



Guarantees Report

1st Third

2017

MINISTRY OF FINANCE

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1. GENERAL OUTLOOK ABOUT FEDERAL GUARANTEES

1.1 Categories

According to Article 29, IV, and Article 40 of the Brazilian Fiscal Responsibility Law (FRL), Federal Guarantees can be classified in two categories. The first and most common are the guarantees on credit loans, which correspond to the guarantees offered by the Federal Government towards Government Related Entities (GRE), subnational governments, State Owned Enterprises (SOE) and Controlled Entities according to legal definitions. The second type of guarantees are generally called funds, including those managed by the Federal Government aiming at financing or providing liquidity to specific activities.

As for the origin, the guarantees linked to funds are only domestic. On the other side, guarantees attached to credit loans can be classified as foreign or domestic, depending on the origin of the guaranteed loan.

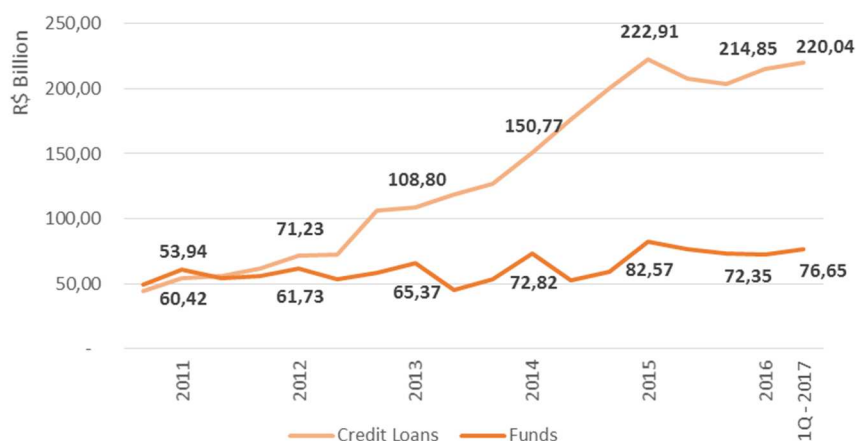
By the end of April 2017, the outstanding guarantees amounted to R\$ 299.30 bn, credit loans being represented by R\$ 222.65 bn, while funds were represented by R\$ 76.65 bn.

Table 1.1
Categories of
Guarantees

	Outstanding (R\$ million)	(%)
Credit Loans	222,648.66	74.4
Funds	76,647.99	25.6
Total	299,296.65	

The graph below shows the evolution of outstanding guarantees from the end of 2011 to the end of 2016, plus April 2017, according to the type (credit loans and funds). There can be noticed an increase from R\$ 114.3 bn, in the 3rd third of 2011, to R\$ 305.4 bn, in the 3rd third of 2015, the highest value in the series. In the 1st third of 2017, the balance reached R\$ 299.30 bn. Annual data is detailed on Annex 2.

Graph 1.1
Historical Evolution



1.2 Historical Series

The outstanding guarantees in the 1st third of 2017 reached R\$ 299.30 bn. The domestic outstanding guarantees amounted to R\$ 185.23 bn. Credit loans correspond to R\$ 108.59 bn, while the funds correspond to R\$ 76.64 bn. The foreign outstanding guarantees reached R\$ 114.06 bn in April 2016, all of them corresponding to credit loans. Exchange rates used to convert foreign guaranteed debt were the PTAX sales rates on April 30, 2017.

The following factors may rise the guaranteed debts balance: new disbursements in previous contracts, new loan contracts with immediate disbursements, price indices (for domestic debts) and exchange rate raise. On the other hand, amortizations may reduce the outstanding guaranteed balance, as well BRL exchange rate appreciation.

Data for the 1st third of 2017 are on the table below.

Table 1.2
Historical Series

	(R\$ million)	
	3rd T 2016	1st T 2017
Domestic	183,439.71	185,234.67
Credit Operations	111,091.47	108,586.68
Funds	72,348.24	76,647.99
Foreign	103,761.20	114,061.97
Credit Operations	103,761.20	114,061.97
Total	287,200.91	299,296.65

2. CREDITORS AND DEBTORS OF GUARANTEED CREDIT OPERATIONS

2.1 Creditors

As for credit loans, domestic creditors represent 49.3% of outstanding guarantees, while foreign creditors represent 50.7%. Federal Banks are responsible for 98.9% (R\$ 107.36 bn) of domestic guarantees. Multilateral Organisms are the most representative ones among foreign guarantees, responding for 84.8% (R\$ 96.69 bn) of them.

Table 2.1
Creditors

Creditors	Outstanding (R\$ million)	(%)
Domestic Creditors	108,586.68	49.3
Federal Banks	107,364.14	98.9
Private Banks	1,222.54	1.1
Foreign Creditors	114,061.97	50.7
Multilateral Organisms	96,694.60	84.8
Private Banks	10,629.56	9.3
Government Agencies	6,737.79	5.9
Total	222,648.66	100.0

Among domestic creditors, it is important to highlight the importance of BNDES (Development Bank), BB (Banco do Brasil) and CAIXA, representing 22.0%, 18.1% e 8.6%, respectively, of the total volume of the credit loans. Among foreign creditors, WB (World Bank) and IDB (Inter-American Development Bank) are the most representative, with 21.9% and 19.4% of credit loans, respectively.

Table 2.2
Creditors —
Breakdown

Creditors	Outstanding (R\$ million)	(%)
Domestic Creditors	108,586.68	49.3
BNDES	48,502.37	22.0
BB	40,008.25	18.1
CAIXA	18,853.51	8.6
Other	1,222.54	0.5
External Creditors	114,061.97	50.7
WB	49,157.61	21.9
IADB	42,821.40	19.4
Bank of America	4,694.81	2.1
Other	14,761.13	6.7
Total	222,648.66	100.0

2.2 Debtors

States are the most representative debtors, with 74.8% of overall outstanding guarantees (R\$ 166.58 bn). Federal Banks and SOE represent 8.4 and 8.2%, respectively, of overall outstanding balance. At last, municipalities hold 6.5% (R\$ 14.40 bn) and controlled entities 2.1% (R\$ 4.77 bn) of the total volume of outstanding guarantees.

Table 2.3
Debtors

Debtors	Outstanding (R\$ million)	(%)
States	166,586.73	74.8
Federal Banks	18,621.74	8.4
Federal State Owned Enterprises (SOE)*	18,271.12	8.2
Municipalities	14,409.57	6.5
Controlled Entities	4,777.48	2.1
Total	222,648.66	100.0

*Non-financial State Owned Enterprises

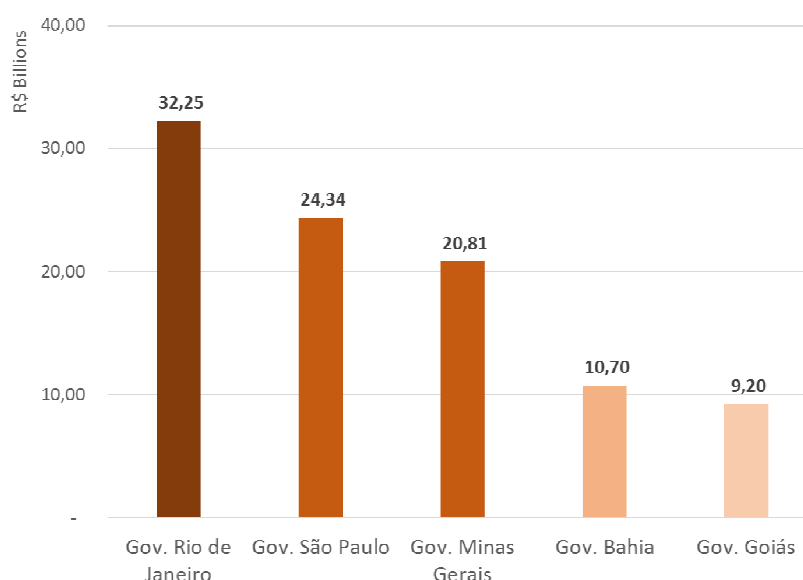
2.2.1 States

The state of Rio de Janeiro is the most representative, holding 14.5% of all credit loans guaranteed by the Brazilian Treasury, followed by São Paulo, Minas Gerais, Bahia and Goiás.

Table 2.4
States

Debtors - States	Outstanding (R\$ million)	(%)
Rio de Janeiro	32,248.79	14.5
São Paulo	24,342.41	10.9
Minas Gerais	20,806.46	9.3
Bahia	10,703.69	4.8
Goiás	9,198.32	4.1
Other	69,269.03	31.1
Total	166,586.73	74.8

Graph 2.1
States



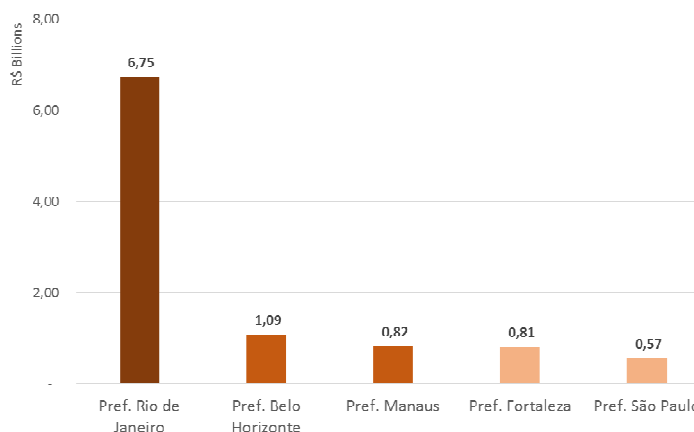
2.2.2 Municipalities

The city of Rio de Janeiro, with R\$ 6.75 bn (3.0% of total credit loans), is the most representative among municipalities. Table 2.5 shows the top 5 municipalities.

Table 2.5
Municipalities

Debtors - Municipalities	Outstanding (R\$ million)	(%)
Rio de Janeiro	6,748.76	3.0
Belo Horizonte	1,088.85	0.5
Manaus	820.07	0.4
Fortaleza	814.98	0.4
São Paulo	568,86	0,3
Other	4,903.39	2.0
Total	14,049.57	6.5

Graph 2.2
Municipalities



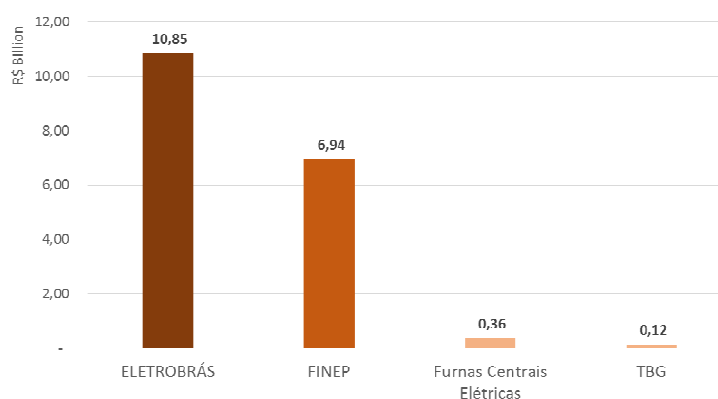
2.2.3 Federal SOE

Among SOEs, Eletrobrás responds for 4.9% (R\$ 10.85 bn) of overall guaranteed credit loans, followed by FINEP, with 3.1% (R\$ 6.94 bn).

Table 2.6
Federal SOE

SOE	Outstanding (R\$ million)	(%)
Eletrobrás	10,846.03	4.9
FINEP	6,943.21	3.1
Furnas Centrais Elétricas	362.17	0.2
TBG	119.70	0.1
Total	18,271.12	8.2

Graph 2.3
Federal SOE



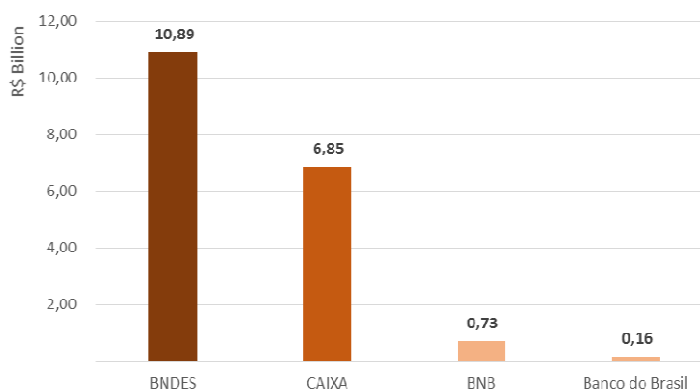
2.2.4 Federal Banks

Federal Banks hold R\$ 18.62 bn in guaranteed credit loans. BNDES and CAIXA respond for 4.9% (R\$ 10.89 bn) and 3.1% (R\$ 6.85 bn), respectively, over the overall guaranteed debt.

Table 2.7
Federal Banks

Federal Banks	Outstanding (R\$ million)	(%)
BNDES	10,886.18	4.9
CAIXA	6,846.88	3.1
BNB (Banco do Nordeste)	725.16	0.3
BB (Banco do Brasil)	163.50	0.1
Total	18,621.74	8.4

Graph 2.4
Federal Banks



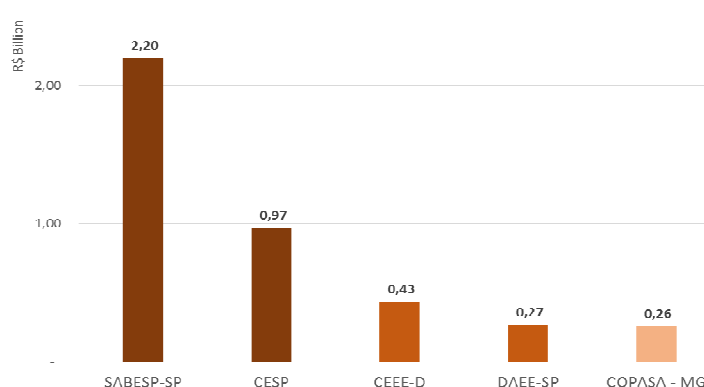
2.2.5 Controlled Entities

These entities represent only 2.1% (R\$ 4.78 bn) of outstanding guaranteed credit. SABESP-SP and CESP hold R\$ 2.20 bn and R\$ 0.97 bn, respectively.

Table 2.8
Controlled Entities

Controlled Entity	Outstanding (R\$ million)	(%)
SABESP - SP	2,198.78	1.0
CESP - SP	967.47	0.4
CEEE-D - RS	432.46	0.2
DAEE - SP	268.08	0.1
CEEE-GT - RS	256.45	0.1
Other	654.22	0.3
Total	4,777.48	2.1

Graph 2.5
Controlled Entities



3. STATISTICS OF EXECUTED GUARANTEES

The Brazilian National Treasury continuously keeps track of financial events on the contracts guaranteed by the Federal Government, warning debtors about the need to fulfill their obligations and about the sanctions, penalties and other consequences of defaulting, according to the contracts terms and binding legislation.

Throughout 2016, the National Treasury paid R\$ 2.38 bn in debts referring to contracts of States and Municipalities. Up to April 2017, the amount executed was R\$ 0.83 bn, as detailed below:

Table 3.1
Executed Guarantees

	(R\$ million)	
Debtor	2016	Total
States	2,361.86	817.67
Rio de Janeiro	2,227.32	814.96
Mato Grosso	107.13	-
Roraima	27.42	2.71
Municipalities	15.81	8.78
Natal - RN	10.92	8.78
Chapecó - SC	2.27	-
Cachoeirinha - RS	1.45	-
Belford Roxo - RJ	1.17	-
Total	2,377.67	826.45

While executing the guarantee, the Treasury triggers the collateral according to contractual terms, which include, besides the financial expenditure associated to the guarantee, fines, fees, interest, and other expenses as described in the contractual clauses. In the case of States and Municipalities, the collateral may include: Tranches of the Constitutional Fund dedicated to Local Governments (FPE, FPM); cash flow of tax revenues, such as IPI Exports (tax levied on industrialized goods), ICMS (VAT tax), among others. Table 3.2 details the collateral recoveries during 2016 through April 2017. The average in the last column includes only contracts whose expenses were fully recovered by collateral execution.

Table 3.2
Guarantees Executed and Collateral Recovered

	(R\$ million)					
Month	Guarantees Executed	Interest charged SELIC	Collateral Recovered	Collateral to be recovered	% Recovered	Av. # of Days to Recovery
2016	2,377.67	6.16	2,013.73	370.11	84.7	9
1st T 2017	826.45	1.79	716.44	111.81	86.7	7
Total	3,204.12	7.95	2,730.17	481.91	85.2	8

Notes:

- 1) SELIC (Policy) interest rate bears on the values executed by the Treasury until the day of the effective recovery, according to the contracts.
- 2) The executed amount and the recovered collateral are referred to the date of the guarantee execution.
- 3) The Supreme Court ruling on the civil suit instituted by the State of Rio de Janeiro (Ação Cível Originária n. 2.972) refrains the Federal Government from collateral recovering on five loans made to Rio de Janeiro. However, the other loan contracts still follow the usual rite of guarantee execution and collateral recovery. The collateral to be recovered amounts to R\$ 481,91 million, of which R\$ 370,11 million are referred to 2016 executions and R\$ 111,81 million are referred to 2017 executions.
- 4) The Public Debt Back Office (CODIV) is responsible for executing the guarantees. The Subnational Relations Undersecretariat has a specific department to recover collateral from local government (COAFI).
- 5) Between 2005 and 2015, there was no financial event which demanded the Treasury to execute the guarantees given to local governments or SOE, not even any other entity.

4. GUARANTEES LEGAL LIMITS

4.1 Guarantees Limits over Net Current Revenues (NCR)

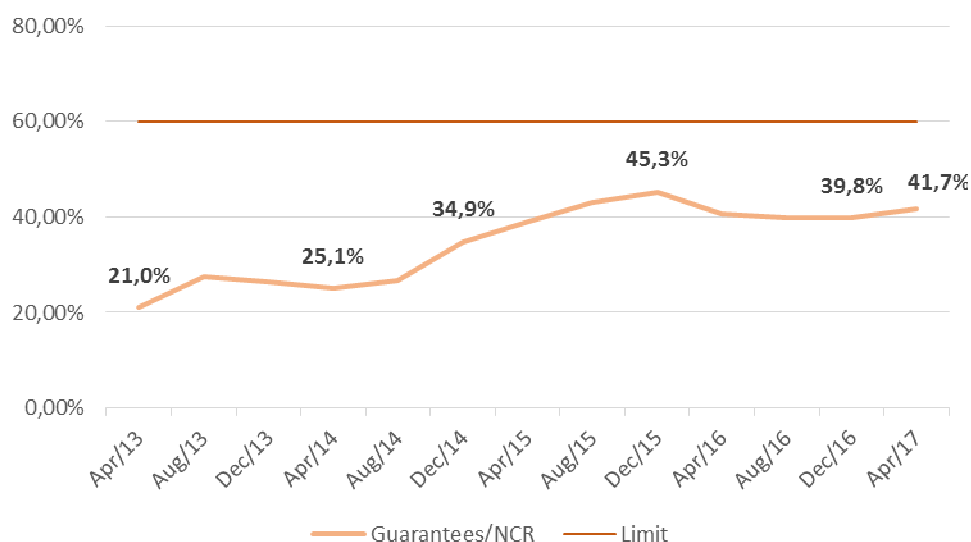
The Federal Senate (SF) Resolution n. 48, from 2007, defines the upper limit for the Federal Government outstanding guarantees at 60% of the Net Current Revenue (NCR). Table 4.1 shows the historical yearly series for both the total guaranteed debt and the NCR, as well as the ratio from 2013 to 2017.

Table 4.1
Evolution of
Guarantees / NCR
R\$ mn and %

	(R\$ million)				
	2013	2014	2015	2016	2017
Foreign	56,093.70	70,176.01	110,609.45	103,761.20	114,061.97
Domestic	118,079.04	153,418.65	194,878.97	183,439.71	185,234.67
Total	174,172.74	223,594.66	305,488.43	287,200.91	299,296.65
Net Current Revenues (NCR)	656,094.22	641,578.20	674,522.74	722,474.30	718,531.43
Guarantees / NCR (%)	26.5	34.9	45.3	39.8	41.7

The graph below shows the evolution of the ratio Guarantees/NCR (%) from 2013 to 2017.

Graph 4.1
Evolution of
Guarantees / NCR
%



ANNEX 1 - GUARANTEED CONTRACTS SIGNED IN 2016

The signed contracts do not necessarily impact the stock of guaranteed debts in the same year. The impact on the outstanding guarantees is only effective when the contract is disbursed. These disbursements can be one-off or in installments, depending on the execution of the underlying project. The debts contracted in 2017 reached up to April 30 are listed below.

External Contracts	Debtor	Creditor	Signing Date	Amount Contracted (US\$)
BID3137/OC-BR	State of Paraná	BID	12/Jan/2017	67,200,000.00
BR-16/2014	Mun. Corumbá	FONPLATA	27/Jan/2017	40,000,000.00
	Total			US\$ 107,200,000.00

ANNEX 2 - HISTORICAL OUTSTANDING GUARANTEES

	(R\$ million)					
	2012	2013	2014	2015	2016	1st T 2017
Domestic	84,324.52	118,079.04	153,418.66	194,878.97	183,439.71	185,234.67
Credit Operations	22,589.61	52,708.95	80,597.27	112,304.03	111,091.47	108,586.68
States	13,225.69	39,928.75	61,879.91	81,798.44	81,256.95	79,779.69
Municipalities		25.71	1,540.36	3,547.38	3,983.00	4,009.41
Federal Banks	4,866.86	5,630.53	7,295.06	7,467.37	7,065.40	6,956.92
Federal SOE	2,083.61	5,629.99	8,462.65	17,771.73	17,683.45	16,873.19
Controlled Entities	2,413.45	1,493.96	1,419.28	1,719.11	1,102.68	967.48
Funds and other	61,734.92	65,370.09	72,821.39	82,574.94	72,348.24	76,647.99
External	48,640.27	56,093.70	70,176.01	110,609.45	103,761.20	114,061.97
Credit Operations	48,640.27	56,093.70	70,176.01	110,609.45	103,761.20	114,061.97
States	29,233.12	35,737.75	47,650.70	77,825.91	75,487.23	86,789.03
Municipalities	4,935.55	5,563.24	6,974.22	10,565.44	10,705.35	10,400.16
Federal Banks	11,686.59	12,127.37	125,610.50	16,542.92	12,244.02	11,664.82
Federal SOE	923.8	1,023.23	1,283.48	1,832.19	1,616.35	1,397.94
Controlled Entities	1,861.21	1,642.11	1,706.15	3,842.99	3,708.25	3,810.02
Total	132,964.79	174,172.74	223,594.66	305,488.43	287,200.91	299,296.65

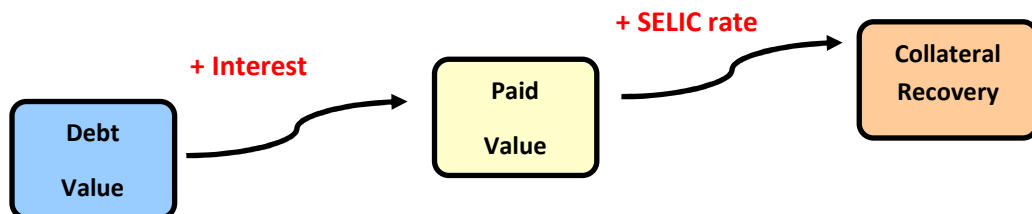
ANNEX 3 - PROCESS OF GUARANTEES EXECUTION AND COLLATERAL RECOVERY

As guarantor of other entities' credit loans, the Brazilian National Treasury receives creditors' warnings in case of credit events such as delays, overdue debts and obligations. As these notifications come, the Treasury formally informs the debtors and require their confirmation about the alleged events. In case of negative response to meet their obligations during the grace period, the Treasury has no other option than absorb those liabilities. Any failure from the Treasury to pay that debt would eventually represent a sovereign debt default, with severe and immediate consequences on the credit assessment, financing conditions and country credibility.

After executing the guarantees (that is, the Treasury meeting other entities' debt), the Treasury triggers a process to recover the collateral according to the guarantee contract.

SELIC interest (Policy) rate, fines and eventual financial expenses are charged over the financial amount to be recovered between the day the guarantee is executed and the recovery of the collateral.

The figure below illustrates that process:



ANNEX 4 - GLOSSARY

Finance Concepts:

Amortization — Part of the installment referred to the debt principal, which leads to diminishing the outstanding debt.

Creditor — Financial Institution which funded some project.

Disbursement — Financial outlay from the creditor to the debtor to execute the project.

Controlled Entities — Public Companies or Entities controlled by the overseeing State .

Funds—Financial amount to some specific goal.

Domestic Guarantee — Guarantees associated to Credit Operations or Funds originally funded domestically, regardless from the currency or index set in the contract.

Foreign Guarantees —Guarantees associated to Credit Operations or Funds originally funded by foreign creditors.

Debtor — Entity beneficiary of the credit and underlying guarantee to execute the project according to contractual terms.

Credit Operations — Contract signed by which the creditor funds the debtor's project, and the guarantor backs-up the debt. The debtor is then obliged to amortize the values with time and interest agreed upon.

Outstanding Guaranteed Debt —Total disbursed netted out from the amortized Debt.

Contracted Value — Value defined in the contract to execute a specific project. It does not necessarily affects the outstanding Debt at once, as it depends on the pace of the disbursement.

Abbreviations:

WB (BIRD) — World Bank

IDB (BID) — Inter-American Development Bank

BNDES — Brazilian National Development Bank

BNB — Banco do Nordeste (Local Development Bank)

BB — Banco do Brasil

CAIXA — Caixa Econômica Federal Bank

CESP — State of São Paulo Power Company

CEEE-D — Electric Power State Company - Distribution

CEEE-GT — Electric Power State Company - Generation and Transmission

COPASA — State of Minas Gerais Water Company

DAEE — Department of Power and Electric Power

FINEP — Studies and Projects Financier

SABESP — State of São Paulo Water Company

TBG — Brazilian Gas Pipeline Bolívia-Brasil S/A