BRAZIL CONDUCTS A LIABILITY MANAGEMENT OPERATION IN THE EXTERNAL DEBT MARKET

The National Treasury carried out, on October 23rd and 24th, a liability management operation in the external debt market denominated in USD. The operation resulted in an issuance of a new 10-year benchmark, the Global 2025, mounting USD 3.25 bn, out of which USD 50 mn were distributed in the Asian Market through a *green shoe*. The security, maturing on January 7th of 2025, bears a coupon of 4.25% p.y., while the yield rate was set on 4.305% p.y., 180 bps over the corresponding US Treasury. As a result, the operation led by HSBC, Deutsche Bank and Bradesco BBI was priced in 99.521% of its face value. The settlement date was on Nov-1st and semi-annual coupons are to be paid on January and July 7th .

Out of the USD 3.25 bn issued, USD 1.55 bn are to be cleared in cash and USD 1.7bn through an exchange with some off-the-run sovereign outstanding bonds. Additional USD 0.5 bn of these bonds were purchased using part of the cash received in the issuance. The Table 1 below presents the list of the securities that were withdrawn.

Table 1- Securities Exchanged in the Brazilian External Debt Liability Management Operation

Security	Maturity	Coupon (% p.y.)	Face Value[1] (settlement with bonds)	Face Value[1] (settlement with cash)	Repurchase Price[2]	Repurchase Financial Value	Remaining Outstanding[1]
Global 2017	17th Jan-17	6.000	93.93	134.51	112.5	257.10	2,277.10
Global 2019 N	15th Jan-19	5.875	351.30	0	115.5	405.74	1,948.70
Global 2019	14th Oct-19	8.875	34.74	251.20	133.91	382.9	799.85
Global 2020	15th Jan-20	12.75	138.98	0.05	155.98	216.86	233.86
Global 2024 A	15th Apr-24	8.875	87.84	7.88	140.76	134.73	1,651.29
Global 2024 B	15th Apr-24	8.875	5.43	0	140.76	7.64	658.82
Global 2025	4th Feb-25	8.750	153.92	0	140.77	216.66	1,493.57
Global 2027	15th May-27	10.125	251.07	0.67	158.02	397.79	1,398.42
Global 2030	6th Mar-30	12.250	98.15	0	175.78	172.52	519.45
Total			**1,215.35**	**394.31**		**2,191.94**	**10,981.07**

[1] Face Value accepted to the purchase and the remaining outstanding are subjected to changes after the settlement.

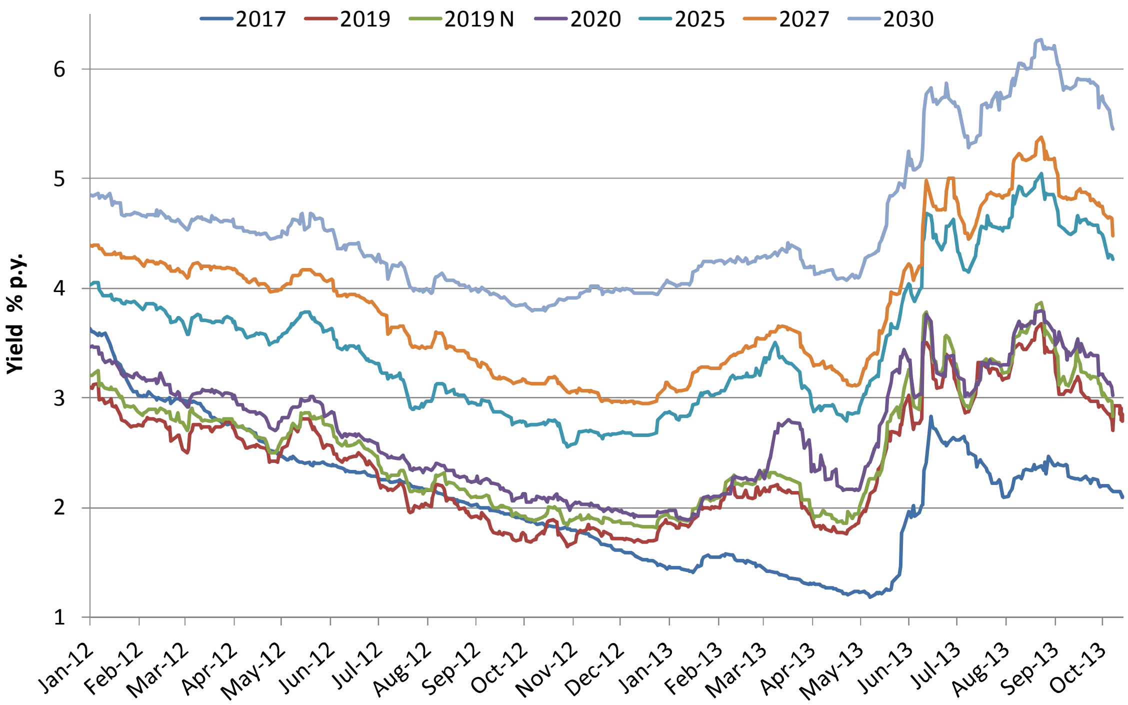
[2] Clean market prices paid to repurchase the securities. Do not include accrued interest.

Source: National Treasury

The securities partially withdrawn are listed in the continuous buyback program managed by the Treasury and consist of high-coupon bonds issued at a period no longer compatible with the sovereign's current funding conditions. By simultaneously issuing a new benchmark and receiving those bonds as part of the payment, the Treasury allowed bond holders to unload their positions[1] while keeping their exposure to Brazilian securities.

The underlying idea of this strategy is to create a sizable benchmark with sufficient nominal amount to permit sound trading in the secondary market, an important feature from the investors` point of view. This new issuance may also function as a reference point for local corporate to access the market. Besides that, a large number of high-coupon bonds that are not aligned to the ongoing financing conditions distorts the sovereign yield curve, such that the exchange will result in debt service savings to the Republic.

Recent Yield Rate Evolution for Selected Securities Withdrawn in the Exchange



Source: Bloomberg

The graph above displays the recent performance of most of the securities chosen by the Treasury in this liability management. The graph also reflects the yield shifts and the relative positive timing after US Treasury movements due to the tapering effects of their monetary policy.

This operation is in line with the 2013 Annual Borrowing Plan directives where the Brazilian Treasury focuses on the qualitative side when dealing with the external debt market rather than accessing it for

[1]Where liquidity has been gradually reduced due to the diminished size of respective outstanding amounts

funding needs. It is also important to mention that the Republic is prepared to conduct an active debt management in a changing external scenario.

Table 2 - Characteristics of the Global 2025 Issuance

	Issued on 10/23/2013
Term	11 years
Maturity	1/7/2025
Interest Cupon	4.25% p.y.
Issuance Price	99.521% of face value
Yield	**4.305% p.y.**
Spread *	180 bps
Principal Payment	Single payment, at maturity
Interest Payment	Semi-annual payments
Global Market (US$ bn)	3.2
Asian Market (US$ bn)	0.05
Total Issuance (US$ bn)	**3.25**

* over corresponding US Treasury Bond

Source: National Treasury

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