



Guarantees Report

3rd 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.

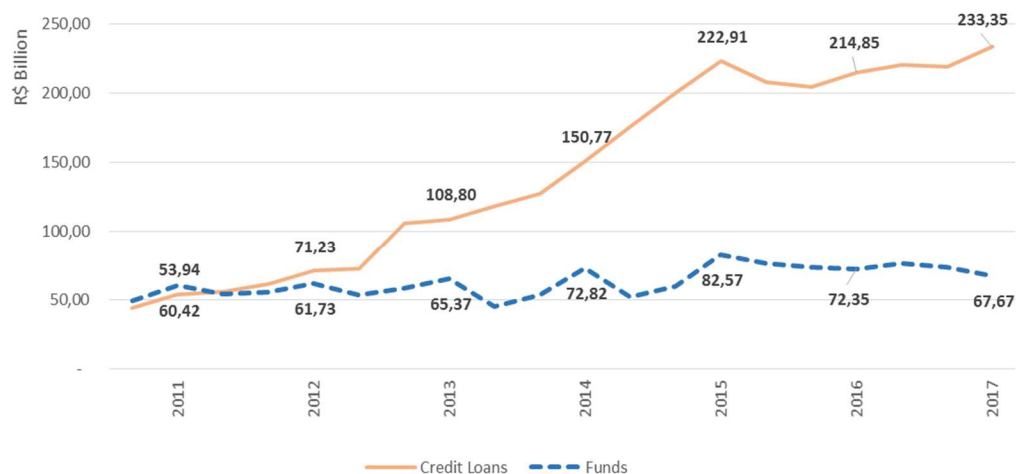
By the end of December 2017, the outstanding guarantees amounted to R\$ 301.01 bn, credit loans being represented by R\$ 233.35 bn, while funds were represented by R\$ 67.67 bn.

Table 1.1
Categories of
Guarantees

	Outstanding (R\$ million)	(%)
Credit Loans	233,348.93	77.5
Funds	67,665.88	22.5
Total	301,014.81	

The graph below shows the evolution of outstanding guarantees from the end of 2011 to the end of 2017, according to the type (credit loans and funds).

Graph 1.1
Historical Evolution



1.2 Historical Series

The outstanding guarantees in the 3rd third of 2017 reached R\$ 301.01 bn. The domestic outstanding guarantees amounted to R\$ 179.17 bn. Credit loans correspond to R\$ 111.50 bn, while the funds correspond to R\$ 67.67 bn. The foreign outstanding guarantees reached R\$ 121.85 bn in December 2017, all of them corresponding to credit loans. Exchange rates used to convert foreign guaranteed debt were the PTAX sales rates on December 31, 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 3rd third of 2017 are on the table below.

Table 1.2
Historical Series

	(R\$ million)			
	3T 2016	1T 2017	2T 2017	3T 2017
Domestic Guarantees	183,439.71	185,234.67	179,988.46	179,165.71
Credit Loans	111,091.47	108,586.68	106,384.81	111,499.83
Funds	72,348.24	76,647.99	73,603.65	67,665.88
Foreign Guarantees	103,761.20	114,061.97	112,073.96	121,849.10
Credit Loans	103,761.20	114,061.97	112,073.96	121,849.10
Total	287,200.91	299,296.65	292,062.42	301,014.81

2. CREDITORS AND DEBTORS OF GUARANTEED CREDIT LOANS

2.1 Creditors

As for credit loans, domestic creditors represent 47.8% of outstanding guarantees, while foreign creditors represent 52.2%. Federal banks are responsible for 97.1% (R\$ 108.31 bn) of domestic guarantees. Multilateral organisms are the most representative ones among foreign guarantees, responding for 85.5% (R\$ 104.27 bn) of them.

Table 2.1
Creditors

Creditors	Outstanding (R\$ million)	(%)
Domestic Creditors	111,499.83	47.8
Federal Banks	108,308.09	97.1
Private Banks	3,191.74	2.9
Foreign Creditors	121,849.10	52.2
Multilateral Institutions	104,267.18	85.5
Private Banks	10,314.71	8.5
Government Agencies	7,267.21	6.0
Total	233,348.93	100.0

Among domestic creditors, it is important to highlight the weight of BNDES (Development Bank), BB (Banco do Brasil) and CAIXA, representing 19.9%, 18.4% e 8.1 %, respectively, of the total volume of the credit loans. Among foreign creditors, WB (World Bank) and IADB (Inter-American Development Bank) are the most representative, with 22.2% and 20.0% of credit loans, respectively.

Table 2.2
Creditors —
Breakdown

Creditors	Outstanding (R\$ million)	(%)
Domestic Creditors	111,499.83	47.8
BNDES	46,411.36	19.9
BB	42,946.99	18.4
CAIXA	18,949.74	8.1
Other	3,191.74	1.4
External Creditors	121,849.10	52.2
WB	51,827.60	22.2
IADB	46,529.08	20.0
CAF	4,519.16	1.9
Other	18,973.26	8.1
Total	233,348.93	100.0

2.2 Debtors

States are the most representative debtors, with 75.4% (R\$ 175.95 bn) of overall outstanding guarantees. Federal banks and SOE represent 8.2% and 7.4%, respectively, of overall outstanding balance. At last, municipalities hold 6.4% (R\$ 14.97 bn) and controlled entities 2.6% (R\$ 5.98 bn) of the total volume of outstanding guarantees.

Table 2.3
Debtors

Debtors	Outstanding (R\$ million)	(%)
States	175,951.62	75.4
Federal Banks	19,141.40	8.2
Federal State Owned Enterprises (SOE) ¹	17,305.33	7.4
Municipalities	14,968.30	6.4
Controlled Entities	5,981.50	2.6
Privatized Enterprises ²	0.78	0.0
Total	233,348.93	100.0

¹Non-financial State-owned Enterprises.

²CELPE is the only privatized enterprise with debt guaranteed by Federal Gov't, as it was a controlled entity when the loan was contracted.

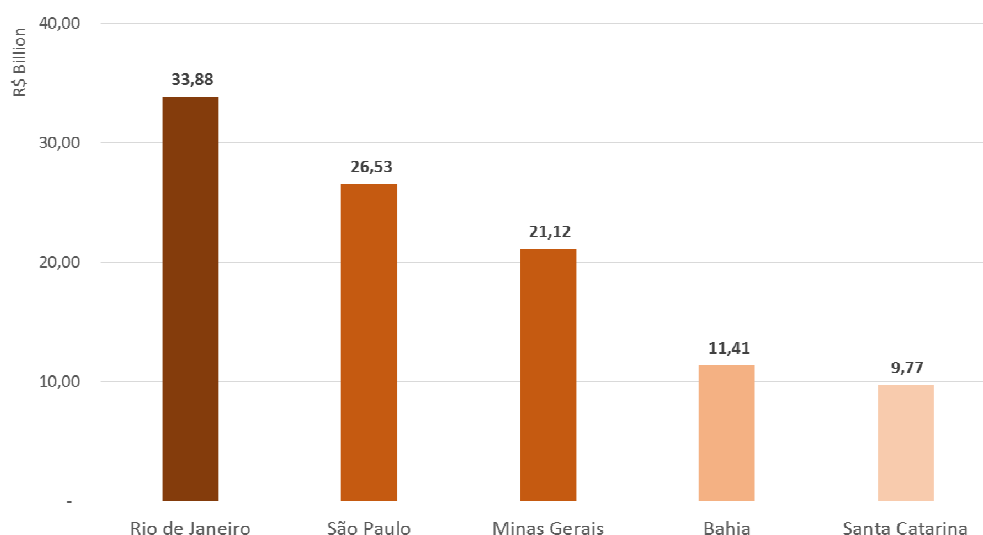
2.2.1 States

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 Santa Catarina.

Table 2.4
States

Debtors - States	Outstanding (R\$ million)	(%)
Rio de Janeiro	33,875.57	14.5
São Paulo	26,533.84	11.4
Minas Gerais	21,118.62	9.1
Bahia	11,414.66	4.9
Santa Catarina	9,767.14	4.2
Other	73,241.77	31.3
Total	175,951.62	75.4

Graph 2.1
States



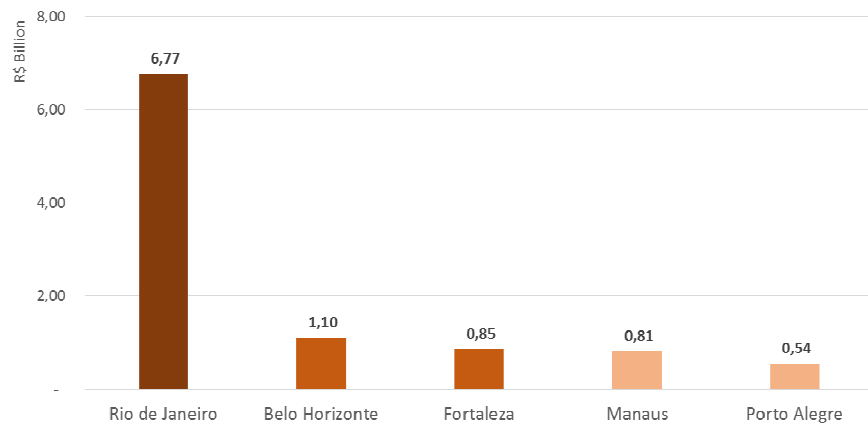
2.2.2 Municipalities

The city of Rio de Janeiro, with R\$ 6.77 bn (2.9% 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	6,767.75	2.9
Belo Horizonte	1,095.90	0.5
Fortaleza	854.42	0.4
Manaus	812.31	0.3
Porto Alegre	541.65	0.2
Other	4,896.28	2.1
Total	14,968.30	6.4

Graph 2.2
Municipalities



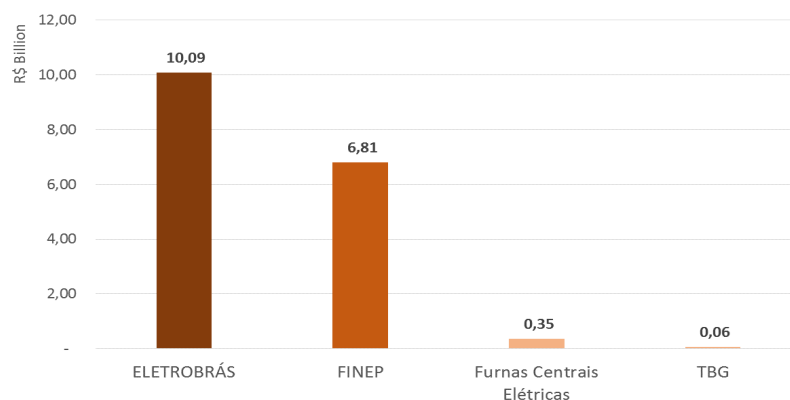
2.2.3 Federal State-Owned Enterprises (SOE)

Among SOEs, Eletrobrás responds for 4.3% (R\$ 10.09 bn) of overall guaranteed credit loans, followed by FINEP, with 2.9% (R\$ 6.81 bn).

Table 2.6
Federal SOE

SOE	Outstanding (R\$ million)	(%)
Eletrobrás	10,087.41	4.3
FINEP	6,811.47	2.9
Furnas Centrais Elétricas	349.61	0.1
TBG	56.84	0.1
Total	17,305.33	7.4

Graph 2.3
Federal SOE



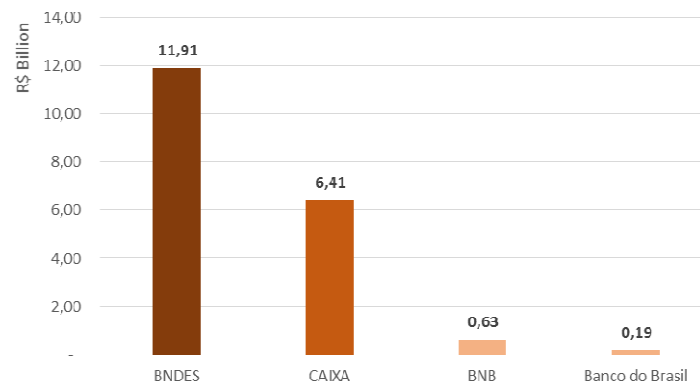
2.2.4 Federal Banks

Federal banks hold R\$ 19.14 bn in guaranteed credit loans. BNDES and CAIXA respond for 5.1% (R\$ 11.91 bn) and 2.7% (R\$ 6.41 bn), respectively, over the overall guaranteed debt.

Table 2.7
Federal Banks

Federal Banks	Outstanding (R\$ million)	(%)
BNDES	11,912.21	5,1
CAIXA	6,409.06	2,7
BNB (Banco do Nordeste)	632.06	0.3
BB (Banco do Brasil)	188.07	0.1
Total	19,141.40	8.2

Graph 2.4
Federal Banks



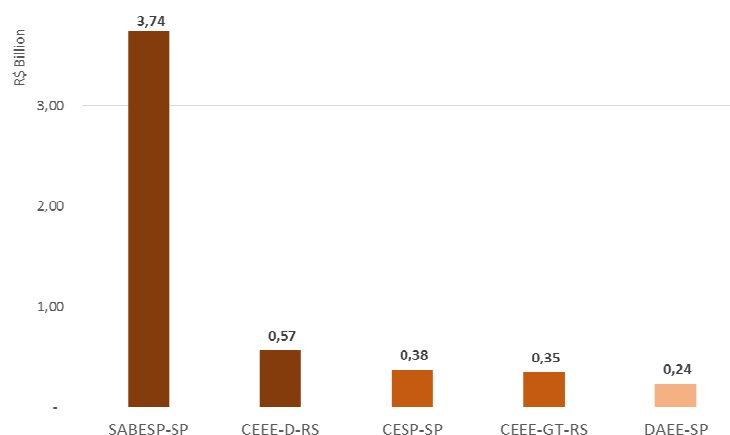
2.2.5 Controlled Entities

These entities represent only 2.6% (R\$ 5.98 bn) of outstanding guaranteed credit. SABESP-SP and CEEE-D-RS hold R\$ 3.74 bn and R\$ 0.57 bn, respectively.

Table 2.8
Controlled Entities

Controlled Entity	Outstanding (R\$ million)	(%)
SABESP - SP	3,739.91	1.6
CEEE-D - RS	567.17	0.2
CESP - SP	377.76	0.2
CEEE-GT - RS	346.41	0.2
DAEE - SP	235.40	0.1
Other	714.86	0.3
Total	5,981.51	2.6

Graph 2.5
Controlled Entities



3. STATISTICS OF EXECUTED GUARANTEES

The Brazilian National Treasury keeps track continuously 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 contractual 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 December 31st, 2017, the amount executed was R\$ 4.06 bn, as detailed below:

Table 3.1
Executed Guarantees

	(R\$ million)				
Debtor	2016	1T 2017	2T 2017	3T 2017	2017
States	2,361.86	817.67	1,458.58	1,755.06	4,031.31
Rio de Janeiro	2,227.32	814.96	1,438.98	1,735.48	3,989.42
Mato Grosso	107.13	-	-	-	-
Roraima	27.42	2.71	19.60	19.58	41.89
Municipalities	15.81	8.78	8.77	10.94	28.49
Natal - RN	10.92	8.78	8.77	10.94	28.49
Chapecó - SC	2.27	-	-	-	-
Cachoeirinha - RS	1.45	-	-	-	-
Belford Roxo - RJ	1.17	-	-	-	-
Total	2,377.67	826.45	1,467.35	1,766.00	4,059.80

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), among others. Table 3.2 details the collateral recoveries during 2016 and 2017. The ratio and the average in the last two columns include 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
1T 2017	826.45	1.79	716.44	111.81	86.7	7
2T 2017	1,467.35	0.56	262.32	1,205.59	17.9	5
3T 2017	1,766.00	0.04	25.75	1,740.27	1.46	7
2017	4,059.80	2.39	1,004.51	3,057.67	24.7	6
Total	6,437.47	8.55	3,018.24	3,427.78	64.1	7

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 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).

According to binding legislation (Portaria MF n. 501, Nov. 23rd, 2017), the following debtors cannot contract new loans guaranteed by the Federal Government until the following dates indicating the end of the quarantine:

Table 3.3

Debtors framed by
Portaria MF nº 501,
Art. 13, I

Debtor	End of Quarantine
Gov. Roraima	05/01/2019
Pref. Natal - RN	27/12/2018

Table 3.4

Debtors framed by
Portaria MF nº 501,
Art. 13, II

Debtor	End of Quarantine
Gov. Roraima	25/06/2018
Gov. Sergipe	15/06/2018
Gov. Rio Grande do Norte	15/06/2018
Pref. Belford Roxo - RJ	15/04/2018
Pref. Cachoeirinha - RS	20/04/2018
Pref. Chapecó - SC	10/06/2018
Pref. Natal - RN	12/06/2018

Even though the State of Rio de Janeiro should be included in the above listing, it may contract new loans with Federal Government guarantee, as determined by the Article 11, § 1 of Supplementary Law n. 159/2017.

4. GUARANTEES LEGAL LIMITS

4.1 Guarantees Limits over Net Current Revenues (NCR)

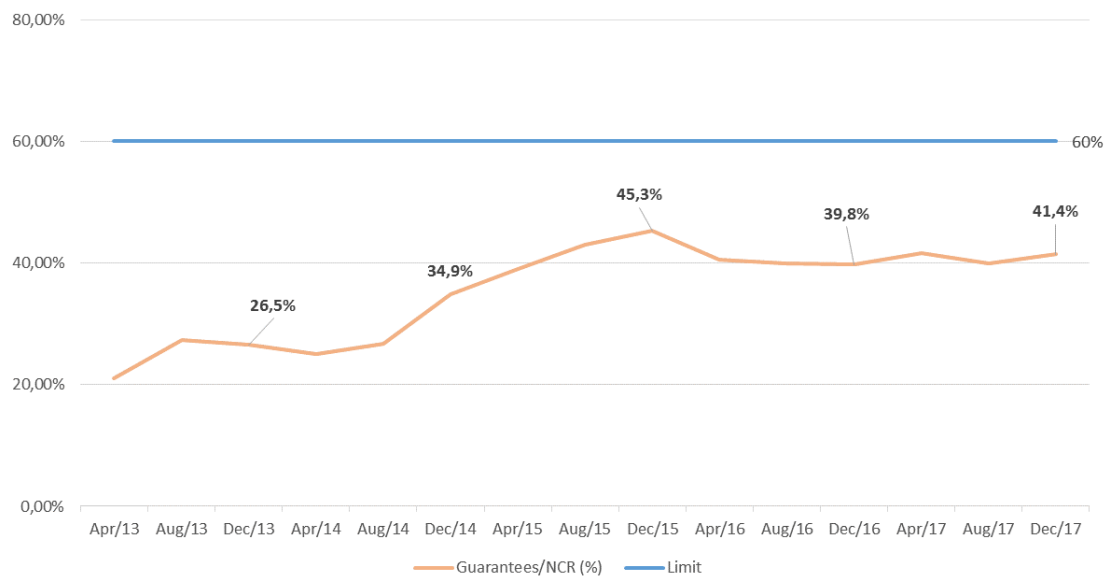
The Federal Senate (SF) Resolution n. 48, from 2007, defines the upper limit for the Federal Government outstanding guarantees at 60% of the Net Current Revenue (NCR). Table 4.1 shows the historical yearly series for both the total guaranteed debt and the NCR, as well as the ratio from 2013 to 2017.

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	121,849.10
Domestic	118,079.04	153,418.65	194,878.97	183,439.71	179,165.71
Total	174,172.74	223,594.66	305,488.43	287,200.91	301,014.81
Net Current Revenues (NCR)	656,094.22	641,578.20	674,522.74	722,474.30	727,254.32
Guarantees / NCR (%)	26.5	34.9	45.3	39.8	41.4

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

Graph 4.1
Evolution of
Guarantees / NCR (%)



ANNEX 1 - HISTORICAL OUTSTANDING GUARANTEES

	(R\$ million)					
	2012	2013	2014	2015	2016	2017
Domestic	84,324.52	118,079.04	153,418.66	194,878.97	183,439.71	179,165.71
Credit Operations	22,589.61	52,708.95	80,597.27	112,304.03	111,091.47	111,499.83
States	13,225.69	39,928.75	61,879.91	81,798.44	81,256.95	84,710.96
Municipalities		25.71	1,540.36	3,547.38	3,983.00	3,914.96
Federal Banks	4,866.86	5,630.53	7,295.06	7,467.37	7,065.40	6,541.85
Federal SOE	2,083.61	5,629.99	8,462.65	17,771.73	17,683.45	15,954.29
Controlled Entities	2,413.45	1,493.96	1,419.28	1,719.11	1,102.68	377.77
Funds and other	61,734.92	65,370.09	72,821.39	82,574.94	72,348.24	67,665.88
External	48,640.27	56,093.70	70,176.01	110,609.45	103,761.20	121,849.10
Credit Operations	48,640.27	56,093.70	70,176.01	110,609.45	103,761.20	121,849.10
States	29,233.12	35,737.75	47,650.70	77,825.91	75,487.23	91,240.65
Municipalities	4,935.55	5,563.24	6,974.22	10,565.44	10,705.35	11,053.34
Federal Banks	11,686.59	12,127.37	125,610.50	16,542.92	12,244.02	12,599.55
Federal SOE	923.8	1,023.23	1,283.48	1,832.19	1,616.35	1,351.04
Controlled Entities*	1,861.21	1,642.11	1,706.15	3,842.99	3,708.25	5,604.52
Total	132,964.79	174,172.74	223,594.66	305,488.43	287,200.91	301,014.81

*Privatized enterprises are included here for the consistency of historical data.

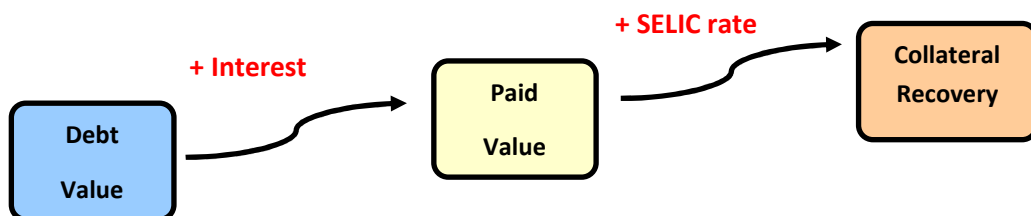
ANNEX 2 - PROCESS OF GUARANTEES EXECUTION AND COLLATERAL RECOVERY

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:



GLOSSARY

Finance Concepts:

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

Controlled Entities — Public companies or entities controlled by the overseeing State .

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.

Creditor — Financial Institution which funded some project.

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

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

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

Federal Banks — Class of creditors including public financial institutions controlled by Brazilian Federal Government, such as Banco do Brasil, BNDES and CAIXA.

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

Funds — Financial amount to some specific goal.

Government Agencies — Class of creditors including foreign public financial institutions. The main government agencies are AFD, JICA and KfW.

Multilateral Institutions — Class of creditors including supranational institutions which fund specific development projects. The main multilateral institutions are WB, IADB and CAF.

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

Private Banks — Class of creditors including domestic and foreign private financial institutions. In this report, the main domestic private banks are BNP Paribas SA and Crédit Suisse Brasil, and the main foreign private banks are Bank of America and Crédit Suisse AG.

Abbreviations:

AFD — Agence Française de Développement (French Development Agency)

BB — Banco do Brasil

BNB — Banco do Nordeste (Local Development Bank)

BNDES — Brazilian National Development Bank

CAF — Corporación Andina de Fomento (Development Bank of Latin America)

CAIXA — Caixa Econômica Federal Bank

CEEE-D — Electric Power State Company - Distribution

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

CELPE — Electric Power Company of Pernambuco

CESP — Electric Power Company of São Paulo

COPASA — State of Minas Gerais Water Company

DAEE — Department of Power and Electric Power

FINEP — Studies and Projects Financier

IADB — Inter-American Development Bank

JICA — Japan International Cooperation Agency

KfW - Kreditanstalt für Wiederaufbau (former "Reconstruction Credit Institute")

SABESP — State of São Paulo Water Company

TBG — Brazilian Gas Pipeline Bolívia-Brasil S/A

WB (IRDB) — World Bank