

DNB Brazil Economy and Politics Update – May 2016





Brazil: Economy

Snapshot



Brazil facts

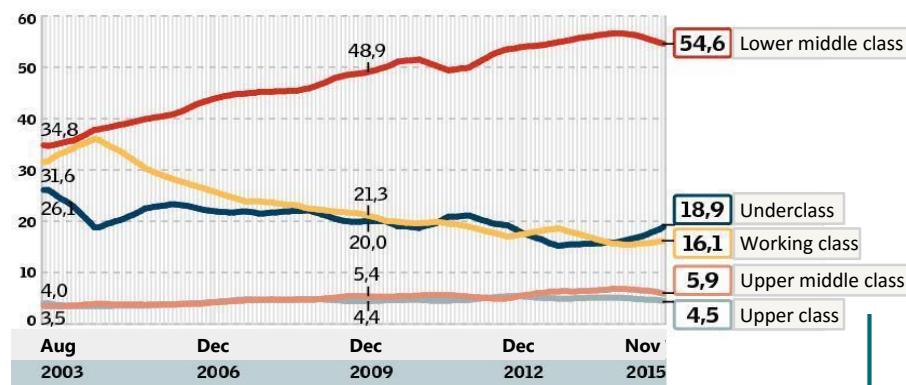
Population	Area	Agricultural land	Agricultural production	Freshwater reserves	FX reserves	Proven oil reserves	Car production
6 th	5 th	4 th	2 nd	1 st	8 th	15 th	7 th

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

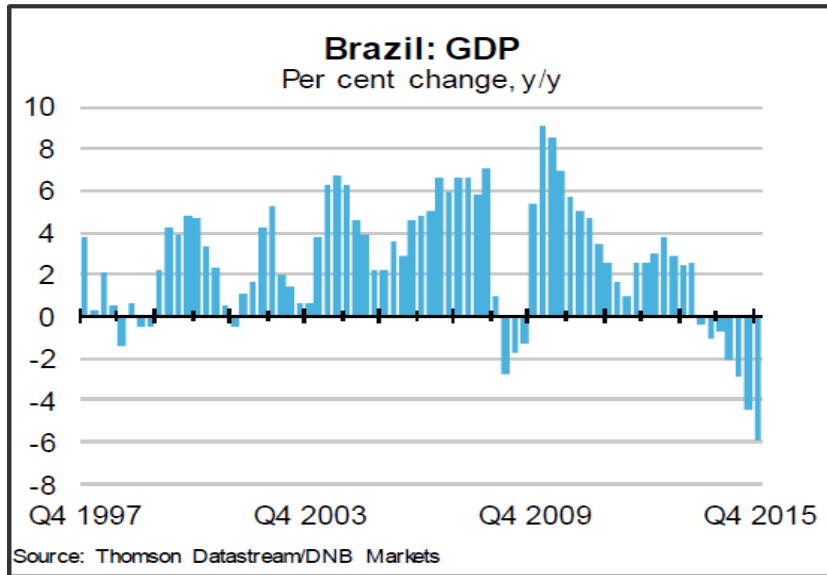
Population by social class (%)



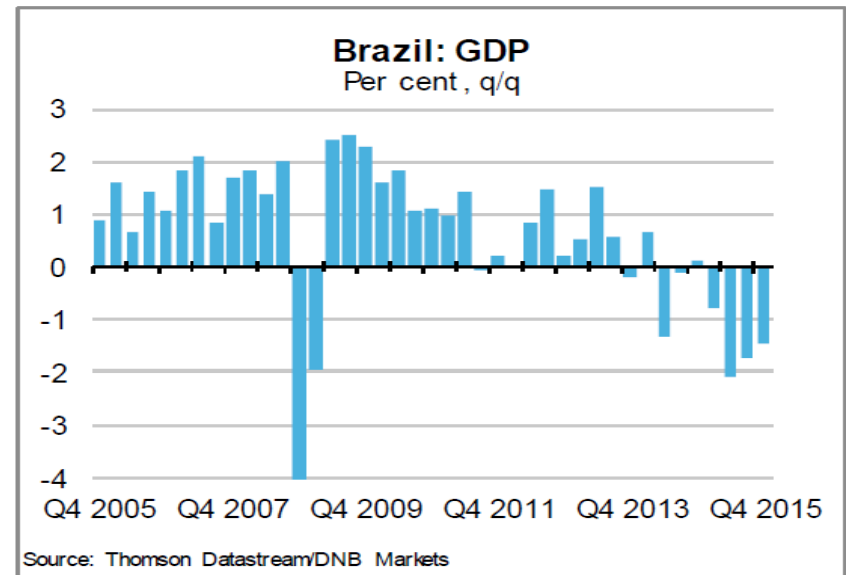
Source: Pnad, PME, Bradesco, Valor

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.

GDP



- GDP contracted 3.85% in 2015
- Nonetheless, agribusiness grew 1.8% in 2015



- Partially impacted by lower rates for commodities and lack of confidence (i.e. households and companies)

	2014	2015	2016P	2017P
GDP (% of growth)	0.15	-3.85	-3.88	0.50

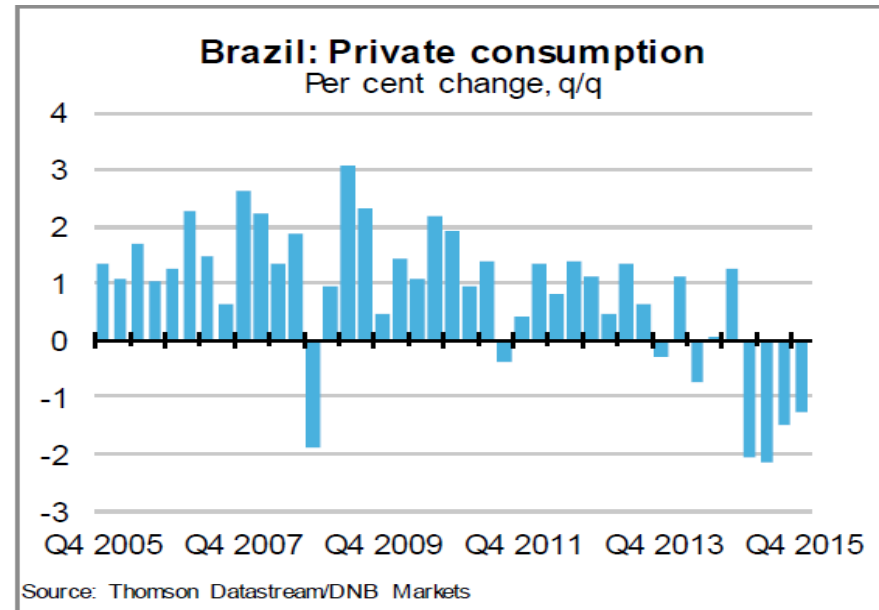
Source: Focus Report (Central Bank of Brazil)

Industrial Production and Private Consumption

Industrial Production				
Short-term Indicators of Industry by Major Economic Categories - March/2016				
Major Economic Categories	Change (%)			
	Mar 16 / Feb 16*	Mar 16 / Mar 15	Cumulative	
			Year	12 months
Capital Goods	2.2	-24.5	-28.9	-28.3
Intermediate Goods	0.1	-10.9	-10.3	-7.0
Consumer Goods	3.2	-8.7	-9.8	-10.0
Durable	0.3	-24.3	-27.3	-21.6
Semi- and non-durable	0.9	-3.8	-4.5	-6.6
General Industry	1.4	-11.4	-11.7	-9.7

Source: IBGE, Diretoria de Pesquisas, Coordenação de Indústria
 (*) Seasonally-adjusted series

- Industrial production decreased 11.4% (YOY) in March

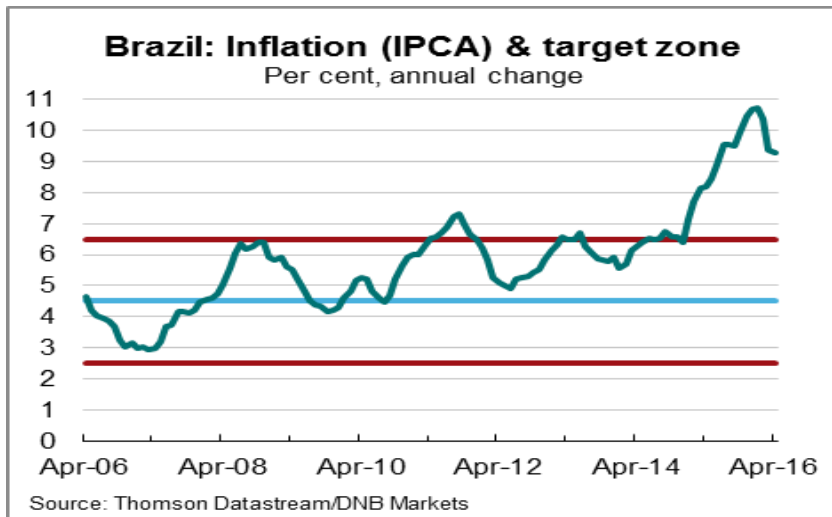


- Private consumption decreased 4% in 2015

	2014	2015	2016P	2017P
Industrial production (% of growth)	-3.24	-8.30	-5.85	0.74

Source: Focus Report (Central Bank of Brazil)

Inflation

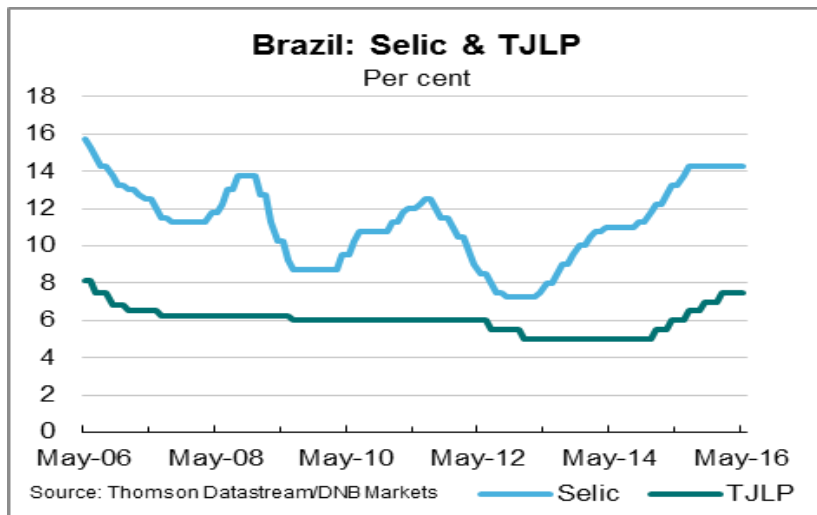


- Downward trend: the consumer price index IPCA slowed down to 9.28% (YOY) in April
- Brazil has a target of 4.5% with a band of ± 2 percentage points
- Administered prices were kept artificially low in recent years, but were raised in 2015
Price increase estimates:
 - Electricity: +51%
 - Gas: +20%
 - 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

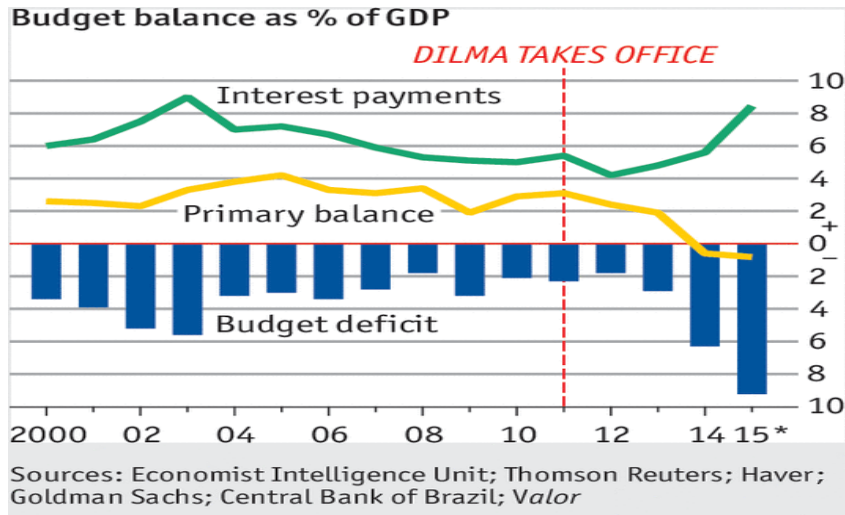
	2014	2015	2016P	2017
Inflation rate (%)	6.41	10.67	7.00	5.50

Source: Focus Report (Central Bank of Brazil)

Interest rate and budget balance



- 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

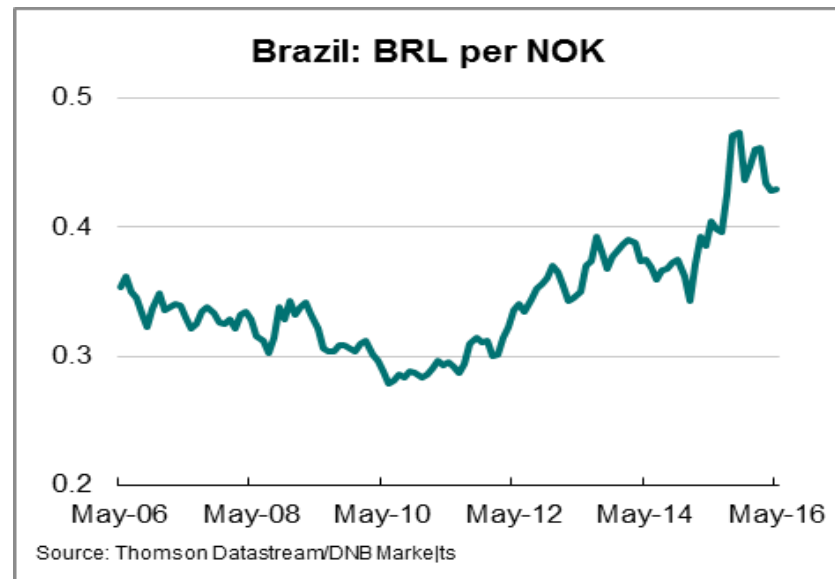
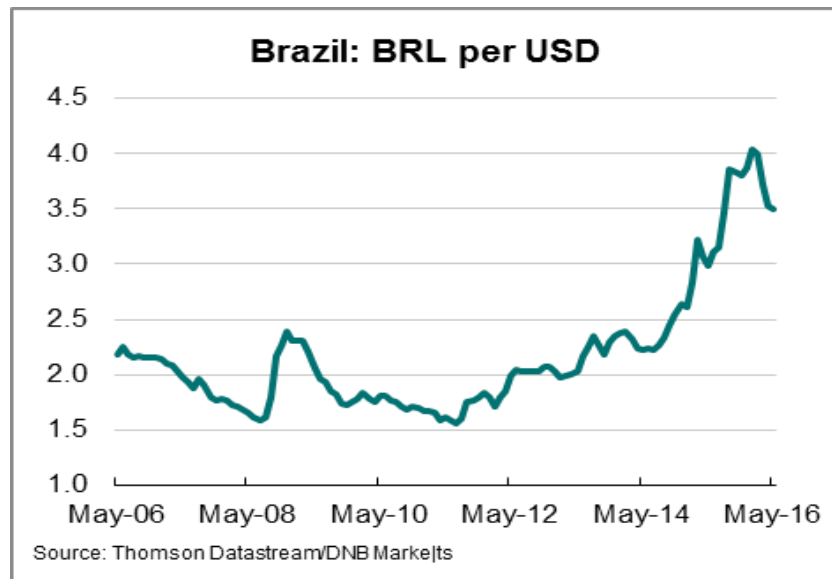


- Net public debt-to-GDP ratio is currently at 36.8%
- Government gross debt-to-GDP ratio is currently at 67.6%
 - Likely to increase with higher interest rate

	2014	2015	2016P	2017P
Selic (% p.a.)	11.75	14.25	13.00	11.50

Source: Focus Report (Central Bank of Brazil)

Exchange rates



- 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

- The BRL depreciated 19% against the NOK in 2015

	2014	2015	2016P	2017P
Exchange rate (BRL per USD)	2.66	3.90	3.70	3.90

Source: Focus Report (Central Bank of Brazil)



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
10 Under investigation

Photo credits: Agência Brasil; Agência Estado; Agência Senado; Associated Press



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



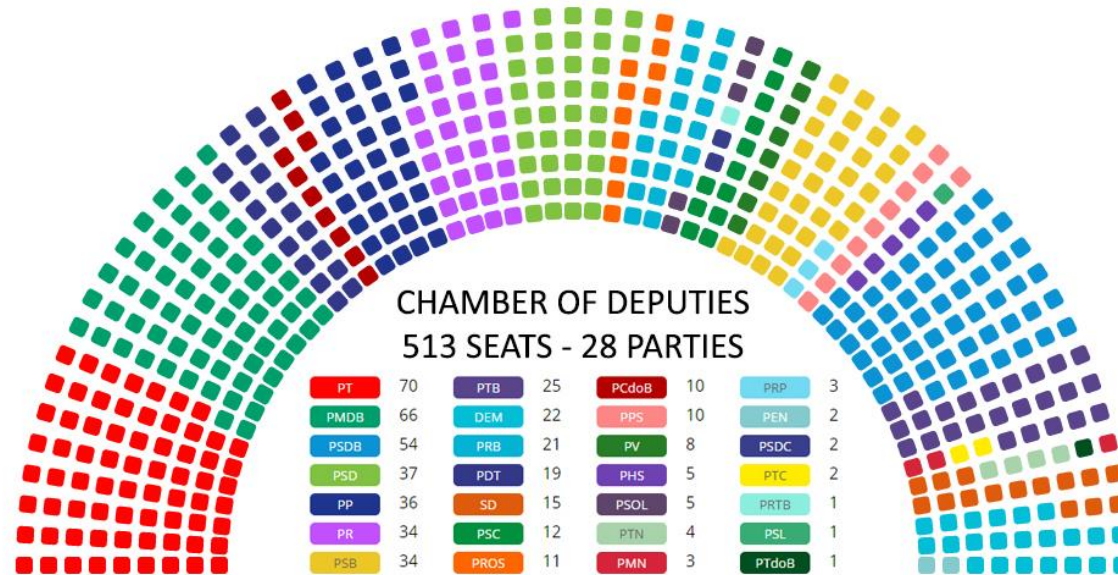
Delcídio do Amaral
Ex-Senator, impeached
Under investigation and has been arrested
Accepted a plea agreement



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



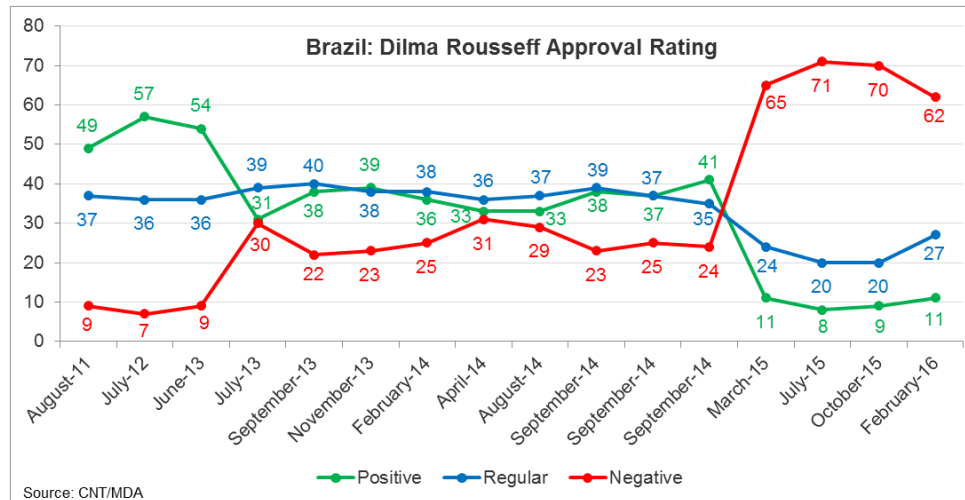
Source: G1, as of January 2015

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



National Congress – 13.03.2016 (Photo credit: Agência Brasil)



Paulista Avenue – 13.03.2016 (Photo credit: Época)

Impeachment allegations – “backpedaling”

- 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 scenario: breach of the Fiscal Responsibility Law



Temer administration – a bend to the right

- Cooptation of the main opposition 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:
 - Reduce government spending
 - Control inflation
 - Social Security reform
 - Privatizations and concession
 - Recover consumer and business confidence

IV

DNB in Latin America

DNB has extensive reach in Latin America



Countries with DNB offices

Countries where DNB has done deals

- 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

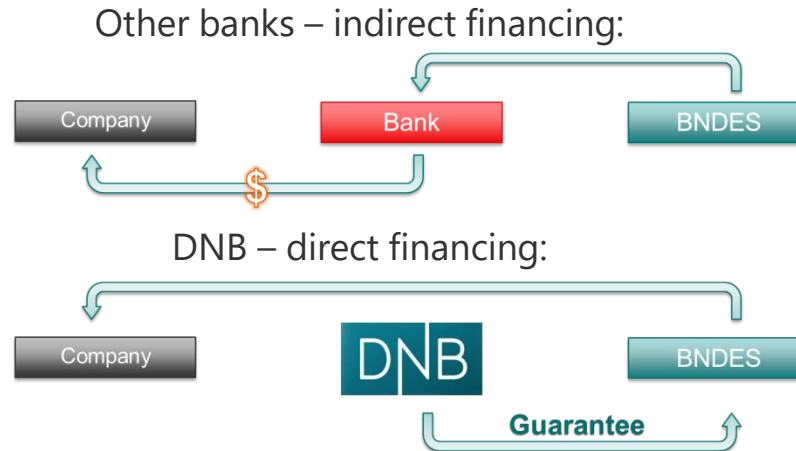
DNB in Brazil

- Presence in Brazil since 1968:
 - Dedicated team based in Rio de Janeiro since 2012
 - Pioneer foreign bank in Brazilian shipping industry
 - Long-term relationship with BNDES, the Brazilian Development Bank
- Broad product range adapted to local needs
 - Credit
 - Project Finance
 - Letters of Credit and Guarantees
 - Corporate Finance
 - Bonds
 - Syndicated Loans
 - Cash Management solutions
 - Fundraising and risk capacity from ECAs
 - BNDES structured financing
- Leading shipping, offshore, logistics and energy bank



DNB and BNDES

- 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



DNB financing method – why it is better

- DNB direct financing speeds up the process
 - DNB has pre-approved credit with BNDES
 - Documents are already in place
 - DNB has strong cooperation with BNDES' commercial and international legal area
- Transparent pricing
 - Negotiations are clear between DNB, BNDES, and the client



DNB in Chile

- Branch of DNB Bank ASA
- Local booking unit
- Focus on core industries:
 - Seafood
 - 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



DISCLAIMER

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