

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit ratings.

Federative Republic of Brazil (security code: -)

<Affirmation>

Foreign Currency Long-term Issuer Rating:	BBB-
Outlook:	Stable
Local Currency Long-term Issuer Rating:	BBB
Outlook:	Stable

Rationale

- (1) Brazil is the largest country in Latin America, with a population of 200 million, endowed with a high agricultural potential and rich natural resources. With lower primary product prices and political disruptions reducing domestic investments, negative growth rates were recorded and budget deficits widened for two years running in 2015 and 2016. However, a market-friendly policy implemented by the Bolsonaro administration upon its inauguration in January 2019 has been well accepted by the market and is pulling Brazil out of the economic difficulties. Private consumption has been improving and corporate fixed investment has been making a positive contribution to economic growth. The expansion of the external debt has been restrained and the foreign reserves have been accumulated. Moreover, pension-related legislation has been passed by Congress and the government has clarified its stance of tackling tax reforms, paving the way for fiscal reforms. Based on the above, JCR has kept its ratings unchanged with a Stable outlook.
- (2) The new Bolsonaro administration has taken a strict stance to combat corruption and pledged to uphold a "small government" that advocates market-oriented reforms aimed for reducing social security costs and privatizing state-owned corporations. The government's stance has been favorably greeted, with the stock market perking up and the exchange rate stabilizing. In addition, the consumer price index kept on decelerating to reach 3.7% at the end of 2018, achieving the inflation target of 4.25% set by the central bank. Interest rates have also declined, reducing the interest payment burdens on the part of businesses and consumers, which in turn helped to increase corporate investment and private consumption. The country's economic growth in 2019 was estimated at around 0.8% of GDP, with the recovery expected to continue in the future.
- (3) The general government primary balance in FY 2018 was in a deficit equivalent to 1.53% of GDP. However, the public sector fiscal deficit in the year was larger at 7.14% of GDP because Brazil's interest rate, higher than those in other countries, had forced heavier interest payment burdens. The Bolsonaro administration aims to curb the general government primary balance deficit to 1.1% of GDP in FY 2019 through a reduced number of civil servants, privatization and pension reforms. The current account deficit in the international balance of payments improved to less than 1% of GDP in 2018 on an increased trade surplus. The foreign currency reserves were enough to meet 17.7 months of imports at the end of 2018, leaving the economy reasonably resilient to external shocks. The expansion of foreign currency-denominated liabilities due to the depreciation of the exchange rate has come to a halt. While the declining interest rates are expected to reduce the burdens for the government, companies and households, their debt levels still remain high. Liquidity is generally ample in the banking sector, and there is little concern in the financial system of Brazil in the near future.
- (4) The enactment of the Pension Reform Bill aimed to raise the eligibility age provides a positive factor. However, the size of the reform over a period of 10 years was reduced from the initially proposed BRL 1.2 trillion to BRL 0.8 trillion in the amended legislation. Progress on pension reforms is highly likely to put a halt to the growth of the public debt. The government has bared a policy to follow up the pension reforms with tax reforms. In addition to the high tax rates, Brazil's complex tax regimes imposed by the federal, state and municipal governments have reduced the efficiency of tax collection. Tax Reform Bill No. 45 (PEC45) aims to simplify the federal, state and municipal taxations whereas Tax Reform Bill No. 110 (PEC110) attempts to integrate various taxes into the state goods and services tax and the federal services tax. JCR will keep a close watch on whether the Brazilian government can maintain and enhance confidence by steadily promoting fiscal consolidation through structural reforms including tax reforms.

Atsushi Masuda, Daishi Takemitsu

Rating

Issuer: Federative Republic of Brazil

<Affirmation>

Foreign Currency Long-term Issuer Rating: BBB-

Outlook: Stable

Local Currency Long-term Issuer Rating : BBB

Outlook: Stable

Rating Assignment Date: November 7, 2019

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of methodology for determination of the credit rating is shown as "Sovereign and Public Sector Entities" (November 7, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

The aforementioned credit ratings are unsolicited. Except in cases of a credit rating for a sovereign, JCR indicates affix "p" after a rating symbol to distinguish it from a rating with solicitation. The undisclosed information, which has material influence on the credit rating, was not obtained from the rating stakeholder.

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

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INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

Issuer:	Federative Republic of Brazil
Rating Publication Date:	November 12, 2019

1 The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release.

2 The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release.

3 The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

A) Economic Base

The likelihood of a given debt payment is highly conditional to the issuing government's ability to maintain/expand the economic base into the future with maintaining soundness of financial systems.

B) Fiscal Base

The likelihood of a given debt payment is highly correlated to fiscal balance, public debt and other factors of the issuing government's fiscal condition.

C) External Positions

The likelihood of a given debt payment is highly correlated to the liquidity positions which change along with the international balance of payments and the international investment position.

D) Social and Political Bases and Economic Policy

The likelihood of a given debt payment is highly conditional to the social and political stability, effectiveness of economic and monetary policies as well as international economics.

E) Related Parties' Stance of Support/ Assistance for the Government

The likelihood of a given debt payment is affected by the stance of the credit enhancement provider and other related parties with regard to their stance of support/ assistance for the issuing government.

F) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuing government's will, and/ or its rank relative to other debts of the same government in the order of seniority in principal/ interest payment which is determined by design as financial product or by international practice, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.
- A) Informational and explanatory materials published by the rating stakeholders with regard to the economy and fiscal management policy, etc. of the issuing government
- B) Statistics and reports published by an independent organization with regard to the economy and fiscal status, etc. of the issuing government

9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the publication by the issuer or some independent media etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR does not receive payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of credit rating, such as one in the ancillary business.

11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

A) Economic Base

The credit rating is subject to alteration if there is an improvement or deterioration of the issuer's economy or financial systems, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

B) Fiscal Base

The credit rating is subject to alteration if the issuer increases/ decreases its fiscal deficit/ surplus and its public debt and thereby makes given debt payment liability less/ more bearable. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

C) External Positions

The credit rating is subject to alteration if there is a change in the issuer's international balance of payments and international investment position and thereby an improvement/ deterioration of its liquidity positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

D) Social and Political Bases and Economic Policy

The credit rating is subject to alteration if there is a change in the issuer's social and political conditions or economic/ monetary policies, etc. and thereby an improvement/ deterioration of its economy and fiscal positions. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

E) Related Parties' Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the credit enhancement provider or other related parties with regard to their stance of support/ assistance for the issuing government and thereby an improvement/ deterioration of its economy, fiscal positions and liquidity positions. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

F) Order of Seniority in Debt Payment

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts, due to improvement/ deterioration of the issuer's fiscal condition and/or will. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

G) International Economies

The credit rating is subject to alteration if there is a change in the international economies, commodity or foreign exchange markets, etc. and thereby, through international balance of payments, an improvement/ deterioration in the issuer's fiscal balance or debt payment capacity. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

H) Various Events

The credit rating is subject to alteration on occurrence of various events, such as domestic unrest, war, natural disaster, etc. which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's economy, fiscal positions, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

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Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

<https://www.jcr.co.jp/en/service/company/regu/nrsro/>

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Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

A) Economic Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's economy or financial systems, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's economy or financial systems on some drastic change in environments, etc.

B) Fiscal Base

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's fiscal conditions in terms of annual balance or public debt. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's fiscal condition on some drastic change in its economy.

C) External Positions

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions reflecting

improvement or deterioration of the international balance of payments and the international investment position. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in the country's economic/ fiscal conditions and financing activities, etc.

D) Social and Political Bases and Economic Policies

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's social and political bases and economic/ monetary policies. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the country's situation changes drastically, making the issuer's social and political bases and economic/monetary policies significantly improved or deteriorated.

E) International Economics

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of the international economies or commodity/ foreign exchange markets, etc. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

14 Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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The Historical Performance of the Credit Rating

Issuer Name	Issue Name	Publication Date	Rating	Outlook/Direction
Federative Republic of Brazil	Issuer(Long-term)(FC)	June 8, 2007	BBB-	Stable
Federative Republic of Brazil	Issuer(Long-term)(FC)	February 16, 2009	BBB-	Stable
Federative Republic of Brazil	Issuer(Long-term)(FC)	February 1, 2011	BBB	Stable
Federative Republic of Brazil	Issuer(Long-term)(FC)	November 15, 2012	BBB	Stable
Federative Republic of Brazil	Issuer(Long-term)(FC)	December 13, 2013	BBB	Stable
Federative Republic of Brazil	Issuer(Long-term)(FC)	March 12, 2015	BBB	Negative
Federative Republic of Brazil	Issuer(Long-term)(FC)	June 9, 2016	BBB-	Stable
Federative Republic of Brazil	Issuer(Long-term)(FC)	February 2, 2018	BBB-	Stable
Federative Republic of Brazil	Issuer(Long-term)(LC)	June 8, 2007	BBB	Stable
Federative Republic of Brazil	Issuer(Long-term)(LC)	February 16, 2009	BBB	Stable
Federative Republic of Brazil	Issuer(Long-term)(LC)	February 1, 2011	BBB+	Stable
Federative Republic of Brazil	Issuer(Long-term)(LC)	November 15, 2012	BBB+	Stable
Federative Republic of Brazil	Issuer(Long-term)(LC)	December 13, 2013	BBB+	Stable
Federative Republic of Brazil	Issuer(Long-term)(LC)	March 12, 2015	BBB+	Negative
Federative Republic of Brazil	Issuer(Long-term)(LC)	June 9, 2016	BBB	Stable
Federative Republic of Brazil	Issuer(Long-term)(LC)	February 2, 2018	BBB	Stable

Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Atsushi Masuda, have responsibility to this Rating Action and to the best of my knowledge:

- A) No part of the credit rating was influenced by any other business activities.
- B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.
- C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.



Atsushi Masuda
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