

Lava Jato & Impact on Surety Market

CHUBB®

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Brazil in Numbers

- **Area:** 8,514,876 km²
- **Population:** 206 million inhabitants
 - 51% - women
 - 68% of population is in labor force
 - Unemployment: 13.6% - up to April.2017
- **GDP:** USD 1.8 tri
- 9th largest economy in the World
- 4th biggest food exporter of the world
- **Largest lower middle class in Latin America**
- **400 out of the biggest 500 companies in the world have offices in Brazil**
- **Approx. 150 public companies (government owned)**

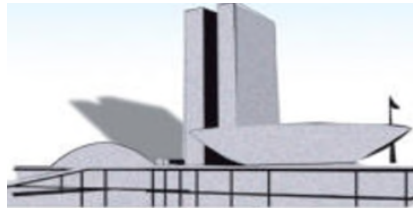


3 Powers



Executive Power

Executive Power: Formed by the President, Governors and Mayors. Elected by the people, they run the country (budget, economy, healthcare, education and so forth).



Legislative Power

Legislative Power: Formed by Senators, Congressmen, State Deputies, Councilmen. Also, elected by the people, they are responsible to oversee the executive, approve the Government budget and pass laws.



Judiciary Power

Judiciary Power: Supreme Courts, Judges and Public Attorneys. Responsible for ruling actions and situations that are not in accordance with the law, which in turn are passed by the Legislative Power

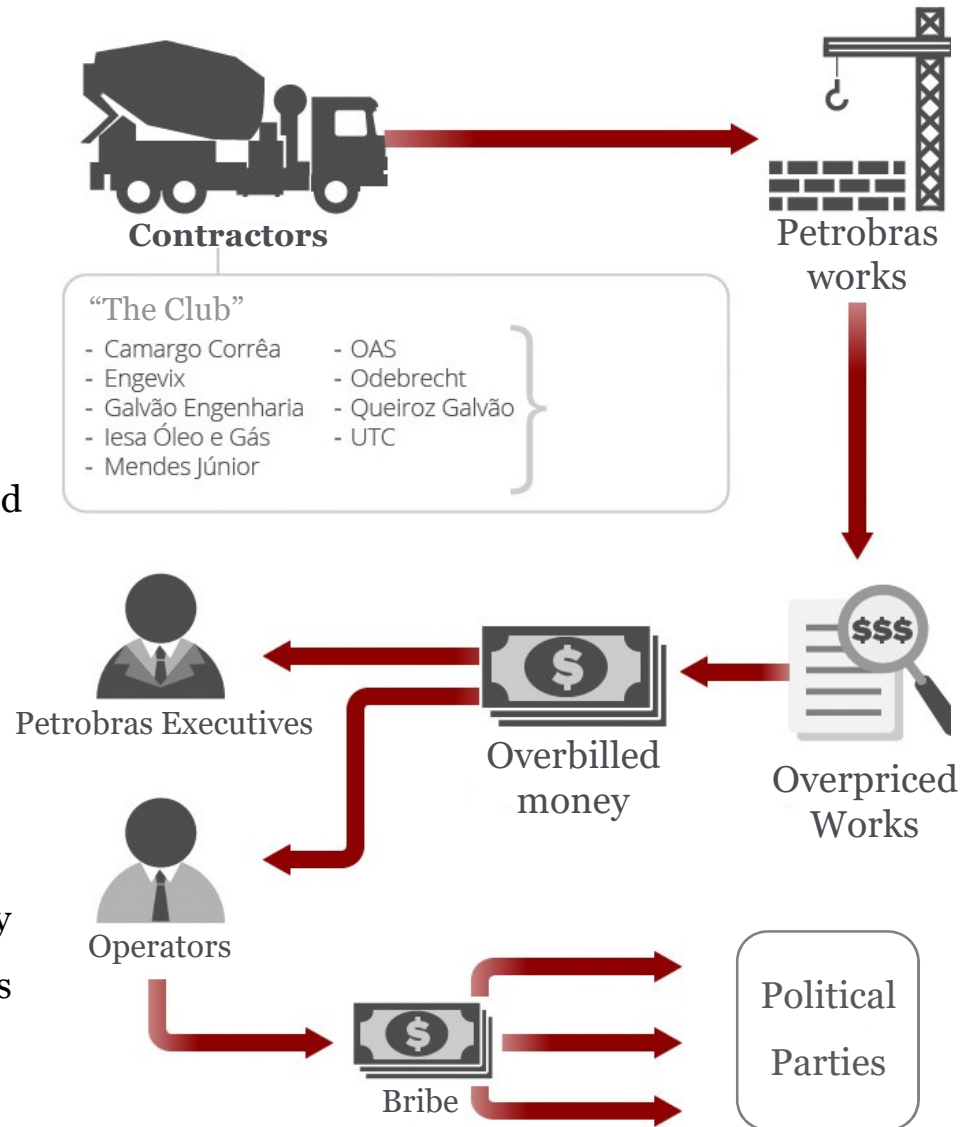
MPF – the “4th” power

- MPF: Federal Prosecutors;
- Independent entity responsible for supervising all the 3 Powers;
- Federal Police are under Executive Power;
- MPF interacts with:
 - Internal Revenue Service (IRS)
 - CADE (Administrative & Economic Defense Council)
 - TCU (Federal Accounts Court)
 - Judiciary Branch under Federal Court

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Lava Jato Operation Scheme:

- 1 Organized in cartels, the contractors imposed excessive pricing to many of Petrobrás Bids.
- 2 Part of the overbilled money was distributed among Petrobrás executives and scheme operators.
- 3 The scheme operators passed the overbilled money on to the political parties. The money supposedly financed the electoral campaigns



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Brazil after Lava Jato:

BRAZIL

- The people's perspective regarding impunity and corruption is changing. They are proud of the work being done and don't want it to stop.
- Integrated Brazil with more than 33 countries in International Cooperation Agreements.
- Anti-Corruption law is being used to punish companies that have committed the crime of corruption.
- Politicians, Entrepreneurs and influential businessmen are being investigated and arrested.
- Clear and effective initiatives to implement compliance in most companies.

SURETY MARKET

- Contractors have restricted access to Surety Capacity
- Banks are reducing their exposure on companies related to Lava a Jato.
- Tendency to sell non-core investments:
 - Change of control
 - New opportunities with new groups (Chinese - "primary sector" assets)
 - Increase of Private Equity Investment Funds in infrastructure projects
- Government auctions – increased "acceptance" of international competitors

BRAZIL

- Investigations spilled over into others sectors:
 - Food (Carne Fraca)
 - Pension Plan
 - Public Education
 - Public Health
 - Others

Colombia

- Recent investigations of local contractors involved in joint ventures with Lava a Jato participants
- Impact unknown at this point, but...

Peru

- Government begins investigations of construction companies
- December 2017, Government accuses various contractors of illegally awarded projects associated with a Lava Jato participant
- Payments delayed on contracts
- Lenders have become more hesitant to extend credit
- On the positive side, the Government is looking to reach settlements to ensure the continued execution of contracts

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Lava Jato Results

- 1,765 judicial proceedings
- 103 preventive imprisonments
- 118 temporary imprisonments
- 6 arrests in action
- 395 requests of international cooperation
- 155 plea bargain agreements
- 11 leniency agreements
- 1 conduct adjustment term
- 73 criminal charges where 40 were convicted
- 1 convicted sentence
- 8 accusations of administrative misconduct against 50 people, 16 companies, and 1 political party
- R\$ 38.1 billion repatriation request



THANK YOU!

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