Structured Finance

Banco BBA-Creditanstalt

HIGHLIGHTS

- **US$50mn 10-year subordinated international bond issue by a leading Brazilian wholesale bank**
- **Proceeds of the offering qualified as Tier II capital**
- **IFC's 24-month debt service guarantee allowed the issue to receive an investment grade rating by Moody's, which represented a four-notch upgrade**
- **The transaction was completed in uncertain times when other, more well known Brazilian borrowers were unable to successfully launch new issues**

THE COMPANY

Banco BBA-Creditanstalt (BBA, the Bank) is a private financial institution established in 1988 as a joint venture between Creditanstalt-Bankverein and two Brazilian shareholders. Since its establishment, the ownership structure has changed. At the time of the issue, shareholders included BBA Participações and Bayerische Hypo-und Vereinsbank (HVB).

BBA operates four branches in Brazil in addition to its head office in Sao Paulo, one branch abroad in the Bahamas, and representative offices in the US and Argentina. Its operations are principally focused on wholesale banking, providing its corporate customers with credit facilities, and advisory services on mergers, acquisitions, and privatizations. In addition to its core business, BBA also has an active proprietary trading book and offers asset management and private banking services and consumer finance products.

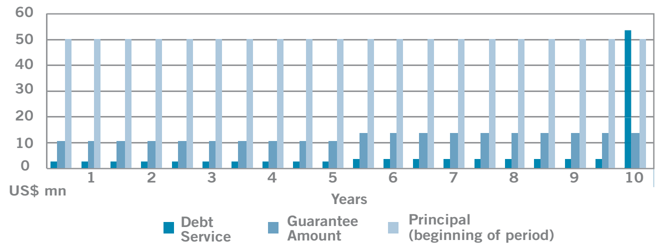
FINANCING OBJECTIVES

To strengthen its capital base, the Bank decided to issue a bond structured in such a way that the proceeds would qualify as Tier II capital. As part of the transaction, IFC partially guaranteed the bond for four semi-annual interest payments on a rolling, reinstatable basis.

THE STRUCTURE

The partial guarantee was for a US$50mn 10-year bullet repayment subordinated bond. The semi-annual coupon on the bond for the first five years was 10.375%. After this period, the coupon steps-up to 13.625%, at which time the bond may be called by BBA. Additionally, the principal repayment may be deferred by a period of up to 24-months in the event that a currency convertibility or transferability event exists at the end of year 10.

IFC's investment consisted of a partial guarantee of 24 months of debt service for an amount up to US$13.625mn.



The transaction represented IFC's first structured partial credit guarantee on an international bond issue. By offering a partial guarantee rather than a full guarantee IFC was able to mobilize additional funds by having investors invest in debentures in excess of IFC's guaranteed amount. The transaction enabled a leading wholesale bank in Brazil to not only diversify its funding sources by placing its bonds with new investors, but to do so in volatile times when other Brazilian borrowers were unable to successfully access the international debt markets.

OUTCOME

With the help of IFC's guarantee the issue received a four-notch upgrade by Moody's, from a non-investment grade foreign currency rating of B1 to an investment grade rating of Baa3. The bonds were placed with investors in the US, Europe, and Latin America. The structure allowed BBA to achieve a yield on the issue substantially below that at which bonds issued by the Federative Republic of Brazil were currently trading.

TERMS AND CONDITIONS

Amount	US$50mn
Currency	US Dollar
Issue Date	June 28, 2002
Maturity	10 years, callable after year 5. Extendable by up to 24-months after year 10 if a currency convertibility or transferability event exists
Series	1 Series
Interest Payment	10.375%, stepping-up to13.625% in year 6, payable semiannually
Principal Payment	Bullet repayment at maturity
Rating	Baa3 from Moody's
Enhancement	24 months of debt service for an amount up to US$13.625mn