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**Banco de Desenvolvimento de
Minas Gerais S.A. - BDMG**
**Financial statements at
June 30, 2018**
and independent auditor's report





(A free translation of the original in Portuguese)

Independent auditor's report

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

Opinion

We have audited the accompanying financial statements of Banco de Desenvolvimento de Minas Gerais S.A. – BDMG ("Bank"), which comprise the balance sheet as at June 30, 2018 and the statements of operations, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

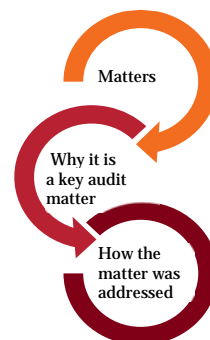
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco de Desenvolvimento de Minas Gerais S.A. – BDMG as at June 30, 2018, and its financial performance and cash flows for the six-month period then ended, in accordance with accounting practices adopted in Brazil applicable to financial institutions authorized to operate by the Brazilian Central Bank (BACEN).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Bank in accordance with the ethical requirements established in the Code of Professional Ethics and Professional Standards issued by the Brazilian Federal Accounting Council, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

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





Why it is a key audit matter	How the matter was addressed in the audit
<p><u>Provision for impairment of receivables</u> <u>(Notes 2.7 and 7)</u></p> <p>The measurement of the provision for impairment of receivables takes into account the regulations of the Brazilian Central Bank, especially the National Monetary Council Resolution (CMN) 2,682/99. In order to comply with these regulations, the Bank's management applies judgment and certain assumptions to measure the realizable value of the guarantees and to define the credit risk of the counterparties of the transactions.</p> <p>Using incorrect judgments and assumptions or improperly applying the applicable regulation may result in a significantly different estimated provision for impairment of receivables.</p> <p>We focused on this area in our audit because of the significance of the provision for impairment of receivables and of the matters disclosed above.</p>	<p>Our audit procedures included, among others, (a) obtaining an understanding of the calculation of the provision for impairment of receivables, and (b) testing the: (i) integrity of the credit operations database; (ii) approval and monitoring of renegotiated transactions; (iii) compliance of the main assumptions adopted by management to measure the provision for impairment of receivables with the Brazilian Central Bank regulations; (iv) compliance with the internal rules related to the classification of counterparty risks and approval of the corresponding risk levels; (v) calculation of the provision; and (vi) reconciliation of the provision to the amounts recorded.</p> <p>The results of these procedures provided appropriate and sufficient audit evidence in the context of the financial statements.</p>
<p><u>Information technology environment</u></p> <p>The processing of the Bank's transactions, the development of its operations, and the continuity of its business depend on the Bank's technology infrastructure.</p> <p>An inadequate technology environment can result in incorrect processing of critical information used by management, including that used to prepare the financial statements.</p> <p>For this reason, we focused on the information technology environment in our audit work.</p>	<p>Our audit procedures included, among others, with the support of our systems specialists, obtaining an understanding of and testing the information technology general controls, which include information security, segregation of duties, management and development of systemic changes, and the system processing.</p> <p>We tested the automated or technology-dependent controls and the compensating controls related to the Bank's main business processes.</p> <p>These audit procedures, and the processes and controls of the technology environment, in conjunction with the compensating controls, provide a reasonable basis for the audit of the financial statements.</p>



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

Why it is a key audit matter	How the matter was addressed in the audit
<p><u>Post-employment benefit plans (Notes 2.16 and 24)</u></p> <p>The Bank sponsors two defined benefit and variable contribution pension plans, which are managed by Fundação BDMG de Seguridade Social (DESBAN), a non-profit complementary pension entity.</p> <p>As the defined benefit plan was underfunded, the Bank recorded an actuarial liability to comply with applicable accounting practices. Management applied judgment in determining the assumptions to measure the actuarial liability of the post-employment benefit plan.</p> <p>We focused on this area in our audit because changes in assumptions can significantly affect the amount of the Bank's actuarial liability.</p>	<p>As part of our audit procedures, we tested the Bank's actuarial calculations, with the support of our actuarial specialists.</p> <p>These tests mainly included an analysis of the methodology and assumptions used to calculate the actuarial liability and comparison of the main assumptions used with market data and parameters.</p> <p>Additionally, we also confirmed the reasonableness of the related disclosures, in compliance with CPC 33 (R1) - Employee Benefits.</p> <p>We consider that the criteria and assumptions adopted by management to determine the actuarial liability for the post-employment benefit plans are reasonable in the context of the financial statements.</p>

Recoverable value of tax credits (Notes 2.15 and 19)

<p>The Bank has deferred tax assets mainly arising from temporary differences. Tax credits were recorded based on a study prepared by the Bank's management, which considers the projection of taxable profits, as required by the Brazilian Central Bank.</p> <p>Judgments and assumptions of a subjective nature were used in the preparation of such study, which were established by management to estimate the taxable profits.</p> <p>We considered this an area of focus in our audit, since the use of different assumptions could significantly change the taxable profit projections, and, consequently, the deadlines established for realization of the tax credits.</p>	<p>Our main procedures included an analysis of the reasonableness of the significant assumptions and the methodology used to estimate the taxable profits included in the study of the realization of the recoverable value of the tax credits prepared and approved by management.</p> <p>We compared the critical assumptions used with the budget projections updated and approved by the Board of Directors and, when applicable, with the macroeconomic projections disclosed to the market.</p> <p>Based on the result of the audit procedures and the context of uncertainties inherent to the realization of the amounts recorded as tax credits, we considered that the assumptions adopted by management are reasonable and consistent with the disclosures in the explanatory notes.</p>
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Banco de Desenvolvimento de Minas Gerais S.A. – BDMG

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

The Bank's management is responsible for the other information that comprises the Management Report.

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

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

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

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

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

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



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

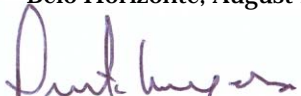
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether these financial statements represent the underlying transactions and events in a manner that achieves fair presentation.


We communicate with those charged with governance (Management and Audit Committee) regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current six-month period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Belo Horizonte, August 14, 2018


PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5


Carlos Augusto da Silva
Contador CRC 1SP197007/O-2

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

SUMMARY OF THE AUDIT COMMITTEE REPORT - JUNE 30, 2018

INTRODUCTION

The Audit Committee, a statutory body of Banco de Desenvolvimento de Minas Gerais S.A. – BDMG, assists the Bank's Board of Directors in the performance of its audit and inspection duties and, among other tasks established in its Internal Regulations, evaluates and provides opinions on: **(i)** the quality of the financial statements; **(ii)** the effectiveness of the internal control system; and **(iii)** the effectiveness of the internal and external (independent) audits. The evaluations of the Committee were based on information received from management, the external and internal audit representatives, officers responsible for risk management and internal controls, and its own evaluations arising from direct observation.

COMPOSITION

The Audit Committee is currently comprised by the Coordinator Pedro Carlos de Mello and the members Carlos Alberto de Carvalho Paiva and Lúcio Tameirão Machado.

ACTIVITIES CONDUCTED IN THE PERFORMANCE OF ITS ATTRIBUTIONS DURING 2018

In the first six-month period of 2018, the Committee held 26 meetings. At the beginning of the second six-month period of 2018, the Committee participated in another six meetings, including the Board of Directors' meetings. The Committee maintained permanent contact with the managers of the Bank's control areas in order to monitor the work carried out and obtain subsidies on which to base its assessments. The subjects discussed with the Controllership, Internal Audit, Risk Management, Internal Controls and Ombudsman directors, according to their operational areas, include the preparation of financial statements and internal controls. Three meetings were held with the external auditors, PricewaterhouseCoopers Auditores Independentes, to discuss the methodology, planning and results of the work in connection with the preparation of the financial statements at 12/31/2017 and 6/30/2018. The Committee met with the Bank's Executive Board to deal with subjects related to general management aspects of the Bank, especially those related to accounting, internal controls, internal audit, capital management, financial management and risk management. The Committee made recommendations for process improvements and monitored the implementation of improvements recommended by this Board and also by the internal and external (independent) auditors, as reported during their work. The Committee held regular meetings with the Bank's Board of Directors, reporting on aspects related to its regulatory duties and providing information to the Board about its activities.

INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS

The Board maintained systematic monitoring of the work carried out by the Internal Control and Operational Risk Management. The Audit Committee considers the activities of the Bank's management as positive to the extent it assures the effectiveness of the Bank's risk management and internal control systems.

THE INTERNAL AUDIT

A number of meetings were held with the Internal Audit Manager with the purpose of monitoring the work carried out by that Unit. The Committee considers that the scope and quality of the audits carried out and the level of independence are positive. The internal audit work identified no failures in compliance with the current legislation and internal policies that could put at risk the strength and the operational continuity of the Bank.

THE EXTERNAL (INDEPENDENT) AUDIT

The Committee met with the independent auditors in order to discuss the main aspects of the work carried out during the preparation of the financial statements at 12/31/2017 and 6/30/2018, as well as their assessment of the Bank's internal controls. The Committee considers as satisfactory the work carried out and identified no matters that could affect the external auditor's objectivity and independence.

THE FINANCIAL STATEMENTS

The Committee accompanied the preparation of the financial statements at 12/31/2017 and 6/30/2018 and analyzed trial balances, balance sheets, and related notes, and analyzed the financial statements, management reports, independent auditor's reports and other documents to be made public. It discussed the accounting practices adopted, any atypical occurrences and the related impacts on the Bank's financial position and results of operations at meetings held with those responsible for the preparation of these documents and with the external auditors. The Committee found that the accounting practices used in the preparation of the financial statements are in accordance with generally accepted accounting principles, the Brazilian Corporate Law, and with the regulations of the National Monetary Council (CMN) and Brazilian Central Bank and that they fairly represent the Bank's financial position.

CONCLUSION

The Audit Committee did not receive, up to the date of this report, any reports of non-compliance, lack of controls or act or omission by the Bank's management evidencing the existence of fraud, failures or errors which could expose the continued operation of the Bank or put at risk the fairness of its financial statements. Based on the above, the Audit Committee, after considering its responsibilities and the natural limitations of its activities, recommends to the Board of Directors the approval of the financial statements of Banco de Desenvolvimento de Minas Gerais S.A. – BDMG as at June 30, 2018.

Belo Horizonte, August 14, 2018

PEDRO CARLOS DE MELLO
Coordinator

CARLOS ALBERTO DE CARVALHO PAIVA
Member

LÚCIO TAMEIRÃO MACHADO
Member

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MANAGEMENT REPORT 1st half of 2018

Operating result and public policies:

BDMG disbursed R\$ 514 million in the first half of 2018. Up to the end of June, the Bank reached 20,913 active customers in 753 municipalities, thus maintaining BDMG's presence in 88% of the municipalities of Minas Gerais. These are micro, small, medium and large companies of several industries and municipal governments in all the Regional Development Territories of the State.

Of the total disbursed, 58% (R\$ 300 million) corresponded to operations with own funds and 42% to onlendings (R\$ 214 million) from the National Bank for Economic and Social Development (BNDES), the Ministry of Agriculture, Cattle Ranching and Supply, the Fund for Financing of Studies and Projects (FINEP), the Foundation for Support of Research in the State of Minas Gerais (FAPEMIG), the Federal Savings Bank (CEF), and the RENOVA Foundation.

BDMG has consolidated the agenda of the strategic programs to boost the competitiveness of important sectors of the economy of Minas Gerais. Four areas were prioritized - Sustainability, Innovation, Agribusiness and Regional and Social Development.

Sustainability:

Environmental sustainability financing disbursements totaled R\$ 75 million in the first half of 2018, of which R\$ 51 million was intended for recycling, R\$ 4.7 million for the reduction of environmental pollution, R\$ 4.8 million for bio-fuel, R\$ 7.4 million for renewable energy and energy efficiency projects, and R\$ 2.2 million for sanitation works.

In June, the Bank launched the BDMG Crédito Verde - Programa de Apoio a Projetos Sustentáveis (BDMG Green Credit - Support to Sustainable Projects), which uses the Bank's own funds (BDMG Solar Fotovoltaico) and funds from the BNDES (Finame Fundo Clima).

Innovation:

Disbursements in the FINEP, FAPEMIG, and BNDES borrowing lines during the six-month period amounted to R\$ 24 million, approximately. In addition to the traditional financing, BDMG invested R\$ 2.8 million in funds for investment in equity participation, facilitating projects of companies with a high potential for growth.

In Biom S.A., a biopharmaceutical company, of which BDMG holds an ownership interest of 8.46%, the contribution made in April 2018 amounted to R\$ 7.6 million.

Agribusiness:

The amount disbursed for agribusiness totaled R\$ 168 million, of which 33% was disbursed in this six-month period. Of this amount, R\$ 50 million was for the coffee industry in operations related to working capital, acquisition, and storage of coffee with the FUNCAFÉ product. Also, R\$ 60 million was disbursed in transactions with Agribusiness Letters of Credit (LCAs) and R\$ 57 million in specific BNDES lines.

Regional and social development:

In the six-month period, R\$ 125 million was allocated to 2,186 micro and small companies with revenue of up to R\$ 30 million, representing 24% of BDMG's total disbursement in the period. Of this amount, R\$ 6.6 million are for micro and small companies in municipalities whose Municipal Human Development Index (IDH - M) is below the State's average, and approximately 15% of the disbursement in the six-month period was a result of web processes.

In order to improve services to micro and small-sized companies, BDMG intensified its presence in social media. BDMG launched in March its LinkedIn and Facebook profiles, the latter having the purpose of disseminating financial education practices for the industry. Developing new service channels for micro and small companies as well as the increase of its presence in Minas Gerais, the Bank entered into a partnership with Banco Mercantil, which is acting as a correspondent bank.

The Bank launched, on the International Women's Day (March 8), a special borrowing line named Empreendedoras de Minas (Minas Gerais businesswomen). The product exclusively targets micro and small companies controlled by women. In this six-month period, R\$ 8.3 million was disbursed to 255 companies.

For public sector investment projects, R\$ 54 million was disbursed for 135 municipalities. The borrowings targeted construction, renovation, and expansion of public buildings, water supply and sewage services, solid residue treatment, mobility, and urban drainage, as well as funds for machinery and equipment purchasing. The BDMG Municípios Mineradores (Mining Municipalities) program - launched in 2017 for those cities which depend on mining resources - hired over R\$ 44 million in operations and disbursed R\$ 620 thousand in funds during the first six-month period.

The partnership between the Bank and the Renova Foundation serviced 171 customers in the regions affected by the rupture of the Fundão tailings dam, with a disbursement of R\$ 5.9 million through the Desenvolve Rio Doce product. Also, 35 municipal governments in the region were enabled to have access to the fund totaling R\$ 390 million that is to be used for sanitation and solid waste management projects; in the six-month period, R\$ 263 million was contracted. The Bank's Public Sector team follows up the performance of the construction works and the proper application of the funds, reporting the information to the Renova Foundation periodically.

Development of Concessions

The Bank continues to actively participate in developing infrastructure projects for the State's agencies, such as the COPASA (sewage treatment system in the country's South Region and in the forest areas known as Zona da Mata), SEPLAG (technological platform), SETUR (Peter Lund Cave Route), FHEMIG (hospital infrastructure), Fapemig (conventions center), SEE (public state schools).

It also works with municipal governments and public consortia in the rendering of technical support and structuring of Public-Private Partnerships in many areas, mainly in public lighting, and solid residue destination.

Funding diversification

In order to continue with its diversification of funding sources, the Bank obtained new funds during the first six-month period of the year totaling R\$ 151.6 million. The funds are comprised of ten LCA issuances totaling R\$ 40.8 million, R\$ 30 million in CDI funding, R\$ 31 million in CDB and R\$ 49.8 million in Financial Bills.

As part of its funding management, the Bank manages the securities portfolio to ensure a liquidity position adequate to its commitments; this portfolio includes securities classified as "held to maturity", in the amount of R\$ 143 million. Management, in compliance with Circular Letter 3,068/2001, declares that the Bank is financially able to hold these in its portfolio up to maturity.

Risk management

In the first half of 2018, the implementation of the National Monetary Council (CMN) Resolution 4,557 was concluded. This resolution addresses Integrated Risk Management. For credit risk, there were improvements in the policies and processes over the identification of credit quality deterioration of operations as well as the identification of higher risk assets. The risk classification methodology for pre operational companies was also reviewed: the new method uses prospective economic and financial projections and takes into consideration qualitative aspects in addition to sector-related and registration data, thus guaranteeing a more reliable framework. The expected loss methodology, which is used as a product pricing component, was reviewed: for each company segment, the expected loss is now calculated according to the risk level, thus allowing the differentiation of prices in accordance with the customer risk classification.

Regarding the operating risk, the operating loss gathering process was improved and is now a semiautomatic more comprehensive process, allowing the manual inclusion of losses by the responsible areas.

For the market risk, the Bank implemented an economic value indicator approach as well as the financial intermediation result approach, both focusing on the monitoring of interest rate variation risk for the instruments classified in the bank portfolio (Interest Rate Risk in the Banking Book (IRRBB)).

The Bank also increased its efforts towards the effective credit recovery, reduction in default and in costs, generation of revenue, and profitability. These actions have helped to improve the Bank's results, which can be noted over the six-month period.

Optimization of resources

In order to continuously reduce its expenses, a number of measures related to the Zero-Based Budgeting (Orçamento Baze Zero - OBZ) project, which was implemented in 2017, became effective as from January. Based on these measures, we estimate savings of up to R\$ 5.5 million in operating expenses between 2018 and 2019.

With the purpose of creating mechanisms to reduce the Bank's payroll amounts - which corresponds to 66% of all the Bank's costs -, the Board of Directors approved, in February 2018, a Voluntary Termination Program (PDV) as well as an incentive to terminate program. Based on current acceptances, the Bank estimates a saving of R\$ 3.5 million in 2018, of which R\$ 2.7 million refers to the PDV and R\$ 0.8 million to the incentives to terminate.

Social responsibility

BDMG's Program for Gender and Race Equality continues to create more diversity-friendly environments. In this six-month period, the Bank was listed among the 17 Brazilian companies which are signatories of ONU's Conduct Standards. In June, the Bank sponsored the BDMG's Inspiring Women exhibition, to recognize the role of women in the work environment.

In 2018, BDMG Cultural is celebrating 30 years of supporting the development of the artistic and cultural environment in Minas Gerais. A number of events were carried out related to visual arts, music, performing arts, literature, and audiovisual works, among others. In particular, we highlight (i) exhibitions of the Mostras BDMG (BDMG Film Festivals) project, with an estimated attendance of 2,500 people; (ii) the creation of the Flávio Henrique Award, whose purpose is to recognize songs written by artists born in Minas Gerais; and (iii) the Trilha Cultural BDMG (BDMG Cultural Path), which, as from March, visited 48 cities in Minas Gerais presenting theatrical plays, workshops, and rehearsals open to the public, totaling more than 80 cultural events throughout Minas Gerais.

This will be an important year for the BDMG's Employees Citizenship Institute (INDEC), which is celebrating 20 years encouraging volunteer work and the promotion of citizenship. Over two decades, approximately 70 thousand people have benefited in health, nutrition, education, sports, and leisure activities, focused mainly on low-income children and adolescents.

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

Balance sheet

All amounts in thousands of reais

(A free translation of the original in Portuguese)

	At 6/30/2018	At 6/30/2017
Assets		
Current assets	2,283,082	2,081,190
Cash (Note 3)	8,813	42,532
Interbank investments (Note 4)	160,966	294,951
Open market investments	123,548	294,951
Investments in interbank deposits	48,003	11,727
(Provision for losses)	(10,585)	(11,727)
Marketable securities and derivative financial instruments (Notes 5-6)	401,900	75,395
Own portfolio	398,723	68,179
Subject to guarantees	3,123	
Derivative financial instruments (Note 6)	54	7,216
Credit operations (Note 7)	1,624,767	1,578,986
Credit operations	1,928,121	1,840,639
Public sector	197,084	193,808
Private sector	1,731,037	1,646,831
(Provision for impairment of receivables)	(303,354)	(261,653)
Other receivables (Note 8)	86,408	89,118
Income receivable	1,846	2,462
Sundry	84,610	86,658
(Provision for impairment of receivables)	(48)	(2)
Other assets (Note 9)	228	208
Other assets	228	208
Non-current assets	4,383,591	5,258,161
Long-term receivables	4,351,824	5,139,456
Marketable securities and derivative financial instruments (Notes 5-6)	397,614	641,258
Own portfolio	337,605	611,991
Linked to the Brazilian Central Bank	-	11,953
Subject to guarantees	-	17,314
Derivative financial instruments (Note 6)	60,009	-
Credit operations (Note 7)	3,292,306	3,889,896
Credit operations	3,539,799	4,062,572
Public sector	512,595	599,591
Private sector	3,027,204	3,462,981
(Provision for impairment of receivables)	(247,493)	(172,676)
Other receivables (Note 8)	605,298	541,858
Income receivable	571	1,116
Specific receivables	1,183	1,183
Sundry	615,997	551,865
(Provision for impairment of other receivables)	(12,453)	(12,306)
Other assets (Note 9)	56,606	66,444
Temporary investments	6	5
Other assets	60,042	70,703
(Provision for losses)	(3,442)	(4,264)
Permanent assets (Note 10)	31,767	118,705
Investments	487	88,593
Domestic subsidiary and associated companies	-	88,106
Other investments	1,324	1,324
(Provision for losses)	(837)	(837)
Property and equipment in use	18,623	19,614
Real estate in use	43,788	43,787
Other property and equipment in use	13,138	12,800
(Accumulated depreciation)	(38,303)	(36,973)
Intangible assets	12,657	10,498
Intangible assets	27,020	20,841
(Accumulated amortizations)	(14,363)	(10,343)
Total assets	6,666,673	7,339,351

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

Balance sheet

All amounts in thousands of reais unless otherwise stated

(continued)

	At 6/30/2018	At 6/30/2017
Liabilities and equity		
Current liabilities	1,381,285	1,951,348
Deposits (Note 11(a, b, c))	91,411	564
Demand deposits	405	263
Interbank deposits	90,235	-
Time deposits	771	301
Funds from acceptance and issue of securities (Note 11 (d and e))	125,663	417,418
Funds from financial bills and agribusiness letters of credit	125,663	417,418
Borrowings (Note 12 (a))	107,124	520,429
Foreign borrowings	107,124	520,429
Local onlendings - official institutions (Note 12(b))	970,831	907,566
National Treasury	2,265	2,098
National Bank for Economic and Social Development (BNDES)	550,732	541,771
Federal Savings Bank (CEF)	263	26
Government Agency for Machinery and Equipment Financing (FINAME)	273,685	277,824
Other institutions	143,886	85,847
Derivative financial instruments	-	14,690
Derivative financial instruments (Note 6)	-	14,690
Other liabilities (Note 13 (a, b, c, d))	86,256	90,681
Social and statutory	434	434
Collection of taxes and similar charges	109	90
Taxes and social security	34,900	24,205
Financial and development funds	1,602	1,486
Sundry	49,211	64,466
Long-term liabilities	3,548,234	3,654,375
Deposits (Note 11(a and c))	60,560	-
Interbank deposits	6,927	-
Time deposits	53,633	-
Funds from acceptance and issue of securities (Note 11 (d and e))	135,242	127,050
Funds from financial bills and agribusiness letters of credit	135,242	127,050
Borrowings (Note 12 (a))	362,292	-
Foreign borrowings	362,292	-
Local onlendings - official institutions (Note 12(b))	2,483,300	2,953,089
National Treasury	9,436	10,591
National Bank for Economic and Social Development (BNDES)	1,358,221	1,685,797
Federal Savings Bank (CEF)	13,504	3,492
FINAME	973,165	1,143,462
Other institutions	128,974	109,747
Other liabilities (Note 13 (a, b, c))	506,840	574,236
Taxes and social security	7,157	9,015
Financial and development funds	76,875	35,548
Sundry	422,808	529,673
Deferred income (Note 14)	11,221	11,691
Deferred income	11,221	11,691
Equity (Note 15)	1,725,933	1,721,937
Capital:	1,918,771	1,906,151
Capital – Brazilian nationals	1,918,771	1,894,396
Capital increase -	-	11,755
Unpaid capital	-	(36,536)
Revenue reserves	-	8,051
Carrying value adjustments	(83,505)	(119,402)
Accumulated deficit	(109,333)	(36,327)
Total liabilities	6,666,673	7,339,351

Banco de Desenvolvimento de Minas Gerais S.A. – BDMG**Statement of operations****All amounts in thousands of reais unless otherwise stated**

(A free translation of the original in Portuguese)

	2018	2017
	1st half	1st half
Income from financial intermediation	402,383	375,847
Credit operations (Note 18 (a))	329,873	334,296
Marketable security transactions (Note 18(b-i))	27,178	55,739
Derivative financial instruments (Note 18(b-i))	45,332	(14,188)
Expenses with financial intermediation	(287,793)	(365,733)
Money market funding operations (Note 18(b-ii))	(12,626)	(22,873)
Borrowings and onlendings (Note 18(b-ii))	(204,475)	(177,314)
Foreign exchange transactions	6,304	6,101
Provision for impairment of receivables (Note 7 (f))	(76,996)	(171,647)
Gross profit from financial intermediation	114,590	10,114
Other operating income/expenses	(29,439)	(100,292)
Income from services rendered	19,108	16,773
Personnel expenses	(54,775)	(54,816)
Other administrative expenses (Note 18 (c - i))	(16,854)	(16,604)
Tax expenses (Note 18 (c - ii))	(10,763)	(10,390)
Equity in the results of investees	3	(829)
Other operating income (Note 18 (c - iii))	68,941	11,755
Other operating expenses (Note 18 (c - iv))	(35,099)	(46,181)
Operating result	85,151	(90,178)
Non-operating result	118	(1,539)
Profit (loss) before taxation and profit sharing	85,269	(91,717)
Income tax and social contribution (Note 19)	(22,115)	55,390
Provision for income tax	(20,344)	(14,591)
Provision for social contribution	(17,009)	(11,970)
Deferred tax assets	15,238	81,951
Statutory profit sharing	(3,007)	
Employee profit sharing	(3,007)	
Profit (loss)	60,147	(36,327)
Interest on capital		
Earnings (loss) per thousand shares - R\$	0.00093	(0.00057)

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

Statement of changes in equity
All amounts in thousands of reais

(A free translation of the original in Portuguese)

	Capital	Capital increase	Unpaid capital	Revenue reserves		Carrying value adjustments	Other carrying value adjustments	Retained earnings	Total
				Legal	Other				
At December 31, 2016	<u>1,894,396</u>		<u>(50,000)</u>	<u>8,051</u>	<u>10,814</u>	<u>(7,295)</u>	<u>(146,429)</u>	<u>-</u>	<u>1,709,537</u>
Approval of capital increase	-	-	13,464	-	-	-	-	-	13,464
Capital increase	-	11,755	-	-	(10,814)	-	-	-	941
Carrying value adjustments	-	-	-	-	-	1,660	32,662	-	34,322
Loss for the period	-	-	-	-	-	-	-	(36,327)	(36,327)
At June 30, 2017	<u>1,894,396</u>	<u>11,755</u>	<u>(36,536)</u>	<u>8,051</u>	<u>-</u>	<u>(5,635)</u>	<u>(113,767)</u>	<u>(36,327)</u>	<u>1,721,937</u>
At December 31, 2017	<u>1,906,151</u>					<u>(4,069)</u>	<u>(103,301)</u>	<u>(169,480)</u>	<u>1,629,301</u>
Approval of capital increase	12,620	(12,620)	-	-	-	-	-	-	-
Capital increase	-	12,620	-	-	-	-	-	-	12,620
Carrying value adjustments	-	-	-	-	-	439	23,426	-	23,865
Loss for the period	-	-	-	-	-	-	-	60,147	60,147
At June 30, 2018	<u>1,918,771</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,630)</u>	<u>(79,875)</u>	<u>(109,333)</u>	<u>1,725,933</u>

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

Statement of cash flows All amounts in thousands of reais

(A free translation of the original in Portuguese)

	2018	2017
	1st half	1st half
Cash flows from operating activities		
Profit (loss) before taxation and profit sharing	85,269	(91,717)
Adjustments to profit:		
Depreciation and amortization	2,767	2,502
Provisions and net liabilities	1,810	37,761
Provision for impairment of receivables, net of reversals	76,996	171,647
Provision for losses	369	1,546
Accretion of deferred income	(8,683)	(9,747)
Net foreign exchange gains (losses)	58,437	9,083
Recovery of credit transactions written off as losses	(14,304)	(7,290)
Revenue from monetary restatement of long-term credit transactions	(13,581)	859
Equity in the results of investees	(3)	829
Adjustment to market value of derivative instruments and hedge transactions	2,728	(2,876)
Loss on available-for-sale financial assets	(18,095)	(37,816)
Loss on financial assets held to maturity	(6,808)	(6,832)
Adjusted profit	166,902	67,948
Increase/decrease in short-term interbank investments	(2,399)	10,353
Decrease (increase) in derivatives	(51,462)	60,844
(Increase) decrease in credit operations	293,292	11,045
(Increase) in other receivables and other assets	11,031	(9,463)
Increase (decrease) in interbank deposits	97,694	(6,116)
Increase (decrease) in funding from financial and agribusiness bills	40,536	(64,595)
Decrease in borrowings and onlendings	(499,826)	(196,416)
Increase in deferred income	8,371	9,031
Increase in other payables	(32,354)	(54,243)
Changes in assets and liabilities	(135,117)	(239,560)
Cash used in operating activities	31,785	(171,612)
Income tax and social contribution paid	(37,390)	(38,121)
Net cash used in financing activities	(5,605)	(209,733)
Cash flows from investing activities		
Purchases of permanent assets	(2,694)	(800)
Investment in subsidiary BDMGTEC		(4,621)
Purchases of available-for-sale financial assets	(10,458)	(6,478)
Proceeds from available-for-sale financial assets	3,331	383,552
Purchases of financial assets held to maturity	(117)	(15,204)
Receipts from financial assets held to maturity	7,686	8,353
Net cash provided by (used in) investing activities	(2,252)	364,802
Cash flows from financing activities		
Capital increase	12,620	14,405
Net cash provided by financing activities	12,260	14,405
Increase in cash and cash equivalents	4,763	169,474
Cash and cash equivalents at the beginning of the period	121,294	161,907
Foreign exchange gains (losses) on cash	6,304	6,102
Cash and cash equivalents at the end of the period	132,361	337,483

(A free translation of the original in Portuguese)

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

Notes to the financial statements at June 30, 2018

All amounts in thousands of reais unless otherwise stated

1 General information

Banco de Desenvolvimento de Minas Gerais S.A. - BDMG ("Bank") is a privately held corporation, controlled by the State of Minas Gerais, and is subject to the rules and regulations of Brazilian Corporate Law, the National Financial System and the applicable legislation of the Government of the State of Minas Gerais.

The objectives of BDMG support the economic and social development of the State of Minas Gerais. BDMG carries out development bank activities in accordance with the National Monetary Council (CMN) rules, and acts as a financial agent for the funds allocated by the Minas Gerais State Government to finance programs and projects for the development of Minas Gerais. BDMG is also the financial agent and/or manager of other funds, which do not pertain to the State Government, which finance projects in the State of Minas Gerais and, therefore, promote its development. The Bank also renders advisory and technical support services to the direct and indirect State Government administration, and creates opportunities for the implementation/expansion of companies with significant interest for the development of the State of Minas Gerais through investments in these companies.

The issue of these financial statements was authorized by the Bank's Executive Board on Aug/9/2018.

2 Summary of significant accounting policies

The financial statements have been prepared in accordance with the accounting practices adopted in Brazil, which include the accounting requirements in Law 6,404/1976 and the changes introduced by Laws 11,638/2007 and 11,941/2009 to record the transactions, together with the rules and regulations of the National Monetary Council (CMN) and the Brazilian Central Bank (BACEN), and disclose all and only applicable significant information related to the financial statements, which is consistent with the information utilized by management in the performance of its duties.

The Brazilian Accounting Pronouncements Committee (CPC) issued pronouncements related to the process of convergence with international accounting standards; however, not all were ratified by BACEN. Accordingly, the Bank, in the preparation of the financial statements, adopted the following pronouncements ratified by BACEN:

CMN Resolution 3,566/2008 - CPC 01 (R1) - Impairment of Assets
CMN Resolution 3,604/2008 - CPC 03 (R2) - Statement of Cash Flows
CMN Resolution 4,007/2011 - CPC 23 - Accounting Policies, Changes in Accounting Estimates and Correction of Errors
CMN Resolution 3,973/2011 - CPC 24 - Events after the Reporting Period
CMN Resolution 3,750/2012 - CPC 05 (R1) - Disclosures on Related Parties
CMN Resolution 3,823/2012 - CPC 25 - Provisions, Contingent Liabilities and Contingent Assets
CMN Resolution 4,144/2012 - CPC 00 (R1) - Basic Conceptual Pronouncement
CMN Resolution 4,424/2015 - CPC 33 (R1) - Employee Benefits
CMN Resolution 4,534/2016 - CPC 04 (R1) - Intangible Assets

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

Notes to the financial statements at June 30, 2018

All amounts in thousands of reais unless otherwise stated

2.1 Basis of preparation

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

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

2.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Foreign exchange gains and losses resulting from the settlement of these transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the statement of operations.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of operations as a subitem of financial intermediation, except for the debit balances arising from foreign exchange variations of credit operations, which are reclassified as other operating expenses, and the credit balances arising from foreign exchange variations of funding expenses and payables due to borrowings and onlendings, which are reclassified as other operating income.

Assets and liabilities in foreign currency are translated into local currency (Brazilian reais) at the exchange rate on the balance sheet date. The applicable foreign exchange rate for June 30, 2018 is: US\$ 1.00 = R\$ 3.8558 (2017 - US\$ 1.00 = R\$ 3.3082) and € 1.00 = R\$ 4.5032 (2017 - € 1.00 = R\$ 3.7750).

2.3 Cash and cash equivalents

Cash and cash equivalents, according to CMN Resolution 3,604/2008, include cash, bank deposits both in Brazil and abroad, and highly liquid short-term investments, with no significant risk of changes in the amount and limits, falling due in 90 days or less, at the date of acquisition, which are used by the Bank to manage its short-term commitments (Note 3).

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

Notes to the financial statements at June 30, 2018

All amounts in thousands of reais unless otherwise stated

2.4 Short-term interbank investments

Unrestricted purchase and sale commitments are adjusted to market value. Other assets are stated at acquisition cost, plus accrued earnings up to the balance sheet date, net of a provision for devaluation, when applicable.

2.5 Marketable securities

Pursuant to BACEN Circular 3,068/2001 and supplementary regulations, the marketable securities are classified, according to management's intentions, taking into consideration the following accounting criteria:

- (i) Trading securities - securities purchased in order to be frequently and actively traded. These are recorded at market value, and the realized and unrealized gains and losses are recorded in the statement of operations.
- (ii) Securities available for sale - marketable securities used as part of the cash flow management strategy. These securities are recorded at market value, the accrued income (yield curve) being recognized in the statement of operations, and the unrealized gains and losses arising from market value variations, which have not yet been realized, are recorded in "Carrying value adjustments" within "Equity", net of the related tax effects. Gains and losses, when realized, are recorded in the statement of operations after being specifically identified on the trading date, with a corresponding entry to equity, net of the related tax effects.
- (iii) Securities held to maturity - securities for which the Bank has the intent and financial ability to hold to maturity, are recorded at cost of purchase, plus accrued income, which is recognized in the statement of operations. Financial capacity is defined based on cash flow projections, disregarding the possibility of the early redemption of these securities. Decreases in the market value of securities available for sale and held to maturity below their respective costs, for reasons not regarded as temporary, are recorded in the statement of operations as realized losses.

Management establishes guidelines for the classification of marketable securities within the categories defined in BACEN Circular 3,068/2001. The classifications of the securities in the portfolio, as well as those acquired during the period, are assessed on a periodical and systematic basis, according to these guidelines. As established in Article 5 of this Circular, the marketable security classification reassessment can only be made at the semi-annual balance sheet date. In addition, transfers from the "held to maturity" category can only be made for a once off, unusual, non-recurring and unpredicted event after the date of classification.

2.6 Derivative financial instruments

In accordance with BACEN Circular 3,082/2002 and subsequent regulations, derivative financial instruments are classified based on management's intent to use them, or not, for purposes of a hedge.

As from October 2013, BDMG began operating swap financial instrument derivatives to mitigate the risks arising from fluctuations in foreign currencies and interest rates on funds from borrowings contracted abroad.

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

Notes to the financial statements at June 30, 2018

All amounts in thousands of reais unless otherwise stated

As presented in Note 6, the derivatives are recorded, at fair value, as assets (when positive) and liabilities (when negative), and the changes in their fair values are recognized in the statement of operations.

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

2.7 Credit operations and provision for impairment of receivables

Credit operations are stated at realizable values including, when applicable, accrued income, on a daily pro rata basis, based on the index variation and contractual interest rate. Income from overdue loans is only recorded up to the 59th day. After the 60th day, no income is recognized until installments are effectively received, as established by Article 9 of CMN Resolution 2,682/1999.

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

The provision for impairment of receivables is recorded based on the criteria to classify the credit risk related to customers and operations defined by CMN Resolution 2,682/1999, and on the analysis of outstanding balances of operations, taking into consideration the value of guarantees, the history of losses and the risks of the portfolio.

2.8 Credit assignment

In accordance with the accounting practices established by the Brazilian Central Bank up to June 30, 2011, gains on credit assignments (with or without recourse) to other financial institutions and receivables funds were recognized at the time of sale, and immediately recorded in the statement of operations, and the loan assignments with recourse were recorded in memorandum accounts.

CMN Resolution 3,533/2008 amended, as from January 1, 2012, the recording of credit assignments carried out as from 2012, establishing new procedures for the classification and disclosure of financial asset sale or transfer transactions. Based on this Resolution, the maintenance or derecognition of the financial assets in the balance sheet depends on whether or not the risks and rewards of the assets are substantially retained.

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

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

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

Notes to the financial statements at June 30, 2018

All amounts in thousands of reais unless otherwise stated

2.9 Other current assets and long-term receivables

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

2.10 Investments

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

2.11 Property and equipment in use and intangible assets

Property and equipment in use, except purchases prior to 1995, which were price-level restated up to 1996, according to the regulations effective at the time, and intangible assets were recorded at the cost of acquisition, net of the related accumulated depreciation and amortization, and adjusted for impairment if the impairment tests carried out annually indicate a loss on these assets.

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

	<u>Years</u>
Real estate	20
Facilities, furniture and equipment	10
Data processing system	5
Other	10
Software	5

An asset's carrying amount is written down immediately to recoverable value when it exceeds the estimated recoverable value (Note 10 (b)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within "Non-operating income (expenses), net" in the statement of operations.

2.12 Impairment of permanent assets

Losses are recorded in the statement of operations if there is evidence that the assets are impaired.

At the end of each period, the Bank's property and equipment in use and intangible assets are subject to a technical assessment. This assessment considers the basis for the verification of the likelihood of impairment loss during the period.

2.13 Current and non-current liabilities

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

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

Notes to the financial statements at June 30, 2018

All amounts in thousands of reais unless otherwise stated

2.14 Contingent assets and liabilities and legal obligations - taxes and social security

They are evaluated, recognized and disclosed in accordance with CMN Resolution 3,823, dated December 16, 2012, and BACEN Circular Letter 3,429, dated February 11, 2010, taking into account Technical Pronouncement CPC 25, issued by the Brazilian Accounting Pronouncements Committee (CPC).

Contingent assets - these are not recognized, except when management has total control over the realization or when there are real guarantees or favorable judicial decisions, in respect of which there can be no further appeals, thereby characterizing the gain as virtually certain, and with the confirmation of the capacity of its recovery by receipt or offset.

Contingent liabilities - these are recognized in the financial statements when the risk of loss in a legal or administrative action is considered to be probable, reflecting a probable outflow of resources to settle the obligations, based on the positions of the legal advisors and management, taking into account legal precedence and case law, and when the amounts involved can be measured with reasonable assurance. Contingent liabilities which are classified as involving possible losses are not accrued and are disclosed in the notes to the financial statements when the amounts involved are individually significant. Contingent liabilities classified as remote losses are not provided for nor disclosed (Note 13).

Legal obligations - tax and social security - derive from legal actions contesting the legality and constitutionality of the obligations and are fully recognized in the financial statements, regardless of the probability of favorable outcomes to the legal actions (Note 13).

2.15 Current and deferred income tax and social contribution

The provision for income tax is recorded at 15% of taxable income, plus an additional 10%. The provision for social contribution on adjusted profit was recorded at the rate of 15% up to August 31, 2015 and at the rate of 20% as from September 1, 2015, as established by Provisional Measure 675/2015, as converted into Law 13,169/2015 (Note 19(a)).

The tax credits on temporary differences and on income tax and social contribution losses are recorded at the rates considered for the income tax and social contribution provisions.

Tax credits related to income tax and social contribution are reviewed at each balance sheet date and are based on temporary additions and exclusions, as well as applicable legislation on the date of their recording. These tax credits will be realized upon the effective use and/or reversal of the amounts on which they have been based.

Deferred income tax and social contribution are recognized, using the liability method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax and social contribution are determined using tax rates that have been enacted or substantively enacted at the financial statement date and are expected to apply when the related deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized only to the extent it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

Notes to the financial statements at June 30, 2018

All amounts in thousands of reais unless otherwise stated

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

2.16 Employee benefits

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

- (i) Pension benefits - provides employees with supplementary retirement remuneration to that guaranteed by the General Social Security Regime (RGPS). BDMG sponsors defined benefit pension plans (which were closed to new entrants on November 10, 2011) and variable contribution pension plans.
- (ii) Healthcare and dental assistance benefit - this plan consists of coverage for medical and dental expenses of the plan members. This benefit, which was carried out upon a partial payment of the monthly contribution by the Bank, is guaranteed to active participants and, since February 22, 2018, to retirees and active employees who adhered to the Voluntary Termination Program before April 30, 2018.

When retired, active employees may continue to participate in the plan, being then responsible for the total contribution payable;

- (iii) Life insurance - this benefit, sponsored by BDMG through the payment of a part of the group life insurance policy premium, is guaranteed as from February 22, 2018 exclusively for retirees who had this benefit on that date;
- (iv) Employee's Voluntary termination program - the purpose of this program is to benefit retirees who met the program's requirements. In 2017, the Bank started the Program in April and closed it in May. Currently, the Program is opened since March, and the established deadline for adhesion is April 30.
- (v) Other benefits - in addition, the Bank offers to its active employees other benefits such as profit sharing and six-month maternity leave, and grants lifetime pension benefits to a retiree.

Except for "Other benefits" for active employees, all post-employment benefits granted by the Bank are accounted for in accordance with CPC 33 (R1), "Employee Benefits", as approved by CMN Resolution 4,424/2015.

The Bank complies with this standard when accounting for the benefits based on actuarial studies. The actuarial study used by the Bank is performed annually for the base date December 31 and adjusted on a six-month basis for the June 30 base date. However, because of the changes in the sponsored benefits, as from 2018, an actuarial updating was made for the March 31, 2018 base date.

Information on the accounting for employee benefits is detailed in Note 24.

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

Notes to the financial statements at June 30, 2018

All amounts in thousands of reais unless otherwise stated

2.17 Profit sharing

Profit sharing is defined through a collective agreement and also as the fulfillment of the Goal Plan, and the related provision is recorded based on a percentage of the profit and adjusted at the end of the year after the profit for the year is established and the assessment of achievement of goals is carried out.

2.18 Capital

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

2.19 Results of operations

The profit (loss) is determined on the accrual basis of accounting and is adjusted by income tax and social contribution on net income due on taxable income, and, when applicable, by deferred income tax and social contribution that will be recoverable or payable in future years, except in relation to gains on renegotiated credit operations, which are appropriated to profit (loss) on the cash basis, as established by CMN Resolution 2,682/1999.

2.20 Distribution of dividends and interest on capital

Stockholders are assured the payment of a minimum dividend of 1% of the profit for each year, adjusted in accordance with Brazilian Corporate Law and the Bank's bylaws.

Concerning the capital remuneration of its stockholders, BDMG distributes dividends or pays interest on capital according to the profit for each year.

2.21 Related parties

The disclosures on related parties included in the accompanying notes to the financial statements are in accordance with CMN Resolution 3,750/2009. According to this pronouncement, the Bank discloses its transactions with related parties, which could affect its financial position and results of operations. Legal entities and individuals that meet the criteria of BDMG's internal Resolution 209/2009 are considered related parties. The related parties with whom the Bank carried out transactions during the period are disclosed in Note 20.

3 Cash and cash equivalents

Cash and cash equivalents include cash, bank deposits both in Brazil and abroad, and highly liquid investments, without a significant risk of changes in value, falling due in 90 days or less, as at the acquisition date.

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

Notes to the financial statements at June 30, 2018

All amounts in thousands of reais unless otherwise stated

	At 6/30/2018	At 6/30/2017
Available funds	1,173	848
Available funds in foreign currency (i)	7,640	41,684
Interbank investments	<u>123,548</u>	<u>294,951</u>
	<u>132,361</u>	<u>337,483</u>

(i) On July 19, 2017, the Bank received funds deposited abroad (Note 12 (a) (i)).

4 Interbank investments

	At 6/30/2018	At 6/30/2017
Investments in repurchase agreements - own portfolio:		
Financial Treasury Bills	123,548	-
National Treasury Notes	-	294,951
Investments in foreign currency (ii)	37,418	-
Investments in interbank deposits	10,585	11,727
Provision for loss on interbank deposits (i)	<u>(10,585)</u>	<u>(11,727)</u>
	<u>160,966</u>	<u>294,951</u>
Current	160,966	294,951

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

(ii) Investment in foreign currency with fixed term, maturity exceeding 90 days in relation to the date of its acquisition, therefore, it is not considered as a cash equivalent.

The due dates of the interbank investments are as follows:

	Overdue	Up to 30 days	From 61 to 90 days	Total
Financial Treasury Bills (LFT)	-	123,548	-	123,548
Foreign currency investments	-	-	37,418	37,418
Interbank Deposit Certificate (CDI)	10,585	-	-	10,585
Provision for loss	(10,585)	-	-	(10,585)
Total - 6/30/2018	<u>-</u>	<u>123,548</u>	<u>37,418</u>	<u>160,966</u>
Total - 6/30/2017	-	294,951	-	294,951

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Notes to the financial statements at June 30, 2018

All amounts in thousands of reais unless otherwise stated

5 Marketable securities

(a) Portfolio

The marketable security portfolio is comprised as follows:

	At 6/30/2018			At 6/30/2017		
	Amount	Curve value	Market value	Amount	Curve value	Market value
Unrestricted securities						
Financial Treasury Bills	38,074	364,624	364,636	42,619	379,913	379,970
National Treasury Notes	72,900	232,290	232,560	72,900	225,722	225,306
Bank Deposit Certificate	244,947,181	3,503	3,503			
Debentures	1,430	25,982	25,982	1,430	33,925	33,925
Provision for debentures		-	-		-	(92)
Variable income securities		95,873	95,873		-	-
Impairment loss on variable income securities		(57,028)	(57,028)		-	-
Fund quotas						
Emerging Companies (Emerging Companies Investment Fund (FIEE))	125	2,211	2,211	125	1,378	1,378
Fund for Investment in Equity Participation (FIP)	16,214,774	22,937	22,937	16,214,774	16,886	16,886
Fixed-income investment fund (FI)	15,669,511	43,990	43,990	8,275,088	21,387	21,387
Investment Guarantor Fund (FGI)	874,836	1,664	1,664	874,836	1,410	1,410
Total unrestricted securities		736,046	736,328		680,621	680,170
Securities provided as guarantees						
- Financial Treasury Bills	326	3,123	3,123	1,941	17,324	17,314
Securities linked to BACEN (capital increase)						
- Financial Treasury Bills		-	-	1,340	11,960	11,953
		739,169	739,451		709,905	709,437
Current			401,846			68,179
Non-current			337,605			641,258

(i) In accordance with CMN Resolution 2,682/1999, the provision for debentures is based on the credit risk of the issuer because these securities are financial support, rather than a financial investment (Note 5(b) (ii)).

(ii) These securities refer to the guarantee for the differential margin payable on the swap contract.

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(b) Classification of marketable securities

Considering the Bank's intentions and financial capacity, the securities in the marketable security portfolio are classified as follows, consistent with BACEN Circular 3,068/2001:

	At 6/30/2018		At 6/30/2017	
	Curve value	Market value	Curve value	Market value
Available-for-sale securities (i)	596,070	596,352	565,261	564,885
LFT	364,624	364,636	379,913	379,970
From 61 to 90 days	158,786	158,757	-	-
Over 360 days	205,838	205,879	379,913	379,970
NTN	118,126	118,396	115,003	114,587
From 31 to 60 days	94,439	95,671	-	-
Over 360 days	23,687	22,725	115,003	114,587
CDB	550	550	-	-
From 31 to 60 days	550	550	-	-
Investment fund quotas	70,802	70,802	41,061	41,061
No stated maturity	70,802	70,802	41,061	41,061
Variable income securities	38,845	38,845	-	-
Over 360 days	38,845	38,845	-	-
Over 360 days	-	-	17,324	17,314
LFT linked to capital increase	3,123	3,123	11,960	11,953
From 61 to 90 days	3,123	3,123	-	-
Over 360 days	-	-	11,960	11,953
Securities held to maturity (ii)	143,099	143,099	144,644	144,552
CDB	2,953	2,953	-	-
From 31 to 60 days	2,953	2,953	-	-
NTN	114,164	114,164	110,719	110,719
From 31 to 60 days	47,347	47,347	-	-
Over 360 days	66,817	66,817	110,716	110,719
Debentures	25,982	25,982	33,925	33,833
Up to 30 days	647	647	17,866	17,830
From 31 to 60 days	643	643	2,967	2,965
From 61 to 90 days	640	640	2,967	2,965
From 91 to 180 days	16,937	16,937	1,125	1,119
From 181 to 360 days	3,776	3,776	2,251	2,239
Over 360 days	3,339	3,339	6,749	6,715
	<u>739,169</u>	<u>739,451</u>	<u>709,905</u>	<u>709,437</u>
Current		401,846		68,179
Non-current		337,605		641,258

(i) Securities classified as available for sale.

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

The variable income securities classified in this category comprise the ownership interests from BDMGTEC (Note 11. a). Because these securities have no price quoted in an active market or because it is not possible to reliably measure their fair value, the Bank accounts for them at the amounts

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previously recorded in BDMGTEC, as reduced by the amounts of the corresponding impairment losses incurred by BDMGTEC.

This category also includes the investment fund quotas recorded at their acquisition amount because they are not traded in an active market.

(ii) Securities classified as held to maturity.

The securities classified in this category are as follows:

a) Debentures

Debentures are securities acquired as financial support and not for financial investment; a provision is recorded for the credit risk of the issuer, pursuant to CMN Resolution 2,682/1999.

<u>Acquisition</u>	<u>Amount</u>	<u>Maturity date</u>	<u>At 6/30/2018</u>	<u>At 6/30/2017</u>
January/2015	30	12/22/2019	10,957	-
September/2017	1,400	9/13/2018	15,025	33,925
Provision for credit risk			-	(92)
Total			<u>25,982</u>	<u>33,833</u>

b) National Treasury Notes (NTN)

At June 30, 2015, the Bank reclassified the following securities from "available for sale" to "held to maturity":

	<u>Amount</u>	<u>Maturity date</u>	<u>At 6/30/2018</u>	<u>At 6/30/2017</u>
National Treasury Notes - Series B (NTN-B)	15,000	8/15/2018	47,582	47,645
National Treasury Notes - Series B (NTN-B)	21,000	8/15/2022	73,093	72,474
			<u>120,675</u>	<u>120,119</u>
Adjustments to market value			(6,511)	(9,400)
Present value			<u>114,164</u>	<u>110,719</u>

At the reclassification date, the balance of R\$ 15,178 was recorded as a separate component in equity as unrealized gains. Due to the reclassification, this amount must be appropriated to profit (loss) up to the maturity dates of the securities. In the six-month period, R\$ 1,446 (2017 - R\$ 1,445) was appropriated to the result from the aforementioned amount in equity, of which R\$ 12,667 the accumulated amount from appropriations made up to 6/30/2018.

c) Bank Deposit Certificate amounting to R\$ 2,953 (2017 - R\$ 0). This security was received in November 2017 for credit operation settlement purposes.

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(c) The marketable securities fall due as follows:

	No stated maturity	Up to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 360 days	After 360 days	Total
Federal Government Securities	-	-	143,018	161,880	-	-	295,421	600,319
CDB	-	2,953	550	-	-	-	-	3,503
Debentures	-	647	643	640	16,937	3,776	3,339	25,982
Investment fund quotas	70,802	-	-	-	-	-	-	70,802
Variable income securities	-	-	-	-	-	-	38,845	38,845
Total - 6/30/2018	<u>70,802</u>	<u>3,600</u>	<u>144,211</u>	<u>162,520</u>	<u>16,937</u>	<u>3,776</u>	<u>337,605</u>	<u>739,451</u>
Total - 6/30/2017	41,061	17,830	2,965	2,965	1,119	2,239	641,258	709,437

(d) Carrying value adjustments of marketable securities

The changes during the period in the amounts recorded in equity under "Carrying value adjustments", which refer to the adjustments of the Bank's securities classified as available for sale, were as follows:

	Unrealized gains (losses)	Tax effects	Adjustments to market value
At 12/31/2017	(6,896)	2,827	(4,069)
Adjustment in the period	665	(227)	438
At 6/30/2018	<u>(6,231)</u>	<u>2,600</u>	<u>(3,631)</u>

6 Derivative instruments

As a result of obtaining funds from overseas in the second half of 2013, the Bank seeks protection against the risk of exposure to variations in foreign currencies and foreign interest rates established in the contracts. As regards the transactions in which the risks are not transferred to customers, the Bank has been contracting derivative financial instruments of the swap type to hedge against the risks inherent to those transactions. These contracts require compliance with the standards in force referring to the risk control policy, the establishment of hedging strategies, the definition of limits and manners to monitor the transactions in the Bank.

The derivatives contracted by the Bank, all of which for the hedging of foreign borrowings, are in accordance with the conditions established by BACEN Circular 3,082/2001. The accounting records of the foreign borrowings (subject to hedge) and the derivative financial instruments (hedge instruments) are based on their market value. Accordingly, the variation in the item subject to hedge is offset by the variation in the hedge instrument, considering the accumulated effect of the transaction. This hedge accounting, can only be adopted when the following conditions exist: (i) there are documents identifying the risk subject to hedge with detailed information on the transaction and; (ii) the effectiveness of the hedge remains at a percentage within the range established by the aforementioned Circular Letter.

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The methodology used by the Bank in establishing the market value of both asset and liability swap positions accounted for under the hedge accounting procedure considers the weighting factors calculated at the contracting date and which, at that date, were equal to the market value and operation yield curve value. The use of weighting factors aims at mitigating the credit risk spread distortion in the calculation of the market value.

BDMG performs effectiveness tests at the beginning of the operation, initial prospective test of the hedge structure and periodically assesses the effectiveness through prospective and retrospective tests, upon the preparation of the semi-annual and annual financial statements, through the calculation of the ratio of the market value variation of the hedge instrument asset position and the variation of the market value of the hedged item.

The Bank has the following swap contracts recorded related to risk mitigation clauses:

	<u>At</u> <u>6/30/2018</u>	<u>At</u> <u>6/30/2017</u>
Government securities linked as guarantee for the counterparty at the SELIC rate	3,123	17,314
Funding in interbank deposits	<u>54,404</u>	<u>-</u>
	<u>57,527</u>	<u>17,314</u>

The Bank, after the disclosure of the downgrade in December 2016, opted to prepay in January 2017 the borrowing and derivative contracts for which covenants related to the downgrading had been breached as it had not reached an agreement with the counterparties for the corresponding waiver fees.

In January 2017, the Bank settled in advance the derivative contracts that had hedged the risks related to the funding tranche CAF1 and CAF2 due to the breach of contract covenants. The settlement in advance led the Bank, on the same date, to contract a new swap to hedge the CAF 2 transaction and to deposit abroad the amount in foreign currency related to the balance of CAF 1. On July 19, 2017, the Bank received the funds from CAF1 and contracted with Banco Santander and it entered, on the same date, a swap transaction to hedge against these risks.

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At June 30, the information related to the derivatives contracted by BDMG is detailed in the notes below:

(a) Foreign borrowings hedged by derivative instruments

	Initial date	Final date	Index	Funding	At 6/30/2018		At 6/30/2017	
					Balance (foreign currency)	Curve	Balance (foreign currency)	Curve
CAF 1	9/27/2013	9/27/2023	Six-month Libor + 3.65% p.a.	US\$ 15,000	9,860	38,014	-	-
CAF 2	10/21/2013	10/23/2023	Six-month Libor + 3.65% p.a.	US\$ 30,000	19,634	75,694	23,157	76,593
CAF 3 (*)	12/19/2013	12/19/2023	Six-month Libor + 3.65% p.a.	US\$ 30,000	19,445	74,964	22,977	75,998
CAF 4	10/23/2015	10/23/2018	Six-month Libor + 2.40% p.a.	US\$ 23,500	7,905	30,475	23,666	78,277
IDB	8/4/2014	8/16/2021	Six-month Libor + 2.25% p.a.	US\$ 50,000	32,328	124,632	41,460	137,132
AFD	8/5/2014	11/28/2025	Six-month Euribor + 2% p.a.	€\$ 5,000	-	-	4,729	17,846
AFD3	2/2/2017	11/28/2025	Six-month Euribor + 2% p.a.	€\$ 15,000	12,517	56,339	14,187	53,537
						400,118		439,383
Adjustments to market value						6,307		(139)
Market value						406,425		439,244

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(b) Swap amounts recorded

The derivative financial instruments at June 30 were as follows:

		At 6/30/2018	At 6/30/2017
Notional value (memorandum account)	Amount receivable / payable (balance sheet account)	Net effect (statement of operations account)	Net effect (statement of operations account)
(US\$+ Libor+ rate) x (BRL +%CDI) (i)	287,262	49,580	(10,165)
(EUR+Euribor+rate) x (BRL+%CDI) (i)	46,073	4,752	2,267
(US\$+rate) x BRL+%CDI (I)	-	-	(1,623)
(US\$+ Libor+ rate) x (BRL +%CDI) (ii)	-	-	(4,666)
	<u>333,335</u>	<u>45,332</u>	<u>(14,187)</u>

(i) Differential receivable

(ii) Differential payable

(c) Swaps by index:

	At 6/30/2018	At 6/30/2017
Asset position - differential receivable	<u>60,063</u>	<u>7,216</u>
Foreign currency	60,063	7,216
Interest	-	-
Liability position - differential payable	<u>-</u>	<u>(14,690)</u>
Foreign currency	-	(14,690)
Interest	-	-
Net exposure	<u>60,063</u>	<u>(7,474)</u>

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(d) Swaps by maturity:

	Up to 30 days	From 31 to 180 days	From 181 to 360 days	After 360 days	Total
Asset position - differential receivable					
Foreign currency	-	54	-	60,009	60,063
Interest					
Total - 6/30/2018	-	54	-	60,009	60,063
Total - 6/30/2017		7,216			7,216
Liability position - differential payable					
Foreign currency					
Interest					
Total - 6/30/2018					
Total - 6/30/2017		(14,690)			(14,690)
Net exposure - 6/30/2018		54		60,009	60,063
Net exposure - 6/30/2017		(7,474)			(7,474)

(e) Swaps by index and notional amount:

	Notional amount	Curve value	Adjustment to market value	Market value
Asset position - differential receivable				
(US\$+ Libor+ rate) x (BRL +%CDI)	287,262	42,413	7,206	49,619
(EUR+Euribor+rate) x (BRL +%CDI)	46,073	9,996	448	10,444
(US\$+ Rate) x (BRL +%CDI)				
Total - 6/30/2018	333,335	52,409	7,654	60,063
Total - 6/30/2017	215,628	5,634	1,582	7,216
Liability position - differential payable				
(US\$+ Libor+ rate) x (BRL +%CDI)				
(EUR+Euribor+rate) x (BRL +%CDI)				
(US\$+ rate) x (BRL +%CDI)				
Total - 6/30/2018				
Total - 6/30/2017	222,866	(15,642)	952	(14,690)
Net exposure - 6/30/2018	333,335	52,409	7,654	60,063
Net exposure - 6/30/2017	438,494	(10,008)	2,534	(7,474)

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7 Credit operations and receivables similar to credit operations

The Bank's credit portfolio is as follows:

	<u>Total</u>	<u>Provision</u>	<u>Net book value</u>
Credit operations	5,467,920	(550,847)	4,917,073
Credits similar to credit operations	<u>16,854</u>	<u>(199)</u>	<u>16,655</u>
Total - 6/30/2018	<u>5,484,774</u>	<u>(551,046)</u>	<u>4,933,728</u>
Total - 6/30/2017	5,904,450	(434,335)	5,470,115

The credit operations at June 30, 2018 totaled R\$ 5,484,774 (2017 - R\$ 5,904,450), of which R\$ 1,925,029 (2017 - R\$ 1,775,972) was granted with own resources and R\$ 3,559,745 (2017 - R\$ 4,128,478), originally, with funds onlent by other financial institutions.

The balance of the renegotiated operations on June 30 amounted to R\$ 1,248,512 (2017 - R\$ 1,094,889).

(a) Classification by product and by segment of activity

	<u>At 6/30/2018</u>	<u>At 6/30/2017</u>
Loans	<u>1,204,474</u>	<u>1,239,732</u>
Manufacturing	689,223	773,475
Commerce	250,732	281,536
Other services	264,519	184,721
Financing to the private sector	<u>3,553,766</u>	<u>3,870,080</u>
Manufacturing	1,485,724	1,797,948
Commerce	177,827	215,042
Other services	935,731	1,074,119
Rural and agribusiness	948,635	770,386
Financial intermediaries	1,505	7,312
Individuals	4,345	5,273
Financing to the public sector (municipal direct and indirect administration)	<u>709,679</u>	<u>793,399</u>
Credits similar to credit operations	<u>16,854</u>	<u>1,239</u>
Subtotal	5,484,774	5,904,450
Provision for impairment of receivables	(550,847)	(434,329)
Provision for credits similar to credit operations subject to impairment	<u>(199)</u>	<u>(6)</u>
	<u>4,933,728</u>	<u>5,470,115</u>
Current	1,628,843	1,579,391
Non-current	3,304,885	3,890,724

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(b) Classification by maturity and risk levels

Level of risk	Total	Overdue (in days)				Falling due (in days)				At	At
		As from 15	Up to 14	Up to 90	From 91 to 360	From 361 to 1080	From 1081 to 1800	From 1801 to 5400	Over 5400	6/30/2018	6/30/2017
AA	2,042,780			129,277	371,171	756,707	467,659	317,252	714		2,029,723
A	728,041			71,577	147,159	230,377	212,888	66,021	19		570,785
B	727,758	21,213	221	81,863	135,885	230,797	124,015	112,733	21,031		1,406,026
C	881,000	37,266	357	109,394	209,673	284,457	132,403	107,450	-		928,253
D	406,466	58,174	158	44,049	100,301	101,834	52,992	48,958	-		332,712
E	257,864	101,532	1,046	13,983	39,620	56,620	24,372	20,691	-		283,148
F	25,152	9,071	2	488	1,966	4,109	4,178	4,803	535		239,834
G	117,398	98,284	2	1,691	1,589	5,815	5,664	4,353	-		15,926
H	298,315	132,737	36	3,765	8,695	13,381	6,386	14,709	118,606		98,043
	<u>5,484,774</u>	<u>458,277</u>	<u>1,822</u>	<u>456,087</u>	<u>1,016,059</u>	<u>1,684,097</u>	<u>1,030,557</u>	<u>696,970</u>	<u>140,905</u>		<u>5,904,450</u>

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(c) Classification by risk levels and provision

		At 6/30/2018		At 6/30/2017		
		Portfolio	Provision for impairment based on the minimum percentage required	Provision for impairment of receivables (i)	Portfolio	Provision for impairment of receivables
Level of risk:	%					
AA	0	2,042,780			2,029,723	(42,249)
A	0.5	728,041	(3,640)	(3,640)	570,785	(2,854)
B	1	727,758	(7,278)	(7,278)	1,406,026	(14,060)
C	3	881,000	(26,430)	(26,477)	928,253	(27,848)
D	10	406,466	(40,647)	(42,724)	332,712	(33,271)
E	30	257,864	(77,359)	(77,857)	283,148	(84,944)
F	50	25,152	(12,576)	(12,576)	239,834	(119,917)
G	70	117,398	(82,179)	(82,179)	15,926	(11,148)
H	100	298,315	(298,315)	(298,315)	98,043	(98,044)
		<u>5,484,774</u>	<u>(548,424)</u>	<u>(551,046)</u>	<u>5,904,450</u>	<u>(434,335)</u>

(d) Changes in the provision for impairment of receivables

	At 6/30/2018	At 6/30/2017
Opening balance	776,092	317,249
Recording of provision, net of reversals	76,996	171,647
Credits written-off as losses	<u>(302,042)</u>	<u>(54,561)</u>
Closing balance	<u>551,046</u>	<u>434,335</u>

(e) Credit assignments

The balance of operations assigned with co-obligation, according to the amounts shown below, refers to operations assigned up to December 31, 2011 (prior to CMN Resolution 3,533/2008):

	At 6/30/2018	At 6/30/2017
Assignment prior to CMN Resolution 3,533/2008:		
Co-obligations pending settlement	23,705	26,962
Settled transactions to be transferred	<u>331</u>	<u>242</u>
	<u>24,036</u>	<u>27,204</u>

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8 Other receivables

	<u>At 6/30/2018</u>	<u>At 6/30/2017</u>
Tax credits (a)	547,474	494,768
Debtors for deposits in guarantee (b)	118,660	120,855
Notes and credits receivable (c)	11,554	11,569
Sundry debtors - local (d)	604	5,459
Income receivable (e)	2,417	3,577
Other	23,498	7,056
Provision for impairment of other receivables (f)	(12,501)	(12,308)
	<u>691,706</u>	<u>630,976</u>
Current	86,408	89,118
Non-current	605,298	541,858

- (a) The tax credits for income tax and social contribution on net income were calculated and recorded based on the aspects disclosed in Note 19(a).
- (b) The debtors for guarantee deposits mainly relate to legal disputes, especially those of a fiscal and tax nature, as described in Note 13(a), which includes the relationship of the judicial deposits with the related legal cases.
- (c) The notes and credits receivable relate to: (i) income amounting to R\$ 11,119 (2017 - R\$ 11,119) due to the renegotiations based on laws related to rural credit transactions carried out with funds from the National Treasury Secretariat (STN), for which provisions were recorded as detailed in Note 8 (f); and (ii) income from the Fund for the Defense of the Coffee Economy (Funcafé) amounting to R\$ 435 (2017 - R\$ 449).
- (d) The balance of sundry debtors mainly comprises R\$ 560 (2017 - R\$ 5,343) relating to the non-default bonus granted by the Bank to customers of renegotiated rural operations according to the provisions of Law 9,138/1995 and its amendments.
- (e) Income receivable mainly arises from the remuneration for services provided through commissions on credit operations carried out with resources of the development funds managed by BDMG, net of the respective provisions: R\$ 1,741 (2017 - R\$ 2,486). The income falls due based on the maturity dates of the contracted installments, and a provision is recorded based on the risk level in which the transaction generating the income is classified. This risk classification is a result of the policy adopted by the Bank referring to the transactions funded by resources from the managed funds, which are the same criteria established in CMN Resolution 2,682/1999 for the credit transactions of BDMG's own portfolio.
- (f) The provision for impairment of receivables of R\$ 12,501 (2017 - R\$ 12,308) mainly refers to credits without the characteristics of loan transactions comprised of amounts to be reimbursed by the National Treasury Secretariat (STN) and which were recorded due to the uncertainty regarding the period of realization of these receivables.

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9 Other assets

	<u>At 6/30/2018</u>	<u>At 6/30/2017</u>
Assets not for own use	60,042	70,703
Equity investments	6	5
Other	228	208
Subtotal	<u>60,276</u>	<u>70,916</u>
Provision for assets not for own use	<u>(3,442)</u>	<u>(4,264)</u>
	<u>56,834</u>	<u>66,652</u>
Current	228	208
Non-current	56,606	66,444

10 Permanent assets

(a) Investments

	<u>At 6/30/2018</u>	<u>At 6/30/2017</u>
BDMGTEC Participação S.A. (i)	-	88,106
Other	1,324	1,324
Provision for losses, shares, and quotas (837)	<u>(837)</u>	<u>(837)</u>
	<u>487</u>	<u>88,593</u>

BDMGTEC, a wholly-owned subsidiary of BDMG, incorporated on February 27, 2012, after approvals held in an Extraordinary General Meeting, in accordance with State Law 19,967/2011, was merged into the Bank pursuant to Law 13,303/2016 and to the State Decree 47,154/2017. The merger took place on June 26, 2018 and was approved at BDMG's Extraordinary General Meeting of Stockholders and in the BDMGTEC's Extraordinary General Meeting of Stockholders, both held in that date.

The Bank assessed its investment in BDMGTEC under the equity accounting method and, therefore, the merger had no impact on its share capital. The assets, rights, and obligations accounted for in BDMGTEC were recognized in the Bank's balance sheet accounts with the necessary adjustments, at the amounts accounted for and with offsetting entries to the investment amount in this subsidiary.

The table below shows:

- 1 - The identification of the Bank's accounts where the merged assets were accounted for;
- 2 - The BDMGTEC assets and the respective balances corresponding to the merged equity (same amount of the Bank's investment in this subsidiary, evaluated under the equity accounting method) at the date of the merger.

Note: BDMGTEC's liabilities at the date of the merger comprised "PIS and COFINS payable" and are not included in the table below because their amounts are below one thousand reais.

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BDMG	BDMGTEC	Balances R\$ thousand
Accounts where the assets from BDMGTEC were recorded	Merged assets	
Bank deposits (cash and cash equivalents)	Bank deposits	9
Fixed-income securities (Independent marketable securities)	CDB investments	550
Taxes and contributions to be offset (Other credits)	Negative IRPJ and CSLL balance	41
Variable income securities (Independent marketable securities)	Ownership interest in UNITEC Semicondutores S.A.	56,198
Provision for losses variable income security losses (Independent marketable securities)	Impairment losses - UNITEC	(56,198)
Variable income securities (Independent marketable securities)	Ownership interest in BIOMM S.A.	39,675
Provision for losses variable income security losses (Independent marketable securities)	Impairment losses - BIOMM	(830)
Investments (Permanent)	Merged equity	39,445

(b) Property and equipment in use

	At 6/30/2018		At 6/30/2017	
	Cost	Accumulated depreciation	Net book value	Net book value
Real estate	43,788	(26,971)	16,817	17,469
Facilities, furniture and equipment	6,100	(5,470)	630	802
Data processing system	6,457	(5,346)	1,111	1,291
Other	564	(516)	48	47
Construction in progress	17		17	5
	<u>56,926</u>	<u>(38,303)</u>	<u>18,623</u>	<u>19,614</u>

(c) Intangible assets

	At 6/30/2018		At 6/30/2017	
	Cost	Accumulated amortization	Net book value	Net book value
Intangible assets	<u>27,020</u>	<u>(14,363)</u>	<u>12,657</u>	<u>10,498</u>

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11 Deposits and funds from acceptances and issue of securities

The funds obtained in Brazil are as follows:

	<u>At</u> <u>6/30/2018</u>	<u>At</u> <u>6/30/2017</u>
Interbank deposits (a)	97,162	-
Demand deposits (b)	405	263
Time deposits (c)	54,404	301
Financial bills (d)	50,775	346,472
Agribusiness letters of credit (LCA) (e)	210,130	197,996
	<u>412,876</u>	<u>545,032</u>
Current	217,074	417,982
Non-current	195,802	127,050

(a) Interbank deposits

The bank deposits comply with the clause of credit risk mitigation included in derivative contracts, which requires that the party, with a payable in excess of a certain amount, maintain interbank deposits in the institution that is the counterparty of the transaction.

These deposits are guarantee margins, and accrue charges equal to the CDI interest rate and maturities in accordance with the amount adjusted for the coverage of the differential receivable or payable for each one of the swaps contracted.

(b) Demand deposits

Demand deposits are made with BDMG as a collateral against the risk of default in the financing granted for the purchase of hybrid vehicles to be used as taxis. In accordance with the collateral agreement, the amounts deposited can be released after a certain period: by BDMG in the event of default under the conditions established, or by the depositor if there is no default according to the conditions established.

(c) Time deposits

These deposits refer to guarantees received by the Bank for the contracting of credit operations.

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(d) Financial bills

The funds obtained with the issue of financial bills were as follows:

			<u>At 6/30/2018</u>	<u>At 6/30/2017</u>
	<u>Maturity</u>	<u>Amount</u>	<u>Balance</u>	<u>Balance</u>
Type of issue:				
Private	4/6/2020	250	50,775	
Public	12/17/2017	778		215,644
Public	12/17/2017	472		130,828
			<u>50,775</u>	<u>346,472</u>
Current				346,472
Non-current			50,775	

The issues of BDMG's financial bills complied with the National Monetary Council (CMN) Resolution 4,143/2012.

(e) Agribusiness letters of credit (LCA)

The Bank, backed by agribusiness credit transactions, began issuing LCAs from December 2016. In compliance with the applicable rules, the securities are held in custody in the Central System for Custody and Financial Settlement of Securities (CETIP) and are backed by the Credit Guarantor Fund.

At June 30, the position of the LCAs by issue date is as follows:

<u>Month of issue</u>	<u>Month of maturity date</u>	<u>Amount</u>	<u>From 91 to 180 days</u>	<u>From 181 to 360 days</u>	<u>After 360 days</u>	<u>At 6/31/2018</u>
Dec-16	Dec-19	16,000			18,039	18,039
Jan-17	Jan-20	40,000			44,884	44,884
Jun-17	Jun-19	48,430		52,027		52,027
	Jun-20	10,000			10,724	10,724
	Jun-22	10,000			10,821	10,821
Oct-17	Oct-18	1,400	559			559
Nov-17	Nov-18	14,089,588	146			146
Dec-17	Jan-19	30,031		30,936		30,936
Jan-18	Jan-19	40,899		41,994		41,994
Total - 6/30/2018		<u>14,286,348</u>	<u>705</u>	<u>124,957</u>	<u>84,468</u>	<u>210,130</u>
Total - 6/30/2017		189,507	15,745	55,201	127,050	197,996

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12 Borrowings and onlendings

(a) Abroad

On June 30, funds raised abroad by the Bank totaled R\$ 469,416 (2017 - R\$ 520,429) and are as follows:

	At 6/30/2018		At 6/30/2017	
	Curve	Market	Curve	Market
Institution:				
CAF	222,042	229,107	272,793	273,986
IDB	124,632	123,466	137,131	136,047
AFD	116,435	116,843	110,643	110,396
		<u>469,416</u>		<u>520,429</u>
Current		107,124		520,429
Non-current		362,292		-

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

On June 30, 2018, the breaches of the covenants are covered by waivers granted by the creditors.

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

(i) Corporación Andina de Fomento - CAF

The financing of US\$ 100 million, contracted with CAF, in August 2014, with interest of the six-month Libor plus up to 3.65% p.a. and maturity of up to 10 years, was released in tranches of different amounts, presented below:

Tranche	Date of release	Final maturity	Release US\$ (000)	At 6/30/2018		At 6/30/2017	
				Curve R\$	Market R\$	Curve R\$	Market R\$
CAF 1	9/27/2013	9/27/2023	15,000	38,014	45,107	38,448	38,448
CAF 2	10/21/2013	10/23/2023	30,000	75,694	75,346	76,593	76,379
CAF 3	12/19/2013	12/19/2023	30,000	74,964	74,955	75,998	76,189
CAF 4	10/23/2015	10/23/2018	23,500	30,475	30,804	78,277	79,493
CAF 5 (*)	12/21/2015	12/21/2020	1,500	2,895	2,895	3,477	3,477
			<u>100,000</u>	<u>222,042</u>	<u>229,107</u>	<u>272,793</u>	<u>273,986</u>

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Due to the downgrading of the Bank and the resulting breach of the hedge contract covenant, which guaranteed the hedge of CAF1 and CAF2 tranches, the Bank settled the contracts in advance on January 23, 2017. On the same date, the Bank obtained a new swap operation to hedge the CAF 2 and made a deposit abroad in U.S. dollars which corresponded to the CAF1 tranche balance. On July 19, 2017, the Bank received these funds and contracted a new swap to hedge against the foreign exchange and interest rate risks inherent to this tranche.

(*) The market value of the funding transaction of CAF 5 corresponds to the amortized cost, since it is a natural hedge for which the financial conditions related to the foreign funding have been transferred to the credit operations with customers, plus the Bank's remuneration.

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

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

The released tranches are as follows:

Tranche	Date of release	Final maturity	Release €	Curve R\$	At 6/30/2018		At 6/30/2017	
					Market R\$	Curve R\$	Market R\$	Curve R\$
AFD 1	7/22/2014	11/28/2025	9,000	33,804	33,804	32,122	31,734	
1st tranche			4,000	15,024	15,024	14,276	14,276	
2nd tranche			5,000	18,780	18,780	17,846	17,458	
AFD 2	10/13/2014	11/28/2025	7,000	26,292	26,292	24,984	24,984	
AFD 3	2/2/2017	11/28/2025	15,000	56,339	56,747	53,537	53,678	
			<u>31,000</u>	<u>116,435</u>	<u>116,843</u>	<u>110,643</u>	<u>110,396</u>	

(iii) Inter-American Development Bank (IDB)

In June 2014, BDMG entered into a borrowing agreement with the IDB, of up to the limit of US\$ 150 million, through releases to be made in three tranches. This borrowing will bear a floating interest rate, to be paid on a six-monthly basis, at 2.25% plus the applicable semi-annual Libor rate, which may vary depending on the criteria established in the contract for each tranche.

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The tranche already released is as follows:

Tranche	Date of release	Final maturity	Release US\$ (000)	At 6/30/2018		At 6/30/2017	
				Curve R\$	Market R\$	Curve R\$	Market R\$
IDB	8/4/2014	8/16/2021	50,000	124,632	123,466	137,131	136,047

(b) Official institutions

The obligations with official institutions correspond to the balances of the resources obtained from official funds and programs onlent to finance projects in the State of Minas Gerais. The maturities of the principal and related charges are up to 2029, and the financial charges are defined in the operating policies of each agency or fund which is transferring the resources.

The balances of these obligations are as follows:

	At 6/30/2018	At 6/30/2017
BNDES (i)	1,908,953	2,227,568
FINAME	1,246,850	1,421,286
Bank of Northeast of Brazil (BNB)	16,491	18,965
National Treasury	11,701	12,689
Federal Savings Bank (CEF)	13,767	3,518
FINEP	107,011	80,892
FUNCAFÉ	139,494	95,737
Fungetur	9,864	-
	<u>3,454,131</u>	<u>3,860,655</u>
Current	970,831	907,566
Non-current	2,483,300	2,953,089

The National Bank for Economic and Social Development (BNDES)/Government Agency for Machinery and Equipment Financing (FINAME) System is the main source of funds for onlending from BDMG to its customers.

- (i) The funds from BNDES are mainly allocated to the financing of long-term investment projects and arise from the following credit lines:

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	At 6/30/2018	At 6/30/2017
BNDES Automático PROGEREN	504,273	740,800
BNDES FINEM	348,949	340,521
BNDES Automático	278,828	253,899
BNDES Automático TJLP	95,798	125,277
BNDES Automático PRODECOOP	93,037	94,345
BNDES FINEM TJLP	40,254	61,824
BNDES FINEM PSI	49,591	60,600
BNDES SAUDE	57,707	60,313
BNDES AUTOMÁTICO PCA	83,545	59,152
BNDES AUTOMÁTICO PROCAP-AGRO	20,636	36,212
BNDES AUTOMÁTICO TJ-462	18,175	34,723
BNDES FINEM TJ-462	20,216	34,001
Other	297,944	325,901
	<u>1,908,953</u>	<u>2,227,568</u>

13 Other payables

	At 6/30/2018	At 6/30/2017
Taxes and social security (a)	42,057	33,220
Sundry (b)	472,019	594,139
Social and statutory (c)	434	434
Financial and development funds (c)	78,477	37,034
Collection of taxes	109	90
	<u>593,096</u>	<u>664,917</u>
Current	86,256	90,681
Non-current	506,840	574,236

(a) Taxes and social security

	At 6/30/2018	At 6/30/2017
Provision for deferred taxes and contributions	11,776	12,305
Provision for taxes and contributions	25,345	16,375
Taxes and contributions payable	4,936	4,540
	<u>42,057</u>	<u>33,220</u>
Current	34,900	24,205
Non-current	7,157	9,015

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(b) Sundry

	At 6/30/2018	At 6/30/2017
Provision for tax obligations (i) and (ii)	179,286	192,157
Provision for other obligations (iii)	32,923	90,434
Provision for future payments (iv)	18,271	15,602
Actuarial liabilities (v)	216,753	286,758
Contribution for capital increase (vi)	143	4
Sundry creditors - local (vii)	24,643	9,184
	<u>472,019</u>	<u>594,139</u>
Current	49,211	64,466
Non-current	422,808	529,673

- (i) The provision for tax obligations is comprised of the liabilities related to taxes, involving ongoing administrative proceedings and legal lawsuits with the Brazilian Federal Revenue Secretariat (SRF), which are adjusted by the Special System for Settlement and Custody (SELIC) interest rate on a monthly basis. The projection of results of BDMG considers the realization of the tax credits related to this provision over a period of 10 years.

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

	At 12/31/2017	Provision	Adjustment	Reversal/ write-off	At 6/30/2018
Change in the Social Contribution on Revenues (COFINS) calculation basis - Law 9,718/1998	115,290	-	2,133	-	117,423
Change in the Social Integration Program (PIS)/Public Service Employee Savings Program (PASEP) calculation basis - Law 9,718/1998	60,905	-	907	-	61,812
Tax exemption for the Social Security Fund (FINSOCIAL) from December 1986 to March 1990	5,172	-	23	(5,195)	-
Other contingencies and legal obligations	50	-	1	-	51
	<u>181,417</u>	<u>-</u>	<u>3,064</u>	<u>(5,195)</u>	<u>179,286</u>

- (ii) The Bank has judicial deposits in connection with the above tax obligations amounting to R\$ 116,559 (2017 - R\$ 117,496), which are included the balance of R\$ 118,660 (2017 - R\$ 120,855) of the account "Other receivables - Debtors for deposits in guarantee" (Note 8(b)).

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The judicial deposits related to the ongoing tax proceedings are as follows:

	At 6/30/2018		At 6/30/2017	
	Provision	Deposits	Provision	Deposits
Change in the Social Contribution on Revenues (COFINS) calculation basis - Law 9,718/1998	117,423	53,236	127,316	51,240
Change in the calculation basis of PIS/PASEP as established by Law 9,718/1998	61,812	61,812	59,682	59,682
Tax exemption for the Social Security Fund (FINSOCIAL) from December 1986 to March 1990	-	-	5,109	5,109
Other contingencies and legal obligations	51	1,511	50	1,465
	<u>179,286</u>	<u>116,559</u>	<u>192,157</u>	<u>117,496</u>

In the judicial proceedings related to COFINS and to PIS/PASEP, the Bank seeks the suspension of the payment of these taxes, according to Law 9,718/1998. In addition to establishing the payment of COFINS by financial institutions, this Law also extended the calculation basis for the PIS/PASEP contribution by determining that revenue for this purpose considered both the gross operating and non-operating incomes. Because of the decisions already issued during the course of the proceedings, the Bank made judicial deposits up to December 2014 in order to cover the COFINS contribution on revenues from services rendered. As from January 2016, with the effectiveness of the amendments introduced by Law 12,973/2014, the Bank started to pay PIS/PASEP and COFINS normally on all of its revenues.

Despite the risk of these proceedings being classified only as possible losses, in accordance with BACEN Circular 3,429/2010, which requires the recognition as liabilities by the financial institutions of tax obligations for which there are current legal discussions about the constitutionality of the Laws that established them, up to the effective termination of the corresponding tax credits, the Bank accounted for the respective tax and social security provisions.

In addition to the proceedings mentioned above, which are already provisioned, the Bank has the following fines and contingent tax and social security proceedings and relevant amounts, which are classified as possible losses and for which there is no provision accounted for (Note 2.14):

- Fine not included in the amount deposited in court to cover COFINS contributions related to the aforementioned proceeding. The updated fine amounts to R\$ 2,772 (2017 - R\$ 2,710).
- Fines resulting from tax assessment notices issued by the Federal Revenue Secretariat referring to the collection of COFINS related to the aforementioned proceedings, which were not considered in the provisions carried out. The updated fines amount to R\$ 25,525 (2017 - R\$ 15,901).
- Tax assessment notice issued by the Federal Revenue Secretariat referring to the offset of the credit against IRPJ losses related to calendar year 2003 (Federal Income Tax Return (DIPJ) 2004). Up to December 2016, the proceeding was assessed as a remote loss, however, due to the unanimous decision of the members of the Administrative Board of Tax Appeals (CARF) to postpone judgment to produce more evidence, the assessment of the risk of an unfavorable outcome was reclassified to possible in June 2017. The updated assessment notice amounts to R\$ 7,696 (2017 - R\$ 7,485).

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- Tax assessment notice issued by the Federal Revenue Secretariat in July 2010 related to the difference in the calculation of income tax and social contribution in the period from 2005 to 2007. The updated assessment notice amounts to R\$ 10,006 (2017 - R\$ 9,637).
- Tax assessment notice issued by the Federal Revenue Secretariat referring to exclusions carried out by the Bank in the IRPJ calculation basis related to taxable events in 1997 and 1998. Up to December 2016, the proceeding was assessed as a remote loss, however, since the appeals filed by the Bank were denied according to the decision of the Administrative Board of Tax Appeals (CARF), the risk of loss in a portion of the proceeding was reclassified as possible. The updated assessment notice amounts to R\$ 14,719 (2017 - R\$ 14,393).

(iii) Provision for other obligations

The provision for other obligations and the changes during the period are as follows:

	<u>At</u> <u>12/31/2017</u>	<u>New</u> <u>provisions</u>	<u>Restatements</u>	<u>(Write-</u> <u>offs)</u>	<u>At</u> <u>6/30/2018</u>
Co-obligation assumed in loan transactions ceded to STN	4,151	167	-	(221)	4,097
Civil proceedings	7,036	308	-	(6,060)	1,284
Labor proceedings	12,278	1,396	-	-	13,674
Legal fees	7,885	393	42	(708)	7,612
Other	21,414	-	-	(15,158)	6,256
	<u>52,764</u>	<u>2,264</u>	<u>42</u>	<u>(22,147)</u>	<u>32,923</u>

The Bank has R\$ 1,914 (2017 - R\$ 1,517) recorded in "Other receivables - Debtors for deposits in guarantee" in connection with the filing of appeals for labor proceedings, as well as R\$ 187 (2017 - R\$ 1,842) for coverage of risks with civil proceedings.

Labor and civil proceedings whose likelihood of loss was considered as possible and for which no provision has been recorded totaled R\$ 729 (2017 - R\$ 5,672) and R\$ 291 (2017 - R\$ 188), respectively, on June 30.

The provision for guarantees provided arises from the review of the risk, pursuant to Resolution 2,682/1999, in relation to balance of guarantees offered by the Bank.

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(iv) Provision for future payments

The provision for future payments relates to the following commitments:

	<u>At 6/30/2018</u>	<u>At 6/30/2017</u>
Vacation pay, 13th month salary and other charges	14,617	14,949
Employees' profit sharing program (PLR)	3,015	9
Voluntary employment termination program	37	
Other	602	644
	<u>18,271</u>	<u>15,602</u>

(v) Actuarial liabilities

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

	<u>At 6/30/2018</u>	<u>At 6/30/2017</u>
Actuarial liability related to the Pension Plan	115,956	130,865
Actuarial liability related to the medical and dental assistance plan - Health Promotion Program (PRÓ-SAÚDE).	88,384	139,836
Actuarial liability related to the life insurance	12,413	16,057
	<u>216,753</u>	<u>286,758</u>

(vi) The balance of the "Contribution for capital increase" account refers to the percentage on returns of the borrowings contracted with the Social and Economic Development Fund (FUNDESE) for capital increase applicable to the Program for Popular Credit (CREDPOP), in accordance with State Law 13,667/2000.

(vii) The balance of "Sundry creditors - local" mainly relates to: balance payable to BACEN due to the enrollment, in August 2017, in the PDR mentioned in Note 14.a (iii-a) - R\$ 15,082 (2017 - R\$ 0); customer credits to be offset - R\$ 6,312 (2017 - R\$ 902,786); and amounts to be transferred to the Institute of Integrated Development of Minas Gerais (INDI) - R\$ 1,541 (2017 - R\$ 2,508).

(c) **Social and statutory**

The amount of R\$ 434 refers to the residual balance of interest on capital.

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(d) Financial and development funds

The amount of R\$ 78,477 (2017 - R\$ 37,034) substantially relates to resources from funds managed by BDMG (private funds and those of government agencies), which were received from customers and that are yet to be transferred to the funds.

14 Deferred income

The balance of R\$ 11,221 (2017 - R\$ 11,691) relates to the net amount of commissions on credit operations received in advance and which are allocated during the periods established in the related contracts.

15 Equity

(a) Capital

The subscribed capital of BDMG is represented by 64,663,501,291 (2017 - 64,242,827,562) registered common shares with no par value, totaling R\$ 1,918,771 (2017 - R\$ 1,906,151).

On March 14, 2018, the State of Minas Gerais (a stockholder) subscribed and paid up the capital increase of R\$ 12,620, approved by the Extraordinary General Meeting held on that same date. The BACEN approved this capital increase on March 22, 2018.

At June 30, 2018, the Bank's stockholders were: (i) the State of Minas Gerais, which holds 89.79% of the Bank's share capital; (ii) Companhia de Desenvolvimento Econômico de Minas Gerais - CODEMIG, with 9.26% and which became a stockholder as from the last quarter of 2012; (iii) MGI - Minas Gerais Participações, with 0.95%, which became a stockholder as from June 2017, through the acquisition of a portion of the shares of CODEMIG; and (iv) the State Highway Authority of Minas Gerais (DER-MG), with 0.01% and which is a stockholder since 1990, when the Bank changed from an autonomous government agency to a corporation.

(b) Legal reserve

The legal reserve is calculated at 5% of profit, up to 20% of capital. The balance of the legal reserve in December 2017 was used to offset a portion of the losses generated in the year. The balance on June 30 is R\$ 0 (2017 - R\$ 8,051).

(c) Carrying value adjustments

	<u>At 6/30/2018</u>	<u>At 6/30/2017</u>
Adjustments to market value (i)	(3,630)	(5,635)
Other carrying value adjustments (ii)	<u>(79,875)</u>	<u>(113,767)</u>
Total	<u>(83,505)</u>	<u>(119,402)</u>

(i) The adjustments to market value, net of tax effects, refers to the adjustments of the securities classified

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as available for sale.

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

(d) Retained earnings (accumulated deficit)

In the six-month period, a profit of R\$ 60,147 was recorded (2017 - loss of R\$ 36,327).

(e) Dividends and interest on capital

Stockholders are assured the payment of a minimum dividend of 1% of the profit for each year, adjusted in accordance with Brazilian Corporate Law and the Bank's bylaws.

Concerning the capital remuneration of its stockholders, BDMG distributes dividends or pays interest on capital according to the profit for each year.

16 Capital management

In compliance with CMN Resolution 4,667/2017, the Bank issued internal regulations, Resolution 213 and Instruction 239, which define the necessary structure and policy for the management of the Bank's capital. These regulations define guidelines for ensuring the maintenance of adequate capital, without failing to meet the regulatory requirements established, so as to permit the Bank to meet the goals of its strategic planning, even under different scenarios.

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

Following these regulations and taking into account the strategic planning definitions, the assumptions for the proposed scenarios and the projected results of operations, the Bank prepared its capital plan for the period from 2018 to 2020. The "BDMG's Capital Management Structure Description Report" is available at: <http://www.bdmg.mg.gov.br/Transparencia/Paginas/demonstracao-financeira.aspx>. (not audited).

The capital management structure comprises the Director assigned as responsible for the capital management and the Financial Management, Capital, and Risks Committee, as well as the following units of the Bank: (i) General Controllershship Management area, responsible for the preparation of the capital plan and calculation of the capital required to cover the credit and operating risks and the consolidation of information referring to indicators and minimum capital requirements; (ii) General Risk Management area, responsible for the calculation of the capital required to cover the market risks and the preparation of stress tests for market risk; (iii) General Planning Management area, responsible for describing the Bank's strategy; (iv) General Financial Management area, responsible for the significant information on the sources of capital; and (v) the General Audit area, which periodically assesses the capital management process of the Bank.

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The Director responsible for the capital management deals with the procedures and controls related to the capital management and is a member of the Financial, Capital, and Risks Management Committee. This Committee is responsible for assessing the main assumptions that may affect the capital plan and for suggesting changes in order to reach the desirable minimum capital levels and the respective indicators.

17 Regulatory capital

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

CMN Resolution 4,192/2013 and a new set of rules regulated in Brazil, as from 3/1/2013, the recommendations of the Basel Committee on Banking Supervision (BCBS) regarding the capital structure of financial institutions, known as Basel III. This new framework introduced the calculation methodology for the regulatory capital and for the capital maintenance requirement with minimum requirements regarding reference equity (PR), Level-I PR and main capital.

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

	At 6/30/2018	At 6/30/2017
Equity	1,725,933	1,721,937
Reference equity - level I (a)	1,713,276	1,688,938
Capital for operations with public sector (b)	670,000	700,000
Reference equity (PR) (a-b)	1,043,276	988,938
Total risk weighted assets (RWA)	<u>6,306,231</u>	<u>6,454,451</u>
Credit risk (RWAcpad)	5,458,033	5,751,536
Market risk - (RWAmpad)	177,861	203,785
Operating risk (RWAopad)	670,337	499,130
Portion of capital for coverage of interest rate risk of the portfolio not subject to negotiation (RWA R_{ban})	26,082	34,387
Minimum reference equity	806,478	792,785
Basel Index (PR/RWA)	16.54%	15.32%
Extended Basel Index (PR/(RWA + RWA R _{BAN}))	15.79%	14.49%

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18 Statement of operations accounts

(a) Income from credit operations

	6/30/2018	6/30/2017
Income from loans	300,669	321,471
Credits recovered	29,204	12,825
	329,873	334,296

(b) Result from marketable securities transactions and derivative financial instruments and expenses with financial intermediation

(i) Result from marketable securities transactions and derivative financial instruments

	6/30/2018	6/30/2017
Income from fixed-income securities	21,970	44,343
Income from investments in repurchase transactions	3,720	6,781
Income/(losses) from investments in investment funds	1,488	4,013
Income from interbank deposits	-	601
Results from swap transactions	45,332	(14,188)
	72,510	41,551

(ii) Expenses with financial intermediation

	6/30/2018	6/30/2017
Financial bill expenses	(992)	(20,300)
Expenses with agribusiness letters of credit	(8,133)	(2,544)
Onlending expenses - BNDES/FINAME	(107,902)	(136,005)
Onlending expenses - Other institutions	(9,274)	(7,993)
Foreign borrowing expenses	(86,607)	(33,316)
Interbank deposit and repurchase operation expenses	(3,501)	(29)
Expenses for Financial and Development Funds	(692)	-
	(217,101)	(200,187)

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**(c) Administrative expenses, tax expenses,
other operating income (expenses)**

(i) Other administrative expenses

	6/30/2018	6/30/2017
Outsourced services and specialized personnel	(5,787)	(5,164)
Advertising and communication	(1,279)	(1,765)
Data processing	(2,234)	(1,737)
Depreciation and amortization	(2,767)	(2,502)
Maintenance and materials	(1,233)	(1,355)
Travel and transportation	(929)	(792)
Rental and infrastructure	(493)	(617)
Other	(2,132)	(2,672)
	<u>(16,854)</u>	<u>(16,604)</u>

(ii) Tax expenses

	6/30/2018	6/30/2017
Social Integration Program (PIS) and Social Contribution on Revenues (COFINS)	(9,159)	(8,915)
Services Tax (ISSQN)	(955)	(840)
Other	(649)	(635)
	<u>(10,763)</u>	<u>(10,390)</u>

(iii) Other operating income

	6/30/2018	6/30/2017
Reversal of sundry provisions	22,653	5,132
Post-employment benefit - Past Service - withdrawal of the sponsorship for the healthcare and life insurance plans	31,411	-
Gain from adjustment to market value of hedged items	11,081	5,346
Other	3,796	1,277
	<u>68,941</u>	<u>11,755</u>

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(iv) Other operating expenses

	<u>6/30/2018</u>	<u>6/30/2017</u>
Provisions for co-obligations in rural operations	(113)	(445)
Provision for tax, labor and civil risks	(4,013)	(5,662)
Expense with the INDI agreement	(3,787)	(4,437)
Post-employment benefit - pension plan	(5,240)	(5,423)
Post-employment benefit - healthcare and life insurance	(5,768)	(6,646)
Other long-term benefits	-	(133)
Expense with BDMG Cultural agreement	(730)	(639)
Expense with bonus and discount on credit operations	(3,256)	(3,272)
Expenses with discounts granted on renegotiation	(3,368)	(1,448)
Expenses with guarantees provided	-	(15,246)
Fees/commissions on foreign borrowings	(1)	(63)
Indemnities	(6,148)	(44)
Other	(2,675)	(2,724)
	<u>(35,099)</u>	<u>(46,182)</u>

19 Income tax and social contribution

(a) Deferred income tax and social contribution

Deferred tax credits are as follows:

	<u>At 6/30/2018</u>	<u>At 6/30/2017</u>
Temporary additions (i)	544,226	489,960
Adjustment to market value (marketable securities)	3,248	4,808
Total	<u>547,474</u>	<u>494,768</u>

- (i) Because of Provisional Measure 675/2016, converted into Law 13,169/2016, which increased the rate of CSLL from 15% to 20% during the period from 9/1/2016 to December 31, 2018, it was necessary to adjust the amounts accounted for as CSLL tax credit in 2016.

However, since the increase will be effective only during a fixed period of time, the rate increase of 5% was not accounted for on the total temporary differences for the period, but only on the balance to be reversed, as projected up to December 31, 2018.

The tax credits from temporary additions as related to the provisions from which they resulted is as follows:

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	At 6/30/2018	At 6/30/2017
Impairment of receivables	371,465	282,953
COFINS - (change in the calculation basis of Law 9,718/1998)	36,141	40,896
Civil, labor and tax contingencies	8,775	8,530
Compulsory deposit with BACEN (financial charges on the deposit)	-	17,355
Change in the calculation basis of PIS/PASEP as established by Law 9,718/1998	10,203	10,203
Post-employment benefits	87,395	116,706
Co-obligation with STN	1,650	1,950
Other	28,597	11,367
Total	544,226	489,960

The changes in the tax credits during the period were as follows:

	Adjustments to market value	Temporary additions	PIS/COFINS credits	Total
At 12/31/2017	3,679	544,605	-	548,284
Recorded	-	115,492	-	115,492
Reversed	(431)	(115,871)	-	(116,302)
At 6/30/2018	3,248	544,226	-	547,474

The tax credits are recorded in conformity with CMN Resolution 3,059/2002 (as amended by Resolution 3,355/2007) considering the expected realization up to 10 years, based on the projected taxable profits. These projections are subject to changes, since they are estimated using internal assumptions of future economic scenarios.

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

	Nominal value	Present value
Year:		
2018	74,344	68,942
2019	133,960	115,682
2020	97,332	76,403
2021	36,921	26,345
2022	74,315	48,202
2023	28,066	16,549
2024	45,031	24,134
2025	19,850	9,670
2026	16,480	7,298
2027	17,927	7,216
Total	544,226	400,441

The present value of the tax credits was obtained by discounting the future flow of realization at the average rate of the funding for onlending contracted by BDMG of 10.01 % p.a. (2017 - 14.54% p.a.).

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

	At 6/30/2018		At 6/30/2017	
	Income tax	Social contribution	Income tax	Social contribution
Profit (loss) before taxation	85,269	85,269	(91,717)	(91,717)
Additions (deductions), net				
Additions (deductions), net Recording of provision for contingencies, net of reversals	(2,755)	(2,755)	3,458	3,458
Recording of provision for impairment of receivables and recovery of credits written-off as losses, net	57,026	57,026	162,505	162,505
Effective credit losses	(19,386)	(19,386)	(38,728)	(38,728)
Recording of provision for post-employment benefits, net of reversals	(24,347)	(24,347)	10,913	10,913
Equity in the results of investees	(3)	(3)	-	-
Other	(10,614)	(10,759)	13,567	13,421
Calculation basis	85,190	85,045	59,998	59,852
Tax, according to the standard rate	(12,778)	(17,009)	(8,999)	(11,970)
Additional income tax	(8,507)		(5,988)	
Tax incentives	941		396	
Subtotal of income tax and social contribution payable	(20,344)	(17,009)	(14,591)	(11,970)
Total of the provision for income tax and social contribution payable	(20,344)	(17,009)	(14,591)	(11,970)
Recording of deferred tax credits (net of reversals) on temporary differences	14,599	639	47,587	34,364
Income tax and social contribution in the statement of operations	(5,745)	(16,370)	32,996	22,394

20 Related parties

The Bank carried out the following transactions with related parties during the period:

Legal entities

State of Minas Gerais and companies controlled both directly and indirectly by it:

- State of Minas Gerais - rendering of services acting as financial agent of the state funds. The commission received by the Bank is included in the financial charges on the loan contracts granted with the fund resources.
- Fundação João Pinheiro, a public institution linked to the Planning and Management State Secretariat. As established in its bylaws, and in accordance with the State Law 11,050/1993, the Bank is authorized to donate 5% of its profit for the year to the Foundation. BDMG assumes the cost of an employee assigned to the Foundation. The Bank's expense with this assignment was R\$ 93 in the period (2017 - R\$ 94).

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Companies related to BDMG

- Institute of Integrated Development of Minas Gerais (INDI), a not-for-profit, private limited liability entity linked to the Economic Development State Secretariat. It is an associated company of the Bank, which holds 50% of INDI's quotas, as established by State Law 22,287, of September 14, 2016, which changed the previous interest of 25%. The Bank's commitment with INDI is met through the assigning of employees as well as financial contributions. In the six-month period, the Bank's expenses with INDI totaled R\$ 3,787 (2017 - R\$ 4,437).
- BDMGTEC Participação S.A., a wholly-owned subsidiary established by the Bank in 2012, whose purpose is to invest in companies with significant interest for the development of the State of Minas Gerais. On June 26, 2018, the date of BDMGETC's merger, the company's capital paid up by the Bank totaled R\$ 96,305 (2017 - R\$ 88,379) (Note 10 (a)).
- BDMG Social Security Foundation (DESBAN), a not-for-profit supplementary pension plan entity sponsored by BDMG. As detailed in Note 24, BDMG made contributions to this Foundation to provide for social security and health benefits of its employees. The Bank assigned some of its employees to work for DESBAN with no onus;
- The Banco de Desenvolvimento de Minas Gerais Cultural Institute (BDMG Cultural), a not-for-profit civil association, was established by BDMG together with the BDMG Employees Association (AFBDMG) as a space for the fostering of culture in the State of Minas Gerais. The Bank maintains BDMG Cultural by assigning employees without charge, in addition to making contributions to the Institute. In the six-month period, the Bank's expenses with BDMG Cultural totaled R\$ 730 (2017 - R\$ 639).

Individuals

Officials who are related parties of the Bank include key management represented by its Board of Directors and Executive Board who received the following remuneration in the period:

	<u>At 6/30/2018</u>	<u>At 6/30/2017</u>
Remuneration (including social charges and benefits)	2,067	2,015
Contributions to the pension plans and post-employment benefits	<u>61</u>	<u>55</u>
Total	<u><u>2,128</u></u>	<u><u>2,070</u></u>

21 Insurance coverage (unaudited)

In order to cover potential damages to its property and equipment, the Bank has insurance cover amounting to R\$ 51,700 (2017 - R\$ 51,700).

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22 Risk management

Financial risk management policy

The risk management in line with strategic guidelines complies with the Bank's ethical standards of conduct and reliability. These methodologies and internal models are consistent with the Basel Accords and meet the guidelines of the regulators, in accordance with the best practices of risk management.

The Risk Management mission at BDMG is to manage the credit, market, liquidity, operating, social and environmental, and compliance risks so as to mitigate them and optimize the operating effectiveness and its results. Accordingly, the Bank adopts practices appropriate for the nature and specificities of its operations. Those practices are being improved to comply with Resolution 4,557/2017 of the National Monetary Council, which regulates the Integrated Risk Management.

The governance structure is comprised of Board of Directors, Audit Committee, Internal Audit, Independent Audit, Executive Board, Risk and Corporate Management Board, Risk and Capital Committee, and Internal Controls and Risk General Management, and other units (primary responsibility related to the operating risks, compliance and implemented controls).

Credit risk

The credit risk management policy establishes credit risk exposure limits per customer, economic group and credit portfolio quality monitoring, in addition to decision levels, credit analysis and monitoring criteria, seeking selectivity of the operations with the purpose of minimizing cases of default and the related consequences.

Operating risk

The Operating Risk Management Policy, pursuant to CMN Resolution 4,557/2017, establishes roles, responsibilities and a methodology for managing such risks for the Bank, involving qualitative and quantitative analysis as well as monitoring.

Compliance risk

The Compliance Risk Management Policy, pursuant to CMN Resolution 4,595/2017, establishes roles and responsibilities in the Bank's compliance risk management process to ensure that the Bank's activities are in compliance with the internal and external regulations.

Liquidity risk

The liquidity risk management policy establishes roles and responsibilities, exposure limits and reporting levels with the purpose of preparing the Bank to support adverse scenarios, considering different time frames. It deals with the activation of the contingency plan, which includes the set of strategies and measures to be taken, with the purpose of recovering the limits established. This policy also establishes the monitoring of the action plans defined and the reporting of the results to the Senior Management.

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Market risk

The Market Risk Management Policy establishes roles and responsibilities, operating limits, and reporting levels, as well as the means to minimize the effects of such risk on the Bank's financial statements, cash flows, and adjustment to the risk exposure limits.

Social and environmental risk

The social and environmental risk policy establishes roles, responsibilities, own methodology for identification and assessment of social and environmental risk, and criteria for analysis and monitoring of operations.

The descriptions of the management structures for these risks, as well as other information on management, are available at the BDMG website (<http://www.bdmg.mg.gov.br>) – not audited.

23 Management of development funds (unaudited)

The Bank maintains a structure for the management of development funds. The balances related to the fund equities were as follows:

	At 6/30/2018	At 6/30/2017
State funds	3,800,029	3,789,821
Private funds	31,331	290
Other funds	75,365	72,407
	<u>3,906,725</u>	<u>3,862,518</u>

24 Employee benefits

The Bank grants the following post-employment benefits to its employees (Note 2.16.): pension, healthcare and dental assistance, life insurance, and voluntary employment termination benefits.

On February 22, 2018, the Bank reviewed the concession of these benefits and made the following changes:

- Life insurance - previously it had granted a benefit to active employees and retirees, but, as from February 22, 2018, it became a post-employment benefit for employees retiring after that date.
- Healthcare Promotion Program (PRO-SAÚDE) - previously, it had offered coverage to active members and retirees, provided they had enrolled in the plan as active members up to October 10, 2009. After the change, this benefit was maintained for retirees who had the benefit at the date of change and to active members who would adhere to the ongoing voluntary termination plan, whose deadline for adhesion is April 30, 2018.

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The accounting of the benefits granted is made in accordance with CPC 33 (R1), "Employee Benefits", which requires the preparation, on a regular basis, of actuarial studies to support the benefits accounted for. Accordingly, it was defined that two actuarial studies were to be prepared during the year in order to support the Bank's financial statements, and the actuarial calculation would be made for the December balances and the actuarial adjustment for the June balances.

At the March 31, 2018 interim financial statements, an extraordinary actuarial adjustment was made because of the significant changes in the benefit plans sponsored by the BDMG mentioned above, as well as due to the change made by the Deliberative Council of the DESBAN - Fundação BDMG de Seguridade Social, which decided to change the loading rate of the Direct Benefit Pension Plan to 0% as from 2018.

Therefore, for the accounting information at June 30, 2018, the adjustment made based on the updated actuarial study made for the interim statements at March 31, 2018 is effective.

(a) Characteristics of the benefit plans

(i) Pension plans

BDMG is the sponsor of defined benefit and variable contribution pension plans, which are managed by BDMG Social Security Foundation (DESBAN), a not-for-profit supplementary pension plan entity. The purpose of both plans is to provide participating employees and their beneficiaries with a retirement income in addition to that paid by the Social Security General Regime (RGPS).

Defined benefit pension plan

The defined benefit pension plan, which has been closed to new participations since November 10, 2011, is based on a capitalization financial regime for the calculation and accrual of its reserves, which result from the participant's and sponsor's contributions. The sponsor's contributions are limited to the total of normal participant's contributions, taking into account the particularities of each plan, in conformity with the contributive parity determined in Constitutional Amendment 20/1998. Regarding this plan, it is also necessary to comply with Article 29 of the Board for Management of Supplementary Pension Funds (CGPC) No. 26, of September 29, 2008, which establishes the mandatory sharing of the plan's deficit between the participants (active, assisted, and pensioners) and sponsors, taking into account the proportion of the normal contributions made in the year when the deficit occurs.

BDMG's defined benefit plan in 2015 had the following technical deficit to be subject to sharing:

	In 2015 - Desban	On 6/30/2017 - Sponsor (*)	On 6/30/2018 - Sponsor (**)
Total	RS 28,135.4	RS 31,728.1	RS 32,593.0
Amount - sponsor	RS 14,067.7	RS 15,862.9	RS 16,296.5
Amount - participants	RS 14,067.7	RS 15,865.2	RS 16,296.5
Sharing period	20 years	2017 to 2036	2018 to 2036

(*) Shared amount defined according to the flow of liability discounted at present value, in accordance with the assumptions defined in BDMG's actuarial assessment of June 2017.

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

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The Bank, when considering the best estimate to be adopted for the accounting of the shared deficit, considered the legal and normative matters that are necessary for the calculation of the actuarial accounting liability of public entities that sponsor supplementary pension plans. Therefore, it was established an equal apportionment between the participants (50%) and the sponsors (50%). This condition was accepted by DESBAN's Executive Board, as registered in the minutes of the 282nd meeting, held on December 27, 2016: "equitable apportionment between the participants (50%) and the sponsors (50%) will be considered not only for the current Sharing Plan, but also for any other deficit sharing plans that may be required in the future, provided the same legal and regulatory basis remains effective".

Variable contribution plan

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

The contribution of the Bank to this plan also is limited to the sum of the normal contributions of the participants, in conformity with the contributive parity determined in Constitutional Amendment 20/1998.

The number of BDMG participants in the pension plans is as follows:

	<u>6/30/2018</u>	<u>6/30/2017</u>
Plans:		
Defined benefit (DB) - Active participants	219	235
Defined benefit (DB) - Retirees	538	532
Defined benefit (DB) - self-sponsored participants	18	10
Variable contribution (VC) - Active participants	<u>73</u>	<u>74</u>
Total	<u>848</u>	<u>851</u>

(ii) Healthcare and dental assistance benefit

DESBAN manages the Pró-Saúde Program (Health Promotion Program), which offers coverage for healthcare and dental expenses for active participants and their dependents (Note 2.16), and operates under the capitalization regime. This benefit is ensured to retired participants and to those who retire upon the conditions established by the ongoing Voluntary Termination Program, whose adhesion deadline is April 30, 2018.

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(iii) Life insurance

The Bank sponsors a post-employment group life insurance plan exclusive for beneficiaries who already had this benefit on February 22, 2018. The Bank's contribution is equivalent to 50% of the premium paid.

(iv) Voluntary employment termination program

With the objective of benefiting the employees who are entitled for retirement and who met the established requirements, the Bank has implemented this Program. The Program was opened in April 2017 and the adhesion period ended on May 30. In 2018, the Program reopened in March with an adhesion deadline on April 30. For the current Plan, the Bank extended, for adhering employees, the retirement condition for the next two years, guaranteeing to them the maintenance of the healthcare plan as retirees.

(b) BDMG's benefit plan commitments

In compliance with its benefit plan commitments, the Bank made the following contributions both for active employees and retirees during this six-month period:

	<u>6/30/2018</u>	<u>6/30/2017</u>
Pension Benefit Plan - (BD)	5,195	5,093
Pension Benefit Plan - (CV)	246	249
Healthcare Promotion Program- PRÓ-SAÚDE	2,867	3,098
Group life insurance	624	627
Voluntary employment termination program	<u>2,137</u>	<u>935</u>
Total	<u><u>11,069</u></u>	<u><u>10,002</u></u>

(i) Changes in the present value of the defined benefit obligation

The net amounts of the obligations with the defined benefit plans, in accordance with CPC 33 (R1), resulted from the following changes in the six-month period ended June 30:

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	Pension benefit plan - DB	Healthcare Promotion Program - PRO-SAÚDE	Group life insurance	Total
Net (liability) at 12/31/2017	(198,278)	(116,233)	(16,132)	(330,643)
Portion of participants in the surplus (-)/deficit (+)	51,991			51,991
Net (liability) at 12/31/2017 (1)	(146,287)	(116,233)	(16,132)	(278,652)
Current service costs	(3,566)	(221)	(28)	(3,815)
Net interest cost	(6,447)	(4,832)	(639)	(11,918)
Changes in plan (Past Service)		28,123	3,288	31,411
Expected contributions to administrative expenses		(793)		(793)
Sponsor contributions	5,197	2,195	578	7,970
Remeasurements (2)				
Return on plan assets, excluding interest	4,394	(1,622)		2,772
Actuarial gain - Changes in assumptions (discount rate)	56,551	2,675	499	59,725
Actuarial gain - Experience adjustments	3,012	2,324	21	5,357
Suspension of the administrative loading	8,128			8,128
Risk sharing	(36,948)			(36,948)
Other - extraordinary contributions	10			10
Net (liability) at 6/30/2018 (1)	(115,956)	(88,384)	(12,413)	(216,753)
	Pension benefit plan - DB	Healthcare Promotion Program - PRO-SAÚDE	Group life insurance	Total
Net (liability) at 12/31/2016	(180,445)	(132,457)	(15,845)	(328,747)
Portion of participants in the surplus (-)/deficit (+)	46,044			46,044
Net (liability) at 12/31/2016 (1)	(134,401)	(132,457)	(15,845)	(282,703)
Current service costs	(2,896)	(1,051)	(77)	(4,024)
Net interest cost	(6,611)	(6,607)	(799)	(14,017)
Expected contributions to administrative expenses		(824)		(824)
Sponsor contributions	5,017	2,300	578	7,895
Remeasurements(2)				
Return on plan assets, excluding interest	24,924	794		25,718
Actuarial (loss) - Changes in assumptions (discount rate)	(14,897)	(3,162)	(204)	(18,263)
Actuarial gain - Experience adjustments	6,414	1,171	290	7,875
Risk sharing	(8,423)			(8,423)
Other - extraordinary contributions	8			8
Net (liability) at 6/30/2017 (1)	(130,865)	(139,836)	(16,057)	(286,758)

(1) Refers to the sponsor's portion of actuarial responsibility deducted from the participant's installment in the surplus/deficit, as presented in Note 24(c)(i).

(2) The remeasurements in employee benefit obligations are recorded in "Other carrying value adjustments" in equity, as disclosed in Note 15(c)(ii).

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All amounts in thousands of reais unless otherwise stated

(ii) Amounts recorded in the statement of operations

Defined benefit plan expenses are detailed below:

	6/30/2018			
	Pension benefit plan - DB	Healthcare Promotion Program - PRO-SAÚDE	Group life insurance	Total
Current service costs	(3,566)	(221)	(28)	(3,815)
Net interest cost	(6,447)	(4,832)	(639)	(11,918)
Expected contributions to administrative expenses	-	(793)	-	(793)
Past service cost	-	28,123	3,288	31,411
(Expense) recorded in the statement of operations (*)	<u>(10,013)</u>	<u>22,277</u>	<u>2,621</u>	<u>14,885</u>
				6/30/2017
	Pension benefit plan - DB	Healthcare Promotion Program - PRO- SAÚDE	Group life insurance	Total
Current service costs	(2,896)	(1,051)	(77)	(4,024)
Net interest cost	(6,611)	(6,607)	(799)	(14,017)
Expected contributions to administrative expenses	-	(824)	-	(824)
(Expense) recorded in the statement of operations (*)	<u>(9,507)</u>	<u>(8,482)</u>	<u>(876)</u>	<u>(18,865)</u>

(i) The expenses were accounted for as follows: R\$ 5,517 (6/30/2017 - R\$ 6,796) in "Personnel", R\$ 11,009 (6/30/2017 - R\$ 12,069) in "Other operating expenses", and R\$ 31,411 (6/30/2017 - R\$ 0) in "Other operating income".

Expenses for personnel who adhered to the Voluntary Termination Program totaled R\$ 2,174 in June 2018 (6/30/2018 - R\$ 934).

The sponsor's monthly contributions for the Pension Benefit Plan - Variable Contribution in the period from January to June 2018 amounted to R\$ 242 (6/30/2017 - R\$ 249). These contributions are recognized as personnel expenses.

(c) Actuarial studies

The actuarial liabilities were calculated by an independent actuary using the Projected Unit Credit method, and the studies were prepared for June 30, 2018.

(i) Net amount recorded in the balance sheet

On June 30, the net amounts of the obligations with the defined benefit plans, in accordance with CPC 33 (R1), recognized in the balance sheet, were as follows:

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	6/30/2018			
	Pension benefit plan - DB	Healthcare Promotion Program - PRO- SAÚDE	Group life insurance	Total
Defined benefit obligation	(1,053,491)	(111,190)	(12,413)	(1,177,094)
Plan assets	920,422	22,806	-	943,228
Net actuarial (liability)	(133,069)	(88,384)	(12,413)	(233,866)
Sponsor's portion with future contributions	17,113			17,113
Net (liability) at 6/30/2018 (1)	(115,956)	(88,384)	(12,413)	(216,753)

	6/30/2017			
	Pension benefit plan - DB	Healthcare Promotion Program - PRO- SAÚDE	Group life insurance	Total
Defined benefit obligation	(1,050,143)	(164,317)	(16,057)	(1,230,517)
Plan assets	879,293	24,481		903,774
Net actuarial (liability)	(170,850)	(139,836)	(16,057)	(326,743)
Sponsor's portion with future contributions	39,985			39,985
Net (liability) at 6/30/2017 (1)	(130,865)	(139,836)	(16,057)	(286,758)

(1) Refers to the portion of the sponsor's actuarial responsibility in the Pension Benefit Plan - Defined Contribution after the calculation of the effect of the sharing of risks between active and assisted participants:

	6/30/2018	6/30/2017
	Pension benefit plan - DB	Pension benefit plan - DB
Net (liability) accounted for		
Sponsor's portion with future contributions	(82,546)	(74,576)
Sponsor's portion with shared deficit - 2015	(16,297)	(16,304)
Sponsor's portion in the surplus/deficit	(17,113)	(39,985)
	(115,956)	(130,865)

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(ii) Allocation of the fair value of plan assets

The plan assets at June 30, 2017 and June 30, 2018 are allocated into categories of assets as follows:

	6/30/2018		6/30/2017	
	Pension benefit plan - DB	Healthcare Promotion Program - PRO-SAÚDE	Pension benefit plan - DB	Healthcare Promotion Program - PRO-SAÚDE
Asset category:				
Public securities	39.21%	47.66%	51.31%	67.37%
Private credits and deposits	3.57%	40.05%	2.88%	18.86%
Shares and share funds	12.41%		2.89%	
Real estate investments	4.85%		4.53%	
Loans	1.14%		1.37%	
Multimarket	8.16%		4.10%	
Private equity funds	7.54%		5.33%	
Fixed income	14.90%		18.42%	
Other	8.22%	12.29%	9.17%	13.77%

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(iii) Main assumptions used in the actuarial valuation

The actuarial studies presenting the obligations of BDMG in June 2018 and 2017 are based on the following assumptions:

	6/30/2018	6/30/2017
Nominal discount rate for the actuarial liability	9.924%	9.960%
Expected annual nominal rate of return on investments	9.924%	9.960%
Estimated future annual inflation	3.85%	4.12%
Nominal rate of future salary growth:		
BDMG (PCS)	6.49%	7.08%
BDMG (CC)	4.37%	4.61%
Annual real growth projection of medical expenses ⁽ⁱ⁾	3.00%	3.50%
Turnover:		
Less than three years of service		
Over three years		
Up to 39 years of age	4.30%	4.40%
As from 39 years of age	0.30%	0.30%
General Mortality Table	AT-2000 (Basic table reduced by 10%) - reduction of 10% and divided by gender.	AT-2000 (Basic table reduced by 10%) - reduction of 10% and divided by gender.
Disability Mortality Table	Álvaro Vindas - reduction of 70%.	Álvaro Vindas - reduction of 70%.
Disability Mortality Table	Winklevoss - reduction of 50%.	Winklevoss - reduction of 50%.
Composition of pensioners (families)	Active Employees: Standard family Beneficiary: Real family."	Active Employees: Standard family Beneficiary: Real family.
Life expectancy used in the definition of the social contribution factor applied in the calculation of retirement benefit (in Brazil known as the "fator previdenciário").	IBGE 2015 Table.	IBGE 2014 Table.
Other assumptions	All participants retire in the 1st eligibility - no salary growth for self-sponsored participants.	All participants retire in the 1st eligibility - no salary growth for self-sponsored participants.
Monetary restatement provision	Of salaries: 2.65% (accumulated variation of the Amplified Consumer Price Index (IPCA) of September 2017 to May 2018) - Base date for the readjustment - September. Of the benefits granted: 3.173% (accumulated change in the IPCA of May 2017 to May 2018) - Base date for the readjustment - May.	Of salaries: 2.2518% (accumulated variation of the Amplified Consumer Price Index (IPCA) of September 2016 to May 2017) - Base date for the readjustment - September. Of the benefits granted: 4.4052% (accumulated change in the IPCA of May 2016 to May 2017) - Base date for the readjustment - May.

(i) Applicable only to healthcare assistance.

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All amounts in thousands of reais unless otherwise stated

(iv) Sensitivity of the defined benefit obligation

The changes in the assumptions on which the actuarial studies are based may have effects on the defined benefit obligation.

The following table presents the percentage of the increases in the defined benefit obligation arising from changes in the actuarial assumptions:

	Changed assumptions						
	Increase of 0.5% p.a. in the discount rate	Decrease of 0.5% p.a. in the discount rate	Reduction of one year in the mortality table	Increase of 1% in the salary growth rate	Increase of 0.01% in the insurance premium rate	Increase of 1% in the medical cost trend rate	Decrease of 1% in the medical cost trend rate
Pension benefit plan - DB	-3.60%	7.50%	1.90%	1.30%	N/A	N/A	N/A
Healthcare Promotion Program - PRO-SAÚDE	-5.64%	6.22%	3.34%	N/A	N/A	22.41%	-16.37%
Group life insurance	-4.00%	4.30%	2.30%	N/A	3.30%	N/A	N/A

(v) Projected cash flow

The actuarial studies made for June 2018 included the following estimates for the payment of benefits and contributions of the sponsor for the next half of 2018:

	Pension benefit plan - DB	Pension benefit plan - VC	Healthcare Promotion Program - PRO-SAÚDE	Group life insurance	Total
Expected benefit payments	40,268		4,939	589	45,796
Expected employer contributions	6,385	298	2,270	589	9,542

* * *

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