

(A free translation of the original in Portuguese)

**Banco de Desenvolvimento de  
Minas Gerais S.A. - BDMG**  
Management Report and  
Financial Statements at  
December 31, 2008 and 2007  
and Report of Independent Auditors

(A free translation of the original in Portuguese)

## **BANCO DE DESENVOLVIMENTO DE MINAS GERAIS S.A. - BDMG**

### **MANAGEMENT REPORT**

**2008**

#### **1. INTRODUCTION**

Created by the State Law No. 2067 of January 5, 1962, the Banco de Desenvolvimento de Minas Gerais S.A. - BDMG is a financial institution that operates regionally, whose mission is to be an innovating bank, a partner of the client in financial solutions for enterprises committed to the generation of opportunities and the sustainable development of Minas Gerais.

Because of a wide product portfolio, the Bank supports business activities in various segments and also the municipal public administrations. Its operations range from large enterprises, which form the structure of the economic base, to microcompanies and small enterprises, either urban or rural, benefiting industrial, agricultural and agro-industrial initiatives, commercial activities and those of service provision, urban development and infrastructure, in all regions of the State of Minas Gerais. At the end of 2008, BDMG had recorded active loan agreements in 638 municipalities within the State, representing 75% of all the municipalities of Minas Gerais State and concentrating approximately 94% of the population and 97% of the State's GDP.

The Bank realizes this work with its own resources, with onlendings and managed funds. Among the resources from managed funds, it is necessary to highlight the state development funds and public funds intended for supporting the production activities, whose financial agent is BDMG.

#### **2. ECONOMIC ENVIRONMENT**

The world economy has been passing through a period of great uncertainties, marked by the aggravation of the crisis in the main financial markets, by the weak economic performance of the developed countries and by the substantial decrease in the prices of commodities. The crisis, which initially increased the banking risks, tends to increase the corporate risk, due to the impact of the retraction of credits on the solvency of companies. Currently, four of the largest five world economies, i.e. the USA, the Euro Region, the United Kingdom and Japan present an accentuated economic slowdown and the estimates for 2009 show that they will present a negative growth.

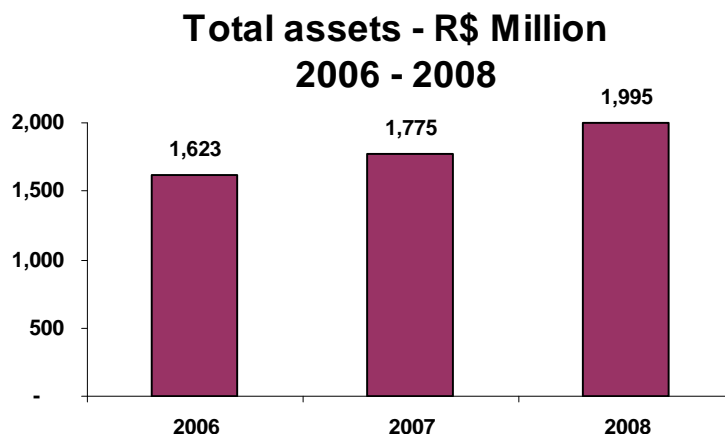
Brazil presents more solid macroeconomic foundations than it had when similar events occurred in prior years, but, nevertheless, it is already being affected by the adverse scenario of the world economy, in the same manner as the other emerging countries. Despite the strong growth in the third quarter, the Brazilian economy already shows signs of economic slowdown and cooling of inflationary pressures.

Minas Gerais presented a favorable economic performance in the first three quarters of 2008, with an accumulated growth of 8.3% in comparison to the same period in 2007. This result is 2.1 percentage points higher than the Brazilian GDP growth, which attained 6.8% in the same period. Additionally, there was a significant increase in the exports in 2008, which advanced 33.2% compared to the prior year. Despite the positive numbers, the scenario of economic cooldown in the world and in Brazil is expected to cause a decrease in the pace of the economic growth of Minas Gerais State, which is already observed through the decrease in industry's physical production since August. In addition, considering the unfavorable forecasts for 2009 in relation to the prices of mineral and agricultural commodities, besides the difficult situation existing in the automotive industry worldwide, the sectors which strongly influence the State exports, it is possible that there will be a decrease in the exports of Minas Gerais State in 2009, which would negatively affect the State economy.

With the objective of creating adequate conditions for private investments in the State, the Government of Minas Gerais has been effecting important investments in infrastructure, education, environment and support to innovative activity projects in recent years. In addition, focused on the current economic environment of a retraction in the granting of credits, the Government announced a set of measures to support the production sector in Minas Gerais, among which are the amplification of financing limits in lines operated by BDMG. In conformity with the Government strategies, BDMG should offer adequate financial solutions to the needs of the state production sector to contribute to the increase in the competitiveness of the companies of Minas Gerais and to the sustainable development of the State.

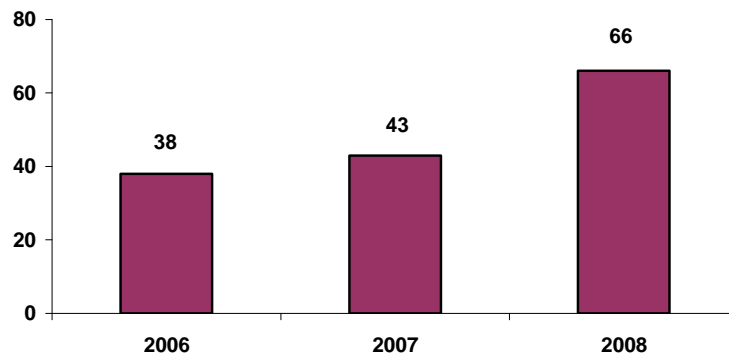
### 3. FINANCIAL AND ECONOMIC RESULTS

The Total Assets of BDMG increased by 12% in relation to December 2007, from R\$ 1,775 million at December 31, 2007 to R\$ 1,995 million at December 31, 2008.



As regards the net income, there was a 53% increase in comparison to the year 2007. In 2008, the Bank's positive results totaled R\$ 66 million.

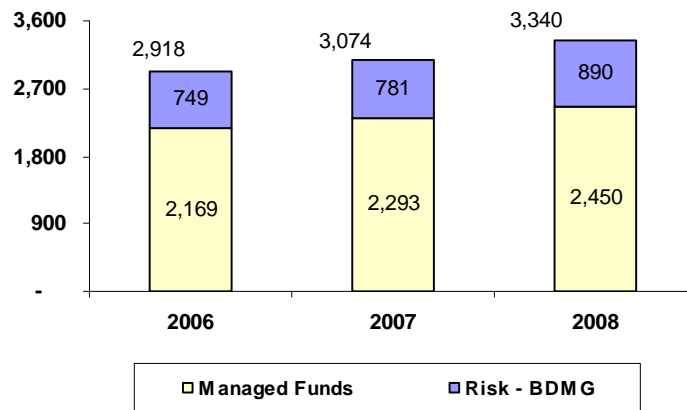
### Evolution of Net Income - R\$ Millions 2006 - 2008



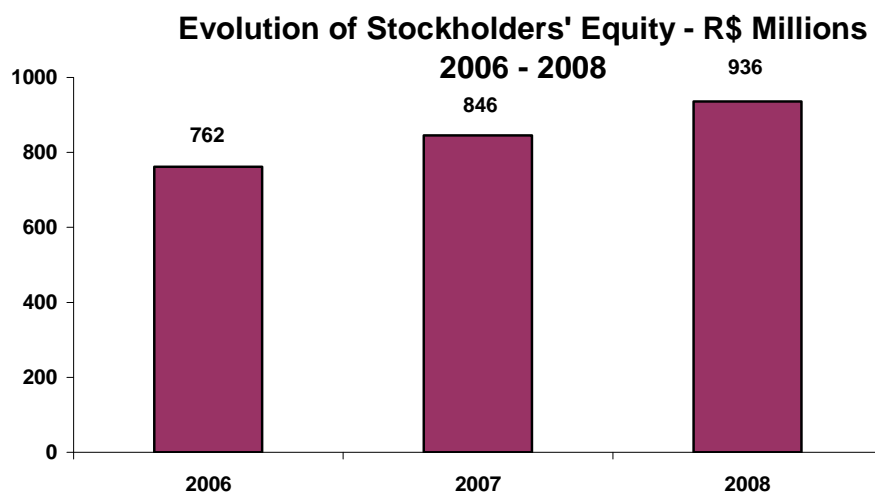
The balance of credit and equivalent operations attained the total of R\$ 890 million at 12.31.2008, which represents an increase of 14% compared to the balance of R\$ 781 million at 12.31.2007. Reflecting the management guidelines in the search for quality in the credit portfolio, the operations classified as AA, A and B represented 88% of the total portfolio.

Financing granted by BDMG with resources of the managed funds (third-party risks) totaled R\$ 2,450 million at 12.31.2008, of which R\$ 2,373 million referred to operations contracted with resources of state funds, R\$ 75 million to operations contracted with resources of state funds extinguished by the State Law 13848/2001 and R\$ 2 million to financing effected with resources from private funds and/or funds linked to state and federal public entities.

### Balance of Total Financing - R\$ Millions 2006 - 2008



The stockholders' equity of BDMG amounted to R\$ 936 million at 12.31.2008, representing a growth of 11% in relation to the equity at 12.31.2007 (R\$ 846 million) and 23% in comparison to 12.31.2006 (R\$ 760 million).



The ratio of capital adequacy (Basel Index) calculated at 12.31.2008 was 46%, far superior to the minimum of 11% required by the Brazilian Central Bank. The stockholders' equity required for BDMG, calculated based on its equity structure and on the risk weight of its assets, is R\$ 217 million. The portion of equity exceeding the minimum required, in the amount of R\$ 733 million, represents a great leverage potential of the assets and enables BDMG to contract new operations, which could permit an even more outstanding performance in the future development of the State.

In conformity with the Brazilian Central Bank Circular 3068/2001, the Banco de Desenvolvimento de Minas Gerais S.A. - BDMG declares that it has the financial capacity and intention to maintain to maturity the securities classified as such, in the amount of R\$ 50 million.

#### **4. OPERATING PERFORMANCE**

The release of resources grew by 6% in 2008 as compared to 2007, exceeding R\$ 765 million. Concerning the origin of resources, the highlight was the growth by 122% in the release of own resources, which evolved from R\$ 16 million in 2007 to R\$ 36 million in 2008.

3,857 credit operations were realized, serving 3,046 clients in 434 municipalities of the State. According to the estimates, the projects supported throughout the year enabled the creation of some 17,500 new employment opportunities across the State. Furthermore, new jobs were generated as a result of the loans granted to the credit cooperatives through programs of support to the small rural producers and of micro credits, as well as the jobs resulting from loans granted to the municipalities for the institutional modernization and the development of the urban infrastructure.

The Bank amplified by 16% the amount released to private companies of all sizes. Meriting emphasis is that BDMG's operation has presented significant advances in the segment of medium-sized companies, with releases amounting to R\$ 138.5 million during the year, which represented an expansion of 45.5% in relation to 2007. Medium-sized companies are extremely important for the economy of Minas Gerais, and the Bank was restructured to better serve them, with a department dedicated exclusively to that segment.

BDMG is present in various sectors of the State economy. For the industrial ventures, which comprise the mineral extraction industry and the transformation industry, amounts totaling R\$ 492.8 million were released, which represented 64.4% of the total release and a growth of 14.5% in relation to 2007. These resources principally supported projects in the steel, sugar cane and alcohol, wood manufacturing, food and beverages, non-metallic mineral products, and paper, automotive (including auto parts) and textile industries.

The tertiary sector received financing of R\$ 230.8 million, with emphasis on the retail, sanitation and urban development and transport service segments.

For agriculture, cattle raising and forestry, BDMG provided financing of R\$ 41.8 million in 2008. In this segment, the highlight is cattle raising, and specifically for the pig farming sector R\$ 18.1 million was released.

#### **4.1. Outstanding Actions**

##### *Social inclusion*

In its capacity as a development bank, BDMG regards social inclusion as one of its principal pillars of operation. In 2008, there was a substantial increase in the loans granted for enterprises in deprived regions of the State. The release of resources destined for the group of regions classified as low-dynamism areas, including the Northern region of Minas Gerais, Jequitinhonha/Mucuri, Rio Doce and certain municipalities of the Central Region, attained R\$ 72.0 million during the year, 65.3% higher than the amounts released during the same period of 2007. Among the ten planning regions of the State, the Northern area of Minas Gerais was the region obtaining, as compared to the prior year, the largest growth in releases, from R\$ 11.4 million in 2007 to R\$ 40.5 million in 2008.

Another highlight was that the Bank's operations significantly increased in the micro credit area, a segment that generates opportunities and presents a great potential to improve the living conditions of the less privileged part of the population. Through CREDPOP, a program of the State Government to support the micro credit segment, the Bank finances, with its own resources, entities that transfer this money to the final borrowers who, in general, are informal entrepreneurs and, therefore, with no access to the conventional private bank market. In 2008, the amount released was R\$ 12.9 million. Currently, the Bank has agreements signed with 14 credit cooperatives, operating in 85 municipalities of Minas Gerais, most of which are located in low-dynamism regions of the State.

In 2008, the financing released to owners of micro and small-sized companies served 2,668 clients, including small rural producers, in the amount of R\$ 136.0 million. These operations corresponded to 17.8% of the total release and 87.6% of the number of clients served by the

Bank during the period. In this business segment, the highlights were the financings to commercial ventures, which were mainly served with resources of the Fundese/Geraminas State Fund. Since the program "BDMG Geraminas" entered into operation, in 1998, it approved R\$ 704 million in financing and contributed to the generation or maintenance of more than 200 thousand jobs in Minas Gerais. As from 2008, all the micro and small-sized companies and cooperatives of Minas Gerais State, including those of the service sector, which opted for the National SIMPLES tax regime (Integrated System for the Payment of Taxes and Contributions of Micro Companies and Small-Sized Businesses), may request the financing that they could not obtain in the past. Considered as an example of success in its operations with Geraminas, the Bank has been invited to participate in events on this subject, such as the recent event "Innovación y Tecnologías Financieras para la Financiación de las Micro y Pequeñas Empresas (MyPE's) de América Latina", which took place in Santo Domingo, Dominican Republic, last November, sponsored by the Latin American Association of Financial Institutions for Development (ALIDE).

Even when the effects of the international crisis reduced the availability of credits in the commercial banking sector, either by closing the portfolios or by increasing the requirements in the financing analysis, BDMG maintained its products for micro and small-sized companies unchanged in relation to charges and terms, as opposed to the vast majority of financial institutions operating with this segment. Accordingly, the demand for its financings grew by 36.3% between October and November, in comparison with the previous month, September. Besides this, in order to facilitate the access to credit and reduce the response period to the client, the Bank carried out actions, throughout the entire year, such as the continuous investment in internet-based tools for the financing requests, the development and implementation of the "credit scoring" methodology for analyzing the financing requests, and the strengthening of its partnership network in the interior of the State. The results were not only the increase in the previously mentioned volume of releases, but also the reduction by 22% in the average response time to the client.

Consistent with the strategy of supporting the initiatives that promote social inclusion, BDMG, together with the Inter-American Development Bank (IDB), conducted the seminar "Opportunities for the Majority", in December, with the objective of presenting to the Brazilian entrepreneurs this innovative program of the IDB, which allocates a credit line of US\$ 250 million per year to finance innovative business projects, which use the market mechanisms to promote inclusion and whose beneficiaries belong to the low-income population of Latin America. The event, which was attended by several specialists, gave the participants the opportunity to know about various Latin-American enterprises which are bringing benefits to the low-income sectors of the population and which are providing effective answers to important production segments.

### Financing to municipalities

R\$ 30.2 million was released to the municipalities of the State in 2008, to be invested in municipal infra-structure, such as basic sanitation, environmental projects, public engineering works, mechanized patrol, cultural production and administrative-institutional strengthening, so as to ensure the administrative modernization of the Municipal Governments. The Bank's performance in granting financing to the municipalities could have been much more significant if the resources of the program NOVO SOMMA had not been subject to restrictions on the granting of credits to the public sector, in accordance with Resolution No. 2827/01 of the National Monetary Council (CMN).

At the end of 2008, BDMG was accredited to operate two new financing lines for municipalities. The line "BDMG - Acquisition of Government Credits" is intended for the definitive acquisition of the future flow of credit rights of the municipalities of Minas Gerais, resulting from the financial compensation for the use of water resources and for the exploitation of mineral resources. The main advantage of this line is that it is not subject to the credit restrictions, thereby constituting an alternative for the municipal governments to obtain resources. An agreement was also formalized between BDMG and the National Bank for Economic and Social Development (BNDES) that allows the Bank to be the agent of the financing line for the modernization of tax administration and for management of basic social sectors (PMAT) of BNDES. This line supports several initiatives of the municipalities concerning administrative modernization, such as the purchase of software, qualification of personnel, etc.

### BDMG in the Capital Markets

Taking advantage of its recognized excellence in the rendering of services, BDMG approved a Policy for Investing in Funds for acquiring Ownership Interest in, and in Mutual Funds of Investment in, Emerging Companies. This policy permits the Bank to hold investments in these types of funds, thus enhancing the participation of BDMG in promoting the increase in the competitiveness of the Minas Gerais companies. This program will permit the establishment of joint projects with the Financing Agency for Studies and Projects (FINEP) and with BNDES, in order to obtain funds for Minas Gerais.

In May 2008, the Bank successfully completed the structuring of an operation for the secondary offer of the shares of Copasa, owned by the Municipality of Belo Horizonte and the Companhia de Desenvolvimento Econômico de Minas Gerais - Codemig (The Economic Development Company of Minas Gerais). The operation, carried out together with Banco do Brasil Banco de Investimento - BBBI and Citigroup Global Markets Brasil, Corretora de Câmbio, Títulos e Valores Mobiliários S.A. - CITI, distributed, in Brazil and abroad, 18.7 million shares of Copasa, attaining a value of approximately R\$ 460 million.

### Technology and Innovation

In the field of technology and innovation, in addition to the financial support to technology-based ventures, BDMG participates in various initiatives to stimulate innovation in the companies of Minas Gerais. The Bank is present in various forums and technology and innovation committees, such as the Technological Complex of the city of Belo Horizonte (BHTec) and the Innovation Network of Minas Gerais (RMI), which articulates the incubators of technology-based companies in the State of Minas Gerais, and the State of Minas Gerais Innovation System (SIMI).

The Bank also operates in the "Zero Interest Rate for Innovation" Program, of FINEP, in partnership with the Federation of Industries of the State of Minas Gerais (FIEMG) and the Brazilian Support Service for Small Business (SEBRAE). The program aims to stimulate the innovative capability of the Brazilian micro and small-sized companies in the commercial aspects and those related to processes or products/services, by granting them long-term financing and zero interest rates.

In addition, in 2008, BDMG realized the first operation of a new program of BNDES, "Prosoft - Program for the Development of the Industry of Software and IT Services", which finances the acquisition of software and related services developed in Brazil.

### Management of the State's assets

Managing the State's assets, remaining from operations of privatized banks (CREDIREAL and BEMGE), BDMG recovered R\$ 22 million in 2008 and, from this amount, R\$ 9.8 million returned to injections of Capital of the Bank. This activity is extremely important, because it retrieves for the equity of the State the public resources from clients in default with those State banks during a long period of time.

## **5. INSTITUTIONAL ACTIONS**

### **5.1. Environment**

BDMG and the Inter-American Development Bank (IDB) signed a technical cooperation agreement in September 2008, for the investment of funds amounting to US\$ 200 thousand in the Program of Identification of Projects for the Sustainable Development of Minas Gerais State. The objective of this Program is to identify projects in the areas of energy efficiency, renewable energy, biofuels and carbon market for future support in feasibility and implementation studies. Of the total resources, US\$ 160 thousand will be financed, on a non-reimbursable basis, by the Sustainable Energy and Climatic Change Fund (SECCI) of IDB, and US\$ 40 thousand will be provided by BDMG.

Another important initiative in this area was the formalization, also in September 2008, of an agreement with BNDES which will permit BDMG to onlend resources from the Line of Support to Projects of Energy Efficiency (PROESCO). The beneficiaries of this credit line of BNDES are energy conservation service companies (ESCO's), the end users of energy and generation, transmission and distribution of energy companies.

Also in the area of sustainable development, BDMG financed environmental institutions, municipalities and public entities, which obtained non-reimbursable resources from the State Program FHIDRO, in the amount of R\$ 3.0 million, with the objective of promoting the rational use and the preservation of the water resources of Minas Gerais. We can mention, as examples, projects for the recovery of sources of water and water currents (protection and maintenance of springs), reforestation of hill tops, environmental education and preparation of a water resource master plan.

## **5.2. Institute of Integrated Development of Minas Gerais - INDI**

Created in 1968, with the objective of enlarging and consolidating the manufacturing facilities of Minas Gerais, INDI is maintained by BDMG together with Companhia Energética de Minas Gerais (Cemig). Through INDI, and with the active participation of BDMG, the State Government and private entrepreneurs formalized 38 letters of intent in 2008, committing themselves to invest R\$ 9.9 billion in Minas Gerais, with the expectation of generating approximately 12,640 jobs in several economy sectors.

## **5.3. Facilitating the Entrepreneur's Access**

In line with the policy of the State Government to make the relationship between the public management entities and companies less complicated, BDMG seeks more and more to facilitate the access of the businessmen to the financial solutions that it offers. One measure adopted by the Bank was to make available on the internet a service channel called "Preliminary Consultation". This service was utilized by seven thousand companies in 2008, and generated over R\$ 29 million for BDMG in new business opportunities, especially financing requests made by micro and small-sized companies.

In 2008, the Bank strengthened its partnerships with trade associations and cooperatives by means of training courses, lectures and participation in trade fairs of different sectors. At present, BDMG is supported by 216 establishments based in the regional offices of these associations across the State. During the past year, these establishments were responsible for more than one thousand new financing operations, which represented a volume of releases of approximately R\$ 91 million in resources for private investments. 75% of this amount was allocated to micro and small-sized companies.

Besides this, also supported by its business partners, BDMG strengthened its presence in the interior of the State and generated business in 21 municipalities where it still did not have clients. In another front, it reinforced its actions in regions with a low human development index (IDH), by visiting companies and accountants of various municipalities, thus providing ample disclosure about the financial products that it offers.

## **5.4. Spreading the Knowledge**

BDMG actively participates in the debate for creating a new model of development by realizing important events that help spread ideas and information, and stimulate the reflection on contemporary themes.

In order to encourage the debate on the new directions of economy, the Bank held important events on this subject, in 2008, such as the lectures given by the vice-president and chief economist of the World Bank, Justin Yifu Lin, about the impact of the financial crisis on the developing countries, and by the president of the Brazilian Securities Commission, Maria Helena Fernandes de Santana, presenting the perspectives of the capital market in Brazil and in Minas Gerais State.

BDMG also works on initiatives to support the research and knowledge. The Bank publishes the half-yearly magazine "*Cadernos BDMG*", containing discussions on various subjects relating to the economic and social development. Also, in association with the Regional Economic Council of Minas Gerais (Corecon/MG) and with the Association of Economists of Minas Gerais (ASSEMG), BDMG promotes the "*Prêmio Minas de Economia*" (Minas Gerais Economy Prize), which covers monographs by undergraduate students from the Economy colleges headquartered Minas Gerais. In 2008, this award commemorated its twentieth edition and had the special participation of the economist Paulo Vieira da Cunha, visiting professor of the University of Columbia and former director of International Affairs of the Central Bank, who gave a lecture titled *Crisis: The global outlook and US monetary policy*.

## **6. OPERATING EFFICIENCY**

### **6.1. Personnel Management**

Focused on the objectives of the Strategic Plan for 2008-2011, during 2008, a set of actions was developed during 2008, aiming to renew the managerial staff and improve the organizational structure. These actions were made viable by means of the realization of internal selective processes (PSI) and programs of quality of life in the workplace and integration between areas. Simultaneously, the evaluation tools were improved, thus enabling the follow-up and management of the organizational culture, so as to align the behaviors with the values and strategy of the Institution to achieve the desired results.

The Bank also sponsors the BDMG Social Security Foundation (DESBAN), which, besides the pension plan, administers the Health Assistance Program (Pro-Saúde), in the self-management modality, which represents an important instrument of personnel policy.

### **6.2. Risk Management**

Concerning the Risk Management at BDMG in 2008, it is necessary to highlight the improvement of the credit risk measurement methodology, with the modeling and implementation, in a totally automated system, of the rating of small and medium-sized companies.

Giving continuity to the implementation of the terms of the Basel II Accord and in compliance with Resolution No. 3464/07 of the National Monetary Council (CMN), the Policy for the Management of Market Risks was approved and implemented, defining activities, responsibilities, methodologies and systems which constitute the procedures and tools to identify, evaluate, monitor and mitigate this type of risk.

The Supervisory Board and the Board of Directors are firmly committed to the Risk Management of BDMG, which is evidenced by the establishment of policies and limits of exposure and concentration of risks.

The Risk Management structure of BDMG is identified in the site [www.bdmg.mg.gov.br](http://www.bdmg.mg.gov.br).

### **6.3. New Organizational Structure**

The principal phases of implementation of the new organizational structure of BDMG were concluded in 2008. This new structure, together with the work developed in the ambit of the strategic projects of the Bank (Immediate Agenda, Corporate Governance, People Management, Strategic Marketing and Integrated Management), aims at generating operating efficiency gains to increase the contribution of BDMG to the economic and social development of Minas Gerais.

### **6.4. New Credit Policy**

Also with the objective of attaining a new operating level and incorporating precepts of Corporate Governance in its routine, the new Credit Policy of BDMG was established. Among the initiatives are the creation of the Credit Committee and the definition of new financing approval limits. The measures taken in the ambit of the new Policy aim at ensuring the utilization of financial resources in a parsimonious manner and with elevated standards of transparency and security, in addition to making the internal processes more agile, simplified and facilitate the relationship with the client, thereby contributing to increase the Bank's competitiveness.

### **6.5. Amplification of credit to Minas Gerais companies and easier access to financings**

In August 2008, two new products were offered by the Bank aiming to better meet the needs of the businessmen of Minas Gerais: the "BDMG-Giro Fácil" and the "BDMG-Fixo Fácil". The BDMG-Giro Fácil is intended for the financing of working capital of companies of any size and sector of economic activity, and the BDMG-Fixo Fácil is intended for the financing of fixed investment, intangibles and also working capital associated with the investment.

In addition, BDMG launched two emergency products, both within the ambit of Fundese, to serve the micro, small and medium-sized companies and cooperatives, impacted by the effects of nature. The regulations of "Fundese Solidário" were published in February 2008, with the objective of serving companies located in municipalities affected by prolonged drought. The "Solidário IV", however, aims to support companies located in municipalities affected by the rains and floods which occurred in the State at the end of the year, and it will be applied throughout 2009.

The Bank also strengthened the program with credit cooperatives linked to Sicoob Central Crediminas and Sicoob Central Cecemge. As a result, there will be a higher offer of credit for micro-enterprises and small rural producers, and the maximum limit per cooperative will be increased from R\$ 2 million to R\$ 4 million.

The Bank seeks to extend its activity in the financing of import and export operations of Minas Gerais' companies. In December 2008, it executed an agreement with Export Development Canada (EDC) to make available a credit line of US\$ 25 million, in order to promote the competitiveness of these companies through the financing of the import of equipment and related services from Canada and also for fixed investments and working capital related to the project. In addition, BDMG and Eximbank, from the USA, are concluding the negotiations to make available a guarantee line in the amount of US\$ 20 million. The objective is to stimulate the competitiveness of Minas Gerais companies, by using Eximbank's guarantee to enable the financing of import of equipment and services from that country. Furthermore, at the end of the last year, BDMG was authorized by the Brazilian Central Bank to operate in the Foreign Exchange Market, and it is making structural adjustments to carry out this type of operation.

In addition to those initiatives, a set of measures recently announced by the Government of Minas Gerais will permit the amplification of financing limits in lines operated by BDMG. Among these measures, another R\$ 20 million was allocated to Fundese in order to increase the offer of credits to micro, small and medium-sized companies. Besides this, a decision was made to alter the maximum amount for the financing of working capital through the "Competitiveness Program for Minas Gerais' Companies", within the ambit of Fundese, thereby doubling the amount currently conceded by the Bank in this respect. Also "BDMG-Giro Fácil" was altered with the creation of a new type at floating rates, which increases the term and the maximum amount of each operation.

Also focusing on the maintenance of the investment level of Minas Gerais companies, "BDMG Equipment" was created, with the Bank's own resources, equalized by a State fund, intended for the acquisition of new machinery and equipment and of imported products without similar national items, with a final cost equivalent to the long-term interest rate (TJLP) + 3%.

The easy access to credit for micro, small and medium-sized companies, through parameterized and more agile operations, via business partners (Sicoob Central Crediminas, Sicoob Central Cecremge, FDCL, Fecomércio, Fecon, Federaminas, Fiemg and Sebrae-MG) and via Internet, covering only the companies with annual billings of up to R\$ 2.4 million, is being extended to companies with an annual billing of up to R\$ 10.5 million, which will take effect during the first half of 2009.

## **7. SOCIAL RESPONSIBILITY**

### **7.1. Voluntary Actions - INDEC**

BDMG's Employees Citizenship Institute (INDEC), maintained through donations from the Bank and monthly contributions from its employees, commemorated 10 years since its foundation in 2008. The entity supports, technically and financially, the needy communities of Minas Gerais. Amongst the projects, the Pão Forte Educativo ("Educational Strong Bread") project should be highlighted, the aim of which is to fight child malnutrition, which, in 2008, benefited approximately 2,400 children in 23 entities located in 13 municipalities of Minas Gerais. To accompany the project efficiency, the assisted children have their nutritional state periodically monitored with the objective of guaranteeing favorable conditions for learning and permanence in formal schools.

In addition, in connection with an agreement executed between INDEC and the Organization for Voluntary Service of Social Assistance (SERVAS), in December 2008, INDEC started distributing VitaVida products to 10 charities of six different cities of the State, to help maintain their activities. "VitaVida" is a program of SERVAS which processes the surplus of the agricultural production, dehydrating and packing these foods for subsequent distribution.

## **7.2. Arts and culture - Cultural Institute BDMG**

2008 was the year of the twentieth anniversary of BDMG Cultural. Among the commemorations, the following merit highlighting: production and launching of the CD "Coral BDMG na Estrada Real", with a selection of songs of the colonial period of Minas Gerais; production of the show "Bossa Nossa" in honor of the 50<sup>th</sup> anniversary of "Bossa Nova" music and of the composers of Minas Gerais; promotion of the works presented at the Institute's Gallery, whose curator in charge was Flávio Vignolli, about the history of BDMG Cultural for the last 20 years; and publication of the book "Luís de Melo Alvarenga: História da Santa Casa da Misericórdia de São João Del-Rei (1783-1983)" about the history of this Public Hospital, which work was organized by André G.D. Dangelo and Aluizio J. Viegas.

Always working to value the art and culture of Minas Gerais, the Cultural Institute BDMG ("Instituto BDMG Cultural") promoted, in 2008, actions in several fronts, with emphasis on the promotion of 83 events in eight municipalities, with the direct participation of 1,180 artists for an estimated audience of over 17,000 persons. The initiatives which should be highlighted are the selection of young instrumentalists and presentations by the musicians selected in the 8th edition of the "BDMG Instrumental Award"; recitals of classical music with musicians selected in the "Young Musician Program" (Jovem Músico BDMG), which commemorated its 9 years of uninterrupted performances in 2008; two events of the "Viva a Praça - Cantoras Daqui" ("Long Live the Public Square - Singers from here) Project; five arts exhibits and three presentations of the "Quatro Cantos Coral na Praça" ("Four Corners Choral at the Public Square") program.

Finally, in 2008, the 10<sup>th</sup> anniversary of the social responsibility program "Raio de Luz" was commemorated. This program helps more than 200 children residing in deprived areas of Belo Horizonte city every year. In the ambit of this program, using budgeted resources, the Institute carried out four workshops (Choral Music, Wooden Handicraft, Music and Children's Songs), and also promoted fund raising through Lei Rouanet (Rouanet Law) to carry out a Theater Workshop.

## **8. Acknowledgments**

BDMG is grateful for the support of the State Government and the Legislative Assembly in taking forward matters of interest of the society of Minas Gerais, which involved BDMG in its mission as the agent of government action.

The Management.

Belo Horizonte, February 13, 2009

(A free translation of the original in Portuguese)

## **Report of Independent Auditors**

To the Board of Directors and Stockholders  
Banco de Desenvolvimento de  
Minas Gerais S.A. - BDMG

- 1 We have audited the accompanying balance sheets of Banco de Desenvolvimento de Minas Gerais S.A. - BDMG as of December 31, 2008 and 2007, and the related statements of income, of changes in stockholders' equity and of cash flows for the years then ended and for the six-months ended December 31, 2008. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements.
- 2 We conducted our audits in accordance with approved Brazilian auditing standards, which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audit, taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the Bank, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting practices used and significant estimates made by management, as well as evaluating the overall financial statement presentation.
- 3 In our opinion, the financial statements audited by us present fairly, in all material respects, the financial position of Banco de Desenvolvimento de Minas Gerais S.A. - BDMG at December 31, 2008 and 2007, and the results of its operations, the changes in stockholders' equity and the cash flows for the years then ended and for the six-month period ended December 31, 2008, in accordance with accounting practices adopted in Brazil.

- 4 As mentioned in Note 2 (n), in connection with the changes in the accounting practices adopted in Brazil during 2008, the financial statements for the previous year, presented for comparison purposes, have been restated on the same accounting bases adopted in 2008, as set forth in Accounting Standards and Procedures - NPC No. 12 - Accounting Practices, Changes in Accounting Estimates and Correction of Errors.

Belo Horizonte, February 13, 2009

PricewaterhouseCoopers  
Auditores Independentes  
CRC 2SP000160/O-5 "F" MG

Aníbal Manoel Gonçalves de Oliveira  
Contador CRC 1RJ056588/O "S" MG

**BANCO DE DESENVOLVIMENTO DE MINAS GERAIS S.A. - BDMG**

**Balance Sheets at December 31**

**In thousands of reais**

(A free translation of the original in Portuguese)

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>	912.504	911.878
<b>CASH AND BANKS</b>	786	159
<b>SHORT-TERM INTERBANK INVESTMENTS (Note 3 )</b>	643.329	610.671
Open market investments	398.323	355.912
Interbank deposits	245.006	254.759
<b>SECURITIES (Note 4)</b>	53.621	22.392
Own portfolio	53.621	22.392
<b>CREDIT OPERATIONS (Note 5)</b>	158.902	125.770
Credit operations		
Public sector	43.159	35.470
Private sector	126.896	104.348
(Allowance for loan losses)	(11.153)	(14.048)
<b>OTHER RECEIVABLES (Note 6)</b>	55.762	152.790
Income receivable	1.597	2.480
Sundry	54.172	150.361
(Provision for losses on other receivables)	(7)	(51)
<b>OTHER ASSETS</b>	104	96
Other assets	104	96
<b>NON-CURRENT ASSETS</b>	1.082.043	862.729
<b>LONG-TERM RECEIVABLES</b>	1.056.941	836.908
<b>INTERBANK INVESTMENTS</b>		
Interbank investments	17.893	17.893
(Provision for losses)	(17.893)	(17.893)
<b>SECURITIES (Note 4)</b>	202.555	190.354
Own portfolio	183.364	166.804
Deposits with the Brazilian Central Bank	19.191	23.550
<b>CREDIT OPERATIONS (Note 5)</b>	634.445	563.749
Credit operations		
Public sector	139.695	147.450
Private sector	578.873	492.239
(Allowance for loan losses)	(84.123)	(75.940)
<b>OTHER RECEIVABLES (Note 6)</b>	219.833	82.651
Income receivable	2.395	3.086
Specific credits	994	916
Sundry	226.767	88.329
(Provision for losses on other receivables)	(10.323)	(9.680)
<b>OTHER ASSETS</b>	108	154
Other assets	1.837	2.083
(Provisions for loss)	(1.729)	(1.929)
<b>PERMANENT ASSETS</b>	25.102	25.821
<b>INVESTMENTS</b>	48	49
Other investments	1.324	1.595
(Provision for losses)	(1.276)	(1.546)
<b>PROPERTY AND EQUIPMENT IN USE (Note 7)</b>	23.965	25.080
Properties in use	36.619	35.882
Other property and equipment in use	8.847	13.292
(Accumulated depreciation)	(21.501)	(24.094)
<b>INTANGIBLES (note 7)</b>	64	-
Intangible assets	65	-
(Accumulated amortization)	(1)	-
<b>DEFERRED CHARGES (Note 7)</b>	1.025	692
Organization and expansion costs	3.190	4.352
(Accumulated amortization)	(2.165)	(3.660)
<b>TOTAL ASSETS</b>	<b>1.994.547</b>	<b>1.774.607</b>

**BANCO DE DESENVOLVIMENTO DE MINAS GERAIS S.A. - BDMG**

**Balance Sheets at December 31**  
**In thousands of reais**

**(continued)**

	<b>2008</b>	<b>2007</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>	<b>229.285</b>	<b>282.373</b>
<b>LOCAL ONLENDINGS - OFFICIAL INSTITUTIONS (Note 8)</b>	<b>132.852</b>	<b>123.174</b>
National Treasury	1.657	3.500
National Bank for Economic and Social Development (BNDES)	89.354	90.700
Federal Savings and Loans Bank (CEF)	4.736	5.870
Government Agency for Machinery and Equipment Financing (FINAME)	32.896	18.771
Other Institutions	4.209	4.333
<b>OTHER LIABILITIES (Note 9)</b>	<b>96.433</b>	<b>159.199</b>
Social and statutory	17.784	
Collection of taxes and other contributions	131	-
Tax and social security contributions	52.277	136.014
Financial and development funds	886	861
Sundry	25.355	22.324
<b>NON-CURRENT LIABILITIES</b>	<b>827.082</b>	<b>645.665</b>
<b>LONG-TERM LIABILITIES</b>	<b>827.082</b>	<b>645.665</b>
<b>LOCAL ONLENDINGS - OFFICIAL INSTITUTIONS (Note 8)</b>	<b>509.389</b>	<b>458.152</b>
National Treasury	15.201	16.507
BNDES	349.204	312.956
CEF	1.380	5.998
FINAME	96.486	74.071
Other Institutions	47.118	48.620
<b>OTHER LIABILITIES (Note 9)</b>	<b>317.693</b>	<b>187.513</b>
Tax and social security contributions	218.139	91.383
Financial and development funds	28.060	32.507
Sundry	71.494	63.623
<b>DEFERRED INCOME</b>	<b>2.143</b>	<b>303</b>
Deferred income	2.143	303
<b>STOCKHOLDERS' EQUITY (Note 10)</b>	<b>936.037</b>	<b>846.266</b>
Capital		
Capital - local residents	856.345	792.378
Capital increase	53.048	23.542
Revenue reserves	29.676	10.362
Asset valuation adjustment	(3.032)	(3.030)
Retained earnings	-	23.014
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>1.994.547</b>	<b>1.774.607</b>

The accompanying notes are an integral part of these financial statements.

**BANCO DE DESENVOLVIMENTO DE MINAS GERAIS S.A. - BDMG**

**Statements of Income**

**Six-month period/Years ended December 31**

**In thousands of reais, except net income per share**

(A free translation of the original in Portuguese)

	Second six-month period	Years	
	2008	2008	2007 Reclassified (note 2)
<b>INCOME FROM FINANCIAL INTERMEDIATION</b>	<b>137.898</b>	<b>258.733</b>	<b>202.474</b>
Credit operations	65.917	141.747	115.512
Securities	71.981	116.986	86.962
<b>EXPENSES ON FINANCIAL INTERMEDIATION</b>	<b>(46.719)</b>	<b>(86.414)</b>	<b>(61.586)</b>
Borrowings and onlendings	(34.746)	(58.106)	(46.413)
Allowance for loan losses	(11.973)	(28.308)	(15.173)
<b>GROSS PROFIT FROM FINANCIAL INTERMEDIATION</b>	<b>91.179</b>	<b>172.319</b>	<b>140.888</b>
<b>OTHER OPERATING INCOME (EXPENSES)</b>	<b>(47.736)</b>	<b>(95.101)</b>	<b>(82.568)</b>
Revenues from services rendered	19.336	40.228	44.400
Personnel expenses	(36.155)	(67.689)	(65.085)
Other administrative expenses	(11.501)	(21.013)	(15.246)
Tax expenses (Note 13 (a))	(6.723)	(13.116)	(22.114)
Other operating income (Note 13 (b))	3.271	7.061	23.210
Other operating expenses (Note 13 (c))	(15.964)	(40.572)	(47.733)
<b>OPERATING PROFIT</b>	<b>43.443</b>	<b>77.218</b>	<b>58.320</b>
<b>NON-OPERATING RESULTS</b>	<b>(1.195)</b>	<b>(1.462)</b>	<b>2.294</b>
<b>PROFIT BEFORE TAXATION AND PROFIT SHARING</b>	<b>42.248</b>	<b>75.756</b>	<b>60.614</b>
<b>INCOME TAX AND SOCIAL CONTRIBUTION</b>	<b>(4.865)</b>	<b>(5.320)</b>	<b>(15.112)</b>
Provision for income tax (note 12 (b))	(7.526)	(17.890)	(11.294)
Provision for social contribution (note 12 (b))	(5.094)	(9.882)	(4.473)
Deferred tax asset	7.755	22.452	655
<b>STATUTORY PROFIT SHARING</b>	<b>(2.585)</b>	<b>(4.159)</b>	<b>(2.469)</b>
- Employees' profit sharing	(2.585)	(4.159)	(2.469)
<b>NET INCOME FOR THE SIX-MONTH PERIOD/YEAR</b>	<b>34.798</b>	<b>66.277</b>	<b>43.033</b>
<b>NET INCOME PER SHARE</b>	<b>0,0007669</b>	<b>0,0014607</b>	<b>0,0009484</b>

The accompanying notes are an integral part of these financial statements.

**BANCO DE DESENVOLVIMENTO DE MINAS GERAIS S.A. - BDMG**

**Statements of Changes in Stockholders' Equity  
In thousands of reais, unless otherwise indicated**

(A free translation of the original in Portuguese)

	Capital	Capital increase	Revenue reserve - Legal	Revenue reserve - Other	Asset valuation adjustment	Retained earnings	Total
<b>Balances at December 31, 2006</b>	692.733	25.160	8.211		(2.301)	36.108	759.911
Approval of capital increase		(25.160)				(36.108)	61.919
Capital increase	74.485	23.542			(729)		(729)
Asset valuation adjustment						43.033	43.033
Net income for the Year						(2.151)	(2.151)
Appropriations:							
Reserves			2.151				
Interest on own capital (note 10) (R\$ 0,00039 per share)						(17.868)	(17.868)
<b>Balances at December 31, 2007</b>	792.378	23.542	10.362		(3.030)	23.014	846.266
Capital increase		93.473				(23.014)	70.459
Approval of capital increase		(63.967)			(2)		(2)
Asset valuation adjustment	63.967					66.277	66.277
Net income for the year						(19.314)	(19.314)
Appropriations:							
Reserves			3.314	16.000		(17.784)	(17.784)
Dividends proposed (R\$ 0,00039 per share)						(29.179)	(29.179)
Interest on own capital (note 10) (R\$ 0,00064 per share)							
<b>Balances at December 31, 2008</b>	856.345	53.048	13.676	16.000	(3.032)		936.037
<b>Balances at June 30, 2008</b>	815.920	40.425	11.936		(2.986)	29.905	895.200
Capital increase		53.048					53.048
Approval of capital increase		(40.425)			(46)		(46)
Asset valuation adjustment	40.425					34.798	34.798
Net income for the six-month period						(17.740)	(17.740)
Appropriations:							
Reserves			1.740	16.000		(17.784)	(17.784)
Dividends proposed (R\$ 0,00039 per share)						(29.179)	(29.179)
Interest on own capital (note 10) (R\$ 0,00064 per share)							
<b>Balances at December 31, 2008</b>	856.345	53.048	13.676	16.000	(3.032)		936.037

The accompanying notes are an integral part of these financial statements.

BANCO DE DESENVOLVIMENTO DE MINAS GERAIS S.A. - BDMG

Statements of Cash Flows

Six-month period/Years ended December 31

In thousands of reais

(A free translation of the original in Portuguese)

	Second six-month period	Years	
	2008	2008	2007
<b><u>Cash flow from operating activities</u></b>			
<b>Net income</b>			
Depreciation and Amortization	1.208	2.402	2.449
Constitution and write-off of tax credits	(7.755)	(22.451)	(655)
Constitution and reversal of provisions and contingent liabilities, net	11.202	24.059	25.420
Constitution and reversal of allowance for loan losses, net	11.978	28.301	15.163
Constitution and reversal of provision for losses, net	284	452	(2.045)
Income from the sale of assets not for own use	(526)	(1.714)	(1.957)
Appropriation of deferred income	(1.155)	(2.314)	(1.333)
Result of foreign exchange variations on long-term securities	(16.089)	(13.342)	6.238
Recovery of credit operations written-off as losses	(1.047)	(11.020)	(6.625)
Income from monetary restatement of long-term credit operations	(3.895)	(9.532)	(6.939)
<b>Adjusted net income</b>	<b>29.003</b>	<b>61.118</b>	<b>72.749</b>
<b>Changes in assets and liabilities</b>			
Interbank investments	(73.900)	(100.324)	(165.172)
Securities	(36.615)	(30.088)	101.356
Credit operations	(69.638)	(112.253)	(58.848)
Other credits and other assets	(5.058)	(21.949)	(15.056)
Borrowings and onlendings	30.662	60.916	26.102
Deferred income	2.541	4.154	1.279
Other liabilities	13.443	25.631	13.352
<b>Changes in assets and liabilities</b>	<b>(138.565)</b>	<b>(173.913)</b>	<b>(96.987)</b>
<b>Net cash used in operating activities</b>	<b>(109.562)</b>	<b>(112.795)</b>	<b>(24.238)</b>
<b><u>Cash flow from investment activities</u></b>			
Acquisition of property and equipment	(1.007)	(1.594)	(2.781)
Sale of assets not for own use	906	6.069	6.720
<b>Net cash provided by (used in) investment activities</b>	<b>(102)</b>	<b>4.475</b>	<b>3.939</b>
<b><u>Cash flow from financing activities</u></b>			
Capital increase	53.048	70.459	61.919
Interest on own capital	(29.179)	#REF!	(17.868)
<b>Net cash provided by financing activities</b>	<b>23.869</b>	<b>#REF!</b>	<b>44.051</b>
<b>Increase (decrease) net of cash and cash equivalents</b>	<b>(85.795)</b>	<b>(67.040)</b>	<b>23.752</b>
Cash and cash equivalents at the beginning of the year	171.710	152.955	129.203
Cash and cash equivalents at the end of the year	<b>85.915</b>	<b>85.915</b>	<b>152.955</b>

The accompanying notes are an integral part of these financial statements.

(A free translation of the original in Portuguese)

## **Banco de Desenvolvimento de Minas Gerais S.A. - BDMG**

### **Notes to the Financial Statements at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

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#### **1 Operations**

Banco de Desenvolvimento de Minas Gerais S.A. - BDMG is a private limited liability company, controlled by the State of Minas Gerais, and is subject to the rules and regulations of Brazilian Corporation Law, the National Financial System and the applicable legislation of the Government of the State of Minas Gerais.

The objectives of the activities of BDMG are the economic and social development of the State of Minas Gerais. In this context, BDMG carries out development bank activities in accordance with the National Monetary Council (CMN) rules, and acts as a financial agent for the funds allocated by the State Government to finance programs and projects for the development of Minas Gerais. BDMG is also the financial agent and/or manager of other funds which do not pertain to the State Government, which finance projects in the State of Minas Gerais and, therefore, promote its development. The Bank also renders advisory and technical support services to the direct and indirect State Government administration, and important in this activity is the management of the assets received by the Minas Gerais State Government as a result of the privatization of the state banks Credireal and BEMGE.

At December 31, 2008, the financing granted by BDMG totaled R\$ 3,340,354 (2007 - R\$ 3,074,067), of which R\$ 889,756 (2007 - R\$ 780,805) was through own funds and/or onlendings received from other financial institutions and R\$ 2,450,598 (2007 - R\$ 2,293,262) (unaudited) through loans made from managed funds, of which R\$ 2,373,303 (2007 - R\$ 2,202,597) (unaudited) through resources from state funds, R\$ 75,579 (2007 - R\$ 88,426) (unaudited) relating to the remaining balances of loans granted with resources from state funds extinguished by State Law 13848/2001 and R\$ 1,716 (2007 - R\$ 2,239) (unaudited) of loans granted from resources of private funds and funds linked to other government agencies.

#### **2 Financial Statement Presentation and Significant Accounting Practices**

Following the recommendation of the Executive Board dated February 10, 2009, the Board of Directors of Banco de Desenvolvimento de Minas Gerais S.A. - BMDG approved these financial statements on February 12, 2009.

## **Banco de Desenvolvimento de Minas Gerais S.A. - BDMG**

### **Notes to the Financial Statements at December 31, 2008 and 2007**

**All amounts in thousands of reais unless otherwise indicated**

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The recording of the operations and the preparation of the financial statements are based on the provisions of Brazilian Corporation Law, considering the amendments introduced by Law No. 11638/07 and by Provisional Measure No. 449/08, adopted for the first time in the year 2008 (Note 2(n)), associated with the regulations and instructions of the National Monetary Council (CMN) and the Brazilian Central Bank (BACEN).

In 2008, the income from the management of funds started being recorded as "Revenues from services rendered". The balance of 2007 referring to this income, in the amount of R\$ 35,553, classified as "Other operating income", was reclassified to "Revenues from Services Rendered" for comparison purposes.

The accounting practices adopted by BDMG are as follows:

#### **(a) Determination of the results of operations**

The results of operations are determined on the accrual basis of accounting and are adjusted by income tax and social contribution on net income due on taxable income, and, when applicable, by deferred income tax and social contribution that will be recoverable or payable in future years, except in respect of the gains on renegotiated credit operations which are recorded on the cash basis, as determined by CMN/BACEN Resolution No. 2682/99.

#### **(b) Cash and cash equivalents**

Cash and cash equivalents are represented by cash and banks in local currency, investments in the open market and investments in interbank deposits, whose operations, at the effective date of investment, have maturity dates within less than 30 days and present insignificant risk of change in fair value.

#### **(c) Interbank investments**

Interbank investments are stated at cost plus accrued earnings on a "pro rata" basis, adjusted to market values when applicable.

#### **(d) Securities**

In accordance with BACEN Circular No. 3068/01 and complementary regulations, securities are classified in three specific categories based on management's intention of negotiation, in accordance with the following accounting criteria:

## **Banco de Desenvolvimento de Minas Gerais S.A. - BDMG**

### **Notes to the Financial Statements at December 31, 2008 and 2007**

**All amounts in thousands of reais unless otherwise indicated**

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- (i) Trading securities - securities purchased in order to be frequently and actively traded, which are recorded at market value and the realized and unrealized gains and losses are recognized in the statement of income.
- (ii) Securities available for sale - securities to be used as part of the strategy to manage cash flows, which are recorded at market value, the accrued earnings (securities curve) being recognized in the statement of income, and the unrealized gains and losses arising from market value variations, net of tax effects, recognized in a specific account in stockholders' equity, "Asset Valuation Adjustment".

Gains and losses, when realized, are recognized, net of tax effects, in the statement of income after being specifically identified at the trading date, with a corresponding entry to a specific account in stockholders' equity.

- (iii) Securities held to maturity - securities that management intends and has the financial capacity to hold to maturity, which are recorded at cost of purchase, plus accrued earnings. Financial capacity is defined according to cash flow projections, without considering the possibility of the early redemption of these securities.

The declines in the market value of securities available for sale and held to maturity below their respective cost, for reasons considered to be other than temporary, are reflected in the results of operations as realized losses.

#### **(e) Other current assets and long-term receivables**

These assets are stated at realizable values including, when applicable, accrued income calculated on a daily "pro rata" basis, net of the corresponding unearned income. The allowance for loan losses is recorded based on criteria defined by BACEN Resolution No. 2682/99, and on management's analysis of outstanding operations, taking into consideration the value of guarantees, past loss experience and the portfolio risks.

#### **(f) Permanent assets**

In conformity with the amendments of Law No. 11638/2007 and CMN/BACEN Resolution No. 3642/2008, the group Permanent Assets was increased, in 2008, by the subgroup Intangibles.

Permanent assets are recorded at acquisition cost and, in the case of the subgroup property and equipment in use, the monetary restatement up to 1995 is also included.

## **Banco de Desenvolvimento de Minas Gerais S.A. - BDMG**

### **Notes to the Financial Statements at December 31, 2008 and 2007**

**All amounts in thousands of reais unless otherwise indicated**

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The depreciation of property and equipment in use, the amortization of deferred charges and the amortization of intangibles are calculated on the straight-line method, at the annual rates mentioned, respectively, in items (a), (b) and (c) of Note 7.

#### **(g) Current and long-term liabilities**

These liabilities are stated at known or estimated amounts including, when applicable, accrued charges calculated on a daily "pro rata" basis.

#### **(h) Transactions in foreign currency**

The criterion for the translation of asset and liability balances arising from transactions in foreign currencies consists of translating these amounts into local currency (R\$) at the exchange rate ruling at the year-end closing. At December 31, 2008, the U.S. dollar exchange rate was: US\$1.00 = R\$ 2,3370 (2007 - US\$ 1.00 = R\$ 1,7713).

#### **(i) Income tax and social contribution**

The provision for income tax is recorded at 15% of taxable income, plus an additional surcharge of 10%. The provision for social contribution on net income which was recorded at 9% until April 2008 was altered to 15% as from May 2008, due to the enactment of Law 11727/2008.

The tax effects resulting from the changes in the accounting records, in connection with Law No. 11638/2007, will be considered by BDMG in the two-year period 2008/2009, as permitted by the Transition Tax Regime (RTT) established by Provisional Measure No. 449, dated December 2008. There were no adjustments that could have an effect on the calculation of the taxable income for 2008.

#### **(j) Employee benefits**

The Bank sponsors pension and health plans, which supplement the retirement income of participating employees and the coverage of medical and dental expenses of active and assisted participants and their dependents. It also sponsors life insurance for participants who have an interest in this type of benefit. The Bank fully adopts the guidelines prescribed by Accounting Standards and Procedures (NPC) 26 of the Institute of Independent Auditors of Brazil (IBRACON) to account for the pension, health and life insurance plans it sponsors, as mentioned in Note 18(c).

## **Banco de Desenvolvimento de Minas Gerais S.A. - BDMG**

### **Notes to the Financial Statements at December 31, 2008 and 2007**

**All amounts in thousands of reais unless otherwise indicated**

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#### **(l) Contingent assets and liabilities**

The criteria defined in Accounting Standards and Procedures (NPC) 22 of IBRACON are adopted for the measurement and accounting recognition of binding obligations and of assets and liabilities arising from the contingencies mentioned in Notes 9(a) and 9(c).

#### **(m) Employees' profit sharing**

The profit sharing is defined in a collective agreement and calculated based on a percentage on the result for the year. As from January 2008, a provision is being recorded based on the monthly profit.

#### **(n) Changes introduced by Law 11638/07**

The initial adoption of this Law did not cause significant impacts on the financial statements of the Bank, except for the fact that the statement of cash flows has been presented in replacement of the statement of changes in financial position, taking into consideration the fact that the main changes resulting from the new law, affecting the Bank's operations, were already being adopted by the Bank, based on the already existing accounting standards of BACEN.

The new law also introduced the concept of adjustment to present value for long-term asset and liability operations and for significant short-term ones. However, the operations carried out by the Bank were not adjusted, since they were already being presented at the representative amounts at the time when they were realized. This is because (i) the fixed rate asset and liability operations are adjusted to present value by the existence of the accounts of unearned income and unexpired expenses, which adjust these operations to the amounts that would be obtained on realization as if they were cash transactions, and (ii) the credits and liabilities subject to floating rate variations, which are realized at cash value, have their respective amounts periodically restated at the rates of the operations.

As previously mentioned, the principal modification resulting from the changes in the accounting practices adopted in Brazil during 2008, which had an impact on the financial statements of the Bank, was the introduction of the statement of cash flows. The Bank's Management chose to present the financial statements for the previous year, for comparison purposes, based on the provisions of the new Law, as per Accounting Standards and Procedures - NPC No. 12- Accounting Practices, Changes in Accounting Estimates and Correction of Errors, thereby replacing the statement of changes in financial position with the statement of cash flows.

**Banco de Desenvolvimento de  
Minas Gerais S.A. - BDMG**

**Notes to the Financial Statements  
at December 31, 2008 and 2007**

All amounts in thousands of reais unless otherwise indicated

**3 Interbank Investments**

	<u>2008</u>	<u>2007</u>
Investments in purchase and sale commitments		
Funded position		
National Treasury Bills	175,459	152,796
Financial Treasury Bills	35,265	
National Treasury Notes	25,012	
Debentures	162,588	203,116
Interbank deposits	262,898	272,652
Provision for losses	(17,893)	(17,893)
<b>Total - Current</b>	<b><u>643,329</u></b>	<b><u>610,671</u></b>

**4 Securities**

**(a) Securities may be summarized as follows:**

	<u>2008</u>	<u>2007</u>
<b>Fixed income securities</b>		
Free:		
. Federal securities	233,607	173,065
. Bank Deposit Certificates (CDB)		13,222
. Debentures	3,378	2,909
Restricted:		
. Federal securities	19,191	23,550
<b>Total</b>	<b><u>256,176</u></b>	<b><u>212,746</u></b>
<b>Current</b>	<b><u>53,621</u></b>	<b><u>22,392</u></b>
<b>Long-term</b>	<b><u>202,555</u></b>	<b><u>190,354</u></b>

The restricted federal securities at December 31, 2008 and 2007 referred to the total blocked in favor of the Brazilian Central Bank, awaiting approval of the BDMG capital increase, as described in Note 10(a).

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**(b) Classification of securities**

**(i) Trading securities**

At December 31, 2007, BDMG had, in its portfolio, Bank Deposit Certificates (CDB) classified as "trading securities" with a market value of R\$ 13,222 which, in June 2008, were reclassified to the category of "securities available for sale", based on the understanding of the provisions of CMN Resolutions No. 3464/2007 and 3533/2008.

**(ii) Securities available for sale**

The securities classified as "available for sale" presented the following composition:

<u>Description</u>	<u>Quantity</u>	<u>Curve value</u>	<u>Market value</u>	<u>Appropriated losses</u>
Financial Treasury Bills	59,958	100,763	100,603	(160)
National Treasury Notes	60,000	104,343	102,368	(1,975)
Debentures	5,621	4,639	3,378	(1,261)
<b>Total at December 31, 2008</b>		<b>209,745</b>	<b>206,349</b>	<b>(3,396)</b>
<b>Total at December 31, 2007</b>		<b>166,366</b>	<b>163,375</b>	<b>(2,991)</b>

The federal securities were marked-to-market considering the quotations reported by the National Association of Institutions of the Financial Market (ANDIMA)

The market value of the bank deposit certificates, all of them post-fixed, coincides with the value of the paper curve.

The market value of the debentures was determined based on the discounted cash flows, considering the conditions of issue and maturity dates involved.

**(iii) Securities held to maturity**

These securities comprise 37,448 National Treasury Notes (NTN - A3), which amounted to R\$ 49,827 at December 31, 2008 (2007 - R\$ 36,149).

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In June 2005, the Bank reclassified these securities from "securities available for sale" to "securities held to maturity". The amount of R\$ 1,831, relating to the adjustment to market value of these securities, recorded in a stockholders' equity account, is being appropriated to the statement of income, as determined by BACEN Circular 3068/01. At December 31, 2008, the amortized amount of the adjustment to market value totaled R\$ 1,507.

The portfolio classification of "securities held to maturity" considered management's intention to hold them up to their maturities and the Bank's financial capacity supported by the projected cash flows.

**(c) The securities fall due as follows:**

	<u>Up to 30 days</u>	<u>From 31 to 60 days</u>	<u>From 61 to 90 days</u>	<u>From 91 to 180 days</u>	<u>From 181 to 360 days</u>	<u>After 360 days</u>	<u>Total</u>
Federal securities					52,777	200,022	252,798
Debentures					844	2,533	3,378
<b>Total 2008</b>					<b>53,621</b>	<b>202,555</b>	<b>256,176</b>
<b>Total 2007</b>	<b>7,875</b>	<b>8,519</b>	<b>1,379</b>	<b>4,134</b>	<b>485</b>	<b>190,354</b>	<b>212,746</b>

**(d) The amounts recorded as adjustments to market value of securities available for sale in a specific stockholders' equity account may be summarized as follows:**

	<u>Unrealized gains (losses)</u>	<u>Tax effects</u>	<u>Adjustment to market value</u>
<b>At December 31, 2007</b>	<b>(4,591)</b>	<b>1,561</b>	<b>(3,030)</b>
Adjustment recorded in the six-month period ended June 30, 2008	(232)	275	43
Adjustment recorded in the six-month period ended December 31, 2008	(80)	35	(45)
<b>Balance at December 31, 2008</b>	<b>(4,903)</b>	<b>1,871</b>	<b>(3,032)</b>

# Banco de Desenvolvimento de Minas Gerais S.A. - BDMG

## Notes to the Financial Statements at December 31, 2008 and 2007

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### 5 Credit Operations

The BDMG credit operations refer to development project loans and the conditions resulting from these projects, being recorded in the portfolio of the credit operations themselves and other similar credits.

At December 31, 2008, the loans granted by BDMG, amounting to R\$ 889,756 (2007 - R\$ 780,805), were made with own funds and/or onlendings of resources received from other financial institutions.

#### (a) Classification by product and sector of activity

	<u>2008</u>	<u>2007</u>
<b>Private sector</b>		
.Rural and agribusiness	239,214	227,382
.Industry	232,090	180,407
.Commerce	47,008	39,366
.Financial intermediaries	17,332	6,363
.Individuals	1,513	1,761
.Other services	164,742	136,849
.Export	3,869	4,459
<b>Public sector</b>		
.Direct state administration	2,917	5,788
.Direct and indirect municipal administration	179,938	177,132
<b>Other credits (considered as credit operations)</b>	1,133	1,298
<b>Subtotal</b>	<u><b>889,756</b></u>	<u><b>780,805</b></u>
<b>Allowance for loan losses</b>		
Credit operations	(95,276)	(89,988)
Other credits	(9)	(55)
<b>Allowance for loan losses</b>	<u>(95,285)</u>	<u>(90,043)</u>
<b>Total</b>	<u><b>794,471</b></u>	<u><b>690,762</b></u>
<b>Current</b>	<u>159,407</u>	<u>126,567</u>
<b>Long-term</b>	<u>635,064</u>	<u>564,195</u>

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**(b) Classification by maturity date and risk level**

Risk level	Overdue	Falling due per maturity dates (days)						2008	2007
		From 15 to 90	From 91 to 360	From 361 to 1080	From 1081 to 1800	From 1801 to 5400	Above 5400	Total	Total
		AA		21,620	65,308	162,957	77,200	139,382	547
A		9,631	24,433	58,102	35,727	54,082	4,974	186,949	121,932
B	1,015	3,435	20,954	48,266	31,403	26,889		131,962	91,389
C	42	1,939	5,489	10,811	4,401	1,182		23,864	30,486
D	63	1,088	2,980	5,897	3,996	4,245		18,269	3,320
E	87	351	1,420	3,589	2,692	3,189		11,328	14,234
F	115	501	1,727	4,088	2,917	1,402	197	10,947	7,663
G									188
H	1,225	2,073	5,071	8,306	5,355	16,038	1,355	39,423	42,820
	2,547	40,638	127,382	302,016	163,691	246,409	7,073	889,756	780,805

**(c) Classification by risk level and allowance**

The allowance for loan losses was recorded in accordance with CMN/BACEN Resolution No. 2682/99, mainly taking in consideration the followings aspects: (i) the nature of the operations and guarantees; (ii) overdue installments; and (iii) the past loss experience with debtors.

Level	%	Portfolio	2008				2007	
			Provision for credit risk based on minimum percentage required	Allowance for loan losses	Portfolio	Allowance for loan losses		
AA	0.0	467,014		42,193	468,773	36,219		
A	0.5	186,949	935	935	121,932	610		
B	1.0	131,962	1,320	1,320	91,389	914		
C	3.0	23,864	716	716	30,486	915		
D	10.0	18,269	1,827	1,827	3,320	332		
E	30.0	11,328	3,398	3,398	14,234	4,270		
F	50.0	10,947	5,473	5,473	7,663	3,831		
G	70.0				188	132		
H	100.0	39,423	39,423	39,423	42,820	42,820		
		889,756	53,092	95,285	780,805	90,043		

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Until November 2005, the credit operations relating to the Special Program of Assets Recovery - PESA (Rural Credit, under the terms of CMN/BACEN Resolution No. 2471/98) were classified in level H. As from that date, BDMG management reclassified them to level AA. This risk reclassification considered the characteristics of these transactions as regards the credit risk, mitigated through real guarantees represented by public securities. At December 31, 2008, the supplementary allowance for credit transactions, in the amount of R\$ 42,193 (2007 - R\$ 36,219), related to the PESA reclassified operations, and resulted from the difference between the reclassified credit transactions and the present value of the securities which guarantee these transactions.

#### (d) Changes in the allowance for loan losses

	2008		2007
	2 <sup>nd</sup> six-month period	year	
<b>Opening balance</b>	87,529	90,043	110,413
Constitution of allowance, net of reversals	11,973	28,308	15,174
Credits written-off as losses	(4,217)	(23,066)	(35,544)
<b>Closing balance</b>	<b>95,285</b>	<b>95,285</b>	<b>90,043</b>

In the year ended December 31, 2008, the amount of R\$ 16,422 (2007 - R\$ 12,149), related to credits previously written-off as losses was recovered, of which R\$ 10,517 (2007 - R\$ 7,045) arose from receipts and R\$ 5,905 (2007 - R\$ 5,104) from renegotiations. Allowances in the total amount of R\$ 4,122 were constituted during 2008 (2007 - R\$ 1,012).

#### 6 Other Receivables

	2008	2007
Tax credits	102,729	79,968
Debtors for guarantee deposits	163,998	142,297
Taxes to be offset	41	40
Sundry receivables - local	650	4,782
Notes and credits receivable	9,327	8,760
Income receivable	3,992	5,566
Other	5,188	3,759
<b>Subtotal</b>	<b>285,925</b>	<b>245,172</b>

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<b>Provision for losses on other receivables</b>	<u>(10,330)</u>	<u>(9,731)</u>
<b>Total</b>	<u><b>275,595</b></u>	<u><b>235,441</b></u>
<b>Current</b>	<u>55,762</u>	<u>152,790</u>
<b>Long-term</b>	<u><u>219,833</u></u>	<u><u>82,651</u></u>

- (a) The tax credits for income tax and social contribution on net income were constituted and recorded as described in Note 12(a).
- (b) The debtors for guarantee deposits mainly relate to legal questionings, especially those of a tax nature, as described in Note 9(a).
- (c) The notes and credits receivable relate to "del-credere" commissions receivable from rural credit transactions carried out with funds from the National Treasury Secretariat.
- (d) Income receivable mainly comprises "del-credere" commissions receivable (net of the related provision) from credit operations carried out with resources of the development funds managed by BDMG. The "del-credere" commissions fall due based on the maturity dates of the contracted installments, and a provision for loss is recorded based on the risk level of the operation which gave rise to the "del-credere" commission. This procedure results from the Bank's policy of applying the same criteria prescribed by CMN/BACEN Resolution No. 2682/99 for the own portfolio operations of BDMG to the operations financed by the managed funds.
- (e) The provision for losses on other receivables is mainly recorded to cover operations which are not equivalent to credit operations and comprises the amount of R\$ 9,327 (2007 - R\$ 8,760) related to "del-credere" commissions receivable and R\$ 994 (2007 - R\$ 916) to the equalization of interest rates of rural credit operations, both of which are to be settled by the National Treasury Secretariat (STN), which has not presented formal arguments regarding the amounts and dates of settlement of the liabilities. The recording of this provision is based on the uncertainty of realization of these credits.

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**7 Permanent Assets**

The group of Permanent Assets consists of Investments in the amount of R\$ 48 (2007 - R\$ 49) and the following subgroups:

**(a) Property and equipment**

	<u>2008</u>		<u>2007</u>		<u>Annual depreciation rates - %</u>
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>	<u>Net</u>	
Properties	36,619	(17,023)	19,596	20,051	4
Installations, furniture and equipment	5,090	(2,329)	2,761	3,139	10
Data processing system	2,943	(1,736)	1,207	1,215	20
Other	566	(413)	153	78	10
Construction in progress	248		248	597	
<b>Total</b>	<u>45,466</u>	<u>(21,501)</u>	<u>23,965</u>	<u>25,080</u>	

**(b) Intangibles**

	<u>2008</u>			<u>Annual depreciation rates - %</u>
	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>	
Costs with acquisition and development of software	65	(1)	64	20

In conformity with CMN/BACEN Resolution No. 3642/2008 and BACEN Circular Letter No. 3357/2008, BDMG started to record as from December 2008 as intangibles the assets without physical substance intended for the maintenance of the entity, which were previously recorded as deferred charges.

**(c) Deferred charges**

	<u>2008</u>		<u>2007</u>		<u>Annual amortization rate - %</u>
	<u>Cost</u>	<u>Accumulated amortization</u>	<u>Net</u>	<u>Net</u>	
Costs with acquisition and development of software	3,190	(2,165)	1,025	692	20

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#### 8 Local Onlendings - Official Institutions

These onlendings refer to financial resources obtained from official funds and programs which have been onlent to finance enterprises in the State of Minas Gerais. The principal and charges mature up to 2025, and the financial charges are established by the operational policies of each agency or fund which onlends the resources.

The balances may be summarized as follows:

	<u>2008</u>	<u>2007</u>
National Treasury	16,858	20,007
National Bank for Economic and Social Development (BNDES)	438,559	403,656
Government Agency for Machinery and Equipment Financing (FINAME)	129,382	92,842
Federal Savings and Loans Bank (CEF)	6,116	11,868
Bank of Northeast of Brazil (BNB)	51,130	52,327
Other	196	626
<b>Total</b>	<u>642,241</u>	<u>581,326</u>
<b>Current</b>	<u>132,852</u>	<u>123,174</u>
<b>Long-term</b>	<u>509,389</u>	<u>458,152</u>

The BNDES/FINAME System is the main source of funds for the onlendings of BDMG to its clients.

The resources from the National Bank for Economic and Social Development (BNDES) are substantially used for financing long-term investment projects, 60 months being the longest term that may be negotiated. At December 31, 2008, the credit lines with the most significant volumes of funds obtained for onlending were: BNDES Automático TJLP, totaling R\$ 174,005 (2007 - R\$ 154,264); BNDES FINEM TJLP, amounting to R\$ 54,664 (2007 - 40,832); and the credit line BNDES Automático Rural, in the amount of R\$ 78,719 (2007 - R\$ 69,699). The balance of R\$ 307,388 (2007 - R\$ 264,795) of these three credit lines represents 70% (2007 - 71%) of the amount financed by BNDES, and all of them are subject to financial charges related to the long-term interest rate (TJLP) plus a percentage varying from 1.4 to 1.8% p.a - according to the objective of financing, considering the financial intermediation fee of 0.5% p.a. included in that amount.

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The majority of the resources obtained by BDMG from FINAME - Agência Especial (FINAME - Special Agency) have been used for the financing of machinery and equipment associated with development projects. At December 31, 2008, the credit lines "FINAME - Máquinas e Equipamentos", in the amount of R\$ 81,294 (2007 - R\$ 59,068) and FINAME PROVIAS, in the amount of R\$ 26,089 (2007 - R\$ 31,942), together, corresponded to 83% (2007 - 98%) of BDMG's debit balance with FINAME. The financial charges on these credit lines consist of the long-term interest rate (TJLP) plus a percentage varying from 1.4 to 1.8% p.a - according to the objective of financing, considering the financial intermediation fee of 0.5% p.a. included in that amount.

In 2005, the Bank of Northeast of Brazil (BNB) onlent to BDMG resources deriving from two different sources and intended solely for investment in the area of operation of BNB. The funds onlent to BDMG were obtained from the Inter-American Development Bank (BID) and aimed to finance the Program of Market Expansion for Small and Medium-sized Companies of the Northeast of Brazil (PEM), and the resources from the Northeast Financing Constitutional Fund (FNE) were onlent to BDMG in order to finance productive enterprises of mini, small, medium-sized and large rural producers, industries, agro-industries (Individuals and Legal Entities), commercial, and services, and their Cooperatives and Associations. At December 31, 2008, the balance of FNE, totaling R\$ 41,488 (2007 - R\$ 44,054), corresponded to 81% (2007 - 84%) of the amount due by BDMG to BNB, and the financial charges on this financing corresponded to 9.9% p.a.

#### 9 Other Liabilities

	<u>2008</u>	<u>2007</u>
Collection of taxes	131	
Social and statutory	17,784	
Taxes and social security contributions	270,416	227,397
Funds for specific purposes	28,946	33,368
Sundry	<u>96,849</u>	<u>85,947</u>
<b>Total</b>	<u>414,126</u>	<u>346,712</u>
<b>Current</b>	<u>96,433</u>	<u>159,199</u>
<b>Long-term</b>	<u>317,693</u>	<u>187,513</u>

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**(a) Taxes and social security contributions**

	<u>2008</u>	<u>2007</u>
Provision for taxes and contributions	14,999	1,718
Taxes and contributions payable	2,886	2,842
Provision for deferred taxes and contributions	2,113	
Provision for tax risks	<u>250,418</u>	<u>222,837</u>
<b>Total</b>	<u>270,416</u>	<u>227,397</u>
<b>Current</b>	<u>52,277</u>	<u>136,014</u>
<b>Long-term</b>	<u>218,139</u>	<u>91,383</u>

Management reviews the contingencies and, based on the opinion of its legal advisors, evaluates the possibilities of losses, adjusting the provision for tax risks, as applicable. At December 31, 2008, the main liabilities arising from contingencies and binding obligations (which are being questioned by the Bank), recorded in the account "Provision for tax risks", related to litigation with the Brazilian Federal Revenue. As considered in the projection of results of BDMG, the expectation for the resolution of these measures covers a period of 10 years. The existing provisions are adjusted monthly by the Special System for Settlement and Custody (SELIC) Rate.

The changes in the provisions in the year were as follows:

	<u>Balance at 12/31/2007</u>	<u>Provision recorded</u>	<u>Restatement</u>	<u>Balance at 12/31/2008</u>
Offset of income tax and social contribution loss carryforwards	105,414		7,315	112,729
Change in the Social Contribution on Revenues (COFINS ) calculation basis-Law 9718/98	78,912	9,329	6,783	95,024
Increase in the Social Contribution (PIS/PASEP) tax rate introduced by Law 9718/98	22,954	1,514	1,784	26,252
Income Tax - Law 8200/91	3,929		151	4,080
Tax exemption for Social Security Fund (FINSOCIAL) from Sept 1986 to March 1990	3,645		170	3,815
Provision for legal fees	6,917		464	7,381
Other contingencies and legal obligations	<u>1,066</u>		<u>71</u>	<u>1,137</u>
<b>Total</b>	<u>222,837</u>	<u>10,843</u>	<u>16,738</u>	<u>250,418</u>

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Regarding the judicial deposits totaling R\$ 163,998 (2007 - R\$ 142,297), recorded by BDMG in the account "Other receivables - Debtors for Guarantee Deposits", the amount of R\$ 163,437 (2007 - R\$ 141,553) mainly relates to the tax litigation mentioned above, as follows:

	2008		2007	
	Provision	Deposits	Provision	Deposits
Offset of income tax and social contribution loss carryforwards	112,729	112,729	105,414	104,699
Change in the Social Contribution on Revenues (COFINS ) calculation basis- Law 9718/98	95,024	17,898	78,912	7,733
Increase in the Social Contribution PIS/PASEP) tax rate introduced by Law 9718/98	26,252	26,120	22,954	22,795
Income Tax - Law 8200/91	4,080		3,929	
Tax exemption for Social Security Fund (FINSOCIAL) from Sept 1986 to March 1990	3,815	3,815	3,645	3,645
Provision for legal fees	7,381		6,917	
Other contingencies and legal obligations	1,137	1,137	1,066	1,066
Administrative deposit - Public Service Employees Savings Program (PASEP)		1,738		1,615
<b>Total</b>	<b>250,418</b>	<b>163,437</b>	<b>222,837</b>	<b>141,553</b>

In 2006, the Bank was assessed by the National Institute of Social Security (INSS), in the amount of R\$ 14,052, related to events considered by this agency as subject to the social security contribution. Management and its legal advisors are currently questioning the assessment in the administrative sphere, and the legal advisors evaluated that an unfavorable outcome is considered to be remote. Consequently, no provision for contingencies has been recorded.

The Bank did not have other tax litigations at December 31, 2008, the unfavorable outcome of which was considered to be possible and not provided for.

#### (b) Funds for specific purposes

The amount of R\$ 28,946 (2007 - R\$ 33,368) mainly refers to resources received from clients in respect of funds managed by BDMG (private funds and funds from government agencies) and not yet transferred to the funds.

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**(c) Sundry liabilities**

	<u>2008</u>	<u>2007</u>
Provision for payments to be effected (i)	52,744	46,291
Provision for contingent liabilities (ii)	30,775	27,402
Sundry creditors - Local (iii)	8,794	7,077
BDMG Social Security Foundation (DESBAN) contribution (iv)	1,089	1,822
Contribution for capital increase (v)	<u>3,447</u>	<u>3,355</u>
<b>Total</b>	<u>96,849</u>	<u>85,947</u>
<b>Current</b>	<u>25,355</u>	<u>22,324</u>
<b>Long-term</b>	<u>71,494</u>	<u>63,623</u>

- (i) The provision for payments to be effected substantially refers to the actuarial liability of R\$ 38,109 (2007 - R\$ 34,245) relating to the "Program for Health Promotion" (Pró-Saúde), medical and dental care plan, and life insurance benefits, as described in Note 18 (c); the provision for vacation pay and related charges in the amount of R\$ 8,607 (2007 - R\$ 8,358), the provision for profit sharing (PLR), in the amount of R\$ 2,615 (2007 - R\$ 1,464); and the provision for compliance with the State Law No. 11050/1993 and the Articles of Incorporation of BDMG, in the amount of R\$ 3,314 (2007 - R\$ 2,152).
- (ii) The changes in 2008 in the provision for contingent liabilities in the amount of R\$ 30,775 (2007 - R\$ 27,402) were as follows:

	<u>Balance at 12/31/2007</u>	<u>Provisions recorded</u>	<u>Restatements</u>	<u>Reve rsals</u>	<u>Balance at 12/31/2008</u>
Charges on compulsory deposits with the Central Bank	16,117		2,011		18,128
Co-obligations assumed on credit operations with STN	6,472	225		(1,416)	5,281
Civil lawsuits	3,291	1,965		(83)	5,173
Labor lawsuits	<u>1,522</u>	<u>811</u>		<u>(140)</u>	<u>2,193</u>
	<u>27,402</u>	<u>3,001</u>	<u>2,011</u>	<u>(1,639)</u>	<u>30,775</u>

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The Bank recorded the amount of R\$ 561 (2007 - R\$ 727) as "Other receivables - Debtors for guarantee deposits", referring to deposits related to appeals filed in connection with the labor lawsuits.

The labor contingencies whose unfavorable outcome has been regarded as "possible", and for which no provisions were recorded, totaled, respectively, R\$ 170 (2007 - R\$ 210) and R\$ 272.

- (iii) The balances of "Sundry creditors - Local" mainly arose from clients' credits to be offset, in the amount of R\$ 3,954 (2007 - R\$ 4,170), from the amount of bonuses to be returned to the National Treasury Secretariat (STN) totaling R\$ 1,911 (2007 - 1,471), and restricted credits in the amount of R\$ 1,302, referring to the assignment of rights related to the rendering of services for the payment of salaries and earnings of BDMG employees agreed in September 2008.
- (iv) The "DESBAN contribution" balance refers to BDMG obligations for the prior service of Bank employees joining the BDMG Social Security Foundation (DESBAN), as mentioned in Note 18 (c). To comply with these obligations, the Bank paid R\$ 1,175 (2007 - R\$ 1,056) in 2008, and this amount included the charges for prior service, which is being paid in monthly installments up to March 2009.
- (v) The "Contribution for capital increase" balance refers to amounts received from clients financed by resources of the Program for Environment Sanitation, Organization and Modernization of Municipalities (SOMMA) and the Urban Development Fund (FUNDEURB), extinguished by State Law 13848 of April 19, 2001, and the percentage on returns of loans contracted with the State Fund for Socioeconomic Promotion and Development (FUNDESE), destined for investments in the Program for Popular Credit (CREDPOP), under the terms of State Law 13667/00, which will be utilized for future capital increases.

## **10 Stockholders' Equity**

### **(a) Capital**

Subscribed and paid-up capital amounts to R\$ 909,393 (2007 - R\$ 815,920), represented by 45,444,172,358 (2007 - 45,373,712,543) nominative common shares with no par value. The capital increases during the year totaled R\$ 93,473, including the amount of R\$ 53,048 related to capital increases approved in December 2008, which were validated by the Brazilian Central Bank in January 2009.

On April 17, 2008, the Ordinary General Meeting approved a capital increase in the amount of R\$ 23,014 through the appropriation of the total retained earnings recorded at December 31, 2007. This capital increase was validated by the Brazilian Central Bank on August 28, 2008.

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The Government of Minas Gerais paid-up, in cash, capital increases totaling, respectively, R\$ 17,411 and R\$ 18,798, using funds arising from (i) the returns of loans with the State Funds SOMMA and FUNDEURB; and (ii) the percentage on returns of loans with the State Fund FUNDESE. Authorized by the Board of Directors in meetings held on June 19, 2008 and December 10, 2008, the first increase was approved by the Brazilian Central Bank on August 20, 2008 and the second increase, on January 7, 2009.

At a meeting held on December 10, 2008, the Board of Directors also authorized the capital increase in the amount of R\$ 9,800 which was paid up by the Minas Gerais State Government using funds arising from the recovery of the assets of BEMGE and CREDIREAL. This capital increase was approved by the Brazilian Central Bank on January 7, 2009.

The capital increase of R\$ 24,450, approved by the Extraordinary General Meeting held on December 12, 2008, was subscribed by the Minas Gerais State Government, who paid it up with a credit arising from a part of the amount of interest on own capital computed for 2008. This capital increase was approved by the Brazilian Central Bank on January 8, 2009.

The Ordinary General Meeting held on April 26, 2007 approved a capital increase of R\$ 36,108 through the capitalization of the total retained earnings recorded at December 31, 2006. The Bank made another capital increase on June 13, 2007, in the amount of R\$ 23,378, through: (i) capital paid-up in cash by the Government of Minas Gerais arising from the returns of loans with the State Funds PROSAM, SOMMA and FUNDEURB; and (ii) the percentage on returns of loans with the State Fund FUNDESE. With the approval of the Extraordinary General Meeting of Stockholders held on November 27, 2007, the State of Minas Gerais subscribed a capital increase in the amount of R\$ 15,000, with the credit arising from part of the total interest on own capital computed for 2007. These capital increases were approved by the Brazilian Central Bank on June 5, July 4 and December 26, 2007, respectively.

On January 17, 2008, the Brazilian Central Bank approved the capital increase that the Board of Directors had authorized in their meeting of December 19, 2007, in the amount of R\$ 23,542, through: (i) capital paid-up in cash by the Government of Minas Gerais arising from the returns of loans with the State Funds PROSAM, SOMMA and FUNDEURB; and (ii) the percentage on returns of loans with the State Fund FUNDESE.

#### **(b) Revenue reserve - Legal**

Appropriations of 5% of net income are made annually to the legal reserve, limited to 20% of capital. At December 31, 2008, the reserve balance totaled R\$ 13,676 (2007 - R\$ 10,362).

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#### **(c) Retained Earnings/Special Revenue Reserve**

The positive results achieved by BDMG in 2008 totaled R\$ 66,277 (2007 - R\$ 43,033), of which R\$ 34,798 (2007 - R\$ 30,176) was generated in the second six-month period.

The balance of R\$ 33,784 (2007 - R\$ 23,014) remaining from the income for the year was transferred in December 2008, in conformity with Law No. 11638/2007 and CMN/BACEN Resolution No. 3605/2008, as proposed by the Board of Directors, from the account "retained earnings" to the following accounts: i) R\$ 16,000, destined for a future capital increase, to the account "special revenue reserve - other" and ii) R\$ 17,784, destined for a payment of dividends to the stockholders, to the account "dividends and stock bonuses payable".

#### **(d) Dividends and interest on own capital**

Stockholders are entitled to a minimum dividend of 1% of the net income for the year, adjusted in accordance with Brazilian Corporation Law and the Bank's by-laws.

The Bank's Management distributed, as approved at the Extraordinary General Meeting of December 12, 2008, the amount of R\$ 29,179 (2007 - R\$ 17,868) as Interest on Own Capital, considering in this amount the minimum mandatory dividend.

BDMG, in conformity with the legislation in force, recorded the amount of interest on own capital with a corresponding entry to "Financial expenses" and observed the limits stipulated by Law No. 9249/1995 and Normative Instruction No. 09/1997 of the Federal Revenue Secretariat for purposes of deductibility from the tax base of income tax and social contribution on net income. For purposes of presentation of the financial statements, the interest on own capital was reclassified to "Retained Earnings".

#### **11 Basel Index**

The new rules for measuring the regulatory capital through the Standardized Method of Basel II, effective as from July 2008, determine the requirement for the financial institutions to maintain net equity compatible with the risk level of their assets, according to exposure-weighting factors, risk mitigation factors, and factors of credit conversion, determined by CMN/BACEN Resolution No. 2099/94 and related amendments, to meet the limits required by the Basel Agreement. The minimum index required in Brazil is 11% of net equity in relation to the risk-weighted assets.

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**Statement of Capital Requirements and Basel Index**

	<u>2008</u>	<u>2007</u>
Adjusted net equity	953,821	846,266
Decrease in deferred charges	734	188
Decrease in losses on adjustments to market value classified in available for sale	1,656	1,217
<b>Reference Equity level I</b>	<b><u>951,431</u></b>	<b><u>844,861</u></b>
Addition of losses on adjustments to market value classified in available for sale	1,656	1,217
<b>Reference Equity level II</b>	<b><u>1,656</u></b>	<b><u>1,217</u></b>
<b>A - Reference Equity (level I + level II)</b>	<b><u>953,087</u></b>	<b><u>846,078</u></b>
Allocation of capital:		
1 - Credit risk	162,317	164,178
2 - Market risk	49,827	37,014
3 - Operating risk	4,583	-
<b>B - Required Reference Equity (1+2+3)</b>	<b><u>216,727</u></b>	<b><u>201,192</u></b>
<b>C - Allocation of capital to cover the risk of operations subject to the variation of interest rates not classified in the trading portfolio</b>	<b><u>3,090</u></b>	<b><u>-</u></b>
<b>D - Value of margin (A-B-C)</b>	<b><u>733,270</u></b>	<b><u>644,886</u></b>
<b>E - Total exposures subject to weighted risk</b>	<b><u>2,192,409</u></b>	<b><u>1,829,907</u></b>
<b>F - Total weighted risk exposures</b>	<b><u>2,092,271</u></b>	<b><u>1,492,526</u></b>
<b>G - Leverage capacity: ("D" x 100)/11</b>	<b><u>6,666,090</u></b>	<b><u>5,862,604</u></b>
<b>H - Coefficient of capital adequacy: "A" / "F"</b>	<b><u>45.55</u></b>	<b><u>46.26</u></b>

The Basel index for the year ended December 31, 2007 was calculated in conformity with CMN Resolution No. 2099/94 and complementary regulations and, therefore, did not cover the changes for standardization of Basel II, and has been presented to provide additional information to the readers.

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**12 Income Tax and Social Contribution**

**(a) Deferred income tax and social contribution**

The composition of deferred tax credits is as follows:

	<u>2008</u>	<u>2007</u>
Temporary additions	100,858	78,407
Adjustment to market value (securities)	<u>1,871</u>	<u>1,561</u>
Other credits - tax credits	<u>102,729</u>	<u>79,968</u>

The tax credits of BDMG recorded in conformity with CMN/BACEN Resolution No. 3355/2007 consider the expected realization within a maximum period of 10 years, assured by the positive tax results presented in the projection of results.

The table below presents the expected realization of the tax credits of R\$ 100,858 recorded at December 31, 2008, arising from temporary additions. The realization of these credits is mainly related to (i) the possibility of recording, as an effective loss, the expenses with allowances for loan losses, net of the reversal of the allowances or the recovery of the credits which originated them, which, from the nature of most operations carried out by the Bank, will occur in up to two years and (ii) the resolution of the contingencies in which BDMG is involved. In line with the guidelines of BACEN Circular No. 3171/02, the constitution of these assets considers their probable realization date based on projections of future results, prepared in accordance with internal assumptions and future economic scenarios, which, therefore, are subject to changes.

The probable recovery of the tax credits is as follows:

<u>Year</u>	<u>Nominal value</u>	<u>Present value</u>
2009	19,371	18,616
2010	10,905	9,734
2011	10,200	8,457
2012	38,412	29,582
2013	2,003	1,433
2014	8,776	5,831
2015	1,573	971
2016	1,941	1,112
2017	5,928	3,156
2018	<u>1,749</u>	<u>866</u>
<b>Total</b>	<u><b>100,858</b></u>	<u><b>79,758</b></u>

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The present value of the tax credits was obtained by discounting the future flow of recovery at the average rate of onlendings contracted by BDMG.

The changes in tax credits for the year ended December 31, 2008 were as follows:

	<u>Adjustment to market value</u>	<u>Temporary additions</u>	<u>Total</u>
<b>At December 31, 2007</b>	<b>1,561</b>	<b>78,407</b>	<b>79,968</b>
Constitution	341	38,364	38,705
Reversal	(31)	(15,913)	(15,944)
<b>At December 31, 2008</b>	<b><u>1,871</u></b>	<b><u>100,858</u></b>	<b><u>102,729</u></b>

In addition to the deferred tax asset mentioned above, the Bank also recorded in its tax books the amount of R\$ 33,100 (2007 - R\$ 25,063), resulting exclusively from temporary differences, which have not yet been recorded in the financial statements due to the fact that it does not comply with the recognition requirements prescribed by BACEN rules.

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**(b) Reconciliation of the income tax and social contribution recorded in the statement of income**

	<u>Second six-month period</u>		<u>2008</u>		<u>2007</u>	
	<u>Income tax</u>	<u>Social Contribution</u>	<u>Income tax</u>	<u>Social Contribution</u>	<u>Income tax</u>	<u>Social Contribution</u>
Profit before income tax and social contribution and after statutory profit sharing	39,663	39,663	71,597	71,597	58,145	58,145
Interest on own capital	(29,179)	(29,179)	(29,179)	(29,179)	(17,868)	(17,868)
Additions (deductions), net						
Provision for contingencies, net of reversals	5,680	5,680	10,947	10,947	12,056	12,056
Taxes whose payment was suspended	5,751	5,751	10,880	10,880	1,555	1,228
Constitution of allowance for loan losses and recovery of credits written-off as losses, net	11,549	11,549	15,328	15,328	10,703	10,703
Effective credit losses	(668)	(668)	(8,450)	(8,450)	(16,961)	(16,961)
Other	(971)	1,163	2,283	5,691	(1,077)	2,402
Calculation basis	<b>31,825</b>	<b>33,959</b>	<b>73,406</b>	<b>76,814</b>	<b>46,553</b>	<b>49,705</b>
Tax at the effective rate	(4,774)	(5,094)	(11,011)	(9,882)	(6,983)	(4,473)
Income tax at the additional rate	(3,171)		(7,317)		(4,631)	
Tax incentives	419		438		320	
Income tax (IRPJ) and social contribution (CSLL) payable	<b>(7,526)</b>	<b>(5,094)</b>	<b>(17,890)</b>	<b>(9,882)</b>	<b>(11,294)</b>	<b>(4,473)</b>
Constitution of deferred tax credits (net of reversals) on temporary differences	4,847	2,908	5,397	17,055	482	173
Income tax and social contribution recorded in the statement of income	<b>(2,679)</b>	<b>(2,186)</b>	<b>(12,493)</b>	<b>7,173</b>	<b>(10,812)</b>	<b>(4,300)</b>

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**13 Tax Expenses and Other Operating Income (Expenses)**

**(a) Tax expenses**

The tax expenses substantially refer to the Social Integration Program (PIS) and Social Contribution on Revenues (COFINS) charges, as follows:

	<b>2008</b>		<b>2007</b>	
	<b>2<sup>nd</sup> six-month period</b>	<b>year</b>	<b>year</b>	
Restatement of tax contingencies				(9,293)
PIS and COFINS	(5,750)	(10,880)		(9,792)
Tax on Services of Any Kind (ISSQN)	(968)	(2,012)		(2,219)
Other	(5)	(224)		(810)
<b>Total</b>	<b>(6,723)</b>	<b>(13,116)</b>		<b>(22,114)</b>

Based on the understanding of the Federal Revenue Secretariat (RFB) that the income from interest on judicial deposits must be submitted to taxation only when the dispute has concluded with a favorable outcome for the taxpayer, the restatement of the tax contingencies and judicial deposits (Note 13(b) below) started to be recorded directly in balance sheet accounts in 2008.

**(b) Other operating income**

	<b>2008</b>		<b>2007</b>	
	<b>2<sup>nd</sup> six-month period</b>	<b>year</b>	<b>year</b>	
Interest on judicial deposits	72	127		9,502
Income from foreign exchange variations	523	2,482		4,394
Reversal of provisions for contingencies	83	223		2,326
Reversal of provision for STN remuneration and equalization of charges				2,946
Reversal of provisions for co-obligation	1,416	1,416		617
Other	1,177	2,813		3,424
<b>Total</b>	<b>3,271</b>	<b>7,061</b>		<b>23,210</b>

The amount of R\$ 2,946 was presented in 2007, referring to a reversal of part of the provision for remuneration to be returned by STN to the Bank, as provided by Directive Release 18/2004/COFIS/STN.

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**(c) Other operating expenses**

	<u>2<sup>nd</sup> six-month period</u>	<u>2008 year</u>	<u>2007 year</u>
Provisions for contingencies	(5,763)	(11,170)	(12,791)
Foreign exchange variations	(1,394)	(6,731)	(12,054)
Post-employment benefits	(2,566)	(6,008)	(3,898)
Services related to the capital market	(32)	(1,017)	
Public disclosure	(21)	(21)	(3,139)
Provision for STN remuneration and equalization of charges	(369)	(645)	(264)
Reimbursement to FGPC of amounts paid	(309)	(2,167)	(206)
Expenses of INDI agreement	(1,672)	(3,212)	(2,799)
Expenses of BDMG Cultural agreement	(932)	(1,667)	(1,607)
Other	(2,906)	(7,934)	(10,975)
<b>Total</b>	<u>(15,964)</u>	<u>(40,572)</u>	<u>(47,733)</u>

**14 Related Parties**

The credit operations with the State of Minas Gerais (controlling shareholder), the remaining balance of which totals R\$ 2,917 (2007 - R\$ 5,788), refer to long-term financing made with funds received from the BNDES and the Federal Savings and Loans Bank (CEF). These loans were destined for the Regional Development and Integration Program, covering, basically, urban infrastructure projects and the creation of agribusiness product selling centers in several regions of the State of Minas Gerais, mainly in the Vale do Jequitinhonha and Bacia do Suaçuí.

These balances and transactions were contracted at rates and conditions compatible with those in the market, effective on the date of the transactions, taking into consideration the risks involved.

**15 Insurance Coverage**

The Bank maintained insurance coverage of R\$ 16,228 (2007 - R\$ 16,128) in December 2008, which is considered sufficient to cover possible losses on property and equipment.

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### **16 Financial Instruments**

#### **(a) Identification and valuation of financial instruments**

BDMG operates with financial instruments, principally: interbank investments and securities, credit operations and obligations related to local onlendings.

##### **(i) Interbank investments and securities.**

As shown in Notes 3 and 4, BDMG gives priority to its investments in federal securities, in Interbank Deposit Certificates (CDI) and purchase and sale commitments carried out with large financial institutions.

##### **(ii) Credit operations and obligations related to local onlending.**

Considering the nature and the term, the amounts recorded approximate the realizable values.

#### **(b) Policy of management of financial risks**

The Risk Management Policy was established by the Board of Directors aiming to identify and mitigate the risks at BDMG, and is oriented to the convergence of the methodologies and internal models with the Basel Accords and to meeting the recommendations of the Regulators, consistent with the best practices of risk management. This policy stipulates limits and guidelines to monitor and mitigate the risk exposure.

The objective of Risk Management at BDMG is to mitigate the credit, market, liquidity and operating risks so as to optimize the operating effectiveness and the results. Based on this objective, the Bank adopts risk management practices adequate to the nature and specificities of the operations that it conducts.

#### **(c) Credit risk**

The Bank's policy of credit concession considers the credit risk level that it is disposed to face in the course of its business and respects the rules of the regulating bodies for risk management. In this sense, it establishes limits of concentration and of credit risk exposure by client, economic group and risk categories, as well as authority levels for the decisions and criteria for the analysis and monitoring of credit, seeking operating selectiveness in order to minimize default.

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(d) Liquidity Risk

BDMG operates its cash with a high security margin, considering a minimum daily level of liquidity established by its internal policy. The high liquidity presented by the Bank significantly exceeds this minimum level at present. Furthermore, there is practically no mismatching of terms and currencies, and the financial commitments of the Bank are honored on the maturity dates.

To manage the liquidity, the area responsible for treasury management monitors daily the movement of receipts and disbursements, there being policies defined for investing the available funds.

(e) Market Risk

At BDMG, the market risk results from the possibility of losses due to the fluctuation of interest rates and the variations of foreign exchange rates, which could affect the market value of its asset and liability operations.

A Policy for Market Risk Management was defined for managing the market risk. It was approved by the Board of Directors and defines limits of monitoring and levels of reporting. For monitoring these risks, the Bank uses the Var, a test of stress and accompaniment of the foreign exchange risk exposure.

BDMG conducts credit operations backed by US Dollars and currency basket with their corresponding liabilities, since all the operations result from the onlending of funds obtained from other local financial institutions. For these operations, the associated risk results from the possibility of mismatching due to default on the asset transactions.

BDMG has financial investments in securities subject to the US Dollar exchange variation, classified in the category "held to maturity", as mentioned in Note 4 (b) (iii).

At December 31, 2008, the Bank did not have hedge instruments for reducing the exposure to the foreign exchange rate fluctuations.

(f) Derivatives

The Bank did not contract operations with derivative financial instruments during 2008 or 2007.

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#### 17 Management of Development Funds (Unaudited)

The Bank has a specific structure for managing development funds of the State of Minas Gerais. The amounts recorded at December 31, 2008 and 2007, referring to the net assets of those funds, were as follows:

	<u>2008</u>	<u>2007</u>
State funds	2,611,148	2,277,443
Private funds	1,223	1,532
Other funds	<u>1,787</u>	<u>1,890</u>
<b>Total</b>	<b><u>2,614,158</u></b>	<b><u>2,280,865</u></b>

#### 18 Commitments, Responsibilities and Contingencies

##### (a) Sureties, pledges and assignment of credits

BDMG granted sureties and pledges and assigned credits with co-obligation, with counter guarantees provided and financial charges paid by the beneficiaries. At December 31, 2008, the balance of these commitments totaled R\$ 72,676 (2007 - R\$ 91,931), of which R\$ 14,308 (2007 - R\$ 16,528) related to pledges granted to financial institutions, R\$ 50,514 (2007 - R\$ 66,273) to pledges granted to non-financial corporate entities and R\$ 7,854 (2007 - R\$ 9,130) to securitized rural loan operations, under the terms of Law 9138/95, and assigned to the National Treasury Secretariat (STN) with co-obligation, for which provisions were recorded in the amount of R\$ 5,281 (2007 - R\$ 6,472).

##### (b) Collaterals and other burdens

In respect of disputes involving tax issues, certain fixed asset items of the Bank are pledged in connection with the legal proceedings or provided as guarantee for the appeals regarding tax lawsuits at the administrative level.

The situations involving the assets pledged are as follows:

- The Head Office building located at Rua da Bahia, 1600, in Belo Horizonte city, State of Minas Gerais-MG, has been provided as guarantee for two tax lawsuits already concluded through an agreement with the Municipal Finance Office, and the cancellation of this pledge depends on the elimination of these proceedings at the Justice level.

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- The Head Office building, two pieces of land located at Rua Bernardo Guimarães No. 1592 and 1580 as well as an establishment located on the ground floor of the building No. 1571, located at Rua Bernardo Guimarães, all of them in Belo Horizonte city, State of Minas Gerais, were provided as guarantee to the Federal Revenue Secretariat in connection with the administrative processes, for which favorable decision have been obtained by BDMG. The legal advisors consider that the possibility of loss is remote in these processes.

#### **(c) Benefits to employees**

The Bank sponsors the Social Security Benefit Plan, administered by DESBAN, a closed non-profit social security entity formed to supplement the participating employees' and beneficiaries' retirement pensions under the defined-benefit method. The capitalization regime is used by the entity for the calculation and accumulation of reserves.

The normal contribution of the Bank is limited to the sum of the normal contributions of the active and assisted participants, fixed in the annual cost plan, based on an actuarial evaluation and in conformity with the contributive parity determined in Constitutional Amendment No. 20, of December 16, 1998. It should be emphasized that any insufficiency in the mathematical reserves are the joint responsibility of the Bank and the participants.

As from August 31, 2007, the monthly payment of the normal contribution of the Bank started to be equivalent to the sum of the monthly contributions of the active and assisted participants, calculated individually. This change permits the monthly monitoring of the contributive parity and did not cause any impact on the Bank's contribution nor on that of the participants. From April 2007 to August 2007, the monthly payment of the normal sponsor contribution was 10.61% on the monthly payroll of the participation salary of the active participants (previously 9,705% on the total payroll payments). The contributive parity was attained through the periodic comparison of the total normal contributions of the sponsor with the contributions of the active and assisted participants and the difference was adjusted in the subsequent contribution of the sponsor. As regards the number of risk participants, DESBAN had 479 active participants at December 31, 2008 (2007 - 516), of which 450 were directly related to BDMG (2007 - 486), and 381 assisted participants (2007 - 371), of which 369 were directly related to BDMG (2007 - 360). In the year ended December 31, 2008, the Bank paid DESBAN the amount of R\$ 4,344 (2007 - R\$ 3,990), related to the normal social security contribution.

DESBAN also operates the Pró-Saúde Program (Health Promotion Program), a medical assistance plan which operates under the pay-as-you-go system, to cover health and dental expenses for both active and assisted participants and their dependents. The Pró-Saúde Program is funded by contributions from the participants (active and assisted), DESBAN and BDMG. The contribution of BDMG corresponds to a fixed monthly installment, which totaled R\$ 3,101 (2007 - R\$ 2,874) for the

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year ended December 31, 2008. BDMG also sponsors life insurance for the participants of these plans and its contribution for the year ended December 31, 2008, totaled R\$ 628 (2007 - R\$ 676).

The Bank has fully adopted IBRACON NPC 26 in its accounting for the social security, health and life insurance plans under its sponsorship. In compliance with NPC 26, the Bank contracts an annual actuarial study for the Social Security Benefits Program, the Pró-Saúde Program and life insurance benefits, as part of the procedures for the closing of its fiscal year (December 31). The result of the actuarial studies at December 31 can be summarized as follows:

	<b>Pension Plan</b>		<b>Health and life insurance plans</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
<b>Actuarial liability, net</b>				
Present value of actuarial liability at the end of the year	453,771	477,135	40,082	51,504
Fair value of the plan assets at the end of the year	(526,435)	(535,539)		
Unrecognized actuarial gains (losses)	61,478	58,795	(1,973)	(17,259)
	<b>(11,186)</b>	<b>391</b>	<b>38,109</b>	<b>34,245</b>
<b>Net expenses (income) for the next 12 months</b>				
Cost of current services	5,250	7,272	125	174
Interest on actuarial liabilities	56,494	49,435	4,998	5,328
Expected return on plan assets	(64,604)	(59,508)		
Expected participants' contributions	(3,945)	(3,568)		
Amortization of unrecognized actuarial losses (gains)	(585)	(359)	92	935
	<b>(7,390)</b>	<b>(6,728)</b>	<b>5,215</b>	<b>6,437</b>

In respect of the Pension Plan, the Bank did not recognize the balance of the actuarial assets of R\$ 11,186 at December 31, 2008, since the Pension Plan does not include the two possible conditions for its recording: (i) decrease in the future contributions of the sponsor and, (ii) reimbursement of the amount of assets computed.

**Banco de Desenvolvimento de Minas Gerais S.A. - BDMG**

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All amounts in thousands of reais unless otherwise indicated

The Bank did not recognize the balance of the actuarial liability of R\$ 391 in 2007, since this balance was lower than the amount recorded for the prior service period, the balance of which totaled R\$ 1,822 at December 31, 2007, as mentioned in Note 9(c).

Regarding the medical and dental care plan and the life insurance benefits, there was a provision at December 31, 2008 in the amount of R\$ 38,109 (2007 - R\$ 34,245), related to the net actuarial liabilities, as mentioned in Note 9(c).

The actuarial evaluations at December 31, 2008 and 2007, mentioned in the table above, were based on the following assumptions:

	<u>Pension plan</u>	<u>Health plan</u>	<u>Life insurance</u>
Type of plan	Defined benefit	Defined contribution with actuarial risks	Defined benefit
Actuarial evaluation method	Projected unit of credit	Projected unit of credit	Projected unit of credit
Nominal discount rate for the actuarial liability			
2007	10.66%	10.66%	10.66%
2008	12.90%	12.90%	12.90%
Expected nominal yield on the plan assets			
2007	11.31%	N/A	N/A
2008	12.55%	N/A	N/A
Estimated index of nominal increase of salaries			
2007	5.14%	N/A	N/A
2008	5.95%	N/A	N/A
Estimated index of nominal increase of expenses			
2007	N/A	7.90%	4.10%
2008	N/A	9.11%	4.90%
Estimated index of nominal increase of benefits			
2007	4.10%	N/A	N/A
2008	4.90%	N/A	N/A
Nominal increase of medical costs	0.00%	0.00%	N/A

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	<u>Pension plan</u>	<u>Health plan</u>	<u>Life insurance</u>
Estimated inflation rate in the long-term (basis for determination of nominal rates)			
2007	4.10%	4.10%	4.10%
2008	4.90%	4.90%	4.90%
Mortality table	AT-2000	AT-2000	AT-2000
Disability table	Álvaro Vindas	Álvaro Vindas	Álvaro Vindas
Turnover hypothesis	Entity variable table for service	Entity variable table for service	Entity variable table for service
Probability of retirement	100% in the first eligibility to a benefit of the Plan	100% in the first eligibility to a benefit of the Plan	100% in the first eligibility to a benefit of the Plan
Turnover:			
- first three years after admission	8.71%	8.71%	8.71%
- fourth year onwards	0.45%	0.45%	0.45%

\*       \*       \*

### **BOARD OF DIRECTORS**

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### **CONTROLLERS' DEPARTMENT**

GIOVANI ROSEMBERG FERREIRA GOMES - Accountant CRC-MG - 075701/O-5