

Interim Financial Statements

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

September 30, 2020
with Independent Auditor's Report

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

Interim financial statements

September 30, 2020

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A free translation from Portuguese into English of Independent Auditor's Review Report on interim 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 review report on interim financial statements

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

Introduction

We have reviewed the interim financial statements of Banco de Desenvolvimento de Minas Gerais S.A. - BDMG (the "Bank") for the nine-month period ended September 30, 2020, which comprise the statement of financial position as at September 30, 2020, and the statements of profit or loss, of comprehensive income, of changes in equity and of cash flows for the nine-month period then ended, and notes to the financial statements.

Management is responsible for the preparation of these interim financial statements in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil. Our responsibility is to express a conclusion on these interim financial statements based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Review Engagements (NBC TR 2410 and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with auditing standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements referred to above do not present fairly, in all material respects, the financial position of Banco de Desenvolvimento de Minas Gerais S.A. – BDMG as at September 30, 2020, and its financial performance and cash flows for the nine-month period then ended in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil.

Belo Horizonte, November 13, 2020

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BANCO DE DESENVOLVIMENTO DE MINAS GERAIS

Management Report

3rd Quarter of 2020

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 Interim Financial Statements for 3rd quarter of 2020.

At the end of the 3rd quarter, BDMG hit a record disbursement in its 58 years of activities and, of the total amount disbursed, funds were mostly its own.

Seeking to create opportunities for a faster recovery of economic activities, BDMG has increased the offer of funds to the private sector and, as a result, its main portfolios recorded a significant growth. The main highlight was the micro and small business segment, with a disbursement 397% higher than that for the same period of 2019. The micro and small mining companies had access to Pronampe (National Support Program for Micro and Small Entities), which is now in its 2nd phase, granted by the Federal Government to bank with an additional limit, reflecting its efficiency in allocating the funds released in the 1st phase of the program.

Since the beginning of the pandemic, the Bank has been outdoing itself and implementing strategies to reduce rates, cut red tape and renegotiate debt in order to expand liquidity of entrepreneurs in Minas Gerais State. The portfolio has been revised to include federal programs, such as Pronampe, and the relationship with international institutions has been enhanced in order to raise more funds to finance the economic recovery on a more sustainable and inclusive basis. The record disbursements show that BDMG has been performing its role of a development bank at this challenging time responsibly, monitoring the most diverse variables without neglecting the financial sustainability. Achieving these results with its employees working from home is undoubtedly a source of great pride, and such dedication shows the commitment of the Institution and its employees to the society of Minas Gerais State, accentuated by the challenging socioeconomic context triggered by the Covid-19 pandemic.

This report is organized in three parts. The first part presents the results for the period and the second, the highlights of 3Q20. The last section summarizes the financial statements for the period.

BDMG management thanks the support of its shareholders, customers and employees and of all those who contributed to the results achieved in the period 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 State.

MEASURES IN RESPONSE TO COVID-19

During the third quarter, BDMG kept the three action fronts implemented in response to the crisis caused by the COVID-19 pandemic: the well-being of employees and the continuity of operations, the stimulus to countercyclical business proposals and the concomitant adoption of measures aimed at preserving the Bank's financial sustainability.

The Employee Well-being and Continuity of Operations Front has developed studies on resuming activities at the Bank's headquarters, which will be gradual and will comply with a list of pre-established strict criteria aimed at employee safety, without prejudice to the company's essential activities.

The operational risk management area, responsible for coordinating the business continuity plan, has been monitoring the progress of critical processes at the organizational units, recording and reporting to management any needs and difficulties faced in the period.

The Business and new lines of credit front created new products designed for different industries and segments impacted by the pandemic. In particular, the National Support Program for Micro and Small Entities (Pronampe) assisted, between July and September, 5,861 companies in 428 of the 853 municipalities of Minas Gerais State. The companies had quick and easy access to the funds through the BDMG WEB digital platform under special conditions: interest rate of 1.25% per annum + SELIC (the Central Bank benchmark rate), with a total term of 36 months, and grace period of 8 months. This credit may be used for working capital or investment purposes, with a maximum limit of 30% of the company's gross revenue for 2019. BDMG was the second financial institution to operate Pronampe and the first to do so on a digital platform. In the first phase of the Program, in June and July, BDMG released 100% of its limit of R\$215 million. In early September, the Bank and the Federal Government launched the second phase of the Program, in which BDMG will be able to release R\$481 million to micro and small companies in Minas Gerais State. This new limit shows that the Bank has efficiently allocated the funds and represents another flow of liquidity for small entrepreneurs to restructure their businesses. Pronampe's total disbursement was R\$448 million, representing 21% of the total amount disbursed by the Bank since the beginning of the year.

Another recently created product was "*Giro Mais Emergencial*", intended for small companies with annual revenues between R\$4.8 million and R\$30 million that are not covered by Pronampe. This line can reach interest 38% lower than those previously applied by the Bank for this segment: from 0.49% per month + Selic. The TAAC (Credit Opening and Monitoring Rate) reduced from 2% to 1%. This line is also offered 100% on the digital platform, with less bureaucracy. In less than a month, the *Giro Mais Emergencial* was granted to 9 customers, totaling a disbursement of R\$2.5 million.

Another new emergency product developed in the 3rd quarter was the *BDMG Agro Emergencial* that, using funds raised by Agribusiness Credit Bills (LCA), intends to support agribusiness operations that go beyond those established by the Agribusiness Credit Manual (MCR). By September, R\$24 million had already been released to seven companies.

For the health industry, in addition to the three lines launched since the beginning of the pandemic, a fourth product has been developed: the *BDMG Saúde Emergencial*. All of them are in line with the Sustainable Development Goal SDG 3 – Good Health and Well-being – and provide working capital and investment support for companies of all sizes in the health industry, from pharmacies, distributors and manufacturers of hygiene materials to laboratories, sector industries and hospitals.

The companies used financing substantially for maintenance of working capital - payment of employees and suppliers; payment of extraordinary expenses - but also for acquisition of medical equipment, supplies for the manufacture of health-related products, and construction or renovation of pharmacies, laboratories, clinics and hospitals. Through the *Saúde - BDMG Geraminas Saúde*, *Giro Mais Saúde*, *BDMG Saúde*, and *BDMG Saúde Emergencial* lines, R\$136.2 million were released between March (month in which the WHO and the Minas Gerais State Government declared Covid-19 a pandemic) and September for companies of the entire chain. Such resources were used, for example, to develop 500,000 COVID-19 rapid tests, distribute 700,000 gloves to 66 state units, such as the Military Police and the Health Department, among others. At least 6,000 jobs have been created with the disbursement of these funds.

In the public sector, the Bank supported the construction of 40 health centers of the Primary Health Care Network of the municipality of Belo Horizonte, and provided non-assistance services at the respective units. R\$2.9 million were granted to 15 cities, 13 of which have a Human Development Index (HDI) below the Brazilian average index.

In addition to the health sector, micro and small companies in the tourism business or women-led businesses received special attention, with the reduction of rates and the flexibility of financing conditions. The financing conditions of *Fungetur Giro*, which serves the tourism sector in Minas Gerais, were facilitated with reduction of interest rates and extension of the grace period. Between March 24 and the end of September, 649 companies were served in 145 municipalities with a total disbursement of R\$42 million. The "*Empreendedoras de Minas*" (Women Entrepreneurs of Minas Gerais) line maintained the rates practiced during the "*Março Especial Mulheres*" (Special March for Women) campaign, further extending the grace period. This concerns accessible working capital for women entrepreneurs to strengthen their small businesses. Since then, 504 companies have benefited in 150 municipalities, with disbursement of R\$20.4 million.

Due to the pandemic, the special conditions of the *BDMG Solidário* program, previously valid only for micro and small businesses (MSB) of municipalities in state of emergency (rains at the beginning of the year), became valid for MSBs of all municipalities of Minas Gerais with the *BDMG Solidário Coronavírus* line. Since its implementation, 981 companies have benefited in 216 municipalities, with disbursement of R\$35.7 million.

As a result, between March and September, 7,793 companies had access to these products generating a disbursement of R\$751 million for the lines created and/or adapted to the COVID-19 context.

The third front, i.e. risks and financial sustainability, continued to monitor, in the third quarter, the criteria for credit risk pricing, prevention of external fraud, credit limit for micro and small businesses, and reporting of this risk. BDMG has also systematically carried out monitoring and simulations, assessing impacts and performing actions in a coordinated manner to minimize the effects of the anticyclic scenario on its operations, liquidity, capital structure, and consequent impacts on the financial statements.

OPERATIONAL PERFORMANCE IN 3Q

BDMG ended September with a record disbursement for the year: R\$2,113 million were released in financing for companies of all sizes and municipalities, i.e. 162% higher than in the same period of 2019. The number of customers served was also higher than in 2019: 10,014 against 3,752 customers (167%). Micro and small businesses had a significant weight, as disbursements were made to 9,447 MSBs. The Commerce and Services sector was at the top with 61% of disbursements, followed by Food and Beverage with 9%, and Sanitation and Urban Planning with 6%. Overall, the releases for the year were for companies based in 644 municipalities, 85% of them with a Human Development Index (HDI) below the Brazilian average index.

Total customer portfolio also had a significant increase, from 21,319 customers in September 2019 to 27,003 in 2020 (27% higher than the same period in 2019). As regards disbursements, at the end of September, 72% of the BDMG portfolio involved own funds, 27% came from transfers and 1% from funds managed by the Bank. Present in 769 of the 853 municipalities of Minas Gerais (90%), BDMG has thus been reaffirming its significance to the society and economy of the state.

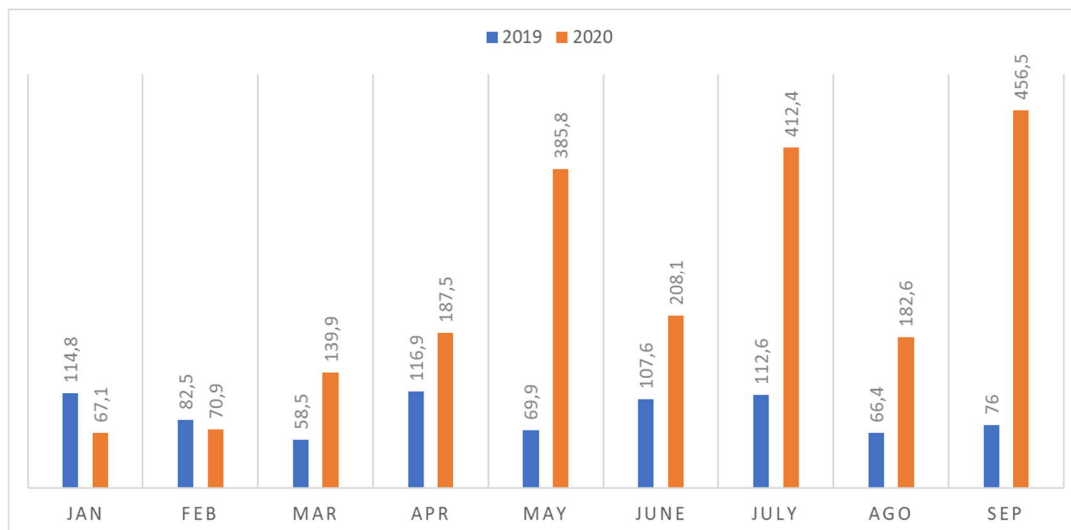
Regarding regional distribution of the volume disbursed, 69% (R\$1,448 million) were intended to the Central, South of Minas Gerais and *Triângulo Mineiro* macro-regions. Other macro-regions received 31% (R\$665 million).

When applying the Input-Product Matrix¹, an econometric methodology that measures the impacts of BDMG's disbursements on the Minas Gerais state economy, an additional value of R\$1,519 million is estimated to have been generated in the Minas Gerais state production, with 21,907 stimulated jobs and R\$59 million in State VAT (ICMS).

¹Amounts at October 2020 prices. Note: Production: sum of all final goods and services produced at the location in question. The production value may be higher than the state GDP, as it considers other intermediate complements and consumption present in the final value, in addition to the value added and indirect taxes. Value Added: in each economic activity this is obtained by the difference between the production value and the intermediate consumption absorbed by the activity. Its sum plus indirect taxes forms GDP. Compensation: compensation for the stimulated work (employment) required to increase production due to the exogenous shock resulting from the loan granted. Employment: stimulated work required by the additional production required. ICMS: key indirect tax imposed by the state. According to the Constitution, 25% of the amount paid is transferred to the municipalities, while 75% remains with the state of Minas Gerais. All the additional production obtained with the exogenous loan shock helps to leverage the payment of this tax and reinforces the coffers of the federal units of Minas Gerais.

When comparing the 2019-2020 monthly disbursements, a significant increase in operations is observed from March of this year, precisely when the pandemic was announced by the WHO. This evidences BDMG's willingness to meet the financial needs of companies, with a view to minimizing the social and economic impacts in Minas Gerais, through anticyclical action.

Graph 1 – BDMG’s monthly disbursements - 2019-2020 comparison (nominal amounts in millions of reais)



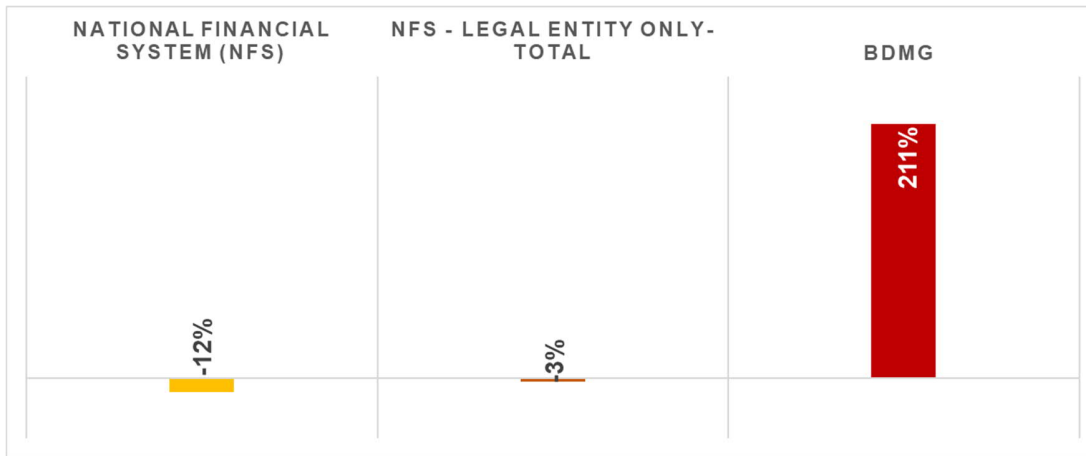
Source: Internal BDMG data.

The Bank's proactivity is also confirmed when comparing the total resources granted in Brazil between March and August. The volume of BDMG's disbursements has grown 185%, while both the credit for legal entities (PJ) and the total amount granted by the National Financial System (SFN) have increased by 15% and 4% respectively, according to data provided by the Central Bank of Brazil².

The increase in disbursement reflects positively on the balance of the Bank's portfolio of operations: R\$5.7 million as of September 30 and 27,003 total customers.

² Source: <https://www3.bcb.gov.br/sqspub/localizarseries/localizarSeries.do?method=prepararTelaLocalizarSeries>

Graph 2 - Comparison of total granting between March and September 2019-2020 (in %)



Source: Internal BDMG data and Central Bank of Brazil.

PERFORMANCE HIGHLIGHTS

Municipalities

Financing for municipal infrastructure, sanitation and solid waste projects

In line with SDGs 11 and 9 (inclusive urbanization and infrastructure projects), BDMG continues its efforts in financing projects with the public authorities. It entered into 289 new contracts with 201 municipalities that reached R\$298 million, all without guarantee from the Federal Government. The total balance of the portfolio of municipalities was R\$635 million, with 467 active municipalities.

90% of the agreements signed in 2020 derived from the 2019 Notice that, through a broad public call, made available resources for financing of infrastructure works and acquisition of machinery and equipment in four lines: 'BDMG Urbaniza', 'BDMG Cidades', 'BDMG Saneamento', and 'BDMG MAQ'. The demand exceeded the original budget of R\$200 million of the Notice and the Bank enabled that R\$268 million be contracted through 276 agreements from 195 municipalities. About half of the amount is intended to paving and urban drainage works, but the demands for energy efficiency related to public lighting and own energy generation have grown in the Notice.

Other financing agreements with municipalities were entered into through continuous flow lines, such as *BDMG Solidário* (intended for municipalities in a situation of emergency or calamity), *BDMG Sustentabilidade* (SDG-related matters) and *Prevenção* (prevention of damage caused by climatic effects), in addition to the line of transfer of funds from the Unemployment Compensation Fund (FGTS) of the Federal Savings Bank (Caixa Econômica Federal) for sanitation. These total R\$28 million.

The amount of R\$133.8 million was disbursed, which includes R\$8.1 million of non-reimbursable resources transferred to municipalities under the program for sewage collection/treatment and disposal of solid waste, in partnership with Fundação Renova.

Concessions and Public and Private Partnership (PPP)

BDMG has been increasingly consolidating itself as a platform for projects that have a significant socioeconomic impact.

The concession model for the management of the Poços de Caldas Integrated Tourist Circuit, prepared by BDMG and the City Government, had its bidding published in August. The Circuit comprises Cristo Redentor Tourist Complex, which includes the city cable car; Fonte dos Amores; Recanto Japonês; and the Vêu das Noivas Tourist Complex. Mandatory investments, estimated at R\$34.5 million, shall be made to replace equipment, and for construction and improvements of facilities. The winning company, in turn, may operate the facilities for 35 years.

The structuring of privatization projects and the support for projects related to green cities and smart cities in Minas Gerais were the object of the Technical Cooperation Agreement (ACT) entered into in September between BNDES and BDMG. The agreement provides for a coordinated action among banks in planning and developing activities necessary for the implementation of those projects, especially in discussing the methodologies to be applied to studies in order to obtain aligned and coherent concession models.

Another objective is to design a joint action model for the development of concession projects and public-private partnerships with municipalities in Minas Gerais, which could be replicated in other contexts. This design also seeks to expand the capacity for implementation of projects, through the mobilization of a network of institutional partners.

Clean Energy

Renewable energy financing

In line with SDG 7 (clean energy), the amount disbursed for renewable energy projects until September 2020 was R\$64 million, financed through the 'BDMG Sustentabilidade BEI', 'Finame Fundo Clima', 'BDMG Solar Fotovoltaico' lines, among other products. The figure was 83% higher than the one for the same period in 2019. Of the total disbursed, R\$56.6 million (88%) were applied in photovoltaic energy projects, 54% in the north of Minas Gerais macro-region.

An annual production of 70.12 GWh/Year is estimated from the power generation potential of these projects, which is equivalent to the average annual consumption of 23,374 Brazilian households (consuming an average of 250kWh/month)³, as well as a reduction of 114 thousand tons of CO₂ emissions during the useful life of the projects or 5,259 tCO₂/year.

The partnership between BDMG and the European Investment Bank (EIB) resulted in €100 million raised in 2019. After the release of the 1st tranche in the amount of €8.4 million in February this year, BDMG's Executive Board approved a 2nd tranche, amounting to approximately €9 million for eight renewable energy projects in Minas Gerais. EIB's funds will benefit, at competitive costs, renewable energy generation projects – solar photovoltaic energy, small-scale hydroelectric energy and bioenergy plants – and energy efficiency projects, such as public lighting and lighting of buildings and industries, for example.

Since the beginning of this line, the 11 projects financed by BDMG with funds raised from the EIB are expected to provide: generation of 70 GWh/year when in operation, and reduction of 127,000 tons of CO₂ during the projects' useful life, which correspond to 10,600 round trip flights between São Paulo and Rio de Janeiro.

Internal Actions – Sustainable BDMG

For the fifth year in a row, the Bank won the gold seal of the Brazilian GHG Protocol Program, the main methodology used globally to measure greenhouse gas (GHG) emissions. The initiative was created by the World Resources Institute (WRI) in the United States, which certifies major international organizations. In Brazil, the institute has certification partners, including the Getúlio Vargas Foundation and the Ministry of the Environment.

³Number of households served for a family of 4 people.

BDMG has participated in this certification since 2015 and has always achieved the highest degree in the evaluations made. One of the criteria for obtaining the classification is to have its actions audited by an independent company.

According to the GHG Protocol 2020 survey (containing 2019 data), GHG emissions from some of the sources that belong to or are controlled by BDMG have dropped 68% in five years, from 70.8 tCO₂e to 22.43 tCO₂e.

The study also evaluates indirect emissions deriving from purchase of electricity and indirect emissions related to the institution's activities – waste generated in operations, business trips and commuting of employees. In both categories, emissions have also been decreasing since 2015, -45% and -5.61%, respectively.

Micro and Small Businesses (MSB)

Financing to micro and small businesses through BDMG Digital

As mentioned above, the Bank's financial support for MSBs was important for the survival of many of them. Through the BDMG Digital platform, which gives direct and easy access to credit without bureaucracy, BDMG has been contributing to SDG 8 (decent work and economic growth).

Through partnerships and agreements, BDMG has established a network of accredited correspondent banks to serve exclusively MSBs in the entire state, which is another way of getting closer to customers, offering them an agile and effective service. The network of correspondent banks is distributed throughout the entire state and includes trade and labor unions, credit cooperatives and banks, as well as private correspondent entities. BDMG has 392 accredited correspondent banks, totaling 784 service points in 425 municipalities of Minas Gerais State.

Disbursement for MSBs grew 398% compared with the same period in 2019: R\$682 million was released to 9,447 companies. The BDMG Digital platform is the main gateway to loan requests: of the total number of companies served, 9,445 obtained their respective financing through the web. In the digital platform, R\$658.8 million were disbursed until September, a figure four times higher than the total disbursed in 2019 (R\$172 million). In particular, the Pronampe line corresponded to 68% of the total funds released and 62% of the total web customers.

Of the total number of companies that obtained a loan via web, 70% reported 39,817 jobs served, which makes an average of 6 employees per company.

Gender inclusion

In view of the barriers that still exist for women to do business, even with the advances in recent years, and of the importance of women entrepreneurs for the modern society, in 2017 BDMG created a financial product intended for women: the '*Empreendedoras de Minas*'. In line with SDG 5 (gender equality), the *Empreendedoras de Minas* has served, in 2020 alone, 752 women entrepreneurs of 194 municipalities in Minas Gerais, 128 of them with an HDI below the Brazilian average index. The disbursement until September was 23% higher than the one for the same period of 2019: R\$29.9 million against R\$24.3 million. The women entrepreneurs represented 8% of the total number of customers served via BDMG Digital.

In partnership with BDMG Cultural and through the BDMG Plural Program, the Bank promoted the virtual exhibition "*Em Nome Das Rosas*" ("In the Name of Roses") for the purpose of giving visibility to domestic violence. The exhibition presented 80 works by the visual artist Eugenia França. BDMG Plural also supported the free virtual film festival "*Mostra Cinema, Um Olhar Feminino*" ("Film Festival, A Female Look"). By exhibiting feature and short films directed by women, the festival reflected on the theme of violence.

Economic Recovery After Disasters

BDMG Solidário – Natural Disasters

Aware of the social and economic impacts caused by floods, periods of drought or the like, BDMG make efforts to continuously create emergency lines of credit. In early February, the Bank launched the *BDMG Solidário* program to support municipalities and companies affected by excessive rainfall, which caused flooding and destruction in several regions of Minas Gerais.

The municipalities for which a situation of emergency or calamity had been declared by the Civil Defense of the State were offered lines at special conditions for infrastructure works. Two municipalities formalized interest in the line and, together, received a total of R\$323 thousand.

For micro and small companies in these municipalities for which emergency or calamity has been declared and is in force, *BDMG Solidário* financed 427 companies located in 78 municipalities. R\$16.8 million was disbursed until September reaching an average ticket of R\$39 thousand.

Fundação Renova

In partnership with Fundação Renova, for more than three years BDMG has been presenting significant results, seeking to have a positive impact on the economy of the municipalities located in the Rio Doce basin, which were affected by the dam rupture in Mariana. The joint actions between the Bank and the Foundation are based on three distinct natures: socioeconomic, basic sanitation and solid waste management.

Social and economic programs aim to boost the region's economy. The micro and small entrepreneurs are offered different conditions in the *Desenvolve Rio Doce* and *Compete Rio Doce* lines to strengthen their business. Interest rates reduced significantly in recent months for an anticyclical effect, especially as a result of the latest events related to the COVID-19 pandemic. Through these lines, 415 MSBs received a total of R\$14.1 million.

The Basic Sanitation and Solid Waste Management Program reached 88 projects approved and under analysis, representing investments of R\$133 million. R\$10.5 million has already been transferred to 13 municipalities and a solid waste management consortium. Among the municipalities affected by the dam rupture, 14 municipalities received a total of R\$8.1 million for sanitation projects this year.

Innovation

Financing for innovative companies

Aware of the essential role of innovation for the economic and social development of the state, BDMG has implemented several actions to stimulate the ecosystem of Minas Gerais. Through loans, the Bank, in partnership with FAPEMIG, FINEP and BNDES, finances innovative projects developed by companies in the Minas Gerais state. Until 3Q20, R\$11 million in financing was released to 20 companies, even in the crisis scenario triggered by the pandemic.

In addition to stimulating innovation through financing, BDMG also works with investment instruments to support innovative companies with high growth potential. In 2020, R\$ 5.5 million was paid into the nine Equity Funds (FIPs) and a Venture Debt Fund. Together, these funds have already invested R\$86.5 million in 26 companies in Minas Gerais.

BDMG also has an equity stake in Biomm S.A., a biopharmaceutical industry located in Nova Lima-MG, and Unitec Semiconductors S.A., a semiconductor industry under implementation located in Ribeirão das Neves-MG, holding 6.7% and 6.5% of the shares, respectively, of these technology-based companies.

Innovation Hub - Hub Hubble

Hubble is an Innovation hub for the financial market formed by early-stage technology companies. Based at Bank and a result of the partnership between BDMG, LM Ventures and Banco Olé Consignado, Hubble is already in the 2nd Batch, started at the end of 2019, with 13 startups selected with various solutions for the financial market: from products such as microcredit, quantitative investment funds, payroll deduction loan, and loan for the middle market, to solutions for generation of greater efficiency, such as payment methods, blockchain, artificial intelligence, machine learning, and management software.

By virtue of the social distancing measures imposed due to the pandemic, it was not possible to use Hubble Hub's physical space and, consequently, the interaction between startups and corporate partners was not possible either. Despite these challenges, 2nd Batch startups continue to grow, about 50% on average compared to the same period last year.

During the period of isolation caused by COVID-19, in order to keep the community engaged, all events and content programmed by Hubble Hub were held online with the participation of entrepreneurs, partners' employees and the community in general. In 2020, Hubble Hub held 28 events, having an impact on more than 1,000 people through lectures, workshops and meetings.

Another highlight: BDMG received the ALIDE Award 2020 - category Management and Technological Modernization, granted by the Latin American Association of Development Financial Institutions, for the Hubble project. The ALIDE Award recognizes best practices of development financial institutions. Applicants are evaluated by an independent international jury.

Agribusiness

Given the significance of agribusiness in the state economy, BDMG has strengthened its support to Minas Gerais farmers. Until September, 34% of the Bank's disbursement was allocated to this segment, totaling R\$708 million, a growth of 87% compared with the same period last year. The financing was made substantially through lines that use resources from the issue of Agribusiness Credit Bills (LCA), Funcafé and BNDES. The disbursement tied to LCA lines was R\$332 million, or 47% of the total allocated to agribusiness - an increase of 104% in relation to the same period in 2019.

Funcafé accounted for 50% of the amount disbursed to the sector (R\$355.9 million), an increase of 221% compared to last year, until September. Regarding the 2020/2021 Crop Year, BDMG will operate the largest resource in its history focused on loan to the coffee sector: R\$392 million, a 29% increase over the limit available for the previous crop. This is the 3rd largest budget of the fund in Brazil, behind only banks with national operations. Considering the 2020/2021 Crop Year, R\$208 million has already been disbursed, representing 53% of the limit for the current crop.

Another source of funds for the financing of agribusiness in Minas Gerais will be through Cargill Financial Services International. The US-based multinational offers food, agricultural, financial and industrial services and products. The agreement was entered into in September, in the amount of US\$10 million, which was disbursed in that same month. The objective is to finance production activities in the agribusiness chain, including the production of agricultural commodities and food products for export.

FUNDING

In addition to the contract with Cargill, BDMG entered into a new contract with the French Development Agency (AFD) in August, for the provision of €70 million within 12 months. The funds raised will be used for the Bank's lines of credit to companies of all sizes and to municipalities. BDMG's strategy is that the allocation will, at first, minimize the socioeconomic impacts of the pandemic. In the future, it will be focused on social and environmental projects that are aligned with the UN Sustainable Development Goals.

In relation to the contract with the European Investment Bank, the 2nd tranche of funds in the amount of €9 million has been authorized by the Executive Board. In total, the two installments correspond to 17.4% of the total amount of the contract entered into in 2019 for renewable energy projects.

With the support of the Inter-American Development Bank (IDB), BDMG has been preparing itself to be the first Brazilian public bank to issue Sustainable Bonds aligned with the Sustainable Development Goals (SDGs). For that end, BDMG published in July a framework with no precedents in the Brazilian market: a conceptual document whose objective is to include financeable social and environmental projects in the context of the SDGs.

In this process, BDMG also obtained the Second Part Opinion (SPO) certification from the international consultancy firm Sustainalytics, which attested to the Bank's ability to issue national and international sustainable bonds. With the SPO certification and the publication of the document (framework), in addition to beginning the preparations for the issue of securities in the market, BDMG also intends measure the impact of operations. To that end, also in partnership with the IDB, a calculator was built to evaluate carbon emissions, reductions and stock of the financed projects.

RATING

In February, Moody's issued an update with no change in rating: B2. According to the risk rating agency, BDMG's strengths are: a key role in the regional economic development program, which is fully aligned with the objectives of its controller, the state of Minas Gerais; very high capitalization level and high level of reserve for allowance for loan losses, which shields the bank against unexpected asset risk growth. The Standard&Poor's rating agency has not yet issued the 2020 report. In the December 2019 report, BDMG was rated at level B/Stable/-brA-/Stable.

INSTITUTIONAL POSITIONING

Partnerships

Through a partnership with BH Airport, the concessionaire of Belo Horizonte International Airport, the Bank will support companies interested in installing facilities at the Industrial Airport, an unprecedented project that provides for tax benefits to export companies that are installed within the airport site. The country's first Industrial Airport was inaugurated in May this year and its main objective is to increase the competitiveness of Brazilian companies internationally and to attract foreign investments to Brazil. With an available area of 750,000 square meters, the project primary purpose is to consolidate an ecosystem to develop and attract companies for the entire "Vetor Norte" and Belo Horizonte Metropolitan regions.

To support small businesses affected by the pandemic, BDMG and Sebrae Minas have entered into a partnership for the Assisted Credit Program, which will be offered to micro and small businesses free of charge and without any guarantees required by BDMG. This initiative covers the provision of training combos, according to the needs of each business, including courses, management spreadsheets, e-books and personalized financial advisory.

BDMG, the Ministry of Tourism and the Special Culture Department signed a letter of intent for the Bank to operate the Audiovisual Sector Fund (FSA), one of the main tools to promote the film and audiovisual industry in the country. In addition to those institutions, representatives of the Minas Gerais Government and of the Brazilian National Film Agency (Ancine) will be part of the team that will structure the Bank's operations with the fund. It should be noted that BDMG, through BDMG Cultural, promotes actions to stimulate the audiovisual sector, such as the BDMG Cultural Award for Low Budget Short Films, in partnership with the Clóvis Salgado Foundation.

In July, the Bank entered into a partnership with CDL-BH for the promotion of BDMG products, particularly Pronampe, through a landing page on the entity's website created exclusively for that purpose. Through this partnership, more than 500 customers accessed Pronampe.

BDMG as a knowledge platform

Despite the limitations imposed by the quarantine, BDMG remained active in discussions of the most pressing financing and sustainable development issues. BDMG managers and teams participated in various virtual meetings, such as webinars and livestreams, maintaining dialogue with federations and trade associations, cooperatives, customers, press, international partners and other stakeholders.

In a webinar held in July, BDMG and the IDB discussed the role of development institutions in encouraging the issue of green and sustainable bonds in Brazil. An excellent opportunity to know a little more about a type of investment that has been gaining space due to its ability to generate positive social and environmental impact.

The Bank's CEO, Sergio Gusmão Suchodolski, reported BDMG's actions during the pandemic and talked about the future of the market during the virtual marathon *Conexão Empresarial 20/21* promoted by VB Comunicação. The event had transmissions of approximately 10 hours a day, with more than 80 speakers and debaters, including ministers, governors, businesspersons from various industries, startups and public officials.

In that same month, the Brazilian Development Association (ABDE) promoted the second webinar of the debate cycle ("Paths of recovery") with the participation of BDMG in the panel "Resilience and Recovery – the National Development System and the Brazilian micro, small and medium-sized companies during the Covid-19 crisis".

In September, BDMG's CEO participated in the virtual version of TEDxPUCMinas. The exhibition was about how the pandemic could represent a trigger for financing a new, more sustainable and inclusive economy, and exemplified how BDMG has been contributing to that.

The Bank's chief economist, Adauto Modesto Junior, participated in the 1st Webinar "Fair Transition and Development Models", an initiative of the Getulio Vargas Foundation, FGV Europe and the Consulate General of Germany in Rio de Janeiro, with the support of the Ministry of Foreign Affairs of Germany and the Government of Minas Gerais. The objective was to foster dialogue and share knowledge about opportunities and challenges of implementing a sustainable transition in Minas Gerais.

The Notice of the 5th edition of the Inova Minas Gerais Award was launched, through a partnership with the Minas Gerais State Department of Planning and Management (Seplog), responsible for the award. The award is intended for state civil servants of the Executive Branch with effective positions or political appointees who present good practices and innovative ideas that contribute to government management, both those that have already been implemented and generated positive results and those that have the potential to further qualify the provision of public service in the state.

In August and September, the Brazilian Center for International Relations (CEBRI) and BDMG promoted a virtual event to contribute to the public debate on the role of Development Financial Institutions in the process of building sustainable responses to the Covid-19 crisis. The event was divided into two panels: financing for infrastructure projects, especially in establishing partnerships for project co-financing, and the role of development banks as levers for a “green” and inclusive recovery. Representatives from several institutions took part, such as the New Development Bank, CAF, BNDES, Asian Infrastructure Investment Bank, Bank of Communications BBM, the Ministry of Economy, among others.

The Bank also participated in the following events: Wilson Park Virtual Dialogue, of the 2nd Minas Gerais Panel – Investments and Economic Development; Intergov Consórcios Project, whose topic was “How development banks could contribute to the financing of consortia operations”; Panelist for PRCA Emerging Markets Group: Engaging with Governments in Crisis: Lessons from Latin America.

BDMG’s CEO assumed the chair of the Brazilian Development Association (ABDE) in place of the former director of Banco do Nordeste, Perpétuo Cazajeiros, to complement the 2019-2021 mandate.

During the 3rd quarter, three other editions of BDMG Podcast were announced: the superintendent of Credit Management spoke about the teamwork in renegotiations, the challenges of a new wave of agreements in the second half of the year and the beginning of service to municipalities. Then, the superintendent of Medium and Large-Sized Companies talked about the teamwork that enabled the portfolio of this function to exceed R\$1 billion this year, in addition to the challenges of an unstable economic scenario. Finally, the superintendent of Project and Municipal Structuring talked about the innovative initiatives for public lighting concessions, the partnership with the João Pinheiro Foundation to help municipalities design projects linked to the SDGs, and the structuring of a project platform in a multilateral partnership.

INTEGRATED RISK MANAGEMENT

The Bank continued to monitor the developments of the current crisis and its impacts in relation to its financial risks. Thus, the Risk Appetite Statement was revised in order to adapt it to the current scenario and the strategic planning guidelines.

The credit risk management policy was revised, especially in relation to the prudential limits of exposure to the largest customer/economic group and of concentration of the credit portfolio. In addition, for MSBs and medium-sized companies, the criteria for credit limits and calculation of the expected loss for pricing were revised for transactions using new credit risk mitigators (FGO/Pronampe and FGI/PEAC guarantee funds).

In managing liquidity risk, monitoring actions were intensified to ensure compliance with the liquidity limits established for the current scenario of significant disbursements and granting of standstill to customers.

Proceeding with the continuous improvement of risk management practices, the Bank began to implement a project with the objective of disseminating the risk culture in the organization. The project includes, in addition to communication actions, training through workshops on process management with a risk vision.

In September, the Board of Directors approved the revision of the Social and Environmental Responsibility Policy with the objective of aligning it with the best sustainability practices and of clarifying the guidelines for the Bank.

SOCIAL RESPONSIBILITY

BDMG Cultural

In 3Q20, BDMG Cultural carried out a series of actions to promote, recognize and disseminate different artistic languages. The following initiatives should be highlighted, which from March, due to Covid-19, are mostly held virtually, with actions also designed to mitigate the effects of the pandemic on the state's cultural sector:

- LAB Cultural Program: launch of the notice, beginning of the project, launch of the program website with 30 research development scholarships under tutoring, in visual arts, performing arts and music, and sound experimentation;
- Music: launch of the *Jovem Músico BDMG* Program, selection of 10 young instrumentalists awarded a tutoring scholarship, first class with musician André Mehmari; launch of two new videos of Coral BDMG on YouTube (*Coral em Casa* project);
- Visual arts: launch of the virtual exhibition *Em Nome das Rosas*, with Eugenia França, and production of a website in partnership with the *BDMG Plural* project, which reflects on domestic violence in Minas Gerais, in Brazil and worldwide; Educational Program - third cycle of virtual educational actions, including podcasts, publications and online workshops;
- Cinema: final result of the Notice for 6th BDMG Cultural/FCS Award for Low Budget Short Films: 20 award-winning films produced under social isolation conditions (made in part with funds from the Federal Law of Incentive to Culture);
- Literature: launch of the book *Literatura Mineira: Trezentos Anos*;
- Website: launch of *Revista BDMG Cultural nº 2*;
- Sponsorships granted: 4th Leda Maria Martins Award for Black Performing Arts of Belo Horizonte, 15th National Book Fair and Fliposcos 2020, Photographic Marathon FIF BH 2020 BH International Photography Festival, 4th Muriaé Film Festival - Online, Tocoíós Weavers – The Colors of the Jequitinhonha Valley;
- Sponsorship under the Municipal Law of Incentive to Culture to the Faísca International Risograph Festival project.

The BDMG Employee Citizenship Institute - "INDEC" The BDMG Employee Citizenship Institute (INDEC) maintained in 3Q20 the initiatives and projects aimed at emergency support to vulnerable populations within the context of the pandemic. The main projects that received support in recent months were: *Grupo Indígena Katurãma*, *Projeto Canto da Rua Emergencial - Pastoral de Rua*, *Projeto Dona de Leite*, *Projeto Assistencial Novo Céu*, *Associação Lar Amor*, and *Esperança*, *Projeto hoje Vamos Jantar fora*. Since the beginning of the pandemic, INDEC has supported 25 projects and for some of these, more than once, impacting approximately 11,000 people with its actions.

The Institute maintained transfer of funds to the Rio Manso Day Care Center and to *Projeto Futuro da Comunidade*, supporting remote activities and avoiding the demobilization of funds and professionals involved.

FINANCIAL STATEMENTS

BDMG recorded accumulated net income of R\$23 million and equity of R\$1,962 million in 3Q20.

The Bank has in its portfolio securities classified as held to maturity, amounting to R\$163 million, for which management, in compliance with Memorandum Circular No. 3068/2001 issued by the Central Bank of Brazil (BACEN), states that it has the financial ability to hold them to maturity.

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
September 30, 2020 and December 31, 2019
(In thousands of reais)

	Note	09/30/2020	12/31/2019
Assets			
Current assets		2,690,029	1,513,219
Cash and cash equivalents	5	363,484	90,310
Financial instruments	6	2,325,637	1,422,585
Marketable securities	6.1	447,252	123,714
Derivative financial instruments	6.2	121,780	49,280
Loans and similar transactions	6.3	1,882,381	1,368,843
Other financial assets	6.4	23,733	7,250
Allowance for expected credit losses		(149,509)	(126,502)
Marketable securities	6.1	(250)	(83)
Loans and similar transactions	6.3	(149,259)	(126,419)
Other assets	8	908	324
Noncurrent assets		4,887,008	4,628,190
Long-term receivables		4,850,593	4,596,121
Financial instruments	6	4,144,432	3,871,643
Marketable securities	6.1	559,046	1,021,805
Loans and similar transactions	6.3	3,854,330	3,135,817
Other financial assets	6.4	131,018	127,927
Allowance for expected credit losses		(399,962)	(413,906)
Marketable securities	6.1	(109,098)	(107,712)
Loans and similar transactions	6.3	(290,864)	(306,194)
Other assets	8	65,101	54,506
Tax credits	14.b	641,060	669,972
Property and equipment in use	7.a	16,821	18,022
Properties and other fixed assets		57,941	58,139
(Accumulated depreciation)		(41,120)	(40,117)
Intangible assets	7.b	19,594	14,047
Intangible assets		46,456	36,389
(Accumulated amortization)		(26,862)	(22,342)
Total assets		7,577,037	6,141,409

See accompanying notes.

	Note	09/30/2020	12/31/2019
Liabilities and equity			
Current liabilities		1,798,568	1,381,701
Financial liabilities	9	1,665,758	1,317,767
Deposits	9.1	241,992	66,832
Funds from acceptance and issue of securities	9.1	82,979	226,380
Borrowings and onlending	9.2	1,340,787	1,024,555
Domestic onlending	9.2.b	1,196,096	932,710
Foreign borrowings	9.2.a	144,691	91,845
Provisions	10	80,444	23,807
Obligations with defined post-employment benefits	10.a	17,556	18,635
Tax, labor and civil contingencies	10.b	2,790	3,511
Financial guarantees given	10.c	59,315	1,037
Other contingencies	10.c	783	624
Other liabilities	11	52,366	40,127
Noncurrent liabilities		3,816,364	2,938,825
Long-term liabilities		3,816,364	2,938,825
Financial liabilities	9	3,066,425	2,202,900
Deposits	9.1	589,510	72,898
Funds from acceptance and issue of securities	9.1	275,497	76,830
Borrowings and onlending	9.2	2,201,418	2,053,172
Domestic onlending	9.2.b	1,681,192	1,830,410
Foreign borrowings	9.2.a	520,226	222,762
Provisions	10	582,543	611,760
Obligations with defined post-employment benefits	10.a	359,079	363,496
Tax, labor and civil contingencies	10.b	212,193	219,060
Financial guarantees given		-	18,500
Other contingencies	10.c	11,271	10,704
Other liabilities	11	131,858	106,100
Deferred tax obligations	14.c	35,538	18,065
Equity	12	1,962,105	1,820,883
Capital	12.a	2,104,971	2,004,971
Other comprehensive income (loss)	12.b	(131,172)	(149,712)
Accumulated losses	12.c	(11,694)	(34,376)
Total liabilities and equity		7,577,037	6,141,409

See accompanying notes.

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

Statement of profit or loss
 Nine-month period ended September 30
 (In thousands of reais, unless otherwise stated)

	Note	09/30/2020	09/30/2019
Trading revenues	13	558,092	498,310
Loans	13.a	432,465	442,920
Gains (losses) on marketable securities	13.b (i)	24,465	39,994
Gains (losses) on derivative financial instruments	13.b (i)	100,059	15,048
Gains (losses) on exchange transactions		1,103	348
Trading expenses	13.b (ii)	(281,448)	(206,617)
Loans and onlending		(262,349)	(183,644)
Market funding transactions		(19,099)	(22,973)
Gains (losses) on allowance for loan losses		(58,352)	(79,179)
Set-up/reversal of allowance for loan losses		(57,281)	(79,285)
Set-up/reversal of allowance for losses on transactions similar to loans		(1,071)	106
Gross profit from trading transactions		218,292	212,514
Other operating income/expenses		(141,767)	(116,477)
Service revenues		24,786	24,790
Personnel expenses		(78,399)	(74,208)
Other administrative expenses	13.c (ii)	(27,953)	(25,075)
Tax expenses	13.c (i)	(14,186)	(14,116)
Other operating income	13.c (iii)	30,144	16,072
Other operating expenses	13.c (iv)	(76,159)	(43,940)
Expenses with provisions		(30,167)	(45,445)
Tax, labor and civil		(3,461)	(19,466)
Actuarial		(25,928)	(24,754)
Other		(778)	(1,225)
Operating income (expenses)		46,358	50,592
Non-operating income (expenses)		238	(2,792)
Income before income taxes and profit sharing		46,596	47,800
Income and social contribution taxes	14.a	(21,035)	(18,497)
Provision for income tax		-	(9,170)
Provision for social contribution tax		-	(5,811)
Deferred tax assets	14.c	(21,035)	(3,516)
Statutory profit sharing		(2,879)	(3,822)
Net income for the period		22,682	25,481
Earnings per thousand shares – R\$		0.00032	0.00038

See accompanying notes.

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

Statement of comprehensive income
 Nine-month period ended September 30
 (In thousands of reais, unless otherwise stated)

	<u>09/30/2020</u>	<u>09/30/2019</u>
Accumulated net income	<u>22,682</u>	25,481
Items to be subsequently reclassified to profit or loss	<u>7,795</u>	164
Financial assets available for sale	<u>14,206</u>	(342)
Tax effect on losses on financial assets	<u>(7,053)</u>	(137)
Losses transferred to P&L	<u>1,107</u>	1,108
Tax effects	<u>(465)</u>	(465)
Items that will not be subsequently reclassified to P&L	<u>10,745</u>	(42,999)
Actuarial assessment	<u>19,537</u>	(71,665)
Tax effects	<u>(8,792)</u>	28,666
Other comprehensive income	<u>18,540</u>	(42,835)
Comprehensive income (loss) for the period	<u>41,222</u>	(17,354)
Earnings per thousand shares – R\$	<u>0.00058</u>	(0.00026)

See accompanying notes.

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

Statement of changes in equity
 Nine-month period ended September 30
 (In thousands of reais)

	Capital	Equity adjustments	Other equity adjustments	Retained earnings	Total
Balance at December 31, 2018	1,931,111	(6,121)	(102,143)	(93,507)	1,729,340
Capital increase	49,239	-	-	-	49,239
Other comprehensive income (loss)	-	164	(42,999)	-	(42,835)
Equity adjustments	-	766	(71,665)	-	(70,899)
Tax effect on other comprehensive income (loss)	-	(602)	28,666	-	28,064
Accumulated net income for the period	-	-	-	25,481	25,481
Balance at September 30, 2019	1,980,350	(5,957)	(145,142)	(68,026)	1,761,225
Balance at December 31, 2019	2,004,971	3,323	(153,035)	(34,376)	1,820,883
Capital increase (Note 12.a)	100,000	-	-	-	100,000
Other comprehensive income (loss)	-	7,795	10,745	-	18,540
Equity adjustments	-	15,313	19,537	-	34,850
Tax effect on other comprehensive income (loss)	-	(7,518)	(8,792)	-	(16,310)
Accumulated net income for the period	-	-	-	22,682	22,682
Balance at September 30, 2020	2,104,971	11,118	(142,290)	(11,694)	1,962,105

See accompanying notes.

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

Statement of cash flows

Nine-month period ended September 30

(In thousands of reais)

	09/30/2020	09/30/2019
Cash flow from operating activities		
Income before taxes and profit sharing	46,596	47,800
Adjustments:		
Depreciation and amortization	5,523	4,987
Set-up of provisions and liabilities, net	58,903	58,454
Set-up of allowance for loan losses	58,352	79,179
Set-up of provision for losses	2,140	20,630
Allocation of deferred revenue	(13,035)	(13,285)
Exchange gains (losses), net	86,072	18,783
Recovery of loans written off as loss	(26,054)	(51,430)
Gains from monetary restatement of noncurrent loans	(34,995)	(12,170)
Market value adjustment of derivative instruments and hedged items	4,897	(1,078)
Loss on financial assets available for sale	(12,228)	(32,163)
Loss on financial assets held to maturity	(8,356)	(11,348)
Loss on financial assets for trading	(889)	(10,332)
Adjusted net income	166,926	98,027
Changes in working capital	(156,755)	(72,205)
Derivative financial instruments	(78,661)	(9,295)
Loans and leases	(1,199,544)	566,597
Other receivables	(14,971)	(6,428)
Other assets	(11,179)	(3,443)
Deposits	691,771	(266)
Financial bills	55,266	(97,892)
Foreign borrowings	238,405	(63,749)
Onlending obligations	114,168	(425,791)
Other liabilities	40,768	(31,402)
Provisions	(13,503)	(13,103)
Deferred income	20,725	12,567
Cash from operating activities	10,171	25,822
Income and social contribution taxes paid	(4,181)	(10,293)
Net cash (used in) operating activities	5,990	15,529
Cash flow from investing activities		
Acquisition of permanent assets	(9,892)	(3,970)
Acquisition of financial assets available for sale	(330,818)	(1,649,893)
Receipt of financial assets available for sale	447,472	1,583,694
Acquisition of financial assets held to maturity	(15,755)	(75,518)
Receipt of financial assets held to maturity	13,146	18,772
Acquisition of financial assets for trading	-	(2,116,828)
Receipt of financial assets for trading	61,928	1,889,558
Net cash (used in) investing activities	166,081	(354,185)
Cash flow from financing activities		
Capital increase	100,000	49,239
Net cash used in financing activities	100,000	49,239
Increase (decrease) in cash and cash equivalents, net	272,071	(289,417)
Cash and cash equivalents at beginning of period	90,310	355,154
Exchange gains on cash	1,103	348
Cash and cash equivalents at end of period	363,484	66,085

See accompanying notes.

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

Notes to interim financial statements
September 30, 2020
(In thousands of reais, unless otherwise stated)

1. Operations

Banco de Desenvolvimento de Minas Gerais S.A. (“BDMG” or the “Bank”) is a privately-held corporation run by the state of Minas Gerais, which holds 90.86% of its capital, having been established based on article 13 of the Transitory Provisions Act of the State Constitution, enacted on September 21, 1989, and according to Law No. 10092/1989.

BDMG’s economic activity is conducted in accordance with Article 173 of the Brazilian Constitution, and also with the provisions of Law No. 13303/2016 and State Decree No. 47154 that regulates it.

Pursuant to current laws and regulations, BDMG’s business purpose includes the following:

- Carrying out activities of development banks by granting financing that enables promotion of the economic and social development of Minas Gerais;
- Acting as a financial agent for state funds, managing the resources necessary to finance programs and projects favorable to the development of Minas Gerais;
- Acting as a financial agent and/or manager of other funds that finance projects in the state of Minas Gerais and, therefore, promote its development;
- Providing advisory and technical assistance services to the direct and indirect Administration of the state and municipalities and to private companies.

The bank is headquartered at Rua da Bahia, 1,600, CEP 30160-907, Belo Horizonte, Minas Gerais, and does not have branches.

On November 13, 2020, the Bank’s Executive Board authorized the issue of these interim financial statements.

2. Presentation of the individual interim financial statements

The individual interim financial statements have been 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, together with the rules of the National Monetary Council (CMN) and of the Central Bank of Brazil (BACEN), particularly the provisions of CMN Resolution No. 4720/2019 and BACEN Memorandum Circular No. 3959/2019, which regulate the presentation of financial statements in accordance with the International Financial Reporting Standards (IFRS) adopted by CMN/BACEN.

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

Notes to interim financial statements (Continued)
September 30, 2020
(In thousands of reais, unless otherwise stated)

2. Presentation of the individual interim financial statements (Continued)

In compliance with these new standards, the Statement of Financial Position accounts are presented in order of liquidity and maturity and the Statement of Comprehensive Income is also presented.

The following accounting pronouncements related to the process of convergence with the international accounting standards, issued by the Brazilian FASB (CPC) and already approved by BACEN, were also considered in the preparation of these financial statements:

CMN Resolution No. 3566/2008 - CPC 01 (R1) - 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;
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;
CMN Resolution No. 4535/2016 – CPC 27 – Property, Plant and Equipment;
CMN Resolution No. 4748/2019 – CPC 46 – Fair Value Measurement.

Management represents that these interim financial statements, which show all the relevant information used in managing the Bank, are based on accounting practices applied in accordance with current standards, making it possible to evidence that the Bank has the ability to continue as a going concern and that its resources are sufficient for the future continuity of its business.

In addition, management is not aware of any uncertainty that could raise doubts as to the Bank's ability to continue as a going concern in the foreseeable future.

The Bank has an accounting technology structure based on a number of operating systems that are integrated to the accounting system, and any non-computerized information is entered manually. 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.

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

Notes to interim financial statements (Continued)
September 30, 2020
(In thousands of reais, unless otherwise stated)

2. Presentation of the individual interim financial statements (Continued)

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

3. Summary of significant accounting practices

3.1. Functional and presentation currency

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 interim financial statements are presented in Brazilian reais (R\$), which is the Bank's functional and presentation currency, expressed in thousands of reais.

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.

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 of 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 trading, except for the debit balances arising from exchange differences on loans, which are reclassified as other operating expenses, and the credit balances arising from exchange differences on funding expenses and payables due to borrowings and onlending, which are reclassified as other operating income. Reclassification occurs only when the credit or debit balance exceeds the sum of the other remuneration components recorded in the respective expense or income accounts.

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

Notes to interim financial statements (Continued)
September 30, 2020
(In thousands of reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.1. Functional and presentation currency (Continued)

b) Transactions and balances (Continued)

Assets and liabilities in foreign currency are translated into local currency (Brazilian reais) at the exchange rate at the reporting date. The exchange rate applicable at September 30, 2020 is: US\$1.00 = R\$5.6407 (12/31/2019: US\$1.00 = R\$4.0307) and €1.00 = R\$6.6132 (12/31/2019: €1.00 = R\$4.5305).

3.2. Current and noncurrent assets

Classification into current and noncurrent observes the distribution of assets according to liquidity. However, marketable securities classified as held for trading are presented as current assets regardless of their maturity dates, while tax credits are presented as noncurrent assets, not considering the expectation of their realization.

3.3. 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 value and limits, falling due within 90 days, at the acquisition date, which are used by the Bank to manage its short-term commitments (Note 5).

3.4. Interbank investments

Repurchase agreements are adjusted to market value. Other assets are stated at acquisition cost, plus earnings accrued up to the reporting date, net of valuation allowance, where applicable (Note 5.1).

3.5. Marketable securities

In accordance with BACEN Memorandum Circular No. 3068/2001 and supplementary regulations, marketable securities are classified into the following categories, according to management's intentions, taking into consideration the following accounting criteria (Note 6.1):

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Notes to interim financial statements (Continued)
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3. Summary of significant accounting practices (Continued)

3.5. Marketable securities (Continued)

- (a) Securities held for trading: 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 (Note 6.1(a)).
- (b) 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. This category also includes investment fund shares that, because they are not traded in the active market, are considered at acquisition value (Note 6.1(b)).
- (c) 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 (Note 6.1(c)).

Management establishes guidelines for the classification of marketable securities within the categories defined in BACEN Memorandum 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 Memorandum 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 (Note 6.1).

3.6. Derivative financial instruments

In accordance with BACEN Memorandum 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.

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3. Summary of significant accounting practices (Continued)

3.6. Derivative financial instruments (Continued)

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.

As informed in Note 6.2, derivatives are measured at fair value and recorded as assets, when positive, and as liabilities, when negative, and changes in fair value are recognized in profit or loss.

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

3.7. Loan portfolio and allowance for expected credit losses

Loans and similar credit transactions 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. This Resolution also allows double counting for transactions with terms longer than 36 months.

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.

Allowance for expected credit losses is set up based on the criteria to classify credit risk related to customers and operations as 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 (Note 6.3).

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3. Summary of significant accounting practices (Continued)

3.8. 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. The Bank adopts the procedure of setting up contingent allowance for losses related to portfolio with guarantee.

CMN Resolution No. 3533/2008 currently in effect changed, as of January 1, 2012, the form of recognition of credit assignment transactions, 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 (Note 6.3(f)).

3.9. Other financial assets

These assets are stated at realizable values including, where applicable, earnings accrued on a daily *pro rata* basis, less the related unearned income and allowances, when necessary (Note 6.4).

3.10. Other assets

Assets not for own use received in accord and satisfaction or as a result of chattel mortgage recorded in this group are initially recognized at the lower of the value of the item received or the measurement value. Subsequently, they are adjusted by the lower of the value of the measurement carried out annually for each asset or by the value offered for sale at auction (Note 8).

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3. Summary of significant accounting practices (Continued)

3.11. Property and equipment in use and intangible assets

Property and equipment in use, except acquisitions prior to 1995, which were 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 (Note 7).

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:

	<u>Years</u>
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 7-a), 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.

3.12. 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 accrued.

3.13. 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 Memorandum Circular No. 3429, dated February 11, 2010, taking into account Accounting Pronouncement CPC 25 – Provisions, Contingent Liabilities and Contingent Assets, issued by the CPC.

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3. Summary of significant accounting practices (Continued)

3.13. 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 covered by provision nor disclosed (Note 10(b)).

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 10).

3.14. 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% of taxable profit in the period from 01/01/2019 to 02/29/2020, and at 20% as from March 1, 2020, as established by article 32 of Constitutional Amendment No. 103, of November 12, 2019 (Note 14).

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:

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3. Summary of significant accounting practices (Continued)

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

- (i) Income tax (IRPJ): base rate of 15% of taxable profit, plus 10% surtax;
- (ii) Social Contribution Tax on Net Profit (CSLL): rate of 20% of taxable profit.

Tax credits on income and social contribution tax losses (25% and 20%, respectively) are also accrued.

Income and social contribution tax credits are reviewed at each reporting 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. Tax credits on income and social contribution tax losses are realized according to the generation of taxable profits, observing the limit of 30% of taxable profit of the base period.

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.

3.15. 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.

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Notes to interim financial statements (Continued)

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3. Summary of significant accounting practices (Continued)

3.15. Employee benefits (Continued)

- (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 and pensioner members. As from referred to date, the benefit was assured to the employees already assisted on such date and active employees who joined the Voluntary Termination Plan, whose term of enrolment ended April 30, 2018. For the other employees, after such date, the benefit was assured for the period in which they remain as active participants.
- (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.

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 this six-month period, the program was opened on May 5, 2020, with a 15-day enrollment period from that date.
- (v) Other benefits: the Bank also offers to its active employees other benefits, such as profit sharing and six-month maternity leave. Furthermore, BDMG grants lifetime pension benefits to a pensioner member and retirement benefits to two retired former employees, for not having been hired under the Consolidation of the Labor Laws (CLT) regime, at the time the Bank was still an autonomous government agency.

Except for profit sharing and maternity leave under "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.

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Notes to interim financial statements (Continued)
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3. Summary of significant accounting practices (Continued)

3.15. Employee benefits (Continued)

Information on recognition of employee benefits is detailed in Note 17.

3.16. 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.

3.17. Capital

The capital of BDMG, recorded in equity, comprises registered common shares with no par value (Note 12(a)).

3.18. Capital remuneration

BDMG's articles of incorporation establish payment of mandatory minimum dividends corresponding to 1% of net income for the year, adjusted pursuant to legislation.

In the years profits are recorded, the Bank credits the amount of interest on equity to its shareholders and it has been a practice for shareholders to reinvest such interest in capital as follows:

- (i) Shareholders who do not have tax immunity - amount credited net of applicable taxes and
- (ii) Shareholder State of Minas Gerais: amount credited net of the rate payable to the Federal Government and that is levied on the revenue credited to the State.

3.19. 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.

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Notes to interim financial statements (Continued)

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3. Summary of significant accounting practices (Continued)

3.20. 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 15.

4. Application of accounting judgments and estimates with significant effects

The preparation of the financial statements requires management to use judgments and estimates that impact the book balances of assets and liabilities published by the Bank. The estimates and judgments adopted by the Bank result from subjectivity and uncertainties involving certain classes of assets and liabilities.

The Bank, in turn, has internal rules or technical notes that establish criteria for application of accounting policies that may or may not involve the use of judgments and estimates to calculate the amounts to be accounted for.

Judgments and estimates are reviewed on an ongoing basis since it is necessary to take into account, in addition to the established practice, the factors assessed as possible to occur at the time the financial statements are prepared.

4.1. Impairment of non-financial assets

Assets not for use are technically assessed to check evidence of issues as to the recoverability of their value. The valuations consider estimates defined according to the conditions that affect the item at the time they are carried out. The Bank establishes a provision for loss when the valuation of the asset is less than the accounted value, and the recognized loss may be reversed based on future valuations.

In order to present the effective value of these assets, management adopts the procedure of recognizing that the value offered in the auction for the sale of an item, when lower than the amount of the valuation, evidences the effective expected loss.

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Notes to interim financial statements (Continued)

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4. Application of accounting judgments and estimates with significant effects (Continued)

4.2. Allowance for expected credit losses

Management exercises judgments and applies certain assumptions to measure the expected credit losses.

The provisions related to losses incurred in the loan portfolio comply with CMN Resolution No. 2682/1999, as stated in Note 6.3.

The evaluation of expected losses on the portfolio is made by means of a model that involves various estimates and judgments since they consider the characteristics of the customer's credit and quality, the flow of payment history and the existing guarantees, which may lead to a decrease in the estimated amount receivable of future cash flows.

Management's judgments are made mostly in relation to factors considered in the model that, due to internal and external information, evidence the possibility of losses in the following year or during the cycle of the operation.

However, the use of different judgments and assumptions may lead to a provision different from the amount recognized.

4.3. Fair value of derivative financial instruments

The Bank's derivative financial instruments are recorded at fair value, which is established based on quotations from active markets, when available and, in the absence thereof, is calculated using valuation techniques based on assumptions that consider established judgments from information and market conditions existing at the reporting date.

The judgments made arise substantially from the volatility of the foreign exchange markets, which can cause significant changes in the future rates of foreign currencies, in very short periods of time, generating significant variations in the fair value of the swaps.

We can observe that the methodologies adopted are considered appropriate and consistent with the market conditions, but when taking into account assumptions with judgments, the results obtained may vary in relation to those arising from application of other methodologies that use different assumptions to determine the fair value.

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Notes to interim financial statements (Continued)
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4. Application of accounting judgments and estimates with significant effects (Continued)

4.4. Deferred tax assets

The Bank has tax credits recognized in assets substantially resulting from temporary differences and for which there is expectation of realization based on future taxable profits projected by the Bank in a technical study of projection of profit or loss.

The expected future generation of taxable profits is based on technical studies of projection of profit or loss that require management's judgment and also involves the use of estimation calculations that take into account current and future expectations as to business growth and performance of the Bank.

4.5. Provision for tax, civil and labor contingencies

The Bank has contingent liabilities and related provisions arising from lawsuits at legal and administrative courts related to tax, civil and labor contingencies.

Obligations are recognized in accordance with the opinion of legal advisors who classify the proceedings in terms of likelihood of loss.

For obligations legally assessed as "probable loss", provisions are set up, the amounts of which are quantified using criteria that allow their measurement despite the uncertainties inherent in the terms, settlement amounts and likelihood of loss.

The provision for tax and social security proceedings for which the constitutional grounds are not discussed corresponds to the amount in dispute plus charges, while the provision for labor and civil contingencies corresponds to the estimated disbursement plus applicable charges. The provisioned amounts are adjusted whenever there is a decision that impacts the book value.

For judgment purposes, management considers the possibility of changes in the estimates considered for the provision amounts as a result of changes in the term of dismissal of the proceedings and the possibility of future disbursement due to decisions at higher courts and/or government incentive programs for payment of debts under favorable conditions that may lead to a disbursement below the provision amount.

The Bank's contingencies are described in Note 10-b.

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4. Application of accounting judgments and estimates with significant effects (Continued)

4.6. Defined benefit retirement plan obligations

The defined benefit plan sponsored by the Bank generates an obligation, the amount of which is obtained by actuarial calculations that consider various assumptions and are partly based on current market conditions.

In measuring the actuarial liabilities of the post-employment benefit plan, management uses judgment to determine the assumptions.

4.7. Provisions for loan commitments, guarantees and legal claims

To support losses arising from the possible need to honor obligations arising from the provision of guarantees for contracts not recorded in the statement of financial position, the Bank sets up provision for expected losses, and this amount is recognized as a liability against profit or loss for the period.

For calculation of the estimated amount of losses on the provision for guarantees, the same parameters as the expected loss in the customer loan portfolio are used.

5. Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits both in Brazil and abroad, and highly liquid investments maturing within three months from the contract date and without significant risk of change in value. The breakdown of the group is as follows:

	<u>09/30/2020</u>	<u>12/31/2019</u>
Cash and cash equivalents	145	1,606
Cash and cash equivalents in foreign currency	267,970	7,497
Interbank investments	95,369	81,207
	<u>363,484</u>	<u>90,310</u>

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Notes to interim financial statements (Continued)

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5. Cash and cash equivalents (Continued)

5.1. Interbank investments

	<u>09/30/2020</u>	<u>12/31/2019</u>
Investments in repurchase agreements – own portfolio:		
Financial Treasury Bills (LFT)	-	81,207
National Treasury Bills (LTN)	95,369	-
Interbank deposits	7,342	8,191
Provision for loss on interbank deposits (i)	(7,342)	(8,191)
	<u>95,369</u>	<u>81,207</u>

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

The aging list of interbank investments is as follows:

	<u>Overdue</u>	<u>Within 30 days</u>	<u>Total</u>
National Treasury Bills	-	95,369	95,369
Interbank deposits	7,342	-	7,342
Provision for losses	(7,342)	-	(7,342)
Balance at 09/30/2020	<u>-</u>	<u>95,369</u>	<u>95,369</u>
Balance at 12/31/2019	<u>-</u>	<u>81,207</u>	<u>81,207</u>

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6. Financial instruments

6.1. Marketable securities

	09/30/2020			12/31/2019		
	Number	Curve yield	Market value	Number	Curve yield	Market value
Trading securities (a)	-	-	-	12,836	134,391	134,387
Government bonds – Unrestricted - LFT	-	-	-	12,836	134,391	134,387
Securities available for sale (b)	33,009,916	765,831	734,283	33,014,566	796,910	751,156
Government bonds – Unrestricted - LFT	49,327	527,758	524,956	53,977	565,124	565,100
Corporate bonds	32,960,589	238,073	209,327	32,960,589	231,786	186,056
Investment fund shares	-	142,200	142,200	-	135,912	135,912
Floating income securities	-	95,873	124,155	-	95,874	107,172
Provision for losses on floating income securities	-	-	(57,028)	-	-	(57,028)
Securities held to maturity (c)	88,154	217,940	162,667	88,154	207,010	152,181
Government bonds – National Treasury Notes (NTN-B)	21,000	74,289	71,336	21,000	75,349	71,288
Unrestricted	21,000	74,289	71,336	14,200	50,950	46,889
Linked to capital increase	-	-	-	6,800	24,399	24,399
Corporate bonds	67,154	143,651	91,331	67,154	131,661	80,893
Debentures	67,154	82,536	82,536	67,154	82,159	82,159
Provision for debenture credit risk	-	-	(52,101)	-	-	(50,557)
Commodities – Agricultural Commodities Note (CPR)	-	61,115	61,115	-	49,502	49,502
Provision for CPR credit risk	-	-	(219)	-	-	(211)
	33,098,070	983,771	896,950	33,115,556	1,138,311	1,037,724
Current			447,002			123,631
Noncurrent			449,948			914,093

a) Securities held for trading

This category includes securities acquired for trading purposes. These securities are recorded at market value, and gains and losses are recognized directly in profit or loss for the period.

b) Securities available for sale

These securities can be sold at any time in response to the need for liquidity or changes in market conditions.

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6. Financial instruments (Continued)

6.1. Marketable securities (Continued)

b) Securities available for sale (Continued)

This portfolio includes government bonds that are recognized at market value, and gains and losses arising from adjustments to their values recognized at market value, while unrealized, are accounted for, net of applicable taxes, in a specific equity account. Upon realization, they are recognized in profit or loss, on the trading date, with a matching entry to such specific account.

These securities are marked to market considering the quotations disclosed by the Brazilian Association of Financial and Capital Market Entities (ANBIMA) for the secondary market of such securities.

Changes in the equity adjustment of securities available for sale

	Unrealized gains (losses)	Tax effects	Mark to market
Balance at 12/31/2019	7,214	(3,891)	3,323
Adjustment in the period	15,313	(7,518)	7,795
Balance at 09/30/2020	22,527	(11,409)	11,118

The variable income securities classified in this category refer to the BDMGTEC shareholdings that were added to the portfolio in 2018 upon merger of that company by BDMG. These securities are recorded at fair value and reduced by the corresponding impairment losses, as applicable.

Investments in investment fund shares are considered in this category at acquisition cost as they are not traded in an active market.

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6. Financial instruments (Continued)

6.1. Marketable securities (Continued)

b) Securities available for sale (Continued)

Aging list of securities available for sale

	09/30/2020					Total	12/31/2019			Total
	Within 30 days	From 61 to 90 days	From 91 to 180 days	From 181 to 360 days	More than 360 days		Within 30 days	From 181 to 360 days	More than 360 days	
Government bonds	-	-	273,622	-	251,334	524,956	-	-	565,100	565,100
LFT	-	-	273,622	-	251,334	524,956	-	-	565,100	565,100
Corporate bonds	95,147	11,263	-	6,313	96,604	209,327	96,630	10,625	78,801	186,056
Investment fund shares	95,147	11,263	-	6,313	29,477	142,200	96,630	10,625	28,657	135,912
Fixed income (FI)	95,147	-	-	-	-	95,147	96,630	-	-	96,630
Emerging companies (FIEE)	-	2,234	-	-	-	2,234	-	2,182	-	2,182
Equity funds (FIP)	-	9,029	-	6,313	26,471	41,813	-	8,443	26,255	34,698
Investment Guarantee Fund (FGI)	-	-	-	-	3,006	3,006	-	-	2,402	2,402
Floating income securities	-	-	-	-	67,127	67,127	-	-	50,144	50,144
Total	95,147	11,263	273,622	6,313	347,938	734,283	96,630	10,625	643,901	751,156

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6. Financial instruments (Continued)

6.1. Marketable securities (Continued)

c) Securities held to maturity

These securities are initially recognized at fair value plus transaction costs, and subsequently measured at amortized cost using the interest rate and other contracted finance charges.

Aging list of securities held to maturity

	09/30/2020						Total
	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	
Government bonds	-	-	-	-	-	71,336	71,336
NTN - Unrestricted	-	-	-	-	-	71,336	71,336
Corporate bonds	9,798	4,390	5,149	17,694	23,626	30,674	91,331
Debentures	231	-	-	833	2,065	27,306	30,435
Investments in Commodities (CPR)	9,567	4,390	5,149	16,861	21,561	3,368	60,896
Total	9,798	4,390	5,149	17,694	23,626	102,010	162,667

	12/31/2019						Total
	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	
Government bonds	-	-	-	-	-	71,288	71,288
NTN - Unrestricted	-	-	-	-	-	46,889	46,889
Linked to capital increase	-	-	-	-	-	24,399	24,399
Corporate bonds	3,507	278	876	1,310	10,405	64,517	80,893
Debentures	-	-	598	-	1,731	29,273	31,602
Investments in Commodities (CPR)	3,507	278	278	1,310	8,674	35,244	49,291
Total	3,507	278	876	1,310	10,405	135,805	152,181

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

Notes to interim financial statements (Continued)
September 30, 2020
(In thousands of reais, unless otherwise stated)

6. Financial instruments (Continued)

6.1. Marketable securities (Continued)

c) Securities held to maturity (Continued)

i) *National Treasury Notes (NTN)*

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

	<u>Maturity date</u>	<u>09/30/2020</u>	<u>12/31/2019</u>
NTN-B	08/15/2022	74,289	75,349
Mark to market		(2,953)	(4,061)
Current value		<u>71,336</u>	<u>71,288</u>

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

From January to September 2020, R\$1,107 (R\$1,107 at 09/30/2019) totaling R\$12,225 (R\$10,748 at 09/30/2019) was allocated to profit or loss, under the allocations already made since the reclassification.

ii) *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.

<u>Acquisition</u>	<u>Maturity date</u>	<u>09/30/2020</u>	<u>12/31/2019</u>
January 2019	01/11/2024	74,313	72,080
November 2019	10/15/2022	8,223	10,079
		<u>82,536</u>	<u>82,159</u>
Allowance for expected credit losses		(52,101)	(50,557)
Current value		<u>30,435</u>	<u>31,602</u>

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Notes to interim financial statements (Continued)

September 30, 2020

(In thousands of reais, unless otherwise stated)

6. Financial instruments (Continued)

6.2. Derivative financial instruments

To hedge its assets from risks arising from exchange differences and interest rate fluctuations of funds raised abroad, the Bank uses swaps.

When contracting derivative instruments, the Bank observes the regulations in force regarding the risk control policy, the hedging strategies established and limits determined, and the ways of monitoring transactions at the Bank.

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.

In accordance with BACEN Memorandum Circular No. 3082/2001, the Bank adopts the hedge accounting methodology for recognition of derivatives, recording 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.

The following conditions are applied for use of this accounting procedure:

- Existence of documentary identification of the hedged risk with detailed information about the transaction; and
- Hedge effectiveness is maintained as a percentage within the range established in said Memorandum Circular.

The market value of swap long and short positions accounted for under the hedge accounting procedure is established through use of weighting factors calculated at the derivative contracting date and that, at that date, are equal to the market value and curve yield of the contracted transaction.

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Notes to interim financial statements (Continued)
September 30, 2020
(In thousands of reais, unless otherwise stated)

6. Financial instruments (Continued)

6.2. Derivative financial instruments (Continued)

At the beginning of the operation, as established in BACEN Memorandum 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.

a) Hedging of amounts receivable or payable

The amounts receivable or payable from swap agreements are guaranteed by deposits and/or interbank funding when the amount exceeds the contractual limit.

	<u>09/30/2020</u>	<u>12/31/2019</u>
Guarantees in effect:		
Funding in interbank deposits	101,968	40,420

b) Position of foreign funding hedged by derivatives

	Date of funding	Maturity date	Index	Funding	09/30/2020		12/31/2019	
					Balance (foreign currency)	Balance R\$ curve	Balance (foreign currency)	Balance R\$ curve
CAF 1	09/27/2013	09/27/2023	6M Libor + 3.65% p.a.	US\$15,000	5,295	29,866	7,165	28,875
CAF 2	10/21/2013	10/23/2023	6M Libor + 3.65% p.a.	US\$30,000	12,614	71,144	14,274	57,527
CAF 3	12/19/2013	12/19/2023	6M Libor + 3.65% p.a.	US\$30,000	12,497	70,484	14,144	57,001
IDB	08/04/2014	08/16/2021	6M Libor + 2.25% p.a.	US\$50,000	9,120	51,436	18,480	74,478
AFD3	02/02/2017	11/28/2025	6M Euribor + 2% p.a.	€\$15,000	6,740	44,553	7,317	33,140
EIB	03/02/2020	02/20/2030	6M Libor + 0.451% p.a.	US\$9,301	9,309	52,503		-
					<u>319,986</u>			251,021
Mark to market					519			1,783
Market value					<u>320,505</u>			<u>252,804</u>

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

Notes to interim financial statements (Continued)

September 30, 2020

(In thousands of reais, unless otherwise stated)

6. Financial instruments (Continued)

6.2. Derivative financial instruments (Continued)

c) Swap amounts recorded

	09/30/2020	31/12/2019	
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)	130,998	91,020	15,802
(EUR + Euribor + Rate) x (BRL + %CDI)	33,786	20,272	(612)
(US\$ + Libor + Rate) x (BRL + Rate)	41,634	10,488	-
	206,418	121,780	15,190

d) Swaps by maturity

	From 181 to 360 days	More than 360 days	Total
Long position – Difference receivable			
Foreign currency	21,899	99,881	121,780
Total - 09/30/2020	21,899	99,881	121,780
Total - 12/31/2019	-	49,280	49,280
Short position – Difference payable			
Total - 09/30/2020	-	-	-
Total - 12/31/2019	-	-	-
Net exposure - 09/30/2020	21,899	99,881	121,780
Net exposure - 12/31/2019	-	49,280	49,280

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)	130,998	90,993	27	91,020
(EUR + Euribor + Rate) x (BRL + %CDI)	33,786	19,664	608	20,272
(US\$ + Libor + Rate) x (BRL + Rate)	41,634	10,608	(120)	10,488
Total - 09/30/2020	206,418	121,265	515	121,780
Total - 12/31/2019	215,744	42,604	6,676	49,280
Short position – Difference payable				
Total - 09/30/2020	-	-	-	-
Total - 12/31/2019	-	-	-	-
Net exposure - 09/30/2020	206,418	121,265	515	121,780
Net exposure - 12/31/2019	215,744	42,604	6,676	49,280

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

Notes to interim financial statements (Continued)
September 30, 2020
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6. Financial instruments (Continued)

6.2. Derivative financial instruments (Continued)

e) Swaps by index and notional amount (Continued)

The effect of exchange differences on hedge accounting transactions is equivalent to that generated in hedged transactions.

6.3. Loan portfolio

	<u>09/30/2020</u>	<u>12/31/2019</u>
Loan portfolio (loans and credits similar to loans)	5,736,711	4,504,660
Allowance for expected credit losses	(440,123)	(432,613)
Net balance	5,296,588	4,072,047

Of the total loans of R\$5,736,711 (R\$4,504,660 at 12/31/2019), the amount of R\$2,882,020 (R\$1,732,426 at 12/31/2019) was granted with own resources and R\$2,854,691 (R\$2,772,234 at 12/31/2019), originally, with onlending received from other financial institutions.

The balance of the renegotiated loan portfolio totals R\$1,790,149 (R\$916,257 at 12/31/2019).

a) Concentration of loan portfolio

	<u>09/30/2020</u>		<u>12/31/2019</u>	
	<u>Balance</u>	<u>%</u>	<u>Balance</u>	<u>%</u>
Major debtor	174,486	3	100,148	2
10 largest debtors	946,459	16	790,848	18
20 largest debtors	1,490,653	26	1,263,999	28
50 largest debtors	2,406,920	42	2,093,320	46
100 largest debtors	3,152,507	55	2,730,142	61

The table above considers the loan portfolio only. The balance of the major debtor in the concept of extended portfolio, that is, considering the loan portfolio and other exposures with other counterparties, is R\$197,717 (R\$195,371 at 12/31/2019).

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Notes to interim financial statements (Continued)

September 30, 2020

(In thousands of reais, unless otherwise stated)

6. Financial instruments (Continued)

6.3. Loan portfolio (Continued)

b) Classification by type and segment of activity

	<u>09/30/2020</u>	<u>12/31/2019</u>
Loans	1,581,124	761,780
Manufacturing	654,218	397,337
Trade	477,661	181,616
Other services	449,245	182,827
Financing to the private sector	3,520,144	3,128,911
Manufacturing	1,196,558	1,168,546
Trade	261,829	187,713
Other services	874,687	787,563
Agricultural and agroindustrial	1,173,431	967,030
Financial intermediaries	56	390
Individuals	841	1,232
Other	12,742	16,437
Financing to the public sector (direct and indirect municipal administrations)	635,443	613,969
Subtotal	5,736,711	4,504,660
Allowance for loan losses	(438,787)	(432,349)
Allowance for losses on credits similar to loans	(1,336)	(264)
	5,296,588	4,072,047
Current	1,733,122	1,242,424
Noncurrent	3,563,466	2,829,623

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Notes to interim financial statements (Continued)
September 30, 2020
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6. Financial instruments (Continued)

6.3. Loan portfolio (Continued)

c) Classification by maturity and risk levels

Risk level	Total	Above 90	Overdue (in days) from 15 to 90	Up to 90	09/30/2020					12/31/2019
					Falling due (in days)					Total
					From 91 to 360	From 361 to 1,080	From 1,081 to 1,800	From 1,800 to 5,400	Above 5400	
AA	2,118,578	-	552	102,238	405,652	1,109,043	327,721	173,372	-	1,822,672
A	1,356,579	-	70	117,325	394,038	671,470	122,791	50,885	-	622,230
B	643,012	-	2,535	80,591	248,867	211,522	68,628	30,869	-	730,850
C	862,380	37,914	24,651	47,888	161,832	327,079	124,536	110,352	28,128	519,823
D	308,380	12,522	4,390	16,346	49,388	120,358	71,497	33,879	-	329,439
E	70,331	20,595	369	8,967	15,654	18,252	5,443	1,051	-	97,497
F	33,944	4,375	84	2,307	6,460	12,423	3,775	3,932	588	35,738
G	42,680	11,238	19,722	988	1,662	2,334	2,170	4,566	-	71,519
H	300,827	43,913	15,746	5,592	17,910	39,968	41,696	38,038	97,964	274,892
	5,736,711	130,557	68,119	382,242	1,301,463	2,512,449	768,257	446,944	126,680	4,504,660

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Notes to interim financial statements (Continued)

September 30, 2020

(In thousands of reais, unless otherwise stated)

6. Financial instruments (Continued)

6.3. Loan portfolio (Continued)

d) Classification by risk level and provision

Risk level	%	09/30/2020			12/31/2019	
		Portfolio	Allowance for loan losses based on minimum required percentages	Allowance for loan losses	Portfolio	Allowance for loan losses
AA	0	2,118,578	-	-	1,822,672	-
A	0.5	1,356,579	(6,783)	(6,783)	622,230	(3,111)
B	1	643,012	(6,430)	(6,472)	730,850	(7,309)
C	3	862,380	(25,871)	(26,510)	519,823	(16,025)
D	10	308,380	(30,838)	(31,584)	329,439	(34,054)
E	30	70,331	(21,099)	(21,099)	97,497	(29,290)
F	50	33,944	(16,972)	(16,972)	35,738	(17,869)
G	70	42,680	(29,876)	(29,876)	71,519	(50,063)
H	100	300,827	(300,827)	(300,827)	274,892	(274,892)
		5,736,711	(438,696)	(440,123)	4,504,660	(432,613)

e) Changes in allowance for loan losses

	12/31/2019 to 09/30/2020	12/31/2018 to 12/31/2019
Opening balance	432,613	555,624
(+) Set-up of allowance, net of reversals	58,352	103,221
(-) Loans written off as losses	(50,842)	(226,232)
Balance of allowance for loan losses	440,123	432,613

f) 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):

	09/30/2020	12/31/2019
Assignment prior to CMN Resolution No. 3533/2008:		
Guarantees pending settlement	20,764	18,856
Transactions settled to be transferred	283	40
	21,047	18,896

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Notes to interim financial statements (Continued)
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6. Financial instruments (Continued)

6.4. Other financial assets

	09/30/2020	12/31/2019
Debtors for escrow deposits (a)	127,307	124,587
Notes and credits receivable (b)	2,627	2,480
Sundry debtors – domestic (c)	8,730	904
Income receivable (d)	1,595	2,470
Taxes and contributions to be offset (e)	6,792	2,809
13 th salary advance	2,490	-
Other	5,210	1,927
Total	<u>154,751</u>	<u>135,177</u>
Current	23,733	7,250
Noncurrent	131,018	127,927

(a) Debtors for escrow deposits

Breakdown	09/30/2020	12/31/2019
Deposits for tax suits filed	123,049	121,636
Deposits for labor claims	2,974	2,868
Deposits for civil suits	1,284	83
Total	<u>127,307</u>	<u>124,587</u>
Current	298	287
Noncurrent	127,009	124,300

These deposits result from legal inquiries, particularly of a tax nature, as disclosed in Note 10-b(i).

- (b) The notes and credits receivable balance refers to remuneration of R\$2,627 (R\$2,480 at 12/31/2019) to be refunded by National Treasury Office (STN), arising from rural loans financed with resources of the STN and renegotiated as determined by applicable legislation.
- (c) The balance of sundry debtors substantially comprises the amount of R\$8,221 (R\$635 at 12/31/2019) relating to the non-default bonus granted to customers of agricultural transactions renegotiated in accordance with the provisions of Law No. 9138/1995, as amended, to be returned by the STN, and R\$509 (R\$269 at 12/31/2019) referring to others.
- (d) Income receivable, net of the respective provisions, amounts to R\$1,595 (R\$2,470 at 12/31/2019) and mainly arises from commissions for services provided, referring to loans granted with resources of the development funds administered by BDMG. The remuneration is payable 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 in line with the Bank policy, which extended 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.
- (e) The balance of R\$6,792 (R\$2,809 at 12/31/2019) refers to prepaid taxes that may not be offset in the current year.

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Notes to interim financial statements (Continued)

September 30, 2020

(In thousands of reais, unless otherwise stated)

7. Property and equipment in use and intangible assets

a) Property and equipment in use

	09/30/2020		12/31/2019	
	Cost	Accumulated depreciation	Net amount	Net amount
Real estate	43,837	(28,423)	15,414	15,893
Facilities, furniture and equipment	6,324	(5,792)	532	608
Data processing equipment	7,158	(6,427)	731	708
Other	515	(478)	37	45
Construction in progress	107	-	107	768
	57,941	(41,120)	16,821	18,022

Insurance coverage - In order to cover possible damages to its property and equipment, the Bank has insurance coverage amounting to R\$50,000 (R\$51,700 at 12/31/2019).

b) Intangible assets

	09/30/2020		12/31/2019	
	Cost	Accumulated amortization	Net amount	Net amount
Data processing system	46,456	(26,862)	19,594	14,047

8. Other assets

	09/30/2020	12/31/2019
Assets not for own use held for sale	76,211	70,327
Provision for impairment of assets not for own use	(17,541)	(17,541)
Other (i)	7,339	2,044
	66,009	54,830
Current	908	324
Noncurrent	65,101	54,506

(i) Substantially includes prepaid insurance expenses allocated according to the elapsed period.

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Notes to interim financial statements (Continued)

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9. Financial liabilities

9.1. Deposits and funding

	09/30/2020	12/31/2019
Deposits		
• Interbank deposits (a)	625,705	40,420
• Time deposits (b)	205,797	99,310
Funding		
• Financial bills (c)	33,887	89,902
• Agribusiness Credit Bills (LCA) (d)	324,589	213,308
	1,189,978	442,940
Current	324,971	293,212
Noncurrent	865,007	149,728

Deposits

(a) Interbank deposits arising from:

- Derivative contract clause that 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 are subject to contractual charges equal to the CDI rate and maturities varying in accordance with the amount adjusted for coverage of the difference receivable or payable of each one of the swaps entered into;
- Funding from financial institutions of time deposits with special guarantee (DPGE).

(b) Time deposits – these refer to securities issued for funding or as guarantees to loan transactions.

Deposit maturities

	09/30/2020						12/31/2019	
	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	Total
Interbank deposits	-	-	-	24,757	178,229	422,719	625,705	40,420
Guarantee margin	-	-	-	24,757	77,211	-	101,968	
DPGE	-	-	-	-	101,018	422,719	523,737	
Time deposits	7,066	4,814	2,943	5,890	18,293	166,791	205,797	99,310
With certificate	7,066	4,814	2,943	5,890	18,293	86,620	125,626	
DPGE	-	-	-	-	-	80,171	80,171	
	7,066	4,814	2,943	30,647	196,522	589,510	831,502	139,730
Current							241,992	66,832
Noncurrent							589,510	72,898

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Notes to interim financial statements (Continued)
September 30, 2020
(In thousands of reais, unless otherwise stated)

9. Financial liabilities (Continued)

9.1. Deposits and funding (Continued)

Funding

Financial bills – securities issued under CMN Resolution No. 4143/2012.

Agribusiness Credit Bills – LCA's are backed by agribusiness loan transactions covered by the Deposit Insurance Fund (FGC), limited to R\$250 thousand per customer.

Funding maturities

	09/30/2020						12/31/2019	
	Within 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 360 days	After 360 days	Total	Total
Private financial bills	33,887	-	-	-	-	-	33,887	89,902
Agribusiness Credit Bills (LCA)	7,032	3,461	19,773	2,636	16,190	275,497	324,589	213,308
	40,919	3,461	19,773	2,636	16,190	275,497	358,476	303,210
Current							82,979	226,380
Noncurrent							275,497	76,830

9.2. Borrowings and onlending

a) Foreign borrowings

Institution:	09/30/2020		12/31/2019	
	Curve	Market	Curve	Market
FONPLATA	205,695	205,695	-	-
CAF	172,348	172,565	144,613	145,756
AFD	126,015	126,623	93,733	94,579
CARGILL	56,401	56,401	-	-
EIB	52,503	52,387	-	-
IDB	51,436	51,246	74,478	74,272
	-	664,917	-	314,607
Current	-	144,691	-	91,845
Noncurrent	-	520,226	-	222,762

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Notes to interim financial statements (Continued)
September 30, 2020
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9. Financial liabilities (Continued)

9.2. Borrowings and onlending (Continued)

a) Foreign borrowings (Continued)

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.

Funds by institution of origin

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 labor plus fixed rate of up to 3.65% p.a. and maturity within 10 years, was released in tranches in different amounts.

Tranches released

Tranche	Date of release	Maturity	Release (US\$)	09/30/2020		12/31/2019	
				Curve (R\$)	Market (R\$)	Curve (R\$)	Market (R\$)
CAF 1	09/27/2013	09/27/2023	15,000	29,866	29,885	28,875	29,075
CAF 2	10/21/2013	10/23/2023	30,000	71,144	71,112	57,527	57,846
CAF 3	12/19/2013	12/19/2023	30,000	70,484	70,714	57,001	57,625
CAF 5	12/21/2015	12/21/2020	1,500	854	854	1,210	1,210
			76,500	172,348	172,565	144,613	145,756

ii) Agence Française de Développement (AFD - French Development Agency)

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.

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Notes to interim financial statements (Continued)
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9. Financial liabilities (Continued)

9.2. Borrowings and onlending (Continued)

a) Foreign borrowings (Continued)

Funds by institution of origin (Continued)

ii) Agence Française de Développement (AFD - French Development Agency) (Continued)

Tranches released

Tranche	Date of release	Maturity	Release (€)	09/30/2020		12/31/2019	
				Curve (R\$)	Market (R\$)	Curve (R\$)	Market (R\$)
AFD 1(*)	07/22/2014	11/28/2025	9,000	36,585	36,585	27,213	27,213
AFD 2(**)	10/13/2014	11/28/2025	7,000	28,455	28,455	21,165	21,165
AFD 3(**)	02/02/2017	11/28/2025	15,000	60,975	61,583	45,355	46,201
			31,000	126,015	126,623	93,733	94,579

(*) No *hedges* were contracted for funding of the AFD1 and AFD2 tranches, since the conditions for such funding were transferred to the borrowers, plus the Bank's remuneration only.

(**) Part of the funding was transferred to a customer under the same financial conditions as contracted with AFD plus the Bank's remuneration. The remaining balance is hedged by swap.

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.

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9. Financial liabilities (Continued)

9.2. Borrowings and onlending (Continued)

a) Foreign borrowings (Continued)

Funds by institution of origin (Continued)

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

Position of the tranche released

Tranche	Date of release	Maturity	Release (US\$)	09/30/2020		12/31/2019	
				Curve (R\$)	Market (R\$)	Curve (R\$)	Market (R\$)
IDB	08/04/2014	08/16/2021	50,000	51,436	51,246	74,478	74,272

iv) European Investment Bank (EIB)

In October 2019, BDMG entered into an agreement of EUR\$100 million with EIB, to be released in tranches in different amounts, with maturities of up to 13 years. In March 2020, the Bank received the funds from the 1st tranche, totaling US\$9.3 million, bearing interest at the six-month Libor rate, plus 0.451% p.a. and with maturity of 10 years. The objective of this funding is to finance Renewable Energy and Energy Efficiency projects.

Tranche	Date of release	Maturity	Release (US\$)	09/30/2020		12/31/2019	
				Curve (R\$)	Market (R\$)	Curve (R\$)	Market (R\$)
EIB	03/02/2020	02/20/2030	9,301	52,503	52,387	-	-

v) Plata Basin Financial Development Fund (FONPLATA)

In May 2020, BDMG entered into an international funding agreement with FONPLATA, a multilateral development bank formed by Argentina, Bolivia, Brazil, Paraguay and Uruguay, for the purpose of structuring credit lines for the municipalities of the state of Minas Gerais.

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9. Financial liabilities (Continued)

9.2. Borrowings and onlending (Continued)

a) Foreign borrowings (Continued)

Funds by institution of origin (Continued)

v) Plata Basin Financial Development Fund (FONPLATA) (Continued)

FONPLATA released, in the same month, a tranche of R\$36,000, corresponding to the total amount contracted, subject to six-month Libor rate plus 3.02% and a five-year term, including a grace period of two years. Since the agreement has a term of 8 years, the use of the resources will be revolving in this period.

Tranche	Date of release	Maturity	Release (US\$)	09/30/2020		12/31/2019	
				Curve (R\$)	Market (R\$)	Curve (R\$)	Market (R\$)
FONPLATA	05/21/2020	05/17/2025	36,000	205,695	205,695	-	-

vi) Cargill Financial Services International

In September 2020, BDMG entered into a US\$10 million loan agreement with Cargill, and that amount was immediately released in a single tranche, to be paid within 4 years. That amount will bear a variable interest rate to be paid annually, consisting of 3.85% plus the annual Libor rate, plus 0.75% per annum on the principal outstanding. This fund will be used to finance production activities in the Minas Gerais agribusiness chain, including the production of agricultural commodities and food products for export.

Tranche	Date of release	Maturity	Release (US\$)	09/30/2020		12/31/2019	
				Curve (R\$)	Market (R\$)	Curve (R\$)	Market (R\$)
CARGILL	09/30/2020	04/06/2024	10,000	56,401	56,401	-	-

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Notes to interim financial statements (Continued)
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9. Financial liabilities (Continued)

9.2. Borrowings and onlending (Continued)

b) Domestic onlending

The onlending refers to obligations arising from resources obtained from funds and official programs to be 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 funds. The BNDES/FINAME system is the main source of onlending from BDMG to its customers.

The balances of such obligations are as follows:

	<u>09/30/2020</u>	<u>12/31/2019</u>
BNDES (i)	1,044,309	1,200,738
FINAME	926,466	1,001,278
Funcafé (ii)	560,039	315,750
Fungetur (iii)	190,741	78,615
FINEP	120,216	129,896
CEF	14,524	15,143
BNB	10,925	12,784
National treasury	10,068	8,916
	<u>2,877,288</u>	<u>2,763,120</u>
Current	1,196,096	932,710
Noncurrent	1,681,192	1,830,410

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

	<u>09/30/2020</u>	<u>12/31/2019</u>
BNDES Automático	251,787	237,582
BNDES FINEM	236,046	241,358
BNDES Automático GIRO	95,463	112,923
BNDES Automático PCA	73,883	82,356
BNDES Automático PROGEREN	58,360	122,931
BNDES Automático TJLP	52,911	61,640
BNDES Automático PRODECOOP	48,935	56,704
BNDES MPME INOVADORA	31,221	35,382
BNDES FINEM PSI	29,604	34,828
PESA/BNDES	27,259	30,399
BNDES Automático ABC	14,306	10,769
BNDES Automático MODERAGRO	13,785	10,351
BNDES Automático Inovagro	13,395	13,280
BNDES SAUDE	11,120	28,614
Other	86,234	121,621
	<u>1,044,309</u>	<u>1,200,738</u>

(ii) Resources from the Fund for the Defense of the Coffee Economy (Funcafé) are used for financing working capital, storage and acquisition of coffee.

(iii) Resources from the General Tourism Fund (Fungetur) are used to finance tourism businesses and service providers related to this sector production chain registered with the Register of Tourism Service Providers (Cadastur).

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Notes to interim financial statements (Continued)
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10. Provisions

	09/30/2020	12/31/2019
Actuarial obligations (a)	376,635	382,131
Contingent liabilities: tax, labor and civil (b)	214,983	222,571
Sundry provisions (c)	71,369	30,865
Obligations from financial guarantees given	59,315	19,537
Provision for other contingencies	12,054	11,328
	662,987	635,567
Current	80,444	23,807
Noncurrent	582,543	611,760

a) Actuarial obligations

This provision, referring to the benefits sponsored by the Bank to its active and assisted employees, as detailed in Note 17, is broken down as follows:

	09/30/2020	12/31/2019
Actuarial liability related to the Pension Plan – defined benefit	236,319	235,851
Actuarial liability related to the Health Promotion Program (PRO-SAÚDE), and healthcare and dental care plan	122,672	126,841
Actuarial liability related to life insurance	17,644	19,439
Total	376,635	382,131

b) Contingent tax, labor and civil liabilities

The Bank is a party to tax, labor and civil proceedings arising in the normal course of its activities.

These lawsuits may result in recognition of provisions, based on the legal advisors' assessment of the likelihood of loss on the cases.

The number and balances of ongoing lawsuits assessed as a possible loss and without provisions are as follows:

	09/30/2020		12/31/2019	
	Number	Balance	Number	Balance
Tax	8	80,767	7	66,508
Labor (1)	1	45,223	1	218
Civil	18	1,976	10	850
	27	127,966	18	67,576

(1) The amount of R\$45,223 refers to the estimated amount in the event of loss in a class action filed by the Union of Bank Employees of Belo Horizonte against BDMG and DESBAN at the Labor Court on May 19, 2020, which demands, as a post-employment benefit, health and dental care to BDMG employees who are retired or who retire from May 1, 2018. BDMG obtained a favorable decision from the lower court on October 13, 2020.

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Notes to interim financial statements (Continued)

September 30, 2020

(In thousands of reais, unless otherwise stated)

10. Provisions (Continued)

b) Contingent tax, labor and civil liabilities (Continued)

Proceedings assessed as probable loss and for which provisions were set up are presented by nature, with the respective changes in the period, as follows:

	12/31/2019	Provision recorded	Restatement	(Write-offs)	09/30/2020
Tax (i)	187,983	-	2,368	-	190,351
Civil (ii)	18,406	1,132	-	(12,418)	7,120
Labor (ii)	16,182	1,330	-	-	17,512
Total	222,571	2,462	2,368	(12,418)	214,983

i) *Provisions for legal obligations and tax contingencies*

Provisions for tax contingencies refer to liabilities related to taxes for which lawsuits and administrative proceedings are in progress with the Brazilian IRS. These provisions are set up regardless of their risk assessments whenever the constitutionality of the obligation's triggering event is under discussion.

These provisions are restated on a monthly basis at the SELIC rate and, in the projection of the Bank's P&L, the expectation of realization of the corresponding tax credits, considering the distribution over a 10-year period (Note 14-c).

The table below shows the changes in the provisions for the period:

	12/31/2019	Restatement	09/30/2020
Change in COFINS tax base - Law No. 9718/1998	123,524	1,661	125,185
Change in PIS/PASEP tax base – Law No. 9718/1998	64,407	706	65,113
Other contingencies and legal obligations	52	1	53
	187,983	2,368	190,351

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Notes to interim financial statements (Continued)
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10. Provisions (Continued)

b) Contingent tax, labor and civil liabilities (Continued)

i) *Provisions for legal obligations and tax contingencies* (Continued)

To guarantee the aforementioned tax contingencies, judicial deposits were recorded under Other receivables - Debtors for escrow deposits:

	09/30/2020		12/31/2019	
	Provision	Deposits	Provision	Deposits
Change in COFINS tax base - Law No. 9718/1998	125,185	56,330	123,524	55,668
PIS/PASEP (change in tax base established by Law No. 9718/1998)	65,113	65,113	64,407	64,407
Other contingencies and legal obligations	53	1,606	52	1,590
	190,351	123,049	187,983	121,665

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, under the terms of 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.

Although the risk of this proceeding is classified as possible loss, the Bank set up provision for tax contingencies, in line with BACEN Memorandum 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.

Among the tax proceedings assessed as possible loss and for which no provision was set up, the following are considered significant:

- 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\$2,867 (R\$2,846 at 12/31/2019).

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Notes to interim financial statements (Continued)
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10. Provisions (Continued)

b) Contingent tax, labor and civil liabilities (Continued)

i) *Provisions for legal obligations and tax contingencies* (Continued)

- COFINS related to the accrual period of 2010-2011 resulting from notice drawn up by the Brazilian IRS, which discusses the understanding in the notice of adopting a billing concept that is more comprehensive than that provided for in the governing legislation - and consolidated in the Federal Supreme Court (STF) - at the time of the notice. Of this tax notice, a provision for the principal amount and its restatement has already been set up in the amount of R\$ 30,865 (R\$30,457 at 12/31/2019) as a tax obligation under the terms of BACEN Memorandum Circular No. 3429/2010, and the remaining debt amount refers to automatic fine and charges of the Office of the Attorney General of the National Treasury (PGFN) of R\$28,493 (R\$18,294 at 12/31/2019). The debt totals R\$59,358 (R\$48,751 at 12/31/2019).
- Automatic fines arising from notices served by the Brazilian IRS for collection of COFINS in the accrual periods of 2013 and 2014 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\$20,290 (R\$19,845 at 12/31/2019).
- 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\$10,579 (R\$10,456 at 12/31/2019).
- Notice served by the Brazilian IRS referring to exclusions carried out by the Bank from the IRPJ tax base related to tax triggering events in 1997 and 1998. The portion of the notice referring to 1997 is assessed as possible loss, in the restated amount of R\$18,268 (R\$15,115 at 12/31/2019).

The tax proceedings for which the Bank offered guarantees are shown below:

- Proceeding related to IRPJ for 1998, in the restated amount of R\$53,619 (R\$53,209 at 12/31/2019) for which no provision was set up given that 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.
- Municipal tax enforcement proceeding related to Service Tax (ISS) for the accrual period from 05/2009 to 12/2012, for which the Bank pledged a real property (land) from assets not for own use. The case totals R\$971 (R\$895 at 12/31/2019) and no provision has been recorded given that the likelihood is assessed as remote.

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Notes to interim financial statements (Continued)
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10. Provisions (Continued)

b) Contingent tax, labor and civil liabilities (Continued)

i) *Provisions for legal obligations and tax contingencies* (Continued)

- Administrative tax proceeding involving COFINS for the accrual period of 2010-2011. In view of the unfavorable decision handed down in June 2020 for the administrative tax proceeding involving COFINS for the accrual period of 2010-2011, and as a result of the tax enforcement proceeding estimated to be filed by the Federal Government (PGFN) for discussion of the COFINS tax credit for the accrual period of 2010-2011, BDMG took out a surety bond of R\$59,163 to cover the proceeding, which has been accepted by the PGFN on June 22, 2020.

ii) *Civil and labor contingencies*

Civil contingencies refer mostly to lawsuits that question debt amounts, contractual provisions and interim statute of limitations. The most significant contingencies, however, refer to two specific suits for collection due to financing not released after being contracted. The provisions are monetarily restated by reference to INPC/IBGE plus, in the case of proceedings for which a sentence has already been handed down, 1% arrears interest per month.

Provisions for civil and labor suits are set up when the likelihood of loss is assessed as probable loss in the opinion of legal advisors.

Labor contingencies refer substantially to claims related to the 7th and 8th hours and the mischaracterization of positions of trust; the validity of the collective bargaining agreement signed with the Union in 1996; the intra-day break of article 384 of the CLT, and the applicable bank divider for calculation of overtime. There are also cases involving subsidiary liability brought against service providers of the Bank. Provisions are updated with the inclusion of the TR index (referential rate) and legal interest of 1% per month.

To cover the risks of these suits, the Bank made judicial deposits recorded in the subaccount "Debtors for escrow deposits", of which R\$1,284 (R\$2,951 at 12/31/2019) refers to civil suits and R\$2,974 (R\$2,868 at 12/31/2019) to appeals associated with labor claims.

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Notes to interim financial statements (Continued)

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(In thousands of reais, unless otherwise stated)

10. Provisions (Continued)

c) Provisions for sundry contingencies

Changes in these provisions at 09/30/2020 are as follows:

	12/31/2019	Provision recorded	Restatement	(Write-offs)	09/30/2020
Collateral for guarantees given (1)	19,537	40,144	-	(366)	59,315
Attorney's fees	8,056	41	203	(1)	8,299
Guarantee assumed in loans assigned to STN	3,272	577	-	(94)	3,755
	<u>30,865</u>	<u>40,762</u>	<u>203</u>	<u>(461)</u>	<u>71,369</u>

- (1) The Bank has a financial guarantee provided to a single customer and, under the terms of CMN Resolution No. 2682/99, such guarantee is a provision in view of the possibility of loss due to failure to recover the amount of the guarantee. The provision is calculated taking into account the customer's risk level and the guaranteed transaction as well as the progress of ongoing negotiations with the creditor bank.

At September 30, 2020, the balance of this guarantee, maturing in May 2021, amounts to R\$197,717 (R\$195,371 at 12/31/2019).

This contract was settled on October 15, 2020, as stated in Note 19 – Events after the reporting date.

- (2) The Bank also sets up provisions for the risk of loss with co-obligations of agribusiness transactions assumed with the STN and with payments of attorney fees resulting from lawsuits for which the likelihood of loss is assessed as probable.

11. Other liabilities

Balance breakdown

	09/30/2020	12/31/2019
Financial and development funds (a)	110,508	87,542
Sundry creditors – domestic (b)	22,460	21,556
Provision for payments to be made (c)	21,531	19,661
Current tax liabilities (d)	11,411	6,327
Deferred income (e)	17,838	10,147
Other	476	994
Total	<u>184,224</u>	<u>146,227</u>
Current	52,366	40,127
Noncurrent	131,858	106,100

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Notes to interim financial statements (Continued)

September 30, 2020

(In thousands of reais, unless otherwise stated)

11. Other liabilities (Continued)

Balance breakdown (Continued)

- (a) Financial and development funds - the statement of financial position balance of R\$110,508 (R\$87,542 at 12/31/2019) refers to resources from state funds, funds linked to official agencies and private funds that are made available to the Bank so that it may carry out its activities as financial agent of these funds.

These funds are controlled by means of individualized accounting groups held in clearing accounts (**unaudited**), whose balances are as follows:

	<u>09/30/2020</u>	<u>12/31/2019</u>
State funds	3,820,887	3,814,098
Private funds	36,799	34,778
Other funds	81,245	79,663
	<u>3,938,931</u>	<u>3,928,539</u>

- (b) Sundry creditors – balance breakdown

	<u>09/30/2020</u>	<u>12/31/2019</u>
BACEN Compulsory – Installment payment from enrollment with the Non-Tax Debt Settlement program (PRD) in August 2017	8,197	10,804
Receivables from customers to be offset	10,295	5,872
Sundry	3,968	4,880
	<u>22,460</u>	<u>21,556</u>

- (c) Provision for payments to be made – balance breakdown

	<u>09/30/2020</u>	<u>12/31/2019</u>
Vacation pay, 13 th monthly salary and charges	18,118	14,056
Employee profit sharing	2,321	4,612
Other	1,092	993
	<u>21,531</u>	<u>19,661</u>

- (d) Current tax liabilities – balance breakdown

	<u>09/30/2020</u>	<u>12/31/2019</u>
Taxes and social contributions on salaries	6,396	4,225
Other taxes and social contributions payable	5,015	2,040
Provision for taxes and contributions	-	62
	<u>11,411</u>	<u>6,327</u>

- (e) Deferred income - refers to commissions on loans, net of taxes, received in advance and allocated according to the flow of the terms set in the agreements.

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Notes to interim financial statements (Continued)

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(In thousands of reais, unless otherwise stated)

12. Equity

a) Capital

The subscribed capital of BDMG comprises 70,870,154,177 (67,536,820,844 at 12/31/2019) registered common shares with no par value, totaling R\$2,104,971 (R\$2,004,971 at 12/31/2019).

Capital increase of R\$100,000 was approved at the Special General Meeting held on May 11, 2020, which was subscribed and paid in by the shareholder Minas Gerais state on the same date. The Central Bank approved the capital increase on May 26, 2020.

Shareholding interest:

Shareholder	Capital breakdown		Equity interest - %
	Amount	Number of shares	
Minas Gerais State	1,912,632	64,394,472,544	90.86
Companhia de Desenvolvimento de Minas Gerais CODEMGE (*)	174,497	5,874,969,833	8.29
MGI - Minas Gerais Participações	17,842	600,711,759	0.85
Departamento de Edificações e Estradas de Rodagem do Estado de Minas Gerais - DEER-MG	-	41	-
Total	2,104,971	70,870,154,177	100.00

(*) 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

	09/30/2020	12/31/2019
Mark to market (i)	11,118	3,323
Other equity adjustments (ii)	(142,290)	(153,035)
Total	(131,172)	(149,712)

(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.

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

Notes to interim financial statements (Continued)

September 30, 2020

(In thousands of reais, unless otherwise stated)

12. Equity (Continued)

c) Retained earnings (accumulated losses)

Profit or loss for the period totals R\$22,682 (R\$25,481 at 09/30/2019) and Accumulated losses has a balance of R\$8,941 (R\$34,376 at 12/31/2019) in the statement of financial position.

13. Statement of profit or loss accounts

a) Income from lending operations

	Nine-month period ended	
	09/30/2020	09/30/2019
Interest on loans and financing	374,814	357,818
Credits recovered	57,651	85,102
	432,465	442,920

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

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

	Nine-month period ended	
	09/30/2020	09/30/2019
Gains (losses) on derivative transactions – swap (2)	100,059	15,048
Gains on fixed income securities	19,702	25,010
Gains on repurchase agreements	3,595	5,212
Gains on investment funds (1)	1,164	7,500
Other	4	2,272
	124,524	55,042

(1) Gains on investment funds - The decrease in revenues is due to the effects of the COVID-19 pandemic on the market value of investment fund portfolio assets.

(2) Gains (losses) on derivative transactions - swap - The derivative instruments were contracted by the Bank for the purpose of hedging against currency fluctuations and other financial charges contracted in foreign loan transactions. With the devaluation of the Brazilian currency (Real) against the euro and the dollar in the period, a positive adjustment was made in derivatives used by the Bank to hedge its liabilities.

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Notes to interim financial statements (Continued)

September 30, 2020

(In thousands of reais, unless otherwise stated)

13. Statement of profit or loss accounts (Continued)

b) Gains (losses) on marketable securities and derivative financial instruments (Continued)

ii) *Trading expenses*

	<u>Nine-month period ended</u>	
	<u>09/30/2020</u>	<u>09/30/2019</u>
Foreign borrowing expenses (2)	(153,836)	(40,313)
BNDES and FINAME onlending expenses (1)	(88,177)	(123,225)
Onlending expenses – other institutions	(17,807)	(17,851)
Agribusiness credit bill expenses	(8,914)	(11,942)
Interbank deposit and repurchase agreement expenses	(8,220)	(5,943)
Financial and development fund expenses	(2,529)	(2,255)
Financial bill expenses	(1,965)	(5,088)
	<u>(281,448)</u>	<u>(206,617)</u>

(1) BNDES and FINAME onlending expenses - The reduction in BNDES and FINAME onlending expenses is a consequence of the decrease in onlending obligations with BNDES/FINAME (R\$1,970,776 in September 2020 and R\$2,374,126 in September 2019).

(2) Foreign borrowing expenses – Increase due to devaluation of the real against the euro and the dollar, in addition to new transactions contracted with the European Investment Bank (EIB), Fonplata and Cargill. For foreign borrowings at its own risk, the Bank has derivative instruments in the form of swaps to hedge against variations arising from fluctuations in the euro and dollar price and other finance charges.

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

i) *Tax expenses*

	<u>Nine-month period ended</u>	
	<u>09/30/2020</u>	<u>09/30/2019</u>
PIS and COFINS	(12,230)	(12,357)
Service Tax (ISSQN)	(1,240)	(1,240)
Other	(716)	(519)
	<u>(14,186)</u>	<u>(14,116)</u>

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

Notes to interim financial statements (Continued)

September 30, 2020

(In thousands of reais, unless otherwise stated)

13. Statement of profit or loss accounts (Continued)

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

ii) *Administrative expenses*

	<u>Nine-month period ended</u>	
	<u>09/30/2020</u>	<u>09/30/2019</u>
Outsourced services and expert technicians	(8,016)	(7,032)
Advertising and communication	(2,873)	(2,086)
Data processing	(3,050)	(2,878)
Depreciation and amortization	(5,523)	(4,986)
Maintenance and materials	(2,128)	(2,068)
Registration	(3,167)	(1,839)
Travel and transportation	(587)	(1,333)
Rent and infrastructure	(695)	(987)
Other	(1,914)	(1,866)
	(27,953)	(25,075)

iii) *Other operating income*

	<u>Nine-month period ended</u>	
	<u>09/30/2020</u>	<u>09/30/2019</u>
Foreign exchange gains	513	-
Reversal of sundry provisions	14,116	2,942
Income from hedged items marked to market	12,976	9,151
Income from equalization - STN	10	475
Other	2,529	3,504
	30,144	16,072

iv) *Other operating expenses*

	<u>Nine-month period ended</u>	
	<u>09/30/2020</u>	<u>09/30/2019</u>
Expenses with BDMG Cultural agreement	(3,289)	(3,048)
Expenses with INDI agreement	(3,560)	(3,891)
Expenses with bonus and discount on loans	(1,623)	(2,043)
Expenses with discounts granted on renegotiations	(11,688)	(15,807)
Expenses with guarantees given (1)	(40,144)	(13,677)
Fees/commissions on foreign borrowings	(105)	(4)
Indemnifications	(11,829)	(117)
Other	(3,921)	(5,353)
	(76,159)	(43,940)

(1) Expenses with guarantees given: difference arising from provision relating to the review of credit risk of a guarantee given.

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

Notes to interim financial statements (Continued)
September 30, 2020
(In thousands of reais, unless otherwise stated)

14. Income and social contribution taxes

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

	Nine-month period ended	
	09/30/2020	09/30/2019
Income before IR, CSLL and profit sharing	46,596	47,800
Profit sharing	(2,879)	(3,822)
Income before income and social contribution taxes	43,717	43,978
Current rates	45%	40%
Income and social contribution taxes at current rates	(19,673)	(17,591)
Effects on tax calculation:		
Non-deductible expenses and non-taxable income	(1,362)	(1,466)
Tax incentives	-	542
Other	-	18
Income and social contribution tax expenses	(21,035)	(18,497)
Deferred tax assets	(21,035)	(3,516)
Current income and social contribution taxes payable	-	(14,981)

b) Tax credits

BDMG tax credits recorded on temporary differences and on income and social contribution tax losses, made in accordance with CMN Resolution No. 3059/2002, as amended by Resolution No. 3355/2006, considers expectation of realization within 10 years, due to the positive tax results in the projection of P&L. These tax results may change, since they are estimated based on internal assumptions and future economic scenarios, and are therefore not directly related to expectation of accounting profits.

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.

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

Notes to interim financial statements (Continued)
September 30, 2020
(In thousands of reais, unless otherwise stated)

14. Income and social contributions taxes (Continued)

b) Tax credits (Continued)

Origin of tax credits

	12/31/2019	Accrual	Realization	09/30/2020
Doubtful receivables	358,144	94,138	(163,452)	288,830
Post-employment benefit	171,959	11,463	(13,933)	169,489
COFINS (change in tax base established by Law No. 9718/1998)	42,309	449	-	42,758
Devaluation of marketable securities	48,508	767	(68)	49,207
PIS/PASEP (change in tax base established by Law No. 9718/1998)	11,465	-	-	11,465
Civil, labor and tax contingencies	18,704	1,186	(5,588)	14,302
Guarantee with STN	1,455	240	(23)	1,672
Other	15,710	31,447	(12,660)	34,497
Total temporary differences	668,254	139,690	(195,724)	612,220
IRPJ tax loss - 25%	-	14,516	-	14,516
CSLL tax loss - 20%	-	11,692	-	11,692
Subtotal	668,254	165,898	(195,724)	638,428
Mark to market of marketable securities available for sale	1,718	914	-	2,632
Total tax credits	669,972	166,812	(195,724)	641,060

Estimated realization of tax credits on temporary differences and on income and social contribution tax losses

Year	Nominal value	Present value
2020	20,615	19,994
2021	105,210	99,939
2022	88,165	80,999
2023	75,018	66,659
2024	110,718	95,152
2025	57,889	48,117
2026	50,261	40,406
2027	31,866	24,777
2028	30,166	22,685
2029	71,152	51,751
Total	641,060	550,479

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 3.39% p.a. (6.26% p.a. in 12/31/2019).

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

Notes to interim financial statements (Continued)
September 30, 2020
(In thousands of reais, unless otherwise stated)

14. Income and social contributions taxes (Continued)

c) Deferred tax obligations

	<u>09/30/2020</u>	<u>12/31/2019</u>
Mark to market of marketable securities available for sale	14,042	5,610
Deferred income	21,496	12,227
Other	-	228
Total	35,538	18,065

15. Related parties

Transactions with related parties are carried out in accordance with CMN Resolution No. 4693/2018 and with the Bank's internal regulations, as well as with Law No. 13303/2017 and State Decree No. 47154 regarding this matter.

BDMG carried out the following transactions with related parties until September 2020:

Legal entities

State of Minas Gerais, state departments and Fundação João Pinheiro

- 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;
- State Economic Development Department: assignment of two employees at a cost for BDMG, one in the period from July/2019 to January/2020 and the other from March/2019 to May/2020. The related assignment expenses totaled R\$192 until September 2020 (R\$295 from 01/01/2019 to 09/30/2019).
- State Agriculture, Livestock and Supply Department: BDMG assumes the cost of an employee assigned to the State Department.
- State Planning and Management Department: in 2019, BDMG assumed the cost of two employees assigned by the State Department. Until September 2020, this assignment costs total R\$473 (R\$286 from 01/01/2019 to 09/30/2019).
- 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.

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

Notes to interim financial statements (Continued)

September 30, 2020

(In thousands of reais, unless otherwise stated)

15. Related parties (Continued)

Legal entities (Continued)

Direct related parties

- Institute of Integrated Development of Minas Gerais (INDI), a non-profit private legal entity linked to the State Economic Development Department. As established by state Law No. 22287, of September 14, 2016, INDI is an associate 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. Until September 2020, INDI expenses total R\$3,560 (R\$3,891 from 01/01/2019 to 09/30/2019).
- DESBAN – BDMG Social Security Foundation, a non-profit privately-held supplementary pension plan entity, sponsored by BDMG, which, as detailed in Note 17, made contributions to the Foundation in order to provide social security and healthcare benefits for its employees. BDMG assigns employees to DESBAN, who bears the employee-related costs;
- AFBDMG – BDMG Employee's Association, a non-profit association that manages the Group Life Insurance described in Note 17.a)(iii).
- 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 culture in Minas Gerais. The Bank maintains BDMG Cultural by assigning employees without charge, in addition to making contributions to the Institute. The YTD Expenses arising from the Bank's agreement with BDMG Cultural total R\$3,289 (R\$3,048 from 01/01/2019 to 09/30/2019).
- BIOMM S.A. - In September 2018, as a result of the merger of the subsidiary BDMGTEC, the Bank assumed the shares held by BDMGTEC 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.

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

Notes to interim financial statements (Continued)
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(In thousands of reais, unless otherwise stated)

15. Related parties (Continued)

Individuals

The members of the Board of Directors, the Supervisory Board, the Audit Committee and the Executive Board are related parties of the Bank and receive fees comprising salaries, social charges and benefits. From January to September 2020, they received R\$4,271 (R\$3,741 from 01/01/2019 to 09/30/2019).

16. Risk and capital management

BDMG's risk and capital management seeks to ensure adequate control of its activities in order to obtain the best possible return on the level of risk that the Bank is willing to assume.

a) Capital management

Capital management

In compliance with CMN Resolution No. 4557/2017, the objective of management of BDMG capital is to ensure the maintenance of adequate capital to carry out the Bank's strategic planning, while observing the risks inherent in the business and mechanisms for triggering measures to cope with stress situations.

The Bank has institutional structures and policies for management of operational risk, market risk, credit risk, liquidity risk and capital management approved by the Board of Directors. The basic principles observed in the management and control of risks and capital were established in accordance with current regulations and market practices.

BDMG's capital management structure is as follows:

- Board of Directors;
- Risk and Capital Committee;
- Executive Board;
- Officer in charge of capital management;
- Officer in charge of risk management (CRO);
- Unit in charge of capital management;

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Notes to interim financial statements (Continued)
September 30, 2020
(In thousands of reais, unless otherwise stated)

16. Risk and capital management (Continued)

a) Capital management (Continued)

Capital management (Continued)

- Unit in charge of integrated risk management;
- Other units that may be involved in the capital management process.

The responsibilities of the capital management structure are described below:

- Continuous monitoring in order to maintain the Regulatory Capital, Tier I Capital and Principal Capital at levels compatible with the risks incurred;
- Capital management systems, routines and procedures;
- Assessment of impacts of P&L arising from scenario projection;
- Capital Plan;
- Capital Contingency Plan;
- Timely management reports to the executive board, Risk and Capital Committee and the Board of Directors.

As of 4Q20, the Bank will disclose the Capital Management Structure description report jointly with the information on risk management in the Basel Pillar 3 Report. Until this period, the two reports may be consulted separately on the Bank's website at:

<https://www.bdmg.mg.gov.br/transparencia-documentos/?demonstracoes>.

To assess the sufficiency of capital to face possible risks in carrying out its activities and to comply with regulatory operating limits, an annual capital plan is prepared, consistent with the Bank's strategic planning.

The preparation of the capital plan considers the following:

i) Within the strategic planning scope

- Threats and opportunities regarding the economic and business environment;
- Projections of the amounts of assets and liabilities, as well as of income and expenses;
- Growth or market share goals;
- Profit distribution policy.

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

Notes to interim financial statements (Continued)
September 30, 2020
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16. Risk and capital management (Continued)

a) Capital management (Continued)

Capital management (Continued)

ii) Conditions specifically related to capital

- Capital goals and projections;
- Key sources of capital;
- Capital contingency plan.

The objective of the Capital Contingency Plan is the immediate availability of measures to be taken in an action plan when the capital indicators are below the minimum parameters established by management.

The Basel Index is among the indicators used in the capital management process, allowing measurement of capital sufficiency in relation to exposure to risks incurred.

Regulatory capital

BDMG monitors the minimum capital requirements, the solvency ratios and the operational limits in accordance with the determinations and set of regulations established by the Central Bank, in line with the recommendations of the Basel Committee on Banking Supervision. The key figures that determine the calculation and determination of the capital ratios are as follows:

	<u>09/30/2020</u>	<u>12/31/2019</u>
Equity	1,962,105	1,820,883
Tier 1 Capital or Core Capital - (a)	1,814,945	1,693,756
Capital for operations with the public sector (b)	542,000	542,000
Regulatory capital (RC) (a-b)	1,272,945	1,151,756
Total risk weighted assets (RWA)	<u>6,826,116</u>	<u>5,611,612</u>
Credit risk	6,118,053	4,828,005
Market risk	39,292	64,363
Operational risk	668,771	719,244
Portion of capital for coverage of interest rate risk of non-negotiable portfolio (RWA R_{BAN})	58,380	8,410
Minimum regulatory capital	689,795	737,920
Basel ratio (RC/RWA)	18.65%	20.52%
Extended Basel ratio (RC/(RWA + R_{BAN}))	18.49%	20.49%

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

Notes to interim financial statements (Continued)

September 30, 2020

(In thousands of reais, unless otherwise stated)

16. Risk and capital management (Continued)

b) Risk management

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.

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, economic group, economic dependence, 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.

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

Notes to interim financial statements (Continued)
September 30, 2020
(In thousands of reais, unless otherwise stated)

16. Risk and capital management (Continued)

b) Risk management (Continued)

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.

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>).

Sensitivity analysis

Financial instruments are classified in the banking portfolio, following a conservative strategy for allocation of resources established by management, observing the best market practices and classification criteria established by regulatory agencies. BDMG's exposure in the banking portfolio consists essentially of loans and funding, possibly hedged, as well as marketable securities transactions.

The Economic Value of Equity (EVE) approach was considered for the sensitivity analysis, which assesses the impact of changes in interest rates on the present value of the cash flows of instruments classified in the Institution's banking portfolio.

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

Notes to interim financial statements (Continued)
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(In thousands of reais, unless otherwise stated)

16. Risk and capital management (Continued)

b) Risk management (Continued)

Sensitivity analysis (Continued)

Delta EVE measures the difference between the present value of the sum of the repricing flows of instruments subject to interest rate risk in a base scenario and in a shock scenario on interest rates.

The table below summarizes the sensitivity values for the parallel scenario of increase and the parallel scenario of decrease, calculated by Delta EVE, referring to the banking portfolio position at September 30, 2020.

<u>September/20</u>	<u>Δ EVE Parallel shock increase</u>	<u>Δ EVE Parallel shock decrease</u>
Coupon rate		
DOLLAR	(273,143)	17,150
Coupon rate EURO	(2,419)	2,495
Fixed rate	1,411	(588)
Coupon rate IPCA	10,124	(11,143)
Coupon rate IGPM	22,124	(24,631)
Coupon rate TJLP	11,180	(13,778)
Coupon rate TLP	3,320	(3,805)
Coupon rate TRD	10,220	(29,084)
TOTAL BRL	58,380	(83,029)
Δ EVE	58,380	19,645

The standardized scenarios of interest rate shocks (increase and decrease) were used, according to BACEN regulations for financial institutions scoped under size S3, as is the case of BDMG, where the shocks of 400bps were applied to instruments linked to risk factors in local currency, and of 200bp for Dollar and Euro Coupon rates.

17. Employee benefits

BDMG, as mentioned in Note 3.15, 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.

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

Notes to interim financial statements (Continued)
September 30, 2020
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17. Employee benefits (Continued)

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.

Based on 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).

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.

BDMG's defined benefit plan in 2015 had the following technical deficit to be restructured. 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, in force at the time, 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.

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

Notes to interim financial statements (Continued)
September 30, 2020
(In thousands of reais, unless otherwise stated)

17. Employee benefits (Continued)

a) Characteristics of the benefit plans (Continued)

i) *Pension plan* (Continued)

Defined benefit pension plan (Continued)

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 2019 - Sponsor (*)	Restructuring in 2020 - Sponsor (**)
Amount of the restructuring	28,135.4	34,488.0	33,677.0
Sponsor's share	14,067.7	17,244.0	16,838.5
Participant's share	14,067.7	17,244.0	16,838.5
Deadline for restructuring	20 years	2020 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 2019.

(**) 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 June 2020.

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".

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Notes to interim financial statements (Continued)
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17. Employee benefits (Continued)

a) Characteristics of the benefit plans (Continued)

i) *Pension plan* (Continued)

Defined benefit pension plan (Continued)

The lifetime pension benefits granted to a pensioner member and retirement benefits granted to three retired former employees, for not having been hired under the Consolidation of the Labor Laws (CLT) regime at the time the Bank was still an autonomous government agency, are recorded together with the actuarial liabilities of the Defined Benefit Pension Plan (DB) as from June 2020. The total actuarial obligation calculated in the actuarial valuation of the DB Pension Plan of R\$1,349,342 includes the amount of R\$7,262 of the post-employment obligation for these pensioner members.

In August 2020, one of those retired former employees passed away.

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. 20/1998.

ii) *Healthcare and dental care benefit*

PRO-SAÚDE is a Private Healthcare Plan that provides coverage for medical and dental expenses to active participating employees and their dependents, as described in Note 3.15, 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.

iii) *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.

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

Notes to interim financial statements (Continued)
September 30, 2020
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17. Employee benefits (Continued)

a) Characteristics of the benefit plans (Continued)

iv) *Voluntary resignation program*

In order to benefit employees in conditions to retire, the Bank offers this Program available to employees who meet the requirements established therein. In 2020, the program was opened on 05/05/2020, with a 15-day enrollment period from that date.

b) BDMG participants in the pension plans

The number of participants is distributed as follows:

Plans	09/30/2020	12/31/2019	09/30/2019
Defined benefit (DB) – active participants	220	224	224
Defined benefit (DB) – pensioner members	537	539	541
Defined benefit (DB) – self-sponsored participants	11	9	9
Benefits paid directly by the Entity (1)	3	-	-
Variable contribution (VC) – active participants	70	68	65
Variable contribution (VC) – pensioner members	1	1	1
Variable contribution (VC) – self-sponsored participants	-	1	2
Total	842	842	842

(1) In June 2020, 4 participants with benefits paid directly by the entity were included in the base for the actuarial valuation of the DB pension plan, as per Note 3.15 (v). In September 2020, there were 3 participants.

c) Bank commitments with the benefit plans

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

	Period from 01/01/2020 to 09/30/2020	Period from 01/01/2019 to 12/31/2019	Period from 01/01/2019 to 09/30/2019
Pension plan (DB)	8,334	11,938	8,195
Pension plan (VC)	461	582	381
Health Promotion Program PRÓ-SAÚDE	5,667	6,863	5,176
Group life insurance	889	1,200	901
Voluntary resignation program	537	10	10
Total	15,888	20,593	14,663

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

Notes to interim financial statements (Continued)
September 30, 2020
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17. 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 PRÓ-SAÚDE			Group life insurance		
	01/01 to 09/30/2020	Year 2019	01/01 to 09/30/2019	01/01 to 09/30/2020	Year 2019	01/01 to 09/30/2019	01/01 to 09/30/2020	Year 2019	01/01 to 09/30/2019	01/01 to 09/30/2020	Year 2019	01/01 to 09/30/2019
Reconciliation (liabilities)/assets recognized												
Opening (liabilities), net	(332,852)	(185,244)	(185,244)	-	-	-	(126,841)	(98,018)	(98,018)	(19,439)	(13,239)	(13,239)
Participant's portion in surplus (-)/deficit (+)	97,001	37,184	37,184	-	-	-	-	-	-	-	-	-
Opening (liabilities), net (1)	(235,851)	(148,060)	(148,060)	-	-	-	(126,841)	(98,018)	(98,018)	(19,439)	(13,239)	(13,239)
(Expenses)/income recognized in profit or loss for the period	(17,678)	(21,984)	(15,890)	(31)	(55)	(44)	(6,854)	(9,740)	(7,327)	(924)	(1,152)	(865)
Gains/(losses) recognized in equity (2)	10,759	(77,745)	(49,242)	(1)	5	11	6,892	(24,099)	(19,957)	1,887	(6,169)	(2,478)
Employer's contributions	8,334	11,938	8,192	39	50	32	4,131	5,016	3,793	832	1,121	842
Benefits paid directly by the entity	191	-	-	-	-	-	-	-	-	-	-	-
Transfer from lifetime pension (Other obligations) (3)	(2,081)	-	-	-	-	-	-	-	-	-	-	-
Closing (liabilities), net (1)	(236,326)	(235,851)	(205,000)	7	-	(1)	(122,672)	(126,841)	(121,509)	(17,644)	(19,439)	(15,740)

(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 12.b.ii.

(3) Portion of the deficit of the Defined Benefit Pension Plan before the inclusion of the actuarial obligation with the statutory retirees and lifetime pension, which totaled R\$7,262 at 06/30/2020.

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

Notes to interim financial statements (Continued)
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(In thousands of reais, unless otherwise stated)

17. 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:

	Period from 01/01/2020 to 09/30/2020				Total
	Pension plan - DB	Pension plan - VC	Health Promotion Program PRÓ-SAÚDE	Group life insurance	
Current service cost	(6,300)	(32)			(6,332)
Cost of interest, net	(11,378)	1	(6,084)	(924)	(18,385)
Expected contributions for administrative expenses	-	-	(770)	-	(770)
(Expenses) income recognized in profit or loss (1)	(17,678)	(31)	(6,854)	(924)	(25,487)
	Period from 01/01/2019 to 09/30/2019				Total
	Pension plan - DB	Pension plan - VC	Health Promotion Program PRÓ-SAÚDE	Group life insurance	
Current service cost	(5,827)	(45)			(5,872)
Cost of interest, net	(10,063)	1	(6,518)	(865)	(17,445)
Expected contributions for administrative expenses	-	-	(809)	-	(809)
(Expenses) income recognized in profit or loss (1)	(15,890)	(44)	(7,327)	(865)	(24,126)

(1) The accounting records of expenses for the period from January to September 2020 were segregated as follows: R\$8,589 (R\$7,688 for the same period in 2019) referring to benefits to be granted (active employees) and R\$16,898 (R\$16,438 for the same period in 2019) referring to benefits granted (pensioner members). For the VC Pension Plan, the contributions related to the defined contribution portion (DC), recorded in expenses, amounted to R\$421 (R\$341 for the same period in 2019).

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

Notes to interim financial statements (Continued)
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17. Employee benefits (Continued)

d) Actuarial studies

The actuarial liabilities were calculated by an independent actuary using the Projected Unit Credit method, and the studies prepared as of June 30, 2020 are in effect.

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

	Pension plan - DB		Pension plan - VC			Health Promotion Program PRO-SAÚDE			Group life insurance			
	1 st half 2020	Year 2019	1 st half 2019	1 st half 2020	Year 2019	1 st half 2019	1 st half 2020	Year 2019	1 st half 2019	Year 2019	1 st half 2019	
(Deficit)/surplus calculated												
Actuarial obligations determined on actuarial assessment	(1,349,342)	(1,429,560)	(1,313,098)	(978)	(1,049)	(741)	(147,768)	(152,012)	(145,566)	(17,669)	(19,439)	(15,733)
Fair value of plan assets	1,018,052	1,096,708	1,045,563	1,902	1,906	1,707	25,755	25,171	25,318	-	-	-
(Deficit)/surplus calculated	(331,290)	(332,852)	(267,535)	924	857	966	(122,013)	(126,841)	(120,248)	(17,669)	(19,439)	(15,733)
Asset ceiling effect, additional liabilities and risk sharing												
Asset ceiling effect	-	-	-	(924)	(857)	(966)	-	-	-	-	-	-
Risk sharing (Deficit to be shared x 50%)	96,958	97,001	65,853	-	-	-	-	-	-	-	-	-
Closing asset ceiling effect, additional liabilities and risk sharing	96,958	97,001	65,853	(924)	(857)	(966)	-	-	-	-	-	-
Net (liabilities)/assets determined (deficit)/surplus determined less asset ceiling effect and additional liabilities (1)	(234,332)	(235,851)	(201,682)	-	-	-	(122,013)	(126,841)	(120,248)	(17,669)	(19,439)	(15,733)
Opening fair value of assets	1,096,708	961,695	961,695	1,906	1,484	1,484	25,171	23,576	23,573	-	-	-
Benefits paid in the period using plan assets	(35,276)	(74,704)	(33,860)	(10)	(16)	(2)	(3,336)	(6,778)	3,520	-	-	-
Participant's contributions in the period	2,717	5,696	2,595	26	50	22	-	-	-	-	-	-
Employer's contributions in the period	5,571	11,938	5,416	26	50	21	2,794	5,016	(2,564)	-	-	-
Earnings expected from assets	37,763	79,962	42,244	67	132	67	861	1,944	1,018	-	-	-
Gains/(losses) on fair value of plan assets (2)	(89,431)	112,121	67,473	(113)	206	115	265	1,413	1,680	-	-	-
Closing fair value of assets	1,018,052	1,096,708	1,045,563	1,902	1,906	1,707	25,755	25,171	27,227	-	-	-

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

Notes to interim financial statements (Continued)

September 30, 2020

(In thousands of reais, unless otherwise stated)

17. Employee benefits (Continued)

d) Actuarial studies (Continued)

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

	Pension plan - DB			Pension plan - VC			Health Promotion Program PRO-SAÚDE			Group life insurance		
	1 st half 2020	Year 2019	1 st half 2019	1 st half 2020	Year 2019	1 st half 2019	1 st half 2020	Year 2019	1 st half 2019	1 st half 2020	Year 2019	1 st half 2019
Opening actuarial obligations	(1,429,560)	(1,146,939)	(1,146,939)	(1,049)	(630)	(630)	(152,012)	(121,594)	(121,594)	(19,439)	(13,239)	(13,239)
Cost of current service, net	(4,626)	(8,298)	(3,356)	(26)	(57)	(33)	-	-	-	-	-	-
Participant's contributions in the period	(2,717)	(5,696)	(2,595)	(26)	(50)	(22)	-	-	-	-	-	-
Interest on actuarial obligations	(49,252)	(97,719)	(50,341)	(36)	(55)	(28)	(5,233)	(10,656)	(5,341)	(673)	(1,152)	(578)
Benefits paid in the period	35,276	74,704	33,860	10	16	2	2,850	5,750	3,006	556	1,121	562
Gains/(losses) on actuarial obligations (2)	-	-	-	-	-	-	-	-	-	-	-	-
Actuarial gain/(loss) – changes in assumptions (discount rate)	121,482	(232,330)	(203,254)	254	(327)	(238)	17,805	(25,100)	(20,869)	1,753	(3,030)	(2,488)
Actuarial gain/(loss) – changes in assumptions (mortality table)	-	(15,847)	-	-	34	-	-	(7,256)	-	-	544	-
Actuarial gain/(loss) – changes in assumptions (turnover)	-	(14)	-	-	(4)	-	-	-	-	-	-	-
Actuarial gain/(loss) – changes in assumptions (salary growth)	-	(3,301)	-	-	(17)	-	-	-	-	-	-	-
Actuarial gain/(loss) – changes in assumptions (family structure)	-	2,624	-	-	61	-	-	-	-	-	-	-
Actuarial gain/(loss) – increase in healthcare costs above expected	-	-	-	-	-	-	-	-	-	-	-	-
Actuarial gain/(loss) – experience adjustments	(17,864)	3,256	59,527	(105)	(20)	208	(143)	6,844	(768)	134	(3,683)	10
Transfer from lifetime pension (other obligations)	(2,081)	-	-	-	-	-	-	-	-	-	-	-
Closing actuarial obligations	(1,349,342)	(1,429,560)	(1,313,098)	(978)	(1,049)	(741)	(147,768)	(152,012)	(145,566)	(17,669)	(19,439)	(15,733)

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

Notes to interim financial statements (Continued)
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(In thousands of reais, unless otherwise stated)

17. Employee benefits (Continued)

d) Actuarial studies (Continued)

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

	Pension plan - DB			Pension plan - VC			Health Promotion Program PRÓ-SAÚDE			Group life insurance		
	1 st half 2020	Year 2019	1 st half 2019	1 st half 2020	Year 2019	1 st half 2019	1 st half 2020	Year 2019	1 st half 2019	1 st half 2020	Year 2019	1 st half 2019
Determination of deficit to be shared	-	-	-	-	-	-	-	-	-	-	-	-
(Deficit)/surplus determined liable for sharing (3)	(324,028)	(332,852)	(267,535)	-	-	-	-	-	-	-	-	-
Employer's obligation with future contributions (Regular contributions)	113,273	121,606	118,224	-	-	-	-	-	-	-	-	-
Employer's obligation with future contributions (ad hoc contributions – deficit restructuring 2015)	16,839	17,244	17,605	-	-	-	-	-	-	-	-	-
(Deficit) to be shared	(193,916)	(194,002)	(131,706)	-	-	-	-	-	-	-	-	-
Asset ceiling, minimum funding requirements and risk sharing												
Opening asset ceiling effect, additional liabilities and risk sharing	97,001	37,184	37,184	(857)	(854)	(854)	-	-	-	-	-	-
Interest expected on asset ceiling effect, additional liabilities and risk sharing	3,385	4,071	1,657	(30)	(75)	(38)	-	-	-	-	-	-
Gains/(losses) on asset ceiling effect, additional liabilities and risk sharing (2)	(3,428)	55,746	27,012	(37)	72	(74)	-	-	-	-	-	-
Closing asset ceiling effect and additional liabilities	96,958	97,001	65,853	(924)	(857)	(966)	-	-	-	-	-	-

(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 12.bii.

(3) Portion of the deficit of the Defined Benefit Pension Plan before the inclusion of the actuarial obligation with the statutory retirees and lifetime pension, which totaled R\$7,262 at 06/30/2020.

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Notes to interim financial statements (Continued)
September 30, 2020
(In thousands of reais, unless otherwise stated)

17. Employee benefits (Continued)

d) Actuarial studies (Continued)

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

The plan assets at June 30, 2020, December 31, 2019 and June 30, 2019 are allocated by category of assets, as follows:

Pension plan - DB	06/30/2020	12/31/2019	06/30/2019
Available	0.02%	0.01%	0.01%
Realizable – Pension plan management	0.49%	0.74%	0.67%
Realizable – Administrative management	0.70%	0.66%	0.67%
Government bonds	37.14%	37.26%	37.11%
Investment funds	50.45%	50.79%	0.18%
Private credits	0.27%	0.24%	50.55%
Real estate investments	4.21%	3.97%	4.19%
Loans and financing	0.93%	0.97%	1.05%
Judicial deposits	5.79%	5.36%	5.57%
Total	100.00%	100.00%	100.00%

Pension plan - VC	06/30/2020	12/31/2019	06/30/2019
Available	0.01%	0.09%	0.00%
Realizable – Pension plan management	0.00%	0.05%	0.04%
Realizable – Administrative management	1.10%	0.85%	0.82%
Investment funds	97.51%	97.46%	97.44%
Loans and financing	1.38%	1.55%	1.70%
Total	100.00%	100.00%	100.00%

Health Promotion Program PRÓ-SAÚDE	06/30/2020	12/31/2019	06/30/2019
Available	0.32%	0.20%	0.27%
Investments linked to technical reserves	6.67%	7.13%	6.97%
Unrestricted investments	34.03%	32.84%	34.74%
Credits from health plan operation	0.17%	0.39%	0.45%
Credits from operation not related to health plan of the operator	0.21%	0.22%	0.21%
Government bonds	46.95%	47.42%	45.73%
Long-term receivables	11.65%	11.80%	11.63%
Total	100.00%	100.00%	100.00%

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

Notes to interim financial statements (Continued)

September 30, 2020

(In thousands of reais, unless otherwise stated)

17. Employee benefits (Continued)

d) Actuarial studies (Continued)

iii) Key assumptions used in the actuarial valuation

The actuarial studies that present BDMG's obligations at June 30, 2020, December 31, 2019 and June 30, 2019 are based on the following assumptions:

	06/30/2020	12/31/2019	06/30/2019
Statutory discount rate for the actuarial liability			
Pension plan - DB	5.7715%	7.1020%	7.4677%
Pension plan - VC	5.9080%	7.1949%	7.7133%
Health Promotion Program PRÓ-SAÚDE	5.7438%	7.0697%	7.5073%
Group life insurance	5.8388%	7.1535%	7.5670%
Expected annual nominal rate of return on investments			
Pension plan - DB	5.7715%	7.1020%	7.4677%
Pension plan - VC	5.9080%	7.1949%	7.7133%
Health Promotion Program PRÓ-SAÚDE	5.7438%	7.0697%	7.5073%
Estimated future annual inflation rate	1.63%	3.61%	3.80%
Nominal rate of future salary growth:			
BDMG (PCS)	4.29%	6.32%	6.44%
BDMG (CC)	2.32%	4.31%	4.32%
Annual projection of effective growth of medical expenses (1)	3.00%	3.00%	3.00%
Turnover:			
Up to 39 years of age	4.00%	4.00%	4.20%
More than 39 years of age	0.30%	0.30%	0.30%
General mortality table	AT-2012 Basic IAM downrated by 10%, segregated by gender.	AT-2012 Basic IAM downrated by 10%, segregated by gender.	AT-2000 Basic softened by 10%, downrated by 10%, M&F.
Disability table	Adjusted Álvaro Vindas downrated by 70%.	Adjusted Álvaro Vindas downrated by 70%.	Álvaro Vindas softened by 70%
Disability mortality table	Winklevoss downrated by 50%.	Winklevoss downrated by 50%.	Winklevoss downrated by 50%.
Benefits to be granted:	Benefits to be granted:	Benefits to be granted:	Active employee:
average family structure assumption:	average family structure assumption:	average family structure assumption:	Standard family
• percentage of married individuals (dependents): 86.30%;	• percentage of married individuals (dependents): 86.30%;	• percentage of married individuals (dependents): 86.30%;	(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-holder's age)/2;0)).
• woman spouse five years younger than the policy holder;	• woman spouse five years younger than the policy holder;	• woman spouse five years younger than the policy holder;	Pensioner member:
• age of youngest child (Z): $Z = 24 - \text{MAX}[(63-X)/2;0]$, where "x" is the policy holder's age;	• age of youngest child (Z): $Z = 24 - \text{MAX}[(63-X)/2;0]$, where "x" is the policy holder's age;	• age of youngest child (Z): $Z = 24 - \text{MAX}[(63-X)/2;0]$, where "x" is the policy holder's age;	Actual family.
Structure of surviving families	Benefits granted: Actual family.	Benefits granted: Actual family.	

(1) Applicable solely to the Health Plan.

iv) Sensitivity of the defined benefit obligation

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

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

Notes to interim financial statements (Continued)
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17. Employee benefits (Continued)

d) Actuarial studies (Continued)

iv) *Sensitivity of the defined benefit obligation* (Continued)

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	-5.61%	6.24%	2.19%	-2.23%	1.08%	-1.01%	N/A	N/A
Pension plan - VC	-13.53%	16.49%	-0.67%	0.78%	9.44%	-8.07%	N/A	N/A
Health Promotion Program PRÓ-SAÚDE	-5.55%	6.11%	4.23%	-4.19%	-	-	6.14%	-5.63%
Group life insurance	-6.11%	6.73%	-2.74%	2.77%	-	-	N/A	N/A

v) *Projected cash flow*

The actuarial studies made for the June 2020 reporting date included the following estimates for payment of benefits and contributions of the sponsor for the second half of 2020:

Estimated cash flow	Pension plan - DB	Pension plan - VC (1)	Health Promotion Program PRÓ-SAÚDE	Group life insurance	Total
Expected benefit payments using plan assets	44,766	30	2,996	559	48,351
Expected benefit payments directly by the company	539	-	-	-	539
Expected employer contributions	6,008	25	2,644	559	9,236

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

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Notes to interim financial statements (Continued)
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17. Employee benefits (Continued)

d) Actuarial studies (Continued)

v) *Projected cash flow* (Continued)

The weighted average duration of actuarial obligations is as follows:

	<u>Pension plan - DB</u>	<u>Pension plan - VC</u>	<u>Health Promotion Program PRÓ- SAÚDE</u>	<u>Group life insurance</u>
06/30/2020	13.05	32.77	12.71	13.87
12/31/2019	12.93	29.14	12.45	13.92

18. Other information

Actions to mitigate the effects of COVID-19

The severity of the COVID-19 pandemic has generated uncertainties and consequent insecurity for the economy, but at the same time, has created challenges for economic agents to face the expected difficulties.

Projections point out that Brazil, following the expectations of other countries, is expected to experience a severe recession in 2020 with effects, not yet fully evaluated, on all economic activities.

As a response to face the expected difficulties, in addition to laws and other measures proposed by the Executive and Legislative Branches, the National Monetary Council and the Central Bank have approved rules seeking liquidity of the financial system and enabling the granting and renegotiation of loans under special conditions to support companies in this period of immense adversity.

To enable BDMG to operate in its development function under such difficult circumstances, the controlling shareholder State of Minas Gerais issued Decree No. 47939 on April 30, 2020, ensuring to the Bank, through MG Investe Garantidor, the functions of guaranteeing loans granted and covering losses incurred thereby in the transactions carried out with limited guarantee of other guarantor funds.

In this regard, in addition to the resources provided for in the Annual Budget Law, in the amount of R\$26.6 million, a supplementation of R\$58.8 million was made by the State (Decree No. 216, of May 8, 2020), allocated for this guarantee measure. Also in May, the State increased the Bank's capital by R\$100 million, providing greater liquidity to face the impacts of the crisis.

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

Notes to interim financial statements (Continued)
September 30, 2020
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18. Other information (Continued)

Actions to mitigate the effects of COVID-19 (Continued)

The Bank adopted the following measures, among others, to enable State companies to continue operating under such adverse conditions, through new transactions or renegotiation of loans already granted:

- Increase in the volume of fund releases foreseen in the 2020 Strategic Planning, from R\$1,804,000 to R\$2,299,000;
- Change in and inclusion of products to meet demands for resources released by the Support Program for Micro and Small Entities (PRONAMPE) and, in compliance with Supplementary Law No. 173, extension of payment deadlines related to financing granted to municipalities;
- Renegotiation of loans by granting grace periods (standstill) in transactions or other possible forms of renegotiation according to the conditions of the original transaction.

Management believes that, as a result of the measures adopted to face the pandemic, the Bank's assets and liabilities may be affected mostly in relation to the following items:

- Loans - an increase in the level of late payments for loans taken out is expected as the economic situation worsens, with a consequent increase in defaults;
- Civil provisions - a greater volume of lawsuits may occur as a result of contracts and renegotiations carried out in the context of the urgent measures adopted;
- Assets not for own use - in the event of an increase in default, the growth of assets received under agreements guaranteed by chattel mortgage is expected.
- The Bank's operating activities continue normally, with employees working from home. In addition to being attentive to the items listed above due to the possibility of their effects on future results, management monitors, on a daily basis, the impacts of operations carried out in the allocation of capital and liquidity, with the objective of maintaining risk levels within the established limits.

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19. Events after the reporting period

On October 15, 2020, BDMG settled a customer under a letter of guarantee by paying R\$198,462 to the creditor bank.

The amount paid was converted into a loan in October 2020 as provided for in the counter-guarantees contained in the letter of guarantee.

Executive Board

Sergio Gusmão Suchodolski
Henrique Amarante Costa Pinto
Marcela Amorim Brant
Otávio Lobão de Mendonça Vianna
Vinício José Stort

CEO
Deputy CEO
Officer
Officer
Officer

Controllership Supervisory Board

Giovani Rosemberg Ferreira Gomes

Accountant CRC-MG-075701/O-5