Brazil: Economy
Snapshot

Brazil facts

<table>
<thead>
<tr>
<th>Population</th>
<th>Area</th>
<th>Agricultural land</th>
<th>Agricultural production</th>
<th>Freshwater reserves</th>
<th>FX reserves</th>
<th>Proven oil reserves</th>
<th>Car production</th>
</tr>
</thead>
<tbody>
<tr>
<td>6th</td>
<td>5th</td>
<td>4th</td>
<td>2nd</td>
<td>1st</td>
<td>8th</td>
<td>15th</td>
<td>7th</td>
</tr>
</tbody>
</table>

Source: World Bank; CIA Factbook

Population
206 million (85% in urban areas)

GDP (2015)
USD 1.77 trillion

GDP composition
- Services – 60%
- Industry – 20%
- Net taxes – 15%
- Agribusiness – 5%

Trade Balance (2015)
Exports: USD 191 billion
Imports: USD 171 billion

Credit ratings
- Fitch: BB (outlook negative)
- Moody’s: Ba2 (outlook negative)
- S&P: BB (outlook negative)

Economic stratification
Population by social class (%)

The lower middle class includes families with monthly income between BRL 1,646 and BRL 6,585. The working class comprises those who earn between BRL 995 and BRL 1,646. Underclass is up to BRL 995.

Source: Pnad, PME, Bradesco, Valor
• GDP contracted 3.85% in 2015
• Nonetheless, agribusiness grew 1.8% in 2015

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (% of growth)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>0.15</td>
</tr>
<tr>
<td>2015</td>
<td>-3.85</td>
</tr>
<tr>
<td>2016P</td>
<td>-3.88</td>
</tr>
<tr>
<td>2017P</td>
<td>0.50</td>
</tr>
</tbody>
</table>

Source: Focus Report (Central Bank of Brazil)

• Partially impacted by lower rates for commodities and lack of confidence (i.e. households and companies)
## Industrial Production and Private Consumption

**Industrial Production**

Short-term Indicators of Industry by Major Economic Categories - March/2016

<table>
<thead>
<tr>
<th>Major Economic Categories</th>
<th>Change (%)</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mar 16 / Feb 16*</td>
<td>Mar 16 / Mar 15</td>
</tr>
<tr>
<td>Capital Goods</td>
<td>2.2</td>
<td>-24.5</td>
</tr>
<tr>
<td>Intermediate Goods</td>
<td>0.1</td>
<td>-10.9</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>3.2</td>
<td>-8.7</td>
</tr>
<tr>
<td>Durable</td>
<td>0.3</td>
<td>-24.3</td>
</tr>
<tr>
<td>Semi- and non-durable</td>
<td>0.9</td>
<td>-3.8</td>
</tr>
<tr>
<td>General Industry</td>
<td>1.4</td>
<td>-11.4</td>
</tr>
</tbody>
</table>

Source: IBGE, Diretoria de Pesquisas, Coordenação de Indústria

(*) Seasonally-adjusted series

- Industrial production decreased 11.4% (YOY) in March
- Private consumption decreased 4% in 2015

### Industrial Production (% of growth)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2015</th>
<th>2016P</th>
<th>2017P</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>-3.24</td>
<td>-8.30</td>
<td>-5.85</td>
<td>0.74</td>
</tr>
</tbody>
</table>

Source: Focus Report (Central Bank of Brazil)
Inflation

- Downward trend: the consumer price index IPCA slowed down to 9.28% (YOY) in April

- Brazil has a target of 4.5% with a band of ± 2 percentage points

- Administered prices were kept artificially low in recent years, but were raised in 2015
  
  Price increase estimates:
  
  - Electricity: +51%
  - Gas: +20%
  - Fuel: +15%

- The BRL depreciation is another main driver of inflation
  
  - Imports and exportable goods became more expensive
  - Each 10% of currency depreciation produces a 70 bps increase on the annual inflation rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Inflation rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>6.41</td>
</tr>
<tr>
<td>2015</td>
<td>10.67</td>
</tr>
<tr>
<td>2016P</td>
<td>7.00</td>
</tr>
<tr>
<td>2017</td>
<td>5.50</td>
</tr>
</tbody>
</table>

Source: Focus Report (Central Bank of Brazil)
The benchmark interest rate Selic is currently at 14.25% p.a.

The long-term interest rate TJLP was hiked to 7.5% p.a. in January 2016.

Net public debt-to-GDP ratio is currently at 36.8%
Government gross debt-to-GDP ratio is currently at 67.6%
- Likely to increase with higher interest rate
• The BRL depreciated 47% against the USD in 2015
• Strong volatility – Ranged between 2.57 and 4.19
• Averaged at 3.34 BRL per USD in 2015

<table>
<thead>
<tr>
<th>Exchange rate (BRL per USD)</th>
<th>2014</th>
<th>2015</th>
<th>2016P</th>
<th>2017P</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil: BRL per USD</td>
<td>2.66</td>
<td>3.90</td>
<td>3.70</td>
<td>3.90</td>
</tr>
</tbody>
</table>

Source: Focus Report (Central Bank of Brazil)

• The BRL depreciated 19% against the NOK in 2015
The Petrolão Scandal
Petrolão overview

- Largest corruption scandal in Brazil’s History, involving contractors, executives, political parties and politicians
- Currently being investigated by the Federal Police (Operation Car Wash)
- 29 companies are responding to lawsuits and 5 have already closed leniency agreements
- 35 politicians are under investigation
- Several people have been arrested for money diversion, money laundering, corruption or fraud
- Over 90 people, including top executives, have already been convicted
- The scandal has reached the electricity sector and may reach other sectors
- Ex-President Lula has been forcefully detained for questioning and formally charged by the Public Prosecutor’s Office

Eduardo Cunha
Speaker of the Lower House, suspended
Under investigation

Renan Calheiros
Speaker of the Federal Senate
Under investigation

Fernando Collor
Senator and ex-President
Under investigation

Luiz Inácio Lula da Silva
Ex-President
Under investigation

Delcídio do Amaral
Ex-Senator, impeached
Under investigation and has been arrested
Accepted a plea agreement

Photo credits: Agência Brasil; Agência Estado; Agência Senado; Associated Press
Brazil: Politics
Governability

- 25 parties in the Chamber of Deputies (currently)
- PT and PMDB have lost ground to medium-sized parties
- PSDB has 7 more seats compared to 2010
- Flexibility is key to form a governing coalition

Source: G1, as of January 2015
Political erosion and potential impeachment

- Dilma’s weak governing coalition led to major defeats in the Congress, internal disputes in the PT, and “disembarkation” of main backers (PMDB and PP).

- Drop in Dilma’s popularity – reached a low of 8% of positive feedback
  - Major protests took place on March 13th with an estimated attendance of 3.5 million – largest protest in Brazil’s History.

- Former backers were crucial to the admissibility of the impeachment proceedings against Dilma Rousseff in both Houses.
The Federal Court of Accounts (TCU) says Ms. Rousseff broke Brazil’s fiscal responsibility law by systematically delaying repayments to Brazilian state-controlled banks for advancing money to pay for social programs such as unemployment insurance.

The delay in repayments resulted in Brazil’s fiscal account appearing to be healthier than it was.

The practice was intended to show spending was not as high as it was and bolster Rousseff’s re-election bid.

Impeachment allegations – “backpedaling”
Impeachment scenario: breach of the Fiscal Responsibility Law

- Irregularities
- Accounts rejected
- National Congress
- Lower House
- Dilma Rousseff takes leave of absence for 180 days
- Federal Senate
- Michel Temer takes office permanently

- Opposition requests an impeachment
- Lower House speaker
- The Lower House approved the admissibility of the process with 367 favorable votes on April 17th
- At least 54 votes
- Accounts rejected
- Teaching accepted
- The impeachment process began after the Senate approved the admissibility by 55 favorable votes on May 11th
- Less than 54 votes
- Dilma Rousseff is reinstated

Photo credits: Agência Brasil; Agência Estado; Agência PT; Agência Senado
Temer administration – a bend to the right

• Cooptation of the main oppositions parties to form a new governing coalition
• Reduction in the number of ministries to 24 from 31
• Changes in the top management of most public companies/institutions
• Nomination of former Central Bank president Henrique Meirelles as new Minister of Finance
• Forthcoming dismissal of 4,000 civil servants

• Main priorities:
  o Reduce government spending
  o Control inflation
  o Social Security reform
  o Privatizations and concession
  o Recover consumer and business confidence
IV

DNB in Latin America
DNB has extensive reach in Latin America

- Offices in Rio de Janeiro and Santiago
- Total of 20 people on the ground in South America with extensive knowledge of the region
- Dedicated project finance team for Latin America in Santiago and New York focused on renewable energy
DNNB in Brazil

• Presence in Brazil since 1968:
  o Dedicated team based in Rio de Janeiro since 2012
  o Pioneer foreign bank in Brazilian shipping industry
  o Long-term relationship with BNDES, the Brazilian Development Bank

• Broad product range adapted to local needs
  o Credit
  o Project Finance
  o Letters of Credit and Guarantees
  o Corporate Finance
  o Bonds
  o Syndicated Loans
  o Cash Management solutions
  o Fundraising and risk capacity from ECAs
  o BNDES structured financing

• Leading shipping, offshore, logistics and energy bank
The Brazilian Development Bank is the main source for long term financing in Brazil.

DNB is one of the main foreign banks partners of BNDES, with extensive knowledge and experience in joint financings.

DNB can issue guarantees and provide the support necessary to make BNDES financing easier and faster.

Other banks – indirect financing:

Other banks

Bank

BNDES

Company

$ 

DNB – direct financing:

Company

$ 

Guarantee

DNB

BNDES
DNB financing method – why it is better

• DNB direct financing speeds up the process
  o DNB has pre-approved credit with BNDES
  o Documents are already in place
  o DNB has strong cooperation with BNDES’ commercial and international legal area

• Transparent pricing
  o Negotiations are clear between DNB, BNDES, and the client
DNB in Chile

• Branch of DNB Bank ASA

• Local booking unit

• Focus on core industries:
  o Seafood
  o Renewable energy

• Key to success: Global client teams with industry expertise and local presence

• Focus on growth in both lending and non-lending corporate products
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Although DNB believes that the expectations reflected in any such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct.

Actual results, performance or events may differ materially from those set out or implied in the forward-looking statements. Important factors that may cause such a difference include, but are not limited to: (i) general economic conditions, (ii) performance of financial markets, including market volatility and liquidity (iii) the extent of credit defaults, (iv) interest rate levels, (v) currency exchange rates, (vi) changes in the competitive climate, (vii) changes in laws and regulations, (viii) changes in the policies of central banks and/or foreign governments, or supra-national entities.

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