



Guarantees Report

3rd Third

2016

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.

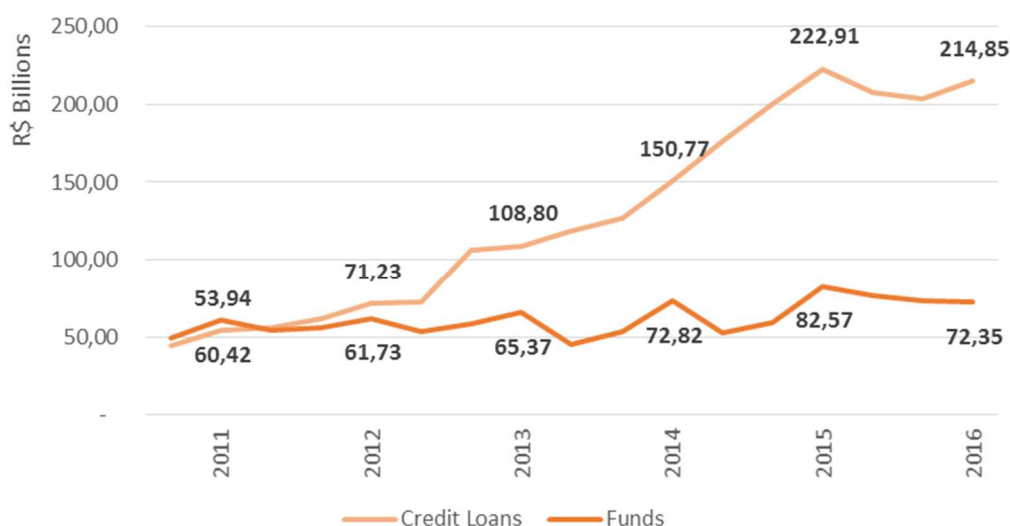
By the end of 2016, the outstanding guarantees amounted to R\$ 287.2 bn, credit loans being represented by R\$ 214.8 bn, while funds were represented by R\$ 72.3 bn.

Table 1.1
Categories of
Guarantees

	Outstanding (R\$ millions)	(%)
Credit Loans	214,852.67	74.8
Funds	72,348.24	25.2
Total	287,200.91	

The graph below shows the evolution of outstanding guarantees from 2011 to 2016, 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, followed by a contraction to R\$ 287.2 bn in the 3rd third of 2016. Annual data is detailed on Annex 2.

Graph 1.1
Historical Evolution



1.2 Historical Series

The domestic outstanding guarantees in the last third of 2016 reached R\$ 183.43 bn. Credit loans correspond to R\$ 111.09 bn, while the funds correspond to R\$ 72.34 bn. The foreign outstanding guarantees reached R\$ 103.76 bn as of 2016, all of them corresponding to credit loans.

There was a reduction of the outstanding guarantees in 2016 compared to the previous year. Regarding the domestic guarantees, the reduction is explained by the volume of total amortizations, which was higher than the total disbursement. Regarding foreign guarantees, the main factor was the FX-rate movement, changing from R\$/US\$ 3.90, as of 12/31/2015, to R\$/US\$ 3.26, as of 12/31/2016.

Table 1.2
Historical Series

	(R\$ millions)			
	3rd T 2015	1st T 2016	2nd T 2016	3rd T 2016
Domestic	194,878.97	186,428.74	183,264.61	183,439.71
Credit Operations	112,304.03	110,177.91	109,972.79	111,091.47
Funds	82,574.94	76,250.83	73,291.83	72,348.24
Foreign	110,609.45	97,785.29	93,998.73	103,761.20
Credit Operations	110,609.45	97,785.29	93,998.73	103,761.20
Total	305,488.43	284,214.01	277,263.34	287,200.91

2. CREDITORS AND DEBTORS OF GUARANTEED CREDIT OPERATIONS

2.1 Creditors

As for credit loans, domestic creditors represent 51.7% of outstanding guarantees, while foreign creditors represent only 48.3%. Federal Banks are responsible for 98.9% (R\$ 109.88 bn) of domestic guarantees. Multilateral Organisms are the most representative ones among foreign guarantees, responding for 83.0% (R\$ 86.07 bn) of them.

Table 2.1
Creditors

Creditors	Outstanding (R\$ millions)	(%)
Domestic Creditors	111,091.47	51.7
Federal Banks	109,883.85	98.9
Private Banks	1,207.62	1.1
Foreign Creditors	103,761.20	48.3
Multilateral Organisms	86,071.49	83
Private Banks	10,922.11	10.5
Government Agencies	6,767.60	6.5
Total	214,852.67	100

Among domestic creditors, it is important to highlight the importance of BNDES (Development Bank), BB (Banco do Brasil) and CAIXA, representing 23.1%, 19.2% e 8.8%, respectively, of the total volume of the credit loans. Among foreign creditors, WB (World Bank), IDB (Inter-American Development Bank) and Bank of America are the most representative, with 21.5%, 16.4% and 2.3% of credit loans, respectively.

Table 2.2
Creditors —
Breakdown

Creditors	Outstanding (R\$ millions)	(%)
Domestic Creditors	111,091.47	51.7
BNDES	49,688.21	23.1
BB	41,262.21	19.2
CAIXA	18,933.43	8.8
Other	1,207.62	0.6
External Creditors	103,761.20	48.3
WB	46,100.02	21.5
IADB	35,193.22	16.4
Bank of America	4,953.14	2.3
Other	17,514.82	8.2
Total	214,852.67	100.0

2.2 Debtors

States are the most representative debtors, with 73.0% of overall outstanding guarantees (R\$ 156.74 bn). Federal Banks and SOE represent 9.0% each of overall outstanding. Last, municipalities hold 6.8% (R\$ 14.68 bn) and controlled entities 2.2% (R\$ 4.81 bn) of the total volume of outstanding guarantees.

Table 2.3
Debtors

Debtors	Outstanding (R\$ millions)	(%)
States	156,744.18	73.0
Federal Banks	19,309.42	9.0
Federal State Owned Enterprises (SOE)*	19,299.80	9.0
Municipalities	14,688.34	6.8
Controlled Entities	4,810.93	2.2
Total	214,852.67	100.0

*Non-Financial State Owned Enterprises

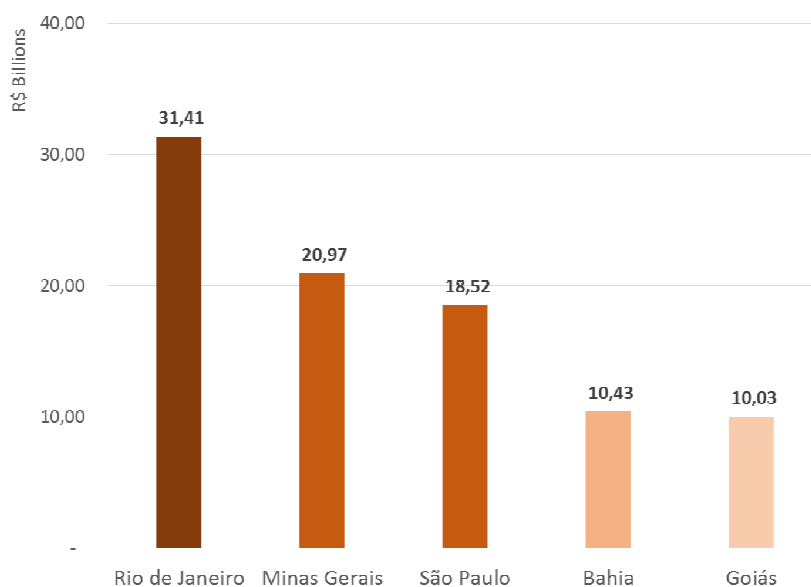
2.2.1 States

The state of Rio de Janeiro is the most representative, holding 14.6% of all credit loans guaranteed by the Brazilian Treasury, followed by Minas Gerais, São Paulo, Bahia and Goiás.

Table 2.4
States

Debtors - States	Outstanding (R\$ millions)	(%)
Rio de Janeiro	31,407.30	14.6
Minas Gerais	20,972.27	9.8
São Paulo	18,522.59	8.6
Bahia	10,432.88	4.9
Goiás	10,033.37	4.7
Other	65,375.81	30.4
Total	156,744.18	73.0

Graph 2.1
States



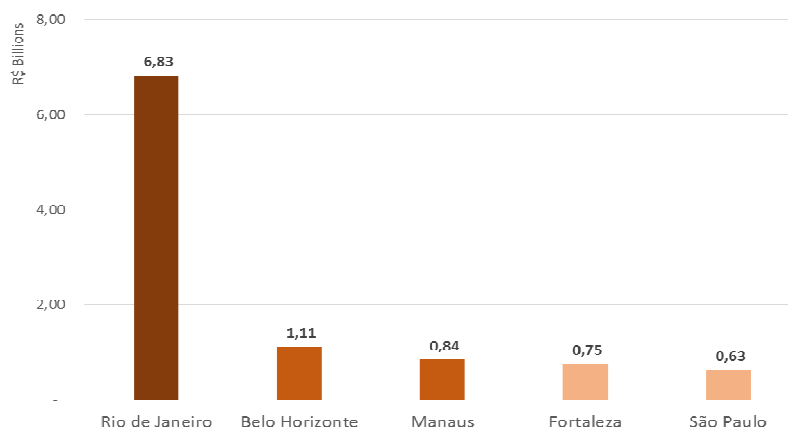
2.2.2 Municipalities

The city of Rio de Janeiro, with R\$ 6.82 bn (3.2% 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\$ millions)	(%)
Rio de Janeiro	6,826.66	3.2
Belo Horizonte	1,114.45	0.5
Manaus	842.12	0.4
Fortaleza	747.7	0.3
São Paulo	629.74	0.3
Other	5,905.12	2.7
Total	14,688.34	6.8

Graph 2.2
Municipalities



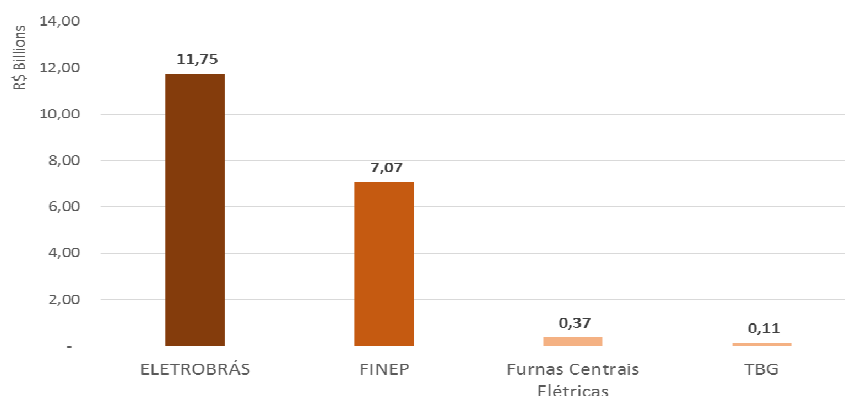
2.2.3 Federal SOE

Among SOEs, Eletrobrás responds for 5.5% (R\$ 11.74 bn) of overall guaranteed credit loans, followed by FINEP, with 3.3% (R\$ 7.07 bn).

Table 2.6
Federal SOE

SOE	Outstanding (R\$ millions)	(%)
Eletrobrás	11,746.28	5.5
FINEP	7,072.90	3.3
Furnas Centrais Elétricas	369.05	0.2
TGB	111.58	0.1
Total	19,299.80	9.0

Graph 2.3
Federal SOE



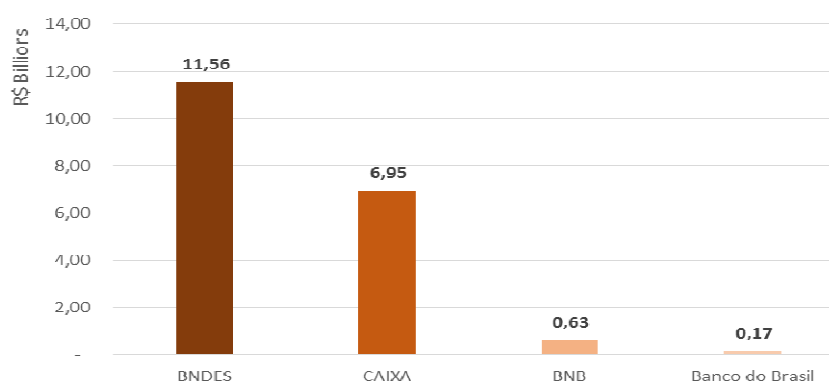
2.2.4 Federal Banks

Federal Banks hold R\$ 19.3 bn in guaranteed credit loans. BNDES and CAIXA respond for 5.4% (R\$ 11.56 bn) and 3.2% (R\$ 6.95 bn), respectively, over the overall guaranteed debt.

Table 2.7
Federal Banks

Federal Banks	Outstanding (R\$ millions)	(%)
BNDES	11,557.94	5.4
CAIXA	6,949.44	3.2
BNB (Banco do Nordeste)	631.57	0.3
BB (Banco do Brasil)	170.47	0.1
Total	19,309.42	9.0

Graph 2.4
Federal Banks



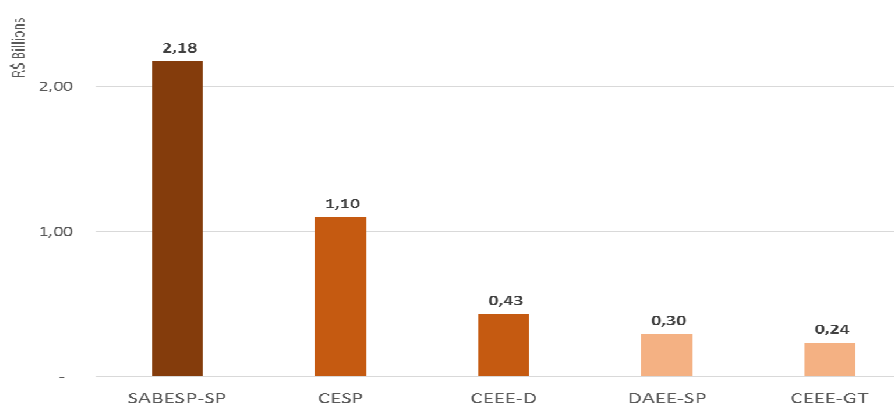
2.2.5 Controlled Entities

These entities represent only 2.2% (R\$ 4.81 billions) of outstanding guaranteed credit. SABESP -SP and CESP hold R\$ 2.18 bn and R\$ 1.10 bn, respectively.

Table 2.8
Controlled Entities

Controlled Entity	Outstanding (R\$ millions)	(%)
SABESP - SP	2,176.9	1.0
CESP - SP	1,102.68	0.5
CEEE-D - RS	432.88	0.2
DAEE - SP	298.03	0.1
CEEE-GT - RS	239.85	0.1
Other	561.30	0.3
Total	4,810.93	2.2

Graph 2.5
Controlled Entities



3. STATISTICS OF EXECUTED GUARANTEES

The Brazilian National Treasury continuously monitors 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 and binding legislation.

Throughout 2016, the National Treasury paid debts referring to contracts of States and Municipalities, totalizing R\$ 2.37 bn as detailed below:

Table 3.1
Executed Guarantees

	(R\$ millions)			
Debtor	1st T 2016	2nd T 2016	3rd T 2016	Total
States	-	673,76	1.688,10	2.361,86
Rio de Janeiro	-	661,01	1.566,31	2.227,32
Mato Grosso	-	-	107,13*	107,13*
Roraima	-	12,75	14,66	27,42
Municipalities	-	2,17	13,64	15,81
Natal - RN	-	2,17	8,75	10,92
Chapecó - SC	-	-	2,27	2,27
Cachoeirinha - RS	-	-	1,45	1,45
Belford Roxo - RJ	-	-	1,17	1,17
Total	-	675,93	1.701,74	2.377,67

*The execution of MT was recovered according to the Supreme Court (STF) decision upon the injunction as of Oct-16 (ACO-2918-MT).

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. The following table details the collateral recoveries during 2016:

Table 3.2
Guarantees Executed and Collateral Recovered

	(R\$ millions)					
Month	Guarantees Executed	Interest charged	Collateral Recovered	Collateral to be recovered	% Recovered	Av. # of Days to Recovery
1st T 2016	-	-	-	-	-	-
2nd T 2016	675.93	1.97	677.9	-	100	9
3rd T 2016	1,701.74	4.15	1,296.66	409.23	76	8
Total	2,377.67	6.12	1,974.56	409.23	82.8	9

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 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).
- 3) 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.

Source: CODIV, COAFI

4. GUARANTEES LEGAL LIMITS

4.1 Guarantees Limits over Net Current Revenues (NCR)

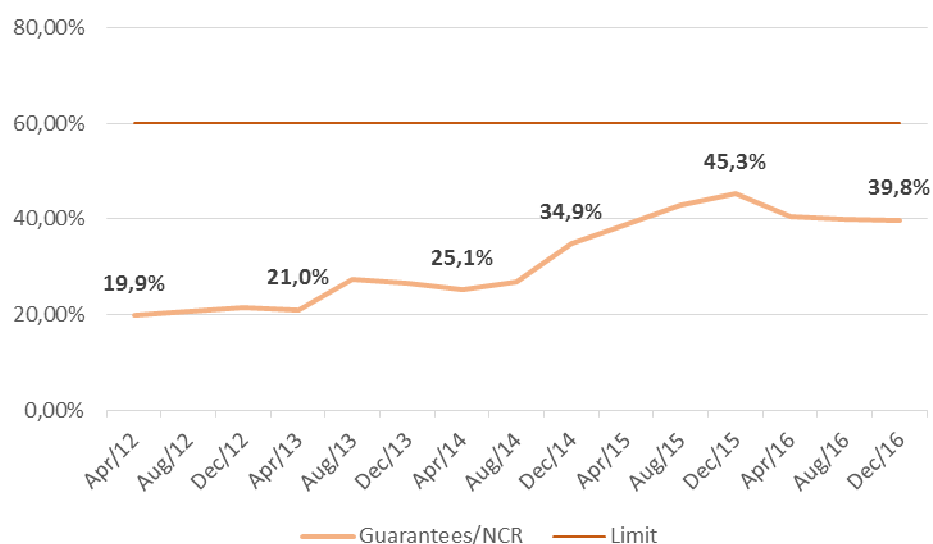
The Federal Senate (SF) Resolution n. 48, from 2007, defines the upper limit for the Federal Government outstanding guarantees at 60% of the Net Current Revenue (NCR). Table 4.1 shows the historical yearly series for both total guaranteed debt and NCR, as well as the ratio from 2012 to 2016. A gradual increase of that ratio can be noticed until 2015 because of the increase in credit operations. As for 2016, the relative decrease is explained mainly by the contraction of new credit loans in that year.

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

	(R\$ millions)				
	2012	2013	2014	2015	2016
External	48,640.27	56,093.70	70,176.01	110,609.45	103,761.20
Domestic	84,324.52	118,079.04	153,418.65	194,878.97	183,439.71
Total	132,964.79	174,172.74	223,594.66	305,488.43	287,200.91
Net Current Revenues (NCR)	616,933.35	656,094.22	641,578.20	674,522.74	722,474.30
Guarantees / NCR (%)	21.6	26.5	34.9	45.3	39.8

The graph below shows the evolution of the ratio Guarantees/NCR (%):

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 debt contracted in 2016 reached R\$ 3.88 bn for domestic guarantees and US\$ 1.51 bn in foreign guarantees.

Domestic Contracts	Debtor	Creditor	Signing date	Amount contracted (R\$)
Contract Guarantee nº 002 PGFN-CAF	São Paulo State	CAIXA	29/Jan/2016	R\$ 690,000,000.00
Contract Guarantee nº 004 PGFN-CAF	Rio de Janeiro State	BNDES	26/Feb/2016	R\$ 444,811,123.92
Contract Guarantee nº 006 PGFN-CAF	Mun. of Fortaleza	BB	22/Mar/2016	R\$ 57,312,000.00
Contract Guarantee nº 008 PGFN-CAF	Mun. of Fortaleza	BB	04/Apr/2016	R\$ 52,360,000.00
Contract Guarantee nº 011 PGFN-CAF	Goiás State	CAIXA	02/Aug/2016	R\$ 1,900,000,000.00
Contract Guarantee nº 018 PGFN-CAF	Amazonas State	BB	30/Nov/2016	R\$ 300,000,000.00
Contract Guarantee nº 022 PGFN-CAF	Maranhão State	CAIXA	30/Nov/2016	R\$ 444,750,000.00
Total				R\$ 3,889,233,123.92

External Contracts	Debtor	Creditor	Signing Date	Amount Contracted (US\$)
BID 3289/OC-BR	Mun. of Fortaleza	BID	24/Feb/2016	57,908,000.00
BID 3040/OC-BR	Federal District	BID	29/Feb/2016	31,997,000.00
BIRD 8442-BR	Acre State	BIRD	17/Mar/2016	150,000,000.00
BIRD 8586-BR	Mun. of Teresina	BIRD	27/Apr/2016	88,000,000.00
BIRD 8567-BR	Piauí State	BIRD	27/Apr/2016	200,000,000.00
BIRD 8575-BR	Piauí State	BIRD	27/Apr/2016	120,000,000.00
BID 3400/OC-BR	Mun. of São Bernardo do Campo	BID	17/May/2016	59,050,000.00
BIRD 8580-BR	Bahia State	BIRD	31/May/2016	200,000,000.00
BID 3408/OC-BR	Ceará State	BID	01/Jun/2016	50,000,000.00
BID 3395/OC-BR	Ceará State	BID	01/Jun/2016	200,000,000.00
BIRD 8554-BR	Mun. of Manaus	BIRD	22/Jun/2016	150,000,000.00
CAF PA ORLA	Mun. of Porto Alegre	CAF	10/Jun/2016	92,000,000.00
BID 2715/OC-BR	Mun. of São Luiz	BID	29/Nov/2016	13,590,000.00
CAF NIT PROS	Mun. of Niterói	CAF	30/Nov/2016	100,000,000.00
Total				US\$ 1,512,545,000.00

ANNEX 2 - HISTORICAL OUTSTANDING GUARANTEES

	(R\$ millions)					
	2011	2012	2013	2014	2015	2016
Domestic	71,514.91	84,324.52	118,079.04	153,418.66	194,878.97	183,439.71
Credit Operations	11,090.09	22,589.61	52,708.95	80,597.27	112,304.03	111,091.47
States	4,648.47	13,225.69	39,928.75	61,879.91	81,798.44	81,256.95
Municipalities			25.71	1,540.36	3,547.38	3,983.00
Federal Banks	2,991.32	4,866.86	5,630.53	7,295.06	7,467.37	7,065.40
Federal SOE	1,006.24	2,083.61	5,629.99	8,462.65	17,771.73	17,683.45
Controlled Entities	2,444.06	2,413.45	1,493.96	1,419.28	1,719.11	1,102.68
Funds and other	60,424.81	61,734.92	65,370.09	72,821.39	82,574.94	72,348.24
External	42,844.98	48,640.27	56,093.70	70,176.01	110,609.45	103,761.20
Credit Operations	42,844.98	48,640.27	56,093.70	70,176.01	110,609.45	103,761.20
States	24,143.73	29,233.12	35,737.75	47,650.70	77,825.91	75,487.23
Municipalities	4,346.77	4,935.55	5,563.24	6,974.22	10,565.44	10,705.35
Federal Banks	11,416.79	11,686.59	12,127.37	125,610.50	16,542.92	12,244.02
Federal SOE	964.17	923.8	1,023.23	1,283.48	1,832.19	1,616.35
Controlled Entities	1,973.52	1,861.21	1,642.11	1,706.15	3,842.99	3,708.25
Total	114,359.89	132,964.79	174,172.74	223,594.66	305,488.43	287,200.91

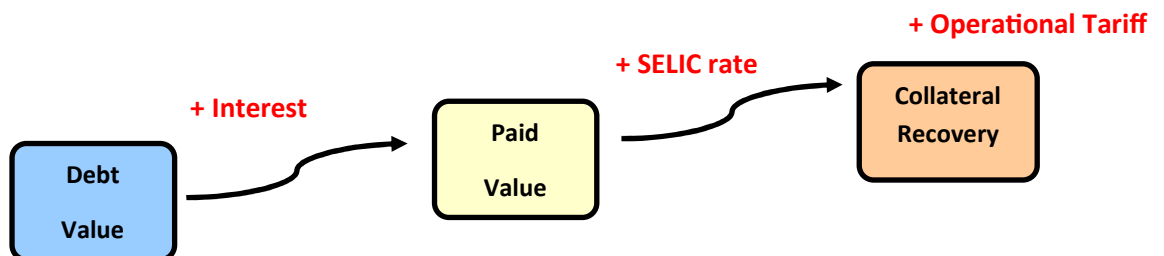
ANNEX 3 - PROCESS OF GUARANTEES EXECUTION AND COLLATERAL RECOVERY

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

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.

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

DAEE — Department of Power and Electric Power

SABESP — State of São Paulo Water Company