Financial Statements

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

December 31, 2019
with Independent Auditor's Report

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

Financial statements

December 31, 2019

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Building a better working world

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A free translation from Portuguese into English of Independent Auditor's Report on Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil (BACEN)

Independent auditor's report on financial statements

The Shareholders, Board of Directors and Officers
Banco de Desenvolvimento de Minas Gerais S.A. - BDMG
Belo Horizonte - MG

Opinion

We have audited the financial statements of Banco de Desenvolvimento de Minas Gerais S.A. – BDMG ("Bank"), which comprise the statement of financial position as at December 31, 2019, and the related statements of profit or loss, of changes in equity, and of cash flows for the quarter and year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco de Desenvolvimento de Minas Gerais S.A. – BDMG as at December 31, 2019, and its financial performance and cash flows for the six-month period and year then ended in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil (BACEN).

Basis for opinion

We conducted our audit in accordance with the Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Bank in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants and the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have fulfilled the responsibilities described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report, including in relation to these audit matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Allowance for loan losses

As mentioned in Notes 2.7 and 7, the Bank rates the level of risk of loans, taking into account the economic scenario, experience, related guarantees, delays, and the history of renegotiations, according to parameters established by Resolution No. 2682 of the National Monetary Council (CMN). This was considered a key audit matter in view of the materiality of the amounts, and the fact that the classification of the customers' risk level and the assessment of guarantees involve management’s judgment.

How our audit addressed this matter

We conducted an analysis of the economic and financial evaluation performed by the Bank for rating of the customers’ risk level, through a sample selected for testing, and considered all aspects related to the granting of these loans, such as guarantees, renegotiations, approvals and updating of the credit analysis, among other tests. We recalculated the allowance for loan losses based on parameters set by CMN Resolution No. 2682, comparing it with all accounting records. Through analytical procedures, we analyzed the main variations of ratings, and the behavior of loans based on previously established expectations. We also evaluated the sufficiency of disclosures in explanatory notes.

Based on the result of the audit procedures carried out on the estimated allowance for loan losses, which is consistent with management's assessment, we consider that the criteria and assumptions associated with the allowance adopted by management, as well as the respective disclosures in Notes 2.7 and 7, are acceptable, in the context of the financial statements taken as a whole.

Post-employment benefit plans

The Bank records significant liabilities related to post-employment benefit plans, which include retirement, health and life insurance benefits, as mentioned in Notes 2.15 and 24, This was considered a key audit matter given the significance of the amounts involved and the complexity of the actuarial liability assessment models, which include the use of long-term assumptions, such as: general mortality, disability, medical costs, salary growth, family structure, discount rate, and inflation.

How our audit addressed this matter

With the assistance of our experts, we analyzed the methodology and the key assumptions used by management in the evaluation of actuarial obligations arising from post-employment benefit plans, checking the reasonableness of assumptions and methodologies used, mathematical accuracy of the calculation and analyzing the consistency of the results in relation to the parameters used and the previous assessments, among other procedures. Our audit procedures also included testing of the integrity of master record information used in actuarial projections and the sufficiency of disclosures related to post-employment benefit plans.

Based on the result of the audit procedures carried out on the post-employment benefit plans, which is consistent with management's assessment, we consider that the criteria and assumptions for evaluation of actuarial obligations adopted by management, as well as the respective disclosures in Notes 2.15 and 24, are acceptable, in the context of the financial statements taken as a whole.

Recoverable tax credits

The Bank records deferred tax assets substantially on temporary differences when calculating income and the social contribution taxes, mainly arising from expenses related to allowance for loan losses, post-employment benefits, other provisions for contingencies, and market value adjustments of marketable securities and swap transactions.

This was considered a key audit matter in view of the materiality of the amount recorded and because the analysis of realization of these assets involves a high degree of judgment to determine the assumptions about the Bank's future performance, as described in Notes 2.14 and 19.

How our audit addressed this matter

Our procedures included an analysis of the methodology and assumptions used by management in the study of realization of tax credits, including projections of future results, as well as compliance with the requirements of the Central Bank of Brazil. We checked the mathematical accuracy of the calculation and the consistency between the data used and the accounting balances, as well as previous assessments and the reasonableness of the assumptions used. We also analyzed the sensitivity of these assumptions, to evaluate the behavior of the projections with the fluctuations, and the sufficiency of disclosures in explanatory notes.

Based on the results of audit procedures performed on tax credits, which are consistent with management’s assessment, we consider that the criteria and assumptions used in the study of realization of tax credits, including projections of future results, prepared by management, as well as the respective disclosures in Notes 2.14 and 19, are acceptable in the context of the financial statements taken as a whole.

Other matters

Audit of corresponding figures

The Bank's financial statements for the year ended December 31, 2018 were audited by other independent auditors, who issued a report dated February 28, 2019, respectively, containing an unmodified opinion on these financial statements.

Other information accompanying the financial statements and the auditor's report

Management is responsible for such other information, which comprise the Management Report.

Our opinion on the financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Bank's management is charged with governance and is responsible for overseeing the Bank's financial reporting process.

Building a better working world

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we may have identified during our audit.

Belo Horizonte, February 19, 2020

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Rogério Xavier Magalhães
Accountant CRC-1MG080613/O-1

MESSAGE FROM MANAGEMENT

The Management of Banco de Desenvolvimento de Minas Gerais S.A. (BDMG), in compliance with the legal and regulatory requirements, presents the Financial Statements for the year 2019.

With over 57 years of existence, BDMG is a financial institution that fosters sustainable development in the state of Minas Gerais, under the State Department of Economic Development (SEDE).

Following the global development agenda and having as the cornerstone of its strategy the focus on future generations, Sustainable Development Objective (SDG) are vital to BDMG. Accordingly, the Bank recognizes and reinforces its commitment to the ambitions brought by the SDG. The strategy, built in 2019, in addition to intensifying actions towards financial soundness and management effectiveness, sought new sources of funds, overcoming the barriers that restrict the channeling of financing for sustainable development and generating opportunities to increase investments in Minas Gerais.

OUR PERFORMANCE

In 2019, BDMG disbursed R$ 1,308.4 million in financing, which represents a 2.2% growth in relation to the prior year. As a result, this amount is expected to have generated an additional impact of R$ 974.6 million on Minas Gerais production, stimulating approximately 22,677 jobs and R$ 44.2 million in ICMS[1]. In the same period, 5,083 customers were served, a 6% increase in relation to the previous period.

The Bank closed the year with 21,440 customers in its portfolio, a result that consolidates its presence in 738 cities, i.e., 87% of the cities of Minas Gerais state. These are micro, small, medium and large-sized businesses from various economic activities and also City Administrations in all regions of that state.

Disbursements made with own funds accounted for 56% (R$ 734 million) of total releases, whereas 42% (R$ 549 million) came from transfers, originating from partnerships with the Brazilian Development Bank (BNDES), Ministry of Agriculture (MAPA), Studies and Projects Financing Agency (FINEP), Ministry of Tourism and Brazil's Federal Savings and Loans Bank (CEF). Amounts originating from funds represent 2% (R$ 26 million) of the releases and come from the Foundation for Supporting Research in Minas Gerais state (FAPEMIG) and Renova Foundation.

Regarding the main sectors served by BDMG, there was a 4 percentage point (p.p.) growth in commerce and services (49%), followed by the Processing Industry sector, with 6 p.p. drop (27%), the Industrial Utility Services sector, with a 1 p.p. increase (13%), Agriculture, Livestock and Forestry (7%), with a 2 p.p. increase, and other sectors with a 1 p.p. decrease (5%), compared to 2018.

Regarding regional performance, 78% of disbursements (R$ 1.022 million) went to the Central, South of Minas, Triângulo Mineiro, Alto Paranaíba and Zona da Mata macro-regions. Even so, disbursements to the North and Northwest regions of Minas increased by 76%, from R$ 59 million in 2018 to R$ 103 million in 2019.

[1] The methodology used was the Input-Product Matrix, designed by the João Pinheiro Foundation (FJP), which allows the identification of the amount of inputs from different branches of activity necessary for the production of any product. From it, one can identify the key sectors of the economy, and conduct studies to assess the impact of public policies on employment, income, state revenue, etc.

HIGHLIGHTS OF THE YEAR

Cities of Minas Gerais

BDMG's work with the cities has the purpose of improving the state people's quality of life by financing local infrastructure. The purpose of the financing is the construction, renovation and expansion of public buildings, water and sewage supply, solid waste, mobility and urban drainage, in addition to the possibility of acquiring machinery and equipment. Currently, BDMG has an asset portfolio of R$625 million intended for the public sector, with 437 City Administrations of Minas Gerais with contracts in force.

In the public notice issued in 2019 to the cities, the Bank received 431 applications from City Administrations to obtain financing, an 11% increase compared to the last notice, issued in 2017. Together, the requests total approximately R$649 million, 19% higher than the prior volume requested by the cities two years ago.

BDMG was also responsible for 71% of all loan operations to Minas Gerais cities that were approved by the National Treasury Office (STN) in 2019, even surpassing other public banks. There were 264 operations totaling R$ 264.7 million.

Over the year, R$127.5 million was disbursed to projects of 182 Minas Gerais cities, 3.8% higher than the disbursement for the same period of 2018 (R$122.8 million). Of the total number of cities served, 41% (74 cities) have MHDI lower than the average for Minas Gerais.

In relation to sanitation projects for the cities, which include water treatment and distribution, sewage or urban solid waste treatment, R$ 9.2 million was disbursed in 2019, benefiting 22 cities in Minas Gerais, 10 with MHDI below the state average.

In December, a public consultation was launched for the concession of three conservation units of Rota das Grutas Peter Lund, a project that is part of the State Park Concession Program (Parc). The concession project model was designed by BDMG, consolidating the Bank's operations in the project structuring segment. The concession, which is the first in the state's environmental area, is scheduled for a 25-year period and includes the possibility of using the areas for tourism purposes, such as lodging, food, leisure and adventure activities and the sale of souvenirs. The estimated contract value is approximately R$ 347 million, with initial investment of R$ 6.3 million. The bidding is expected for the first half of 2020.

Clean Energy and Environment

As the theme of sustainability has been a central element of our strategy in recent years, BDMG proposes to contribute to increasing the share of renewable energies in the Brazilian and global energy matrix and in combating climate change, as described in SDGs 7 – Clean and Accessible Energy and 13 – Action against Global Climate Change.

In order to obtain resources at competitive costs to finance clean energy generation and energy efficiency projects, in October, BDMG signed a contract with the European Investment Bank (EIB) which resulted in the raising of 100 million euros. The line of credit is intended to finance renewable energy generation projects – solar photovoltaic energy, small-scale hydroelectric energy and bioenergy plants – and energy efficiency, such as public lighting and efficiency in buildings and industries, for example, at competitive costs.

Also in the months of November and December, two photovoltaic solar energy generation projects in the North of Minas Gerais, with the potential to generate 18 GWh/year of solar energy, were approved by the EIB. Both projects result in a quantification of 33,590 tons of avoided CO_2 emission. The assessment was conducted based on the Climate Fund Program calculation tool and demonstrates the importance of this kind of project to improve climate conditions.

In addition to these two projects, another 52 customers received financing for photovoltaic solar energy generation projects, compared to 25 customers in 2018. The total amount disbursed for solar energy projects has tripled compared to 2018, resulting in R$ 53 million financed on lines 'BDMG Solar Fotovoltaico', 'BDMG Sustentabilidade', 'Finame Fundo Clima', among other products. Through operations that received funds in 2019, generation capacity is estimated at 45.8 GWh/year of solar energy, equivalent to the annual consumption of more than 23,800 households.

About 78% (R$ 41.4 million) of the total disbursed for solar energy projects were earmarked for projects in the North of Minas, one of the regions most in need of investment in the state. In addition, 44% of the financing in solar energy was earmarked for projects in cities with low MHDI.

In addition to contributing to the economic development of the regions, these projects are committed to the generation of clean energy and in line with the precepts of financing favorable for the improvement of climatic conditions in the world. We point out that the impacts caused by photovoltaic generation are relatively lower compared to fossil sources; they also contribute to reducing greenhouse gas emissions.

In addition to renewable energy, BDMG has supported other projects with positive environmental external effect. Operations were carried out in the biofuels sector, serving companies in four cities in the Triângulo Mineiro region. Also operations involving industrial waste treatment and reduction of atmospheric pollution were carried out in line with SDG 12 - Responsible Consumption and Production.

In order to measure the impact of its operations on the climate, BDMG started, in 2019, the development of a CO_2 calculator, through technical cooperation with the IDB. The objective is to assess emissions, removals, forest carbon stocks and emission reductions from projects financed by BDMG. The development of the tool takes into account an analysis of the characteristics and specificities of the Bank's investment portfolio combined with the implementation of environmental indicators that include the emissions of these operations.

Micro and Small Businesses

The important role that Micro and Small Enterprises (SMEs) play in an economy is undeniable, especially in the number of jobs offered. In 2019, MSEs were responsible for no less than 81% of jobs created in Minas Gerais, against 19% of medium and large-sized companies[2]. Aiming at expanding access to credit by micro and small entrepreneurs, BDMG Digital evaluates and grants credit through an online platform and has a network of bank

[2] Source: CAGED. Data from January to November 2019.

correspondents for MSEs accredited throughout the state, always seeking proximity to and focusing on the customer, with fast and efficient services.

BDMG Digital

Disbursement of processes originated through BDMG Digital was R$172 million, corresponding to 96% of the total released to micro and small enterprises in 2019, a 10.5% increase compared to the disbursement through the platform in 2018. In number of customers, 4,566 were financed by the platform, a 5% growth compared to 2018, when there were 4,333 customers.

Also in 2019, BDMG Digital recorded about 600 thousand accesses, a number that represented a historical record, with 54% growth in relation to accesses to the platform in 2018. Analyzing the monthly average of accesses, there was an evolution from 32,250 accesses in 2018 to 49,757 in 2019. In the year, there was a record number of companies that formally filed an application at least once, totaling 21,494 companies/CNPJ (Brazilian IRS Registry of Legal Entities), 46% originating from the direct sales channel, which in 2018 accounted for 37% of the total.

In addition to direct access to financing via BDMG Digital, entrepreneurs also have a network of banking correspondents distributed throughout the state. They are formed by federations of classes and unions, credit unions and banks. In 2019, BDMG had 367 accredited correspondents, totaling 760 service points spread across 194 cities in Minas Gerais; 240 of these correspondents released at least one proposal for companies in 339 cities in Minas Gerais.

Geraminas Giro Mais

Aiming to simplify credit acquisition by MSEs and diversify the offer of products on the WEB platform, in the third quarter a new product was launched at BDMG Digital: Geraminas Giro Mais. The new line of financing, which is a special line of working capital with credit limits and extended payment terms, competitive rates and simplified guarantees for companies with annual revenues ranging from R$4.8 million to R$30 million, disbursed R$4.8 million in the last months of 2019.

Gender inclusion

Aiming to support women-owned micro and small businesses and encourage the inclusion of women in business, one of the products also available on the digital channel is 'Empreendedoras de Minas' (Woman Entrepreneurs of Minas Gerais) financing line. In this line, which represents 19% of the volume disbursed in 2019 through BDMG Digital, R$ 58 million has been disbursed since its launch in 2018. Of this amount, R$ 32.5 million was disbursed only in 2019, helping 977 entrepreneurs (25% more than in 2018) in 220 cities in Minas Gerais, 40 cities with MHDI lower than the state average.

Tourism

Given the importance of encouraging tourism to the State economy, BDMG has been working with the Ministry of Tourism in the operation of the General Tourism Fund (Fungetur) since 2018. This Fund is intended for improving tourism infrastructure. In total, R$ 28.4 million was taken out and R$ 19.5 million was disbursed to 151 customers in the industry.

In the lines for fixed investments and purchase of goods and equipment, R$ 12.9 million was disbursed; 36 companies were served in 2019. Of these, 11 customers invested their funds in investments for photovoltaic solar energy (R$ 1.2 million), falling into the sustainable tourism category.

In September, through BDMG Digital, 'Fungetur Giro' was launched, a tourism-oriented business credit facility for MSEs with annual gross revenues of up to R$4.8 million and with rates significantly below the market average for this segment. Through this launch, 115 micro and small enterprises were served and R$ 6.6 million was disbursed in the 4th quarter of 2019.

Innovation

BDMG seeks to promote innovation in the Minas Gerais production sector, enable the creation and access to the credit market for technology-based companies and also support innovation projects.

Financing and investments in equity interest

To finance innovative projects, the Bank has been operating for 8 years with resources in partnership with FAPEMIG and for 5 years with BNDES and Finep. R$ 51.5 million was disbursed under these lines and 27 new projects were financed during 2019, which represents a 21% increase in the volume disbursed in relation to 2018.

In addition to stimulating innovation through financing, BDMG also works with investment instruments to support innovative companies with high growth potential. In 2019, R$ 9.2 million was paid into the nine Equity Funds (FIPs) and a Venture Debt Fund. Together, these funds have already invested R$ 70.7 million in 24 Minas Gerais companies.

The Bank holds equity interest in two companies, with 6.5% of the shares of Unitec Semicondutores S.A. in the semiconductor industry being implemented in Ribeirão das Neves, state of Minas Gerais (MG), of which it has been a shareholder since 2012, and 6.7% of Biomm S.A. biopharmaceutical industry located in Nova Lima-MG, of which it has been a shareholder since 2013.

Hubble

Another major initiative is Hubble, a BDMG-based hub for startups that use technology in an intensive and innovative way. A result of the partnership between BDMG, LM ventures and Banco Olé, Hubble has brought together, in January 2019, 15 startups that won the first Batch in an environment of exchange and connection with large corporations to boost business. In 8 months, they earned together R$ 8.3 million in revenue and grew 107.8%, on average, compared to 2018.

Hubble generated 81 direct jobs through its startups, which raised over R$ 7.5 million in investments. After entering the Hubble, startups singed 256 new contracts. BDMG contributed to new businesses, introducing startups to its customers such as Fundição Altivo, Telemont and Hermes Pardini. These same 15 startups have more than 30 PoCs (Proofs of Concept) mapped with BDMG and Banco Olé, by the end of 2019.

In September, the Public Notice for the selection of the 2nd Batch was launched. Of the 88 startups that applied, 13 were chosen, 10 of which are based in Minas Gerais. All of them are fintechs, with a defined product and business model and with different backgrounds and experiences in various places around the world. The selection followed the following criteria: degree of innovation, stage of development, team strength, market potential, marketing and sales model, finance and people availability, synergy with partner companies.

These were the selected startups: Asotech, Galax Pay, Pris Software, Banco Social Liberdade, GoCredit,, Sobix, HTS, Tyde, Cashtag Blockchain, Mitosis, Trovato Lending, Predify, Crawly.

As part of Hubble's initiatives, 84 training events were held, including lectures, courses and workshops, attended by 5,683 people in the city of Belo Horizonte. These include the Global Startup Weekend Sustainable Revolution, one of the most important innovation and sustainability incentive events in the world, hosted by BDMG in June.

Economic Recovery After Disasters

Since 2017, BDMG has worked with the Renova Foundation on socioeconomic programs related to the economic dynamism of the Rio Doce region - Desenvolve Rio Doce, Compete Rio Doce, Diversifica Mariana and the Socio-Environmental Program for the collection and treatment of sewage and disposal of solid waste in the 35 cities in Minas Gerais where Renova operates.

Fundo Desenvolve Rio Doce is a financing product for working capital with the objective of fostering economic activity in the cities of Minas Gerais and Espírito Santo affected by the collapse of the Fundão dam. It has been in operation since October 2017 and reached a release volume of R$ 29.4 million in the Minas Gerais area operated by BDMG since the beginning of its activity, benefiting 779 companies, with more than 5,000 supported jobs. In 2019 alone, 445 companies were served and R$ 14.1 million was disbursed in financing for the industries of Trade and Services (83%), Manufacturing Industry (15%) and other industries (2%).

Launched in December 2018, the Compete Rio Doce Fund is operated in conjunction with Sebrae and aims to facilitate access to credit by companies that, due to financial restrictions, have been unable to obtain financing through the Desenvolve Rio Doce Fund. These ventures receive consultancy from Sebrae-MG in order to carry out a diagnosis of the companies' operational capacity and guide them in the search for business sustainability. Sebrae has served 337 companies in MG and, since the beginning of the program, R$ 4.3 million has been disbursed to 91 micro and small enterprises. The Collection and Treatment of Sewage and Disposal of Solid Waste program provides financial resources to cities for the preparation of basic sanitation plans, the design of sewage system projects, the implementation of sewage collection and treatment works, the elimination of dumps and implementation of regional landfills. Investments of approximately R$ 390 million are expected in 35 cities in Minas Gerais, out of a total of R$ 500 million which include the cities of Espírito Santo. In 2019, R$ 2.4 million was released to seven cities.

Agribusiness

Reinforcing BDMG's support for an activity that significantly contributes to the Gross Domestic Product (GDP) of Minas Gerais, the financing for the agricultural sector is granted through credit facilities that use BNDES funds from the Coffee Economy Defense Fund (Funcafé), arising from issuance of Agribusiness Credit Bills (LCA). In 2019, R$ 628 million was disbursed through these lines, representing a 12.4% growth compared to the same period of the previous year.

In the global context, Brazil remains the world's largest coffee producer and exporter, producing approximately 1/3 of the world coffee production in the 2018/2019 harvest. Minas Gerais was responsible for 54.3% of the national production, consolidating the grain as the second most exported product by the state.

To finance sales, acquisitions and working capital of companies linked to the coffee chain, BDMG uses resources from FUNCAFÉ in order to develop local production. BDMG is currently among the Fund's 10 largest onlenders, with more than 5% of the total made available for the harvest year. In 2019, R$ 223 million was contracted and disbursed through the Funcafé product, a 5% decrease in relation to 2018. Considering the operations of the

2019/2020 harvest, started in July 2019, R$ 164 million was released, which accounts for 64% of the use of the R$ 255 million limit made available by FUNCAFÉ to BDMG, for the current harvest.

Partnerships and Events

Technical cooperation

With the strategy of prospecting opportunities and strengthening relationships with institutions that share the same development mission, BDMG entered into various partnerships with multilateral agencies: the Inter-American Development Bank (IDB), the International Finance Corporation (IFC) and the Fonplata Development Bank (Fonplata), Investment European Bank (IEB), Spanish Company for the Fostering of Development (COFIDES), among others.

In July, a memorandum of understanding was signed with IFC, the World Bank Group's private sector investment arm and the world's largest private-sector development institution in emerging markets. The objective is to jointly develop a work plan to study funding alternatives for Minas Gerais and to attract economic opportunities for public and private projects that contribute to the diversification of the State’s economic matrix.

In August, a memorandum of understanding was signed with Fonplata. The objective is to carry out joint actions, studies and analyzes, creating the opportunity to attract long-term funds for the development of the municipalities of Minas Gerais.

In expanding the partnership with the IDB, different courses of action were laid out throughout 2019 aiming at expanding knowledge and practices related to financing sustainable development. Regarding the strategy for the issuance of sustainable bonds, particularly concerning its aspects of a framework commensurate with Agenda 2030, there is a certification and legal and financial structuring process in progress. In addition to building an SDG title framework, in order to make our actions more transparent, the second step will be monitoring and measuring the impacts of sustainable projects, which includes the structuring of a system for monitoring and evaluating results. Another focus of cooperation is related to the standardization and optimization of processes for structuring public lighting PPPs in the cities of Minas Gerais, aiming at energy efficiency.

Another relevant fact was the approval of the Letter of Interest of Italian Export Credit Agency SACE in introducing a guarantee line of up to 20 million dollars for the import of Italian products per customer of BDMG.

In December, BDMG obtained approval for technical assistance under the FiBraS (Sustainable Brazilian Finance) project, with the objective of developing an innovative financial product with funds from the German GIZ fund (Deutsche Gesellschaft für Internationale Zusammenarbeit). The project submitted by BDMG proposes the creation of lines of credit for energy efficiency, focusing on micro, small and medium-sized companies. The proposal is in line with the 2030 Agenda, in that it aims to contribute to improving the energy efficiency rate (SDG 7 - Clean and Accessible Energy), generating social and environmental benefits.

BDMG as a knowledge platform

In the context of the current tensions in the globalized world and the new challenges of economic, social and environmental development, banks and financial development institutions need to work in an integrated manner to rethink their models of action and their institutional roles. In this sense, BDMG seeks to position itself as a knowledge platform for discussions and learning on the most pressing issues of financing sustainable development, digitalization, governance, monitoring and evaluation, among others.

BDMG, in cooperation with ALIDE - Latin American Association of Financial Institutions for Development, sought to strengthen its relationship with other national and international development institutions for the exchange of experiences, good practices and technical cooperation. Held on September 19 and 20, BDMG hosted the 1st Meeting of Chief Economists of Development Banks in Latin America, a joint initiative of BDMG, ALIDE and IDB. In the two days of the meeting, where about 30 institutions from 11 different countries participated, high-level dialogues and exchange of experiences between the participating institutions were promoted, placing Minas Gerais in the leadership of the debate on sustainable development and the performance model of the fostering institutions.

In November 2019, the Bank with support from FIEMG and FDC organized the Pre BRICS Summit – Belo Horizonte, which was divided into two distinct and complementary moments, combining cultural and technical issues. Having as a fundamental foundation the official meeting in Brasília, a pre-event, held in the capital of Minas Gerais, presented itself as a unique opportunity to intensify the engagement of fundamental issues in the financing and economic development agenda. The initiative sought to strengthen the relationship with other national and international development institutions for the exchange of experiences, good practices and technical cooperation, in support of the challenges that bring concrete benefits to the people of BRICS countries.

Thus, significant results were obtained such as the promotion of debates about excellence that combined technical strictness and the generation of economic opportunities. In addition, ONE Comprador LLC and Comprador Limited announced during the event a partnership to create the Brazil-China Social Impact Fund. The partnership between the two companies combines Chinese and Brazilian technologies, businesses and resources for infrastructure investments in the region of US$ 1 billion in sanitation projects primarily for the State of Minas Gerais.

In December, BDMG also participated in and co-organized events at the United Nations Conference on Climate Change COP 25, which aimed to discuss and define the next crucial steps in the global climate change process. As the only regional development bank in the country to be present as a speaker at COP25, BDMG participated in three panels, one of which was co-organized with IDFC – International Development Finance Club, ALIDE and IDB. With the theme “Building finance for the climate: the role of development banks”, Minas Gerais mission reported experiences, together with other executives of the European Investment Bank (IEB), Institute of Official Credit (ICO) of Spain, COFIDES, IDB and KfW the Development Bank of Germany.

At COP 25, two intention agreements were also signed with the European Investment Bank (EIB) and COFIDES. The agreement between BDMG and the EIB aims to share experiences and best practices in areas and sectors of common interest, further strengthening cooperation between the two institutions. The agreement with COFIDES represents a first step towards the entry of Spanish capital in financing, especially for small and medium-sized companies based in Minas. In addition, several bilateral meetings were held as an opportunity to enable new business, investment and financing around projects and activities of shared interest.

Also in December, BDMG participated in the special Senate Plenary session, in Brasília, in celebration of the 50th anniversary of the Brazilian Development Association – ABDE. The special session was proposed by the President of BDMG, who also holds the position of 1st vice-president of ABDE, given the role that the Association added to the National Development System (SNF) in Brazilian development, throughout history and in different regions. Founded in Minas Gerais, during the 1969 Development Banks Congress, ABDE currently has an important objective of training its 30 members to effectively face the new challenges of a transition economy.

In addition to international events, over 2019, BDMG hosted and organized a number of meetings with diverse and relevant themes for the performance of development banks today. In June, the 1st BDMG Compliance Seminar was promoted, whose central theme was the importance of strong and transparent governance in organizations as a fundamental condition for carrying out financial or business operations. In August, in partnership with the João

Pinheiro Foundation (FJP), an event with the theme of “Monitoring and Evaluation under Agenda 2030” was held with partners such as the United Nations Development Program – UNDP, BNDES, Insper Metrics and IBGE. In October, BDMG hosted the event “Digital Mindset and Development Banks”, with the objective of bringing together experts from Google, BNDES and the Caribbean Development Bank (CDB) to reflect on the digital transformation of financial services. Also in October, BDMG hosted the regional seminar of the Brazilian Development Association – ABDE, promoted jointly with international NGO WWF, which had 11 representatives from nongovernmental institutions and bodies in the southeast region to discuss the role of development institutions for sustainable development. In addition to all these events already mentioned, there were also opportunities to discuss topics such as smart cities, corporate governance, Big Data, internationalization of companies, among others.

Funding and rating

Gradually, BDMG has been diversifying its sources of funds, originating from funds obtained from international funding and from the domestic financial market, transfers from third parties (such as BNDES, FINEP, FUNCAFÉ and others) and private funds.

As mentioned earlier, in October, a financing contract was signed with the European Investment Bank (EIB), which resulted in a credit limit of 100 million euros. This credit line is intended to finance clean energy generation projects (solar photovoltaic energy, small-scale hydroelectric energy, bioenergy plants, etc.) and energy efficiency at very competitive costs for the sector.

Also noteworthy are the resources obtained in the national market resulting from the issue of Agribusiness Credit Bills (LCA) and Bank Deposit Certificate (CDB). Together, R$ 126.38 million was raised this year. Of this amount, approximately 82% refers to investors residing in other states. This fund became part of the productive capital of Minas Gerais through the exclusive action of BDMG, which, therefore, contributed to the generation and maintenance of employment and income in the society of Minas Gerais, in addition to increasing the state tax collection by encouraging local economy.

Standard and Poor’s (S&P) risk rating agency raised BDMG’s perspective from negative to stable, in addition to reaffirming the institution's ratings: 'B' on the global scale and 'brA-' on the national scale.

According to the agency, the improvement in non-default levels operated by BDMG and a recovery in economic conditions justify the new rating. “BDMG's default levels have been improving materially as economic conditions recover. In our opinion, considering economic trends and the reserves provisioned for possible losses on Bank loans, an impairment of asset quality is less likely to harm its bottom line and capitalization levels”, states S&P in a report, adding that a stable perspective reflects its “view that the Bank's credit factors should remain unchanged over the next 12 months”.

INTEGRATED RISK MANAGEMENT

The Risk management structure is closely in line with BDMG’s strategic guidelines for action and with the recommendations of the regulatory agency, committing to the Bank’s ethical standards of conduct and reliability, in line with the best market practices.

The risk area’s mission at BDMG is to manage and monitor credit, market, liquidity, operational and socio-environmental risks, with a view to mitigating these risks and optimizing operational effectiveness and the bottom line. Thus, risk management practices adopted are appropriate to the nature and specificities of the operations carried out by the Bank, maintaining control standards, with a capital adequacy index higher than the minimum requirement adopted in Brazil.

In 2017, CMN Resolution No. 4557 came into effect, which provides for the risk management structure and the capital management structure. The standard addresses, among other issues, the requirements for an integrated and continuous risk management, the establishment of an independent Risk Committee, the Risk Appetite Statement (RAS), the stress testing program. BDMG is in line with the requirements of the standard, fulfilling all the requirements of the S3 segment.

The structure responsible for risk management is made up of the Board of Directors, Executive Board, Risk and Capital Committee, Chief Risk Officer (CRO) and unit responsible for risk management.

Credit risk contemplates the possibility of losses associated with the failure by the borrower to meet their financial obligations under the agreed terms, devaluation or reduction of expected earnings in a financial instrument, recovery costs, and concentration risk. In 2019, with a view to expanding its operations in the SME segment, in the digital channel, and operating in the deconcentration of credit risk, new criteria were implemented for the granting of credit limits for the small business segment. In addition, procedures were improved to maintain provisions at sufficient levels in view of the risk of loss, and the methodology for calculating the expected loss for pricing was changed.

The market risk is represented by the losses resulting from the fluctuation in market prices of positions held by the institution, by mismatches in its asset and liability operations such as: amounts, terms, currencies and indexes. In 2019, the risk management policy was revised, and included operational limits for the trading portfolio, in addition to new indicators and procedures for monitoring the banking portfolio risk, providing subsidies for risk mitigation actions by the treasury, as well as, adjustments to the IRRBB management, in accordance with current regulations.

Liquidity risk refers to the possibility that the institution will not be able to efficiently honor its obligations, without affecting its daily operations and without incurring significant losses. In addition, it also refers to the possibility of the institution not being able to negotiate a position at market price due to the high volume, in relation to that normally traded, or due to some discontinuity in the market. For liquidity risk, stress tests were improved in order to consider the impacts of problematic assets projected on cash flow and more agile monitoring reports were implemented.

Since 2013, BDMG has a Socio-Environmental Responsibility Policy that complies with Resolution 4327 of the Central Bank of Brazil and Febraban self-regulation SARB 14. The policy establishes specific principles, guidelines and procedures for the Bank’s socio-environmental practices in business and in its relationship with stakeholders, including risk management and also socio-environmental opportunities. The Bank’s socio-environmental risk management, in accordance with the requirements of Resolution No. 4327, aims to identify, measure, mitigate and monitor direct and indirect risks related to social and environmental issues of the Bank’s processes, products and businesses. In 2019, the structuring of new products, associated with the promotion of the SDGs that support the transition to a low carbon economy, were important achievements and are aligned with building a more sustainable portfolio with less socio-environmental risk.

Operational risk is defined as the “Possibility of losses resulting from failure, deficiency or inadequacy of internal processes, people and systems, or external events” (CMN Resolution No. 4557/17). It determines the exposure to operational risks that, if materialized, can negatively impact internal processes, compliance, financial performance and image of the Institution. In 2019, in order to improve management, a new system was developed for the timely capturing of losses and monitoring of the implementation of controls to prevent recurrences, integrated into the operational risk matrix.

ETHICS, INTEGRITY AND GOVERNANCE

In order to reinforce compliance procedures, BDMG repositioned the Compliance function and updated its Code of Ethics, Conduct and Integrity in 2019. The Bank's purpose is to reinforce performance of Compliance-related activities based on a broader vision, which goes beyond compliance with the rules and legislation required by regulators.

As compliance is a corporate governance tool, important actions were carried out over the year: training of senior management on Governance, Risks and Compliance, holding the 1st Compliance Seminar and implementing the Integrity Program.

SOCIO-ENVIRONMENTAL RESPONSIBILITY

Internal Actions

Encouraging sustainable development and respect for the environment go beyond operations financed by BDMG. Internally, the Bank is concerned with the management of its facilities through the development, improvement and maintenance of good socio-environmental practices in its building. To this end, it implemented actions related to water and energy consumption efficiency, waste management, development of sustainable purchasing strategies and policies and environmental awareness and training programs.

These measures reinforce BDMG's commitment to integrating economic, environmental and social development, as well as aligning its governance strategies with the UN Sustainable Development Goals (SDGs). Particularly in this case, we point out SDG 12 - Responsible Production and Consumption, since the measures presented corroborate the search for sustainable management and the efficient use of resources within the Bank.

Waste management at the BDMG building involved suspending the purchase of disposable cups and implementing solid waste recycling. Recyclable materials are sent to the Association of Collectors of Paper, Cardboard and Reusable Material (ASMARE), which has many associates whose livelihood depends on this work. Regarding organic waste, BDMG has a waste composting station that produces humus and biofertilizer for the maintenance of the Bank's gardens and is made available to employees. The main initiatives to reduce energy consumption refer to the replacement of conventional light bulbs for LED light bulbs, optimization of the use of systems and equipment and awareness campaigns. Optimizing the use of water resources included the replacement of flushes and taps with more modern, economical and more durable equipment.

In 2019, a survey conducted by a Bank employee analyzed the energy performance of the BDMG building by checking the results achieved with implementation of sustainability actions. The survey concluded that the energy performance of the Bank building is considered positive compared to other buildings with similar characteristics. In addition, the study showed the importance and effectiveness of the sustainability actions that were implemented.

BDMG seeks the constant development of effective measures to reconcile the activities performed by the Bank with the conservation of the environment. Since 2015, in order to understand, quantify and manage the impact of its operations, an inventory of greenhouse gas emissions (GHG) has been carried out. Its preparation is guided by the GHG Protocol Program, the most widely used method worldwide for carrying out GHG inventories. The inventory, certified in 2019 with the Gold Seal of the GHG Program, allows monitoring emissions related to Scope 1 (mobile combustion, stationary combustion, fugitives), scope 2 (acquisition of electricity) and scope 3 (waste generated in operations, business travel and employee commuting) and, consequently, guide actions to reduce these emissions. The Bank encourages, for example, holding virtual meetings to reduce the impacts of commuting and business travel and avoid the use of air or land transport.

Social Responsibility

BDMG Cultural

Maintained by BDMG since 1988, the Cultural Institute Development Bank of Minas Gerais – BDMG Cultural – is a non-profit organization that works in a multidisciplinary way to foster, register and disseminate cultural processes in Minas Gerais. In 2019, the Institute carried out a series of actions to promote, recognize and disseminate different artistic languages.

In the visual arts program there were: the commemoration of the 30th anniversary of BDMG Cultural - Arte 30 (exhibition of the collection, curated by Márcio Sampaio), with the launch of book Arte Sempre - O Catálogo do Acervo; 6 exhibitions in the 2019 BDMG Exhibition Cycle (BDMG Cultural Art Gallery), with individual artists Augusto Fonseca, Christiana Quady, Alisson Damasceno, João Pedro Nemer, Mário Azevedo and Alexandre Junior and FROIID; 6 chat events with artists and workshops open to the public; launch of the public notice BDMG 2019/2020 exhibition; open space - 1st National Forum of Photoperformance in Belo Horizonte/Artistic Residency of Photoperformance at the BDMG Cultural Art Gallery; inauguration of Galeria Henfil with the exhibition Henfil - Um Raio X do Nosso Inconsciente; and the launch of publication “Terra Comum” with a conversation with authors Ana Paula Baltazar and Louise Ganz.

In the music area, we highlight the 19th BDMG Instrumental Award, issuance of public notice and performance of 5 recitals of the BDMG Young Musician and the BDMG Young Instrumentalist program – young musicians selected by the program had 30 hours/class with renowned teachers/instrumentalists. In addition, in 2019, the year in which the BDMG Coral celebrated 30 years, there were presentations in various spaces in the city of Belo Horizonte and in the BDMG auditorium.

Regarding support for audiovisual and performing arts, award-winning films were launched in the 5th edition of the BDMG Cultural/FCS call for proposals to encourage low-budget short films, training activities, cinema shows and circulation related to the Short-Film Award and the launch of public notice for circus, dance and theater Trilha Cultural BDMG and selection.

Instituto de Cidadania dos Empregados do BDMG - INDEC

In 2019, the BDMG Employee Citizenship Institute (INDEC) (Instituto de Cidadania dos Empregados do BDMG) reaffirmed and consolidated its role as a promoter of citizenship and expanded its scope, entering new fronts it has not yet historically supported, always following the SDGs as macro guides for the choice of projects and initiatives in the portfolio. The projects supported during the year had excellent results and acted in several vulnerable publics in society, in several areas: Future of the Community (sport through football for children and adolescents); Community Daycare Centre Dirce Maria das Dores (community daycare centre); Bem + Arte (culture through circus and theater for children and adolescents); Transvest (preparatory course for university admittance exams for transvestites, transsexuals and transgenders); Braiding and Tracing Possibilities - Afro Braids and Hairstyles (entrepreneurship through a braiding course for women); Tuned into the Future (education through vocational training for young people); Refuge 343 (family interiorization of Venezuelan refugees); Projeto Providência (sport and culture through workshops for children and adolescents); and Associação Comunitária de Macacos (culture through capoeira classes for children and adolescents).

In addition to the projects, several specific supports were given to institutions in the Institute’s partner network, such as the donation of diapers to CAPE - Casa de Acolhida Padre Eustáquio for Children with Cancer, washing machine for Lar dos Idosos Renascer and blankets and warm clothing for Casa do Caminho Institute, Darcy Ribeiro Social and Human Promotion Institute, Toca de Assis and Episcopal Vicariate for Social Action of the Archdiocese of BH.

Finally, several internal actions were taken to engage BDMG employees in social causes. One of the great highlights of the year was the Solidarity Rally, which takes place every two years and completed its 9th edition in 2019, aiming to stimulate a healthy and fun competition between Bank departments to collect donations. This year, the focus was on minimizing the effects of winter for vulnerable people.

The other great highlight of the year was DIA V, when, under the coordination of the TETO organization, BDMG volunteers went to the Terra Nossa occupation, in the Taquaril neighborhood, in Belo Horizonte/MG, with one mission: to deliver a new home to a family in two days, overcoming the extremely precarious conditions in which they lived before.

Financial statements

BDMG, as shown in the financial statements, closed 2019 with net income of R$ 84 million and equity of R$ 1,821 million.

The Bank has in its portfolio securities held in the category held to maturity, amounting to R$ 152 million, for which Bank management, in compliance with Circular Letter No. 3068/2001, states that it has the financial ability to hold them to maturity.

Acknowledgments

BDMG management thanks the support of all those who contributed to the results achieved in 2019 and, in particular, to the Minas Gerais society, which is the reason for all the efforts made by the Bank in favor of the sustainable socioeconomic development of Minas Gerais.

A free translation from Portuguese into English of Financial Statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil (BACEN)

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

Statements of financial position
December 31, 2019 and 2018
(In thousands of reais)

	2019	2018
Assets		
Current assets	**1,541,846**	2,067,742
Cash and cash equivalents (Note 3)	**9,103**	7,889
Interbank investments (Note 4)	**81,207**	297,863
Open market investments	**81,207**	297,863
Interbank deposits	**8,191**	10,585
(Allowance for losses)	**(8,191)**	(10,585)
Marketable securities and derivative financial instruments	**123,631**	163,679
Own portfolio (Note 5)	**123,631**	163,679
Interbank accounts	**34**	34
Central Bank deposits	**34**	34
Loans (Note 7)	**1,237,224**	1,506,464
Loans	**1,363,484**	1,755,869
Public sector	**192,970**	211,045
Private sector	**1,170,514**	1,544,824
(Allowance for loan losses)	**(126,260)**	(249,405)
Other receivables (Note 8)	**90,323**	91,623
Income receivable	**1,470**	1,856
Specific receivables	**22**	-
Sundry	**88,990**	90,137
(Allowance for losses on other receivables)	**(159)**	(370)
Other assets (Note 9)	**324**	190
Other assets	**153**	190
Prepaid expenses	**171**	-
Noncurrent assets	**4,599,563**	4,573,222
Long-term receivables	**4,567,204**	4,539,833
Marketable securities and derivative financial instruments	**963,373**	763,804
Own portfolio (Note 5)	**889,694**	698,185
Restricted to the Central Bank (Note 5)	**24,399**	-
Restricted to guarantees given (Note 5)	**-**	10,864
Derivative financial instruments (Note 6)	**49,280**	54,755
Loans (Note 7)	**2,818,650**	3,112,865
Loans	**3,124,739**	3,418,580
Public sector	**420,999**	477,736
Private sector	**2,703,740**	2,940,844
(Allowance for loan losses)	**(306,089)**	(305,715)
Other receivables (Note 8)	**730,965**	607,143
Income receivable	**1,000**	555
Specific receivables	**116**	956
Sundry	**729,954**	605,766
(Allowance for losses on other receivables)	**(105)**	(134)
Other assets (Note 9)	**54,216**	56,021
Temporary investments	**6**	6
Other assets	**70,327**	60,213
(Valuation allowance)	**(17,541)**	(4,198)
Prepaid expenses	**1,424**	-
Permanent assets (Note 10)	**32,359**	33,389
Investments	**290**	600
Other investments	**1,437**	1,437
(Allowance for losses)	**(1,147)**	(837)
Property and equipment in use	**18,022**	18,140
Properties in use	**43,832**	43,788
Other property and equipment in use	**14,307**	13,295
(Accumulated depreciation)	**(40,117)**	(38,943)
Intangible assets	**14,047**	14,649
Intangible assets	**36,389**	31,634

(Accumulated amortization)	**(22,342)**	(16,985)
Total assets	**6,141,409**	6,640,964

	2019	2018
Liabilities and equity		
Current liabilities	**1,386,199**	1,555,735
Deposits	**66,832**	74,928
Demand deposits	**-**	415
Interbank deposits (Note 11.a)	**40,420**	68,765
Time deposits (Note 11.c)	**26,412**	5,748
Funds from acceptance and issue of securities (Notes 11.d and 11.e)	**226,380**	214,720
Funds from financial bills and agribusiness credit bills	**226,380**	214,720
Borrowings (Note 12.a)	**91,845**	89,980
Foreign borrowings	**91,845**	89,980
Domestic onlending – Official institutions (Note 12.b.)	**932,710**	1,060,202
National treasury	**1,448**	2,566
National Development Bank (BNDES)	**318,336**	478,702
CEF	**875**	789
FINAME	**235,894**	259,947
Other institutions	**376,157**	318,198
Other obligations	**68,432**	115,905
Social and statutory	**-**	49,239
Collection of taxes and other contributions	**699**	126
Tax and social security (Note 13.a)	**10,826**	11,280
Financial and development funds (Nota 13.c)	**1,757**	1,658
Sundry (Note 13.b)	**55,150**	53,602
Noncurrent liabilities	**2,924,180**	3,344,044
Deposits	**72,898**	78,762
Interbank deposits (Note 11.a)	**-**	2,939
Time deposits (Note 11.c)	**72,898**	75,823
Funds from acceptance and issue of securities (Notes 11.d and 11.e)	**76,830**	198,347
Funds from financial bills and agribusiness credit bills	**76,830**	198,347
Borrowings (Note 12.a)	**222,762**	302,557
Foreign borrowings	**222,762**	302,557
Domestic onlending – Official institutions (Note 12.b.)	**1,830,410**	2,237,944
National treasury	**7,468**	8,211
BNDES	**882,402**	1,214,607
CEF	**14,268**	14,329
FINAME	**765,384**	873,357
Other institutions	**160,888**	127,440
Derivative financial instruments	**-**	1,108
Derivative financial instruments	**-**	1,108
Other obligations	**721,280**	525,326
Tax and social security (Note 13.a)	**13,566**	7,559
Financial and development funds (Nota 13.c)	**85,785**	54,609
Sundry (Note 13.b)	**621,929**	463,158
Deferred income (Note 14)	**10,147**	11,845
Deferred income	**10,147**	11,845
Equity (Note 15)	**1,820,883**	1,729,340
Capital:	**2,004,971**	1,931,111
Capital – domiciled in Brazil	**1,980,350**	1,931,111
Capital increase	**24,621**	-
Equity adjustments	**(149,712)**	(108,264)
Accumulated losses	**(34,376)**	(93,507)
Total liabilities and equity	**6,141,409**	6,640,964

See accompanying notes.

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

Statements of profit or loss
Six-month period and years ended December 31, 2019 and 2018
(In thousands of reais, unless otherwise stated)

	2019		2018
	2nd half	**Year**	**Year**
Trading revenues	**304,385**	**612,513**	768,415
Loans (Note 18.a)	**284,609**	**579,365**	651,755
Revenue from marketable securities (Note 18.b)	**9,877**	**26,719**	71,433
Revenue from derivative financial instruments (Note 18 (i))	**9,568**	**6,201**	36,312
Revenue from exchange transactions	**331**	**228**	8,915
Trading costs (Note 18.b)	**(172,079)**	**(354,839)**	(532,701)
Market funding transactions (Note 18 (ii))	**(14,018)**	**(29,308)**	(28,836)
Loans and onlending (Note 18 (ii))	**(111,989)**	**(222,310)**	(343,350)
Allowance for loan losses (Note 7.d)	**(46,072)**	**(103,221)**	(160,515)
Gross profit from trading transactions	**132,306**	**257,674**	235,714
Other operating income/expenses	**(101,381)**	**(210,197)**	(53,210)
Service revenues	**17,032**	**33,584**	36,137
Personnel expenses	**(61,114)**	**(112,567)**	(107,913)
Administrative expenses (Note 18.c (ii))	**(20,147)**	**(36,555)**	(37,692)
Tax expenses (Note 18.c (i))	**(9,078)**	**(18,662)**	(23,086)
Equity pickup in associates and subsidiaries	**-**	**-**	3
Other operating income (Note 18.c (iii))	**14,001**	**22,013**	148,006
Other operating expenses (Note 18.c (iv))	**(42,075)**	**(98,010)**	(68,665)
Operating income (expenses)	**30,925**	**47,477**	182,504
Non-operating income (expenses)	**(14,451)**	**(17,303)**	(2,081)
Income before income taxes and profit sharing	**16,474**	**30,174**	180,423
Income and social contribution taxes (Note 19)	**65,385**	**59,670**	(46,667)
Provision for income tax	**3,294**	**(8,102)**	(21,891)
Provision for social contribution tax	**1,936**	**(5,256)**	(19,054)
Deferred tax assets	**60,155**	**73,028**	(5,722)
Statutory profit sharing	**(5,333)**	**(5,713)**	(7,783)
Employee profit sharing	**(5,333)**	**(5,713)**	(7,783)
Net income	**76,526**	**84,131**	125,973
Interest on equity (R$ 0.0008 per thousand shares)	**(25,000)**	**(25,000)**	(50,000)
Earnings per thousand shares – R$	**0.00113**	**0.00125**	0.00194

See accompanying notes.

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

Statements of changes in equity
Years ended December 31, 2019 and 2018
(In thousands of reais, except for interest on equity per share)

	Capital	Equity adjustments (Note 12.b)	Other equity adjustments (Note 12.b)	Accumulated losses (Note 12.c)	Total
At December 31, 2017	1,906,151	(4,069)	(103,301)	(169,480)	1,629,301
Approval of capital increase	24,960	-	-	-	24,960
Equity adjustments	-	(2,052)	1,158		(894)
Net income for the year	-	-	-	125,973	125,973
Interest on equity (R$0.0008 per share)	-	-	-	(50,000)	(50,000)
At December 31, 2018	1,931,111	(6,121)	(102,143)	(93,507)	1,729,340
Approval of capital increase	**73,860**	**-**	**-**	**-**	**-**
Capital increase (Note 12.a)	**-**	**-**	**-**	**-**	**73,860**
Equity adjustments	**-**	**9,444**	**(50,892)**	**-**	**(41,448)**
Net income for the year	**-**	**-**	**-**	**84,131**	**84,131**
Interest on equity (R$0.0004 per share)	**-**	**-**	**-**	**(25,000)**	**(25,000)**
At December 31, 2019	**2,004,971**	**3,323**	**(153,035)**	**(34,376)**	**1,820,883**
At June 30, 2019	**1,980,350**	**(7,320)**	**(145,142)**	**(85,902)**	**1,741,986**
Capital increase (Note 12.a)	**24,621**	**-**	**-**	**-**	**24,621**
Equity adjustments	**-**	**10,643**	**(7,893)**	**-**	**2,750**
Net income for the six-month period	**-**	**-**	**-**	**76,526**	**76,526**
Interest on equity (R$0.0004 per share)	**-**	**-**	**-**	**(25,000)**	**(25,000)**
At December 31, 2019	**2,004,971**	**3,323**	**(153,035)**	**(34,376)**	**1,820,883**

See accompanying notes.

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

Statements of cash flows
Six-month period and years ended December 31, 2019 and 2018
(In thousands of reais)

	2nd half	2019 Year	2018 Year
Cash flow from operating activities			
Income(loss) before income taxes and profit sharing	**16,474**	**30,174**	180,423
Adjustments:			
Depreciation and amortization (Note 18.c.ii)	**3,171**	**6,594**	6,029
Set-up of provisions and liabilities, net	**23,232**	**69,798**	18,872
Set-up of allowance for loan losses, net of reversals	**46,072**	**103,221**	160,515
Set-up (reversal) of provision for losses	**66,126**	**86,247**	(10,905)
Allocation of deferred revenue	**(8,966)**	**(17,863)**	(17,404)
Exchange gains (losses), net	**16,413**	**11,519**	54,528
Recovery of loans written off as loss	**(9,855)**	**(40,358)**	(40,219)
Gains from monetary restatement of noncurrent loans	**(9,129)**	**(19,713)**	(24,521)
Market value adjustment of derivative instruments and hedged items	**499**	**(486)**	(3)
Losses) on financial assets available for sale	**(41,381)**	**(56,909)**	(330)
Losses) on financial assets held to maturity	**(6,854)**	**(14,674)**	(66,365)
Losses) on financial assets for trading	**-**	**(10,332)**	(13,311)
Adjusted net income	**95,802**	**147,218**	247,309
Changes in working capital	**(138,742)**	**(251,823)**	115,473
(Increase) in interbank investments	**-**	**-**	35,019
Decrease in interbank accounts	**-**	**-**	(34)
Decrease (increase) in derivatives	**(5,433)**	**3,647**	(45,304)
(Increase) in loans	**162,009**	**520,065**	544,676
Decrease (increase) in other receivables and assets	**(6,553)**	**(7,584)**	11,431
Increase (decrease) in interbank deposits	**16,700**	**(13,960)**	99,413
Increase (decrease) in funding through financial bills	**(31,789)**	**(109,857)**	192,697
Increase in borrowings and onlending	**(291,873)**	**(623,494)**	(728,079)
Increase in deferred income	**7,385**	**16,164**	17,716
Increase (decrease) in other obligations	**10,812**	**(36,804)**	(12,062)
Cash from operating activities	**(42,940)**	**(104,605)**	362,782
Income and social contribution taxes paid	**(10,880)**	**(15,693)**	(70,511)
Net cash from operating activities	**(53,820)**	**(120,298)**	292,271
Cash flow from investing activities			
Acquisition of permanent assets	**(4,453)**	**(5,878)**	(7,577)
Acquisition of financial assets available for sale	**(98,731)**	**(1,639,455)**	(6,579,899)
Receipt of financial assets available for sale	**206,958**	**1,788,157**	6,490,978
Acquisition of financial assets held to maturity	**(66,566)**	**(144,092)**	(24,115)
Receipt of financial assets held to maturity	**30,409**	**34,904**	78,327
Acquisition of financial assets for trading		**(2,116,828)**	-
Receipt of financial assets for trading	**-**	**1,889,558**	-
Net cash used in investing activities	**67,617**	**(193,634)**	(42,286)
Cash flow from financing activities			
Capital increase (Note 15.a)	**24,621**	**73,860**	24,960
Interest on equity	**(25,000)**	**(25,000)**	(50,000)
Net cash from financing activities	**(379)**	**48,860**	(25,040)
Increase (decrease) in cash and cash equivalents, net	**13,418**	**(265,072)**	224,945
Cash and cash equivalents at beginning of period (Note 3)	**76,561**	**355,154**	121,294
Exchange gains (losses) on cash	**331**	**228**	8,915
Cash and cash equivalents at end of period	**90,310**	**90,310**	355,154

See accompanying notes.

1. Operations

Banco de Desenvolvimento de Minas Gerais S.A. (BDMG) is a privately-held corporation run by the state of Minas Gerais and governed by the Brazilian Corporation Law, and applicable National Financial System regulations and Minas Gerais government legislation.

As part of its business purpose, BDMG's activities include the social and economic 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 a financial agent and/or manager of other funds that 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 creates opportunities for the implementation/expansion of companies with significant interest for the development of the State of Minas Gerais through investments in these companies.

On February 19, 2020, the Board of Directors approved the financial statements and authorized their disclosure.

2. Summary of significant accounting policies

2.1. Basis of preparation

The financial statements were prepared in accordance with accounting practices adopted in Brazil, which include the accounting guidelines contained in Law No. 6404/1976 and the changes introduced by Laws No. 11638/2007 and No. 11941/2009 to record the transactions, together with the rules and instructions of the National Monetary Council (CMN) and the Central Bank of Brazil (BACEN), and disclose all (and only) the applicable significant information related to the financial statements, which is consistent with the information used by management in the performance of its duties.

The Brazilian Financial Accounting Standards Board (CPC) issued pronouncements related to the process of convergence with the international accounting standards. However, not all of them were ratified by BACEN. Accordingly, the Bank, in the preparation of the financial statements, adopted the following pronouncements ratified by BACEN:

- CMN Resolution No. 3566/2008 - CPC 01 - Impairment of Assets;
- CMN Resolution No. 3604/08 - CPC 03 (R2) – Statement of Cash Flows;
- CMN Resolution No. 4007/11 - CPC 23 - Accounting Policies, Changes in Accounting Estimates and Errors;

2. Summary of significant accounting policies (Continued)

2.1. Basis of preparation (Continued)

- CMN Resolution No. 3973/2011 – CPC 24 – Events after the Reporting Period;
- CMN Resolution No. 3750/2012 – CPC 05 (R1) – Related-Party Disclosures;
- CMN Resolution No. 3823/2012 - CPC 25 - Provisions, Contingent Liabilities and Contingent Assets;
- CMN Resolution No. 4144/2012 - CPC 00 (R1) – Conceptual Framework for Financial Reporting;
- CMN Resolution No. 4424/2015 - CPC 33 (R1) - Employee Benefits;
- CMN Resolution No. 4534/2016 - CPC 04 (R1) - Intangible Assets.

Operational structure for preparation of financial statements

The Bank has an accounting technology structure based on a number of operating systems that are integrated to the accounting system. The major operating systems (that is, those related to the controls over loans, financial management, and equity) were developed internally and are responsible for the majority of the entries. In addition, the Bank contracts third-party operating systems that are necessary to perform and control additional activities.

The Bank adopts information security practices to guarantee the confidentiality, integrity, availability, and authenticity of the information necessary for maintenance of its business.

2.2. Foreign currency translation

a) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates (“functional currency”). The financial statements are presented in Brazilian Reais, which is the Bank’s functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or the dates of valuation when items are remeasured.

2. Summary of significant accounting policies (Continued)

2.2. Foreign currency translation (Continued)

b) Transactions and balances (Continued)

Exchange gains and losses arising from the settlement of these transactions and translation at the exchange rate at period end, referring to monetary assets and liabilities denominated in foreign currency, are recognized in the statement or profit or loss.

Exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss as a subitem of financial intermediation, except for the debit balances arising from exchange differences in loans, which are reclassified as other operating expenses, and the credit balances arising from exchange differences in funding expenses and payables due to borrowings and onlending, which are reclassified as other operating income.

Assets and liabilities in foreign currency are translated into local currency (Brazilian reais) at the exchange rate on the statement of financial position date. At December 31, 2019, the applicable exchange rate was US$1.00 = R$4.0307 (2018: US$1.00 = R$3.8748) and €1.00 = R$4.5305 (2018: €1.00 = R$4.4390).

2.3. Cash and cash equivalents

Cash and cash equivalents, according to CMN Resolution No. 3604/2008, include cash, bank deposits both in Brazil and abroad, and highly liquid short-term investments, without significant risk of changes in the amount and limits, falling due within 90 days, at the acquisition date, which are used by the Bank to manage its short-term commitments (Note 3).

2.4. Interbank investments

Repurchase agreements are adjusted to market value. Other assets are stated at acquisition cost, plus earnings accrued up to the statement of financial position date, net of valuation allowance, where applicable

2. Summary of significant accounting policies (Continued)

2.5. Marketable securities

In accordance with BACEN Circular No. 3068/2001 and supplementary regulations, marketable securities are classified according to management's intentions, taking into consideration the following accounting criteria:

(i) Trading securities: securities purchased in order to be frequently and actively traded. They are recorded at market value, and the realized and unrealized gains and losses are recorded directly in the statement of profit or loss for the period.

(ii) Securities available for sale: marketable securities used as part of the cash flow management strategy. These securities are recorded at market value, with accrued income (yield curve) recognized in the statement of profit or loss for the year, and gains and losses arising from market value variations, not yet been realized, are recorded as Equity adjustments under Equity, net of the related tax effects. Gains and losses, when realized, are recorded in the statement of profit or loss for the year after being specifically identified on the trading date, matched against equity, net of the related tax effects

(iii) Securities held to maturity: securities for which management has the intent and financial ability to hold to maturity, recorded at cost of acquisition, plus accrued earnings, recognized in the statement of profit or loss for the year. Financial ability is defined based on cash flow projections, not considering the possibility of early redemption of these securities. Decreases in the market value of securities available for sale and held to maturity below their respective costs, for reasons not considered temporary, are recorded in the statement of profit or loss as realized losses.

Management establishes guidelines for the classification of marketable securities within the categories defined in BACEN Circular No. 3068/2001. The classifications of the securities in the portfolio, as well as those acquired during the period, are assessed from time to time and on a systematic basis, according to these guidelines. As established in article 5 of this Circular, the marketable security classification reassessment can only be made at the statement of financial position date. In addition, transfers from the “held to maturity” category can only be made due to an isolated, unusual, non-recurring and unpredicted event occurring after the date of classification.

2. Summary of significant accounting policies (Continued)

2.6. Derivative financial instruments

In accordance with BACEN Circular No. 3082/2002 and subsequent regulations, derivative financial instruments are classified based on management's intent to use them for hedging purposes or not.

The type of derivative financial instrument used by BDMG is swap, for the purpose of mitigating the risks arising from fluctuations in foreign currencies and interest rates on funds from borrowings contracted abroad.

Derivatives, as mentioned in Note 6, are measured at fair value and accounted for as assets, when positive, and as liabilities, when negative. Changes in fair value are posted to the statement of profit or loss.

Management and monitoring of risks concerning transactions with derivative financial instruments are compliant with the Bank's policies and strategies.

2.7. Loans and allowance for loan losses

Loans are stated at realizable values including, when applicable, earnings accrued on a daily *pro rata* basis, based on the index variation and contractual interest rate. The earnings accrued on overdue loans are recorded as revenues up to the 59th day and, as of the 60th day, they are no longer accrued, with recognition in profit or loss only when the installments are effectively received, as established by article 9 of CMN Resolution No. 2682/1999.

Renegotiated transactions are maintained, at least, at the same risk level in which they were classified before the renegotiation. However, when there are significant facts that justify a change in the risk level, the renegotiated transaction is reclassified to a lower risk rating. When renegotiated, loans that had already been written off against the allowance and recorded in memorandum accounts remain classified in risk level H, and may subsequently be reclassified to a lower-risk category due to a significant event. Any gains arising from the renegotiations are only recognized when effectively received.

2. Summary of significant accounting practices (Continued)

2.7. Loans and allowance for loan losses (Continued)

Allowance for loan losses is set up based on the criteria to classify credit risk related to customers and operations defined by CMN Resolution No. 2682/1999, grounded on analysis of outstanding balances of transactions, the value of guarantees, history of losses, and risks of the portfolio.

2.8. Credit assignment

In accordance with accounting practices established by the Central Bank of Brazil up to September 30, 2011, credits assigned, with or without guarantee, to other financial institutions and funds were written off from the portfolio at the time of disposal, and immediately recognized in the statement of profit or loss, and assignments with guarantee were recorded in memorandum accounts.

CMN Resolution No. 3533/2008 currently in effect changed, as of January 1, 2012, the form of recognition of credit assignment operations, carried out as of 2012, establishing procedures for classification and disclosure of disposals or transfers of financial assets. Based on this Resolution, the maintenance or derecognition of the financial asset is related to the substantial retention of the risks and rewards of the operation.

For balances assigned before January 1, 2012, there were no retroactive changes in the criteria for the recognition of credit assignments.

BDMG did not carry out credit assignments as from 2012, therefore these changes had no impacts on its financial statements.

2.9. Other current and noncurrent assets

These assets are stated at realizable values including, where applicable, earnings accrued on a daily *pro rata* basis, less the related unearned income.

2.10. Investments

Investments are recorded at cost and adjusted to market value through the recording of a provision for effective loss.

(In thousands of reais, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.11. Property and equipment in use and intangible assets

Property and equipment in use, except acquisitions prior to 1995, which were price-level restated according to the regulations effective at the time, and intangible assets are recorded at the cost of acquisition, net of the related accumulated depreciation and amortization, and adjusted for impairment if the annual impairment tests indicate that these assets are recognized for an amount above their recoverable amount.

Depreciation and amortization of these assets are calculated using the straight-line method considering their costs and residual values over their estimated useful lives, as follows:

	Years
Real estate	20
Facilities, furniture and equipment	10
Data processing system	5
Other	10
Intangible assets (software)	5

When the carrying amount of an asset exceeds its estimated recoverable amount (Note 10.b), an allowance is set up to adjust the carrying amount of this asset to its recoverable amount.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized under Non-operating income (expenses), in the statement of profit or loss.

2.12. Current and noncurrent liabilities

These are stated at known or estimated amounts including, where applicable, accrued charges calculated on a daily *pro rata* basis, less expenses to be appropriated.

2.13. Contingent assets and liabilities and legal obligations - tax and social security

They are evaluated, recognized and disclosed in accordance with CMN Resolution No. 3823, dated December 16, 2012, and BACEN Circular Letter No. 3429, dated February 11, 2010, taking into account Accounting Pronouncement CPC 25, issued by the CPC.

2. Summary of significant accounting policies (Continued)

2.13. Contingent assets and liabilities and legal obligations - tax and social security (Continued)

Contingent assets: these are not recognized, except when management has total control over the situation or when there is security interest or favorable court decisions, in respect of which there can be no further appeals, considering the gain as virtually certain and confirming the capacity of recovery by receipt or offset.

Contingent liabilities: these are recognized in the financial statements when, based on the opinion of legal advisors and management, the nature of the proceedings, the similarity with previous proceedings, and case laws, the likelihood of an unfavorable outcome of a legal or administrative proceeding is considered probable, requiring a probable cash outflow for settlement of the obligations, and when the amounts involved can be reliably measured. Contingent liabilities classified as involving possible losses are not accounted for and are disclosed in the notes to the financial statements when the amounts involved are individually significant. Contingent liabilities classified as remote losses are not provided for nor disclosed (Note 13).

Legal obligations tax and social security: these derive from legal proceedings related to tax obligations, challenging their constitutionality, and are fully recognized in the financial statements, regardless of the likelihood of a favorable outcome (Note 13).

2.14. Current and deferred income and social contribution taxes

The provision for income tax is recorded at the base rate of 15% of taxable profit, plus 10% surtax. Provision for social contribution tax on adjusted net income was recorded at the rate of 15% up to January 1, 2019, and at 20% in the period from September 1, 2015 to December 31, 2018, as established by Provisional Executive Order No. 675/2015, signed into Law No. 13169/2015 (Note 19.a).

BDMG tax credits arise from temporary differences related to expenses added to the tax bases that are temporarily not admitted as deductible. Those credits are set up at the rates that will be applied on their realization, to wit:

- Income tax (IRPJ): base rate of 15% of taxable profit, plus 10% surtax;

2. Summary of significant accounting policies (Continued)

2.14. Current and deferred income and social contribution taxes (Continued)

- Social contribution tax on net profit (CSLL): 15% of taxable profit, until February 29, 2020, and 20%, as of March 1, 2020, as per article 32 of Amendment to Constitution No. 103, of November 12, 2019.

Income and social contribution tax credits are reviewed at each statement of financial position date and are accrued on temporary additions and exclusions, based on applicable legislation on the date they are accrued. These tax credits will be realized upon the effective use and/or reversal of the amounts on which they have been accrued.

Deferred income and social contribution tax assets are recognized to the extent that future taxable profit is likely to be available against which the temporary differences can be used.

Deferred income and social contribution tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15. Employee benefits

The Bank offers to its active employees and retirees the following benefits:

(i) Pension benefits: provides employees with supplementary retirement remuneration to that guaranteed by the General Social Security Regime (RGPS). BDMG sponsors defined benefit pension plans (which were closed to new enrolments on November 10, 2011) and variable contribution pension plans.

(ii) Healthcare and dental care benefit: this plan provides coverage for medical and dental expenses to its participants. This benefit, made through partial payment of the monthly contribution by the Bank, was, until February 22, 2018, guaranteed to all active employees. Since that date, it has been assured to then participants and active employees who joined the Voluntary Termination Plan, whose term of enrollment ended April 30, 2018. For the other employees, after that date, the benefit was assured while they remained as active participants.

2. Summary of significant accounting policies (Continued)

2,15. Employee benefits (Continued)

(iii) Life insurance: this benefit is sponsored by the Bank, which pays part of the premium of the group life insurance policy and, as from February 22, 2018, is ensured to active employees and pensioner members who had the benefit on that date.

These active employees may remain bound to the plan when they become pensioner members, and are responsible for the total contribution due;

(iv) Voluntary employment termination program: the objective of this Program, when implemented, is to benefit the employees in condition to retire and who meet the requirements established in its regulation. In 2018, the program was opened in March with deadline for enrolment on April 30 of the same year.

(v) Other benefits: the Bank also offers to its active employees other benefits, such as profit sharing and six-month maternity leave, and grants lifetime pension benefits to a pensioner member.

Except for “Other benefits” for active employees, all post-employment benefits granted by the Bank are accounted for in accordance with CPC 33 (R1) - Employee Benefits, as approved by CMN Resolution No. 4424/2015.

The Bank complies with this standard when accounting for the benefits concerning the performance of the actuarial study on which the accounting records are based. The actuarial study used by the Bank is made annually for the reporting date of December 31 and adjusted on a six-month basis for the reporting date of June 30.

Information on recognition of employee benefits is detailed in Note 24.

2.16. Employee profit sharing

Profit sharing is defined through a collective agreement and the related provision is recorded based on a percentage of the profit, adjusted at year end after the profit for the year is calculated.

2.17. Capital

The capital of BDMG, recorded in equity, comprises common shares with no par value.

(In thousands of reais, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.18. Recognition of profit or loss

Profit or loss is determined on an accrual basis and adjusted by the attributable income and social contribution taxes on taxable profit and, where applicable, by deferred income and social contribution taxes that will be recoverable or payable in subsequent years, except in relation to gains on renegotiated loans, which are allocated to profit or loss on a cash basis, as established by CMN Resolution No. 2682/1999.

2.19. Dividends

In compliance with the Brazilian Corporation Law, the Bank's articles of incorporation provide shareholders with a minimum dividend corresponding to 1% of net income for the year.

2.20. Related parties

The disclosures on related parties included in the accompanying notes to the financial statements are in accordance with CMN Resolution No. 4636/2018. According to this regulation, the Bank discloses its transactions with related parties, which could affect its financial position and profit or loss. Legal entities and individuals that meet the criteria of BDMG's internal Resolution No. 209-A/2018 are considered related parties. The related parties with which the Bank carried out transactions during the period are disclosed in Note 20.

2.21. Interest on equity

BDMG determines interest on equity under the terms of Law No. 9249/1995 and credits it to its shareholders. Shareholders have made it a practice to reinvest interest in the Bank's capital, net of taxes, when due.

3. Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits both in Brazil and abroad, and highly liquid investments, without a significant risk of change in value, falling due within 90 days, on the acquisition date.

	2019	2018
Available funds	**1,606**	393
Funds in foreign currency	**7,497**	7,496
Interbank investments	**81,207**	297,863
Marketable securities (i)	**-**	49,402
	90,310	355,154

(In thousands of reais, unless otherwise stated)

(i) These refer to Financial Treasury Bills (LTF) maturing within 90 days as from acquisition date.

4. Interbank investments

	2019	2018
Investments in repurchase agreements – own portfolio:		
Financial Treasury Bills (LFT)	**81,207**	297,863
Interbank deposits	**8,191**	10,585
Provision for loss on interbank deposits (i)	**(8,191)**	(10,585)
	81,207	297,863
Current	**81,207**	297,863

(i) The provision for loss on interbank deposits refers to security acquired from a financial institution that is currently undergoing bankruptcy proceedings.

Interbank investments mature as follows:

	Overdue	Within 30 days	Total
Financial Treasury Bills (LFT)	**-**	**81,207**	**81,207**
Interbank deposits	**8,191**	**-**	**8,191**
Provision for losses	**(8,191)**	**-**	**(8,191)**
Balance at December 31, 2019	**-**	**81,207**	**81,207**
Balance at December 31, 2018	-	297,863	297,863

(In thousands of reais, unless otherwise stated)

5. Marketable securities

a) Portfolio breakdown

The marketable security portfolio comprises the following securities:

	2019			2018		
	Number	Curve yield	Market value	Number	Curve yield	Market value
Unrestricted securities						
Financial Treasury Bills (LFT)	**66,813**	**699,515**	**699,487**	61,585	608,213	608,239
National Treasury Notes (NTN)	**14,200**	**50,950**	**46,889**	21,000	74,305	68,768
CDB		**-**	**-**	244,947,180	554	554
Debentures	**67,154**	**82,159**	**82,159**	30	7,256	7,256
Provision for debentures (i)		**-**	**(50,557)**		-	-
Deposit insurance fund (FGC)	**874,836**	**2,402**	**2,402**	874,836	1,976	1,976
Variable income securities		**95,874**	**95,874**		95,873	95,873
Loss due to impairment of securities		**-**	**(57,028)**		-	(57,028)
Market value adjustment		**-**	**11,298**		-	(5,807)
Investment in commodities		**49,502**	**49,502**		24,691	24,691
Provision for rural credit bill		**-**	**(211)**		-	(67)
Fund shares						
Emerging companies (FIEE)	**125**	**2,182**	**2,182**	125	2,207	2,207
Equity funds (FIP)	**16,416,117**	**34,698**	**34,698**	16,812,047	24,194	24,194
Fixed income investment funds (FI)	**15,669,511**	**96,630**	**96,630**	15,669,511	91,009	91,008
Total unrestricted securities		**1,113,912**	**1,013,325**		930,278	861,864
Securities linked to capital increase						
- National Treasury Notes (NTN)	**6,800**	**24,399**	**24,399**		-	-
Securities linked to guarantees given						
Financial Treasury Bills (LFT)		**-**	**-**	1,100	10,865	10,864
		1,138,311	**1,037,724**		941,143	872,728
Current			**123,631**			163,679
Noncurrent			**914,093**			709,049

(i) In accordance with CMN Resolution No. 2682/1999, the provision for debentures is based on the credit risk of the issuer, as these securities are a form of financial support, rather than a financial investment (Note 5.b ii).

(In thousands of reais, unless otherwise stated)

5. Marketable securities (Continued)

b) Classification of marketable securities

Considering the Bank's intentions and financial capacity, the securities in the marketable security portfolio are classified as follows, as established by BACEN Circular No. 3068/2001:

	2019		2018	
	Curve yield	**Market value**	**Curve yield**	**Market value**
Securities available for sale (i)	**796,910**	**751,156**	834,337	771,526
LFT	**565,124**	**565,100**	608,213	608,239
From 31 to 60 days	**-**	**-**	49,402	49,402
More than 360 days	**565,124**	**565,100**	558,811	558,837
Investment fund shares	**135,912**	**135,912**	119,386	119,385
Within 30 days	**96,630**	**96,630**	91,009	91,008
From 181 to 360 days	**10,625**	**10,625**	-	-
More than 360 days	**28,657**	**28,657**	28,377	28,377
Variable income securities	**95,874**	**50,144**	95,873	33,038
More than 360 days	**95,874**	**50,144**	95,873	33,038
LFTs linked to guarantees given	**-**	**-**	10,865	10,864
More than 360 days	**-**	**-**	10,865	10,864
Securities held to maturity (ii)	**207,010**	**152,181**	106,806	101,202
NTN	**50,950**	**46,889**	74,305	68,768
More than 360 days	**50,950**	**46,889**	74,305	68,768
Debentures (*)	**82,159**	**31,602**	7,256	7,256
Within 30 days	**-**	**-**	605	605
From 31 to 60 days	**-**	**-**	605	605
From 61 to 90 days	**604**	**598**	604	604
From 91 to 180 days	**-**	**-**	1,814	1,814
From 181 to 360 days	**1,748**	**1,731**	3,628	3,628
More than 360 days	**79,807**	**29,273**	-	-
CDB	**-**	**-**	554	554
More than 360 days	**-**	**-**	554	554
NTN linked to capital increase	**24,399**	**24,399**	-	-
More than 360 days	**24,399**	**24,399**	-	-
Investment in commodities	**49,502**	**49,291**	24,691	24,624
Within 30 days	**3,523**	**3,507**	188	188
From 31 to 60 days	**278**	**278**	-	-
From 61 to 90 days	**278**	**278**	-	-
From 91 to 180 days	**1,310**	**1,310**	-	-
From 181 to 360 days	**8,719**	**8,674**	15,892	15,825
More than 360 days	**35,394**	**35,244**	8,611	8,611
Trading securities (iii)	**134,391**	**134,387**	-	-
LFT	**134,391**	**134,387**	-	-
More than 360 days	**134,391**	**134,387**	-	-
	1,138,311	**1,037,724**	941,143	872,728
Current		**123,631**		163,679
Noncurrent		**914,093**		709,049

(In thousands of reais, unless otherwise stated)

5. Marketable securities (Continued)

b) Classification of marketable securities (Continued)

i) *Securities classified as available for sale.*

BDMG's marked-to-market government securities classified as available for sale consider the quotations disclosed by the Brazilian Association of Financial and Capital Market Entities (ANBIMA) for the secondary market of such securities.

The variable income securities classified in this category refer to the BDMGTEC shareholdings that were added to the portfolio upon merger of that company by BDMG (Note 10.a). These securities are recorded at fair value and reduced by the corresponding impairment losses as applicable.

This category also includes investment fund shares that, because they are not traded in the active market, are recorded at acquisition value.

ii) *Securities classified as held to maturity*

Securities classified in this category are as follows:

Debentures

Debentures are acquired as financial support rather than for financial investment purposes. A provision is recorded for the credit risk of the issuer, pursuant to CMN Resolution No. 2682/1999.

Acquisition	Number	Maturity date	2019	2018
January/2015	30	12/23/2019	**-**	7,256
January/2019	67,144	01/11/2024	**72,080**	-
November/2019	10	10/15/2022	**10,079**	-
			82,159	7,256
Provision for credit risk			**(50,557)**	-
Current value			**31,602**	7,256

(In thousands of reais, unless otherwise stated)

5. Marketable securities (Continued)

b) Classification of marketable securities (Continued)

ii) *Securities classified as held to maturity* (Continued)

National Treasury Notes (NTN)

At June 30, 2015, the Bank reclassified the following security from “available for sale” to “held to maturity”:

	Number	Maturity date	2019	2018
NTN-B	21,000	08/15/2022	**75,349**	74,305
Market value adjustment			**(4,061)**	(5,537)
Current value			**71,288**	68,768

At the reclassification date, the balance of R$15,178 was recorded as a separate component in equity referring to unrealized gains. Due to the reclassification, this amount will be allocated to profit or loss up to the maturity dates of the securities.

In 2019, R$1,477 (R$2,418 in 2018) was allocated to profit or loss, resulting in R$11,117 already allocated.

iii) *Trading securities*

This category includes:

	Number	Maturity date	2019	2018
LFT	12,836	03/01/2021	**134,387**	-
Total			**134,387**	-

(In thousands of reais, unless otherwise stated)

5. **Marketable securities** (Continued)

b) Classification of marketable securities (Continued)

iii) *Trading securities* (Continued)

(a) Marketable securities are classified according to the following maturities:

	Up to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 360 days	More than 360 days	Total
Federal government securities	**-**	**-**	**-**	**-**	**-**	**770,775**	**770,775**
Debentures	**-**	**-**	**598**	**-**	**1,731**	**29,273**	**31,602**
Deposit insurance fund (FGC)	**-**	**-**	**-**	**-**	**-**	**2,402**	**2,402**
Investment fund shares	**96,630**	**-**	**-**	**-**	**10,625**	**26,255**	**133,510**
Floating income securities	**-**	**-**	**-**	**-**	**-**	**50,144**	**50,144**
Investment in commodities	**3,507**	**278**	**278**	**1,310**	**8,674**	**35,244**	**49,291**
Balance at December 31, 2019	**100,137**	**278**	**876**	**1,310**	**21,030**	**914,093**	**1,037,724**
Balance at December 31, 2018	91,801	50,007	604	1,814	19,453	709,049	872,728

(b) Equity adjustments of marketable securities

The changes in the period in amounts recorded under “Equity adjustments” in equity, which refer to adjustments of the Bank’s securities classified as available for sale, were as follows:

	Unrealized gains (losses)	Tax effects	Mark to market
Balance at December 31, 2018	(11,319)	5,198	(6,121)
Adjustment in the period	**18,533**	**(9,089)**	**9,444**
Balance at December 31, 2019	**7,214**	**(3,891)**	**3,323**

6. Derivative financial instruments

In order to hedge against possible risks inherent in external funding agreements, the Bank uses swap derivative financial instruments.

For the contracting of derivative instruments, the Bank observes the regulations in force regarding the risk control policy, the protection strategies established, the operation limits determined and ways for its monitoring.

Derivatives are recorded at fair value and held as assets when positive, and as liabilities, when negative. They are subsequently revalued also at fair value, with the valuations or devaluations recognized directly in profit or loss for the period, since such derivatives are intended to offset, in whole or in part, the risks arising from changes in the market value of the hedged financial assets or liabilities and are therefore considered market risk hedges. These derivatives, as well as related financial assets and liabilities, are adjusted to market value and gains and losses are posted directly to profit or loss.

For swap derivatives contracted to hedge the risks of external funding, whenever the conditions set forth in BACEN Circular No. 3082/2001 occur, the Bank applies the hedge accounting methodology, accounting for external funding operations (hedged items) and derivative financial instruments (hedging instruments) based on their market value. Thus, the variation in the hedged item is offset by the variation in the hedging instrument considering the cumulative effect of the transaction.

This accounting procedure can only be adopted when the following conditions exist: (i) there are documents identifying the risk subject to hedge with detailed information on the transaction and; (ii) the effectiveness of the hedge remains at a percentage within the range established by the aforementioned Circular Letter.

The methodology used by the Bank in establishing the market value of swap long and short positions accounted for under the hedge accounting procedure considers the weighting factors calculated at the contracting date and which, at that date, are equal to the market value and curve yield of the transactions. The purpose of using weighting factors is to mitigate the credit risk spread distortion in the calculation of the market value.

(In thousands of reais, unless otherwise stated)

6. Derivative financial instruments (Continued)

At the beginning of the operation, as established in BACEN Circular No. 3082/2001, BDMG conducts the effectiveness test, the initial prospective test of the hedge structure, and periodically assesses the effectiveness through prospective and retrospective tests, upon preparation of the semi-annual and annual financial statements, through calculation of the ratio of the market value variation of the hedging instrument's long position and the market value variation of the hedged item.

The Bank, as a result of the conditions established in the swap agreements, records the following amounts related to the risk mitigation provisions:

	2019	2018
Funding in interbank deposits	**40,420**	71,704

The positions of the derivatives contracted by the Bank are detailed below:

a) Foreign borrowings hedged by derivative instruments

					2019		2018	
	Commencement	**End**	**Index**	**Funding**	**Balance (foreign currency)**	**Curve**	**Balance (foreign currency)**	**Curve**
CAF 1	09/27/2013	09/27/2023	Libor 6M + 3.65% p.a.	**US$15,000**	**7,165**	**28,875**	8,969	34,748
CAF 2	10/21/2013	10/23/2023	Libor 6M + 3.65% p.a.	**US$30,000**	**14,274**	**57,527**	17,865	69,212
CAF 3	12/19/2013	12/19/2023	Libor 6M + 3.65% p.a.	**US$30,000**	**14,144**	**57,001**	17,686	68,517
BID	08/04/2014	08/16/2021	Libor 6M + 2.25% p.a.	**US$50,000**	**18,480**	**74,478**	27,770	107,587
AFD3	02/02/2017	11/28/2025	Euribor 6M + 2% p.a.	**€$15,000**	**7,317**	**33,140**	11,685	51,849
						251,021		331,913
Market value adjustment						**1,783**		2,990
Market value						**252,804**		334,903

In November 2019, as a result of having onlent, with full transfer of the currency and interest rate risks, part of the funds raised from AFD-Tranche 3, the Bank partially settled the swap contracted to hedge this funding. , reducing the base value of the contracted swap operation by R$10,754.

(In thousands of reais, unless otherwise stated)

6. Derivative financial instruments (Continued)

b) Swap amounts recorded

The derivative financial instruments are summarized as follows:

			2019	2018
	Notional value (memorandum account)	Amount receivable/ payable (asset/liability account)	Net effect (profit or loss account)	Net effect (profit or loss account)
(US$ + Libor + Rate) x (BRL + %CDI) (1)	**178,886**	**41,850**	**7,955**	38,895
(EUR + Euribor +Rate) x (BRL+ %CDI) (1)	**36,858**	**7,430**	**(1,612)**	4,321
(US$ + Libor + Rate) x (BRL + %CDI) (2)	**-**	**-**	**-**	(3,362)
	215,744	**49,280**	**6,343**	39,854

Notes:

(1) Refers to difference receivable from contracted operations.

(2) Refers to difference payable from contracted operations.

c) Swaps by index

	2019	2018
Long position – Difference receivable	**49,280**	54,755
Foreign currency	**49,280**	54,755
Short position – Difference payable	**-**	(1,108)
Foreign currency	**-**	(1,108)
Net exposure	**49,280**	53,647

(In thousands of reais, unless otherwise stated)

6. Derivative financial instruments (Continued)

d) Swaps by maturity

	More than 360 days	Total
Long position – Difference receivable		
Foreign currency	**49,280**	**49,280**
Interest	**-**	**-**
Total - 12/31/2019	**49,280**	**49,280**
Total - 12/31/2018	54,755	54,755
Short position – Difference payable		
Foreign currency	**-**	**-**
Interest	**-**	**-**
Total - 12/31/2019	**-**	**-**
Total - 12/31/2018	(1,108)	(1,108)
Net exposure - 12/31/2019	**49,280**	**49,280**
Net exposure - 12/31/2018	53,647	53,647

e) Swaps by index and notional amount

	Notional amount	Curve yield	Mark to market	Market value
Long position – Difference receivable				
(US$ + Libor + Rate) x (BRL + %CDI)	**178,886**	**36,511**	**5,339**	**41,850**
(EUR+ Euribor + Rate) x (BRL + %CDI)	**36,858**	**6,093**	**1,337**	**7,430**
Total - 12/31/2019	**215,744**	**42,604**	**6,676**	**49,280**
Total - 12/31/2018	245,442	47,974	6,781	54,755
Short position – Difference payable				
(US$ + Libor + Rate) x (BRL + % CDI)	**-**	**-**	**-**	**-**
(EUR + Euribor + Rate) x (BRL + % CDI)	**-**	**-**	**-**	**-**
(US$ + Rate) x (BRL + % CDI)	**-**	**-**	**-**	**-**
Total - 12/31/2019	**-**	**-**	**-**	**-**
Total - 12/31/2018	35,797	(1,723)	615	(1,108)
Net exposure - 12/31/2019	**215,744**	**42,604**	**6,676**	**49,280**
Net exposure - 12/31/2018	281,239	46,251	7,396	53,647

(In thousands of reais, unless otherwise stated)

7. Loans and credits similar to loans

BDMG's loans receivable portfolio is as follows:

	Total	Allowance	Net
Loans	**4,488,223**	**(432,349)**	**4,055,874**
Credits similar to loans	**16,437**	**(264)**	**16,173**
Balance at 12/31/2019	**4,504,660**	**(432,613)**	**4,072,047**
Balance at 12/31/2018	5,193,284	(555,624)	4,637,660

Of the total loans of R$4,504,660 (R$5,193,284 in 2018), the amount of R$1,732,427 (R$1,821,035 in 2018) was granted with own resources and R$2,772,233 (R$3,372,249 in 2018), originally, with onlending received from other financial institutions.

Loans renegotiated at December 31 totaled R$916,257 (R$1,047,107 in 2018).

a) Classification by product and segment of activity

	2019	2018
Loans	**761,780**	1,033,081
Manufacturing	**397,337**	578,005
Commerce	**181,616**	227,884
Other services	**182,827**	227,192
Financing to the private sector	**3,112,474**	3,452,587
Manufacturing	**1,168,546**	1,323,104
Commerce	**187,713**	156,114
Other services	**787,563**	920,230
Rural and agribusiness	**967,030**	1,048,840
Financial intermediaries	**390**	1,043
Individuals	**1,232**	3,256
Financing to the public sector (municipal direct and indirect administrations)	**613,969**	688,781
Credits similar to loans	**16,437**	18,835
Subtotal	**4,504,660**	5,193,284
Allowance for loan losses	**(432,349)**	(555,120)
Allowance for losses on credits similar to loans	**(264)**	(504)
	4,072,047	4,637,660
Current	**1,242,424**	1,513,505
Noncurrent	**2,829,623**	3,124,155

(In thousands of reais, unless otherwise stated)

7. Loans and credits similar to loans (Continued)

b) Classification by maturity and risk levels

	Overdue		Falling due						2019	2018
Risk level	From 15 to 90	Over 90	Up to 90	From 91 to 360	From 361 to 1,080	From 1,081 to 1,800	From 1,800 to 5,400	Over 5,400	Total	Total
AA	2,338	-	110,608	279,840	718,279	501,409	210,198	-	1,822,672	2,044,439
A	1,907	-	44,109	141,154	258,482	121,240	55,293	45	622,230	759,881
B	3,219	-	95,061	219,780	213,497	84,811	81,849	32,633	730,850	598,401
C	27,579	641	56,770	133,245	169,017	91,976	40,595	-	519,823	707,829
D	16,734	1,428	23,038	54,684	104,774	104,560	24,221	-	329,439	480,748
E	9,433	10,147	13,605	14,616	26,093	14,138	9,465	-	97,497	136,049
F	10,507	2,051	1,586	3,183	7,166	5,425	5,054	766	35,738	35,928
G	3,645	20,505	1,210	2,569	14,556	16,990	12,044	-	71,519	50,024
H	25,318	18,125	4,939	15,267	38,842	33,394	38,859	100,148	274,892	379,985
	100,680	52,897	350,926	864,338	1,550,706	973,943	477,578	133,592	4,504,660	5,193,284

(In thousands of reais, unless otherwise stated)

7. Loans and credits similar to loans (Continued)

c) Classification by risk level and allowance

		2019			2018	
Risk level:	**%**	**Portfolio**	**Allowance for credit risks based on minimum required percentages**	**Allowance for loan losses**	**Portfolio**	**Allowance for loan losses**
AA	0	**1,822,672**	**-**	**-**	2,044,439	-
A	0.5	**622,230**	**(3,111)**	**(3,111)**	759,881	(3,799)
B	1	**730,850**	**(7,309)**	**(7,309)**	598,401	(5,990)
C	3	**519,823**	**(15,595)**	**(16,025)**	707,829	(21,235)
D	10	**329,439**	**(32,944)**	**(34,054)**	480,748	(50,650)
E	30	**97,497**	**(29,249)**	**(29,290)**	136,049	(40,984)
F	50	**35,738**	**(17,869)**	**(17,869)**	35,928	(17,964)
G	70	**71,519**	**(50,063)**	**(50,063)**	50,024	(35,017)
H	100	**274,892**	**(274,892)**	**(274,892)**	379,985	(379,985)
		4,504,660	**(431,032)**	**(432,613)**	5,193,284	(555,624)

d) Changes in allowance for loan losses

	2019		2018
	2nd half	**Year**	**Year**
Opening balance	**491,763**	**555,624**	776,092
Set-up of allowance, net of reversals	**46,072**	**103,221**	160,515
Loans written off as losses	**(105,222)**	**(226,232)**	(380,983)
Closing balance	**432,613**	**432,613**	555,624

e) Credit assignment

The balance of operations assigned with guarantee, recorded in memorandum accounts, according to the amounts shown below, refers to transactions assigned up to December 31, 2011 (prior to CMN Resolution No. 3533/2008):

	2019	**2018**
Assignment prior to CMN Resolution No. 3533/2008:		
Guarantees pending settlement	**18,856**	20,379
Transactions settled to be transferred	**40**	615
	18,896	20,994

(In thousands of reais, unless otherwise stated)

8. Other receivables

	2019	2018
Tax credits (a)	**669,972**	543,341
Debtors for deposits in guarantee (b)	**124,587**	120,349
Notes and credits receivable (c)	**2,480**	4,215
Sundry debtors – domestic (d)	**904**	1,194
Income receivable (e)	**2,470**	2,411
Other	**21,139**	27,760
Allowance for losses on other receivables (f)	**(264)**	(504)
	821,288	698,766
Current	**90,323**	91,623
Noncurrent	**730,965**	607,143

(a) Income and social contribution tax credits were calculated and recorded as disclosed in Note 19.a.

(b) The debtors for guarantee deposits refer mostly to legal disputes, especially of a fiscal and tax nature, as described in Note 13.a, where the judicial deposits bound to the related legal proceedings are described.

(c) The notes and credits receivable balance refers to the following amounts: (i) income receivable from the National Treasury Office (STN) arising from rural credit transactions financed with funds from the STN and renegotiated as determined by applicable legislation, amounting to R$2,467 (R$3,225 in 2018); and (ii) income receivable from the Fund for the Defense of the Coffee Economy (Funcafé) totaling R$13 (R$990 in 2018).

(d) The balance of sundry debtors substantially comprises the amount of R$634 (R$1,193 in 2018) relating to the non-default bonus granted to customers of rural operations renegotiated in accordance with the provisions of Law No. 9138/1995, as amended, to be returned to the Bank by the STN, and R$409 (R$0 in 2018) referring to guarantee of chattel mortgage receivable.

(e) Income receivable, net of the respective provisions, amounts to R$ 2,470 (R$2,411 in 2018) and mainly arises from remuneration for services provided, referring to commissions on loans granted with resources of the development funds administered by BDMG. The remuneration matures upon maturity of the contracted installments, and an allowance is recorded based on the percentage of the risk level under which the transaction generating the remuneration is classified. This risk classification is a result of the policy adopted by the Bank to extend to the transactions funded by resources from the managed funds the same criteria established in CMN Resolution No. 2682/1999 for loans of BDMG's own portfolio.

(f) The allowance for losses on other receivables similar to loans totals R$264 (R$504 in 2018).

(In thousands of reais, unless otherwise stated)

9. Other assets

	2019	2018
Assets not for own use	**70,327**	60,213
Equity investments	**6**	6
Other	**1,748**	190
Subtotal	**72,081**	60,409
Provision for assets not for own use	**(17,541)**	(4,198)
	54,540	56,211
Current	**324**	190
Noncurrent	**54,216**	56,021

10. Permanent assets

a) Investments

	2019	2018
Other	**1,437**	1,437
Provision for losses – shares and units of interest	**(1,147)**	(837)
	290	600

b) Property and equipment in use

	2019			2018
	Cost	Accumulated depreciation	Net amount	Net amount
Real estate	**43,832**	**(27,939)**	**15,893**	16,494
Facilities, furniture and equipment	**6,305**	**(5,697)**	**608**	558
Data processing system	**6,719**	**(6,011)**	**708**	873
Other	**515**	**(470)**	**45**	51
Construction in progress	**768**	**-**	**768**	164
	58,139	**(40,117)**	**18,022**	18,140

c) Intangible assets

	2019			2018
	Cost	Accumulated amortization	Net amount	Net amount
Intangible assets	**36,389**	**(22,342)**	**14,047**	14,649

(In thousands of reais, unless otherwise stated)

11. Deposits and funds from acceptance and issue of securities

The funds raised in Brazil are as follows:

	2019	2018
Interbank deposits (a)	**40,420**	71,704
Demand deposits	**-**	415
Time deposits (b)	**99,310**	81,571
Financial bills (c)	**89,902**	83,325
Agribusiness Credit Bills (LCA) (d)	**213,308**	329,742
	442,940	566,757
Current	**293,212**	289,647
Noncurrent	**149,728**	277,110

a) Interbank deposits

Interbank deposits are raised by the Bank to comply with the credit risk mitigation provision of derivative contracts, which requires that the party with a difference payable in excess of a given amount hold interbank deposits in the institution that is the counterparty to the transaction.

These deposits therefore constitute guarantee margins, subject to contractual charges equal to the CDI interest rate and maturities varying in accordance with the amount adjusted for coverage of the difference receivable or payable of each one of the swaps contracted.

b) Time deposits

These refer to bonds issued for fund-raising purposes and guarantees received for contracting of loans.

(In thousands of reais, unless otherwise stated)

11. Deposits and funds from acceptance and issue of securities (Continued)

c) Financial bills

The balances of funding through issue of financial bills are as follows:

	Maturity	Number	2019 Balance	2018 Balance
Type:				
Private	26/10/2020	**200**	**32,745**	30,423
Private	06/04/2020	**250**	**57,157**	52,902
		450	**89,902**	83,325
Current			**89,902**	-
Noncurrent			**-**	83,325

BDMG's financial bills are issued pursuant to CMN Resolution No. 4143/2012.

d) Agribusiness Credit Bills (LCA)

The Bank, backed by agribusiness credit transactions, started to issue LCAs as from December 2016. In compliance with applicable rules, the securities are held in custody with the OTC Clearing House (CETIP) and are backed by the Deposit Insurance Fund, with coverage limited to R$250 thousand per customer.

Regarding the years of issue, LCAs mature as follows:

Year of issue	Number	Within 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 360 days	More than 360 days	Total
2017	60,000	**-**	**-**	**49,117**	**11,751**	**-**	**11,847**	**72,715**
2018	46,292	**-**	**-**	**-**	**-**	**27,971**	**21,402**	**49,373**
2019	88,206,965	**-**	**-**	**43,758**	**3,231**	**650**	**43,581**	**91,220**
Balance at 12/31/2019		**-**	**-**	**92,875**	**14,982**	**28,621**	**76,830**	**213,308**
Balance at 12/31/2018		75,166	15,549	-	53,663	70,341	115,022	329,741

(In thousands of reais, unless otherwise stated)

12. Borrowings and onlending

a) Foreign

At December 31, breakdown of the R$314,608 (R$392,537 in 2018), referring to funds raised abroad, is as follows:

	2019		2018	
	Curve	Market	Curve	Market
Institution:				
CAF (i)	**144,613**	**145,756**	174,805	176,461
AFD (iii)	**93,733**	**94,579**	107,154	108,792
BID (ii)	**74,478**	**74,272**	107,587	107,284
		314,607		392,537
Current		**91,845**		89,980
Noncurrent		**222,762**		302,557

All contracts related to foreign funding and to the derivative instruments used to hedge this funding provide for covenants. The Bank monitors and complies with these covenants, which can also be backed by additional agreements (waivers) entered into by the parties.

At December 31, 2019, the Bank is not covered by a covenant clause for which it has waiver granted by the lender.

The funds raised overseas by institution of origin are as follows:

i) *Corporación Andina de Fomento (CAF)*

The financing of US$100 million, contracted with CAF in August 2014, with interest by reference to 6-month libor plus fixed rate of up to 3.65% p.a. and maturity within 10 years, was released in tranches in different amounts.

The tranches that present balances are as follows:

			2019			2018	
Tranche	Date of release	Maturity	Release (US$)	Curve (R$)	Market (R$)	Curve (R$)	Market (R$)
CAF 1	09/27/2013	09/27/2023	**15,000**	**28,875**	**29,075**	34,748	35,029
CAF 2	10/21/2013	10/23/2023	**30,000**	**57,527**	**57,846**	69,212	69,674
CAF 3	12/19/2013	12/19/2023	**30,000**	**57,001**	**57,625**	68,517	69,430
CAF 5 (*)	12/21/2015	12/21/2020	**1,500**	**1,210**	**1,210**	2,328	2,328
			76,500	**144,613**	**145,756**	174,805	176,461

(*) The market value of CAF 5 tranche corresponds to the curve yield, since no hedge was contracted for this tranche.

(In thousands of reais, unless otherwise stated)

12. Borrowings and onlending (Continued)

a) Foreign (Continued)

ii) *Agence Française de Développement (French Development Agency – AFD)*

In June 2013, the Bank entered into an agreement with the AFD amounting to €50 million, bearing interest at the six-month Euro Interbank Offered Rate (Euribor), plus 2% p.a. and with maturity of 12 years, to be released in tranches in different amounts. The purpose of this transaction was the financing of municipal climate-related infrastructure projects and the expansion of basic services.

The tranches released are as follows:

			2019			2018	
Tranche	**Date of release**	**Maturity**	**Release (€)**	**Curve (R$)**	**Market (R$)**	**Curve (R$)**	**Market (R$)**
AFD 1	07/22/2014	11/28/2025	**9,000**	**27,213**	**27,213**	31,109	31,109
1st tranche			**4,000**	**9,280**	**9,280**	13,826	13,826
2nd tranche			**5,000**	**17,933**	**17,933**	17,283	17,283
AFD 2	10/13/2014	11/28/2025	**7,000**	**21,165**	**21,165**	24,196	24,196
AFD 3	02/02/2017	11/28/2025	**15,000**	**45,355**	**46,201**	51,849	53,487
			31,000	**93,733**	**94,579**	107,154	108,792

iii) *Inter-American Development Bank (IDB)*

In June 2014, BDMG took out a loan with the IDB, which may be used up to the limit of US$150 million, through releases to be made in three tranches. This loan bears a floating interest rate, payable semi-annually, at 2.25% plus semi-annual *libor* rate, which may vary depending on the criteria established in the agreement for each tranche.

The tranche already released is as follows:

			2019			2018	
Tranche	**Date of release**	**Maturity**	**Release (US$)**	**Curve (R$)**	**Market (R$)**	**Curve (R$)**	**Market (R$)**
IDB	08/04/2014	08/16/2021	**50,000**	**74,478**	**74,272**	107,587	107,284

(In thousands of reais, unless otherwise stated)

12. Borrowings and onlending (Continued)

b) Official institutions

Obligations with official institutions correspond to the balances of resources obtained from official funds and programs onlent to finance projects in the state of Minas Gerais. The principal and related charges mature by 2029, and financial charges are defined in the operating policies of each agency or fund that is transferring the resources.

The balances of such obligations are as follows:

	2019	2018
BNDES (i)	**1,200,738**	1,693,309
FINAME	**1,001,278**	1,133,304
BNB	**12,784**	15,258
National treasury	**8,916**	10,777
CEF	**15,143**	15,118
FINEP	**129,896**	117,445
Funcafé	**315,750**	296,672
Fungetur	**78,615**	16,263
	2,763,120	3,298,146
Current	**932,710**	1,060,202
Noncurrent	**1,830,410**	2,237,944

The BNDES/FINAME system is the main source of onlending from BDMG to its customers.

(i) Brazilian Development Bank (BNDES) funds are mainly to finance long-term investment projects and originate from the following credit lines:

	2019	2018
BNDES FINEM	**241,358**	307,730
BNDES Automático	**237,582**	275,576
BNDES Automático PROGEREN	**122,931**	365,976
BNDES Automático GIRO	**112,923**	101,192
BNDES Automático PCA	**82,356**	89,622
BNDES Automático TJLP	**61,640**	84,059
BNDES Automático PRODECOOP	**56,704**	62,656
BNDES MPME INOVADORA	**35,382**	31,735
BNDES FINEM PSI	**34,828**	41,968
BNDES SAUDE	**28,614**	55,205
BNDES FINEM TJLP	**11,927**	27,960
Other	**174,493**	249,630
	1,200,738	1,693,309

13. Other obligations

(In thousands of reais, unless otherwise stated)

Balances related to other obligations are as follows:

	2019	2018
Tax and social security (a)	**24,392**	18,839
Contingent and other obligations (b)	**677,079**	516,760
Social and statutory (c)	**-**	49,239
Financial and development funds (d)	**87,542**	56,267
Collection and transfer of taxes	**699**	126
	789,712	641,231
Current	**68,432**	115,905
Noncurrent	**721,280**	525,326

a) Tax and social security

	2019	2018
Provision for deferred taxes and contributions	**18,065**	11,918
Provision for taxes and contributions	**62**	68
Taxes and contributions payable	**6,265**	6,853
	24,392	18,839
Current	**10,826**	11,280
Noncurrent	**13,566**	7,559

b) Sundry obligations

	2019	2018
Provision for tax obligations (i) and (ii)	**187,983**	182,297
Provision for other obligations (iii)	**65,453**	33,459
Provision for future payments (iv)	**19,661**	18,157
Actuarial liabilities (v)	**382,131**	259,317
Contribution for capital increase (iv)	**295**	180
Sundry creditors – Domestic (vii)	**21,556**	23,350
	677,079	516,760
Current	**55,150**	53,602
Noncurrent	**621,929**	463,158

(i) The provision for tax obligations refers to tax-related liabilities, including lawsuits and administrative proceedings pending judgment by the Brazilian IRS. These obligations are monthly restated based on the SELIC rate. The projection of profit or loss considers the realization of the tax credits related to this provision over a period of 10 years.

(In thousands of reais, unless otherwise stated)

13. Other obligations (Continued)

b) Sundry obligations (Continued)

The changes in the provision for tax obligations in the period were as follows:

	2018	Restatement	2019
Change in COFINS base - Law No. 9718/1998	119,536	**3,988**	**123,524**
Change in PIS/PASEP tax base – Law No. 9718/1998	62,710	**1,697**	**64,407**
Other contingencies and legal obligations	51	**1**	**52**
	182,297	**5,686**	**187,983**

(ii) To guarantee aforementioned tax proceedings, the Bank recorded judicial deposits amounting to R$121,637 (R$118,315 in 2018) included in the balance of R$124,587 (R$120,349 in 2018) under "Other receivables - Debtors for deposits in guarantee" (Note 8.b).

Judicial deposits related to the ongoing tax proceedings are as follows:

	2019		2018	
	Provision	**Deposits**	**Provision**	**Deposits**
Change in COFINS base - Law No. 9718/1998	**123,524**	**55,668**	119,536	54,078
PIS/PASEP – change in tax base established by Law No. 9718/1998	**64,407**	**64,407**	62,710	62,710
Other contingencies and legal obligations	**52**	**1,590**	51	1,540
	187,983	**121,665**	182,297	118,328

In legal proceedings relating to Contribution Tax on Gross Revenue for Social Security Financing (COFINS) and Contribution Tax on Gross Revenue for Social Integration Program (PIS/PASEP), BDMG seeks to suspend the requirement to pay such taxes, as published by Law No. 9718/1998 which, in addition to imposing COFINS on financial institutions, increased the PIS/PASEP tax base when establishing that revenue encompass gross operating and non-operating revenue. In view of decisions handed down in the course of the proceeding, the Bank made judicial deposits until December 2014 to cover COFINS contributions on service revenue. From January 2015 onwards, when changes introduced by Law No. 12973/2014 became effective, PIS/PASEP and COFINS on all revenues are paid regularly.

13. Other obligations (Continued)

b) Sundry obligations (Continued)

Although the risk of these proceedings is classified as possible loss, the Bank set up provision for tax contingencies, in line with BACEN Circular No. 3429/2010, which requires the recognition as liabilities of all tax obligations of financial institutions that discuss the constitutionality of the laws that established such obligations, up to the effective extinction of the corresponding tax credits.

In addition to the aforementioned proceedings already provisioned, the Bank set up no provision for the amount of R$66,508 (R$64,151 in 2018), rated as possible loss (Note 2.14). Significant tax contingencies are as follows:

- Fine not included in the amount deposited in court to cover COFINS contributions related to the abovementioned proceeding. The restated amount of the fine totals R$2,846 (R$ 2,798 in 2018).
- Automatic fines arising from notices served by the Brazilian IRS for collection of COFINS related to the proceedings above and not considered in the amount of the provisions set up. The restated amount of the automatic fines totals R$38,139 (R$36,333 in 2018).
- Notice served by the Brazilian IRS in July 2010 referring to differences in the income and social contribution tax calculation in the period from 2005 to 2007. The restated amount of the notice totals R$10,456 (R$10,162 in 2018).
- Notice served by the Brazilian IRS referring to exclusions carried out by the Bank from the IRPJ tax base related to taxable events in 1997 and 1998. The portion of the notice referring to 1997 is assessed as possible loss, in the restated amount of R$15,115 (R$14,856 in 2018).

The portion referring to IRPJ for 1998, in the restated amount of R$53,209 (R$52,224 in 2018) is not provisioned as the likelihood of loss is assessed as remote. As a result of the proceeding arising from this dispute, the head office of the Bank, located at Rua da Bahia nº 1600, and the attached building located at Rua Bernardo Guimarães nº 1592 have been pledged and accepted by the Finance Authorities.

(In thousands of reais, unless otherwise stated)

13. Other obligations (Continued)

b) Sundry obligations (Continued)

The Bank also has a real property (land) from assets not for own use, pledged for a municipal tax enforcement proceeding related to Service Tax (ISS). The case totals R$895 (R$0 in 2018) and no provision has been recorded given the likelihood of remote loss.

(iii) Provision for other obligations and respective changes in the period are as follows:

	2018	Provision recorded	Restatement	(Write-offs)	2019
Guarantee assumed in loans assigned to STN	3,589	**511**	**-**	**(828)**	**3,272**
Civil proceedings	1,657	**16,920**	**-**	**(170)**	**18,407**
Labor proceedings	14,404	**3,258**	**-**	**(1,481)**	**16,181**
Attorney's fees	7,697	**161**	**204**	**(6)**	**8,056**
Other (guarantees given)	6,112	**13,425**	**-**	**-**	**19,537**
	33,459	**34,275**	**204**	**(2,485)**	**65,453**

The Bank records the amount of R$2,867 (R$1,812 in 2018) as "Other receivables - Debtors for deposits in guarantee", referring to deposits for appeals filed in connection with labor proceedings, and R$84 (R$209 in 2018) for coverage of risks with civil proceedings.

Labor and civil contingencies rated as possible losses, for which no provision was recorded, amount to R$218 (R$265 in 2018) and R$850 (R$655 in 2018), respectively.

The provision for guarantees given arises from the review of the risk, pursuant to Resolution No. 2682/1999, in relation to the balance of these guarantees.

(iv) Provision for payments to be made arises from the following commitments:

	2019	2018
Vacation pay, 13th monthly salary and charges	**14,056**	12,641
Employee profit sharing	**4,612**	4,959
Other	**993**	557
	19,661	18,157

(In thousands of reais, unless otherwise stated)

13. Other obligations (Continued)

b) Sundry obligations (Continued)

(iv) The balance of the provision for actuarial liabilities, detailed in Note 24, relates to the following benefits provided by the Bank:

	2019	2018
Actuarial liability related to the Pension Plan – defined benefit	**235,851**	148,060
Actuarial liability related to the Health Promotion Program (PRO-SAÚDE), dental and health care plan	**126,841**	98,018
Actuarial liability related to life insurance	**19,439**	13,239
	382,131	259,317

(v) The balance of “Contribution for capital increase” refers to the percentage on returns of financing taken out with the Social and Economic Development Fund (FUNDESE) for capital increase applicable to the Program for Popular Credit (CREDPOP), in accordance with state Law No. 13667/2000.

(vi) The balance of “Sundry Creditors – Domestic” is mainly due to: the balance payable to the Central Bank of R$10,804 (R$13,167 in 2018) as a result of joining the Non-Tax Debt Settlement Program (PRD) in August 2017; receivables from customers to be offset, amounting to R$5,872 (R$3,026 in 2018); attorney’s fees payable in the amount of R$1,102 (R$1,405 in 2018), and amount related to sale of payroll of R$901 (R$1,141 in 2018).

c) Financial and development funds

The amount of R$ 87,542 (R$56,267 in 2018) refers to resources from funds administered by BDMG (private funds and funds related to official agencies).

14. Deferred income

The balance of R$10,147 (R$11,845 in 2018) refers to the net amount of taxes on commissions on loans received in advance and allocated according to the flow of the terms set in the agreements.

(In thousands of reais, unless otherwise stated)

15. Equity

a) Capital

The subscribed capital of BDMG comprises 67,536,820,844 (65,074,825,291 in 2018) registered common shares with no par value, totaling R$2,004,971 (R$1,931,111 in 2018).

In 2019, the Bank's capital increased by R$73,860, which was paid by shareholders through amounts they were to receive as interest on equity, net of taxes, for 2018 and 2019.
The R$49,239 increase in February 2019 was made with interest on equity funds for 2018 and approved by the Special General Shareholders' Meeting held on February 28, 2019; the R$24,621 increase, related to prepayment of interest on equity for 2019, was approved in the Special General Shareholders' Meeting held on December 18, 2019 and was approved by the Central Bank of Brazil on January 30, 2020.

At December 31, 2019, the shareholding structure was as follows:

Shareholder	Number of shares	Capital (R$)	Interest %
Minas Gerais State	**61,061,139,211**	**1,802,579**	**89.9**
Companhia de Desenvolvimento de Minas Gerais CODEMGE (*)	**5,874,969,833**	**183,617**	**9.2**
MGI - Minas Gerais Participações	**600,711,759**	**18,774**	**0.9**
Departamento de Estradas de Rodagem do Estado de Minas Gerais - DER-MG	**41**	**1**	**0.0**
Total	**67,536,820,844**	**2,004,971**	**100.0**

(*) Codemge, a company registered with the Minas Gerais State Commercial Registry, became a shareholder in February 2018, replacing the Minas Gerais Economic Development Company (Codemig), given that it had assumed the activities previously conducted by Codemig, in accordance with article 2 of state Laws No. 14892/2003 and No. 22828/2018.

b) Equity adjustments

	2019	2018
Mark to market (i)	**3,323**	(6,121)
Other equity adjustments (ii)	**(153,035)**	(102,143)
Total	**(149,712)**	(108,264)

(i) Mark to market, net of tax effects, refers to adjustments of securities classified as available for sale.

(ii) Other adjustments refer to recognition of costs inherent in the Bank's obligations with employee benefits, which, as established by CPC 33 (R1) Employee Benefits, effective as from January 2013, should be adjusted in equity, net of tax effects.

15. **Equity** (Continued)

c) Retained earnings (accumulated losses)

Earnings amounting to R$84,131(R$125,973 in 2018) were generated for the year, with R$34,376 (R$93,507 in 2018) remaining in accumulated losses at December 31.

16. Capital management

In compliance with CMN Resolution No. 4557/2017, BDMG amended its bylaws which define the required structure and policy for capital management These bylaws outline guidelines to ensure that capital remains adequate in the face of the risks incurred in different scenarios outlined in the strategic planning.

The scenarios considered take into account possible changes in market conditions, the Bank's different operating and administrative activities, and its economic environment, as well as the risks to which it is exposed.

Following these bylaws and taking into account the strategic planning definitions, the assumptions for the proposed scenarios, and the projected results of operations, the Bank prepared its capital plan for the period from 2020 to 2023. The BDMG's Capital Management Structure Description Report is available at: https://www.bdmg.mg.gov.br.

The governance structure consists of the Board of Directors, Audit Committee, Internal Audit, Independent Audit, Risk and Capital Committee, Executive Board, Planning, Operations and Risk Board, Controllership Supervisory Board and other units involved.

The Officer responsible for capital management is charged with the procedures and controls related to capital management and is part of the Risk and Capital Committee. This Committee is responsible for assessing the key assumptions that may affect the capital plan and for suggesting changes in order to reach the desirable minimum capital levels and monitor respective indicators and compliance with capital and leverage limits established.

(In thousands of reais, unless otherwise stated)

17. Regulatory capital

The new rules for measurement of regulatory capital determine the requirement for financial institutions to maintain equity compatible with the risk level of their assets, according to exposure-weighting factors, risk mitigation factors, and credit conversion factors.

CMN Resolution No. 4192/2013 and a new set of rules established in Brazil, as from October 1, 2013, the recommendations of the Basel Committee on Banking Supervision (BCBS) regarding the capital structure of financial institutions, known as Basel III. This new framework introduced the calculation methodology for regulatory capital and for capital maintenance requirement, with minimum requirements regarding regulatory capital, Tier 1 Capital, and principal capital.

The calculation of the Bank's regulatory capital and ratios is as follows:

	2019	2018
Equity	**1,820,883**	1,729,340
Tier 1 Capital or Principal Capital - (a)	**1,693,756**	1,705,370
Capital for operations with the public sector (b)	**542,000**	670,000
Regulatory capital (RC) (a-b)	**1,151,756**	1,035,370
Total risk weighted assets (RWA)	**5,611,612**	6,368,561
Credit risk (RWAcpad)	**4,828,005**	5,320,808
Market risk (RWAmpad)	**64,363**	378,553
Operational risk (RWAopad)	**719,244**	669,200
Portion of capital for coverage of interest rate risk of non-negotiable portfolio (RWA Rban)	**8,410**	8,470
Minimum regulatory capital	**737,920**	796,579
Basel ratio (RC/RWA)	**20.52%**	16.26%
Extended Basel ratio (RC/(RWA + Rban))	**20.49%**	16.24%

18. Statement of profit or loss accounts

a) <u>Income from lending operations</u>

		2019	2018
	2nd half	**Year**	**Year**
Interest on loans and financing	**219,525**	**466,579**	580,395
Credits recoverable	**65,084**	**112,786**	71,360
	284,609	**579,365**	651,755

(In thousands of reais, unless otherwise stated)

18. Statement of profit or loss accounts (Continued)

b) Gains (losses) on marketable securities and derivative financial instruments, and financial intermediation expenses

i) *Gains (losses) on marketable securities and derivative financial instruments*

		2019	2018
	2nd half	**Year**	**Year**
Yield (loss) from fixed income securities	**(940)**	**8,851**	58,445
Yield from repurchase agreements	**2,494**	**6,303**	9,734
Gains from (losses on) investment funds	**5,890**	**9,283**	3,146
Swap transaction gains/losses	**9,568**	**6,201**	36,312
Other	**2,433**	**2,282**	108
	19,445	**32,920**	107,745

ii) *Trading expenses*

		2019	2018
	2nd half	**Year**	**Year**
Financial bill expenses	**(3,186)**	**(6,548)**	(3,542)
Agribusiness credit bill expenses	**(6,931)**	**(15,000)**	(16,615)
BNDES and FINAME onlending expenses	**(68,666)**	**(155,119)**	(201,835)
Onlending expenses – other institutions	**(13,690)**	**(26,190)**	(39,285)
Foreign borrowing expenses	**(28,570)**	**(38,286)**	(99,803)
Interbank deposit and repurchase agreement expenses	**(3,901)**	**(7,760)**	(8,679)
Financial and development fund expenses	**(1,063)**	**(2,715)**	(2,427)
	(126,007)	**(251,618)**	(372,186)

c) Tax and administrative expenses and other operating income (expenses)

i) *Tax expenses*

		2019	2018
	2nd half	**Year**	**Year**
PIS and COFINS	**(7,894)**	**(16,297)**	(20,625)
ISSQN	**(853)**	**(1,681)**	(1,808)
Other	**(331)**	**(684)**	(653)
	(9,078)	**(18,662)**	(23,086)

(In thousands of reais, unless otherwise stated)

18. Statement of profit or loss accounts (Continued)

c) Tax and administrative expenses and other operating income (expenses) (Continued)

ii) *Administrative expenses*

	2nd half	2019 Year	2018 Year
Outsourced services and expert technicians	**(4,966)**	**(9,864)**	(12,742)
Advertising and communication	**(3,125)**	**(4,266)**	(3,781)
Data processing	**(2,388)**	**(4,343)**	(4,514)
Depreciation and amortization	**(3,171)**	**(6,594)**	(6,028)
Maintenance and materials	**(1,629)**	**(2,919)**	(2,811)
Travel and transportation	**(1,177)**	**(1,952)**	(1,934)
Rent and infrastructure	**(735)**	**(1,386)**	(1,188)
Other	**(2,956)**	**(5,231)**	(4,694)
	(20,147)	**(36,555)**	(37,692)

iii) *Other operating income*

	2nd half	2019 Year	2018 Year
Reversal of sundry provisions	**2,941**	**4,306**	36,315
Sponsorship of health care plan and life insurance	**-**	**-**	31,411
Income from hedged items marked to market	**7,332**	**11,461**	18,893
Income from equalization - STN	**492**	**949**	12,029
Other	**3,236**	**5,297**	49,358
	14,001	**22,013**	148,006

(In thousands of reais, unless otherwise stated)

18. Statement of profit or loss accounts (Continued)

c) Tax and administrative expenses and other operating income (expenses) (Continued)

iv) *Other operating expenses*

		2019	2018
	2nd half	**Year**	**Year**
Provision for rural transactions with guarantee	**(25)**	**(442)**	(138)
Provision for tax, labor and civil contingencies	**(6,904)**	**(23,400)**	(6,629)
Expense with INDI agreement	**(3,634)**	**(6,052)**	(7,401)
Post-employment benefit – private pension plan	**(5,742)**	**(11,093)**	(9,590)
Post-employment benefits – health plan and insurance	**(5,477)**	**(10,892)**	(11,120)
Other long-term benefits	**(156)**	**(430)**	(1,381)
Expenses with BDMG Cultural agreement	**(2,018)**	**(4,060)**	(1,511)
Expenses with bonus and discount on loans	**(1,971)**	**(3,347)**	(7,433)
Expenses with discounts granted on renegotiations	**(12,474)**	**(17,510)**	(10,984)
Provision for guarantees given	-	**(13,533)**	-
Fees/commissions on foreign loans	**(14)**	**(18)**	(1)
Indemnifications	**(294)**	**(411)**	(6,450)
Other	**(3,366)**	**(6,822)**	(6,027)
	(42,075)	**(98,010)**	(68,665)

19. Income and social contribution taxes

a) Deferred income and social contribution taxes

Deferred tax credits are as follows:

	2019	2018
Temporary additions (i)	**668,254**	538,110
Market value adjustment (marketable securities)	**1,718**	5,231
Total	**669,972**	543,341

(In thousands of reais, unless otherwise stated)

19. Income and social contribution taxes (Continued)

a) Deferred income and social contribution taxes (Continued)

(i) Breakdown of tax credits from temporary additions in relation to provisions from which they resulted is as follows:

	2019	2018
Allowance for loan losses	**358,144**	350,632
Post-employment benefit	**171,959**	103,727
COFINS – (change in base established by Law No. 9718/1998)	**42,309**	36,648
Devaluation of marketable securities	**48,508**	22,838
PIS/PASEP – change in tax base established by Law No. 9718/1998	**11,465**	10,203
Civil, labor and tax contingencies	**18,704**	9,168
Guarantee with STN	**1,455**	1,421
Other	**15,710**	3,473
Total	**668,254**	538,110

Changes in tax credits in the period are shown below:

	Mark to market	Temporary additions	Total
Balance at 12/31/2018	5,231	538,110	543,341
Set-up	**-**	**309,784**	**309,784**
Reversal	**(3,513)**	**(179,640)**	**(183,153)**
Balance at 12/31/2019	**1,718**	**668,254**	**669,972**

BDMG's tax credits were recorded in conformity with CMN Resolution No. 3059/2002 (as amended by Resolution No. 3355/2006) and consider expected realization within 10 years, based on the taxable profit presented in the profit or loss projected. These projections are subject to changes, since they are estimated using internal assumptions and future economic scenarios.

In 2019, with the approval of Constitutional Amendment No. 103, of November 12, 2019, which changed CSLL rate from 15% to 20% as of March 1, 2020, tax credits, whose expected realization date is thereafter, were adjusted against profit or loss, with a positive effect in the amount of R$60,325. The adjustment of tax credits on employee benefit provisions, recorded in Equity (Other equity adjustments), totaled R$13,912.

(In thousands of reais, unless otherwise stated)

19. Income and social contribution taxes (Continued)

a) Deferred income and social contribution taxes (Continued)

The table below presents the probable recovery of the tax credits arising from temporary additions:

Year	Nominal value	Present value
2020	77,288	74,797
2021	98,139	89,377
2022	117,327	100,554
2023	69,038	55,681
2024	111,228	84,420
2025	58,762	41,970
2026	52,799	35,489
2027	28,216	17,847
2028	29,153	17,354
2029	26,304	14,735
Total	668,254	532,224

The present value of tax credits was obtained by discounting the future flow of recovery at the average rate of the funding for onlending contracted by BDMG of 6.26% p.a. (6.63% p.a. in 2018).

(In thousands of reais, unless otherwise stated)

19. Income and social contribution taxes (Continued)

a) Deferred income and social contribution taxes (Continued)

Reconciliation of income and social contribution taxes posted to profit or loss

	2019				2018	
	2nd half		Year		Year	
	Income tax	Social contribution tax	Income tax	Social contribution tax	Income tax	Social contribution tax
Income before income and social contribution taxes	**16,474**	**16,474**	**30,174**	**30,174**	180,423	180,423
Interest on equity	**(25,000)**	**(25,000)**	**(25,000)**	**(25,000)**	(50,000)	(50,000)
Net additions (exclusions)						
Set up of provision for contingencies, net of reversals	**4,966**	**4,966**	**21,286**	**21,286**	(297)	(297)
Set-up of allowance for loan losses and recovery of credits written off as losses, net	**568**	**568**	**23,315**	**23,315**	104,356	104,356
Effective credit losses	**(58,347)**	**(58,347)**	**(104,019)**	**(104,019)**	(100,613)	(100,613)
Set-up of provision for post-employment benefit, net of reversals	**8,047**	**8,047**	**13,137**	**13,137**	(19,000)	(19,000)
Set-up of provision for losses on marketable securities, net of reversals	**29,786**	**29,786**	**50,700**	**50,700**	(6)	(6)
Set-up of provision for guarantees given (net of reversals)	**(62)**	**(62)**	**13,425**	**13,425**	(15,302)	(15,302)
Set-up of provision for assets not for own use (net of reversals)	**14,129**	**14,129**	**13,343**	**13,343**	1,379	1,379
Statutory profit sharing	**(5,713)**	**(5,713)**	**(5,713)**	**(5,713)**	(7,783)	(7,783)
Tax base	**(12,664)**	**(12,906)**	**35,400**	**35,038**	95,674	95,269
Tax at effective rate	**1,900**	**1,936**	**(5,310)**	**(5,256)**	(14,351)	(19,054)
Income surtax	**1,278**	**-**	**(3,516)**	**-**	(9,544)	-
Tax incentives	**116**	**-**	**724**	**-**	2,004	-
Subtotal income and social contribution taxes payable	**3,294**	**1,936**	**(8,102)**	**(5,256)**	(21,891)	(19,054)
Total provision for income and social contribution taxes payable	**3,294**	**1,936**	**(8,102)**	**(5,256)**	(21,891)	(19,054)
Set-up of deferred tax credits (net of reversals) on temporary differences	**(106)**	**60,261**	**7,940**	**65,088**	6,662	(12,384)
Income and social contribution taxes in profit or loss	**3,188**	**62,197**	**(162)**	**59,832**	(15,229)	(31,438)

20. Related parties

BDMG carried out the following transactions with related parties in the period:

Legal entities

State of Minas Gerais and its direct and indirect subsidiaries:

- State of Minas Gerais - rendering of services acting as financial agent of the state funds. The commission received by the Bank is included in the financial charges on the financing agreements granted with the fund resources;
- Economic Development State Office - assignment of two employees at a cost for BDMG. The expense with these assignments amounts to R$300 (R$0 in 2018).
- Fundação João Pinheiro, public institution linked to the State Planning and Management Department. As established in the articles of incorporation and in accordance with state Law No. 11050/1993, the Bank is authorized to donate 5% of net income for the year to the Foundation, unless accumulated losses are accounted for.

BDMG assumes the cost of an employee assigned to the Foundation.

Related entities

- Institute of Integrated Development of Minas Gerais (INDI), a non-profit private legal entity linked to the Economic Development State Department. As established by state Law No. 22287, of September 14, 2016, INDI is an affiliate of the Bank, which holds 50% of INDI's units of interest, answering for contribution of financial resources corresponding to 50% of the entity's expenses. Expenses with INDI totaled R$6,052 (R$7,401 in 2018) for the year.
- DESBAN – BDMG Social Security Foundation, a non-profit privately-held supplementary pension plan entity, sponsored by BDMG, which, as detailed in Note 24, made contributions to the Foundation in order to provide social security and healthcare benefits of its employees. BDMG assigns employees to DESBAN, who bears the employee-related costs;
- Cultural Institute of Banco de Desenvolvimento de Minas Gerais - BDMG Cultural, a non-profit civil association, organized by BDMG in conjunction with BDMG Employee's Association (AFBDMG) to create a space for fostering of culture in Minas Gerais. The Bank maintains BDMG Cultural by assigning employees without charge, in addition to making contributions to the Institute. Expenses arising from the Bank's agreement with BDMG Cultural totaled R$4,060 (R$1,511 in 2018) for the year.

20. Related parties (Continued)

BIOMM S.A.

The Bank became a shareholder of BIOMM in June 2018 as a result of the merger of the subsidiary BDMGTEC, assuming the shares held by the latter in BIOMM. Accordingly, as from such date, pursuant to CMN Resolution No. 4636/2018, BIOMM became a related party given that the Bank and BIOMM have a member of the Board of Directors in common.

BIOMM has financing with the Bank in the amount of R$20,485 (R$20,184 in 2018), and financing with resources from administered development funds in the amount of R$27,995 (R$27,990 in 2018).

Individuals

The members of the Board of Directors, the Supervisory Board and the Executive Board are related parties of the Bank and receive fees comprising salaries, social charges and benefits. In 2019, fees paid totaled R$4,621 (R$4,289).

21. Insurance coverage

In order to cover possible damages to its property and equipment, the Bank has insurance coverage amounting to R$51,700 (R$51,700 in 2018).

22. Risk management

Financial risk management policy

Risk management aligned with strategic guidelines is committed to the ethical standards of conduct and reliability of the Bank, always seeking convergence of methodologies and internal models to the Basel agreements and Compliance with the recommendations from the regulatory agencies, with observance of CMN Resolutions No. 4557/2017 and No. 4595/2017, aligned with the best risk management practices.

The Risk Management mission at BDMG is to manage credit, market, liquidity, operational, social and environmental, and compliance risks so as to mitigate them and optimize the operating effectiveness and profit or loss. Accordingly, the Bank adopts practices in line with the nature and specific characteristics of its operations.

22. Risk management (Continued)

Financial risk management policy (Continued)

The governance structure consists of the Board of Directors, Audit Committee, Internal Audit, Independent Audit, Risk and Capital Committee, Executive Board, Planning, Operations and Risk Board, Internal Control and Risk Supervisory Board and other units in charge of managing risks in the first line of defense.

Credit risk

The Credit Risk Management Policy establishes limits for credit risk exposure by customer and economic group, and monitoring of the receivables portfolio quality; decision-making levels and criteria to analyze and monitor receivables, seeking to align decision with the Bank's risk appetite.

Operational risk

The Operational Risk Management Policy establishes roles, responsibilities and own methodology for management of such risks for the Bank, involving qualitative and quantitative analysis, as well as monitoring.

Compliance risk

The Compliance Risk Management Policy establishes roles and responsibilities in the Bank's compliance risk management process to ensure that its activities are in compliance with the internal and external regulations.

Liquidity risk

The Liquidity Risk Management Policy establishes roles and responsibilities, exposure limits, and reporting levels, for the purpose of preparing the Bank to support adverse scenarios, considering different time frames. It addresses situations in which the contingency plan is triggered, which includes the set of strategies and measures to be taken, seeking adjustment of the limits established. This policy also provides for monitoring of action plans defined and reporting of the results to Senior Management.

(In thousands of reais, unless otherwise stated)

22. Risk management (Continued)

Financial risk management policy (Continued)

Market risk

The Market Risk Management Policy establishes roles and responsibilities, operating limits, reporting levels and the means that must be worked on to minimize the adverse effects of this risk on the Bank's economic and financial results, respecting the adequacy to the defined risk appetite.

Social and environmental risk

The Social and Environmental Responsibility Policy establishes roles, responsibilities, its own methodology for identifying and assessing social and environmental risk and criteria for analyzing and monitoring operations.

The description of these risk management structures, as well as other information on risk management, is available on BDMG website (http:www.bdmg.mg.gov.br).

23. Development fund management (unaudited)

The Bank maintains a structure for management of development funds. Balances referring to the net worth of funds are as follows:

	2019	2018
State funds	**3,814,098**	3,806,338
Private funds	**34,778**	32,521
Other funds	**79,663**	77,209
	3,928,539	3,916,068

24. Employee benefits

BDMG, as mentioned in Note 2.15, grants its employees the following post-employment benefits: private pension plan benefits, health and dental care, life insurance and benefits related to the Voluntary resignation program.

24. Employee benefits (Continued)

On February 22, 2018, the Bank analyzed these benefits and made the following changes:

- Life insurance - until February 22, 2018, the Bank granted this benefit to active employees and pensioner members. As of that date, this benefit is granted only to employees who retired until such date.
- Health Promotion Program (PRO-SAÚDE) – this program was also previously granted to active participants and pensioner members, and to active employees upon retirement, provided they joined the plan as active employees until 10/10/2009. With the change, this benefit is maintained for pensioner members entitled to the program on the date of change, and for active employees who joined the voluntary resignation plan effective until April 30, 2018.

The benefits granted are recognized in accordance with CPC 33 (R1) - Employee Benefits, which requires that actuarial studies be carried out regularly to substantiate the benefits accounted for. As such, the Bank defined that two actuarial studies would be conducted in the year to support the Bank's financial statements: actuarial calculation for the statements of financial position in December and actuarial restatement in the statements of financial position in June, considering the statement of financial position of December of the prior year.

In the actuarial study prepared for the December 2019 statement of financial position, when preparing the actuarial calculations, changes resulting from the new retirement rules approved on enactment of the Social Security Reform in November 2019 are considered.

a) Characteristics of the benefit plans

i) *Pension plan*

BDMG sponsors defined benefit and variable contribution pension plans, administered by DESBAN – BDMG Social Security Foundation, a non-profit privately-held supplementary pension plan entity. The objective of both plans is to ensure that participating employees and their beneficiaries are granted portions supplementing the General Social Security Regime (RGPS).

(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

a) Characteristics of the benefit plans (Continued)

i) *Pension plan* (Continued)

Defined benefit pension plan

The defined benefit pension plan, which has been closed to new participants since November 10, 2011, is based on a capitalization financial regime for calculation and accrual of its reserves, which result from the participant's and sponsor's contributions. The sponsor's contributions are limited to the total of regular participants' contributions, taking into account their specific characteristics, in conformity with the matching contribution determined in Constitutional Amendment No. 20/1998. Regarding this plan, it is also necessary to comply with article 29 of the Board for Management of Supplementary Pension Plans (CGPC) No. 26, of September 29, 2008, which establishes the mandatory restructuring of the plan's deficit between the participants (active employees, pensioner members, and surviving spouse) and sponsors, taking into account the proportion of the regular contributions made in the year when the deficit occurs.

BDMG's defined benefit plan in 2015 had the following technical deficit to be restructure. The data on the amount of the deficit and deadlines for restructuring, as well as the respective updates are presented in the table below:

	Restructuring in 2015 - Desban	Restructuring in 2018 - Sponsor (*)	Restructuring in 2019 - Sponsor (**)
Amount of the restructuring – R$	28,135.4	26,500.8	34,488.0
Sponsor's share – R$	14,067.7	13,250.4	17,244.0
Participant's share – R$	14,067.7	13,250.4	17,244.0
Deadline for restructuring	20 years	2019 to 2036	2020 to 2036

(*) The restructuring amount defined according to the flow of liability discounted to present value, in accordance with the assumptions defined in BDMG's actuarial assessment in December 2018.

(**) The restructuring amount defined according to the flow of liability discounted to present value, in accordance with the assumptions defined in BDMG's actuarial assessment in December 2019.

24. Employee benefits (Continued)

a) Characteristics of the benefit plans (Continued)

i) *Pension plan* (Continued)

Defined benefit pension plan (Continued)

When considering the best estimate to be adopted for recognition of the deficit restructuring amount, the Bank considered the legal and regulatory framework that is necessary for calculation of the actuarial liability of public entities that sponsor supplementary pension plans. Accordingly, an equal apportionment between the participants (50%) and the sponsors (50%) was established. The actuarial deficit portion for which the Bank, as a sponsor, is responsible, is recorded as liabilities.

This condition was accepted by DESBAN's Decision Making Committee, as registered in the minutes of the 282nd meeting, held on December 27, 2016: “equitable apportionment between the participants (50%) and the sponsors (50%) will be considered not only for the current Restructuring Plan, but also for any other deficit restructuring plans that may be required in the future, provided the same legal and regulatory basis remains effective”.

Variable contribution plan

The variable contribution pension plan, created on January 13, 2011, consists of a defined contribution plan in the savings structuring stage, becoming a defined benefit structure through the guarantee of a lifetime monthly annuity after it is granted.

BDMG’s contribution to this plan is also limited to the total regular participant contributions, in conformity with the matching contribution set forth in Constitutional Amendment No. 20, of 1998.

(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

b) BDMG participants in the pension plans

The number of participants is distributed as follows:

Plans	2019	2018
Defined benefit (DB) – active participants	**224**	219
Defined benefit (DB) – pensioner members	**539**	541
Defined benefit (DB) – self-sponsored participants	**9**	15
Variable contribution (VC) – active participants	**68**	69
Variable contribution (VC) – pensioner members	**1**	-
Variable contribution (VC) – self-sponsored participants	**1**	3
Total	**842**	847

i) *Healthcare and dental care benefit*

The Health Promotion Program (PRO-SAÚDE) provides coverage for medical and dental expenses to active participating employees and their dependents, as described in Note 2.15, managed by DESBAN and operating under the capitalization regime. This benefit is guaranteed to active participants and pensioner members who are already retired until February 22, 2018, as well as those who have retired under the conditions established by the Voluntary Resignation Program, whose membership period ended on April 30, 2018.

ii) *Life insurance*

The Bank sponsors post-employment group life insurance exclusively to the pensioner members who, on February 22, 2018, already had this benefit. This benefit is ensured to active employees only for the period in which they remain as such. The Bank contributes with 50% of the premium paid.

iii) *Voluntary resignation program*

The Bank, in order to benefit employees in conditions to retire, has made this Program available to employees who meet the requirements established in the Program.

(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

b) BDMG participants in the pension plans (Continued)

iii) *Voluntary resignation program* (Continued)

In March 2018, the Program was opened for new members with deadline on April 30 for employees in conditions to retire within the two years following the deadline, ensuring the benefit of the health plan as pensioner members, provided they joined the Program within the established period.

c) Bank commitments with the benefit plans

In compliance with its benefit plan obligations, BDMG made the following contributions in the period for both active employees and pensioner members:

	2019	2018
Pension plan (DB)	**11,938**	11,351
Pension plan (VC)	**582**	561
Health Promotion Program PRÓ-SAÚDE	**6,863**	4,932
Group life insurance	**1,200**	1,227
Voluntary resignation program	**10**	2,169
Total	**20,593**	20,240

(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

c) Bank commitments with the benefit plans (Continued)

i) *Changes in net actuarial liabilities*

The net amounts of obligations with defined benefit plans, pursuant to CPC 33 (R1) arise from the following changes in the period:

	Pension plan - DB	Pension plan - VC	Health Promotion Program PRO-SAÚDE	Group life insurance	Total
Reconciliation (Liabilities)/Assets recognized					
(Liabilities), net at 12/31/2018	(185,244)	-	(98,018)	(13,239)	(296,501)
Participant's portion s in surplus (-) / deficit (+)	37,184	-			37,184
(Liabilities), net at 12/31/2018 (1)	(148,060)	-	(98,018)	(13,239)	(259,317)
(Expenses)/income recognized in profit or loss for the period	**(21,984)**	**(55)**	**(9,740)**	**(1,152)**	**(32,931)**
Gains/(losses) recognized in equity	**(77,745)**	**5**	**(24,099)**	**(6,169)**	**(108,008)**
Employer's contributions	**11,938**	**50**	**5,016**	**1,121**	**18,125**
Benefits paid directly by the Entity					
(Liabilities), net at 12/31/2019 (1)	**(235,851)**	**-**	**(126,841)**	**(19,439)**	**(382,131)**

	Pension plan - DB	Pension plan - VC	Health Promotion Program PRO-SAÚDE	Group life insurance	Total
Reconciliation (Liabilities)/Assets recognized					
(Liabilities), net at 12/31/2017	(198,278)	-	(116,233)	(16,132)	(330,643)
Participant's portion s in surplus (-) / deficit (+)	51,991	-			51,991
(Liabilities), net at 12/31/2017 (1)	(146,287)	-	(116,233)	(16,132)	(278,652)
(Expenses)/income recognized in profit or loss for the period	(17,950)		17,492	2,033	1,575
Gains/(losses) recognized in equity (2)	4,798	-	(2,590)	(277)	1,931
Employer's contributions	11,379		3,313	1,137	15,829
Benefits paid directly by the Entity					
(Liabilities), net at 12/31/2018 (1)	(148,060)	-	(98,018)	(13,239)	(259,317)

(1) Refers to the portion of actuarial responsibility of the sponsor, after calculating the risk sharing effect with the active participants and pensioner members.

(2) Actuarial gains/(losses) are recorded in "Other equity adjustments" in equity, as mentioned in Note 15.b.ii.

(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

c) Bank commitments with the benefit plans (Continued)

i) *Changes in net actuarial liabilities* (Continued)

Amounts recognized in profit or loss

Expenses with defined benefit plans are detailed below:

	2019				
	Pension plan - DB	**Pension plan - VC**	**Health Promotion Program PRÓ-SAÚDE**	**Group life insurance**	**Total**
Current service cost	**(8,298)**	**(57)**	**-**	**-**	**(8,355)**
Cost of interest, net	**(13,686)**	**2**	**(8,712)**	**(1,152)**	**(23,548)**
Expected contributions for administrative expenses			**(1,028)**		**(1,028)**
(Expenses) income recognized in profit or loss (1)	**(21,984)**	**(55)**	**(9,740)**	**(1,152)**	**(32,931)**

	2018			
	Pension plan - DB	**Health Promotion Program PRÓ-SAÚDE**	**Group life insurance**	**Total**
Current service cost	(4,848)	(224)	(28)	(5,100)
Cost of interest, net	(9,148)	(6,955)	(933)	(17,036)
Expected contributions for administrative expenses	-	(1,162)	-	(1,162)
Past service cost	-	28,123	3,288	31,411
(Expenses) recognized in profit or loss (1)	(13,996)	19,782	2,327	8,113

(1) Expenses for 2018 were accounted for in the following entries: R$10,904 (R$9,126 in 2018) in “Personnel expenses”, R$ 22,027 (R$20,710 in 2018) in “Other operating expenses”, and R$0 (R$31,411 in 2018) in “Other operating income”.

(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

d) Actuarial studies

The actuarial liabilities were calculated by an independent actuary using the Projected Unit Credit method, and the actuarial measurement prepared for reporting date December 31, 2019 is in effect.

i) *Statement of calculation and changes in net actuarial liabilities for 2019*

	Pension plan - DB	Pension plan - VC	Health Promotion Program PRO-SAÚDE	Group life insurance	Total
(Deficit)/surplus calculated					
Actuarial obligations determined on actuarial assessment	(1,429,560)	(1,049)	(152,012)	(19,439)	(1,602,060)
Fair value of plan assets	1,096,708	1,906	25,171	-	1,123,785
(Deficit)/surplus calculated	(332,852)	857	(126,841)	(19,439)	(478,275)
Asset ceiling effect, Additional Liabilities and Risk sharing					
Asset ceiling effect	-	857	-	-	857
Risk sharing (Deficit to be shared x 50%)	(97,001)	-	-	-	(97,001)
Asset ceiling effect, Additional Liabilities and Risk sharing at 12/31/2019	(97,001)	857	-	-	(96,144)
Net (liabilities)/assets determined ((Deficit)/Surplus determined – Asset ceiling effect and Additional liabilities at 12/31/2019 (1)	**(235,851)**	**-**	**(126,841)**	**(19,439)**	**(382,131)**
Fair value of plan assets					
Fair value of assets at 12/31/2018	961,695	1,484	23,576	-	986,755
Benefits paid in the period using plan assets	(74,704)	(16)	(6,778)	-	(81,498)
Participant's contributions in the period	5,696	50	-	-	5,746
Employer's contributions in the period	11,938	50	5,016	-	17,004
Earnings expected from assets	79,962	132	1,944	-	82,038
Gains/(losses) on fair value of plan assets (2)	112,121	206	1,413	-	113,740
Fair value of assets at 12/31/2019	1,096,708	1,906	25,171	-	1,123,785

(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

d) Actuarial studies (Continued)

i) *Statement of calculation and changes in net actuarial liabilities for 2019* (Continued)

	Pension plan - DB	Pension plan - VC	Health Promotion Program PRO-SAÚDE	Group life insurance	Total
Actuarial obligations					
Actuarial obligations at 12/31/2018	(1,146,939)	(630)	(121,594)	(13,239)	(1,282,402)
Cost of current service, net	**(8,298)**	**(57)**	**-**	**-**	**(8,355)**
Participant's contributions in the period	**(5,696)**	**(50)**	**-**	**-**	**(5,746)**
Interest on actuarial obligations	**(97,719)**	**(55)**	**(10,656)**	**(1,152)**	**(109,582)**
Benefits paid for the year	**74,704**	**16**	**5,750**	**1,121**	**81,591**
Gains/(losses) on actuarial obligations (2)					**-**
Actuarial (loss) – changes in assumptions (discount rate)	**(232,330)**	**(327)**	**(25,100)**	**(3,030)**	**(260,787)**
Actuarial gain/(loss) – Changes in assumptions (Mortality table)	**(15,847)**	**34**	**(7,256)**	**544**	**(22,525)**
Actuarial (loss) – Changes in assumptions (Turnover)	**(14)**	**(4)**			**(18)**
Actuarial (loss) – Changes in assumptions (Salary growth)	**(3,301)**	**(17)**			**(3,318)**
Actuarial gain – Changes in assumptions (Family structure)	**2,624**	**61**			**2,685**
Actuarial gain/(loss) – experience adjustments	**3,256**	**(20)**	**6,844**	**(3,683)**	**6,397**
Suspension of administrative load fee					**-**
Actuarial obligations at 12/31/2019	**(1,429,560)**	**(1,049)**	**(152,012)**	**(19,439)**	**(1,602,060)**
Determination of deficit to be shared					
(Deficit)/surplus calculated	(332,852)	-	-	-	(332,852)
Employer's obligation with future contributions (Regular contributions)	121,606	-	-	-	121,606
Employer's obligation with future contributions (ad hoc contributions – deficit restructuring 2015)	17,244	-	-	-	17,244
(Deficit) to be shared	(194,002)	-	-	-	(194,002)
Asset ceiling, Minimum Funding Requirements and Risk Sharing					
Asset ceiling effect, Additional Liabilities and Risk sharing at 12/31/2018	37,184	(854)	-	-	36,330
Interest expected on asset ceiling effect, Additional Liabilities and Risk sharing	**4,071**	**(75)**	**-**	**-**	**3,996**
Gains/(losses) on Asset ceiling effect, Additional Liabilities and Risk sharing (2)	**55,746**	**72**	**-**	**-**	**55,818**
Asset ceiling effect and Additional Liabilities at 12/31/2019	**97,001**	**(857)**	**-**	**-**	**96,144**

(1) Refers to the portion of actuarial responsibility of the sponsor, after calculating the risk sharing effect with the active participants and pensioner members.

	Pension plan - DB
Sponsor's portion in future contributions	(121,606)
Sponsor's portion in deficit restructuring - 2015	(17,244)
Sponsor's portion in deficit	(97,001)
(Liabilities), net at 12/31/2019	(235,851)

(2) Actuarial gains/(losses) are recorded in "Other equity adjustments" in equity, as mentioned in Note 15.b.ii.

(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

d) Actuarial studies (Continued)

ii) *Statement of calculation and changes in net actuarial liabilities for 2018* (Continued)

	Pension plan - DB	Pension plan - VC	Health Promotion Program PRO-SAÚDE	Group life insurance	Total
(Deficit)/surplus calculated					
Actuarial obligations determined on actuarial assessment	(1,146,939)	(630)	(121,594)	(13,239)	(1,282,402)
Fair value of plan assets	961,695	1,484	23,576	-	986,755
(Deficit)/surplus calculated	(185,244)	854	(98,018)	(13,239)	(295,647)
Asset ceiling effect, Additional Liabilities and Risk sharing					
Asset ceiling effect		854			854
Risk sharing (Deficit to be shared x 50%)	(37,184)				(37,184)
Asset ceiling effect, Additional Liabilities and Risk sharing at 12/31/2018	(37,184)	854	-	-	(36,330)
Net (liabilities)/assets determined ((Deficit)/Surplus determined – Asset ceiling effect and Additional liabilities (1)	**(148,060)**	**-**	**(98,018)**	**(13,239)**	**(259,317)**
Fair value of plan assets					
Fair value of assets at 12/31/2017	899,452	-	25,217	-	924,669
Benefits paid in the period using plan assets	(72,231)		(9,248)		(81,479)
Participant's contributions in the period	5,464		1,659		7,123
Employer's contributions in the period	11,379		3,313		14,692
Earnings expected from assets	85,733		1,911		87,644
Gains/(losses) on fair value of plan assets (2)	31,898	1,484	724		34,106
Fair value of assets at 12/31/2018	961,695	1,484	23,576	-	986,755
Actuarial obligations					
Actuarial obligations at 12/31/2017	(1,097,730)	-	(141,450)	(16,132)	(1,255,312)
Cost of current service, net	(6,129)		(227)	(28)	(6,384)
Past service cost			28,123	3,288	31,411
Participant's contributions in the period	(5,464)		(1,659)	-	(7,123)
Interest on actuarial obligations	(100,453)		(10,988)	(1,227)	(112,668)
Benefits paid for the year	72,231		7,921	1,137	81,289
Gains/(losses) on actuarial obligations (2)					-
Actuarial (loss) – changes in assumptions (discount rate)	(55,190)		(8,983)	(950)	(65,123)
Actuarial (loss) – Changes in assumptions (Turnover)	(10)			-	(10)
Actuarial gain/(loss) – experience adjustments	37,668	(630)	5,669	673	43,380
Suspension of administrative load fee	8,128				8,128
Other – Additional contributions	10				10
Actuarial obligations at 12/31/2018	(1,146,939)	(630)	(121,594)	(13,239)	(1,282,402)

(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

d) Actuarial studies (Continued)

ii) *Statement of calculation and changes in net actuarial liabilities for 2018* (Continued)

	Pension plan - DB	Pension plan - VC	Health Promotion Program PRO-SAÚDE	Group life insurance	Total
Determination of deficit to be shared					
(Deficit)/surplus calculated	(185,244)				(185,244)
Employer's obligation with future contributions (Regular contributions)	97,626				97,626
Employer's obligation with future contributions (ad hoc contributions – deficit restructuring 2015)	13,250				13,250
(Deficit) to be shared	(74,368)				(74,368)
Asset ceiling, Minimum Funding Requirements and Risk Sharing					
Asset ceiling effect, Additional Liabilities and Risk sharing at 12/31/2017	51,991	-	-	-	51,991
Interest expected on asset ceiling effect, Additional Liabilities and Risk sharing	2,899				2,899
Gains/(losses) on Asset ceiling effect, Additional Liabilities and Risk sharing (2)	(17,706)	(854)			(18,560)
Asset ceiling effect and Additional Liabilities at 12/31/2018	37,184	(854)	-	-	36,330

(1) Refers to the portion of actuarial responsibility of the sponsor, after calculating the risk sharing effect with the active participants and pensioner members.

	Pension plan - DB
Sponsor's portion in future contributions	(97,626)
Sponsor's portion in deficit restructuring - 2015	(13,250)
Sponsor's portion in deficit	(37,184)
(Liabilities), net at 12/31/2018	(148,060)

(2) Actuarial gains/(losses) are recorded in "Other equity adjustments" in equity, as mentioned in Note 15.b.ii.

(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

d) Actuarial studies (Continued)

iii) *Allocation of the fair value of plan assets*

The plan assets at December 31 are allocated by category of assets, as follows:

Pension plan - DB	2019	2018
Available	**0.01%**	0.01%
Realizable – Pension plan management	**0.74%**	0.58%
Realizable – Administrative management	**0.66%**	0.70%
Government securities	**37.26%**	34.02%
Investment funds	**50.79%**	50.90%
Private credits	**0.24%**	2.04%
Real estate investments	**3.97%**	4.67%
Loans and financing	**0.97%**	1.11%
Judicial deposits	**5.36%**	5.97%
Total	**100.00%**	100.00%

Pension plan - VC	2019	2018
Available	**0.09%**	0.09%
Realizable – Pension plan management	**0.05%**	0.07%
Realizable – Administrative management	**0.85%**	0.70%
Government securities	**0.00%**	41.79%
Investment funds	**97.46%**	48.48%
Private credits	**0.00%**	6.97%
Loans and financing	**1.55%**	1.90%
Total	**100.00%**	100.00%

Health Promotion Program PRÓ-SAÚDE	2019	2018
Available	**0.20%**	0.36%
Investments linked to technical reserves	**7.13%**	7.07%
Unrestricted investments	**32.84%**	79.97%
Credits from health plan operation	**0.39%**	0.38%
Credits from operation not related to health plan of the operator	**0.22%**	0.21%
Government securities	**47.42%**	0.00%
Long-term receivables	**11.80%**	12.01%
Total	**100.00%**	100.00%

(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

d) Actuarial studies (Continued)

iv) *Key assumptions used in the actuarial valuation*

The actuarial studies that present BDMG's obligations at December 31 are based on the following assumptions:

	2019	2018
Statutory discount rate for the actuarial liability		
Pension plan - DB	**7.102%**	9.109%
Pension plan - VC	**7.195%**	9.147%
Health Promotion Program PRÓ-SAÚDE	**7.070%**	9.091%
Group life insurance	**7.153%**	9.131%
Expected annual nominal rate of return on investments		
Pension plan - DB	**7.102%**	9.109%
Pension plan - VC	**7.195%**	9.147%
Health Promotion Program PRÓ-SAÚDE	**7.070%**	9.091%
Estimated future annual inflation rate	**3.61%**	4.01%
Nominal rate of future salary growth:		
BDMG (PCS)	**6.325%**	6.652%
BDMG (CC)	**4.315%**	4.530%
Annual projection of effective growth of medical expenses (1)	**3.00%**	3.00%
Turnover:		
Up to 39 years of age	**4.00%**	4.20%
More than 39 years of age	**0.30%**	0.30%
General mortality table	**AT-2000 Basic downrated by 10%, softened by 10%, M&F**	AT-2000 (Basic table softened by 10%) downrated by 10% and segregated by gender.
Disability table	**Álvaro Vindas softened by 70%**	Álvaro Vindas softened by 70%
Disability mortality table	**Winklevoss softened by 50%**	Winklevoss softened by 50%
Structure of surviving families	**Active employee: Standard family (considering 86.3 married and 5 years of difference between spouses, with the man older than the woman and younger temporary dependent, with age equivalent to: 24 maximum ((65-age of the holder)/2;0)). Pensioner member: actual family.**	Active employee: Standard family (considering 95% married and 4 years of difference between spouses, with the man older than the woman and younger temporary dependent, with age equivalent to: 24 maximum ((65-age of the holder)/2;0)). Pensioner member: actual family.

(1) Applicable solely to the Health Plan.

(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

d) Actuarial studies (Continued)

v) *Sensitivity of the defined benefit obligation*

Changes in assumptions underlying actuarial studies may have effects on the value of the defined benefit obligation.

The table below shows, in percentages, how the defined benefit obligation is affected if changes occur in the following actuarial assumptions:

	Altered assumption							
	Increase of 0.5% p.a. in discount rate	Decrease of 0.5% p.a. in discount rate	Increase of 1 year in life expectancy	Decrease of 1 year in life expectancy	Increase of 0.5% in salary growth rate	Decrease of 0.5% in salary growth rate	Increase of 0.5% in medical cost trend rate	Decrease of 0.5% in medical cost trend rate
Pension plan - DB	-6.01%	6.72%	2.32%	-2.35%	1.22%	-1.14%	N/A	N/A
Pension plan - VC	-13.18%	15.78%	-0.87%	1.00%	7.83%	-6.98%	N/A	N/A
Health Promotion Program PRÓ-SAÚDE	-5.83%	6.45%	4.28%	-4.23%	-	-	6.44%	-5.88%
Group life insurance	-6.49%	7.17%	-2.33%	2.36%	-	-	N/A	N/A

vi) *Projected cash flow*

The actuarial studies made for the December 2019 reporting date included the following estimates for payment of benefits and contributions of the sponsor for 2020:

	Pension plan - DB	Pension plan – VC (1)	Health Promotion Program PRÓ-SAÚDE	Group life insurance	Total
Expected benefit payments	83,173	69	5,801	1,159	90,202
Expected employer contributions	12,348	50	5,461	1,159	19,018

(1) The expected sponsor contribution presented refers to contributions to benefits or risk of Pension Benefits, of the Variable Contribution (VC) type.

(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

d) Actuarial studies (Continued)

vi) *Projected cash flow* (Continued)

The weighted average duration of actuarial obligations is as follows:

	Pension plan - DB	Pension plan - VC	Health Promotion Program PRÓ-SAÚDE	Group life insurance
12/31/2018	10.99	29.48	10.66	12.82
12/31/2019	**12.93**	**29.14**	**12.45**	**13.92**

25. Commitments and responsibilities

BDMG granted sureties and guarantees to customers by providing counter guarantees and financial charges paid by beneficiaries. The balance of these commitments at December 31, 2019 totals R$195,371 (R$203,738 in 2018) and matures in May 2021.

As a result of the risk classification of these guarantees, in 2019, the Bank set up a provision in the amount of R$13,533, recorded as other operating expenses.

26. Subsequent events

In January 2020, the Bank was served a notice by the Brazilian IRS (DEINF) for failure to pay social security contributions considered due. The risk of the tax assessment notice, whose restated amount is R$5,972, is classified as a possible loss.

Board of Directors

Fernando Lage de Melo	Chairman
Carlos de Camargo Penteado Braga	Vice-Chairman
Ivone Hiromi Takahashi Saraiva	Member
Leonardo Guimarães Parma	Member
Luiz Antônio do Souto Gonçalves	Member
Sérgio Eduardo Weguelin Vieira	Member
Sérgio Gusmão Suchodolski	Member
Sérgio Murilo Bahdur Vieira	Member

Executive Board

Sérgio Gusmão Suchodolski	CEO
Henrique Amarante Costa Pinto	Deputy CEO
Marcela Amorim Brant	Officer
Otávio Lobão de Mendonça Vianna	Officer
Vinício José Stort	Officer

General Controllership Management

Giovani Rosemberg Ferreira Gomes	Accountant CRC-MG-075701/O-5