

# **Financial Statements**

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

December 31, 2012 and 2011  
With Independent Auditor's Report

## **Management Report**

State Law No. 2067 of January 5, 1962 created the Banco de Desenvolvimento de Minas Gerais S.A. BDMG, (Bank) a financial institution organized to foster the sustainable development of Minas Gerais State.

### **Macro-economic performance**

At the beginning of 2012 the Federal Government and the market projected annual GDP growth of 4.5%. However, growth estimates for 2012 approximate 1%, the second lowest level of GDP growth since 2000, surpassed only by the 0.33% retraction in 2009.

During the year the Federal Government promoted monetary and fiscal expansionist policies. On the fiscal side it provides incentives to specific sectors, among other measures. On the monetary side, the Central Bank reduced the Central Bank Overnight Rate to 7.25% p.a., a historic low. The inflation rate in 2012 stood at 5.84% and the Central Bank predicts convergence to target in 2013. The national unemployment rate was estimated at 4.6% in December 2012, the lowest ever rate in the Monthly Employment Survey (PME) which began in March 2002. As a result, over the 12 months of 2012 the average unemployment rate was 5.5%.

The perspective for GDP growth in the State of Minas Gerais is higher than that of the Brazilian economy as a whole. In twelve months, in accordance with information for the third quarter of 2012, the Minas Gerais economy grew 2% while the rest of the Brazilian economy grew 0.9%.

## **1. The Bank**

The Banco de Desenvolvimento de Minas Gerais S.A. – BDMG is the instrument of the state government to provide long-term financing to realize investment in various segments of the Minas Gerais economy and to integrate the operational state economic development system coordinated by the State Secretary for Economic Development.

BDMG's strategic planning to cover 2012-2015 completed its first maturity cycle in 2012, creating and building partnerships to enable established ventures to be fostered in addition to the generation of opportunities and sustainable development in Minas Gerais.

The Bank increased its client base among micro, small and medium enterprises, focused efforts on supporting companies seeking growth through innovation while attracting large scale investments to the state. Accordingly the Bank has carried out an agenda focused on improving its internal processes, through investment in people and new technology enabling the development of innovative operational platforms, building foundations for a more sustainable growth in the years ahead.

## **2. BDMG Performance Highlights in 2012**

### Investment in new platforms focusing on Micro and Small Enterprises (MSE)

2012 was marked by an increase in the number of client served by BDMG. In the micro and small enterprises segment (MSE) 4,127 clients were served, a 49% year-on-year increase, thus fulfilling the goal expressed in the strategic planning to build more presence in this segment. The BDMG lent R\$ 349.5 million to the MSE segment MSE, 40% more than the prior year.

Accordingly, the Bank developed and implemented the BDMG WEB platform, which made financing more accessible to clients particularly MSEs, stating in real time the approved amount to be drawn down and reducing the need for documents and information. Furthermore, the BDMG's internalization initiative through banking communication was expanded in the second six-month period of 2012, consolidating a network offering credit that gives the Bank presence in tens of Minas Gerais municipalities through 154 authorized entities.

BDMG enhanced its service model to MSE, implementing a call center specializing in serving entrepreneurs, able to assist them in completing funding proposals and also to contribute to attracting new business.

In order to support MSEs make financing viable, in August BDMG adhered to the Micro and Small Business Guarantee Fund (FAMPE) at SEBRAE. This partial credit guarantee alternative is already fully utilized under the BDMG WEB platform.

In September, the Bank renewed its agreement with Crediminas, strengthening its operation in granting rural credit and ties with cooperatives that are BDMG's banking counterparts.

In 2012 BDMG launched two programs intended for companies that it already holds as clients: Renew GERAMINAS I and II. In both examples, these offered previously calculated credit lines reducing the documentation to be supplied and supporting approximately 700 businesses.

BDMG also signed an agreement with the Banco do Nordeste do Brasil, in order to become on-lender of its credit lines in the region that borders that of the Bank in Minas Gerais.

It is important to highlight the consolidation of partnerships with entrepreneurial entities and the credit cooperative system.

## **2. BDMG Performance Highlights in 2012 (Continued)**

### Bank partnership municipalities

BDMG expanded its financial support to projects in Minas Gerais municipalities. In 2012 the Bank lent R\$ 218.5 million for 209 clients representing an increase of R\$ 22.9 million year-on-year. Of the total lent R\$ 192.6 million are destined for the Novo Somma Program used for the acquisition of machinery and equipment for use in public works, infrastructure projects including resurfacing and drainage sanitation, as well urban solid waste treatment projects.

### Innovation

Part of BDMG's efforts are intended to support innovative businesses. The Bank's Partnership with the Fundação de Amparo à Pesquisa do Estado de Minas Gerais – FAPEMIG to operate two credit lines to support innovation led to lending of R\$ 31.5 million serving 59 companies in 2012.

The Bank also makes investment in Emerging Company (FIEE) and Equity (FIP) Funds contributing to the development of innovative business and a venture capital culture in the state. Further to the funds being supported, FIEE HORIZONTI and FIP Brasil Sustentabilidade, BDMG invested in a FIP started in November: DLM Brasil TI and committed to an investment of R\$ 10 million CRIATEC II Fund, that began to be structured in 2012 with the participation of BDMG to operate in 2013.

### Capital market and infrastructure

BDMG performed capital market transaction structuring, providing technical assistance to Minas Gerais Participações – MGI and the Companhia de Desenvolvimento de Minas Gerais (CODEMIG). In the MGI operation concluded in September, R\$ 316 million was raised through the issue of debentures under the terms of CVM Ruling No. 400. In the CODEMIG operation, BDMG structured the issue of debentures in accordance with CVM Ruling No. 476. In December the issue of BDMG banker's letters were also structured and R\$ 350 million was raised.

Bank expanded the Credit Rights Investment Fund – Minas Gerais Productive Chains (FIDC-CPMG), signing a new agreement to lend R\$ 4.2 million of which R\$ 1.4 million was paid-in in the 2<sup>nd</sup> Series of Senior Fund Units. The objective of this fund is to provide low cost short-term resources to companies supplying FIAT Automóveis. That Fund has been posting an average allocation of over 90% of Equity with allocation on the last day of November of 98.5%, with a disposals volume of R\$ 64 million.

## **2. BDMG Performance Highlights in 2012 (Continued)**

### Capital market and infrastructure (Continued)

With regard to infrastructure projects, the Bank provided consulting services to the public sector in development concession models, public-private partnerships and project finance to BH-TEC, Belo Horizonte Municipality, the State Government and COPASA. In June the Bank signed a technical cooperation agreement with the International Financial Corporation for the creation of a fiduciary fund to finance infrastructure study projects.

### 50 Years of BDMG History and rebranding

On its fiftieth anniversary BDMG made an important step in rebranding its image in the market. It launched a new brand to reflect a bank that is more open to business relations with various types of clients, with facilitated client service and faster more flexible and innovative services, strengthening its partnership characteristics, innovation and commitment to the development of Minas Gerais.

Within the Bank's 50 year programming also guiding by new positioning in the market various activities were performed. Among these is the "Story Network" - <http://50anos.bdmq.mg.gov.br> an interactive virtual environment that allows users to upload and share photos, documents, letters and videos that trace the growth of the Minas Gerais Economic Development Bank.

The "Story Network" content is grouped together in the BDMG Living Memory space, a permanent exhibition to showcase the institution and the development of Minas Gerais inaugurated in September. The BDMG cultural initiative is supported by the BDMG Employee Association (AFBDMG).

### Culture

In 2012, between January and December, Minas Gerais Development Bank Cultural Institute, the BDMG branch supporting arts and culture, promoted 165 events including; exhibitions, concerts, grants for musical instruments, popular and easy listening music, book launches, theatre performances and literary recitals. In all, 2,745 artists were directed benefited and 25,631 people participated in events realized and supported by the institution. A total of 28 cities received presentations and performances promoted and incentivized by BDMG Cultural.

### Subsidiary

In March 2012 as authorized by State Law No. 19967/11, the Bank set up a subsidiary, BDMGTEC Participação S.A that jointly with five other investors made feasible the implementation of SIX Semicondutores S.A. The company operates in the high technology sector projecting, manufacturing and selling integrated analogue and digital circuits.

## 2. BDMG Performance Highlights in 2012 (Continued)

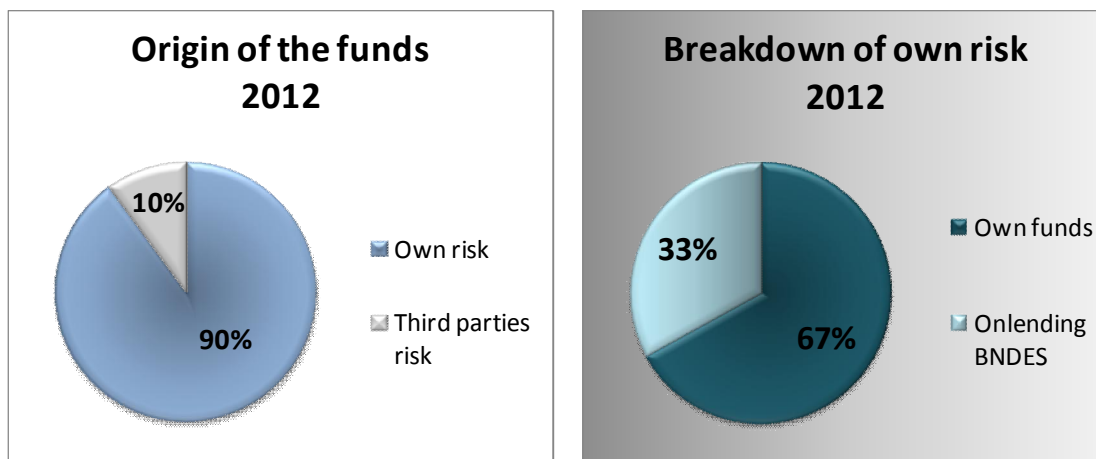
### Subsidiary (Continued)

Another project that began to be analyzed in July 2012, and is expected to be concluded in July 2015 with investments of R\$ 330 million is the construction of a drug biopharmaceutical plant in Nova Lima.

The Minas State Government signed a letter of intent stating that in partnership with Biomm Technology, BDMG, FAPEMIG and other partners it supported the implementation of a new biotechnology plant in Minas Gerais.

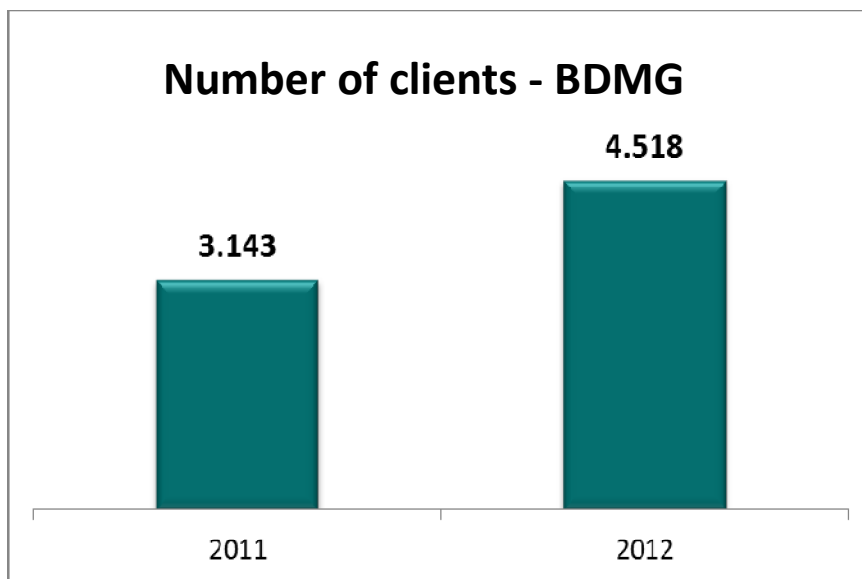
## 3. Operational performance

The highlight of 2012 was BDMG's lending totaling R\$ 1,432.41 million, a 4.8% year on year increase. Such lending is mainly linked to the Bank's own risk assets, and most of them from direct BDMG funds (R\$ 862 million) with the remainder stemming from BNDES financing (R\$ 421.3 million). In summary own risk assets represent 90% of the total amount lent. The graphic below illustrates lending by origin of funds.



The increase in lending was accompanied by an increase in clients. In 2012, the Bank served 4,518 clients, which is 44% higher than the 3,143 clients in 2011 as follows.

### 3. Operational performance (Continued)



The presence of the Bank in the state was also expanded. The number of municipalities with active clients increased reaching 745 at 12.31.2012 against 736 municipalities in 12.31.2011.

#### Highlights on sectors

In 2012 BDMG lending to industry, sales and services and agriculture breaks down as follows:

Sector	R\$ MM	%
Agriculture	37,95	2,7%
Industry	1046,28	73,0%
Sales and services	348,17	24,3%
<b>TOTAL</b>	<b>1432,41</b>	

### **3. Operational performance (Continued)**

The manufacturing sector was the destination for R\$ 756.8 million, corresponding to 52.8% of BDMG's total. Of this amount R\$ 201.4 was earmarked for the food and drinks industry, R\$ 142.9 million for the non-metallic minerals industry, R\$ 139.6 million for the transport and auto parts industry and R\$ 79.7 million for machinery and equipment.

Public utility service industries that comprise sanitation, urban development, electricity and gas received R\$ 224.5 million, a 15.4% increase year-on-year.

### **4. Economic- financial performance**

Total assets with a balance of R\$ 3.612 million at 12.31.2012, a 27% increase year-on-year (R\$ 2.840 million at 12.31.2011) and total net equity of R\$ 1.470 million at December 31, 2012, a 28% increase year-on-year (R\$ 1.151 million December 31, 2012). Capitalization by bank shareholders contributed on R\$ 346 million to this growth. Net income in 2012 was R\$ 71 million (R\$ 82 million 2011).

Capital requirement co-efficient (Basel Index) calculated at December 31, 2012, is 34.85%, higher than the amount required by the Central Bank of Brazil of 11%.

The Bank's loan portfolio and operations that relate to it made with own funds and on-lent funds amounted to R\$ 2,873 million at December 31, 2012, indicating 35% growth year-on-year (R\$ 2,130 at December 31, 2011). It is important to highlight that at December 31, 2012, loan operations with AA, A and B risk classification represented 79% of the loan portfolio, which reflects management guidelines on seeking greater quality in credit assigned.

At December 31, 2012, BDMG was financial agent for administered funds, with a financing balance of R\$ 2.567 million, with R\$ 2,524 million referring to loans made with state funds and R\$ 43 million in loans made with private funds and/ or funds linked to state and federal public bodies and with state funds extinguished by State Law No. 13848/2001.

## **5. Risk management**

In 2012, BDMG risk management remained aligned with strategic planning directives improving policies and tools used in management of credit, market and liquidity risks. Reviews of credit risk evaluation models were performed for rural producers and credit cooperatives, prioritizing the use of objective information and statistical techniques and the systematic monitoring and loan performance in order to monitor the expansion of that portfolio and ensure quality is maintained.

In the market risk management, features were implemented in the Bank's system to improve monitoring of Value-at-Risk (VaR) and the covariance matrix. The liquidity risk management policy was aligned to the requirements of CVM/BACEN Resolution No. 4090, observing the nature and particularities of its loans, where a new management indicator was established.

## **6. People management**

In 2012, BDMG contracted 41 new employees approved in public exams in 2011. Currently the Bank has 353 employees as well as analysts, technicians and legal professionals.

In order to develop the knowledge, skills and attitudes relevant to its business the Bank staged around 30 thousand hours of training and coaching for its staff in 2012. It also intensified its Quality of Life Program with various activities and the inauguration of "Espaço Envolve", structure specifically projected for the quality of life program and Inova BDMG project.

## **7. Rating**

In 2012, BDMG achieved investment grade with two of the best known ratings agencies in the world: Standard & Poors and Moody's. In November the Standard & Poors awarded BDMG a credit rating of BBB- for long-term debt in foreign and local currency on global rankings and br.AAA on national rankings. The perspective for both is stable. In December Moody's raised BDMG's global rating as an issuer of long-term debt in local currency (from Ba1 to Baa3), assessed as stable, and as an issuer of short-term debt (from Not Prime to Prime-3). The bank's rating as a long-term debt issuer nationally also rose (from Aa2.br for Aa1.br), with its short-term rating unaltered at BR-1. The perspective for these ratings is stable. Furthermore, Moody's increased BDMG's individual risk profile (BCA) from ba2 to ba1, recognizing the expansion consistent with the Bank's loan operations and client base in the last two years.

## **8. Acknowledgements**

BDMG management appreciates the support of those who contributed to the results obtained in 2012 and in particular the State Government and Legislative Assembly of Minas Gerais State.

## **Banco de Desenvolvimento de Minas Gerais S.A. (BDMG)**

### **Summary of Audit Committee Report – 2nd Six-Month Period of 2012**

#### **Introduction**

The Audit Committee, is a statutory body of the Banco de Desenvolvimento de Minas Gerais S.A. (BDMG or Bank) established in the Extraordinary Shareholders' Meeting held on February 2, 2011, in accordance with CMN Resolution No. 3198 dated May 27, 2004. The purpose of the Committee is to support the Board of Directors in the performance of their audit and inspection duties among other functions provided in the Bank's internal regulations, in order to assess and provide an opinion on: (i) the quality of the financial statements; (ii) the effectiveness of internal control systems, and (iii) the effectiveness of the internal and independent auditing.

#### **I Activities carried out in the performance of its duties**

In the second six-month period of 2012, the Committee met on 18 different occasions and a further 5 times at the beginning of 2013. This included participation in the Board of Directors' meetings. In the last meeting held on February 13, 2013, it was decided to review the financial statements at December 31, 2012, as well as the Management Report and the Independent Auditor's Report on the Financial Statements.

The Committee maintains ongoing contact with managers of departments under the Bank's control, in order to monitor work performed and obtain funds to support its activities.

Issues relating to the preparation of the financial statements and the internal controls were discussed with managers of the Controllershship, Internal Audit, Risk Management, Internal Controls and Ombudsman Departments regarding their respective areas of operation.

Five meetings were held with the independent auditors, Ernst & Young Terco Auditores Independentes S.S., to establish the work methodology, planning and deliverables for the preparation of the financial statements at June 30, 2012, and December 31, 2012, and the quarterly financial information at June 30, 2012.

The Committee met with the Bank's Executive Board and with individual Directors to cover the issues relating to strategic planning business, accounting, internal controls, internal audit, compliance, people management, capital management, credit, liquidity, operating and market risk. At these opportunities the Committee presented recommendations to improve processes, verified compliance with its recommendations, clarifications or inquiries and carried out the monitoring of improvements recommended by internal and independent auditors identified in the course of its work.

## **I Activities carried out in the performance of its duties (Continued)**

The Committee holds regular meetings with the Bank's Board of Directors. On these occasions it issues its opinion on matters relating to its regulatory duties and provides information to the institution on its activities.

## **II. Assessment of the effectiveness of internal control and risk management**

In the second six-month period of 2012, significant decisions include the approval by the Executive Board and the Board of Directors, of the Operational Risk Management Policy, the Operational Management Structure the Liquidity Risk Management structure and the Capital Management Plan for the triennium 2013/2015.

The Audit Committee considers the performance of the Bank's management in respect to the effectiveness of its internal control system and the institution's risk management as satisfactory.

## **III. Assessment of effectiveness of internal audit**

The Committee held various meetings with the Internal Audit Manager in order to accompany work performed by that body. The committee assessed the coverage and the quality of auditing and the level of independence in the area as satisfactory.

No failure to comply with legislation in force or internal standards serious enough to risk the Bank's liquidity or ability to operate as a going concern was identified in the work performed by internal auditors.

## **IV. Assessment of effectiveness of independent audit**

The Committee maintained a channel of regular communication with the independent auditors, Ernst & Young Terco Auditores Independientes S.S. in order to promote broad discussion on the planning, scope, significant accounting issues and results of the work performed in order to allow its members to provide an opinion on the Bank's overall financial statements. The Committee met with the independent auditors to understand the main stages in work undertaken during the preparation of the financial statements at June 30, 2012, and December 31, 2012, and the quarterly financial information at June 30, 2012, and its assessment of the institution's internal controls.

#### **IV. Assessment of effectiveness of independent audit (Continued)**

The Committee assessed the work performed as satisfactory and did not identify situations that may affect the objectivity and independence of the independent auditing.

#### **V. Assessment of the quality of the financial statements**

The Committee monitored the preparation process for the financial statements at June 30, 2012, December 31, 2012, and quarterly financial information at September 30, 2012, examining trial balances, balance sheets, accompanying notes, the management report, the independent auditor's report and other documents intended for publication. It built awareness of the accounting practices adopted by the institution, any unusual events and impacts on the Bank's equity and profit and loss, in meetings held with those responsible for the preparation of these documents and independent auditing.

The Committee checked that the accounting practices utilized in the preparation of these financial statements are aligned with fundamental accounting principles, Brazilian corporate law and standards established by the National Monetary Council (CMN) and the Central Bank of Brazil faithfully portrayed the institution's financial position.

#### **Conclusion**

Up to the close of this report the Audit Committee received no denunciation of failure to comply with standards, lack of controls, act or omission on the part of the Bank's management that might indicate the existence of fraud, errors or failures that jeopardize the ability of the institution to operate as a going concern or the reliability of the financial statements.

Based on the considerations above, the Audit Committee, based on its responsibilities and the limitations on the scope of its activities and operations, recommends to the Board of Directors approval of the financial statements for Banco de Desenvolvimento de Minas Gerais S.A. at December 31, 2012:

Belo Horizonte, February 13, 2013.

MAURO LOBO MARTINS JUNIOR  
Coordinator

CARLOS ANTONIO DUARTE  
Committee Member

JAIR MODESTO DA COSTA  
Committee Member

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

## Financial Statements

December 31, 2012 and 2011

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**A free translation from Portuguese into English of independent auditor's report on financial statements prepared in accordance with accounting practices adopted in Brazil**

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## **Independent auditor's report on financial statements**

To the Board of Directors, Shareholders and Officers,  
**Banco de Desenvolvimento de Minas Gerais S.A. (BDMG)**  
Belo Horizonte, Minas Gerais

We have audited the accompanying financial statements of Banco de Desenvolvimento de Minas Gerais S.A. - BDMG (Bank), which comprise the balance sheets as at December 31, 2012, and the related income statements, statements of changes in equity and cash flow statements for the year then ended, and a summary of significant accounting practices and other explanatory information.

### **Management's responsibility for the financial statements**

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

### **Auditor's responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Brazilian and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.


We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco de Desenvolvimento de Minas Gerais S.A. – BDMG as at December 31, 2012, and its financial performance and cash flows for the year then ended, in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil (BACEN).

Belo Horizonte, February 13, 2013.

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



Rogério Xavier Magalhães  
Accountant CRC 1MG-080613/O-1

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

Balance sheets  
December 31, 2012 and 2011  
(In thousands of reais)

	Note	2012	2011
<b>Assets</b>			
Current assets		<b>953,739</b>	775,020
Cash and cash equivalents		1,158	1,224
Interbank investments	4	<b>342,333</b>	292,379
Open market investments		342,333	69,435
Interbank deposits		-	222,944
Marketable securities	5	-	21,641
Own portfolio		-	21,641
Loans	6	<b>583,420</b>	437,239
Loans		618,010	459,264
Public sector		77,016	73,677
Private sector		540,994	385,587
(Allowance for loan losses)		(34,590)	(22,025)
Lease transactions	6	<b>(109)</b>	(114)
Lease and subleases receivable		114	445
Private sector		114	445
(Unearned income from lease transactions)		(111)	(445)
(Allowance for loan losses)		(112)	(114)
Other receivables	7	<b>26,719</b>	22,521
Unearned revenue		2,134	2,247
Sundry receivables		24,777	20,534
(Allowance for loan losses)		(192)	(260)
Other assets	8	<b>218</b>	130
Other assets		218	130
Noncurrent assets		<b>2,657,843</b>	2,064,922
Long-term receivables		<b>2,630,590</b>	2,039,054
Interbank investments	4	-	100,179
Interbank deposits		11,727	113,062
(Allowance for loan losses)		(11,727)	(12,883)
Marketable securities	5	<b>204,422</b>	135,619
Own portfolio		204,422	130,505
Linked to repurchase agreements		-	5,114
Loans	6	<b>2,148,059</b>	1,575,344
Loans		2,254,661	1,669,347
Public sector		458,235	312,992
Private sector		1,796,426	1,356,355
(Allowance for loan losses)		(106,602)	(94,003)
Marketable securities	6	-	(33)
Leases and subleases receivable		-	111
Private sector		-	111
(Unearned income from leases)		-	(111)
(Allowance for loan losses)		-	(33)
Other receivables	7	<b>255,337</b>	227,945
Unearned revenue		3,201	3,371
Specific receivables		1,116	1,044
Sundry receivables		263,027	235,288
(Allowance for loan losses)		(12,007)	(11,758)
Other assets	8	<b>22,772</b>	-
Temporary investments		22,772	-
Other assets		1,518	1,621
(Valuation allowance)		(1,518)	(1,621)
Permanent assets	9	<b>27,253</b>	25,868
Investments		487	607
Other investments		1,324	1,444
(Provision for losses)		(837)	(837)
Property and equipment in use		<b>22,869</b>	23,086
Property and equipment in use		41,831	40,623
Other fixed assets in use		10,382	10,398
(Accumulated depreciation)		(29,344)	(27,935)
Property and equipment for lease		644	1,019
Leased assets		1,704	1,704
(Accumulated depreciation)		(1,060)	(685)
Intangible assets		<b>3,223</b>	923
Intangible assets		3,975	1,347
(Accumulated amortization)		(752)	(424)
Deferred charges		30	233
Organization and expansion expenses		1,610	3,190
(Accumulated amortization)		(1,580)	(2,957)
<b>Total assets</b>		<b>3,611,582</b>	2,839,942

	<b>Notes</b>	<b>2012</b>	<b>2011</b>
<b>Liabilities</b>			
Current equity		<b>401,241</b>	431,089
Deposits	<b>10</b>	<b>59,493</b>	100,184
Interbank investments		<b>59,493</b>	100,184
Open market funding	<b>10</b>	-	5,012
Own portfolio		-	5,012
Domestic onlending – Official institutions	<b>11</b>	<b>276,301</b>	238,700
National Treasury		<b>1,816</b>	1,816
BNDES		<b>189,359</b>	170,330
CEF		-	232
FINAME		<b>81,372</b>	62,624
Other institutions		<b>3,754</b>	3,698
Other liabilities	<b>12</b>	<b>65,447</b>	87,193
Collection of taxes and other contributions		<b>1,172</b>	1,385
Tax and social security		<b>34,856</b>	24,859
Financial and development funds		<b>965</b>	960
Sundry receivables		<b>28,454</b>	59,989
Long-term payables		<b>1,732,210</b>	1,252,067
Funds from acceptance and issue of securities	<b>10</b>	<b>351,267</b>	-
Treasury note funds		<b>351,267</b>	-
Domestic onlending – official institutions	<b>11</b>	<b>1,056,244</b>	948,004
National Treasury		<b>13,540</b>	14,466
BNDES		<b>597,672</b>	534,020
FINAME		<b>413,129</b>	364,449
Other institutions		<b>31,903</b>	35,069
Other liabilities	<b>12</b>	<b>324,699</b>	304,063
Tax and social security		<b>229,765</b>	197,323
Financial and development funds		<b>6,973</b>	20,804
Sundry		<b>87,961</b>	85,936
Unearned revenue		<b>7,967</b>	6,053
Unearned revenue		<b>7,967</b>	6,053
Equity	<b>13</b>	<b>1,470,164</b>	1,150,733
Capital:			
Capital – domiciled in Brazil		<b>1,456,157</b>	1,087,715
Capital increase		<b>(22,772)</b>	-
Income reserves		<b>29,227</b>	62,196
Fair value adjustment - Marketable securities and derivatives		<b>7,552</b>	822
Total liabilities		<b>3,611,582</b>	2,839,942

See accompanying notes.

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

### Income statements

Years ended December 31, 2012 and 2011

(In thousands of reais, except for earnings per share expressed in reais)

	Notes	Second six-	Years	
		month period	2012	2011
Financial income		<b>168,932</b>	<b>353,964</b>	279,384
- Loans		<b>149,215</b>	<b>308,378</b>	205,108
- Lease transactions		<b>237</b>	<b>463</b>	505
- Marketable security transactions		<b>19,479</b>	<b>45,116</b>	73,762
- Foreign exchange transactions		<b>1</b>	<b>7</b>	9
Financial expenses		<b>(67,780)</b>	<b>(149,376)</b>	(92,128)
- Market funding transactions		<b>(7,449)</b>	<b>(13,463)</b>	(184)
- Borrowing and onlending		<b>(35,263)</b>	<b>(79,418)</b>	(70,989)
- Marketable securities		<b>(198)</b>	<b>(377)</b>	(358)
- Allowance for loans losses	<b>6.d</b>	<b>(24,870)</b>	<b>(56,118)</b>	(20,597)
Gross financial income		<b>101,153</b>	<b>204,588</b>	187,256
Other operating income/ expenses		<b>(57,088)</b>	<b>(99,901)</b>	(98,362)
- Income from services rendered		<b>28,532</b>	<b>55,790</b>	61,067
- Personnel expenses		<b>(39,208)</b>	<b>(76,667)</b>	(82,007)
- Other	<b>17.a</b>	<b>(22,587)</b>	<b>(39,259)</b>	(28,612)
- Tax expenses	<b>17.b</b>	<b>(8,230)</b>	<b>(17,240)</b>	(17,356)
- Other operating income	<b>17.c</b>	<b>5,206</b>	<b>17,009</b>	15,395
- Other operating expenses	<b>17.d</b>	<b>(20,801)</b>	<b>(39,534)</b>	(46,849)
Operating income		<b>44,065</b>	<b>104,687</b>	88,894
Non-operating income (expenses)	<b>18</b>	<b>(1,687)</b>	<b>(2,752)</b>	27,200
Income before income taxes and profit sharing		<b>42,378</b>	<b>101,935</b>	116,094
Income and social contribution taxes	<b>16.b</b>	<b>(887)</b>	<b>(25,940)</b>	(26,190)
Provision for income tax		<b>(5,015)</b>	<b>(28,296)</b>	(28,906)
Provision for social contribution tax		<b>(3,760)</b>	<b>(17,863)</b>	(18,472)
Deferred tax asset		<b>7,888</b>	<b>20,219</b>	21,188
Statutory profit sharing		<b>(2,998)</b>	<b>(4,641)</b>	(8,394)
Employee profit sharing		<b>(2,998)</b>	<b>(4,641)</b>	(8,394)
Net income		<b>38,492</b>	<b>71,354</b>	81,510
Interest on equity		<b>(39,216)</b>	<b>(39,216)</b>	(40,327)
Earnings per share – R\$		<b>0.0008453</b>	<b>0.0015669</b>	0.0017866

See accompanying notes.

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

Statements of changes in equity  
 Years ended at December 31, 2012 and 2011  
 (In thousands of reais)

	Capital	Capital increase	Capital to be paid in	Income reserve		Equity valuation adjustment	Retained earnings	Total
				Legal reserve	Other			
<b>Balances at December 31, 2010</b>	<b>1,003,299</b>	-	-	<b>21,013</b>	-	<b>(1,003)</b>	-	<b>1,023,309</b>
Approval for capital increase	84,416	(84,416)	-	-	-	-	-	-
Capital increase	-	84,416	-	-	-	-	-	84,416
Equity valuation adjustment	-	-	-	-	-	1,825	-	1,825
Net income for the year	-	-	-	-	-	-	81,510	81,510
Allocation:								
Reserves	-	-	-	4,075	37,108	-	(41,183)	-
Interest on equity capital (R\$ 0.00088 per share)	-	-	-	-	-	-	(40,327)	(40,327)
<b>Balances at December 31, 2011</b>	<b>1,087,715</b>	-	-	<b>25,088</b>	<b>37,108</b>	<b>822</b>	-	<b>1,150,733</b>
Approval of capital increase	368,442	(368,442)	(22,772)	-	-	-	-	(22,772)
Capital increase	-	368,442	-	-	-	-	-	368,442
Equity valuation adjustment	-	-	-	-	-	6,730	-	6,730
Net income for the year	-	-	-	-	-	-	71,354	71,354
Allocation:								
Reserves	-	-	-	3,568	(36,537)	-	(4,138)	(37,107)
Dividends (R\$ 0.00054 per share)	-	-	-	-	-	-	(28,000)	(28,000)
Interest on equity (R\$ 0.00076 per share)	-	-	-	-	-	-	(39,216)	(39,216)
<b>Balances at December 31, 2012</b>	<b>1,456,157</b>	-	<b>(22,772)</b>	<b>28,656</b>	<b>571</b>	<b>7,552</b>	-	<b>1,470,164</b>
<b>Balances at June 30, 2012</b>	<b>1,204,222</b>	-	<b>(22,772)</b>	<b>26,731</b>	-	<b>3,640</b>	<b>31,220</b>	<b>1,243,041</b>
Approval of capital increase	251,935	(251,935)	-	-	-	-	-	-
Capital increase	-	251,935	-	-	-	-	-	251,935
Equity valuation adjustment	-	-	-	-	-	3,912	-	3,912
Net income for the six-month period	-	-	-	-	-	-	38,492	38,492
Allocation:								
Reserves	-	-	-	1,925	571	-	(2,496)	-
Dividends (R\$ 0.00054 per share)	-	-	-	-	-	-	(28,000)	(28,000)
Interest on equity (R\$ 0.00076 per share)	-	-	-	-	-	-	(39,216)	(39,216)
<b>Balances at December 31, 2012</b>	<b>1,456,157</b>	-	<b>(22,772)</b>	<b>28,656</b>	<b>571</b>	<b>7,552</b>	-	<b>1,470,164</b>

See accompanying notes.

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

## Cash flow statements December 31, 2012 and 2011 (In thousands of reais)

	Second six-month period		
	2012	2012	2011
Cash flow from operating activities			
Income before taxes and profit sharing	42,377	101,935	116,094
Net income adjustments:			
Depreciation and amortization	1,656	3,232	3,051
Setting up of provision for contingencies	14,360	25,744	42,558
Setting up of allowance for loan losses net of reversals	24,870	56,118	20,597
Set up of provision for contingencies	108	(752)	1,393
(Loss) from disposal of assets not for own use	(59)	(283)	(26,886)
Appropriation of deferred income	(1,939)	(3,516)	(1,840)
Recovery of loans written-off as losses	(8,297)	(10,529)	(2,655)
Revenue from monetary restatement of long-term loans	(9,113)	(14,961)	(9,332)
Adjusted net income	63,963	156,988	142,980
Decrease in interbank investments	266,358	291,236	69,472
Decrease (increase) in marketable securities	(62,489)	(45,012)	179,067
Increase in loans and lease transactions	(497,273)	(756,382)	(594,963)
Increase in other receivables and assets	(2,617)	(3,517)	(13,913)
Increase (decrease) in interbank deposits	(103,138)	(40,692)	100,184
Increase (decrease) in obligations from repurchase agreements	-	(5,012)	5,012
Funds raised through treasury notes	351,267	351,267	-
Increase in borrowing and onlending	77,244	145,842	226,149
Increase in deferred income	3,239	5,429	3,516
Increase (decrease) in other obligations	(52,882)	(37,780)	32,039
Income and social contribution taxes paid	(8,428)	(36,990)	(51,650)
Profit sharing	(2,140)	(8,295)	(8,728)
Variation in assets and obligations	(30,859)	(139,906)	(53,815)
Net cash used in operating activities	33,104	17,082	89,165
Cash flows from investing activities			
Additions to permanent assets	(3,416)	(4,722)	(1,272)
Investment in subsidiary BDMGTEC	-	(22,772)	-
Net cash used in investing activities	(3,416)	(27,494)	(1,272)
Cash flows from financing activities			
Capital increase	251,935	308,562	84,416
Dividends paid	(28,000)	(28,000)	(36,646)
Interest on equity	(39,216)	(39,216)	(40,327)
Net cash from financing activities	184,719	241,346	7,443
Net increase in cash and cash equivalents	214,407	230,934	95,336
Cash and cash equivalents at the beginning of the period	129,084	112,557	17,221
Cash and cash equivalents at the end of the period	343,491	343,491	112,557

See accompanying notes

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

Notes to financial statements  
December 31, 2012 and 2011  
(In thousands in reais)

## **1. Operations**

Banco de Desenvolvimento de Minas Gerais S.A. BDMG is an unlisted corporation run by the State of Minas Gerais and governed by the Brazilian Corporation Law and applicable National Financial System regulations and Minas Gerais State Government legislation.

BDMG's activities, the basis of its corporate purpose, are associated with the social and economic development of the State of Minas Gerais. From this perspective, it carries out development bank-related activities in accordance with the rules established by the National Monetary Council (CMN) and acts as a financial agent for funds set up by the State to finance programs and projects that foster Minas Gerais state development. BDMG is also a financial agent and/or manager of other funds that do not belong to the State, but as they finance projects in Minas Gerais, these promote its development. The Bank also offers advisory and technical assistance services to the Direct and Indirect State Management.

## **2. Basis of preparation and presentation of financial statements**

The Board of Directors of Banco de Desenvolvimento de Minas Gerais approved these financial statements on February 13, 2013, in accordance with approval from the Executive Board on February 5, 2013.

The preparation of financial statements requires that management make judgments and estimates and adopt assumptions that affect the revenues, expenses, assets and liabilities disclosed, as well as unrealized revenues, costs and expenses. The settlement of transactions involving these estimates may result in amounts significantly different from those recorded in the financial statements due to uncertainties inherent in the estimate process.

The financial statements were prepared and are presented in accordance with accounting practices adopted in Brazil, in light of accounting guidelines contained in the Corporation Law (Law No. 6404/76), as amended by Laws No. 11638/07 and 11941/09, associated with CMN and Central Bank of Brazil (BACEN) standards and rulings.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

## 3. Summary of significant accounting practices

### (a) Determination of profit and loss

Revenues and expenses are calculated on an accrual basis, and are adjusted according to the attributable income and social contribution taxes on taxable profit and, where applicable, by deferred income and social contribution taxes, which will be recovered or required in subsequent years, except for profit on renegotiated loans, posted to P&L on a cash basis, as determined by CMN/BACEN Resolution No. 2682/1999.

### (b) Cash and cash equivalents

These comprise cash and cash equivalents in domestic and foreign currency and interbank investments, with maturities on the effective investment date within no more than 90 days, used by BDMG to manage its short-term commitments. The year-end balances are as follows:

	<u>2012</u>	<u>2011</u>
Cash and banks	1,158	1,224
Interbank investments	342,333	111,333
Total	<u>343,491</u>	<u>112,557</u>

### (c) Interbank investments

These are stated at acquisition cost, plus earnings accrued up to the balance sheet date on a pro rata basis, less valuation allowance, when applicable.

### (d) Marketable securities

Pursuant to BACEN Circular No. 3068/2001 and supplementary regulations, marketable securities are classified into the categories below, based on management's intent to trade them, observing the following accounting criteria:

(i) Held-for-trading securities – these include marketable securities acquired to be frequently and actively traded, accounted for at market value, with related gains and losses, either realized or not, recorded directly in P&L for the year.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 3. Summary of significant accounting practices (Continued)

#### (d) Marketable securities (Continued)

- (ii) Available-for-sale securities – these include marketable securities used as part of a strategy to manage cash flow. These securities are accounted for at market value, their intrinsic yields (security curve) are recognized in P&L for the year, and gains and losses from changes in market value, not yet realized, are recorded in Equity Valuation Adjustment under the Equity account, net of related tax effects. Gains and losses, when realized, are recorded in P&L for the year upon specific identification on the trading date, matched against equity, net of related tax effects.
- (iii) Held-to-maturity securities – these include marketable securities for which management has the intention and financial capacity to hold to maturity, and are recorded at cost of acquisition, plus intrinsic yields that are recognized in P&L for the year. The financial capacity is defined by cash flow projections, not considering the possibility of advanced redemption of said securities. Decreases in the market value of available-for-sale and held-to-maturity marketable securities below their corresponding costs, due to reasons not considered to be temporary, are reflected in P&L as realized losses.

#### (e) Loans and other current and non-current assets

These are stated at realizable values, including, where applicable, earnings accrued on a *pro rata* basis, less corresponding unearned income. Allowance for loan losses is set up based on the criteria defined by CMN/BACEN Resolution No. 2682/1999, and takes into consideration risk classification and maturity.

Income from loan and lease transactions overdue for more than 59 days, regardless of the risk level, is only recognized when effectively received.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 3. Summary of significant accounting practices (Continued)

(e) Loans and other current and non-current assets (Continued)

Renegotiated transactions remain at least at the same risk level in which they were previously classified. Renegotiated loans that have been written off against the allowance and posted to memorandum accounts are rated as level "H", and possible recoveries are recognized as income when received. Also in connection with renegotiated transactions, they are reclassified into lower risk categories when new material facts support such change in risk level.

f) Permanent assets

Permanent assets are recorded at cost of acquisition, net of the respective accumulated depreciation and amortization, and adjusted by impairment, where applicable.

Depreciation of property and equipment in use, amortization of deferred charges and amortization of intangible assets are calculated by the straight-line method, at the annual rates mentioned, respectively, in items (a), (c), and (d) of Note 9.

g) Current and noncurrent liabilities

These are stated at known or determinable amounts, including, where applicable, the corresponding financial charges incurred on a *pro rata* basis.

h) Foreign currency transactions

Asset and liability balances of transactions in foreign currencies are translated into the domestic currency (R\$), which is also the functional currency used by the Bank, at the selling exchange rate at the balance sheet date.

(i) Income and social contribution taxes

The provision for income tax is recognized at the base rate of 15% of taxable profit, plus 10% surtax, whereas provision for social contribution tax is computed at 15% of taxable profit.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 3. Summary of significant accounting practices (Continued)

#### (i) Income and social contribution taxes (Continued)

Tax effects from changes in accounting records arising from Law No. 11638/2007 are being treated pursuant to the Transition Tax Regime (RTT) established by Law No. 11941/2009, which resulted from Provisional Executive Order (MP) No. 449/2008.

#### j) Employee Benefits

The Bank sponsors the following benefits provided to its active employees and beneficiaries:

Private pension plan – supplements the retirement benefit provided by the General Social Security Regime (RGPS). BDMG sponsors defined benefit private pension plans, closed to new members since November 10, 2011, and variable contribution plans.

Health and dental assistance – this plan offers medical and dental coverage to its participants. BDMG ensures this benefit to participants that subscribe to the plan, the quality of the assets up to 10/10/2009 through partial payment of the monthly contribution. Employees that are part of the health plan as from 10/11/2009 are ensured BDMG sponsorship while active participants or as assisted members, these employees may remain in the plan and liable for the total contribution owed.

Life insurance – BDMG pays part of the group life insurance policy premium.

Voluntary retirement program – on December 14, 2011, BDMG created the Voluntary Resignation Program, which benefits employees who meet the program requirements, conditional upon their retirement by December 31, 2014.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### **3. Summary of significant accounting practices (Continued)**

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

BDMG fully adopts the guidelines of the Brazilian Accounting Standard (NBC) T 19.31 – Employee Benefits, approved by Brazil’s National Association of State Boards of Accountancy (CFC) Resolution No. 1193/2009, to record the private pension plan, health and dental assistance, life insurance and voluntary resignation program benefits sponsored by the Bank, as mentioned in Note 25.

The Bank recognizes actuarial gains or losses for post-employment benefits as per items 92 and 93 of NBC T 19.31.

- (i) The portion of actuarial gains or losses to be recognized as revenue or expense corresponds to the accumulated amount of gains and losses not recognized in the prior period that exceeds, in each fiscal year, the higher of the following limits:
  - 10% of the present value of total actuarial obligation; or
  - 10% of the fair value of plan assets.
- (ii) The portion of actuarial gains or losses amortized in each fiscal year corresponds to the division of actuarial gains and losses accumulated over the average remaining length of service estimated for the plan participants.

Costing of the plan benefits is established separately for each plan, calculated on an annual basis by an independent actuary using the projected unit credit method.

Past service cost refers to the health assistance benefit whose costing changed from the defined contribution mode to defined benefit mode in 2009.

Defined benefit plan liabilities recorded in the balance sheet represent the present value of defined benefit liabilities, adjusted by unrecognized gains and losses and past service cost not yet recognized less fair value of plan assets.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### **3. Summary of significant accounting practices (Continued)**

#### **k) Contingent assets and liabilities and legal obligations**

Recognition, measurement, and disclosure of contingent assets and liabilities and legal obligations observe Accounting Pronouncement CPC 25, issued by the Brazilian FASB (CPC), and follow the criteria below:

- Contingent assets – these are only recognized in the financial statements upon existence of evidence guaranteeing their realization, on which no further appeals can be filed.
- Contingent liabilities - recognized in the financial statements when, based on the opinion of legal advisors and management, the likelihood of loss in a given legal or administrative proceeding is rated as probable, the settlement of which is likely to result in an outflow of economic benefits, and the amounts involved can be reliably measured. Contingent liabilities assessed as possible losses by legal advisors are only disclosed in the notes to financial statements, whereas those rated as remote loss require neither provision nor disclosure.
- Legal obligations – these refer to litigation aimed to challenge the legality and constitutionality of certain taxes and contributions. The amounts at issue are quantified, recorded and restated on a monthly basis.

#### **l) Employee profit sharing**

Profit sharing is defined in collective bargaining covenants and also by complying with the Goal Plan, and is accrued based on the percentage on P&L and adjusted at the end of the year after the calculation of income for the year and assessment of achievement of goals.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 3. Summary of significant accounting practices (Continued)

#### m) Related parties

Disclosures in notes to the financial statements regarding related parties meet CMN/BACEN Resolution No. 3750/2009 that determined that financial institutions comply with Accounting Pronouncement CPC 05 – Related Party Disclosure. According to such Pronouncement, transactions between the entity and its related parties that may impact the financial position and P&L must be disclosed. BDMG's related parties are legal entities and individuals that meet Bank's Internal Resolution No. 209/2009, mentioned in note 19, with which the Bank carried out transactions in the year.

#### n) Earnings per share

These are calculated based on the number of outstanding shares on the balance sheet date.

### 4. Interbank investments

	<b>2012</b>	<b>2011</b>
Investments in repurchase agreements		
Self-funding position		
Financial Treasury Bills	-	69,435
National Treasury Notes	<b>342,333</b>	-
Interbank deposits	<b>11,727</b>	336,006
Allowance for losses	<b>(11,727)</b>	(12,883)
Total	<b>342,333</b>	392,558
Current	<b>342,333</b>	292,379
Non current	-	100,179

An allowance for losses was set up in 2004 and refers to interbank deposit issued by a financial institution that is no longer operating as a going concern.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 4. Interbank investments (Continued)

Interbank investments mature as follows:

	Up to 30 days	From 61 to 90 days	From 91 to 180 days	Over 360 days	Total
LTN	342,333	-	-	-	342,333
CDI	-	-	-	11,227	11,227
Provision	-	-	-	(11,227)	(11,227)
Total 2012	<b>342,333</b>	-	-	-	<b>342,333</b>
Total 2011	69,435	181,856	41,088	100,179	392,558

### 5. Marketable securities

- (a) At December 31, 2012, the marketable securities portfolio is as follows, considering the bank's financial position, are classified under the heading "available for sale" established by BACEN Circular No. 3068/2001:

	2012			2011		
	Number	Yield curve	Market value	Number	Yield curve	Market value
Financial Treasury Bills	69,958	110,615	110,578	59,958	72,929	72,857
National Treasury Notes	19,744	69,149	82,832	22,000	48,311	49,869
Bank deposit certificates	-	-	-	21,400	21,641	21,641
Fund shares:						
- Emerging companies (FIEE)	71,25	1,038	1,038	51,25	733	733
- Equity funds(FIP)	3,344,014	2,839	2,839	2,031,880	1,727	1,727
- Credit rights (FDIC)	1,000	7,021	7,021	1,000	10,433	10,433
- Investment warranty (FGI)	103,059	114	114	-	-	-
Total		<b>190,776</b>	<b>204,422</b>		<b>155,774</b>	<b>157,260</b>
Current			-			21,641
Non current			<b>204,422</b>			135,619

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 5. Marketable securities (Continued)

At December 31, 2012, unrealized gains from securities classified under this category total R\$ 13,646 (2011 – R\$ 1,485).

The mark-to-market of government securities considers the quotes disclosed by Brazilian Financial and Capital Markets Association (ANBIMA) for the aftermarket of these securities.

(b) Marketable securities mature as follows:

	Up to 30 days	From 31 to 60 days	Over 360 days	Total
Federal government bonds	-	-	193,410	193,410
Fund shares	-	-	11,012	11,012
Total 2012	-	-	<b>204,422</b>	<b>204,422</b>
Total 2011	11,451	10,190	135,619	157,260

(c) Changes in amounts accounted for in the equity account "Equity valuation adjustments", which includes adjustments of available-for-sale securities, held in the portfolio, were as follows:

	Unrealized gains (losses)	Tax credits	Fair value adjustment
Balance at December 31, 2011	1,485	(663)	822
Adjustment in the six-month period ended June 30, 2012	<b>5,093</b>	<b>(2,275)</b>	<b>2,818</b>
Adjustment in the six-month period ended December 31, 2012	<b>7,068</b>	<b>(3,156)</b>	<b>3,912</b>
Balance at December 31, 2012	<b>13,646</b>	<b>(6,094)</b>	<b>7,552</b>

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 6. Loans, leases and loan-like receivables

BDMG receivables portfolio comprises loans related to financing of development projects and/or conditions related thereto, finance lease transactions and loan-like receivables composed of time sales of assets not for own use.

Breakdown of BDMG receivables portfolio is as follows:

	2012		2011	
	Total	Allowance	Net	Net
Receivables portfolio				
Loans	2,872,671	(141,192)	2,731,479	2,012,583
Finance lease agreements	111	(111)	-	343
Loan-like receivables – time sales of assets not in use	436	(240)	196	220
Total	<u>2,873,218</u>	<u>141,543</u>	<u>2,731,675</u>	<u>2,013,146</u>

As regards lease transactions, all of which are leaseback, the above mentioned amount reflects the balance of contracts at present value. In the balance sheet, items from which such amounts result are distributed into different account groups, in light of the Accounting Chart for Institutions of the National Financial System (COSIF).

Given how these transactions are recorded, the following accounts are considered when determining the present value of agreements:

Groups/Subgroups	Account	2012	2011
Assets – Finance lease transactions	Lease receivable	114	557
	Unearned income from		
Assets – Finance lease transactions	leases	(111)	(557)
	Property and equipment for		
Assets - Permanent assets	lease	644	1,019
	Early payment of net book		
Liabilities - Other liabilities	value	(536)	(529)
		<u>111</u>	<u>490</u>

At December 31, 2012, loans transactions amounted to R\$ 2,873,218 (2011 - R\$ 2,129,798) of which R\$ 1,457,468 (2011 - R\$ 867,175) originated from its own funds and R\$ 1,415,750 (2011 - R\$ 1,262,623), originally, from onlending received from other financial institutions.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 6. Loans, leases and loan-like receivables (Continued)

In May 2011, rural credit amounting to R\$ 24,932 received from the State of Minas Gerais as indemnification for land owned by the Bank, taken by eminent domain, was included in the BDMG loan portfolio.

December 31, 2012 the balance for these transactions amounted to R\$ 27,802 (2011 - R\$ 25,021).

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

	<b>2012</b>	<b>2011</b>
Loans	<b>540,420</b>	148,703
Manufacturing	<b>282,527</b>	69,081
Trading	<b>176,496</b>	60,665
Other services	<b>81,397</b>	18,957
Private sector financing	<b>1,797,000</b>	1,593,239
Manufacturing	<b>1,038,520</b>	915,040
Other services	<b>309,264</b>	306,786
Rural and agricultural - industrial	<b>337,767</b>	269,699
Trading	<b>76,525</b>	65,438
Financial brokers	<b>25,150</b>	26,838
Individuals	<b>9,774</b>	9,438
Financing to public sector	<b>535,251</b>	386,668
Direct and indirect municipal authorities	<b>535,251</b>	386,668
Lease operations (i)	<b>111</b>	490
Other receivables (loan like receivables)	<b>436</b>	698
Subtotal	<b>2,873,218</b>	2,129,798
Allowance for loan losses	<b>(141,543)</b>	(116,652)
Loans	<b>(141,192)</b>	(116,028)
Lease operations	<b>(111)</b>	(147)
Other receivables	<b>(240)</b>	(477)
Total	<b>2,731,675</b>	2,013,146
Current	<b>570,570</b>	437,722
Non-current	<b>2,161,105</b>	1,575,424

(i) The balance presented is adjusted to present value.

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

Notes to financial statements (Continued)  
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### 6. Loans, leases and loan-like receivables (Continued)

#### (b) Classification by term and risk level

Risk level	2012								2011
	Total	Overdue	Falling due					Over 5,400	Total
			15 to 90	91 to 360	361 to 1080	1,081 to 1,800	1,801 to 5,400		
AA	1,336,633	-	50,674	130,448	335,483	250,620	569,151	257	970,248
A	442,078	-	28,007	87,185	164,702	76,627	85,557	-	452,108
B	481,266	550	28,164	81,872	193,763	83,005	93,912	-	358,402
C	376,525	544	25,512	78,844	151,561	65,654	54,410	-	223,014
D	143,341	472	30,659	38,581	48,124	17,642	7,863	-	62,822
E	41,864	1,279	5,055	12,025	18,326	3,184	1,995	-	6,522
F	3,136	245	323	865	1,426	173	104	-	11,137
G	2,788	198	277	596	932	585	200	-	2,293
H	45,587	2,299	4,137	9,638	14,564	6,350	8,599	-	43,252
	<b>2,873,218</b>	<b>5,587</b>	<b>172,808</b>	<b>440,054</b>	<b>928,881</b>	<b>503,840</b>	<b>821,791</b>	<b>257</b>	<b>2,129,798</b>

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

Level	%	2012			2011	
		Allowance for credit risks based on minimum required percentages		Allowance for loan losses	Portfolio	Allowance for loan losses
		Portfolio				
AA	0.0	1,336,633	-	47,224	970,248	45,448
A	0.5	442,078	2,210	2,210	452,108	2,261
B	1.0	481,266	4,813	4,813	358,402	3,584
C	3.0	376,525	11,296	11,296	223,014	6,690
D	10.0	143,341	14,334	14,334	62,822	6,286
E	30.0	41,864	12,559	12,559	6,522	1,957
F	50.0	3,136	1,568	1,568	11,137	5,569
G	70.0	2,788	1,952	1,952	2,293	1,605
H	100.0	45,587	45,587	45,587	43,252	43,252
		<b>2,873,218</b>	<b>94,319</b>	<b>141,543</b>	<b>2,129,798</b>	<b>116,652</b>

Up to November 2005, loan transactions regarding PESA (Rural Credit, under CMN/BACEN Resolution No. 2471/1998) were classified at level H. From then on, BDMG management rated such transactions as AA. This risk classification considered particularities of these transactions in relation to the credit risk mitigated through security interest represented by public bonds. The Bank sets up a supplementary allowance for loan losses, which is computed based on the difference between the restated principal balance of reclassified loan transactions and present values of securities guaranteeing them. At December 31, 2012, the supplementary allowance amounted to R\$ 47,224 (2011 – R\$ 45,448).

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
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### 6. Loans, leases and loan-like receivables (Continued)

(d) Changes in allowance for loan losses in the year:

	<u>2012</u>	<u>2011</u>
Opening balance	116,652	116,275
Set up of allowance, net of reversals	56,118	20,597
Write-off of loans as losses	<u>(31,227)</u>	<u>(20,220)</u>
Closing balance	<u>141,543</u>	116,652

In the year ended December 31, 2012, the recovery of loans that had been previously written-off as losses generated revenue of R\$17,436 (2011 – R\$5,059) recorded as loans recovered R\$37,242 (2011 – 8,306) recorded as interest on recovered loans.

### 7. Other receivables

	<u>2012</u>	<u>2011</u>
Tax credits (a)	179,039	158,835
Debtors for deposits in guarantee (b)	88,196	77,663
Securities receivable (c)	10,797	10,452
Income receivable (d)	5,335	5,619
Sundry debtors - Domestic (e)	8,668	6,090
Other	<u>2,220</u>	<u>3,825</u>
Subtotal	294,255	262,484
Allowance for loan losses (f)	<u>(12,199)</u>	<u>(12,018)</u>
Total	<u>282,056</u>	250,466
Current	26,719	22,521
Non-current	255,337	227,945

- (a) Income and social contribution tax credits were determined and recorded as stated in Note 16 (a).
- (b) Deposits in guarantee are related to legal inquiries, particularly of a tax nature, as shown in Note 12 (a), where the relationship between the judicial deposits and the related legal inquiries is stated.

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

Notes to financial statements (Continued)  
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### **7. Other receivables (Continued)**

- (c) Bonds and credits receivable correspond to remuneration payable by National Treasury Department (STN) due to renegotiations grounded on laws, regarding rural credit transactions taken out with funds arising from STN.
- (d) The unearned income balance is mainly comprised of net remuneration receivable from the respective provision generated in loans made with development funds administered by BDMG. Remuneration matures upon maturity of installments taken out and its allowance is set up on amounts recorded, based on a percentage related to the risk level in which the transaction from which the remuneration resulted is classified. This classification is based on a policy adopted by the Bank to extend the same criteria established in CMN/BACEN Resolution No. 2682/1999 for loans in BDMG's own portfolio to transactions financed through the funds it manages.
- (e) The allowance for loan losses refers to assets given in fiduciary lien guarantee and which under the terms of article 27, Law No. 9514, covers a fiduciary lien of fixed assets, were received by the Bank to settle financing in arrears.
- (e) The allowance for loan losses amounted to R\$ 12,199 (2011 – R\$ 12,018), is constituted is set up mainly to cover transactions not treated as loans, of which R\$ 11,914 (2011 - R\$ 11,496) refers to amounts to be refunded by STN. STN has not made a formal pronouncement on the amounts and settlement date of such liabilities. The allowance set up based on the uncertainty as to the realization term of such receivables comprises R\$ 10,797 (2011 - R\$ 10,452) regarding remuneration R\$ 1,117 (2011 - R\$ 1,044) referring to the amount payable for equalization of rural financing interest rates.

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

Notes to financial statements (Continued)  
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### 8. Other assets

	2012	2011
Equity interest (a)	22,772	-
Other	218	130
Total	<u>22,990</u>	<u>130</u>
Current	218	130
Non-current	22,772	-

- (a) The amount of R\$ 22,772, recorded as equity interests, refers to capital contribution by the Bank in BDMGTEC Participação S.A., established in March 2012, grounded on State Law No. 19967/11. Capital subscribed by BDMG amounts to R\$ 45,545, to be fully paid-in by March 8, 2013, as established in the entity's Articles of Incorporation.

### 9. Permanent assets

At December 31, 2012, the permanent assets group comprises investments amounted to R\$ 487 (2011 - R\$ 607) and the other subgroups are state as follows:

- (a) Property and equipment in use

	Annual depreciation rates %	2012		2011
		Cost	Accumulated depreciation	Net amount
Properties	4	41,831	(22,265)	19,566
Installations, furniture and equipment	10	5,661	(4,091)	1,570
Data processing system	20	3,832	(2,512)	1,320
Other	10	582	(476)	106
Construction in progress		307	-	307
Total		<u>52,213</u>	<u>(29,344)</u>	<u>22,869</u>

- (b) Property and equipment for lease

	2012			2011	
	Cost	Accumulated depreciation	Excess of depreciation	Net	Net
Leased assets	1,704	(1,296)	236	644	1,019

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
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### 9. Permanent assets (Continued)

#### (c) Deferred assets

	Amortization rate per year %	2012		2011	
		Cost	Accumulated amortization	Net	Net
Expenditures on acquisition and software development	20	<u>1,610</u>	<u>(1,580)</u>	<u>30</u>	<u>233</u>

Pursuant to CMN/BACEN Resolution No. 3617/2008, deferred charges will be held to their effective realization.

#### (d) Intangible assets

	Annual amortization rates %	2012		2011	
		Cost	Accumulated amortization	Net	Net
Intangible assets	20	<u>3,975</u>	<u>(752)</u>	<u>3,223</u>	<u>923</u>

Pursuant to CMN/BACEN Resolution No. 3642/2008 and Circular Letter BACEN No. 3357/2008, BDMG has been recording intangible items intended for maintenance of the entity, previously recorded as deferred charges, as intangible assets since December 2008.

### 10. Funds raised

Funds raised by the Bank at December 31, 2012, are as follows:

	2012			2011
	Quantity	Maturity	Amount	Amount
Interbank deposits	56,500	2nd half /2013	59,493	100,184
Repurchase agreements	-	-	-	5,012
Treasury notes	500	2nd half /2015	100,272	-
Treasury notes	1,250	2nd half /2017	250,995	-
Total			<u>410,760</u>	<u>105,196</u>
Current			59,493	105,196
Non current			351,267	-

The Bank, based on CMN Resolution No. 4143/2012, that authorizes the issue of financial treasury bills by Development Banks raised at December 2012, with securities of that type, funds amounting to R\$350,000. The distribution of securities by the Bank made under the auspices of CVM Ruling 476/2009, relies on the coordination among financial institutions with expertise in this market having presented approximately 50 investors, of which approximately 20, acquired those papers.

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

Notes to financial statements (Continued)  
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### 11. Domestic onlending – official institutions

These liabilities correspond to balances of funds obtained from official programs and funds on-lent to finance ventures in the state of Minas Gerais. Principal and charges are payable through 2025, bearing financial charges defined in the operating policies of each agency or fund passing on those resources

Balances are summarized as follows:

	2012	2011
BNDES	787,031	704,350
FINAME	494,501	427,073
BNB	35,657	38,767
National Treasury	15,356	16,282
Caixa Econômica Federal	-	232
Total	<u>1,332,545</u>	<u>1,186,704</u>
Current	276,301	238,700
Non current	1,056,244	948,004

The BNDES/FINAME system is the main source of on-lending funds from BDMG to its clients.

Brazilian Development Bank (BNDES) funds are mainly to finance long-term investment projects. At December 31, 2012, funds on-lent on by BDMG arise from the following credit lines:

	2012	2011
BNDES Automático TJLP	188,152	188,074
BNDES FINEM TJLP	97,649	123,739
BNDES Automático PROCAP-AGRO	67,003	9,263
BNDES Automático TJ-462	65,813	40,780
BNDES FINEM TJ-462	54,703	51,694
BNDES Automático PROGEREN	51,637	-
BNDES Automático Rural	36,911	45,918
Other	225,163	244,882
Total	<u>787,031</u>	<u>704,350</u>

The BNDES credit lines stated above amount to R\$ 561,868 at December 31, 2012 (2011 – R\$ 459,468) which is equivalent to 71.4 % (2011 – 65.0%) of balances with BNDES. Financial charges of these lines are determined by the Long-Term Interest Rate (TJLP), plus floating percentage ranging from 0.5% to 4.0% p.a., according to the financing objective. Financial brokerage rate of 0.5% p.a. is included in this percentage, where applicable. The following are considered exceptions to the specified lines of credit: BNDES AUTOMÁTICO PROCAP-AGRO, which bear fixed interest between 3.7% p.a. and 6.5% p.a.

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

Notes to financial statements (Continued)  
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### 11. Domestic onlending – official institutions (Continued)

Funds raised by BDMG from the Government Agency for Machinery and Equipment Financing (FINAME) are mostly to finance machinery and equipment related to development projects. Breakdown of the amount payable to FINAME at December 31, 2012 is as follows:

	Credit lines	2012	2011
FINAME PSI		408,078	330,093
FINAME PROVIAS		41,329	38,636
FINAME – TJ-462		16,601	15,184
FINAME – TJLP		10,145	11,622
FINAME MODERMAQ		9,338	18,016
Other		9,010	13,522
Total		<u>494,501</u>	<u>427,073</u>

At December 31, 2012, the FINAME lines described above totaled R\$ 485,491 (2011 – R\$ 413,551) corresponding to 98.1% (2011 – 96.8%) of BDMG payables to FINAME. Financial charges of the lines included in this subtotal, except for FINAME PSI, are determined by TJLP (long term financing rate), plus floating percentage ranging from 0.5% to 4% p.a. according to financing objective. Financial brokerage rate of 0.5% p.a. is included in this percentage, where applicable. FINAME PSI line has a fixed financial charge ranging from 0.8% p.a. to 8.3% p.a.

In 2005, Banco Nordeste do Brasil (BNB) on-lent funds from two different sources to BDMG: from the Inter-American Development Bank (IADB) and the Constitutional Fund for Financing in the Northeast, to be exclusively applied to BNB's area of operation. Funds on-lent to BDMG originating from IADB were intended to finance the Market Expansion Program for Small and Medium-Sized Companies in the Northeast of Brazil (PEM), whereas funds arising from FNE were on-lent to BDMG to finance production ventures of micro, small, medium, and large farm, manufacturing and agro-industrial producers (individuals and legal entities), commercial and service business, their cooperatives and associations. At December 31, 2012, FNE balance, amounting to R\$ 31,223 (2011 - R\$ 33,769), accounts for 87.5% of total payable by BDMG to BNB; financial charges of this financing is 10% p.a.

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

Notes to financial statements (Continued)  
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### 12. Other liabilities

	<b>2012</b>	<b>2011</b>
Tax and social security (a)	<b>264,621</b>	222,182
Sundry (b)	<b>116,415</b>	145,925
Financial and development funds (c)	<b>7,938</b>	21,764
Collection of taxes and other contributions	<b>1,172</b>	1,385
<b>Total</b>	<b>390,146</b>	391,256
Current	<b>65,447</b>	87,193
Non-current	<b>324,699</b>	304,063

#### (a) Tax and social security

	<b>2012</b>	<b>2011</b>
Provision for tax liabilities (i) and (ii)	<b>217,810</b>	192,292
Provision for taxes and contributions	<b>29,332</b>	20,195
Provision for deferred taxes and contributions	<b>14,042</b>	6,750
Taxes and contributions payable	<b>3,437</b>	2,945
<b>Total</b>	<b>264,621</b>	222,182
Current	<b>34,856</b>	24,859
Non current	<b>229,765</b>	197,323

- (i) Provision for tax liabilities refers to tax-related contingent liabilities including lawsuits and administrative proceedings pending judgment from Brazilian IRS. These liabilities are restated on a monthly basis at the SELIC rate. In the projection of BDMG's income the expectation considered for the realization of this provision is over a ten year period.

Changes in the provision for tax liabilities in 2012 is as follows:

	<b>Balances at 12/31/2011</b>	<b>Recorded provision</b>	<b>Restated</b>	<b>Reversals/ Write-offs</b>	<b>Balance at 12/31/2012</b>
Change in COFINS tax base – Law No. 9718/1998	148,847	12,035	9,342	-	<b>170,224</b>
Change in PIS/PASEP tax base – Law No. 9718/1998	37,500	1,955	1,953	-	<b>41,408</b>
Tax immunity as to FINSOCIAL for the period between December 1986 and March 1990	4,258	-	125	-	<b>4,383</b>
Others	1,687	1,429	107	(1,428)	<b>1,795</b>
<b>Total</b>	<b>192,292</b>	<b>15,419</b>	<b>11,527</b>	<b>(1,428)</b>	<b>217,810</b>

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

Notes to financial statements (Continued)  
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### 12. Other liabilities (Continued)

#### (a) Tax and social security (Continued)

- (ii) In relation to the amount of R\$ 88,196 (2011 – R\$ 77,663) regarding judicial deposits recorded by BDMG in the Other receivables – Debtors for deposits in guarantee (Note 7 (b), R\$ 81,526 (2011 – R\$ 72,521) is associated with the tax causes stated in (i) above with the following balances at December 31, 2012:

	2012		2011	
	Provision	Deposits	Provision	Deposits
Change in COFINS tax base – Law No. 9718/1998	170,224	34,525	148,847	29,604
Change in PIS/PASEP tax base – Law No. 9718/1998	41,408	41,235	37,500	37,340
Tax immunity as to FINSOCIAL for the period between December 1986 and March 1990	4,383	4,383	4,258	4,258
Other contingencies and legal obligations				
Change in COFINS tax base – Law No. 9718/1998	1,795	1,383	1,687	1,319
Change in PIS/PASEP tax base – Law No. 9718/1998	217,810	81,526	192,292	72,521

In the COFINS and PIS/PASEP claims, BDMG seeks to suspend the requirement to pay such contribution taxes, under the terms enacted by Law No. 9718/1998 which, in addition to creating COFINS for financial institutions, increased PIS/PASEP tax base when it established that revenue comprised both gross operating and non-operating income. Binding by decisions awarded during the process, the Bank has made judicial deposits to cover COFINS contributions on revenues from sales.

BDMG did not set up a provision under the terms of Note 3 due to legal counsel's assessment of the following tax contingencies:

- Tax notice served by the Brazilian Social Security Institute (INSS) in 2006, referring to events subject to levy of the social security tax. The portion classified as possible loss is of R\$ 131 (2011 - R\$ 128).

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

Notes to financial statements (Continued)  
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### 12. Other liabilities (Continued)

#### (a) Tax and social security (Continued)

- Interlocutory decision issued by the Brazilian IRS on 12/11/2008, which did not approve income tax offsets made in 2004 and 2005. The fine on debts not offset, totaling R\$ 569 (2011 – R\$ 569) is classified as a possible loss.
- Tax notice served by the Brazilian IRS in July 2010 claiming payment of income and social contribution taxes. The restated portion classified as possible loss is of R\$ 7,179 (2011 – R\$ 6,754).

#### (b) Sundry liabilities

	<u>2012</u>	<u>2011</u>
Provision for contingencies (i)	54,927	55,892
Provision for payments to be made (ii)	49,752	51,114
Allocation for capital increase (iii)	3,054	33,342
Sundry creditors – Domestic (iv)	8,147	5,048
Other	535	529
Total	<u>116,415</u>	<u>145,925</u>
Current	28,454	59,989
Non current	87,961	85,936

(i) Changes in the provision for contingencies in the year are as follows:

	<u>Balance at 12/31/12</u>	<u>Provision recorded</u>	<u>Restatements</u>	<u>Write-offs</u>	<u>Balance at 12/31/12</u>
Charges on reserve requirement with BACEN	24,419	-	2,074	-	26,493
Co-liability assumed in loans granted to STN	13,103	1,250	-	(5,729)	8,624
Civil claims	5,690	768	295	(117)	6,636
Labor claims	3,462	1,016	10	(682)	3,806
Legal fees	9,218	78	372	(300)	9,368
	<u>55,892</u>	<u>3,112</u>	<u>2,751</u>	<u>(6,828)</u>	<u>54,927</u>

As stated in Note 7 (b) Other receivables – Debtors for deposits in guarantee the Bank records the amount of R\$ 1,856 (2011 - R\$ 659) referring to deposits for labor claims filed, and R\$ 4,813 (2011 – R\$ 4,484) to cover risks arising from civil suits.

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

Notes to financial statements (Continued)  
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### 12. Other liabilities (Continued)

#### (b) Sundry (Continued)

Labor and civil contingencies rated as possible losses, for which no provision was recorded, amount to R\$ 188 (2011 – R\$ 242) and R\$ 77 (2011 – R\$ 122), respectively, at December 31, 2012

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

	<u>2012</u>	<u>2011</u>
. Actuarial liabilities regarding the Health Promotion Program (PRO-SAÚDE), health and dental care plans (Note 25)	<b>20,702</b>	17,672
. Actuarial liabilities regarding life insurance (Note 25)	<b>10,390</b>	9,769
. Voluntary redundancy program in the Bank in force from 12/14/11 to 12/31/14 (Note 25)	<b>3,365</b>	4,444
. Vacation pay, 13 <sup>th</sup> monthly salary and related charges	<b>8,773</b>	8,366
. Employee profit sharing	<b>2,634</b>	6,556
. Compliance with State Law No. 11050/93 and BDMG's articles of incorporation	<b>3,568</b>	4,078
. Other	<b>320</b>	229
Total	<b><u>49,752</u></b>	<u>51,114</u>

(iii) "Allocation to capital increase" consists of percentage on return of financing taken out with Fundo Estadual FUNDESE for capital increase applicable to the CREDPOP program, under the terms of State Law No. 13667/2000.

(iv) Sundry payables – Domestic refers mostly to client credits to be offset, totaling R\$ 4,265 and R\$ 2,130 to be on-lent to the Minas Gerais Integrated Development Institute (INDI). In 2011 these amounts were R\$ 3,012 and R\$ 260 respectively.

#### (c) Financial and development funds

The amount of R\$ 7,938 (2011 – R\$ 21,764) refers substantially to funds managed by BDMG (private funds and funds related to official agencies), received from clients, but not yet transferred to funds.

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

Notes to financial statements (Continued)  
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### 13. Equity

#### (a) Capital

Subscribed capital totals R\$ 1,456,157 (2011 – R\$1,087,715), comprising 51,773,828,207 (2011 – 45,622,493,648) common registered shares, with no par value. Of this total, the amount of R\$ 22,772, corresponding to 22,772,275 shares, will be paid in by the Minas Gerais State shareholders by February 2013.

The Minas Gerais Economic Development Company (CODEMIG) as from the last quarter of 2012 became a Bank shareholder through subscription of 5,999,999,999 common shares that corresponded to R\$ 180,000 in paid-in capital in the period.

With this new equity holding the Bank now has CODEMIG, the Minas Gerais State Highways Department (DER/MG) and the State of Minas Gerais as its shareholders, who hold overall control with 88.4% of its capital.

#### b) Legal reserves - Legal

The legal reserve is set up at 5% of net income computed, not exceeding 20% of the Company capital.

#### (c) Retained earnings/ special income reserve

Balance of R\$ 571 (2011 – R\$ 37,108), remainder of the income generated in the year under the terms of Law No. 11638/2007 and CMN/BACEN Resolution No. 3605/2008 was intended, in accordance with the management proposal, to a future increase in capital and transferred from retained earnings to the special income reserve account.

#### (d) Dividends and interest on equity

Shareholders are entitled to minimum dividend corresponding to 1% of net income for the year, adjusted under Brazilian Corporation Law and the Bank's Articles of Incorporation.

For equity remuneration purposes, BDMG adopts the practice of paying dividends or interest on equity capital according to the profit computed in the year.

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### 13. Equity (Continued)

#### (d) Dividends and interest on equity (Continued)

Shareholders' capital was remunerated as follows:

2012		
Type	R\$	Decision/ approval
Dividends	28,000	Ordinary Shareholders' Meeting 12/6/2012 – Prepaid dividends for 2012.
Interest on equity	39,216	Extraordinary shareholders' meeting 8/30/2012 and extraordinary shareholders' meeting 10/17/2012 – Approval of payment to shareholders on interest on equity for profit calculated in 2012.
Total	<u>67,216</u>	

2011		
Type	R\$	Decision/ approval
Dividends	36,646	Ordinary Shareholders' Meeting 2/28/2011 – decision on distribution of dividends in 2010.
Interest on equity capital	40,327	Extraordinary shareholders' meeting 10/17/2011- Approval of prepayment to shareholders, interest on equity capital for 2011.
Total	<u>76,973</u>	

### 14. Capital management / Capital Regulation

#### a) Summary of capital management report

In accordance with CMN Resolution No. 3988/2011, in reference to capital management requirements, BDMG issued internal standards Resolution 213 and Ruling No. 239 that establish the policy and management structure to ensure that its capital is kept at a level adequate in order to ensure that the strategic objectives are achieved under scenarios involving possible changes in market conditions. This also takes in account the Bank's different operating and administrative activities, the economic situation under which the Bank operated and the risks to which it is exposed, while meeting established capital regulation requirements.

Under the terms of that Resolution, the Bank prepared a capital plan for the period 2013 to 2015, comprised of the following scenarios:

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

Notes to financial statements (Continued)  
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### **14. Capital management (Continued)**

#### a) Capital management (Continued)

- Reference – projected based on strategic planning and budgeted by management;
- Expansion – considers market growth and credit; and
- Recession considers a contraction in the supply of credit in the economy.

The assumptions adopted for the proposed scenarios affected the following variables that are required to determine capital compatible with the following situations:

- Expenditure by origin of funds;
- Bankruptcy;
- Risk provision rate;
- Economic indices.

The following table states the results of the capital plan, reference equity, calculated based on projections and results and the assumptions stated in strategic planning and the proposed scenarios.

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

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### 14. Capital management (Continued)

#### a) Capital management (Continued)

	Statement of Capital requirement and Basel Index – R\$ million									
	Dec/2012	Reference Scenario			Expansion Scenario			Recession Scenario		
		Dec/2013	Dec/2014	Dec/2015	Dec/2013	Dec/2014	Dec/2015	Dec/2013	Dec/2014	Dec/2015
Adjusted net equity	1,470	1,760	1,842	1,918	1,763	1,844	1,923	1,728	1,780	1,816
Decrease for mark to market losses	10	7	7	7	7	7	7	7	7	7
Reference Equity – Level I	1,460	1,753	1,835	1,911	1,756	1,837	1,916	1,721	1,773	1,809
Gains from mark to market	10	7	7	7	7	7	7	7	7	7
Reference Equity - Level II	10	7	7	7	7	7	7	7	7	7
Capital earmarked for loans to public sector (DC)	400	600	700	700	600	700	700	600	700	700
Reference Equity (level + level II- DC)	1,070	1,160	1,142	1,218	1,163	1,144	1,223	1,128	1,080	1,116
Allocation of capital:										
1 – Credit risk	258	349	435	498	351	442	501	347	397	412
2 – Market risk	41	41	41	41	41	41	41	41	41	41
3 – Operating risk	39	42	45	46	42	43	44	43	43	42
Reference Equity Required	338	432	521	585	434	526	586	431	481	495
Allocation of capital for banking portfolio	18	29	32	35	78	82	80	78	82	80
Basel index	35	29	24	23	29	24	23	29	25	25
Wide Basel Index	33	28	23	22	25	21	20	24	21	21

The results calculated for the different scenarios, based on the structure calculated in 2012, evidence that the Bank meets and it is compatible with regulatory capital levels and are required under all scenarios between 2013 and 2015.

More detail and data supporting BDMG's capital management study referred to above can be found at:

<http://www.bdmg.mg.gov.br/quemsomos/transparencia/paginas/balancoserelatorios.aspx>

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

Notes to financial statements (Continued)  
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### 14. Capital Management (Continued)

#### b) Regulatory Capital

The Central Bank in accordance with directives from the New Capital Agreement – Basel II, changes the reference Equity calculation rules as provided in CMN/BACEN Resolution No. 3444/2007. The reference capital calculation is as follows:

	2012	2011
(A) Adjusted net equity	1,470,164	1,150,733
Reduction of deferred assets	30	233
Decrease from market to market losses	9,798	3,067
(B) Reference Equity - level I	1,460,336	1,147,433
Addition from Mark to market losses	9,798	3,067
(C) Reference Equity - level II	9,798	3,067
(D) Reference Equity in accordance with Resolution No. 3444/07 (level I + level II)	1,470,134	1,150,500
Decrease in value of detailed capital (DC) for loans to public sector: Resolution CMN/BACEN No. 3781/2009	400,000	350,000
(E) Reference Equity [(level I + level II) – DC]	1,070,134	800,500

### 15. Basel Index

Rules on regulatory capital measurement by the Basel II Standardized Approach, in force since July 2008, determine the obligation of financial institutions to maintain equity compatible with the asset risk levels, according to exposure, risk mitigator and credit conversion weighing factors. The minimum requirement in Brazil is 11% of equity in relation to risk-weighted assets

Statement of capital and Basel index requirements		
	2012	2011
A – Regulatory capital for operational limits purposes	1,070,134	800,500
Capital allocation: 1 - Credit risk	257,223	225,765
2 - Market risk	41,484	15,310
3 - Operational risk	39,021	32,303
B - Regulatory Capital Requirements (1+2+3)	337,728	273,378
C – Capital allocation to cover risk of transactions subject to interest rate fluctuation not classified in the trading portfolio	17,794	14,508
D – Margin value ("A"- "B"- "C")	714,612	512,614
E - Total exposures subject to risk weighting	3,247,040	2,638,105
F - Total risk-weighted exposures	2,338,388	2,052,409
G– Leverage ratio: ("D" *100)/11	6,496,473	4,660,127
H – Basel ratio: ("A"/("B/0,11"))*100	34,85	32,31
I – Basel index - comprehensive: ("A"/("C"+"D")/0,11))*100	33,11	30,59

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

Notes to financial statements (Continued)  
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### 15. Basel Index (Continued)

Methodologies to calculate capital installments required to cover credit, market and operating risk were defined in BACEN Circulars No. 3360 to 3366, 3368, 3383, 3388 and 3389.

#### a) Operating limits

BACEN Circular No. 3398/2008 established the procedures for calculation of the regulatory limits and minimum standards. At December 31, 2012, the Bank's positions and the regulatory limit requirements are as follows:

Regulatory limits	Requirement limit	Self-funding position		
		Situation	Margin	Summary
2012				
Matching of RC and RCR	<b>355,522</b>	<b>1,070,134</b>	<b>714,612</b>	<b>34.85%</b>
Capital expenditures	<b>535,067</b>	<b>26,578</b>	<b>508,489</b>	<b>2.48%</b>
2011				
Matching of RC and RCR	273,378	800,500	512,615	32.31%
Capital expenditures	400,250	24,617	375,633	3.08%

### 16. Income and social contribution taxes

#### (a) Deferred income and social contribution taxes

Deferred tax credits are as follows:

	2012	2011
Temporary additions	<b>179,020</b>	158,801
Market value adjustment (marketable securities)	<b>17</b>	32
PIS/ COFINS credits	<b>2</b>	2
Total	<b>179,039</b>	158,835

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

Notes to financial statements (Continued)  
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### 16. Income and social contribution taxes (Continued)

#### (a) Deferred income and social contribution taxes (Continued)

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

Provision	2012	2011
Allowance for loan losses	78,942	66,073
Tax, civil and labor claims	63,115	55,637
Reserve requirement with BACEN (charges)	8,661	8,096
Mandatory Central Bank Deposit (charges on deposit)	10,597	9,768
Change in PIS/PASEP tax base – Law No. 9718/1998	8,339	7,556
Post-employment benefit	4,701	5,456
Co-liability with STN	2,536	3,525
Voluntary redundancy program	1,346	1,778
Other	783	912
Total	<u>179,020</u>	<u>158,801</u>

Changes in tax credits for the year ended December 31, 2012, are as follows:

	Market value adjustment	Temporary additions	Credit PIS/COFINS	Total
Balance at December 31, 2011	32	158,801	2	158,835
Recognition	-	56,528	-	56,528
Reversal	(15)	(36,309)	-	(36,324)
Balance at December 31, 2012	<u>17</u>	<u>179,020</u>	<u>2</u>	<u>179,039</u>

BDMG tax credits are recorded in accordance with CMN/BACEN Resolution No. 3355/2007 and BACEN Circular No. 3171/2002 and consider their expected realization within no longer than 10 years, ensured by the existence of tax credits in income projections which are prepared based on internal assumptions and future economic scenarios that may change.

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

Notes to financial statements (Continued)  
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### 16. Income and social contribution taxes (Continued)

#### (a) Deferred income and social contribution taxes (Continued)

The probable recovery of tax credits stemming from temporary additions amounting to R\$ 179,020, is as follows:

<b>Year</b>	<b>Nominal value</b>	<b>Present value</b>
2013	15,230	14,739
2014	13,211	12,031
2015	88,057	75,463
2016	13,311	10,734
2017	19,596	14,872
2018	10,201	7,285
2019	6,394	4,297
2020	7,026	4,443
2021	4,291	2,554
2022	1,703	953
Total	<u>179,020</u>	<u>147,371</u>

Present value of tax credits was calculated by discounting the future recovery flow at the average funding rate of onlending by BDMG, of 6.27% p.a. (2011 – 5.88% p.a.).

At December 31, 2012, that Bank had outstanding tax credit balance relating to income and social contribution tax temporary differences of R\$ 5,397(2011 – R\$ 4,513) respectively and R\$ 3,238 (R\$2,708) unrecorded given that the expectation for realization is over ten years.

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

Notes to financial statements (Continued)  
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## 16. Income and social contribution taxes (Continued)

### (b) Reconciliation of income and social contribution taxes posted to P&L

	2012				2011	
	Second six-month period		Year		Year	
	Income tax	Social contribution tax	Income tax	Social contribution tax	Income tax	Social contribution tax
Income before income and social contribution taxes and after employee profit sharing	39,380	39,380	97,295	97,295	107,699	107,699
Interest on equity	(36,947)	(36,947)	(36,947)	(36,947)	(40,327)	(40,327)
Net additions (exclusions):						
Set up of provision for contingencies, net of reversals	4,525	4,525	9,898	9,898	6,473	6,473
Taxes with suspended enforceability	5,737	5,737	14,018	14,018	14,142	14,142
Set up of allowance for loan losses and recovery of credits written off as losses, net	17,020	17,020	44,050	44,050	18,976	18,976
Effective credit losses	(6,719)	(6,719)	(11,876)	(11,876)	(4,309)	(4,309)
Set up of provision for post-employment benefit, net of reversals	1,575	1,575	2,571	2,571	7,538	7,538
Other	813	459	639	56	13,070	12,627
Calculation base	25,384	25,030	119,648	119,065	123,262	122,819
Tax at effective rate (*)	(3,807)	(3,756)	(17,947)	(17,860)	(18,489)	(18,423)
Income surtax	(2,526)	-	(11,940)	-	(12,302)	-
Tax incentives	1,307	-	1,577	-	1,564	-
Subtotal income and social contribution taxes payable	(5,026)	(3,756)	(28,310)	(17,860)	(29,227)	(18,423)
Provision for deferred income tax	11	(4)	14	(3)	(13)	1
Total provision for income and social contribution taxes payable	(5,015)	(3,760)	(28,296)	(17,863)	(29,240)	(18,422)
Prior-year adjustments	-	-	-	-	334	(50)
Set up of deferred tax credits (net of reversals) on temporary differences	4,929	2,959	12,637	7,582	13,242	7,946
Income and social contribution taxes in P&L	(86)	(801)	(15,659)	(10,281)	(15,664)	(10,526)

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

Notes to financial statements (Continued)  
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### 17. Administrative expenses, tax expenses, other operating and non-operating income (expenses)

#### (a) Other administrative expenses

	2012		2011
	2 <sup>nd</sup> six month period	Year	Year
Third party services	(9,790)	(14,781)	(8,762)
Advertising and communication expenses	(5,498)	(11,002)	(7,405)
Data processing expenses	(2,020)	(3,416)	(2,866)
Depreciation and amortization	(1,459)	(2,859)	(2,753)
Maintenance and material expenses	(787)	(1,607)	(1,932)
Travel and transportation expenses	(1,008)	(1,748)	(1,593)
Rental and infrastructure expenses	(447)	(884)	(833)
Other	(1,578)	(2,962)	(2,468)
<b>Total</b>	<b>(22,587)</b>	<b>(39,259)</b>	<b>(28,612)</b>

#### (b) Tax expenses

Mainly refer to PIS and COFINS expenses, as follows:

	2012		2011
	2 <sup>nd</sup> six month period	Year	Year
PIS and COFINS	(6,790)	(14,005)	(13,895)
ISSQN	(1,431)	(2,798)	(3,063)
Other	(9)	(437)	(398)
<b>Total</b>	<b>(8,230)</b>	<b>(17,240)</b>	<b>(17,356)</b>

#### (c) Other operating expenses

Mainly refer to foreign exchange gains and the reversal of the provision for contingencies:

	2012		2011
	2 <sup>nd</sup> six month period	Year	Year
Foreign exchange gains	940	4,416	2,319
Reversals of sundry provisions	3,058	10,165	7,465
Other	1,208	2,428	5,611
<b>Total</b>	<b>5,206</b>	<b>17,009</b>	<b>15,395</b>

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

Notes to financial statements (Continued)  
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### 17. Administrative expenses, tax expenses, other operating and non-operating income (expenses) (Continued)

#### (d) Other operating expenses

	2012		2011
	2 <sup>nd</sup> six-month period	Year	Year
Provisions for contingencies with rural activities (i)	(834)	(1,250)	(12,525)
Provisions for contingencies	(4,989)	(10,922)	(11,393)
INDI agreement expenses	(3,722)	(5,262)	(3,388)
Post-employment benefit – private pension plan	(2,188)	(3,956)	(3,209)
Post-employment benefit - health and life insurance	(1,986)	(3,771)	(3,010)
BDMG Cultural agreement expenses	(1,420)	(2,718)	(2,595)
Foreign exchange variation	(916)	(4,407)	(2,339)
Loan bonus expenses	(979)	(1,581)	(2,116)
Other	(3,767)	(5,667)	(6,274)
<b>Total</b>	<b>(20,801)</b>	<b>(39,534)</b>	<b>(46,849)</b>

- (i) The State of Minas Gerais, in indemnification for land taken by eminent domain proceedings, transferred to BDMG rural credit stemming from the privatized Banks, BEMGE and Credireal and assigned to STN with co-liability in the first six month period of 2011. To cover the risk in honoring this co-liability the provision set up amounted to R\$ 3,986 (2011 - R\$ 8,015), which is included in the total of R\$ 8,624 (2011 – R\$ 13,103) in the co-liability risk provision.

### 18. Non-operating income (expenses)

	2012		2011
	2 <sup>nd</sup> six-month period	Year	Year
Income from disposal of assets	59	429	29,767
Donation - Fundação João Pinheiro	(1,925)	(3,567)	(4,075)
Other	179	386	1,508
<b>Total non-operating income (expenses)</b>	<b>(1,687)</b>	<b>(2,752)</b>	<b>27,200</b>

Non-operating income in 2011 stemmed mainly from income amounting to R\$ 29,214, obtained with indemnification received through assets as a result of the privatization of BEMGE and Credireal or rights stemming from rights stemming from land taken by eminent domain by the State of Minas Gerais of property owned by BDMG.

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

Notes to financial statements (Continued)  
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### 19. Related parties

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

#### Legal entities

##### (a) State of Minas Gerais direct and indirect subsidiaries:

- State of Minas Gerais – service render as financial agent for state funds, with commission received by the Bank, complete portion from financial charges from loans granted with funds;

Render of services to meet Agreement signed in second six month period of 2012, in order to make investment necessary for the modernization and reform of the Parque Bolívar de Andrade - Centro Empresarial Gameleira feasible. For providing this service the Bank received, R\$ 350 in 2012;

- State Secretariat for Economic Development. BDMG has an employee assigned to the State Agency which bears the cost of that employee;
- Government Secretariat: BDMG assigns, with encumbrance, an employee to this agency. In the year, such assignment generated expenses of R\$ 208 (2011 – R\$ 291);
- Fundação João Pinheiro, public institution linked to the State Planning and Management Department. As established in the articles of incorporation and in compliance with State Law No. 11050/1993, the Bank donates 5% of its net income for the year to said Foundation. At December 31, 2012, the provision set up in the period to cover this commitment totals R\$ 3,568 (2011 – R\$ 4,075). BDMG maintains an employee assigned to the Foundation, which bears the related costs;
- Minas Gerais State Sanitation Company (COPASA MG), a mixed capital entity, with controlling interest held by the Minas Gerais state. COPASA took out long-term financing before publication of the Tax Liability Law, with resources originating from the SOMMA state fund, already extinguished, and the remaining balance continues to be generated by BDMG. At December 31, 2012, such financing totaled R\$ 8,607 (2011 – R\$12,478) and the corresponding Bank remuneration amounts to R\$ 97 (2011 – R\$133).

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

Notes to financial statements (Continued)  
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### 19. Related parties (Continued)

#### (a) State of Minas Gerais direct and indirect subsidiaries (Continued)

The Bank signed with Minas Gerais State Sanitation Company (COPASA MG), in the second six-month period of 2012, a service agreement for proposals and support in negotiations to contract water supply with companies. For services rendered the Bank received, R\$ 1,568 in 2012;

- MGI – Minas Gerais Participações S.A., an unlisted corporation controlled by the Minas Gerais state and tied to the Minas Gerais State Finance Office. In 2012, BDMG provided services to MGI regarding issue of the company debentures to raise funds in the capital markets. For services rendered the Bank received R\$ 1,431 (2011 – R\$ 0) in the year;
- The Bank up to February 2011, rendered services to the State of Minas Gerais in managing assets from the privatization of the Banco do Estado de Minas Gerais S.A. – BEMGE and Banco de Crédito Real de Minas Gerais S.A. – Credireal, which mainly comprised of a rural loans portfolio. In May 2011 the State of Minas for appropriation of land indemnified the Bank through the transfer of those assets. The net income obtained through that operation was R\$ 3,376.

(b) Minas Gerais Integrated Development Institute (INDI), a not-for-profit and non-essentially business company, linked to the State Economic Development Department, is an affiliate of BDMG, which is its maintaining shareholder holding 25% of capital. Transactions between these two companies arise from BDMG partially assigning the personnel required for INDI to operate. Bank's expenses totaled R\$ 5,262 (2011 – R\$ 3,388);

(c) BDMGTEC Participações S.A., a company set up by BDMG to hold equity in SIX Semicondutores S.A. a company to be implemented in the State of Minas Gerais mainly in order to manufacture and sell integrated analogue and digital mixed signal circuits. To pay in BDMGTEC's total capital estimated at R\$ 45,545, BDMG paid R\$ 22,772 in 2012 and will pay the remainder up to March 8, 2013.

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

Notes to financial statements (Continued)  
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### 19. Related parties (Continued)

- (d) DESBAN – Social Security BDMG Foundation, a not-for-profit privately-held supplementary pension plan entity, is sponsored by BDMG, which, as detailed in Note 23, refunded the Foundation in order to meet social security and healthcare benefits of its employees;
- (e) The Cultural Institute of Banco de Desenvolvimento de Minas Gerais - BDMG Cultural, a not-for-profit civil association, was organized by BDMG in conjunction with BDMG Employees Association (AFBDMG) to create a space to encourage culture in Minas Gerais. The Bank contributes to BDMG Cultural's maintenance, disbursing, in the period, R\$ 2,718 (2011 – R\$ 2,595);

#### Individuals

Individuals, related parties that are part of BDMG management key personnel are the members of the Board of Directors, Executive Board, and Supervisory Board; in the period, related fees were as follows:

	<u>2012</u>	<u>2011</u>
Compensation (including social charges and benefits)	4,676	4,782
Profit sharing	111	88
Contributions to pension plans and post-employment benefits	206	243
Termination of work contract	-	289
Total	<u>4,993</u>	<u>5,402</u>

### 20. Insurance coverage (unaudited)

The Bank, to cover any claims related to fixed assets, maintains an insurance amounting to R\$ 54,194 (2011 – R\$ 16,178).

### 21. Financial instruments

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

BDMG mainly operates with the following financial instruments: interbank investments and marketable securities, loans, fundraising in interbank deposits, treasury notes, transactions linked to own securities and onlending in Brazil.

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

Notes to financial statements (Continued)  
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### **21. Financial instruments (Continued)**

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

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

As stated in Note 4, BDMG gives priority to its investments in federal government bonds, in Interbank Deposit Certificates (CDI) and interbank repurchase agreements, previously analyzed by the Bank's financial committee, so as to obtain better profitability and credit risks considered appropriate by the committee. Amounts recorded approximate realizable values.

##### (ii) Loans and onlending in Brazil.

Considering the nature and term, amounts recorded are close to realizable values.

##### (iii) Fundraising in interbank deposits and sale of own-issue securities

The fundraising is carried out considering the partner financial institutions of BDMG in other transactions and own issue treasury bills on the market coordinated with financial institutions with expertise in fund raising.

#### (b) Derivative financial instruments

The Bank took out no derivative financial instruments for the periods ended December 31, 2012 and 2011.

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

Notes to financial statements (Continued)  
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## 22. Risk management

### Financial risk management policy

The Risk Management Policy, approved by the Management, establishes guidelines and limits intended to identify and mitigate BDMG risks. It is oriented to the convergence of internal methodologies and models to Basel Accords and compliance with regulators, in line with the best risk management practices.

Risk Management in BDMG aims at mitigating credit, market, liquidity, and operational risks, so as to leverage operational efficiency and its results. In order to achieve this objective, the Bank adopts risk management practices appropriate to the nature and specificities of transactions carried out thereby.

BDMG adopted the credit, operational and market risk management structure, in compliance with CMN Resolutions No. 3721, of April 30, 2009, No. 3380, of June 29, 2006, and No. 3464, of June 26, 2007, respectively.

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>), path: /QuemSomos/governancacorporativa/Paginas/gestaoderiscos.aspx

### (a) Credit risk

The credit risk management policy establishes limits for credit risk exposure by client, economic group and receivables portfolio quality; decision-making level and criteria to analyze and monitor receivables, so as to select transactions, for the purpose of minimizing default and developments thereof.

### (b) Liquidity risk

BDMG operates its cash with security margin sufficient to meet the minimum liquidity level determined according to the internal policy. In order to manage liquidity, those responsible for treasury management daily monitor changes in receipts and disbursements, paying the Bank's financial commitments upon their corresponding maturities and in line with the policy defined for investment of available funds and liquidity risk management. The Bank has a Contingent Liquidity Plan, which defines the measures to be adopted when cash flow presents levels lower than the minimum liquidity limits defined.

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

Notes to financial statements (Continued)  
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### 22. Risk management (Continued)

#### (c) Market risk

The Market Risk Management (MRM) Policy establishes roles and responsibilities, operational limits, and reporting levels. Among the tools used in risk management, we point out: VaR (Value at Risk), GAP analysis, Back Test, and Stress Testing.

The Bank has no hedge instruments to reduce its exposure to fluctuations arising from changes in its portfolio interest rate. Cash flow on these onlending transactions is naturally hedged.

The MRM policy forbids the use of derivatives, except for the purpose of hedging the Bank's own positions. There are currently no investments in derivatives.

#### (d) Operational risk

BDMG, pursuant to CMN Resolution No. 3380/2006, prepared its operational risk management policy, approved by the Board of Directors.

The defined policy mainly aims at ensuring that operational risks underlying BDMG activities will be identified, measured and minimized to an acceptable level, through adoption of proper measures.

### 23. Development fund management (unaudited)

The Bank maintains a structure for managing development funds. Amounts referring to assets of these funds, at December 31, 2012 and 2011 are as follows:

	<b>2012</b>	<b>2011</b>
Balance		
State funds	<b>3,500,959</b>	3,388,187
Private funds	<b>291</b>	290
Other funds	<b>20,721</b>	21,756
Total	<b>3,521,971</b>	3,410,233

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### **24. Commitments and responsibilities**

#### Collateral signatures, sureties and loan grants

BDMG offered collateral signatures and sureties to clients and granted loans with co-liabilities, by providing back bonds and financial charges paid by the beneficiaries. At December 31, 2012, these commitments totaled R\$ 37,694 (2011 - R\$ 46,708).

### **25. Employee benefits**

As mentioned in Note 3 (j), the Bank grants the following benefits to its employees: private pension plan, health and dental assistance, life insurance and voluntary resignation benefits.

BDMG began adopting NBC T 19.31 - Employee Benefits, approved by CFC Resolution No. 1193/09, to record benefits granted to employees. To meet accounting requirements, the Bank engages an annual actuarial study as part of the year-end closing procedures to provide a basis for recording of such obligations. Actuarial studies conducted as of 11/30/2012 are effective for defined benefit private pension plans, health promotion program (PRO-SAÚDE) and group life insurance and voluntary resignation program.

#### a) Benefit plan characteristics

##### (i) Private pension

BDMG sponsors defined benefit and variable contribution private pension plans, managed by DESBAN – Fundação BDMG de Seguridade Social, a privately-held not-for-profit 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). The defined benefit private pension plan, closed to new members since November 10, 2011, is based on the fully-funded financial regime for calculation and accrual of reserves; the variable contribution plan, created on January 13, 2011, is a defined contribution plan in the savings phase that becomes a defined benefit by ensuring a monthly annuity after the pay-out period.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 25. Employee benefits (Continued)

#### a) Benefit plan characteristics (Continued)

##### (i) Private pension (Continued)

BDMG contribution for these plans is limited to the total regular participant contributions, in light of particularities of each plan, in conformity with the matching contribution set forth in Constitutional Amendment No. 20, of December 16, 1998.

Participants in the private pension plans are as follows:

Plans	2012	2011
- Defined benefits - BD		
Active participants	295	319
Assisted participants	488	476
- Variable contribution - CV		
Active participants	41	2

##### (ii) Health and dental care benefits

The Health Promotion Program (PRO-SAÚDE), which works under the fully funded regime, and aims at covering health and dental care expenses of active participants and their dependents, as stated in Note 3 (j).

##### (iii) Life insurance

BDMG sponsors group life insurance to active and assisted members who are interested in this benefit. The Bank contributes with 50% of the premium paid.

##### (iv) Voluntary resignation program

This program was created by the Bank on December 14, 2011, effective until December 31, 2014, for the purpose of benefitting employees eligible for retirement under the DESBAN Supplementary Pension Plan and plan participants who, when aged 70, are eligible for retirement under Social Security.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 25. Employee benefits (Continued)

#### a) Benefit plan characteristics (Continued)

##### (iv) Voluntary resignation program (Continued)

An employee who joins the Program is entitled to severance pay, profit sharing pursuant to rules in force in the year of his resignation, compensation as an incentive to resign and maintenance of post-employment benefits.

#### b) Bank commitment to benefit plans

In fulfilling its obligations with these benefit plans, BDMG made the following contributions to active and assisted employees:

	2012		2011
	2 <sup>nd</sup> six month period	Year	Year
Private pension plan – (BD)	3,943	7,177	6,151
Private pension plan – (CV)	54	87	844
Health care program PRÓ-SAÚDE	1,599	3,139	2,875
Group life insurance	463	862	708
Voluntary resignation program	650	1,744	
Total	6,709	13,009	10,578

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 25. Employee benefits (Continued)

#### b) Bank commitments to benefit plans (Continued)

Changes in health and dental assistance, life insurance and voluntary resignation program benefits are as follows in the period:

	2012			2011		
	Health plan	Life insurance	Voluntary resignation program (VRP)	Health plan	Life insurance	Voluntary resignation program
Net liabilities at the beginning of the period	17,672	9,769	4,444	15,249	9,099	
Net expenses recognized in P&L	5,322	1,387	665	4,473	1,263	4,444
Contributions relative to assisted beneficiaries	(2,292)	(766)	-	(2,050)	(593)	-
Contribution to VRP			(1,744)			
Net liabilities at the end of the year	20,702	10,390	3,365	17,672	9,769	4,444

Expenses with each benefit are detailed below:

	2012			2011	
	Health plan	Life insurance	Voluntary resignation program (VRP)	Health plan	Life insurance
Cost of current services	(622)	(131)	(118)	(644)	(131)
Interest expenses	(5,752)	(1,222)	(355)	(4,659)	(1,095)
Expected return on plan assets	2,632	-	-	1,974	-
Cost of amortization – unrecognized actuarial (gains) losses, net	(90)	(34)	(192)	-	(37)
Cost of amortizations – unrecognized cost of past services	(666)	-	-	(643)	-
Expected contributions for administrative expenses	(824)	-	-	(501)	-
(Expenses) recognized in P&L (*)	(5,322)	(1,387)	(665)	(4,473)	(1,263)

(\*) Expenses were posted as follows: R\$ 3,641 (2011 – R\$ 2,726) as “Personnel expenses” and R\$3,771 (2011 – R\$ 3,010) as “Other operating expenses”.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 25. Employee benefits (Continued)

#### c) Actuarial study

##### c.1) Basic assumptions

The actuarial study to determine BDMG obligations in November 2012 and the projection for expenses up to November 2013 are based on the following:

	Private pension plan	Health care plan	Life insurance	Voluntary resignation program
Type of plan	Defined benefit	Defined benefit	Defined benefit	Defined benefit
Actuarial assessment method	Projected credit unit	Projected credit unit	Projected credit unit	Projected credit unit
Statutory discount rate for the actuarial liability	9.85%	9.85%	9.85%	0.45%
Statutory earning rate expected return on plan assets	11.43%	9.90%	N/A	N/A
Statutory rate of future salary growth				
Technical professional	Min 6.72% Max 7.80%	Min 6.72% Max 7.80%	Min 6.72% Max 7.80%	Min 6.72% Max 7.80%
Analyst	Min 6.72% Max 7.80%	Min 6.72% Max 7.80%	Min 6.72% Max 7.80%	Min 6.72% Max 7.80%
Position of trust	Min 6.72% Max 7.80%	Min 6.72% Max 7.80%	Min 6.72% Max 7.80%	Min 6.72% Max 7.80%
Benefit index (inflation only)	5.73%	5.73%	5.73%	0.00%
Average retirement age	59.26	59.26	59.59	56.33
Expected remaining life of service	15.91	15.45	13.96	0.95
Obligation duration (used to determine discount rate)	12.41	12.41	12.41	0.43
Trend rate of healthcare cost in the following year (if applicable) (%)	N/A	3.0%	N/A	N/A
Trend rate of non-current healthcare cost (if applicable) (%)	N/A	3.0%	N/A	N/A
Turnover:				
- Less than 3 years of service				
- from 3 to 5 years	8.44%	8.44%	8.44%	N/A
- over 5 years	0.41%	0.41%	0.41%	N/A
	0.41%	0.41%	0.41%	N/A
Mortality table	AT-2000 Basic -10%	AT-2000 Basic -10%	AT-2000 Basic -10%	AT-2000 Basic -10%
Disability table	Álvaro Vindas -50%	Álvaro Vindas -50%	Álvaro Vindas -50%	Álvaro Vindas -50%

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 25. Employee benefits (Continued)

#### c) Actuarial study (Continued)

##### c.2) Current actuarial studies provide the following information

##### i. Health plan – variation of one percentage point in the assumed increase rate in health care costs:

	11/30/2012		10/31/2011	
	Increase	Decrease	Increase	Decrease
Effect on total cost of services and interest, components of net cost of post-employment healthcare benefit for the period	1,771	(1,361)	1,143	(940)
Effect on actuarial benefit liability	-	-	15,122	(11,713)

##### ii. Percentage participation of plan assets in categories related to fair value computed for such assets

Asset categories	11/30/2012		11/31/2011	
	Private pension plan	Health plan	Private pension plan	Health plan
Government bonds	56.02	65.01	52.30	58.66
Private credit and deposits	13.32	28.48	21.70	34.34
Shares and share funds	16.61	-	14.03	-
Real estate investments	4.52	-	4.18	-
Loans and financing	1.37	-	1.58	-
Other	8.16	6.51	6.21	7.00

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 25. Benefits to employees (Continued)

c) Actuarial study (Continued)

iii. Investment rate return

This rate corresponds to the weighted average rate of return goals for each segment of plan assets.

iv. Actual return on plan assets

	<u>11/30/2012</u>		<u>10/31/2011</u>	
	<u>Private pension plan</u>	<u>Health plan</u>	<u>Private pension plan</u>	<u>Health plan</u>
Actual return on plan assets	167,164	2,945	65,437	2,166

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 25. Employee benefits (Continued)

#### c) Actuarial study (Continued)

##### v. Actuarial values (position in the last five years)

Private pension plan	<b>11/30/2012</b>	<b>10/31/2011</b>	<b>10/31/2010</b>	<b>12/31/2009</b>	<b>12/31/2008</b>
Defined benefit obligations	<b>(962,038)</b>	(715,821)	(645,866)	(559,507)	(453,771)
Plan assets	<b>797,912</b>	667,063	630,927	596,236	526,435
(Deficit) surplus	<b>(164,126)</b>	(48,758)	(14,939)	36,729	72,664
Experience adjustments on plan liabilities	<b>(713)</b>	(15,194)	(34,371)	(13,530)	-
Changes in assumptions on plan liabilities	<b>(202,362)</b>	(22,359)	(24,361)	(62,870)	-
Experience adjustments on plan assets	<b>83,107</b>	(9,458)	(2,947)	28,601	-
Health plan	<b>11/30/2012</b>	<b>10/31/2011</b>	<b>10/31/2010</b>	<b>12/31/2009</b>	<b>12/31/2008</b>
Defined benefit obligation	<b>(75,927)</b>	(50,390)	(43,691)	(47,106)	(32,195)
Plan assets	<b>21,999</b>	20,691	18,234	16,477	-
(Deficit) surplus	<b>(53,928)</b>	(29,699)	(25,457)	(30,629)	(32,195)
Experience adjustments on plan liabilities	<b>(2,658)</b>	(1,325)	10,536	1,851	-
Changes in assumptions on plan liabilities	<b>(19,365)</b>	(1,472)	(2,975)	(9,273)	-
Experience adjustments on plan assets	<b>41</b>	283	(355)	344	-
Life insurance	<b>11/30/2012</b>	<b>10/31/2011</b>	<b>10/31/2010</b>	<b>12/31/2009</b>	<b>12/31/2008</b>
Defined benefit obligation	<b>(13,664)</b>	(11,015)	(10,556)	(9,119)	(7,888)
Experience adjustments on plan liabilities	<b>(1,735)</b>	332	(183)	348	-
Voluntary resignation program	<b>11/30/2012</b>	<b>12/31/2011</b>			
Liability with defined benefit	<b>(3,358)</b>	(4,444)			
Experience adjustment on plan liabilities	<b>(67)</b>	-			

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 25. Employee benefits (Continued)

#### c) Actuarial study (Continued)

vi. At December 31, 2012 the voluntary resignation program considered 37 retirees shall take place in 2014.

vii. Projected amounts:

#### (a) Summary of expenses (income)

	Private pension plan		Health plan		Life insurance		Voluntary resignation program	
	Projection for		Projection for		Projection for		Projection for	
	11/30/2013	11/30/2012	11/31/2013	11/30/2012	11/30/2013	11/30/2012	11/30/2013	11/30/2012
Benefit expense (income)								
- Cost of current services	12,735	9,624	966	640	156	140	77	112
- Interest costs	92,304	85,608	7,311	6,137	1,310	1,318	11	354
- Expected return on assets	(89,200)	(84,057)	(2,087)	(2,904)				
- Amortization of unrecognized cost of past service – non-acquired benefits	-	-	665	721	-	-	-	-
- Amortization of unrecognized actuarial (gains) losses								
Financial	(3,952)	(552)	(14)	-				
Non-financial	14,755	6,018	1,089	-	142	26	-	-
Cost of post-employment benefit in the period	26,642	16,641	7,930	4,594	1,608	1,484	88	466
- Participant contributions	(7,945)	(8,087)	-	-	-	-	-	-
- Expected contributions for administrative expenses	-	-	891	886	-	-	-	-
Net cost for the year	18,697	8,554	8,821	5,480	1,608	1,484	88	466
Recognized actuarial gains and losses								192

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
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### 25. Employee benefits (Continued)

#### c) Actuarial studies (Continued)

##### viii. Projected amounts (Continued)

#### (b) Actuarial assets and liabilities

	Private pension plan		Health plan		Life insurance		Voluntary resignation program	
	Projection for 11/30/2013	11/30/2012	Projection for 11/31/2013	11/30/2012	Projection for 11/30/2013	11/30/2012	Projection for 11/30/2013	11/30/2012
Defined benefit obligation	(1,015,735)	(962,038)	(80,702)	(75,927)	(14,380)	(13,664)	(1,550)	(3,358)
Fair value of plan assets	851,270	797,912	22,235	21,999	-	-	-	-
Cost of unrecognized past services – changes in the plan	-	-	8,850	9,571	-	-	-	-
Unrecognized actuarial (gains) losses	257,268	268,071	23,114	24,188	3,206	3,348	-	-
Actuarial (liabilities)/ assets, net	92,803	103,945	(26,503)	(20,169)	(11,174)	(10,316)	(1,550)	(3,358)
Adjustment of non-recoverable items	(92,803)	(103,945)	-	-	-	-	-	-
Actuarial (liabilities)/ assets, net	-	-	(26,503)	(20,169)	(11,174)	(10,316)	(1,550)	(3,358)

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### 25. Employee benefits (Continued)

#### c) Actuarial studies (Continued)

##### viii) Projected amounts (Continued)

#### (c) Changes in the present value of the defined benefit obligation

	Private pension plan		Health plan		Life insurance		Voluntary resignation program	
	Projection for		Projection for		Projection for		Projection for	
	11/30/2013	11/30/2012	11/31/2013	11/30/2012	11/30/2013	11/30/2012	11/30/2013	11/30/2012
Defined benefit obligation at beginning of the period	962,038	715,821	75,927	50,390	13,664	11,015	3,358	4,444
- Cost of current services	12,735	9,624	966	640	156	140	77	112
- Interest cost	92,304	85,608	7,311	6,137	1,310	1,318	11	354
- Participant contributions	-	-	1,817	1,815	-	-	-	-
- Benefits paid	(51,342)	(52,090)	(5,319)	(5,078)	(750)	(767)	(1,896)	(1,744)
- Actuarial (gains) / losses	-	203,075	-	22,023	-	1,958	-	192
Defined benefit obligation at end of the period	1,015,735	962,038	80,702	75,927	14,380	13,664	1,550	3,358

#### (d) Changes in the fair plan of assets

	Private pension plan		Health plan	
	Projection for		Projection for	
	11/30/2013	11/30/2012	11/30/2013	11/30/2012
Fair value of plan assets at beginning of the period	797,912	667,063	21,999	20,691
Expected return on plan assets	89,200	84,057	2,087	2,904
Employer contributions	7,555	7,688	2,542	2,512
Participant contributions	7,945	8,087	1,817	1,815
Benefits and/or expenses paid	(51,342)	(52,090)	(6,210)	(5,964)
Actuarial gains (losses)	-	83,107	-	41
Fair value of plan assets at end of the period	851,270	797,912	22,235	21,999

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
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### **26. Subsequent event**

The bank's capital shall be increased in January 2013 by R\$203,054 to be subscribed and paid in by the shareholder Minas Gerais State.

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

Notes to financial statements (Continued)  
December 31, 2012 and 2011  
(In thousands of reais)

### **Board of Directors**

Paulo de Tarso Almeida Paiva	Chairman
Dorothea Fonseca Furquim Werneck	Vice-Chairman
Ângela Maria Prata Pace Silva de Assis	Board Member
Fabio Proença Doyle	Board Member
José Israel Vargas	Board Member
Leonardo Maurício Colombini Lima	Board Member
Matheus Cotta de Carvalho	Board Member
Mauro Lobo Martins Júnior	Board Member
Renata Maria Paes de Vilhena	Board Member

### **Executive Board**

Matheus Cotta de Carvalho	CEO
Jose Santana de Vasconcellos Moreira	Vice-President
Bernardo Tavares de Almeida	Officer
Fernando Lage de Melo	Officer
Joao Antonio Fleury Teixeira	Officer
Julio Onofre Mendes de Oliveira	Officer

### **Controllership Department**

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

## **Tax Committee Report**

The Banco de Desenvolvimento de Minas Gerais S.A. (BDMG) Tax Committee, in the exercise of its legal and statutory duties has examined the Management Report of the Financial Statements for 2012 in the meeting held on February 14, 2013, considering the terms of the unqualified Independent Auditor's Report issued by Ernst & Young Terco Auditores Independentes S.S, on February 13, 2013, we are of the opinion that those reports are presented in accordance with accounting practices adopted in Brazil and present fairly, in all material respects, the financial position of the Bank, and were approved.

Belo Horizonte, February 14, 2013.

Pedro Meneguetti  
Head of Committee

Gustavo de Castro Magalhães  
Committee Member

José Augusto Trópia Reis  
Committee Member

Júlio Sérgio de Maya Pedrosa Moreira  
Committee Member

Paulo Sérgio Martins Alves  
Committee Member

Thiago Henrique Barouch Bregunci  
Committee Member