Fundo de Investimento em Direitos Creditórios BGNPREMIUM I - Crédito Consignado - Série 2004-1

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Description	Amount (R$)	% Original Amount	Coupon	Tenor (months)	Global Local Currency Rating	National Scale Rating
Series 2004-1 Senior Shares	50,000,000	85%	106% of CDI [1]	36	**Ba2**	**Aa2.br**
Series 2004-1 Subordinated Shares	8,823,529	15%	N.A.	36	Not Rated	Not Rated
Master Program(*)	200,000,000			Aug. 2014		

(*) Represents the maximum amount to be issued under the Master Program during the life of the Fund.

OPINION

Moody's América Latina has assigned ratings of **Aa2.br** on its Brazilian National[2] Scale and of **Ba2** on its Global Local Currency Scale to the senior shares issued by BGNPremium Series 2004-1 (the "Fund" or the "Issuer"). The ratings indicate that the Series 2004-1 senior shares have a low credit risk compared to other local issuances in Brazil. The Issuer is a receivables' investment fund with the sole purpose of purchasing personal loans from the originator, and issuing of one or more Series of senior shares under the Master Program, with a maximum amount of R$200,000,000. The Fund's Series 2004-1 is the first series to be issued from the Master Program; it has a 36-month tenor, with redemptions occurring on 30 monthly installments following a 6-month grace period.

The senior shares are backed by the cash flows arising from repayment of those personal loans, which in turn are deducted directly from the obligor's paycheck, also called the consignment of payroll deductions[3]. The rating is based on the following factors:

1 The Brazilian Interbank Rate.

2 The National Scale rating is used within countries for issues that are strictly for the domestic capital markets and are denominated in local currency. While national ratings use Moody's familiar ratings also have a country modifier attached; in this case ".br" means the credit rating is a national rating for a Brazilian entity.

3 The consignment of payroll-deductions in Brazil is regulated, for federal government employees, by federal law (Law 8112 dated December 11, 1990, and Decree 4961 dated January 20, 2004), and for state & municipal government employees by their respective local jurisdictions. Under such provisions, the obligor irrevocably assigns a part of his/her salary to satisfy loan installments. Such installments are then withheld from the obligor's monthly paycheck. Hence, personal loans with the consignment of payroll deductions enjoy a "first priority" over any other debt that the obligor may have, as a portion of the obligor's available income is legally withheld by the employer.

- A minimum of 15% credit enhancement provided through subordination;
- A minimum of 22% excess spread (defined as the difference between the weighted-average coupon on the purchased loans and the coupon on the senior shares);
- Cash reserve of 1x monthly cash flows[4] to avoid commingling risks, in an event of bankruptcy of BGN as originator and primary servicer;
- Strict eligibility criteria for purchase of assets, which includes observance of concentration and delinquency levels measured at the jurisdiction[5] level, origination criteria, and maximum tenor of personal loans;
- The credit quality of the assets supporting the senior shares, which is 100% composed by personal loans to government employees that enjoy job stability mandated by law (cannot be fired unless for cause);
- The ability of Banco Itaú S.A (bank deposit ratings of **Aaa.br** on the National Scale; no servicer quality ratings assigned by Moody's) to act as master and back-up servicer; and
- The strong legal structure of the transaction, including the bankruptcy remoteness of the issuer.

BACKGROUND

Banco BGN S.A.

Banco BGN S.A. (the bank or the originator) is a small-sized, "niche" regional financial institution specialized in providing personal loans to government employees at the federal, state, and municipal levels, primarily through the consignment of payroll-deductions. The bank is headquartered in Recife in the state of Pernambuco.

Founded in 1994, the BGN was initially designed to operate as the financing arm of the Queiroz Galvão Group, which controls 99.85% of the bank's common shares. The bank redirected its focus to the personal-loan product following the financial turmoil observed in Latin America in the period of 1998/1999.

The Queiroz Galvão Group (the Group) is a closely-held, diversified conglomerate with a strong presence in the main areas of Brazil. Founded in 1953 as a family business involved in real estate construction, the Group has grown to include a wide range of activities, including oil and gas exploration, steel manufacturing, engineering services, agriculture, financial services, and concessionaire of public services including water and wastewater treatment, electricity, and transportation. As of 2002, the Group's consolidated annual gross revenues were R$1.9 billion (US$633 million), and it ranked as the 101st largest economic group in Brazil.

It is the Group's policy to conduct, whenever possible, most of its treasury and depositing activities through BGN, although the Group is prevented from arms-length borrowing activities with BGN according to the Central Bank of Brazil.

The bank as of June 30, 2003 had an asset size of R$192 million (equivalent to US$ 64 million), ranking it among the 130th largest financial institutions in Brazil. The bank's loan portfolio is 74% composed of personal loans to government employees. The remaining loan balance consists of working capital lending primarily to middle-sized corporations located in the Northeast of Brazil (see *Figure 1* for more detail). BGN's funding comes primarily from deposits and from the local development agencies, such as the BNDES, and loan programs such as FINAME[6].

The bank currently has a solid franchise in the Northeast, Mid West, and Southeast regions of Brazil, which are responsible for respectively 28%, 32%, and 40% of the bank's personal loan portfolio. BGN currently operates thirteen branches in these regions. As of June 30, 2003, the bank had 220 employees, divided between Banco BGN (40 employees) and BGN Mercantil (the personal loan origination division, with 180 employees).

BGN's direct competitors in its franchise area are currently limited to Banco BMG, Banco Cruzeiro do Sul, Paraná Banco, Banco Bonsucesso, Banco Pine, and Banco BMC. BGN has also benefited from the recent, fast-paced privatizations of state-owned banks in its franchise area, as the consignation of payroll-deductions to state employees prior to the privatization was only allowed to the respective state-owned bank[7].

4 Defined as the ratio of the total outstanding portfolio of receivables, divided by the average tenor of the senior shares outstanding (in months), times one month.

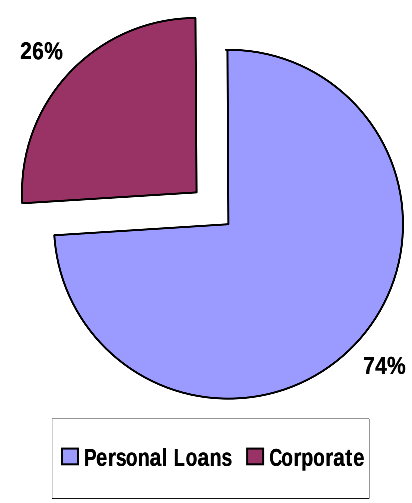
5 "Jurisdiction" is defined throughout this report as the Federal, State, or Municipal Government entity ultimately responsible for paying the salaries of public service employees.

6 FINAME is a local agency dedicated to providing equipment and machinery financing for middle-sized corporations.

7 Following the privatization of a state-owned bank, state governments are mandated to release to other competing banks the license to provide to government employees the personal loan product backed by the consignment of payroll deductions. Currently, the only state bank that has yet to be privatized in BGN's franchise is Banco do Ceará, in the Ceará state, although BGN already offers the product to municipal employees of the City of Fortaleza, which is the capital of the Ceará state.

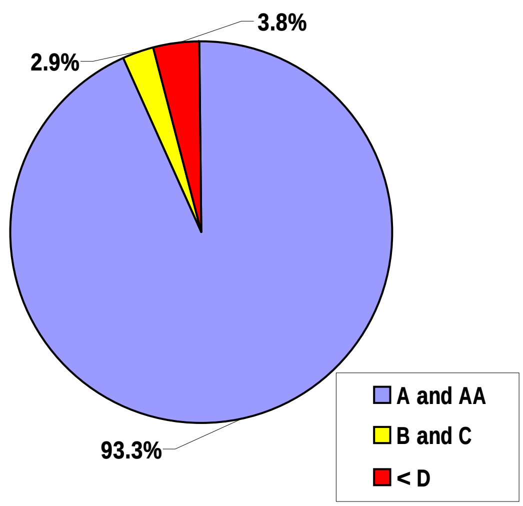
Other private banks that offer the personal-loan product (among other products) are Banco Rural, Banco Schahin, Banco Cacique, BicBanco, and ABNAmro. Large Brazilian private banks such as Bradesco, Itaú, Unibanco and Santander have traditionally focused on the private-sector. Large government-owned banks such as Banco do Brasil and Caixa Economica Federal have historically targeted primarily federal government employees because of payroll volumes (as the average salary for federal workers is significantly higher than that of state and municipal workers).

Figure 1
Loan Portfolio Composition (6/30/03)
Total balance R$114.8MM



Source: BGN

Figure 2
Credit Quality - Personal Loans



Provisioning levels are defined by the Central Bank of Brazil, and are as follows: AA (0%), A (0.5%), B (1%), C (3%), and D (>10%)

Moody's believes that BGN has a conservative approach to credit and market risks, exemplified by the relative historically low levels of delinquency, as amortizations are payroll-deducted and expected to be remitted directly from the employer to BGN (See *Figure 2* for an overview of the credit quality of the bank's personal loan portfolio).

In addition, the bank operates with low leverage (14.4% Tier-One capital ratio[8], increased from 13.8% as of 12/31/02), high levels of liquid assets (37%), and is currently in the process of diversifying its deposit base away from affiliates of its parent holding group (having reduced it from 90% in 12/31/01 to 51% in 12/31/03). However, asset quality has recently suffered from increases in delinquent loans[9] (see more detail under Pool Characteristics and Performance). BGN has already experience in securitizing personal loans from its portfolio, having launched in December 2003 BGNMax, an R$35 million receivables investment fund.

BGN's senior management is composed of the chairman (who is a member of the family that controls BGN), by the CEO, and by the senior treasury officer; the CEO and the senior treasury officer have, altogether, over 50 years' experience in banking services. BGN's senior management decisions are ratified by BGN's Board of Directors.

8 Defined by the Basle Capital Accord dated 1992, which stipulates a common risk-weighted, minimum capital of 8% for banks to address credit risk, which is the main risk incurred by banks.

9 According to the rules of Central Bank of Brazil, delinquent loans are defined as those loans one day or more past due.

Figure 3

Selected Financial Information - Banco BGN (R$'000)

	06/30/03 (6 mos.)	12/31/02	06/30/02 (6 mos.)	12/31/01
Interbank Investments	13,178	15,779	15,321	19,663
Securities (ST + LT)	58,457	42,362	6,943	6,945
Gross Loans (ST + LT)	114,765	139,784	109,833	65,377
Reserve for Loan Losses	(3,475)	(2,050)	(1,196)	(653)
Total Assets	**191,960**	**202,472**	**137,395**	**97,372**
Deposits	122,650	142,283	90,950	62,446
Shareholders' Equity	31,339	27,286	28,662	25,146
Total Liab. & Equity	**191,960**	**202,472**	**137,395**	**97,372**
Income Statement				
Net Interest Margin	13,166	18,209	10,455	19,626
Non-interest Income	799	1,931	631	1,184
G&A expenses	8,640	10,871	5,206	15,075
Operating Income	3,727	5,407	4,618	3,367
Net Income	2,069	3,705	2,916	2,672
Ratios				
NPL (>60 days) / Gross Loans	1.4%	0.2%	0.2%	0.3%
LLP / Gross Loans	2.3%	1.2%	0.5%	0.6%
Reserve / Gross Loans	3.0%	1.5%	1.1%	1.0%
ROE	9.1%	13.6%	10.2%	10.6%
ROA	1.5%	1.8%	2.1%	2.7%
BIS Tier 1 Ratio	14.4%	13.8%	20.9%	29.7%

Source: audited financial statements of BGN

The Investment Vehicle Legal Framework - Receivables Investment Funds.

The receivables' investment funds (fundos de investimento em direitos creditórios or FIDCs) were created by Resolution Number 2907 dated November 29, 2001, of Brazil's Central Bank. The rules of operation were regulated by the Commissão de Valores Mobiliários (CVM, the Brazilian Securities and Exchange Commission) Instruction Number 356 dated December 17, 2001, later amended by Instruction Number 393 dated July 22, 2003.

FIDCs feature elements common to both traditional structured-finance vehicles and also of investment companies. FIDCs are bankruptcy-remote entities and afford beneficial treatment under the Brazilian tax code. FIDCs can be either open-ended or closed-ended, and the capital can be made up of both senior and subordinated shares, or by senior shares only. At least 50% of the assets purchased by an FIDC must represent credit rights (i.e. receivables and loans, and meet certain criteria stipulated in its manual, which describes the rules under which the respective FIDC operates). The remaining portion of a FIDC portfolio must be held in highly rated assets or must have positive exposure to highly rated swap counterparties.

Every FIDC must have a sponsor who is civilly and criminally responsible for the acts by or on behalf of the FIDC. A custodian must be appointed to perform certain obligations in accordance with that FIDCs' particular statute. Given the nature of such obligations, the role of the custodian may be similar to that of a trustee and a servicer.

RATING SUMMARY

Transaction Overview

Description of the Fund.

BGNPREMIUM (the fund) is a master program, closed-ended FIDC marketable in Brazil to qualified investors, including corporate and private banking investors, pension funds, insurance companies, and other investment funds. BGNPREMIUM will make revolving purchases of personal loans under the master program. Under such program, BGNPREMIUM may purchase, on an offering basis only, eligible personal loans originated by BGN and its network of permitted correspondent banking agents.

As a closed-ended FIDC, the Master Program legal final will be 10 years, with each series having its own legal final ranging from 12 to 60 months from issuance.

Nevertheless, in case of an early amortization the legal final will be extended by a period equal to the Series' legal final plus 90 days (please see Legal Aspects for more detail).

Issuance of Additional Series Allowed.

Similarly to a master trust concept, the transaction structure allows for other series of senior shares to be issued, backed by a common pool of personal loans. The Fund will issue series with maturities ranging from 12 to 60 months. The Fund's Series 2004-1 is the first series to be issued from the Master Program; it has a 36-month tenor, with redemptions occurring on 30 monthly installments following a 6-month grace period. Such additional series of senior shares, whose cash flows will rank pari passu with those of the Series 2004-1, can be issued by the fund provided that specific criteria are met. Any additional series' issuance will need to have a rating. If such issuance is not rated by Moody's, we will then need to confirm the rating of the senior shares initially rated by us.

In order to allow the issuance of new series, the liquidity-ratio test was created to ensure that there will be always enough cash to redeem the senior shares in full. The liquidity ratio is a "forward looking" trigger and is measured pro-forma, for all series outstanding. The liquidity ratio will be calculated daily and excludes from its determination any loan that is not current (i.e., that is one day or higher past due; its formula is shown under the Trigger Events section).

Description of the Shares.

The Fund will issue senior and subordinated shares, at a price of R$25,000 per senior or subordinated share, in the master program. The senior shares shall constitute a maximum of 85% of the Fund's shareholder's equity at closing. These shares will be backed by monthly cash flows originated at the bank's portfolio of personal loans, which as of January 31st, 2004 amounted to R$115.6 million, representing 93,679 active accounts, with an average ticket of R$3,915 (face value). The subordinated shares, representing a minimum of 15% of the total share balance will be held by the seller.

Interest Payments on the Shares.

BGNPREMIUM will pursue a total return to shareholders equivalent to 106% of the Brazilian Interbank rate (CDI).

The subordinated shares do not carry a fixed appreciation rate, however they are the ultimate beneficiaries of any excess cash after senior shares from all the series are paid in full. Because CDI is a floating rate, this transaction was analyzed by Moody's assuming that the maximum return promised to investors is 120% of the future CDI rate (based on the portfolio turnover period plus a spread), as of the day preceding any trigger event.

Principal and Interest Payment.

The payment of interest and principal will be allowed only on permitted payment dates as follows:

(i) Principal:

- Senior Shares: the master program allows for different amortization schedules, such as target principal, soft bullet, or hard bullet;
- Subordinated Shares: provided that certain triggers (i.e. excess spread, overcollateralization test and liquidity trigger) are not hit, on a pro-forma basis, the fund will allow the redemption of subordinated shares following 60 days from request[10].

Series 2004-1 will have target principal payments on the following months: [to be determined at the time of initial subscription].

(ii) Interest: is paid monthly and reinvested to purchase more loans.

In each payment date, all cash flow collected will be used to pay sequentially as shown as *Figure 4*:

Figure 4

Normal Amortization	**Early Wind-Down Event**
Available Cash:	Available Cash:
Fees, taxes, and expenses: auditor, rating agency, trustee, sponsor, legal & administrative expenses	Fees, taxes, and expenses: trustee, sponsor, legal and administrative expenses;
Reimbursement of the amounts occasionally advanced by shareholders related to judicial collection process	Reimbursement of the amounts occasionally advanced by shareholders related to judicial collection process;
Principal and interest payments of senior shares;	Principal and interest payments of senior shares;
Eligible personal loans' purchase price;	Fees of rating agency;
Payment to the subordinated shareholders.	Payment to the subordinated shareholders.

Excess Spread

Provided that the Fund does not hit any trigger event on a pro-forma basis, excess spread will be released to the seller (BGN) in the form of subordinated shares' redemption.

The Fund benefits from substantial excess spread as the purchased personal loans carry interest rates ranging from 35% to 55% per annum (average of 40% per annum). The total return on senior shares, assuming a maximum CDI rate equivalent to 120% of the CDI rate at closing (16.5% as of March 23, 2004), could reach 19.8% (which is the promise to investors that Moody's is basing its rating decision).

The annual net excess spread, considering 0% CDR (constant default rate) and 0% CPR (constant prepayment rate), would be 22.16% per annum, as shown in the Figure 5 below:

10 The possibility of FIDCs to redeem subordinated shares prior to the fund's maturity was introduced by CVM's Instruction Number 393 dated July 22, 2003, and it was aimed at reducing the excess spread carried by FIDCs on their books. The redemption works as follows: 1) in open-ended funds, subordinated shares can be redeemed following 60 days of the request, provided that senior shareholders are advised of such redemption request, and, in the case the senior shareholder also decide to redeem his/her shares, that the senior share redemption occurs prior to that of the subordinated shares; 2) in closed-end funds, the redemption can only occur if allowed in the fund's statute, and it does not cause the fund to remain undercollateralized following such redemption.

Figure 5 **Available Excess Spread**	
(A) Annual Coupon on Purchased Assets	**40.00%**
Less:	
- CDI Rate	16.5%
- Stressed CDI Rate (120%)	**19.8%**
- Average Liability Coupon (85% Senior)	16.8%
- Spread	106.0
(B) Total Senior Return	**17.84%**
(C) = (A)-(B) Annual Net Excess Spread	**22.16%**

Series 2004-1 will always need to maintain 22% in excess spread to cover the following:

Interest Rate (the"Yield Reserve)

Because the collateral has a fixed rate (ranging from 35% to 55% per annum), and the shares have a floating rate, there could be a mismatch in the case of an increase in the CDI (currently at 16.5% p.a. as of March 2004). A minimum excess spread will cover this risk up to the maximum promised return. Nevertheless, if excess spread falls below the minimum required, the dynamic overcollateralization could came into effect. Therefore, the overcollateralization level for interest rate is recalculated daily by utilizing the future rate of CDI, as posted daily by the Brazilian Mercantile and Futures Exchange. The formula is as follows:

[(20% Future CDI) * (Prorata Spread over CDI)] * [(Turnover Rate[11] + Collection Delay Factor[12])/(360)]

On a daily basis, the overcollateralization level for the interest amount is recalculated by adding more loans through the issuance of more subordinated shares. In other words, the Fund will maintain loans sufficient to pay the full return, or at least, 120% of the future CDI, to senior shareholders (the interest rate reserve). Moreover, if the spot CDI reaches 130% of the spot CDI as of the prior business day, a trigger event will be hit and senior investors will convene and could decide to early amortize the Fund.

Fees and Expenses

The Fund's fees and expenses include:

(i) Sponsor's management fee, which is equal to 0.15% p.a. of the Fund's shareholder's equity up to R$90,000,000, plus 0.10% p.a. over the shareholder's equity amount that exceeds R$90,000,000;

(ii) Master servicer fees (0.361% p.a.), which already includes a fee for successor and back-up servicer;

(iii) Other fees and expenses such as registration, investor's representative, and publication fees.

The total annualized fees and expenses, according to BGN, are expected to reach 0.65% p.a. of total issuance. Nevertheless, Moody's is using a more conservative approach and using 3.0% p.a.

Assets Consist of Personal Loans, Eligible Investments, and Reserve Account:

Personal Loans

The assets of the Fund consist primarily of reais-denominated, fixed-rate personal loans extended to eligible government employees, following BGN's underwriting policies, payments, and collections thereon. The Fund will purchase the personal loans from BGN according to the following formula:

(i) Utilizing the embedded interest rate of the personal loan, which ranges from 35% to 55% per year; the formula is as follows:

(Face value of Personal Loan[13])/ [(1 + discount rate) ^ {(days elapsed from purchase date and loan maturity date)/(360)}]

11 The average daily turnover rate for BGN portfolio of personal loans as of March 2nd is 212 business days.
12 Days elapsed in the case of a change in servicing from BGN to Banco Itaú.
13 Includes principal + interest.

Reserve Account

Since BGN is the primary servicer on this transaction, all cash flows are being deposited in an account in the name of BGN[14]. Therefore, in order to mitigate commingling risks in the case of bankruptcy of originator, the Fund will maintain a Reserve Account with cash and cash & equivalents equivalent to 1x monthly cash flows. Moody's believes that in a stress scenario it would take one month to change servicer, thus this cash flow could be part of the bankruptcy estate of the originator and servicer (please refers to the "Legal Aspects' section for a discussion of commingling risks). Moody's believes that the structure already in place with Banco Itau as a hot back up servicer mitigates the risk that more than one month of cash flows will be trapped at the bankruptcy estate of BGN. The formula is as follows:

$$\text{Reserve Account} = \frac{\text{Total Current Credit Rights Outstanding}}{\text{Average Tenor of Senior Shares (in months)}} \ (*) \ 1 \text{ month}$$

Eligible Investments

Any available cash not used to purchase loans will be invested in either of the following:

(i) Brazilian government bonds;

(ii) Certificates of deposits issued from authorized Brazilian banks[15], and

(iii) Fixed-income mutual funds with a conservative investment strategy.

Trigger Events

In case a trigger event occurs, the Fund has up to five days to cure the event by either issuing more subordinated shares or redeeming senior shares to bring the deal "in-formula". If the trigger event is not cured, the revolving purchases stop, redemption of subordinates shares are discontinued, and senior shareholders convene to decide to either (i) waive the event temporarily or permanently or (ii) to declare a wind-down event and begin to early amortize BGNPREMIUM. Evaluation events include any of the following:

- The Liquidity ratio (defined as the Fund's cash resources available to meet the next share redemption event) is below 1.00 on a *pro-forma* basis. The liquidity ratio is calculated daily and its formula is as follows:

[(available cash balance[16]) + (current loans that are due no more than ten business days before the next redemption)] / [(1.15) * (next share redemption)]

- The overcollateralization ratio, which measures the Fund's subordination levels, is equal to or below 0.85. The overcollateralization ratio is calculated daily, and its formula is as follows:

[(Senior shares outstanding) - (cash resources)] / [(Fund's shareholder's equity) - (cash resources)]

- Available excess spread is below 22%;
- The yield and the fee and expense reserves are below the required levels (only in the case the excess spread is below the minimum and the dynamic overcollateralization comes to effect);
- The reserve account is below the required levels;
- The ratio of the CDI rate of the current day, divided by the CDI rate of the preceding day, is equal of higher than 1.30;
- BGN's Tier One ratio is below 11%, to be informed monthly;
- The following performance ratios, for three consecutive monthly periods, have been hit as follows:
- The delinquency ratio (defined as those loans 1-30 days past due, divided by the total ending balance), is equal or higher than 20%;
- The non-performance ratio (defined as those loans 31-120 days past due, divided by the total ending balance), is equal or higher than 10%;
- The default ratio (defined as those loans 121-180 days past due, divided by the total ending balance), is equal or higher than 3%;
- The write-off ratio (loans greater than 181 days past due, divided by the total ending balance), is equal or higher than 2%.

14 Salary remittances are not sent directly from the paying entities to the fund, but rather deposited into a "master account" at BGN, which has up to three days to reconcile and segregate monies belonging to the fund and to BGN respectively. Hence, in the event of a bankruptcy of BGN, monies that have yet to be reconciled may be trapped in BGN's bankruptcy estate.

15 Authorized banks include Citibank S.A. (**B3**/**NP** GLCR), Unibanco S.A. (**A3**/**P2** GLCR), Bradesco S.A. (**A3**/**P2** GLCR), Banco Itaú S.A. (**A3**/**P2** GLCR), and Banco Santander Brasil S.A. (**NR**).

16 This cash balance deducts any subordinated share redemption on a pro-forma basis.

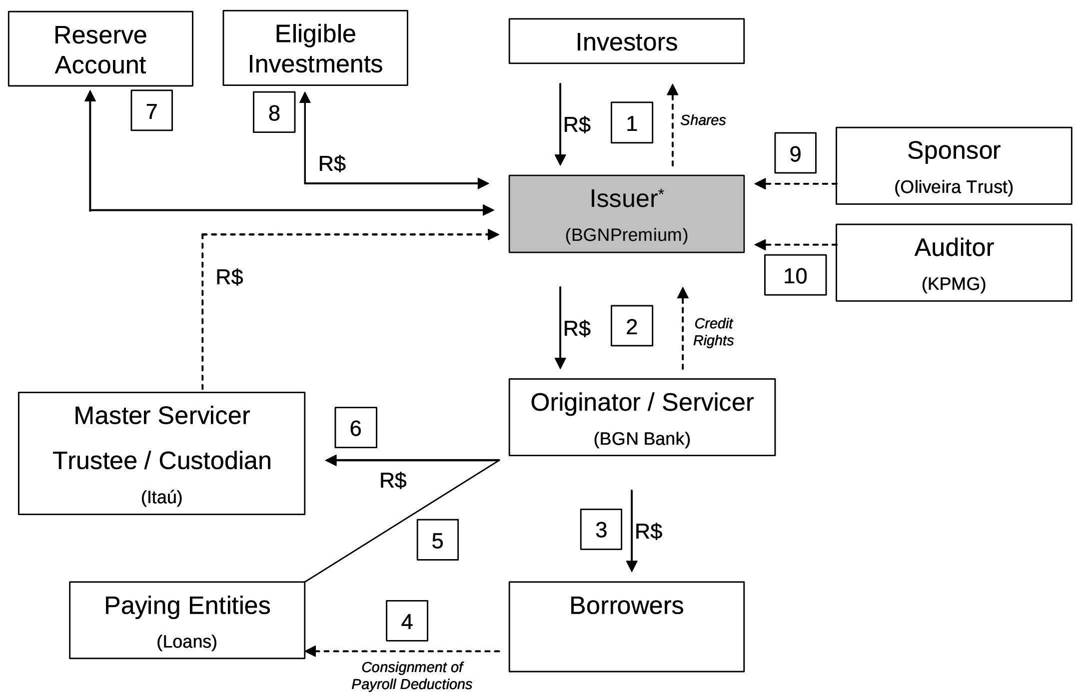
In addition, pre-established wind-down events include any of the following:

- Bankruptcy of BGN;
- If a trigger event is hit and there is a vote by senior shareholders to early liquidate the transaction;
- Failure by the master servicer to use cash in the sequential order as detailed previously in this memo;
- Extinguishment or the legal impediment of utilizing the CDI rate in valuing senior shares;
- Failure to honor representations and warranties;
- Others.

Transaction Structure

Figure 6

Transaction Structure and Cash Flows



(*)Structured as a "FIDC", created by Resolution Number 2907 dated November 2001.

1) The Fund issues the first series of senior shares to investors;

2) The Fund uses issuance proceeds to purchase (true sale by Brazilian law) eligible personal loans originated by BGN;

3) Personal loans are originated when BGN extends credit to eligible borrowers employed by eligible paying entities[17] (convenentes);

4) Paying entities perform the consignment of payroll deductions from the borrowers' paychecks;

5) Paying entities remit amounts withheld from payrolls to a collection account held by BGN;

6) BGN has three business days to reconcile these monies and segregate amounts due to BGN and the Fund respectively; monies belonging to the Fund are then deposited in an Itaú account held by the Fund (please refer to the Legal Aspects section for comments on commingling risks);

7) The equivalent of one-month cash flows are segregated in a reserve account to the sole benefit of the Fund;

8) The Fund uses remaining proceeds to purchase permitted investments;

9) Oliveira Trustee, as sponsor, is civilly and criminally responsible for the acts by or on behalf of the Fund;

10) KPMG periodically audits the financial statements of the Issuer in accordance with the legal and transaction documents' requirements.

17 Paying Entities or Convenentes are defined as each government entity (such as the military police, fire department, municipal guard, state congress, state justice dept., etc) that BGN has a specific contract to offer the personal-loan product to that entity's employees.

RATING RATIONALE

Moody's analysis of the credit risks associated with the senior shares is focused primarily on the following issues:

ORIGINATION AND UNDERWRITING - PERSONAL LOANS

Approval of Paying Entities

BGN will originate and underwrite government agencies at the paying entity level[18]. The origination process is conducted by BGN's CEO together with a regional manager, and includes visits and detailed due diligence with a senior member of the paying Entity. The underwriting analysis, performed by BGN's credit department (composed of four members headed by the senior credit officer), will include detailed analysis of that paying entity including: (i) legal aspects (i.e., whether the consignment of payroll deductions, at that paying entity's jurisdiction level, has been extended to private banks such as BGN, and are no longer a mandate exclusive to state-owned banks); (ii) financial condition at the jurisdiction level; (iii) other variables such as political risks (for example, the case of a new administration causing financial distress to that paying entity).

Following underwriting, BGN's regional manager prepares a report with a recommendation to approve or not the particular paying entity. Such recommendation is approved by BGN's credit committee that includes the senior credit officer and BGN's senior management (composed of the chairman, the CEO, and the senior treasury officer).

Following approval, BGN and the paying entity sign a contract, which is renewed annually. This contract allows BGN to offer the personal-loan product to employees of that paying entity under certain conditions, i.e., the paying agent is responsible for: (i) withholding procedures and all systems' verification and accuracy tests at the payroll level; (ii) designate the figure of the averbador, in the case the payrolls systems are yet to be automated, and (iii) informing BGN of any dismissed and/or deceased obligor. Also, this contract does not guarantee exclusivity to BGN as other competitors may also offer personal loans.

In the case of financial distress at jurisdiction level, BGN can cancel or revoke the contract to reduce delinquency levels, but it retains the right to collect any delinquent loan from the jurisdiction or, alternatively, directly from the obligor.

BGN will only extend the personal-loan product to those paying entities with a minimum annual payroll volume of R$3 million (US$1 million), in order to lower underwriting costs and decrease any potential concentration risk at the obligor level.

It is Moody's understanding that BGN's approval process is basically derived from the level of relationship that BGN (and ultimately the Queiroz Galvão Group) has with the particular jurisdiction in which that paying entity is located, thus reflecting a more internal, family-oriented method of approval.

Personal Loan Origination

The originator markets its personal loan product through a wholly-owned subsidiary, BGN Mercantil, which has a regional office in all states and cities that BGN operates in (180 employees). In the states and cities that BGN Mercantil does not have a presence, the loan product is marketed through certified third party agents, which are authorized by Brazil's Central Bank to perform certain banking services (the so-called banking correspondents), including the marketing and sale of the personal loan product.

BGN personnel are responsible for reviewing and reassessing all documentation verification and credit analysis on loans originated by these correspondent banking agents. Sale specialists of BGN Mercantil and those of the banking correspondent offer personal loans at the premises of the paying entity.

BGN will verify whether the paying entity's payroll system is automated through a central, secured web-based database, which enables authorized BGN credit personnel to enter the system (though a password), and verify the existence of borrower and whether he/she has enough funds to satisfy debt obligations.

In the case where the payroll system is not automated, BGN will verify whether the paying entity has a senior Human Resources' officer (the averbador) who is responsible for that paying entity's payroll functions including verifying and assuring that the employee has funds available to satisfy loan repayments.

18 Moody's rating rationale will not consider the paying agents as distinct creditworthy entities (as these entities are not responsible for any revenue or tax collections); instead, Moody's will base its credit analysis at the jurisdiction level (either at federal, state, or municipal levels). Moody's understands that the jurisdictions are the ultimate generators of any revenue or tax collections, proceeds that are then submitted to their respective paying agents to satisfy salary payments.

Moody's believes that the safest method of personal loan origination is through the online, web-based payroll system, as it avoids the risk of fraud and manual errors in handling the payroll. Currently, approximately 57% of BGN's personal loan volume is processed through web-based, secured payroll systems[19], with the remaining balance processed manually by the averbador.

BGN can cancel and revoke the agent's contracts in the case the bank concludes that terms of the contract were breached, especially those related to proper loan origination and document verification. BGN will pay to these agents a sales commission calculated over loan volumes effectively closed; this cost is already taken in consideration when BGN determines its interest rate charged to obligors.

Underwriting

BGN has a policy of lending only to those public service employees that enjoy job stability[20]. Such stable employees are the majority of the public service workforce in Brazil, and their rights are protected under a very strong constitutional provision. In Brazil, nominal salaries of public service employees cannot be reduced under any circumstances, and it is extremely difficult to reduce or displace positions. Public service employees enjoy job stability provided they are approved by a public exam (the concursos públicos). There are some employees that are hired under the "CLT" regimen[21], but these positions are usually temporary. Other public service employees are nominated for specific functions due to political reasons (i.e., Secretaries and head of Ministries), but these positions are also limited in number.

BGN's underwriting standards and proceeds, which Moody's believes to be adequate, include the following required documentation as shown in *Figure 7*:

Figure 7

Original Federal ID Card ("RG"), or Original Driver's License (under a new format which includes picture ID);
Original Social Security Card ("CPF");
The three last original paychecks (which will be marked by an appropriate stamp if approved to avoid double-counts in the calculation of the maximum loan amount);
Original proof of residency, which can be an utility bill, in the name of the employee, which is dated no more than 60 days from the current date;
Complete and signed Credit Application, which (among other information), includes the following: type of employment, i.e., whether it is a stable employee ("concursado"); name of employer, employment tenure, commercial and residential addresses, telephone numbers, and three additional personal references;
Complete and signed payroll-deduction approval form stating that the employee acknowledges the consignment of payroll deductions as a form of satisfying debt repayments (more details under Legal Aspects);
Complete and signed Life Insurance Application, when mandated by law, against death or disability;
Age: employee has age above 21 years or below 75 years.

It is important to note that BGN will not approve a credit application to employees that do not enjoy job stability. This information is verified either through: (a) the web-based payroll system (which clearly identifies public servants' job category), or (b) by certification from the employers' averbador.

19 This level of automation, utilizing state-of-the-art, web-based technology is the result of a concerted effort of the Brazilian government and its related agencies in implementing administrative reforms aimed at reducing costs, enhancing tax collections, intensifying monitoring activities, reducing frauds, and increasing overall efficiency.

20 Brazil's 1988 Constitution granted job stability to all federal, state, and municipal employees with more than five years of service, and determined that all new hiring should be admitted following civil service, written examinations, upon which job stability would come after two years of probation. Mandatory retirement for all public servants, except for those elected to political office, is at age sixty for male employees, and fifty-five for female employees.

21 Consolidação das Leis de Trabalho (CLT), which was regulated by Decree 5452 dated May 1st, 1943. The CLT regimen covers labor regulations of workers that do not enjoy stability, which are employed primarily by the private sector. In the case workers under the CLT regimen are fired, they are entitled to some benefits including (i) a grace monthly salary (the "aviso prévio"), and (ii) eligibility to withdraw funds deposited in a personal pension plan account (the "Fundo de Garantia por Tempo de Serviço or FGTS), which is funded by the employer in an amount equal to 8% of the employees' gross salary.

In Moody's opinion, by extending credit solely to public employees that enjoy job stability, BGN greatly reduces default at the obligor level, as it is extremely rare for public service employees in Brazil to be fired with cause, or (to a lesser extent) to move to the private sector. All credit applications are submitted to BGN for final credit approval, observing the following limits:

- for loans up to R$10,000: credit approval is granted by the manager of the regional officer, provided that he/ she has a power of attorney granted from the bank;
- for loans between R$10,000 and R$30,000: credit approval is granted by the superintendent of the regional officer, provided that he/she has a power of attorney granted from the bank;
- for loans above R$30,000: BGN's credit committee (the chairman, the CEO, the senior treasury officer, and the senior credit officer) has to approve it.

BGN will determine the maximum loan amount as showed in Figure 8 (net-consignable margin), considering the maximum available income and the maximum eligible tenor. The net-consignable margin is calculated on a reverse fashion, deducting from the gross salary amounts due for mandatory deductions (40%) and an allowance for living expenses (30%). The resulting amount (the net -consignable margin, which the maximum amount is 30% of the obligor's gross salary) can be utilized in consignations of payroll-deductions permitted by law, including personal loans, 401(k) contributions, and pharmacy plans.

Figure 8

Net Consignable Margin

(1)	Total Monthly Gross Salary	
(2)	Variable Wages	
	Overtime	
	13th Salary Advances	
	Vacations	
	Other variable & eventual wages	
(3) = (1)-(2)	Gross Salary	100%
(4) = (3) * 40%	Mandatory Deductions	40%
	Income Taxes	
	Social Security / Medicare	
	Alimony	
	Other mandatory deductions	
(5) = (3) * 30%	Minimum Portion for Living Expenses	30%
(6) = (3) * 30%	Net Consignable Margin	30%
	Personal Loans	
	Pharmacy Plans	
	(401)k Contributions	
	Life Insurance	

Source: BGN

In the case BGN has already extended the loan, however, mandatory deductions are subsequently increased and surpass the 40% limit (such as the addition of an alimony payment or an increase in income taxes), the net-consignable margin will be affected, thus creating a possible shortfall on the loan installments. In this case, BGN will renegotiate the loan directly with the obligor, and the loan will have an extended maturity, with the addition of sufficient monthly installments to satisfy the original loan amount and the 30% net-consignable margin. In the case the employee increases his 401(k) contribution affecting amounts available for loan repayment, the payroll system will decline the increase, as it understands there is no available net-consignable margin remaining.

The loan is composed of a combination of principal and interest. In the case where the obligor prepays the loan, the obligor has to satisfy the loan's principal plus accrued interest up to the day that prepayment occurs.

BGN may extend more than one loan per employee (the maximum number will vary according to state, e.g. seven in the state of Rio de Janeiro, for example), provided that the aggregate sum of the monthly installments (whether extended by BGN or other competing bank) is equal to or lower than the Net Consignable Margin.

The amount of available margin can be monitored by checking the real-time Web-based payroll system (which has a specific code for loans with consignment of payroll deductions, and amount allotted to that function), or in the absence of an automated payroll system by verifying the margin with the averbador. The averbador, as previously mentioned, has total access to the payroll at each paying entity, and he/she can attest as to whether that particular employee has applied simultaneously for more than one loan, as original pay-stubs are required for credit application and marked by an appropriate stamp if approved. Usually, personal loans extended by BGN have a maximum tenor of 36 months and a minimum of six months. The interest rate varies according to the rates offered by the competition, and they currently range from 35% to 55% per annum.

Screening and Payment History Verification BGN's credit approval process does not include the final verification of the obligor's credit history with Brazil's two main credit bureaus, namely the Serasa (Brazil's largest economic and financial reference information company) and the SPC (one of the largest consumer credit databases in Brazil). According to BGN, this step is not necessary because: (i) personal loans are originated on premises and the originator has direct access to the employee's payroll to verify identity, and (ii) a first security interest[22] on the consignment of payroll deductions.

Moody's understands that the lack of verification is below acceptable credit quality standards in transactions involving personal loans as underlying assets[23]. Moody's also considers that this risk is only partially mitigated by the consignment of payroll deductions, since delinquencies may occasionally occur in the case the obligor decides to change jobs (as shown in *Figure 10*).

Loan Approval Once the loan is approved (generally on same business day the application is filed), the employee receives funds on the same business day through a direct deposit in his or her checking account. The borrower receives a signed copy of the loan document, and the loan installments amortize on the next calendar month.

Eligibility Criteria for Inclusion in the Securitized Portfolio

All loans to be purchased by the Fund must meet the following criteria as shown in *Figure 9*:

Figure 9

Obligor is a government employee that enjoys job stability under Brazilian law;
Loan arises from a binding, legal contract that is enforceable in accordance with its terms and conditions and which, at the time of assignment, it has good and marketable title and has been conveyed to the Fund free and clear of all liens and encumbrances;
Loan is current and not past due;
Loan was originated through automated, secure web-based payrolls;
In the case the loan was originated through non-automated payrolls, the loan's first installment has already been paid and proceeds were fully received by BGN;
Maximum tenor of any loan does not surpass the tenor of the corresponding issued Series;
Loan has monthly amortizations with fixed installments;
Concentration limit per Jurisdiction (calculated over the Fund's shareholder's equity) is as follows:

i. For Jurisdictions that, for the past 180 days, have met Performance Requirements (defined as follows: (a) loans 1-30 past due are below 20%, (b) loans 31-120 days past due are lower than 10%, (c) loans 121-180 past due are lower than 3.0%, and (d) write-offs are lower than 2.0%):

1. 25.0% for 1 Jurisdiction;
2. 15.0% for 1 Jurisdiction;
3. 10.0% for 2 Jurisdictions;
4. 4.4% for the remaining Jurisdictions.

ii. For all the remaining Jurisdictions that have not met the Performance Requirement (the "Restricted Jurisdictions"), the concentration is limited to 4.4% per Jurisdiction.

iii. For the new jurisdictions that BGN has just entered the market (the "New Jurisdictions"), the concentration is limited to 3.3% per Jurisdiction; as a whole, the New Jurisdictions cannot exceed 20% of the Fund's shareholder equity.

iv. As a whole, the sum of the New Jurisdictions plus the Restricted Jurisdictions cannot exceed 40% of the Fund's shareholder equity.

22 This security interest on payroll-deductions works as a legal garnishment on income, and it was enacted by Decree 3297 dated December 17, 1999 for federal government employees and by the local jurisdictions for State & Municipal government employees. Please see more detail under Legal Aspects.

23 BGN's competition also does not verify the obligor's credit history while extending personal loans through consignation.

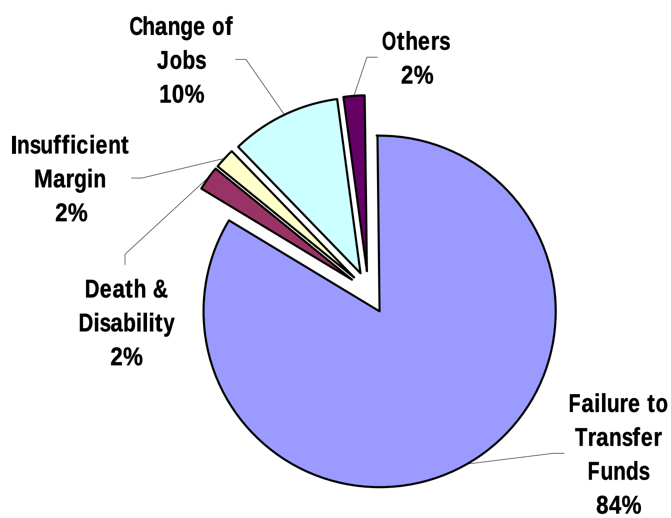
In Moody's opinion, these stringent eligibility criteria mitigate several risks, such as fraud, as the safest method of origination is through the automated, secured payroll system. If the origination was made through standard, not-automated payrolls, to show that the receivable actually exists the first installment must have been received by BGN.

This eligibility criteria also limits concentration per jurisdiction, mitigating the risk that a public entity will deduct from the paychecks, but refrain from remitting it further to BGN (this risk is further discussed in the Credit Enhancement Section).

Servicing Process

Moody's considers BGN an experienced primary servicer of personal loans, as it is the bank's core business, responsible for 74% of the bank's loan portfolio. Because BGN extends credit only to employees enjoying job stability, as long as the employee continues to be employed there should be no delinquencies to be collected, unless under the following circumstances shown in *Figure 10* (these factors are discussed in detail under the Credit Enhancement" Section).

Figure 10
Main Causes of Delinquency
(Loans one day & higher past due; as of Jan'04)



Servicing of Delinquencies

Banco BGN is responsible for the collection of delinquent loans purchased by the Fund, and it usually does not use external collectors because its historical recovery rate has been higher utilizing BGN's own collecting efforts, taking advantage of BGN's core expertise in the personal- loan product. BGN's collection department is comprises five employees, in addition to six employees that perform conciliation work in connection with their collection efforts.

BGN commences the collection process as soon as an installment is not paid, sending a collection letter. Between the 15th and the 30th day of delinquency, a call is made by to the obligor by BGN's collection department, in conjunction with the credit officer from BGN's affiliate that originated that loan. If payment is not received by the 35th day of delinquency, information is sent to Brazil's major credit bureaus (the SPC and Serasa). SPC enters the negative data into the debtor's records immediately. Serasa sends a letter to the debtor informing that, if a payment is not made by the 45th day of delinquency, that his/her record will be negatively affected. After 180 days, if collection is effortless, the loan is charged-off according to accounting rules defined by the Brazilian Central Bank.

Banco Itaú as Master & Back-up Servicer.

Banco Itaú, which Moody's rated **Aaa.br** for bank deposits on the National Scale for Brazil, is considered to be one of the leaders in the collection and custody services' market in Brazil. As such, Moody's expects Banco Itaú to be technically qualified to perform servicing for this type of transaction.

Banco Itaú will perform the following activities:

- Verifying on a daily basis that all loans the Fund purchased are in compliance with the "eligibility criteria";
- Verifying compliance of all the transaction's trigger ratios;
- Handle all transference of monies;
- Handle all accounting functions for the Fund, including preparing monthly and annual financial statements;
- Calculating, on a daily basis, the Fund's share values and its shareholder's equity value;
- Keeping exact duplicates of BGN's month-end personal loan databases;
- Monitoring the payment performance of the personal loans acquired by the Fund, including sending installment payment notices to the borrowers;
- Warehousing all the contracts backing the personal loans;
- Serving as back-up servicer in the event of bankruptcy of BGN (discussed below);
- Others.

Banco Itaú is not responsible for the solvency of the Fund, or for the performance of personal loans acquired by the latter, or for the payment of any amounts regarding the shares. Itaú's duties and obligations are limited to those defined in the scope of the servicer agreement. Moody's will monitor the payment performance of the personal loans (as long as there are shares outstanding) through the reports prepared by Banco Itaú.

Banco Itaú has developed an in-house system and structured a department of 20 employees assembled primarily to perform eligibility and compliance servicing of trade receivables, consumer loans, personal loans, and credit-card receivables.

Back-up Servicer

Banco Itaú is also the entity assigned to provide a back-up servicing, in the event of a bankruptcy of BGN, or in the event computer records were lost in BGN's system. Banco Itaú will maintain a flat file, and it will make sure the necessary information is readily available should Banco Itaú becomes the primary servicer for this transaction.

In the relatively remote case that Itaú rescinds the servicing agreement, Itaú must notify the issuer of its intention to rescind the contract at least one year before its resignation, a fact that, in the opinion of Moody's, significantly reduces the likelihood of having no master servicer performing custodian services at any point in time. The expenses associated with back-up servicing (for up to one year) and the hiring of a new servicer is already reflected in the issuer's fee and expense reserve.

Sponsor Responsibilities (similar to those of a Trustee)

Oliveira Trust DTVM S.A. (Not Rated) is the sponsor of the transaction. Founded in 1991, Oliveira Trust is one of the first firms in Brazil specialized in providing financial services to participants in the debt-capital markets. In the structured finance market, Oliveira Trust has served in diverse roles in a number of transactions including trustee, shareholder's representative, and structuring advisor. Oliveira Trust as sponsor is expected to perform the following transactions on behalf of the Fund:

- Manage and perform all the Fund's daily operational activities;
- Hire all service providers including legal, auditing, asset management, and rating services;
- Handle all communication with shareholders, including submitting quarterly reports with information about the individual share balance and its corresponding total value amount;
- Handle all communication with outside parties such as CVM; and others.

The sponsor can be changed, provided that senior and subordinated shareholders owning 51% of shares outstanding vote for such change in a shareholder's meeting. For this change to be effective, these shareholders will have to submit, in addition to a formal notice letter, a choice of three other institutions capable of offering comparable services as sponsor. Following approval, the incumbent sponsor has to be changed in a period of up to 90 days following such shareholder's meeting, during which period the incumbent sponsor has the fiduciary role to continue performing its services as described in the Fund's manual.

It is Moody's preference that, in FIDCs transactions, the bulk of fiduciary responsibilities remains with the master servicer (Banco Itaú) as opposed to the sponsor because the former is part of an established, **Aaa.br**-rated institution. In addition, factors limiting the sponsor's ability to effectively carry its fiduciary roles are as follows:

- The sponsor does not carry errors and omission (E&O) insurance against professional liability and management liability claims; and
- The sponsor does not have a sizable capital base to cover any other potential liabilities that it may face during the course of business.

Therefore, several paramount duties were transferred to Itaú.

LOAN CHARACTERISTICS AND PERFORMANCE

Figure 11

Total Clients:	93,679
Total Active Clients:	67,725
Total Portfolio Amount (as of Jan 31, 2004)	R$ 115,566,163
Average Credit Limit	R$ 3,915
Average Monthly Loan Installment	R$ 145
Average Gross Monthly Income	R$ 833
Avg. Monthly Loan Installment / Monthly Gross Income	17%
Seasoning (Avg. Life of Loans)	27.8 months
Turnover Rate (days) as of Jan. 31, 2004	212 working days
Prepayment Levels	18%
Utilization Level:	100%

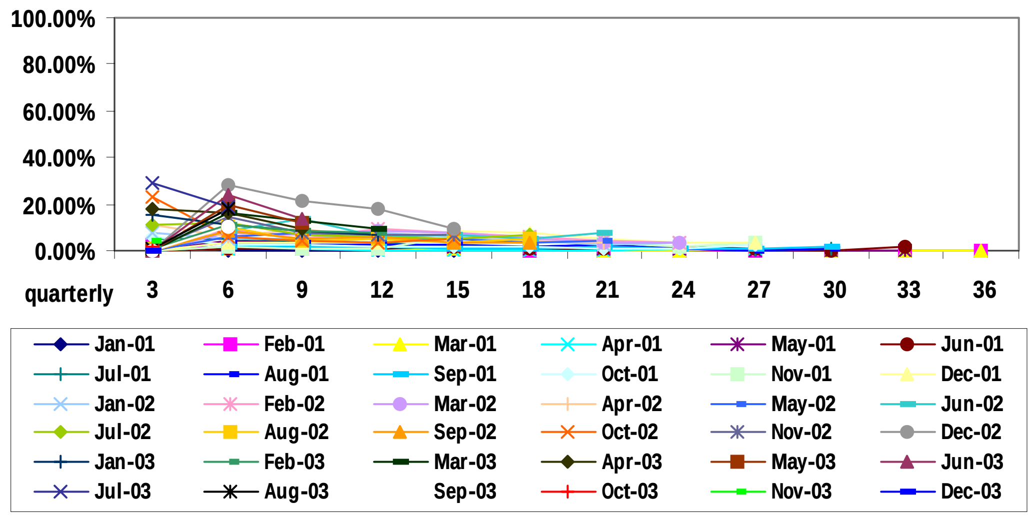
Currently, BGN offers personal loans to 16 different jurisdictions (seven states, eight municipalities, and the federal government). Moody's analyzes BGN's loan portfolio by jurisdiction, and we understand the highest credit risk in this transaction is the concentration of loans at the jurisdiction level because a given state or city can delay money transfers to BGN (affecting a large number of individual obligors), or not pay salaries at all because of liquidity or budget restrictions. *Figure 12* summarizes the different jurisdictions in BGN's franchise area:

Figure 12

	Jurisdiction	**Loan Volume**	**(Jan'01-Dec'03)**	**Issuer Ratings (Sr. Unsec. Foreign)**	**Online, Reat-time Payroll?**
1	Federal Government	119,937,079.74	29.2%	**B2**	No
2	Pernambuco State	110,367,810.53	26.9%	NR	Yes
3	Rio Janeiro State	59,816,101.11	14.6%	NR	Yes
4	Goias State	25,758,702.44	6.3%	NR	Yes
5	Fortaleza City	21,256,192.39	5.2%	NR	No
6	Rio Janeiro City	19,590,349.28	4.8%	B2	Yes
7	Rio Grande Norte State	18,908,334.63	4.6%	NR	No
8	Minas Gerais State	12,140,606.85	3.0%	**B3**	Yes
9	Recife City	9,050,050.65	2.2%	NR	No
10	Goiania City	5,983,710.42	1.5%	NR	Yes
11	Olinda City	3,957,467.71	1.0%	NR	No
12	Sao Paulo City	1,688,478.14	0.4%	NR	No
13	Salvador City	1,037,017.67	0.3%	NR	No
14	Bahia State	545,146.55	0.1%	**B2**	Yes
15	Maranhao State	443,620.17	0.1%	NR	No
16	Natal City	91,539.15	0.0%	NR	No
		410,572,207.43			

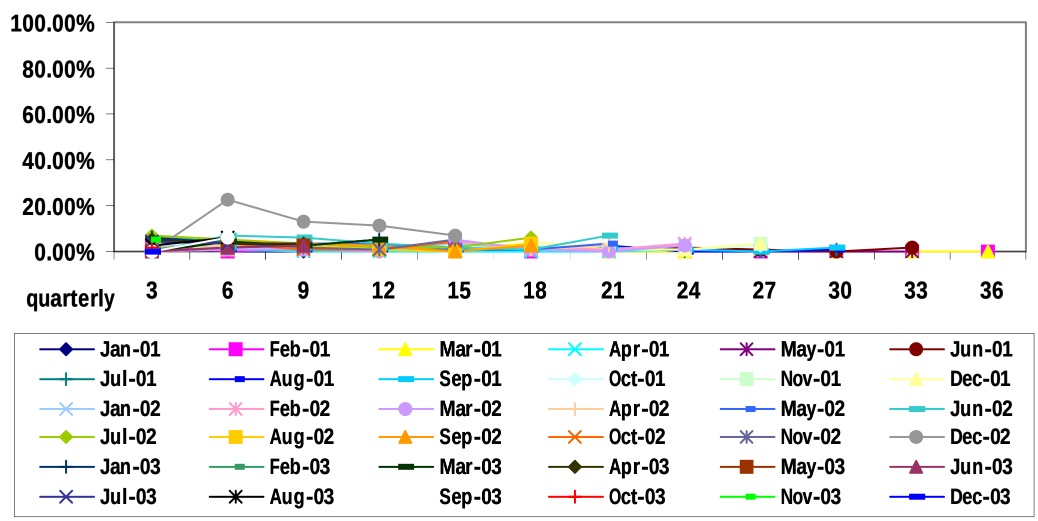
Figure 13 below show past due loans for BGN's consolidated portfolio:

Figure 13
BGN - Vintage Analysis 1-30 days Past Due
(calculated over total original balance)



The increased levels of delinquency (defined as those loans 1-30 days past due) observed in the first months of origination (which peaked at 29% of the pool originated in July 2003) was the result of delinquencies observed in the states of Rio Grande do Norte, Rio de Janeiro, and Goiás, arising not because of default at obligor level, but rather at the jurisdiction level (explained further). Excluding the originations from these jurisdictions, delinquency levels decrease considerably as observed in *Figure 14* below:

Figure 14
BGN (excludes RJ, RN, GO) Vintage Analysis 1-30 days Past Due
(calculated over total original balance)



Figures 15 and *16* below features non-performance levels (defined as those loans 31-120 days past due) for BGN (as a whole) and that which excludes the states of Rio Grande do Norte, Rio de Janeiro, and Goiás:

Figure 15

BGN - Vintage Analysis 31-120 days Past Due

(calculated over total original balance)

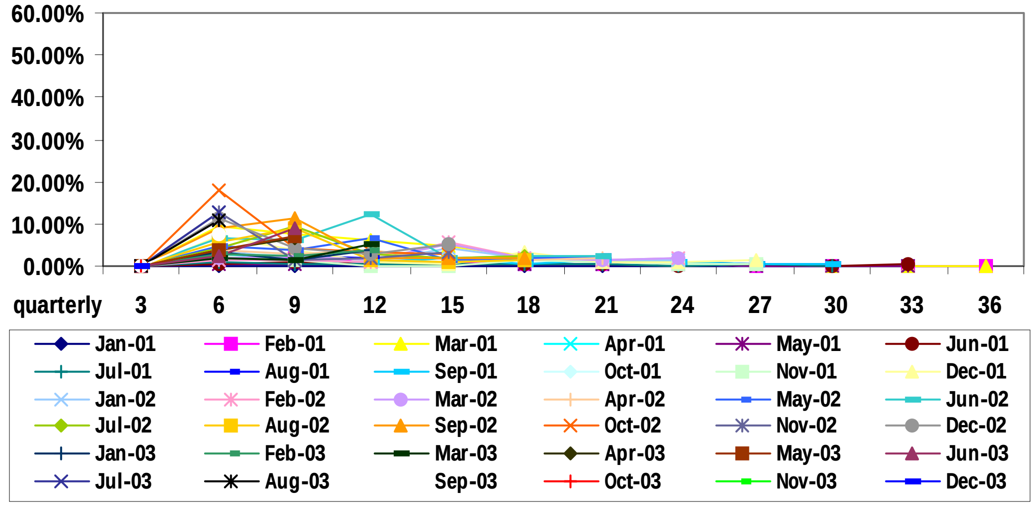
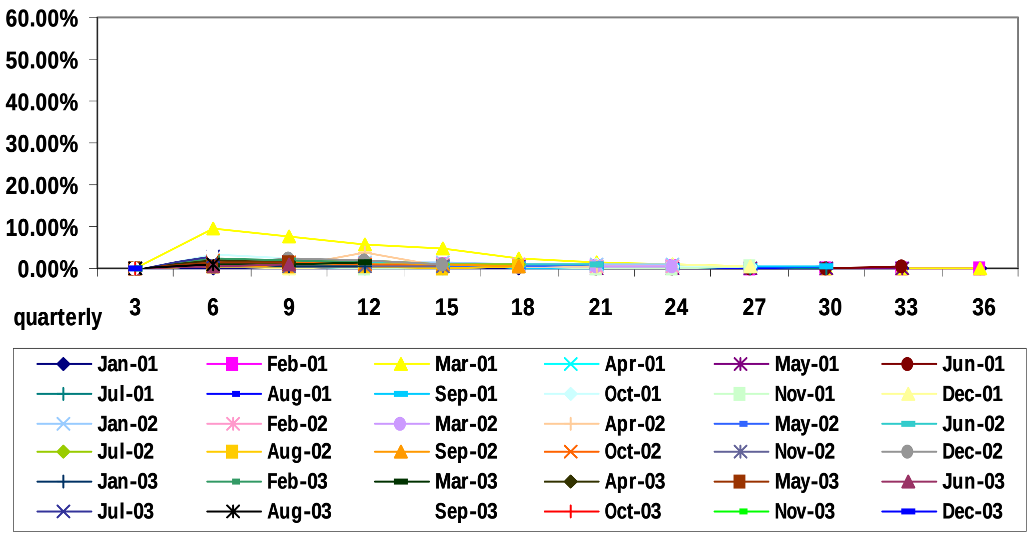


Figure 16

BGN (excludes RJ, RN, GO) Vintage Analysis 31-120 days Past Due

(calculated over total original balance)



Figures 17 and *18*, below, features default levels (defined as those loans 121-180 days past due) for BGN (as a whole) and that which excludes the states of Rio Grande do Norte, Rio de Janeiro, and Goiás. The spike observed in the 12th quarter in *Figure 17* is due to defaulted loans originated during April 2002 in the state of Rio de Janeiro.

Figure 17
BGN - Vintage Analysis 121-180 days Past Due
(calculated over original balance)

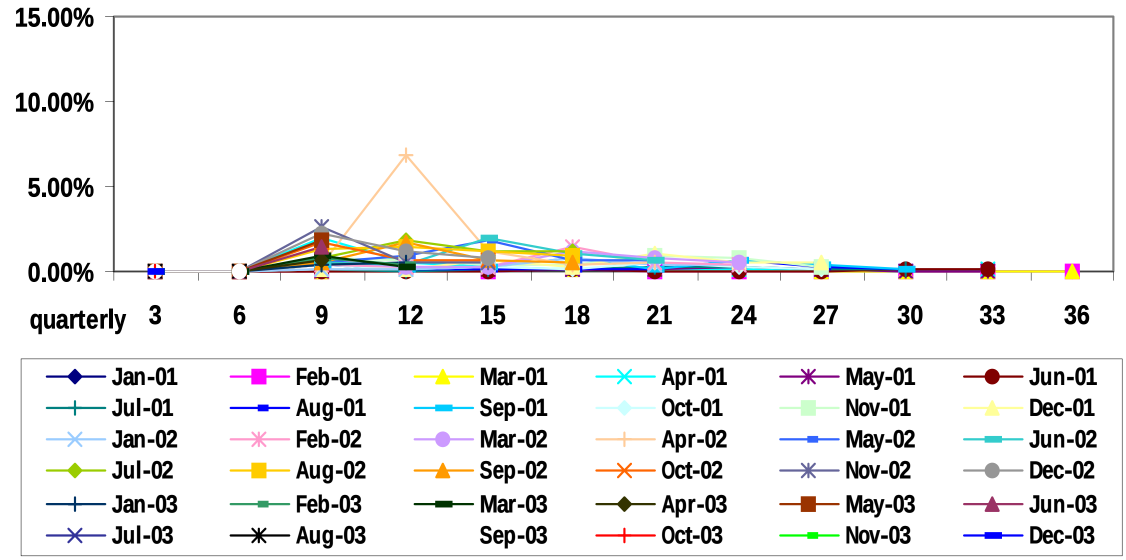
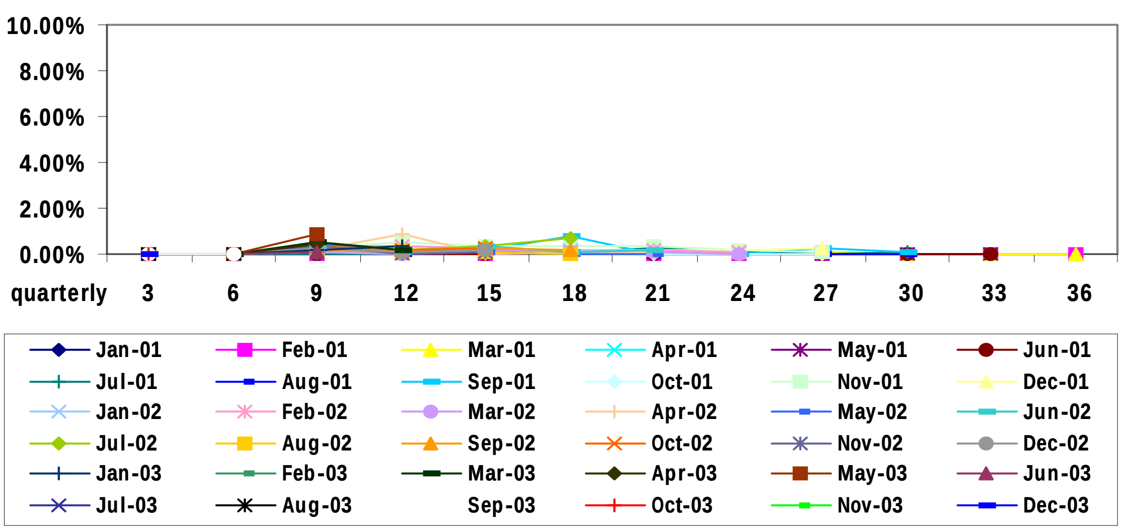


Figure 18
BGN (excludes RJ, RN, GO)
Vintage Analysis 121-180 days Past Due
(calculated over original balance)



Figures 19 and *20*, below, provide the cumulative write-offs per jurisdiction and over total originated volume respectively:

Figure 19

Cumulative Write-off (180+ days past due) per Jurisdiction

(calculated over respective jurisdiction loan volume)

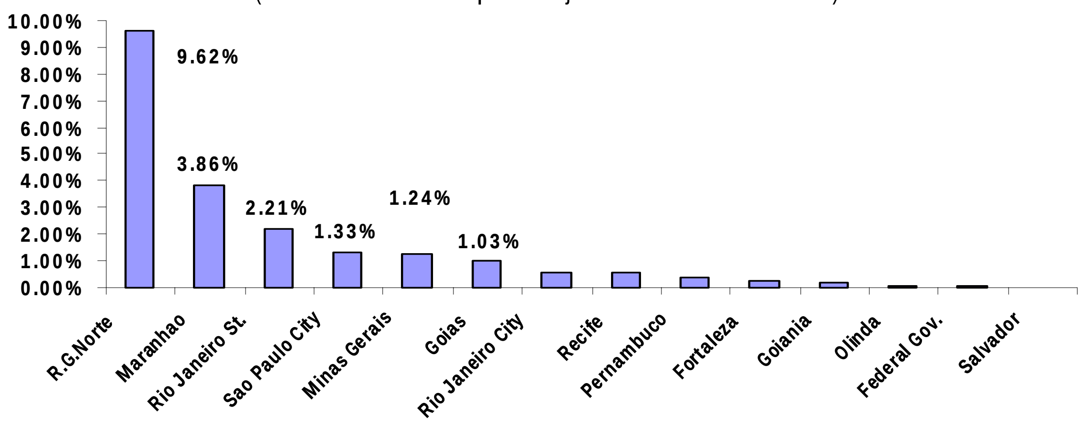


Figure 21, below, presents cumulative write-off data for each jurisdiction, calculated over total originated volumes.

Figure 20

Cumulative Write-offs (180+ past due) Total Portfolio

(calculated over total original balance)

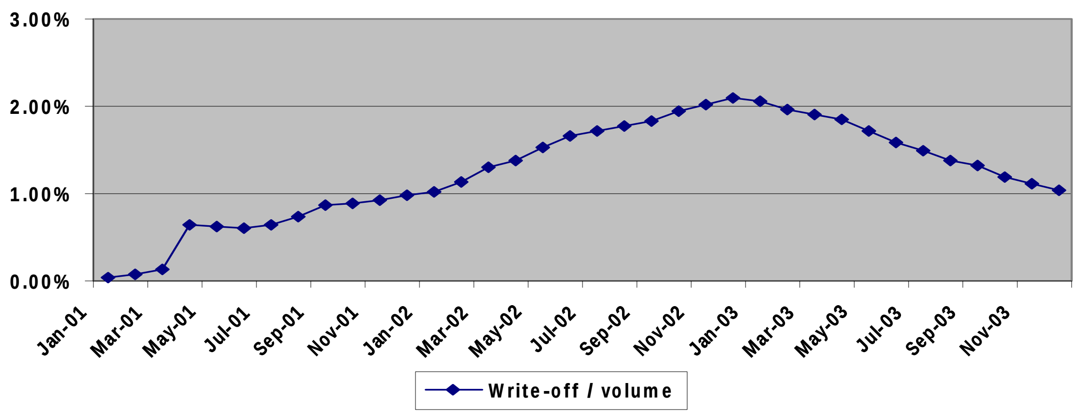
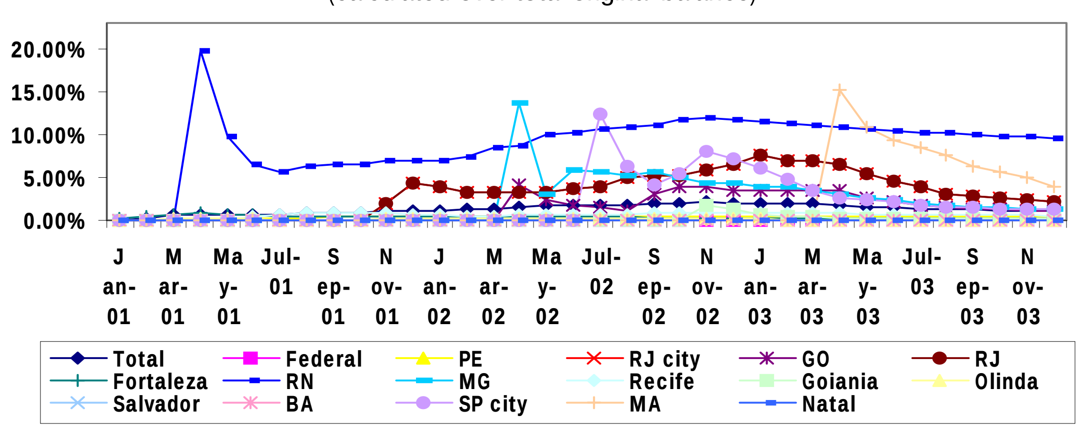


Figure 21

Cumulative Write-offs (180+ days past due) per Jurisdiction

(calculated over total original balance)



ANALYSIS OF DELINQUENCY PER JURISDICTION LEVEL

The increase in delinquent loans (defined as those loans one day and longer past due) and write-offs in BGN's portfolio is observed primarily in the states of Rio Grande do Norte, Rio de Janeiro, and Goiás. These problem loans arise not because of defaults at the obligor level, but at the jurisdiction level, as follows:

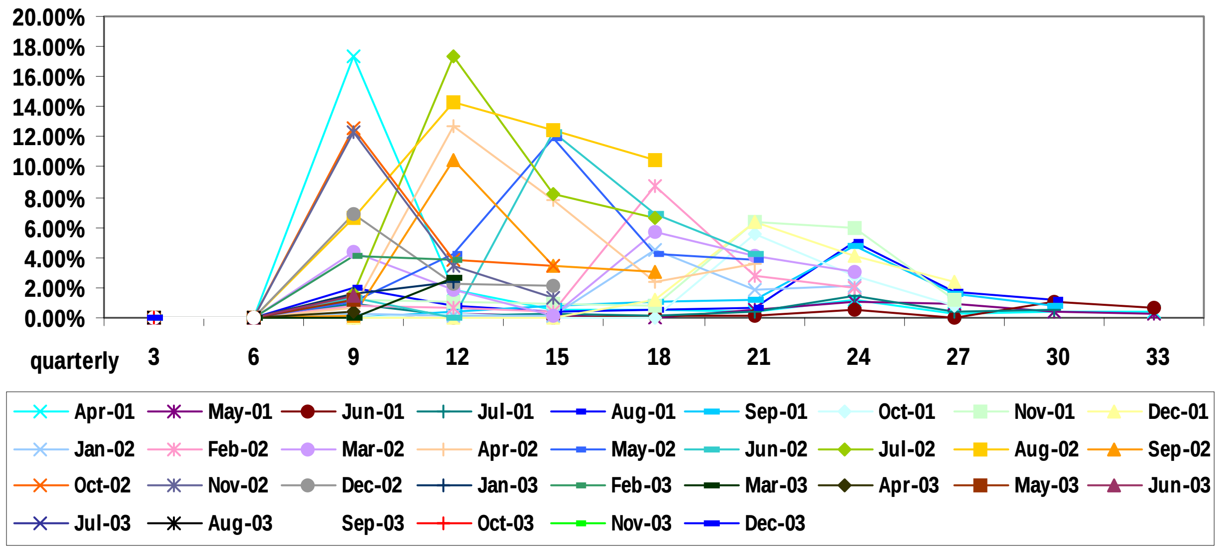
<u>State of Rio Grande do Norte (Not Rated)</u>

The high levels of delinquency observed in this state are the result of errors in calculating the net- consignable margin (the state has yet to automate its payroll functions), which led to the approval of loans with an amount higher than should have been the case. This caused a number of obligors to default. BGN continues to work with the state to normalize the calculation of the net-consignable margin.

Figure 22

RGNorte State - Static Pool 121-180 days Past Due

(calculated over original balance)



In order to avoid a large exposure to loans originated in states experiencing high levels of delinquency, any loan purchased by the Fund will need to adhere strictly to the following eligibility criteria:

a) Jurisdictions will need to meet four levels of credit performance (delinquency, non-performance, default, and write-off, already defined in the Eligibility Criteria section) for loans originated in that jurisdiction to be eligible; otherwise concentration levels for that jurisdiction will be greatly reduced; and

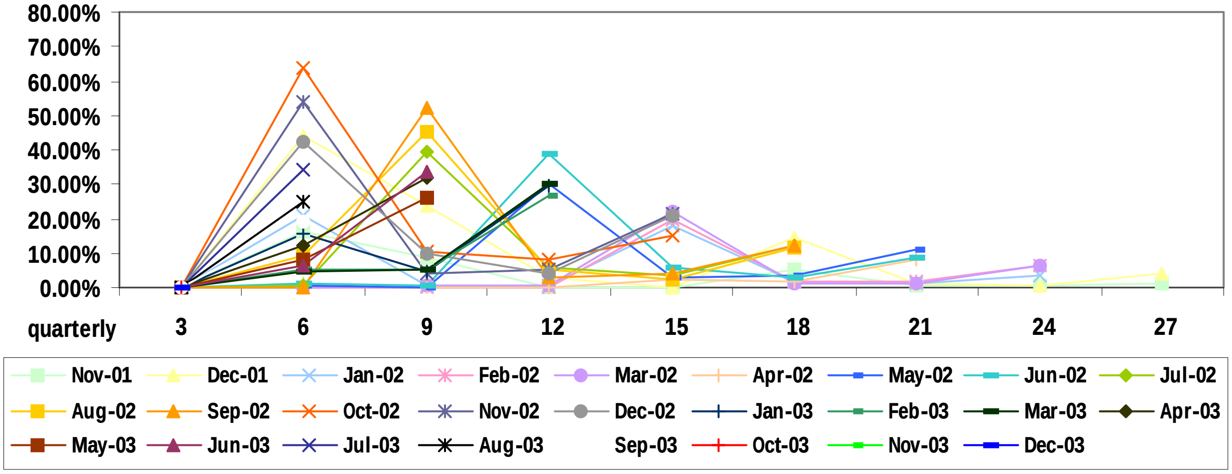
b) Loans have to be current at the time of purchase;

c) Loan origination is expected to made through secure, automated payroll systems; otherwise the first installment must have been fully received by BGN in order to meet the eligibility criteria.

<u>State of Rio de Janeiro (Not Rated)</u>

The state is current facing liquidity problems, and although it has regularly deducted consigned amounts from employees' paychecks, the state has delayed the remittance of these funds to BGN on a regular basis, in a situation similar to a misappropriation of funds ("apropriação indébita"). BGN, together with other banks experiencing similar problem, has avoided formal litigation and has continued to negotiate with the state. The state has conditioned the normalization of such remittances upon the receipt of a US$500 million royalties' payment arising from oil produced in the state, an event that has yet to occur.

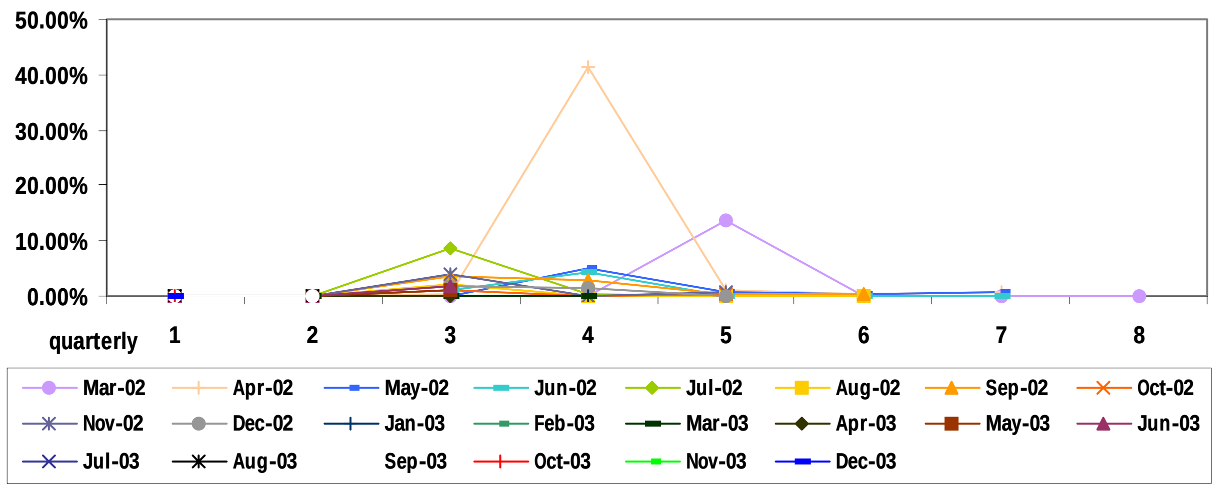
Figure 23
Rio Janeiro State - Static Pool 31-120 days Past Due
(calculated over original balance)



State of Goiás (Not Rated)

The state has experienced liquidity problems and it has also delayed remittances of consigned funds to BGN. Following litigation initiated by CEF (a major federal-owned bank that experienced a similar problem), the state in March 2003 was mandated to normalize such remittances to banks that offered the consignment of personal loans to state employees, including BGN.

Figure 24
Goias State - Static Pool 121-180 days Past Due
(calculated over original balance)



SUMMARY (LOAN CHARACTERISTICS)

Therefore, in order to minimize exposure to any jurisdiction experiencing high delinquency levels, the Fund will strictly adhere to the eligibility criteria that any loan should meet in order to be included in the Fund's securitized portfolio.

CREDIT ENHANCEMENT

Moody's considered the level of credit enhancement provided in this transaction through subordination, the reserve account, and excess spread, as well as the performance history of the personal loans. In addition, Moody's considered factors common to all personal loan transactions, such as concentration, yield, delinquency, write-offs, and the turnover rate. As already indicated in *Figure 10*, the following are the major reasons for delinquency associated with this transaction:

<u>Failure to Transfer Funds from Paying Entities to BGN</u>

Moody's considers the risk of failure to transfer amounts that were already deducted from employee's paychecks to BGN as the greatest credit risk in the transaction (as opposed to single obligor's default, as the former can affect several paying entities located at that particular jurisdiction). This risk is usually the result of short-to-medium term liquidity pressures observed at the jurisdiction level. This risk is expected to be mitigated by the Fund's stringent eligibility criteria for purchasing assets and credit enhancement.

Another related risk, that of a given government entity defaulting on its regular salary payments[24], is strongly mitigated by intrinsic political risks, since personnel costs at all government levels are subject to stringent national regulations, as exemplified by the passing of the Lei de Responsabilidade Fiscal (fiscal responsibility law)[25] in June of 2000. According to this law, any increase in expenses by any government is only allowed in the case there is a corresponding increase in tax collections and other revenues. In other to promote prudent fiscal policies, the law also mandates that payroll expenses cannot increase beyond 60% of that governments' net-revenue base.

<u>Obligor's death or disability</u>

Depending on each states' law, BGN mandates that all personal loans be only approved together with the purchase of a valid life insurance policy, which is paid by the borrower (the cost is included in origination fees and paid upfront), and that is provided by Icatu Hartford (Not Rated). Icatu Hartford is the ninth largest insurance company in Brazil and it is a local joint venture with The Hartford Financial Services Group (**A-3**/**P-2**).

This life insurance covers BGN in the case of the borrower's death and/or physical disability. Because the existence of life insurance depends on the jurisdiction of each state (see *Figure 25*), and because the insurance provider is not rated, Moody's will not assign any credit to cash flows arising from death and disability claim refunds accepted and paid by the insurer. Moody's also believes that this risk is consistent to the rating of the transaction.

24 According to Moody's research, some jurisdictions (such as the state of Rio de Janeiro) have occasionally delayed the payment of the 13th salary, which is a mandatory year-end bonus (equivalent to a monthly salary) and is payable in December. In these instances, the jurisdictions have usually paid (in full) the delayed 13th salary in installments during the following calendar year. Conservatively, BGN does not consider the 13th salary while calculating the net-consignable margin as shown in Figure 8.

25 In an attempt to improve the fiscal and debt positions of state and municipal governments, the federal government implemented the Fiscal Responsibility Law that sets strict guidelines for prudent fiscal, budgeting, borrowing, and reporting measures and requirements. An associated law included stiff penalties for local officers that do not comply with the new regulation.

Figure 25

Life Insurance Requirement per Jurisdiction

	Jurisdiction	Life Insurance Permitted by Law?	% Loan Volume
1	Federal Government	No	
2	Pernambuco State	Yes	26.9%
3	Rio Janeiro State	No	
4	Goias State	Yes	6.3%
5	Fortaleza City	Yes	5.2%
6	Rio Janeiro City	No	
7	Rio Grande Norte State	Yes	4.6%
8	Minas Gerais State	Yes	3.0%
9	Recife City	Yes	2.2%
10	Goiania City	Yes	1.5%
11	Olinda City	Yes	1.0%
12	Sao Paulo City	No	
13	Salvador City	Yes	0.3%
14	Bahia State	Yes	0.1%
15	Maranhao State	Yes	0.1%
16	Natal City	Yes	0.0%
	Total		**51.0%**

Insufficient Net-Consignable Margin;

In the case BGN has already extended the loan, however, mandatory deductions are subsequently increased and surpass the 40% limit (such as the addition of an alimony payment), the net -consignable margin will be affected. In this case, BGN will renegotiate the loan directly with the obligor, and the loan will have an extended maturity with the addition of sufficient monthly installments to satisfy the original loan amount. In the case the employee increases its 401(k) contribution affecting amounts available for loan repayment, the payroll system will decline the increase, as it understands there is no available net -consignable margin.

According to Moody's sovereign group, in the event of a major economic crisis that may affect the Brazilian government's ability to collect taxes, the likelihood of the government increasing mandatory deductions such as income taxes and social security (and therefore decreasing the net-consignable margin) is highly improbable and consistent to the transaction's rating. In such event, it is Moody's understanding that the Brazilian government would probably utilize other alternatives to augment tax revenues, such as increasing indirect taxes including the VAT (a value-added, sales taxes, locally referred as ICMS) and property taxes.

Change of Jobs

In Brazil, it is extremely difficult for the government to reduce or displace positions, and public servant dismissals for cause are extremely rare. In the rare event the obligor decides to change jobs and work in a private company, BGN converts the amortization process from direct payroll-deduction into a regular consumer loan, and sends the payment vouchers to the obligor's residential address.

These factors mentioned above are simulated in stress situations, based on variability that they have shown in the past, as well as on the rating level requested. Besides these factors, Moody's also considered specific factors of the Brazilian market, such as the probability of an increase of the interest rate, decrease of the monthly payment rate, and changes in the macroeconomic environment that may jeopardize the originator's market segment, or may influence an increase of the CDI rate.

The analysis was based on the effect that these variables, stimulated in stress situations, would have on the Fund's cash flow, so that expected share losses could be determined. This expected loss was analyzed together with other factors related to the transaction to determine the appropriate rating.

A Minimum 15% Subordination, the 1.0x Monthly Cash Flows in a Reserve Account, and the 22% Available Excess Spread Allows for Full and Timely Payment of BGNPremium's 2004-1 Series in a Stress Scenario

Moody's concluded that, with a minimum 15% subordination, 1.0x monthly cash flow in a reserve account, and 22% available excess spread, the cash flow from eligible personal loans would be sufficient to pay the senior shareholders in full on time. The level of overcollateralization is dynamic and calculated daily, considering whether the overcollateralization is "in-formula", that is, the total subordinated shares divided by the Fund's shareholders equity is equal to a minimum of 15%. If the deal is "out-of-formula", then BGN has to issue subordinated shares in an amount equal to cover the shortfall, or redeem senior shares to bring the deal "in-formula".

LEGAL ASPECTS

The legal structure of the transaction has adequate provisions for safeguarding the shareholders. The key legal aspects considered in Moody's analysis are as follows:

True Sale

The segregation of risks between BGN (as the originator) and BGNPREMIUM (as the issuer) exists through the true sale and definitive assignment of BGN's contracts to the Fund, substantiated by the terms of assignment of transferred credit rights under the Brazilian civil code, meaning that the bankruptcy of the originator will not affect BGNPREMIUM's assets as the Fund's assets are legally guarded from the creditors of the originator.

Aspects of Credit Right Investment Funds

BGNPREMIUM is a FIDC fund that was created following the approval of Resolution 2907/01 of the Central Bank of Brazil on November of 2001, which mandates that the assets of a FIDC must be applied predominantly towards the purchase of credit rights. Credit rights are the original rights to payment of operations completed in the financial, service, commercial, real estate, industrial, mortgage, mercantile sectors as well as those of other financial assets. BGNPREMIUM was created to facilitate the securitization of Banco BGN's own portfolio of personal loans and to issue shares backed by BGN's credit rights that have removed from the bank's balance sheet.

Priority over BGNPREMIUM's Assets:

The senior shareholders have absolute first priority to cash flow stemming from the payment of contracts that support the shares as a function of their seniority.

FIDC Bankruptcy

This risk is mitigated by the legal nature of this vehicle. As an investment fund, FIDC cannot have negative liquid assets because the limit of its obligations to senior shareholders is the value of its liquid assets.

Issuance of Shares

BGNPREMIUM issues series under a master program, and any subsequent series of senior shares must have the same characteristics of issuance as the previous series. All subsequent series will have to be rated.

Consignment of Payroll Deductions

The consignment of payroll-deductions in Brazil is regulated, for federal government employees, by federal law (Law 8112 dated December 11, 1990, and Decree 4961 dated January 20, 2004), and for state & municipal government employees by their respective local jurisdictions. Under such provisions, the obligor irrevocably assigns a part of his/her salary to satisfy loan installments. Such installments are then withheld from the obligor's monthly paycheck. Hence, personal loans with the consignment of payroll deductions enjoy a "first priority" over any other debt that the obligor may have, as a portion of the obligor's available income is legally withheld by the employer.

Commingling Risks

The following are the commingling risks associated with this transaction, and how they are mitigated:

Bankruptcy of BGN:

Bankruptcy of BGN is a pre-established wind-down event, in which case the Fund will cease to make revolving purchases of loans, and will cancel all pre-established share redemptions (however, it will continue to make fee and expense payments). However, cash flows that have yet to be reconciled by BGN[26] and transferred to the Fund will be trapped in BGN's bankruptcy estate, and will only be released if the master servicer (acting on behalf of the Fund) successfully confirms to the Central Bank of Brazil that these cash flows are, in fact, an asset belonging to the Issuer.

26 Salary remittances are not sent directly from the paying entities to the fund, but rather deposited into a "master account" at BGN, which has up to three days to reconcile and segregate monies belonging to the fund and to BGN respectively. Cash flows belonging to the fund are then deposited in an account held at Itaú in the name of the fund. According to BGN, this procedure is the safest in order to avoid fraud, as the bank works with several different paying entities, and the existence of different payment instructions and several accounts (as opposed to uniform payment instructions) may potentially increase the likelihood of fraud incidences.

According to the Issuer's legal council (Motta and Fernandes Law Firm), in the case of bankruptcy of BGN, any monies trapped in BGN's bankruptcy estate are expected to be successfully released to the Fund, following the bankruptcy of the originator. An independent legal opinion will be provided.

Moody's believes that the Fund has the right over the cash flow as established by law; however, Moody's is not sure about the timing of receipt of these monies. Nevertheless, Moody's is requesting that the equivalent of one-month cash flows be segregated in an account in the name of the Fund, because if the bankruptcy occurs towards the end of the legal final there will not be cash to pay the timely promise to investors. Moody's is relying on this opinion as well as on the operational procedures already in place with Banco Itau as a hot back up servicer.

Hence, Moody's believes that, to mitigate such risk, the Fund needs to maintain in the reserve account cash and cash and equivalents of one month's cash flows, providing enough liquidity to meet all cash requirements until the release of such funds. As already explained, the only cash requirements for this period will be the Fund's operational expenses, since all pre-established senior share redemptions will be cancelled following a bankruptcy of BGN, in which case the Fund will apply available cash in the waterfall order presented in Figure 4.

Cash Flow Segregation between the Fund and BGNMax, its Predecessor

Since BGN's systems clearly identify which entity (either BGNPremium or BGNMax) has purchased loans from the originator, there is no commingling risk between cash flows belonging to either BGNPremium or BGNMax.

STRUCTURE SUMMARY

Senior Shares:	**Aa2.br** National Scale & **Ba2** GLCR
Subordinated Shares:	Not Rated
Issuer:	BGNPREMIUM
Asset Type:	Personal Loans backed by consignment of payroll-deductions
Originator:	Banco BGN S.A. **(Not Rated)**
Sponsor:	Oliveira Trust DTVM S.A. **(Not Rated)**
Master & Back-up Servicer	Banco Itaú S.A. (**Aaa.br** bank deposit ratings on the Nacional Scale)
Primary Servicer	Banco BGN S.A. **(Not Rated)**
External Auditor:	KPMG Auditores Independentes
Legal Counsel:	Motta, Fernandes Rocha Advogados

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