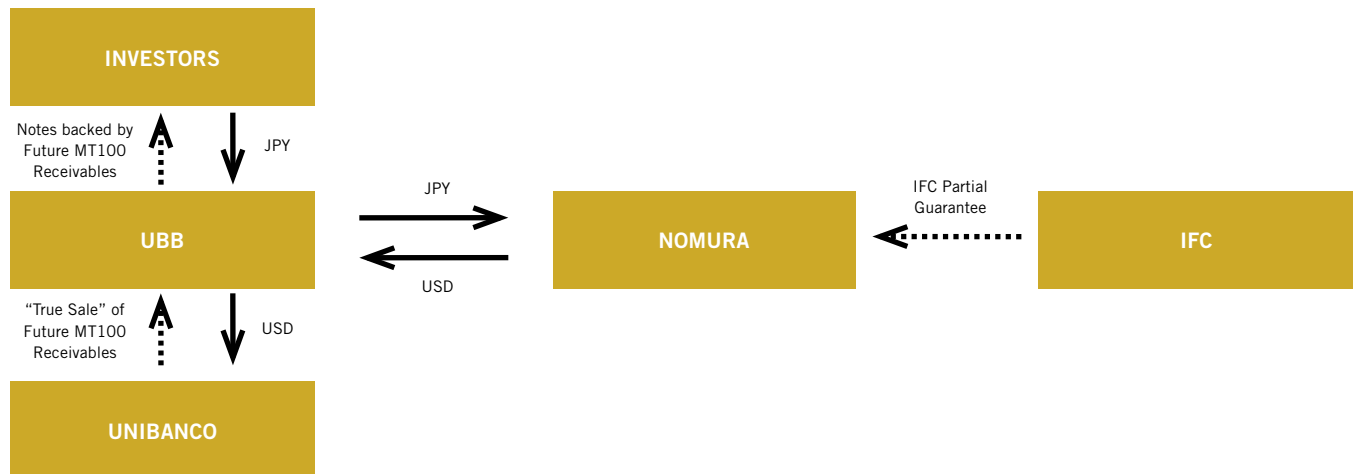
### BONDS

Amount	JPY 25 billion (US\$227 million equivalent)
Currency	Japanese Yen
Maturity	10 years
Interest rate	Fixed
Interest payment	Semiannual

### CURRENCY SWAPS

Amount	JPY 25 billion / US\$227 million equivalent
Currency	Japanese Yen / US Dollars
Maturity	10 years
Interest rate	Nomura pays to UBB JPY cash flows; UBB pays to Nomura USD cash flows
Interest payment	Semiannual
Credit enhancement	Partial swap guarantee from IFC for benefit of Nomura

### ARROWS INDICATE PAYMENT AT INCEPTION



### ARROWS INDICATE INTEREST AND PRINCIPAL REPAYMENTS OVER TIME

