

Financial Statements

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

June 30, 2019 and 2018
with Independent Auditor's Report

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

Financial statements

June 30, 2019 and 2018

Contents

| | |
|--|----|
| Independent auditor's report on financial statements | 1 |
| Audited financial statements | |
| Statement of financial position | 8 |
| Statement of profit or loss | 10 |
| Statement of changes in equity | 11 |
| Statement of cash flows | 12 |
| Notes to financial statements | 13 |



A free translation from Portuguese into English of independent auditor’s report on financial statements in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil (BACEN)

Independent auditor’s report on financial statements

The Shareholders, Board of Directors and Officers
Banco de Desenvolvimento de Minas Gerais S.A.– BDMG

Opinion

We have audited the financial statements of Banco de Desenvolvimento de Minas Gerais S.A. – BDMG (“Bank”), which comprise the statement of financial position as at June 30, 2019, and the related statements of profit or loss, of changes in equity, and of cash flows for the six-month period 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, 2019, and its financial performance and cash flows for the six-month period then ended in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil (BACEN).

Basis for opinion

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



Key audit matters

Key audit matters are those that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide an individual opinion on these matters. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

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

Allowance for loan losses

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

How our audit addressed this matter

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

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

Post-employment benefit plans



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

How our audit addressed this matter

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

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

Recoverable tax credits

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

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

How our audit addressed this matter

Our procedures included an analysis of the methodology and assumptions used by management in the study of realization of tax credits, including projections of future results, as well as compliance with the requirements of the Central Bank of Brazil. We checked the mathematical accuracy of the calculation and the consistency between the data used and the



accounting balances, as well as previous assessments and the reasonableness of the assumptions used. We also analyzed the sensitivity of these assumptions, to evaluate the behavior of the projections with the fluctuations, and the sufficiency of disclosures in explanatory notes.

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

Other matters

Audit of corresponding figures

The Bank's financial statements for the six-month period ended June 30, 2018 and year ended December 31, 2018 were audited by other independent auditors, who issued reports dated August 14, 2018 and February 28, 2019, respectively, containing an unmodified opinion on these financial statements.

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

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

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

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

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



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

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

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

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.

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 the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Belo Horizonte, August 23, 2019

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

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

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

Statement of financial position June 30, 2019 and 2018 (In thousands of reais)

| | 2019 | 2018 |
|--|------------------|-----------|
| Assets | | |
| Current assets | 1,579,048 | 2,283,082 |
| Cash and cash equivalents (Note 3) | 8,523 | 8,813 |
| Interbank investments (Note 4) | 68,038 | 160,966 |
| Open market investments | 68,038 | 123,548 |
| Interbank deposits | 10,585 | 48,003 |
| (Allowance for losses) | (10,585) | (10,585) |
| Marketable securities and derivative financial instruments (Notes 5-6) | 128,617 | 401,900 |
| Own portfolio | 128,617 | 398,723 |
| Linked to guarantees given | - | 3,123 |
| Derivative financial instruments (Note 6) | - | 54 |
| Interbank accounts | 34 | - |
| Central Bank deposits | 34 | - |
| Loans (Note 7) | 1,306,173 | 1,624,767 |
| Loans | 1,516,773 | 1,928,121 |
| Public sector | 206,828 | 197,084 |
| Private sector | 1,309,945 | 1,731,037 |
| (Allowance for loan losses) | (210,600) | (303,354) |
| Other receivables (Note 8) | 67,159 | 86,408 |
| Income receivable | 1,600 | 1,846 |
| Sundry | 65,629 | 84,610 |
| (Allowance for losses on other receivables) | (70) | (48) |
| Other assets (Note 9) | 504 | 228 |
| Other assets | 175 | 228 |
| Prepaid expenses | 329 | - |
| Noncurrent assets | 4,715,045 | 4,383,591 |
| Long-term receivables | 4,683,657 | 4,351,824 |
| Marketable securities and derivative financial instruments (Notes 5-6) | 1,012,679 | 397,614 |
| Own portfolio | 951,650 | 337,605 |
| Linked to guarantees given | 12,420 | - |
| Derivative financial instruments (Note 6) | 48,609 | 60,009 |
| Loans (Note 7) | 2,938,734 | 3,292,306 |
| Loans | 3,219,696 | 3,539,799 |
| Public sector | 442,745 | 512,595 |
| Private sector | 2,776,951 | 3,027,204 |
| (Allowance for loan losses) | (280,962) | (247,493) |
| Other receivables (Note 8) | 677,981 | 605,298 |
| Income receivable | 660 | 571 |
| Specific receivables | 725 | 1,183 |
| Sundry | 676,727 | 615,997 |
| (Allowance for losses on other receivables) | (131) | (12,453) |
| Other assets (Note 9) | 54,263 | 56,606 |
| Temporary investments | 6 | 6 |
| Other assets | 57,669 | 60,042 |
| (Valuation allowance) | (3,412) | (3,442) |
| Permanent assets (Note 10) | 31,388 | 31,767 |
| Investments | 600 | 487 |
| Other investments | 1,437 | 1,324 |
| (Allowance for losses) | (837) | (837) |
| Property and equipment in use | 17,521 | 18,623 |
| Properties in use | 43,798 | 43,788 |
| Other property and equipment in use | 13,240 | 13,138 |
| (Accumulated depreciation) | (39,517) | (38,303) |
| Intangible assets | 13,267 | 12,657 |
| Intangible assets | 33,038 | 27,020 |
| (Accumulated amortization) | (19,771) | (14,363) |
| Total assets | 6,294,093 | 6,666,673 |

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

Statement of financial position June 30, 2019 and 2018 (In thousands of reais)

| | 2019 | 2018 |
|---|------------------|-----------|
| Liabilities and equity | | |
| Current liabilities | 1,359,282 | 1,381,285 |
| Deposits | 43,447 | 91,411 |
| Demand deposits (Note 11.b) | 424 | 405 |
| Interbank deposits (Note 11.a) | 31,747 | 90,235 |
| Time deposits (Note 11.c) | 11,276 | 771 |
| Funds from acceptance and issue of securities (Notes 11.d and 11.e) | 231,728 | 125,663 |
| Funds from financial bills and agribusiness credit bills | 231,728 | 125,663 |
| Borrowings (Note 12.a) | 88,933 | 107,124 |
| Foreign borrowings | 88,933 | 107,124 |
| Domestic onlending – Official institutions (Note 12.b.) | 908,085 | 970,831 |
| National Treasury | 2,941 | 2,265 |
| National Development Bank (BNDES) | 408,227 | 550,732 |
| Federal Savings Bank (CEF) | 849 | 263 |
| Machinery and Equipment Financing (FINAME) | 251,760 | 273,685 |
| Other institutions | 244,308 | 143,886 |
| Other obligations | 87,089 | 86,256 |
| Social and statutory | - | 434 |
| Collection of taxes and other contributions | 99 | 109 |
| Tax and social security (Note 13.a) | 24,196 | 34,900 |
| Financial and development funds (Nota 13.c) | 1,709 | 1,602 |
| Sundry (Note 13.b) | 61,085 | 49,211 |
| Noncurrent liabilities | 3,181,098 | 3,548,234 |
| Deposits | 79,583 | 60,560 |
| Interbank deposits (Note 11.a) | - | 6,927 |
| Time deposits (Note 11.c) | 79,583 | 53,633 |
| Funds from acceptance and issue of securities (Notes 11.d and 11.e) | 103,271 | 135,242 |
| Funds from financial bills and agribusiness credit bills | 103,271 | 135,242 |
| Borrowings (Note 12.a) | 257,740 | 362,292 |
| Foreign borrowings | 257,740 | 362,292 |
| Domestic onlending – Official institutions (Note 12.b.) | 2,101,439 | 2,483,300 |
| National treasury | 9,036 | 9,436 |
| National Development Bank (BNDES) | 1,070,637 | 1,358,221 |
| Federal Savings Bank (CEF) | 14,687 | 13,504 |
| Machinery and Equipment Financing (FINAME) | 850,370 | 973,165 |
| Other institutions | 156,709 | 128,974 |
| Derivative financial instruments | 922 | - |
| Derivative financial instruments | 922 | - |
| Other obligations | 638,143 | 506,840 |
| Tax and social security (Note 13.a) | 5,900 | 7,157 |
| Financial and development funds (Nota 13.c) | 71,312 | 76,875 |
| Sundry (Note 13.b) | 560,931 | 422,808 |
| Deferred income (Note 14) | 11,727 | 11,221 |
| Deferred income | 11,727 | 11,221 |
| Equity (Note 15) | 1,741,986 | 1,725,933 |
| Capital: | 1,980,350 | 1,918,771 |
| Capital – domiciled in Brazil | 1,980,350 | 1,918,771 |
| Equity adjustments | (152,462) | (83,505) |
| Accumulated losses | (85,902) | (109,333) |
| Total liabilities and equity | 6,294,093 | 6,666,673 |

See accompanying notes.

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

Statement of profit or loss

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

| | 2019 | 2018 |
|---|----------------------------|----------------------------|
| | 1st half | 1st half |
| Income from financial intermediation | 308,232 | 402,383 |
| Loans (Note 18.a) | 294,756 | 329,873 |
| Income from marketable securities (Note 18.b-i) | 16,843 | 27,178 |
| Income (loss) from derivative financial instruments (Note 18.b-i) | (3,367) | 45,332 |
| Expenses with financial intermediation | (182,864) | (287,793) |
| Market funding transactions (Note 18.b-ii) | (15,290) | (12,626) |
| Loans and onlending (Note 18.b-ii) | (110,321) | (204,475) |
| Income (loss) from exchange transactions | (104) | 6,304 |
| Allowance for loan losses (Note 7.c) | (57,149) | (76,996) |
| Gross profit (loss) from financial intermediation | 125,368 | 114,590 |
| Other operating income/expenses | (108,816) | (29,439) |
| Service revenues | 16,551 | 19,108 |
| Personnel expenses | (51,452) | (54,775) |
| Other administrative expenses (Note 18.c-ii) | (16,408) | (16,854) |
| Tax expenses (Note 18.c-i) | (9,584) | (10,763) |
| Equity pickup in affiliates and subsidiaries | - | 3 |
| Other operating income (Note 18.c-iii)) | 8,012 | 68,941 |
| Other operating expenses (Note 18.c-iv) | (55,935) | (35,099) |
| Operating income (expenses) | 16,552 | 85,151 |
| Non-operating income (expenses) | (2,852) | 118 |
| Income (loss) before income taxes and profit sharing | 13,700 | 85,269 |
| Income and social contribution taxes (Note 19) | (5,715) | (22,115) |
| Provision for income tax | (11,396) | (20,344) |
| Provision for social contribution tax | (7,192) | (17,009) |
| Deferred tax assets | 12,873 | 15,238 |
| Statutory profit sharing | (380) | (3,007) |
| Employee profit sharing | (380) | (3,007) |
| Net income | 7,605 | 60,147 |
| Earnings per thousand shares – R\$ | 0.00011 | 0.00093 |

See accompanying notes.

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

Statement of changes in equity
June 30, 2019 and 2018
(In thousands of reais)

| | Capital | Capital increase | Equity adjustments | Other equity adjustments | Retained earnings (accumulated losses) | Total |
|---------------------------------------|------------------|------------------|--------------------|--------------------------|--|------------------|
| At December 31, 2017 | 1,906,151 | - | (4,069) | (103,301) | (169,480) | 1,629,301 |
| Capital increase approved (Note 15.a) | 12,620 | (12,620) | - | - | - | - |
| Capital increase | - | 12,620 | - | - | - | 12,620 |
| Equity adjustments | - | - | 439 | 23,426 | - | 23,865 |
| Net income for the six-month period | - | - | - | - | - | 60,147 |
| At June 30, 2018 | 1,918,771 | - | (3,630) | (79,875) | (109,333) | 1,725,933 |
| At December 31, 2018 | 1,931,111 | - | (6,121) | (102,143) | (93,507) | 1,729,340 |
| Capital increase approved (Note 15.a) | 49,239 | (49,239) | - | - | - | - |
| Capital increase | - | 49,239 | - | - | - | 49,239 |
| Equity adjustments | - | - | (1,199) | (42,999) | - | (44,198) |
| Net income for the six-month period | - | - | - | - | 7,605 | 7,605 |
| At June 30, 2019 | 1,980,350 | - | (7,320) | (145,142) | (85,902) | 1,741,986 |

See accompanying notes.

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

Statement of cash flows June 30, 2019 and 2018 (In thousands of reais)

| | 2019 | 2018 |
|--|-------------|-----------|
| Cash flow from operating activities | | |
| Income before income taxes and profit sharing | 13,700 | 85,269 |
| Adjustments: | | |
| Depreciation and amortization (Note 18.c.ii) | 3,423 | 2,767 |
| Set-up of provisions and liabilities, net | 46,566 | 1,810 |
| Set-up of allowance for loan losses, net of reversals | 57,149 | 76,996 |
| Set-up of provision for losses | 20,120 | 369 |
| Allocation of deferred revenue | (8,897) | (8,683) |
| Exchange gains (losses), net | (4,893) | 58,437 |
| Recovery of loans written off as loss | (30,503) | (14,304) |
| Gains from monetary restatement of noncurrent loans | (10,583) | (13,581) |
| Equity pickup | - | (3) |
| Market value adjustment of derivative instruments and hedged items | (985) | 2,728 |
| Gains on financial assets available for sale | (15,528) | (18,095) |
| Gains on financial assets held to maturity | (7,820) | (6,808) |
| Gains on financial assets for trading | (10,332) | - |
| Adjusted net income | 51,417 | 166,902 |
| Changes in working capital | (113,082) | (135,117) |
| (Increase) in interbank investments | - | (2,399) |
| Decrease (increase) in derivatives | 9,080 | (51,462) |
| Decrease in loans | 358,056 | 293,292 |
| Increase (Decrease) in other receivables and assets | (1,032) | 11,031 |
| (Decrease) increase in interbank deposits | (30,660) | 97,694 |
| (Decrease) increase in funding through financial bills | (78,068) | 40,536 |
| (Decrease) in borrowings and onlending | (331,621) | (499,826) |
| Increase in deferred income | 8,779 | 8,371 |
| Decrease in other obligations | (47,616) | (32,354) |
| Cash used in operating activities | (61,665) | (31,785) |
| Income and social contribution taxes paid | (4,813) | (37,390) |
| Net cash used in operating activities | (66,478) | (5,605) |
| Cash flow from investing activities | | |
| Acquisition of permanent assets | (1,425) | (2,694) |
| Acquisition of financial assets available for sale | (1,540,723) | (10,458) |
| Receipt of financial assets available for sale | 1,581,199 | 3,331 |
| Acquisition of financial assets held to maturity | (77,526) | (117) |
| Receipt of financial assets held to maturity | 4,495 | 7,686 |
| Acquisition of financial assets for trading | (2,116,828) | - |
| Receipt of financial assets for trading | 1,889,558 | - |
| Net cash (used in) investing activities | (261,250) | (2,252) |
| Cash flow from financing activities | | |
| Capital increase (Note 15.a) | 49,239 | 12,620 |
| Net cash used in financing activities | 49,239 | 12,620 |
| Increase (decrease) in cash and cash equivalents, net | (278,489) | 4,763 |
| Cash and cash equivalents at beginning of period (Note 3) | 355,154 | 121,294 |
| Exchange gains (losses) on cash | (104) | 6,304 |
| Cash and cash equivalents at end of period | 76,561 | 132,361 |

See accompanying notes.

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

Notes to financial statements

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

1. Operations

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

As part of its business purpose, BDMG's activities include the social and economic development of the state of Minas Gerais. In this context, BDMG carries out development bank activities in accordance with the National Monetary Council (CMN) rules, and acts as a financial agent for the funds allocated by the state Government to finance programs and projects for the development of Minas Gerais. BDMG is also a financial agent and/or manager of other funds that finance projects in the state of Minas Gerais and, therefore, promote its development. The Bank also renders advisory and technical support services to the direct and indirect state Government administration, and creates opportunities for the implementation/expansion of companies with significant interest for the development of the State of Minas Gerais through investments in these companies.

On August 23, 2019, the Board of Directors approved the financial statements and authorized their disclosure.

2. Summary of significant accounting policies

2.1. Basis of preparation

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

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

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

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

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

Operational structure for preparation of financial statements

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

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

2.2. Foreign currency translation

a) Functional and reporting currency

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

b) Transactions and balances

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

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

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.2. Foreign currency translation (Continued)

b) Transactions and balances (Continued)

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

Assets and liabilities in foreign currency are translated into local currency (Brazilian reais) at the exchange rate on the statement of financial position date. At June 30, 2019, the applicable exchange rate was US\$1.00 = R\$3.8322 (2018 - US\$1.00 = R\$3.8558) and €1.00 = R\$4.3587 (2018 - €1.00 = R\$4.5032).

2.3. Cash and cash equivalents

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

2.4. Interbank investments

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

2.5. Marketable securities

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

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.5. Marketable securities (Continued)

- (i) Trading securities - securities purchased in order to be frequently and actively traded. They are recorded at market value, and the realized and unrealized gains and losses are recorded directly in the statement of profit or loss for the period.
- (ii) Securities available for sale - marketable securities used as part of the cash flow management strategy. These securities are recorded at market value, with accrued income (yield curve) recognized in the statement of profit or loss for the year, and gains and losses arising from market value variations, not yet been realized, are recorded as Equity adjustments under Equity, net of the related tax effects. Gains and losses, when realized, are recorded in the statement of profit or loss for the year after being specifically identified on the trading date, matched against equity, net of the related tax effects
- (iii) Securities held to maturity - securities for which management has the intent and financial ability to hold to maturity, recorded at cost of acquisition, plus accrued earnings, recognized in the statement of profit or loss for the year. Financial capacity is defined based on cash flow projections, not considering the possibility of early redemption of these securities. Decreases in the market value of securities available for sale and held to maturity below their respective costs, for reasons not considered temporary, are recorded in the statement of profit or loss as realized losses.

Management establishes guidelines for the classification of marketable securities within the categories defined in BACEN Circular No. 3068/2001. The classifications of the securities in the portfolio, as well as those acquired during the period, are assessed 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 statement of financial position date. In addition, transfers from the "held to maturity" category can only be made due to an isolated, unusual, non-recurring and unpredicted event occurring after the date of classification.

2.6. Derivative financial instruments

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

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.6. Derivative financial instruments (Continued)

The type of derivative financial instrument used by BDMG is swap, for the purpose of mitigating the risks arising from fluctuations in foreign currencies and interest rates on funds from borrowings contracted abroad, and operations in the futures market for protection against risks associated with investments made at fixed rates.

As presented in Note 6, derivatives are measured at fair value and recorded as assets (when positive) and liabilities (when negative), and the changes in fair value are recognized in the statement of profit or loss.

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

2.7. Loans and allowance for loan losses

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

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

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

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.8. Credit assignment

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

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

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

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

2.9. Other current and noncurrent assets

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

2.10. Investments

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

2.11. Property and equipment in use and intangible assets

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

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.11. Property and equipment in use and intangible assets (Continued)

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

| | <u>Years</u> |
|-------------------------------------|--------------|
| Real estate | 20 |
| Facilities, furniture and equipment | 10 |
| Data processing system | 5 |
| Other | 10 |
| Intangible assets (software) | 5 |

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

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

2.12. Current and noncurrent liabilities

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

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

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

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

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

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

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

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

2.14. Current and deferred income and social contribution taxes

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

Tax credits on temporary differences and income and social contribution tax losses are recorded at the rates considered for the provision for income and social contribution taxes.

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

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

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

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

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

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

2.15. Employee benefits

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

- (i) Pension benefits - provides employees with supplementary retirement remuneration to that guaranteed by the General Social Security Regime (RGPS). BDMG sponsors defined benefit pension plans (which were closed to new enrolments on November 10, 2011) and variable contribution pension plans;
- (ii) Healthcare and dental care benefit - this plan provides coverage for medical and dental expenses to its participants. This benefit, made through partial payment of the monthly contribution by the Bank, is guaranteed to the active employees and, since February 22, 2018, it has been assured to the participants and the employees who joined the Voluntary Termination Plan, whose term of enrolment ended April 30, 2018. Active employees may remain bound to the plan when they become pensioner members, and are responsible for the total contribution due;
- (iii) Life insurance - this benefit is sponsored by the Bank, which pays part of the premium of the group life insurance policy and, as of February 22, 2018, is ensured exclusively to pensioner members who had the benefit on that date;
- (iv) Voluntary employment termination program - the objective of this Program is to benefit the employees in condition to retire and who meet the requirements established in its regulation. In 2018 the program was opened in March with deadline for enrolment on April 30 of the same year.

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.15. Employee benefits (Continued)

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

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

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

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

2.16. Employee profit sharing

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

2.17. Capital

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

2.18. Recognition of P&L

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

2.19. Dividends

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

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

2. Summary of significant accounting policies (Continued)

2.20. Related parties

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

3. Cash and cash equivalents

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

| | <u>2019</u> | <u>2018</u> |
|--------------------------------|----------------------|----------------|
| Available funds | 1,159 | 1,173 |
| Funds in foreign currency | 7,364 | 7,640 |
| Interbank investments (Note 4) | 68,038 | 123,548 |
| | <u>76,561</u> | <u>132,361</u> |

4. Interbank investments

| | <u>2019</u> | <u>2018</u> |
|---|----------------------|----------------|
| Investments in repurchase agreements – own portfolio: | | |
| Financial Treasury Bills | - | 123,548 |
| National Treasury Bills | 68,038 | - |
| Investments in foreign currencies | - | 37,418 |
| Interbank deposits | 10,585 | 10,585 |
| Provision for loss on interbank deposits (i) | (10,585) | (10,585) |
| | <u>68,038</u> | <u>160,966</u> |
| Current | 68,038 | 160,966 |

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

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

4. Interbank investments (Continued)

Interbank investments mature as follows:

| | Overdue | Within 30 days | From 61 to 90 days | Total |
|--------------------------------------|----------|----------------|--------------------|---------------|
| National Treasury Bills (LTN) | - | 68,038 | - | 68,038 |
| Interbank Deposit Certificates (CDI) | 10,585 | - | - | 10,585 |
| Provision for losses | (10,585) | - | - | (10,585) |
| Balance at June 30, 2019 | - | 68,038 | - | 68,038 |
| Balance at June 30, 2018 | - | 123,548 | 37,418 | 160,966 |

5. Marketable securities

a) Portfolio breakdown

The marketable security portfolio comprises the following securities:

| | 2019 | | | 2018 | | |
|--|------------|------------------|------------------|-------------|----------------|----------------|
| | Number | Curve yield | Market value | Amount | Curve yield | Market value |
| Unrestricted securities | | | | | | |
| Financial Treasury Bills (LFT) (ii) | 75,093 | 764,782 | 764,649 | 38,074 | 364,624 | 364,636 |
| National Treasury Notes (NTN) | 21,000 | 75,340 | 70,541 | 72,900 | 232,290 | 232,560 |
| Bank Deposit Certificates (CDB) | | - | - | 244,947,181 | 3,503 | 3,503 |
| Debentures | 2 | 73,013 | 73,013 | 1,430 | 25,982 | 25,982 |
| Provision for debentures (i) | | - | (20,853) | | - | - |
| Deposit insurance fund (FGC) | 874,836 | 2,085 | 2,085 | 874,836 | 1,664 | 1,664 |
| Variable income securities | | 39,675 | 39,675 | | 95,873 | 95,873 |
| Loss due to impairment of securities | | - | (830) | | (57,028) | (57,028) |
| Adjustment to market value | | - | (8,921) | | - | - |
| Investment in commodities | | 38,013 | 38,013 | | - | - |
| Provision for rural credit bill | | | (128) | | - | - |
| Fund shares: | | | | | | |
| Emerging companies (FIEE) | 125 | 2,154 | 2,154 | 125 | 2,211 | 2,211 |
| Equity funds (FIP) | 16,415,390 | 26,736 | 26,736 | 16,214,774 | 22,937 | 22,937 |
| Fixed income investment funds (FI) | 15,669,511 | 94,133 | 94,133 | 15,669,511 | 43,990 | 43,990 |
| Total unrestricted securities | | 1,115,931 | 1,080,267 | | 736,046 | 736,328 |
| Securities linked to guarantees given | | | | | | |
| Financial Treasury Bills (LFT) | 1,220 | 12,422 | 12,420 | 326 | 3,123 | 3,123 |
| | | 1,128,353 | 1,092,687 | | 739,169 | 739,451 |
| Current | | | 128,617 | | | 401,846 |
| Noncurrent | | | 964,070 | | | 337,605 |

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

(ii) These securities cover the margin of guarantee of operations with fixed-income securities.

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

5. Marketable securities (Continued)

b) Classification of marketable securities

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

| | 2019 | | 2018 | |
|--|------------------|------------------|-------------|--------------|
| | Curve yield | Market value | Curve yield | Market value |
| Trading securities | 237,645 | 237,602 | - | - |
| LFT | 237,645 | 237,602 | - | - |
| More than 360 days | 237,645 | 237,602 | - | - |
| Securities available for sale (i) | 704,342 | 694,499 | 596,070 | 596,352 |
| LFT | 527,137 | 527,047 | 364,624 | 364,636 |
| From 61 to 90 days | - | - | 158,786 | 158,757 |
| More than 360 days | 527,137 | 527,047 | 205,838 | 205,879 |
| NTN | - | - | 118,126 | 118,396 |
| From 61 to 90 days | - | - | 94,439 | 95,671 |
| More than 360 days | - | - | 23,687 | 22,725 |
| CDB | - | - | 550 | 550 |
| From 61 to 90 days | - | - | 550 | 550 |
| Investment fund shares | 125,108 | 125,108 | 70,802 | 70,802 |
| No maturity | - | - | 70,802 | 70,802 |
| Within 30 days | 94,133 | 94,133 | - | - |
| More than 360 days | 30,975 | 30,975 | - | - |
| Variable income securities | 39,675 | 29,924 | 38,845 | 38,845 |
| More than 360 days | 39,675 | 29,924 | 38,845 | 38,845 |
| LFT linked to capital increase | - | - | 3,123 | 3,123 |
| From 61 to 90 days | - | - | 3,123 | 3,123 |
| LFT linked to guarantees given | 12,422 | 12,420 | - | - |
| From 61 to 90 days | - | - | - | - |
| More than 360 days | 12,422 | 12,420 | - | - |
| Securities held to maturity (ii) | 186,366 | 160,586 | 143,099 | 143,099 |
| NTN | 75,340 | 75,541 | 114,164 | 114,164 |
| From 61 to 90 days | - | - | 47,347 | 47,347 |
| More than 360 days | 75,340 | 70,541 | 66,817 | 66,817 |
| Debentures | 73,013 | 52,160 | 25,982 | 25,982 |
| Within 30 days | 593 | 590 | 647 | 647 |
| From 61 to 90 days | 594 | 591 | 643 | 643 |
| From 61 to 90 days | 594 | 591 | 640 | 640 |
| From 91 to 180 days | 1,781 | 1,772 | 16,937 | 16,937 |
| From 181 to 360 days | - | - | 3,776 | 3,776 |
| More than 360 days | 69,451 | 48,616 | 3,339 | 3,339 |
| CDB | - | - | 2,953 | 2,953 |
| From 61 to 90 days | - | - | 2,953 | 2,953 |
| Investment in commodities | 38,013 | 37,885 | - | - |
| Within 30 days | 187 | 187 | - | - |
| From 61 to 90 days | 5,453 | 5,432 | - | - |
| From 61 to 90 days | 6,381 | 6,351 | - | - |
| From 91 to 180 days | 13,852 | 13,793 | - | - |
| From 181 to 360 days | 5,196 | 5,178 | - | - |
| More than 360 days | 6,944 | 6,944 | - | - |
| | 1,128,353 | 1,092,687 | 739,169 | 739,451 |
| Current | | 128,617 | | 401,846 |
| Noncurrent | | 964,070 | | 337,605 |

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

5. Marketable securities (Continued)

b) Classification of marketable securities (Continued)

(i) Securities classified as available for sale.

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

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

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

(ii) Securities classified as held to maturity.

The securities classified in this category are as follows:

Debentures

Debentures are acquired as financial support and not for financial investment purposes. A provision is recorded for the credit risk of the issuer, pursuant to CMN Resolution No. 2682/1999.

| <u>Acquisition</u> | <u>Number</u> | <u>Maturity date</u> | <u>2019</u> | <u>2018</u> |
|---------------------------|---------------|----------------------|-----------------|-------------|
| January/2015 | 30 | 12/23/2019 | 3,561 | 10,957 |
| September//2017 | 1,400 | 09/13/2018 | - | 15,025 |
| January/2019 | 1 | 01/11/2024 | 69,452 | - |
| Provision for credit risk | | | (20,853) | - |
| Current value | | | 52,160 | 25,982 |

National Treasury Notes (NTN)

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

| | <u>Number</u> | <u>Maturity date</u> | <u>2019</u> | <u>2018</u> |
|-------------------------|---------------|----------------------|----------------|-------------|
| NTN-B | 15,000 | 08/15/2018 | - | 47,582 |
| NTN-B | 21,000 | 08/15/2022 | 75,340 | 73,093 |
| Market value adjustment | | | 75,340 | 120,675 |
| Current value | | | (4,799) | (6,511) |
| | | | 70,541 | 114,164 |

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

5. Marketable securities (Continued)

b) Classification of marketable securities (Continued)

National Treasury Notes (NTN) (Continued)

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

In this six-month period, the amount of R\$738 (2018 - R\$1,446) disclosed in equity was allocated to P&L, and the accumulated amount allocated up to June 2019 totaled R\$10,379 (2018 - R\$8,667).

c) Marketable securities are classified according to the following maturities:

| | No maturity | Within 30 days | From 31 to 60 days | From 61 to 90 days | From 91 to 180 days | From 181 to 360 days | More than 360 days | Total |
|--------------------------------|-------------|----------------|--------------------|--------------------|---------------------|----------------------|--------------------|------------------|
| Federal government securities | - | - | - | - | - | - | 835,190 | 835,190 |
| Debentures | - | 590 | 591 | 591 | 1,772 | - | 48,616 | 52,160 |
| Deposit insurance fund (FGC) | - | - | - | - | - | - | 2,085 | 2,085 |
| Investment fund shares | - | - | 94,132 | - | - | - | 28,891 | 123,023 |
| Variable income securities | - | - | - | - | - | - | 29,924 | 29,924 |
| Investment in commodities | - | 187 | 5,432 | 6,351 | 13,793 | 5,178 | 6,944 | 37,885 |
| LFT linked to guarantees given | - | - | - | - | - | - | 12,420 | 12,420 |
| Balance at June 30, 2019 | - | 777 | 100,155 | 6,942 | 15,565 | 5,178 | 964,070 | 1,092,687 |
| Balance at June 30, 2018 | 70,802 | 3,600 | 144,211 | 162,520 | 16,937 | 3,776 | 337,605 | 739,451 |

d) Equity adjustments of marketable securities

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

| | Unrealized gains (losses) | Tax effects | Market value adjustment |
|------------------------------|---------------------------|--------------|-------------------------|
| Balance at December 31, 2018 | (11,319) | 5,198 | (6,121) |
| Adjustment in the period | (2,493) | 1,294 | (1,199) |
| Balance at June 30, 2019 | (13,812) | 6,492 | (7,320) |

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

6. Derivative financial instruments

The types of derivative financial instruments used by the Bank to hedge against risks inherent in the external funding contracts and risks associated with fluctuations in future rates regarding investments at fixed rates are swaps and operations in the interest rate futures Market, respectively.

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

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

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

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

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

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

6. Derivative financial instruments (Continued)

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

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

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Government securities linked to guarantees | - | 3,123 |
| Funding in interbank deposits | 31,747 | 54,404 |
| | <u>31,747</u> | <u>57,527</u> |

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

6. Derivative financial instruments (Continued)

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

a) Foreign borrowings hedged by derivative instruments

| | Initial date | Final date | Index | Funding | 2019 | | 2018 | |
|-------------------------|--------------|------------|-----------------------|------------|----------------------------------|----------------|----------------------------------|---------|
| | | | | | Balance (foreign currency) | Curve | Balance (foreign currency) | Curve |
| CAF 1 | 09/27/2013 | 09/27/2023 | 6M Libor + 3.65% p.a. | US\$15,000 | 8,071 | 30,924 | 9,860 | 38.014 |
| CAF 2 | 10/21/2013 | 10/23/2023 | 6M Libor + 3.65% p.a. | US\$30,000 | 16,068 | 61,566 | 19,634 | 75.694 |
| CAF 3 | 12/19/2013 | 12/19/2023 | 6M Libor + 3.65% p.a. | US\$30,000 | 15,906 | 60,945 | 19,445 | 74.964 |
| CAF 4 | 10/23/2015 | 10/23/2018 | 6M Libor + 2.40% p.a. | US\$23,500 | - | - | 7,905 | 30.475 |
| BID | 08/04/2014 | 08/16/2021 | 6M Libor + 2.25% p.a. | US\$50,000 | 23,147 | 88,688 | 32,328 | 124.632 |
| AFD3 | 02/02/2017 | 11/28/2025 | 6M Euribor + 2% p.a. | €\$15,000 | 10,848 | 47,272 | 12,517 | 56.339 |
| | | | | | | 289,395 | | 400.118 |
| Market value adjustment | | | | | | 5,126 | | 6,307 |
| Market value | | | | | | 294,521 | | 406,425 |

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

6. Derivative financial instruments (Continued)

b) Swap amounts recorded

The derivative financial instruments are summarized as follows:

| | 2019 | 2018 | | |
|--|---|--|-----------------------------|-----------------------------|
| | Notional value (memorandum account) | Amount receivable/ payable (asset/liability account) | Net effect (P&L account) | Net effect (P&L account) |
| (US\$+ Libor+ Rate) x (BRL +%CDI) (i) | 176,345 | 38,724 | (1,822) | 40,580 |
| (EUR+Euribor+Rate) x (BRL +%CDI) (i) | 39,930 | 9,885 | (1,173) | 4,752 |
| (US\$+ Libor+ Rate) x (BRL +%CDI) (ii) | 32,217 | (922) | (230) | - |
| | 248,492 | 47,687 | (3,225) | 45,332 |

Notes:

(i) Refers to difference receivable from contracted operations.

(ii) Refers to difference payable from contracted operations.

c) Swaps by index

| | 2019 | 2018 |
|---------------------------------------|---------------|---------------|
| Long position – Difference receivable | 48,609 | 60,063 |
| Foreign currency | 48,609 | 60,063 |
| Short position – Difference payable | (922) | - |
| Foreign currency | (922) | - |
| Net exposure | 47,687 | 60,063 |

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

6. Derivative financial instruments (Continued)

d) Swaps by maturity

| | From 31 to 180 days | More than 360 days | Total |
|--|------------------------|-----------------------|--------|
| Long position – Difference receivable | | | |
| Foreign currency | - | 48,609 | 48,609 |
| Interest | - | - | - |
| Total - 06/30/2019 | - | 48,609 | 48,609 |
| Total - 06/30/2018 | 54 | 60,009 | 60,063 |
| Short position – Difference payable | | | |
| Foreign currency | - | (922) | (922) |
| Interest | - | - | - |
| Total - 06/30/2019 | - | (922) | (922) |
| Total - 06/30/2018 | - | - | - |
| Net exposure - 06/30/2019 | - | 47,687 | 47,687 |
| Net exposure - 06/30/2018 | 54 | 60,009 | 60,063 |

e) Swaps by index and notional amount

| | Notional amount | Curve yield | Market value adjustment | Market value |
|--|--------------------|-------------|----------------------------|--------------|
| Long position – Difference receivable | | | | |
| (US\$+ Libor+ Rate) x (BRL +%CDI) | 176,345 | 31,949 | 6,775 | 38,724 |
| (EUR+Euribor+Rate) x (BRL +%CDI) | 39,930 | 7,131 | 2,754 | 9,885 |
| Total - 06/30/2019 | 216,275 | 39,080 | 9,529 | 48,609 |
| Total - 06/30/2018 | 333,335 | 52,409 | 7,654 | 60,063 |
| Short position – Difference payable | | | | |
| (US\$+ Libor+ Rate) x (BRL +%CDI) | 32,217 | (1,909) | 987 | (922) |
| Total - 06/30/2019 | 32,217 | (1,909) | 987 | (922) |
| Total - 06/30/2018 | - | - | - | - |
| Net exposure - 06/30/2019 | 248,492 | 37,171 | 10,516 | 47,687 |
| Net exposure - 06/30/2018 | 333,335 | 52,409 | 7,654 | 60,063 |

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

7. Loans and credits similar to loans

The loans receivable portfolio is as follows:

| | Total | Allowance | Net |
|--------------------------|------------------|------------------|------------------|
| Loans | 4,736,469 | (491,562) | 4,244,907 |
| Credits similar to loans | 18,982 | (201) | 18,781 |
| At June 30, 2019 | 4,755,451 | (491,763) | 4,263,688 |
| At June 30, 2018 | 5,484,774 | (551,046) | 4,933,728 |

Of the total loans of R\$4,755,451 (2018 - R\$5,484,774), the amount of R\$1,669,934 (2018 - R\$1,925,029) was granted with own resources and R\$3,085,517 (2018 - R\$3,559,745), originally, with onlending received from other financial institutions.

Loans renegotiated at June 30 totaled R\$999,262 (2018 - R\$1,248,512).

a) Classification by product and segment of activity

| | 2019 | 2018 |
|--|------------------|-----------|
| Loans | 871,252 | 1,204,474 |
| Manufacturing | 459,234 | 689,223 |
| Commerce | 201,066 | 250,732 |
| Other services | 210,952 | 264,519 |
| Financing to the private sector | 3,215,644 | 3,553,767 |
| Manufacturing | 1,271,444 | 1,485,724 |
| Commerce | 155,309 | 177,827 |
| Other services | 813,328 | 935,731 |
| Rural and agribusiness | 972,711 | 948,635 |
| Financial intermediaries | 695 | 1,505 |
| Individuals | 2,157 | 4,345 |
| Financing to the public sector (municipal direct and indirect administrations) | 649,573 | 709,679 |
| Credits similar to loans | 18,982 | 16,854 |
| Subtotal | 4,755,451 | 5,484,774 |
| Allowance for loan losses | (491,562) | (550,847) |
| Allowance for losses on credits similar to loans | (201) | (199) |
| | 4,263,688 | 4,933,728 |
| Current | 1,311,621 | 1,628,843 |
| Noncurrent | 2,952,067 | 3,304,885 |

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

7. Loans and credits similar to loans (Continued)

b) Classification by maturity and risk levels

| Risk level | 2019 | | | | | | | | 2018 | |
|------------|------------------|-------------------|--------------|----------------|-----------------------|------------------|-------------------|-------------------|----------------|------------------|
| | Total | Overdue (in days) | | | Falling due (in days) | | | | | Total |
| | | More than 15 | Up to 14 | Up to 90 | From 91 to 360 | From 361 to 1080 | From 1081 to 1800 | From 1801 to 5400 | More than 5400 | |
| AA | 1,916,340 | 3,907 | 350 | 119,902 | 328,642 | 625,328 | 636,662 | 201,549 | - | 2,042,780 |
| A | 843,339 | 1,450 | 120 | 100,662 | 182,822 | 286,291 | 164,925 | 107,069 | - | 728,041 |
| B | 719,257 | 23,448 | 328 | 84,078 | 154,573 | 208,282 | 118,662 | 107,880 | 22,006 | 727,758 |
| C | 389,363 | 9,096 | 735 | 66,291 | 96,610 | 141,421 | 54,008 | 21,202 | - | 881,000 |
| D | 375,072 | 18,764 | 666 | 33,784 | 67,754 | 117,268 | 99,327 | 37,509 | - | 406,466 |
| E | 89,742 | 21,373 | 64 | 12,579 | 8,356 | 12,983 | 19,367 | 15,020 | - | 257,864 |
| F | 24,852 | 5,247 | 366 | 714 | 3,300 | 6,206 | 4,257 | 4,009 | 753 | 25,152 |
| G | 27,574 | 11,470 | 2 | 581 | 2,929 | 8,524 | 4,068 | - | - | 117,398 |
| H | 369,912 | 135,694 | 1,130 | 6,057 | 18,448 | 41,105 | 26,635 | 31,360 | 109,483 | 298,315 |
| | 4,755,451 | 230,449 | 3,761 | 424,648 | 863,434 | 1,447,408 | 1,127,911 | 525,598 | 132,242 | 5,484,774 |

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

7. Loans and credits similar to loans (Continued)

c) Classification by risk level and allowance

| | | 2019 | | | 2018 | |
|-------------|-----|--|------------------|---------------------------|---------------------------|---------------------------|
| | | Allowance for credit risks based on minimum required percentages | | | Allowance for loan losses | |
| | | Portfolio | Portfolio | Allowance for loan losses | Portfolio | Allowance for loan losses |
| Risk level: | % | | | | | |
| AA | 0 | 1,916,340 | - | - | 2,042,780 | - |
| A | 0.5 | 843,339 | (4,217) | (4,217) | 728,041 | (3,640) |
| B | 1 | 719,257 | (7,193) | (7,193) | 727,758 | (7,278) |
| C | 3 | 389,363 | (11,681) | (11,959) | 881,000 | (26,477) |
| D | 10 | 375,072 | (37,507) | (39,717) | 406,466 | (42,724) |
| E | 30 | 89,742 | (26,923) | (27,037) | 257,864 | (77,857) |
| F | 50 | 24,852 | (12,426) | (12,426) | 25,152 | (12,576) |
| G | 70 | 27,574 | (19,302) | (19,302) | 117,398 | (82,179) |
| H | 100 | 369,912 | (369,912) | (369,912) | 298,315 | (298,315) |
| | | 4,755,451 | (489,161) | (491,763) | 5,484,774 | (551,046) |

d) Changes in allowance for loan losses

| | 2019 | 2018 |
|---------------------------------------|----------------|----------------|
| Opening balance | 555,624 | 776,092 |
| Set-up of allowance, net of reversals | 57,149 | 76,996 |
| Loans written off as losses | (121,010) | (302,042) |
| Closing balance | 491,763 | 551,046 |

e) Credit assignment

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

| | 2019 | 2018 |
|---|---------------|---------------|
| Assignment prior to CMN Resolution No. 3533/2008: | | |
| Guarantees pending settlement | 22,458 | 23,705 |
| Transactions settled to be transferred | 734 | 331 |
| | 23,192 | 24,036 |

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

8 Other receivables

| | <u>2019</u> | <u>2018</u> |
|---|----------------|----------------|
| Tax credits (a) | 586,141 | 547,474 |
| Debtors for deposits in guarantee (b) | 122,621 | 118,660 |
| Notes and credits receivable (c) | 3,645 | 11,554 |
| Sundry debtors – domestic (d) | 958 | 604 |
| Income receivable (e) | 2,261 | 2,417 |
| Other | 29,716 | 23,498 |
| Allowance for losses on other receivables (f) | (200) | (12,501) |
| | <u>745,140</u> | <u>691,706</u> |
| Current | 67,159 | 86,408 |
| Noncurrent | 677,981 | 605,298 |

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

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

(c) The notes and credits receivable balance refers to the following amounts: (i) income receivable from the National Treasury Office (STN) arising from rural credit transactions financed with funds from the STN and renegotiated as determined by applicable legislation, amounting to R\$3,347 (2018 - R\$11,119); and (ii) income receivable from the Fund for the Defense of the Coffee Economy (Funcafé) totaling R\$272 (2018 - R\$435).

The balance reported in June 2018 includes the restatement/equalization of rural credit transactions that were settled by the STN in November 2018.

(d) The balance of sundry debtors substantially comprises the amount of R\$473 (2018 - R\$560) relating to the non-default bonus granted to customers of rural operations renegotiated according to the provisions of Law No. 9138/1995, as amended, to be returned to the Bank by the STN, and R\$409 (2018 - R\$0) referring to guarantee of chattel mortgage receivable.

(e) Income receivable mainly arises from remuneration for services provided, referring to commissions on loans granted with resources of the development funds administered by BDMG, net of the respective provisions: R\$ 1,535 (2018 - R\$1,741). The remuneration matures upon maturity of the contracted installments, and an allowance is recorded based on the percentage of the risk level under which the transaction generating the remuneration is classified. This risk classification is a result of the policy adopted by the Bank to extend to the transactions funded by resources from the managed funds the same criteria established in CMN Resolution No. 2682/1999 for loans of BDMG's own portfolio.

(f) The allowance for losses on other receivables similar to loans totals R\$200 (2018 - R\$12,501).

The balance recorded in June 2018 refers substantially to restatement/equalization of rural credit transactions due by STN, the allowance of which was based on uncertainty as to their realization. In November 2018, the allowance was reversed due to the payment made by STN.

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

9. Other assets

| | 2019 | 2018 |
|--------------------------------------|---------------|---------------|
| Assets not for own use | 57,669 | 60,042 |
| Equity investments | 6 | 6 |
| Other | 504 | 228 |
| Subtotal | 58,179 | 60,276 |
| Provision for assets not for own use | (3,412) | (3,442) |
| | <u>54,767</u> | <u>56,834</u> |
| Current | 504 | 228 |
| Noncurrent | 54,263 | 56,606 |

10. Permanent assets

a) Investments

| | 2019 | 2018 |
|---|------------|------------|
| Shares and units of interest | 1,388 | 1,324 |
| Other | 49 | - |
| Provision for losses – shares and units of interest | (837) | (837) |
| | <u>600</u> | <u>487</u> |

b) Property and equipment in use

| | 2019 | | | 2018 |
|-------------------------------------|---------------|--------------------------|---------------|---------------|
| | Cost | Accumulated depreciation | Net | Net |
| Real estate | 43,798 | (27,616) | 16,182 | 16,817 |
| Facilities, furniture and equipment | 6,273 | (5,624) | 649 | 630 |
| Data processing system | 6,457 | (5,812) | 645 | 1,111 |
| Other | 510 | (465) | 45 | 48 |
| Construction in progress | - | - | - | 17 |
| | <u>57,038</u> | <u>(39,517)</u> | <u>17,521</u> | <u>18,623</u> |

c) Intangible assets

| | 2019 | | | 2018 |
|-------------------|--------|--------------------------|--------|--------|
| | Cost | Accumulated amortization | Net | Net |
| Intangible assets | 33,038 | (19,771) | 13,267 | 12,657 |

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

11. Deposits and funds from acceptance and issue of securities

The funds raised in Brazil are as follows:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|----------------|----------------|
| Interbank deposits (a) | 31,747 | 97,162 |
| Demand deposits (b) | 424 | 405 |
| Time deposits (c) | 90,859 | 54,404 |
| Financial bills (d) | 86,687 | 50,775 |
| Agribusiness Credit Bills (LCA) (e) | 248,312 | 210,130 |
| | <u>458,029</u> | <u>412,876</u> |
| Current | 275,175 | 217,074 |
| Noncurrent | 182,854 | 195,802 |

a) Interbank deposits

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

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

b) Demand deposits

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

c) Time deposits

These refer to guarantees received by the Bank for contracting of loans.

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

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

d) Financial bills

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

| | Maturity | 2019 | | 2018 |
|------------|-----------------|---------------|----------------|----------------|
| | | Number | Balance | Balance |
| Type: | | | | |
| Private | 10/26/2020 | 200 | 31,606 | - |
| Private | 04/06/2020 | 250 | 55,081 | 50,775 |
| | | 450 | 86,687 | 50,775 |
| Current | | | 55,080 | - |
| Noncurrent | | | 31,607 | 50,775 |

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

e) Agribusiness Credit Bills (LCA)

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

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

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

e) Agribusiness Credit Bills (LCA) (Continued)

The position of LCAs considering their issue dates and maturities is as follows:

| Month of issue | Maturity | Number | From 31 to 60 days | From 61 to 90 days | From 91 to 180 days | From 181 to 360 days | More than 360 days | Balance in 2019 |
|--------------------------|----------|-------------|--------------------|--------------------|---------------------|----------------------|--------------------|-----------------|
| Dec-16 | Dec-19 | 16,000 | - | - | 19,186 | - | - | 19.186 |
| Jan-17 | Jan-20 | 40,000 | - | - | - | 47,762 | - | 47.762 |
| Jun-17 | Jun-20 | 10,000 | - | - | - | 11,415 | - | 11.415 |
| | Jun-22 | 10,000 | - | - | - | - | 11,519 | 11.519 |
| Aug-18 | Aug-19 | 28,413 | 29,608 | 168 | - | - | - | 29.776 |
| | Nov-19 | 6 | - | - | 6 | - | - | 6 |
| | Aug-20 | 1,793 | - | - | - | - | 1,876 | 1.876 |
| | Dec-20 | 9 | - | - | - | - | 9 | 9 |
| | Aug-21 | 1,807 | - | - | - | - | 1,887 | 1.887 |
| Sept-18 | Sept-19 | 19,440 | - | 20,340 | - | - | - | 20.340 |
| | Aug-20 | 2,042 | - | - | - | - | 2,133 | 2.133 |
| | Sept-20 | 8,929 | - | - | - | - | 9,319 | 9.319 |
| | Aug-21 | 3,576 | - | - | - | - | 3,725 | 3.725 |
| | Sept-21 | 1,472 | - | - | - | - | 1,545 | 1.545 |
| Oct-18 | Oct-19 | 3,459 | - | - | 1,070 | - | - | 1.070 |
| | Oct-21 | 103 | - | - | - | - | 107 | 107 |
| | Sept-22 | 341 | - | - | - | - | 353 | 353 |
| Nov-18 | Nov-19 | 149,749,682 | - | - | 1560 | - | - | 1.560 |
| | Nov-20 | 300 | - | - | - | - | 310 | 310 |
| Dec-18 | Aug-19 | 25,991,720 | - | 269 | - | - | - | 269 |
| | Dec-19 | 235 | - | - | 242 | - | - | 242 |
| | Dec-20 | 13,148 | - | - | - | - | 13,525 | 13.525 |
| | Nov-21 | 2,772 | - | - | - | - | 2,846 | 2.846 |
| | Dec-21 | 10,000 | - | - | - | - | 10,266 | 10.266 |
| Feb-19 | Dec-19 | 1,007 | - | - | 497 | 529 | - | 1.026 |
| Mar-19 | Dec-19 | 485 | - | - | 483 | 10 | - | 493 |
| | Jan-20 | 1,235 | - | - | - | 1,255 | - | 1.255 |
| Apr-19 | Jan-20 | 770 | - | - | - | 780 | - | 780 |
| | Feb-20 | 8,468 | - | - | - | 8,553 | - | 8.553 |
| | Mar-20 | 1,536 | - | - | - | 1,549 | - | 1.549 |
| May-20 | Mar-20 | 29,988 | - | - | - | 30,164 | - | 30.164 |
| Jun-19 | Mar-20 | 1,200 | - | - | - | 1,202 | - | 1.202 |
| | Jun-21 | 2,180 | - | - | - | - | 2,175 | 2.175 |
| | Jun-22 | 10,116 | - | - | - | - | 10,069 | 10.069 |
| Balance at June 30, 2019 | | | 29,608 | 20,777 | 23,044 | 103,219 | 71,664 | 248,312 |
| Balance at June 30, 2018 | | | - | - | 705 | 124,957 | 84,468 | 210,130 |

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

12. Borrowings and onlending

a) Foreign

At June 30, the funds raised overseas amounted to R\$346,673 (2018 - R\$469,416), as follows:

| | 2019 | | 2018 | |
|--------------|---------|----------------|---------|----------------|
| | Curve | Market | Curve | Market |
| Institution: | | | | |
| CAF (i) | 155,162 | 157,819 | 222,042 | 229,107 |
| BID (ii) | 88,688 | 89,035 | 124,632 | 123,466 |
| AFD (iii) | 97,697 | 99,819 | 116,435 | 116,843 |
| | | <u>346,673</u> | | <u>469,416</u> |
| Current | | 88,933 | | 107,124 |
| Noncurrent | | 257,740 | | 362,292 |

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

Covenants not met are backed by waivers granted by creditors as of June 30, 2019 and 2018.

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

i) *Corporación Andina de Fomento (CAF)*

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

| Tranches | Date of release | Maturity | Release (US) | 2019 | | 2018 | |
|-----------|-----------------|------------|----------------|----------------|----------------|----------------|----------------|
| | | | | Curve (R\$) | Market (R\$) | Curve (R\$) | Market (R\$) |
| CAF 1 | 09/27/2013 | 09/27/2023 | 15,000 | 30,924 | 31,418 | 38,014 | 45,107 |
| CAF 2 | 10/21/2013 | 10/23/2023 | 30,000 | 61,566 | 62,486 | 75,694 | 75,346 |
| CAF 3 | 12/19/2013 | 12/19/2023 | 30,000 | 60,945 | 62,188 | 74,964 | 74,955 |
| CAF 4 | 10/23/2015 | 10/23/2018 | 23,500 | - | - | 30,475 | 30,804 |
| CAF 5 (i) | 12/21/2015 | 12/21/2020 | 1,500 | 1,727 | 1,727 | 2,895 | 2,895 |
| | | | <u>100,000</u> | <u>155,162</u> | <u>157,819</u> | <u>222,042</u> | <u>229,107</u> |

(i) The market value of the CAF 5 tranche corresponds to the curve yield, since it is a natural hedge in which the financial conditions of the foreign funding were transferred to the loans to customers, plus the Bank's remuneration.

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

12. Borrowings and onlending (Continued)

a) Foreign (Continued)

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

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

The tranches released are as follows:

| Tranches | Date of release | Maturity | Release (€) | 2019 | | 2018 | |
|-------------------------|-----------------|------------|-------------|---------------|---------------|-------------|--------------|
| | | | | Curve (R\$) | Market (R\$) | Curve (R\$) | Market (R\$) |
| AFD 1 | 07/22/2014 | 11/28/2025 | 9,000 | 28,364 | 28,364 | 33,804 | 33,804 |
| 1 st tranche | | | 4,000 | 11,244 | 11,244 | 15,024 | 15,024 |
| 2 nd tranche | | | 5,000 | 17,120 | 17,120 | 18,780 | 18,780 |
| AFD 2 | 10/13/2014 | 11/28/2025 | 7,000 | 22,061 | 22,061 | 26,292 | 26,292 |
| AFD 3 | 02/02/2017 | 11/28/2025 | 15,000 | 47,272 | 49,394 | 56,339 | 56,747 |
| | | | 31,000 | 97,697 | 99,819 | 116,435 | 116,843 |

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

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

The tranche already released is as follows:

| Tranche | Date of release | Maturity | Release in US\$ | 2019 | | 2018 | |
|---------|-----------------|------------|-----------------|---------------|---------------|-------------|--------------|
| | | | | Curve (R\$) | Market (R\$) | Curve (R\$) | Market (R\$) |
| BID | 08/04/2014 | 08/16/2021 | 50,000 | 88,688 | 89,035 | 24,632 | 123,466 |

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

12. Borrowings and onlending (Continued)

b) Official institutions

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

The balances of such obligations are as follows:

| | <u>2019</u> | <u>2018</u> |
|-------------------|------------------|------------------|
| BNDES (i) | 1,478,864 | 1,908,953 |
| FINAME | 1,102,130 | 1,246,850 |
| BNB | 14,018 | 16,491 |
| National treasury | 11,977 | 11,701 |
| CEF | 15,536 | 13,767 |
| FINEP | 121,620 | 107,011 |
| Funcafé | 186,503 | 139,494 |
| Fungetur | 78,876 | 9,864 |
| | 3,009,524 | 3,454,131 |
| Current | 908,085 | 970,831 |
| Noncurrent | 2,101,439 | 2,483,300 |

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

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

| | <u>2019</u> | <u>2018</u> |
|----------------------------|------------------|------------------|
| BNDES Automático PROGEREN | 227,810 | 504,273 |
| BNDES Automático GIRO | 129,064 | 27,553 |
| BNDES FINEM | 300,496 | 348,949 |
| BNDES Automático | 257,325 | 278,828 |
| BNDES Automático TJLP | 73,729 | 95,798 |
| BNDES Automático PRODECOOP | 58,675 | 93,037 |
| BNDES FINEM TJLP | 18,136 | 40,254 |
| BNDES FINEM PSI | 38,393 | 49,591 |
| BNDES SAUDE | 43,589 | 57,707 |
| BNDES AUTOMÁTICO PCA | 86,413 | 83,545 |
| BNDES MPME INOVADORA | 35,915 | 30,828 |
| Other | 209,319 | 298,590 |
| | 1,478,864 | 1,908,953 |

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

13. Other obligations

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|----------------|----------------|
| Tax and social security (a) | 30,096 | 42,057 |
| Sundry (b) | 622,016 | 472,019 |
| Social and statutory | - | 434 |
| Financial and development funds (c) | 73,021 | 78,477 |
| Collection and transfer of taxes | 99 | 109 |
| | <u>725,232</u> | <u>593,096</u> |
| Current | 87,089 | 86,256 |
| Noncurrent | 638,143 | 506,840 |

a) Tax and social security

| | <u>2019</u> | <u>2018</u> |
|--|---------------|---------------|
| Provision for deferred taxes and contributions | 11,815 | 11,776 |
| Provision for taxes and contributions | 13,843 | 25,345 |
| Taxes and contributions payable | 4,438 | 4,936 |
| | <u>30,096</u> | <u>42,057</u> |
| Current | 24,196 | 34,900 |
| Noncurrent | 5,900 | 7,157 |

b) Sundry obligations

| | <u>2019</u> | <u>2018</u> |
|--|----------------|----------------|
| Provision for tax obligations (i) and (ii) | 185,232 | 179,286 |
| Provision for other obligations (iii) | 62,264 | 32,923 |
| Provision for future payments (iv) | 16,518 | 18,271 |
| Actuarial liabilities (v) | 337,663 | 216,753 |
| Contribution for capital increase (iv) | 201 | 143 |
| Sundry creditors – Domestic (vii) | 20,138 | 24,643 |
| | <u>622,016</u> | <u>472,019</u> |
| Current | 61,085 | 49,211 |
| Noncurrent | 560,931 | 422,808 |

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

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

13. Other obligations (Continued)

b) Sundry obligations (Continued)

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

| | <u>12/31/2018</u> | <u>Restatement</u> | <u>06/30/2019</u> |
|---|-------------------|---------------------|-----------------------|
| Change in the COFINS tax base - Law No. 9718/1998 | 119,536 | 2,058 | 121,594 |
| Change in PIS/PASEP tax base – Law No. 9718/1998 | 62,710 | 876 | 63,586 |
| Other contingencies and legal obligations | 51 | 1 | 52 |
| | <u>182,297</u> | <u>2,935</u> | <u>185,232</u> |

- (ii) The Bank has judicial deposits in connection with the above tax obligations amounting to R\$ 120,029 (2018 - R\$ 116,559), which are included the balance of R\$ 121,621 (2018 - R\$ 118,660) of the account "Other receivables - Debtors for deposits in guarantee" (Note 8(b)).

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

| | <u>2019</u> | | <u>2018</u> | |
|---|-----------------------|-----------------------|------------------|-----------------|
| | <u>Provision</u> | <u>Deposits</u> | <u>Provision</u> | <u>Deposits</u> |
| Change in the COFINS tax base - Law No. 9718/1998 | 121,594 | 54,898 | 117,423 | 53,236 |
| Change in PIS/PASEP tax base – Law No. 9718/1998 | 63,586 | 63,586 | 61,812 | 61,812 |
| Other contingencies and legal obligations | 52 | 1,574 | 51 | 1,511 |
| | <u>185,232</u> | <u>120,058</u> | <u>179,286</u> | <u>116,559</u> |

In legal proceedings relating to Contribution Tax on Gross Revenue for Social Security Financing (COFINS) and Contribution Tax on Gross Revenue for Social Integration Program (PIS/PASEP), BDMG seeks to suspend the requirement to pay such taxes, as published by Law No. 9718/1998 which, in addition to imposing COFINS on financial institutions, increased the PIS/PASEP tax base when establishing that revenue encompass gross operating and non-operating revenue. In view of decisions handed down in the course of the proceeding, the Bank made judicial deposits until 12/2014 to cover COFINS contributions on service revenue. From 01/2015 onwards, upon effectiveness of the changes introduced by Law No. 12973/2014, PIS/PASEP and COFINS payments on all revenues are paid regularly.

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

13. Other obligations (Continued)

b) Sundry obligations (Continued)

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

In addition to the aforementioned proceedings already provisioned, the amount of R\$65,645 (2018 - R\$60,718) rated as possible loss is recorded without provision (Note 2.14). The significant tax contingencies are as follows:

- Fine not included in the amount deposited in court to cover COFINS contributions related to the above mentioned proceeding. The restated amount of the fine totals R\$2,823 (2018 - R\$ 2,772).
- Automatic fines arising from notices served by the Brazilian IRS for collection of COFINS related to above proceedings and not considered in the amount of the provisions set up. The restated amount of the automatic fines total R\$37,265 (2018 - R\$25,525).
- Notice served by the Brazilian IRS in July 2010 referring to differences in the income and social contribution tax calculation in the period from 2005 to 2007. The restated amount of the notice totals R\$10,298 (2018 - R\$10,006).
- Notice served by the Brazilian IRS referring to exclusions carried out by the Bank from the IRPJ tax base related to taxable events in 1997 and 1998. The portion of the notice referring to 1997 is assessed as possible loss, in the restated amount of R\$14,990 (2018 - R\$14,717).

The portion referring to IRPJ for 1998, in the restated amount of R\$52,733 is not provisioned as the likelihood of loss is assessed as remote. As a result of the proceeding arising from this dispute, the head office of the Bank, located at Rua da Bahia nº 1600, and the attached building located at Rua Bernardo Guimarães nº 1.592 have been pledged and accepted by the IRS.

The Bank also has properties (land) from assets not for own use, pledged for municipal tax enforcement proceedings related to Service Tax (ISS). The case totals R\$843 and no provision has been recorded given the likelihood of remote loss.

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

13. Other obligations (Continued)

b) Sundry obligations (Continued)

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

| | <u>12/31/2018</u> | <u>Provision recorded</u> | <u>Restatement</u> | <u>(Write- offs)</u> | <u>06/30/2019</u> |
|---|-------------------|-------------------------------|--------------------|--------------------------|-------------------|
| Guarantee assumed in loans assigned to STN | 3,589 | 458 | - | (221) | 3,826 |
| Civil proceedings | 1,657 | 12,725 | - | (170) | 14,212 |
| Labor claims | 14,404 | 2,403 | - | - | 16,807 |
| Attorney's fees | 7,697 | - | 129 | (6) | 7,820 |
| Other (guarantees given) | 6,112 | 13,487 | - | - | 19,599 |
| | <u>33,459</u> | <u>29,073</u> | <u>129</u> | <u>(397)</u> | <u>62,264</u> |

The Bank records the amount of R\$2,428 (2018 - R\$1,914) as Other receivables - Debtors for deposits in guarantee, referring to deposits for appeals filed in connection with labor claims, and R\$164 (2018 - R\$187) for coverage of risks with civil proceedings.

Labor and civil contingencies rated as possible losses, for which no provision was recorded, amount to R\$168 (2018 - R\$729) and R\$2,410 (2018 - R\$291), respectively.

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

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

| | <u>2019</u> | <u>2018</u> |
|---|---------------|---------------|
| Vacation pay, 13 th monthly salary and charges | 15,253 | 14,617 |
| Employee profit sharing | 380 | 3,015 |
| Voluntary resignation program | 1 | 37 |
| Other | 884 | 602 |
| | <u>16,518</u> | <u>18,271</u> |

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

13. Other obligations (Continued)

b) Sundry obligations (Continued)

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

| | <u>2019</u> | <u>2018</u> |
|---|-----------------------|----------------|
| Actuarial liability related to the Pension Plan – defined benefit | 201,682 | 115,956 |
| Actuarial liability related to the Health Promotion Program (PRO-SAÚDE), and healthcare and dental care | 120,248 | 88,384 |
| Actuarial liability related to life insurance | 15,733 | 12,413 |
| | <u>337,663</u> | <u>216,753</u> |

- (vi) The balance of "Contribution for capital increase" refers to the percentage on returns of financing taken out with the Social and Economic Development Fund (FUNDESE) for capital increase applicable to the Program for Popular Credit (CREDPOP), in accordance with state Law No. 13667/2000.
- (vii) The balance of Sundry Creditors - Domestic is mainly due to: the balance payable to the Central Bank of R\$12,343 (2018 - R\$15,082) as a result of joining the Non-Tax Debt Settlement Program (PRD) in August 2017; and amount related to sale of payroll of R\$1.022 (2018 - R\$38).

c) Financial and development funds

The amount of R\$ 73,021 (2018 – R\$ 78,477) refers substantially to resources from funds administered by BDMG (private funds and funds related to official agencies).

14. Deferred income

The balance of R\$11,727 (2018 - R\$11,221) refers to the net amount of taxes on commissions on loans received in advance and allocated according to the flow of the terms set in the agreements.

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

15. Equity

a) Capital

The subscribed capital of BDMG is represented by 66,716,126,887 (2018 – 64,663,501,291) registered common shares with no par value, totaling R\$1,980,350 (2018 - R\$1,918,771).

In February 2019, the shareholders increased capital by R\$49,239, arising from interest on equity net of taxes for 2018. Such capital increase was approved by the Central Bank on 03/28/2019.

At June 30, 2019, the Bank's shareholders include: the state of Minas Gerais, which holds 89.88% of the capital; Companhia de Desenvolvimento de Minas Gerais – Codemge (*), with 9.17%; MGI - Minas Gerais Participações, with 0.94%, which became shareholder as from June 2017; and the Minas Gerais State Highway Authority (DER-MG), shareholder since 1990, when the Bank changed from an autonomous government agency to a corporation, with 0.01%.

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

b) Legal reserve

The legal reserve is calculated based on 5% of net income, capped at 20% of the capital.

c) Equity adjustments

| | <u>2019</u> | <u>2018</u> |
|-------------------------------|------------------|-------------|
| Market value adjustment (i) | (7,320) | (3,630) |
| Other equity adjustments (ii) | (145,142) | (79,875) |
| Total | (152,462) | (83,505) |

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

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

d) Retained earnings (accumulated losses)

The Bank recorded profit of R\$7,605 (2018 - R\$60,147) in the year.

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

16. Capital management

In compliance with CMN Resolution No. 3988/2011, the Bank amended its bylaws, Resolution No. 213 and Rule No. 239, which define the required structure and policy for capital management. Such bylaws define guidelines for ensuring the maintenance of adequate capital, without failing to meet the regulatory requirements established, enabling the Bank to meet the goals set out in its strategic planning even in different scenarios.

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

Following these bylaws and taking into account the strategic planning definitions, the assumptions for the proposed scenarios, and the projected results of operations, the Bank prepared its capital plan for the period from 2019 to 2021. The BDMG's Capital Management Structure Description Report is available at:

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

The capital management structure comprises the Officer assigned as responsible for capital management and the Risk and Capital Committee, as well as the following units: General Controllershship Management area, responsible for preparation of the capital plan and calculation of the capital required to cover the credit and operational risks, in addition to consolidation of the information referring to indicators and minimum capital requirements; General Risk Management area, responsible for calculation of the capital required to cover the market risks and conducting of stress tests for market risk; General Planning Management area, responsible for describing the Bank's strategy; General Financial Management area, responsible for the significant information on the sources of capital; and the General Audit area, in charge of periodically assessing the Bank's capital management process.

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

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

17. Regulatory capital

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

CMN Resolution No. 4192/2013 and a new set of rules established in Brazil, as from 10/1/2013, the recommendations of the Basel Committee on Banking Supervision (BCBS) regarding the capital structure of financial institutions, known as Basel III. This new framework introduced the calculation methodology for regulatory capital and for capital maintenance requirement, with minimum requirements regarding regulatory capital, Tier 1 Capital, and principal capital.

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

| | 2019 | 2018 |
|--|------------------|-------------|
| Equity | 1,741,986 | 1,725,933 |
| Tier 1 Capital or Principal Capital –a) | 1,668,727 | 1,713,276 |
| Capital for operations with the public sector (b) | 670,000 | 670,000 |
| Regulatory capital (RC) (a-b) | 998,727 | 1,043,276 |
| Total risk weighted assets (RWA) | 5,934,056 | 6,357,760 |
| Credit risk (RWAcpad) | 5,025,769 | 5,509,562 |
| Market risk (RWAm pad) | 168,581 | 177,861 |
| Operational risk (RWAopad) | 739,706 | 670,337 |
| Portion of capital for coverage of interest rate risk of non-negotiable portfolio (RWA Rban) | 10,793 | 26,082 |
| Minimum regulatory capital | 782,195 | 812,455 |
| Basel ratio (RC/RWA) | 16.83% | 16.41% |
| Extended Basel ratio (RC/(RWA + Rban)) | 16.80% | 15.66% |

18. Statement of profit or loss accounts

a) Income from lending operations

| | 2019 | 2018 |
|---------------------------------|----------------|-------------|
| Interest on loans and financing | 247,054 | 300,669 |
| Credits recoverable | 47,702 | 29,204 |
| | 294,756 | 329,873 |

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

18. Statement of profit or loss accounts (Continued)

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

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

| | 2019 | 2018 |
|---|----------------------------|----------------------------|
| | 1st half | 1st half |
| Yield from fixed income securities | 9,791 | 21,970 |
| Yield from repurchase agreements | 3,809 | 3,720 |
| Investment fund yield | 3,393 | 1,488 |
| Gains (losses) on derivatives transactions - swap | (3,225) | 45,332 |
| Gains (losses) on derivatives transactions – Futures DI | (142) | - |
| Other | (150) | - |
| | 13,476 | 72,510 |

ii) *Financial intermediation expenses*

| | 2019 | 2018 |
|---|----------------------------|----------------------------|
| | 1st half | 1st half |
| Financial bill expenses | (3,362) | (992) |
| Agribusiness credit bill expenses | (8,069) | (8,133) |
| BNDES and FINAME onlending expenses | (86,453) | (107,902) |
| Onlending expenses – other institutions | (12,499) | (9,274) |
| Foreign borrowing expenses | (9,716) | (86,607) |
| Interbank deposit and repurchase agreement expenses | (3,859) | (3,501) |
| Financial and development fund expenses | (1,653) | (692) |
| | (125,611) | (217,101) |

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

i) *Tax expenses*

| | 2019 | 2018 |
|----------------|----------------------------|----------------------------|
| | 1st half | 1st half |
| PIS and COFINS | (8,403) | (9,159) |
| ISSQN | (827) | (955) |
| Other | (354) | (649) |
| | (9,584) | (10,763) |

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

18. Statement of profit or loss accounts (Continued)

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

ii) *Administrative expenses*

| | 2019 1st half | 2018 1st half |
|--|---|---|
| Outsourced services and expert technicians | (4,898) | (5,787) |
| Advertising and communication | (1,141) | (1,279) |
| Data processing | (1,955) | (2,234) |
| Depreciation and amortization | (3,424) | (2,767) |
| Maintenance and materials | (1,290) | (1,233) |
| Travel and transportation | (775) | (929) |
| Rent and infrastructure | (651) | (493) |
| Other | (2,274) | (2,132) |
| | (16,408) | (16,854) |

iii) *Other operating income*

| | 2019 1st half | 2018 1st half |
|---|---|---|
| Reversal of sundry provisions | 1,365 | 22,653 |
| Post-employment benefits – past service – withdrawal of sponsorship of health plan and life insurance (i) | - | 31,411 |
| Income from market value adjustment of hedged items | 4,129 | 11,081 |
| Income from equalization - STN | 458 | - |
| Other | 2,060 | 3,796 |
| | 8,012 | 68,941 |

(i) In February 2018, the Bank changed the criteria adopted in relation to life insurance and health benefits granted to its employees. Total revenue in 2018 refers to reversal of the provision set up based on previous benefits considered.

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

18. Statement of profit or loss accounts (Continued)

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

iv) *Other operating expenses*

| | 2019 | 2018 |
|--|----------------------------|----------------------------|
| | 1st half | 1st half |
| Provision for rural transactions with guarantee | (418) | (113) |
| Provision for tax, labor and civil contingencies | (16,496) | (4,013) |
| Expense with INDI agreement | (2,418) | (3,787) |
| Post-employment benefits – defined benefit (DB) and variable contribution (VC) | (5,374) | (5,240) |
| Post-employment benefits – health and life insurance | (5,415) | (5,769) |
| Other long-term benefits | (274) | - |
| Expenses with BDMG Cultural agreement | (2,042) | (730) |
| Expenses with bonus and discount on loans | (1,376) | (3,256) |
| Expenses with discounts granted on renegotiations | (5,036) | (3,368) |
| Expenses with guarantees given | (13,533) | - |
| Fees/commissions on foreign loans | (4) | (1) |
| Indemnifications | (117) | (6,148) |
| Other | (3,432) | (2,674) |
| | (55,935) | (35,099) |

19. Income and social contribution taxes

a) Deferred income and social contribution taxes

Deferred tax credits are as follows:

| | 2019 | 2018 |
|---|----------------|----------------|
| Temporary additions (i) | 579,649 | 544,226 |
| Market value adjustment (marketable securities) | 6,492 | 3,248 |
| Total | 586,141 | 547,474 |

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

| | 2019 | 2018 |
|--|----------------|----------------|
| Allowance for loan losses | 341,462 | 371,465 |
| Post-employment benefit | 135,065 | 87,395 |
| COFINS – change in tax base established by Law No. 9718/1998 | 37,144 | 36,141 |
| Devaluation of marketable securities | 31,203 | 22,811 |
| PIS/PASEP – change in tax base established by Law No. 9.718/1998 | 10,203 | 10,203 |
| Civil, labor and tax contingencies | 15,176 | 8,775 |
| Guarantee with STN | 1,515 | 1,650 |
| Other | 7,881 | 5,786 |
| Total | 579,649 | 544,226 |

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

19. Income and social contribution taxes (Continued)

a) Deferred income and social contribution taxes (Continued)

Changes in tax credits in the period are shown below:

| | <u>Market value adjustment</u> | <u>Temporary additions</u> | <u>Total</u> |
|------------------------------|------------------------------------|--------------------------------|-----------------|
| Balance at December 31, 2018 | 5,231 | 538,110 | 543,341 |
| Set-up | 1,261 | 121,547 | 122,808 |
| Reversal | - | (80,008) | (80,008) |
| Balance at June 30, 2019 | 6,492 | 579,649 | 586,141 |

BDMG's tax credits were recorded in conformity with CMN Resolution No. 3059/2002 (as amended by Resolution No. 3355/2007) and consider expected realization within 10 years, based on the taxable profit presented in the P&L projected. These projections are subject to changes, since they are estimated using internal assumptions and future economic scenarios.

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

| | <u>Nominal value</u> | <u>Present value</u> |
|-------|----------------------|----------------------|
| Year: | | |
| 2019 | 49,446 | 46,997 |
| 2020 | 100,262 | 90,829 |
| 2021 | 64,183 | 54,528 |
| 2022 | 112,534 | 89,659 |
| 2023 | 63,007 | 47,078 |
| 2024 | 87,562 | 61,355 |
| 2025 | 29,335 | 19,277 |
| 2026 | 25,109 | 15,474 |
| 2027 | 23,722 | 13,710 |
| 2028 | 24,489 | 13,274 |
| Total | 579,649 | 452,181 |

The present value of tax credits was obtained by discounting the future flow of recovery at the average rate of the funding for onlending contracted by BDMG of 6.63% p.a. (2018 - 10.01% p.a.).

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

19. Income and social contribution taxes (Continued)

a) Deferred income and social contribution taxes (Continued)

Reconciliation of income and social contribution taxes posted to P&L

| | 2019 | | 2018 | |
|--|-----------------|-------------------------|------------|-------------------------|
| | Income tax | Social contribution tax | Income tax | Social contribution tax |
| Income before income and social contribution taxes | 13,700 | 13,700 | 85,269 | 85,269 |
| Net additions (exclusions) | | | | |
| Set up of provision for contingencies, net of reversals | 16,320 | 16,320 | (2,755) | (2,755) |
| Set-up of allowance for loan losses and recovery of credits written off as losses, net | 22,747 | 22,747 | 57,026 | 57,026 |
| Effective credit losses | (45,672) | (45,672) | (19,386) | (19,386) |
| Set-up of provision for post-employment benefit, net of reversals | 5,090 | 5,090 | (24,347) | (24,347) |
| Set-up of provision for losses on marketable securities, net of reversals | 20,914 | 20,914 | (73) | (73) |
| Equity pickup | - | - | (3) | (3) |
| Other | 14,965 | 14,845 | (10,541) | (10,686) |
| Tax base | 48,064 | 47,944 | 85,190 | 85,045 |
| Tax at effective rate | (7,210) | (7,192) | (12,778) | (17,009) |
| Income surtax | (4,794) | - | (8,507) | - |
| Tax incentives | 608 | - | 941 | - |
| Subtotal income and social contribution taxes payable | (11,396) | (7,192) | (20,344) | (17,009) |
| Total provision for income and social contribution taxes payable | (11,396) | (7,192) | (20,344) | (17,009) |
| Set-up of deferred tax credits (net of reversals) on temporary differences | 8,046 | 4,827 | 14,599 | 639 |
| Income and social contribution taxes in P&L | (3,350) | (2,365) | (5,745) | (16,370) |

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

20. Related parties

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

Legal entities

State of Minas Gerais and its direct and indirect subsidiaries:

- State of Minas Gerais - rendering of services acting as financial agent of the state funds. The commission received by the Bank is included in the financial charges on the financing agreements granted with the fund resources;
- Economic Development State Office - assignment of two employees at a cost for BDMG, one of whom beginning 07/02/2019. The assignment totals R\$179 in the six-month period.
- Fundação João Pinheiro, public institution linked to the State Planning and Management Department. As established in the articles of incorporation and in accordance with state Law No. 11050/1993, the Bank is authorized to donate 5% of net income for the year to the Foundation.

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

Related entities

- Institute of Integrated Development of Minas Gerais (INDI), a non-profit private legal entity linked to the Economic Development State Department. As established by state Law No. 22287, of September 14, 2016, INDI is an affiliate of the Bank, which holds 50% of INDI's units of interest, answering for contribution of financial resources corresponding to 50% of the entity's expenses. Expenses with INDI totaled R\$2,418 (2018 - R\$3,787) in the six-month period.
- DESBAN – BDMG Social Security Foundation, a non-profit privately-held supplementary pension plan entity, sponsored by BDMG, which, as detailed in Note 24, made contributions to the Foundation in order to provide social security and healthcare benefits of its employees. BDMG assigns employees to DESBAN, who bears the employee-related costs;
- Cultural Institute of Banco de Desenvolvimento de Minas Gerais - BDMG Cultural, a non-profit civil association, organized by BDMG in conjunction with BDMG Employee's Association (AFBDMG) to create a space for fostering of culture in Minas Gerais. The Bank maintains BDMG Cultural by assigning employees without charge, in addition to making contributions to the Institute. In the six-month period, expenses arising from the Bank's agreement with BDMG Cultural totaled R\$2,042 (2018 - R\$730).

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

20. Related parties (Continued)

BIOMM S.A.

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

BIOMM has a financing agreement with BDMG totaling R\$20,702 at June 30, 2019 (2018 - R\$19,982).

Individuals

The members of the Board of Directors, the Supervisory Board and the Executive Board are related parties of the Bank and receive fees comprising salaries, social charges and benefits. The fees amount to R\$2,269 in the six-month period (2018 - R\$2,128).

21. Insurance (unaudited)

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

22. Risk management

Financial risk management policy

Risk management aligned with strategic guidelines is committed to the ethical standards of conduct and reliability of the Bank, always seeking convergence of methodologies and internal models to the Basel agreements and Compliance with the recommendations from the regulatory agencies, with observance of CMN Resolutions No. 4557/2017 and No. 4.595/2017, aligned with the best risk management practices.

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

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

22. Risk management (Continued)

Financial risk management policy (Continued)

The governance structure comprises the Board of Directors, Audit Committee, Internal Audit, Independent Audit, Executive Board, Personnel Board, Operations and Risk, Risk and Capital Committee, General Risk Management, and Internal Controls, among other units (primary responsibility related to operational risks, compliance and implemented controls).

Credit risk

The Credit Risk Management Policy establishes limits for credit risk exposure by customer and economic group, and monitoring of the receivables portfolio quality; decision-making levels and criteria to analyze and monitor receivables, seeking selectivity of transactions to minimize default and developments thereof.

Operational risk

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

Compliance risk

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

Liquidity risk

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

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.

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

22. Risk management (Continued)

Financial risk management policy (Continued)

Social and environmental risk

The Social and Environmental Risk Policy establishes roles, responsibilities, own methodology for identification and assessment of social and environmental risks, and criteria for analysis and monitoring of operations.

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

23. Development fund management (unaudited)

The Bank maintains a structure for management of development funds. Balances of fund equities are as follows:

| | <u>2019</u> | <u>2018</u> |
|---------------|-------------------------|------------------|
| State funds | 3,811,180 | 3,800,029 |
| Private funds | 31,575 | 31,331 |
| Other funds | 78,061 | 75,365 |
| | <u>3,920,816</u> | <u>3,906,725</u> |

24. Employee benefits

As mentioned in Note 2.16, the Bank grants the following post-employment benefits to its employees: pension, healthcare and dental care, life insurance, and Voluntary Resignation Program.

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

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

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

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

a) Characteristics of the benefit plans

i) *Pension plan*

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

Defined benefit pension plan

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

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

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

a) Characteristics of the benefit plans (Continued)

i) *Pension plan* (Continued)

Defined benefit pension plan (Continued)

| | Conditions for restructuring of the deficit determined in 2015 at DESBAN | Amount of the restructuring at 06/30/2018 for the Sponsor (*) | Amount of the restructuring at 06/30/2019 for the Sponsor (**) |
|-----------------------------------|--|---|--|
| Amount of the restructuring – R\$ | 28,136 | 33,574 | 26,500 |
| Sponsor's share – R\$ | 14,068 | 16,787 | 13,250 |
| Participant's share – R\$ | 14,068 | 16,787 | 13,250 |
| Deadline for restructuring | 20 years | 2018 to 2036 | 2019 to 2036 |

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

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

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

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

Variable contribution plan

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

BDMG's contribution to this plan is also limited to the total regular participant contributions, in conformity with the matching contribution set forth in Constitutional Amendment No. 20, of December 16, 1998.

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

b) BDMG participants in the pension plans

The number of participants is distributed as follows:

| | <u>2019</u> | <u>2018</u> |
|--|-------------|-------------|
| Plans: | | |
| Defined benefit (DB) – active participants | 221 | 219 |
| Defined benefit (DB) – pensioner members | 540 | 538 |
| Defined benefit (DB) – self-sponsored participants | 12 | 18 |
| Variable contribution (VC) – active participants | 66 | 73 |
| Variable contribution (VC) – self-sponsored participants | 3 | - |
| Total | <u>842</u> | <u>848</u> |

i) *Healthcare and dental care benefit*

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

ii) *Life insurance*

The Bank sponsors post-employment group life insurance exclusively to the pensioner members who, on February 22, 2018, already had this benefit. The Bank contributes with 50% of the premium paid.

iii) *Voluntary resignation program*

The Bank implemented this Program with the objective of benefiting employees in condition to retire and who meet the established requirements.

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

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

c) Bank commitments with the benefit plans

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

| | <u>2019</u> | <u>2018</u> |
|------------------------------------|--------------|---------------|
| Pension plan - DB | 5,416 | 5,195 |
| Pension plan - VC | 251 | 246 |
| Health Promotion Program PRÓ-SAÚDE | 3,493 | 2,992 |
| Group life insurance | 602 | 624 |
| Voluntary resignation program | 10 | 2,137 |
| Total | <u>9,772</u> | <u>11,194</u> |

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

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

| | <u>Pension plan - DB</u> | <u>Pension plan - VC</u> | <u>Health Promotion program PRÓ-SAÚDE</u> | <u>Group life insurance</u> | <u>Total</u> |
|---|------------------------------|------------------------------|---|---------------------------------|------------------|
| (Liabilities), net at 12/31/2018 | (185,244) | - | (98,018) | (13,239) | (296,501) |
| Participant's portions in surplus (-) / deficit (+) | 37,184 | - | - | - | 37,184 |
| (Liabilities), net at 12/31/2018 (1) | <u>(148,060)</u> | <u>-</u> | <u>(98,018)</u> | <u>(13,239)</u> | <u>(259,317)</u> |
| Current service cost | (3,356) | (33) | - | - | (3,389) |
| Cost of interest, net | (6,440) | 1 | (4,323) | (578) | (11,340) |
| Expected contributions for administrative expenses | - | - | (514) | - | (514) |
| Sponsor contributions | 5,416 | 21 | 2,564 | 562 | 8,563 |
| Remeasurement | | | | | |
| Return on plan assets, net of interest | 67,473 | 115 | 1,680 | - | 69,268 |
| Actuarial (loss) – changes of assumptions (discount rate) | (203,254) | (238) | (20,869) | (2,488) | (226,849) |
| Actuarial gain/(loss) – experience adjustments | 59,527 | 208 | (768) | 10 | 58,977 |
| Actuarial gain/(loss) on asset ceiling effect | - | (74) | - | - | (74) |
| Risk sharing | 27,012 | - | - | - | 27,012 |
| (Liabilities), net at 06/30/2019 (1) | <u>(201,682)</u> | <u>-</u> | <u>(120,248)</u> | <u>(15,733)</u> | <u>(337,663)</u> |

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

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

c) Bank commitments with the benefit plans (Continued)

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

| | Pension plan - DB | Health Promotion Program PRÓ-SAÚDE | Group life insurance | Total |
|---|----------------------|---|-------------------------|-----------|
| (Liabilities), net at 12/31/2017 | (198,278) | (116,233) | (16,132) | (330,643) |
| Participant's portion in surplus (-) / deficit (+) | 51,991 | - | - | 51,991 |
| (Liabilities), net at 12/31/2017 (1) | (146,287) | (116,233) | (16,132) | (278,652) |
| Current service cost | (3,566) | (221) | (28) | (3,815) |
| Cost of interest, net | (6,447) | (4,832) | (639) | (11,918) |
| Plan changes (past service) | - | 28,123 | 3,288 | 31,411 |
| Expected contributions for administrative expenses | - | (793) | - | (793) |
| Sponsor contributions | 5,197 | 2,195 | 578 | 7,970 |
| Remeasurement (2) | | | | |
| Return on plan assets, net of 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 administrative load fee | 8,128 | - | - | 8,128 |
| Risk sharing | (36,948) | - | - | (36,948) |
| Other – Additional contributions | 10 | - | - | 10 |
| (Liabilities), net at 06/30/2018 (1) | (115,956) | (88,384) | (12,413) | (216,753) |

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

(2) Remeasurements of employee benefit obligations are recorded as Other equity adjustments, in equity, as mentioned in Note 15.c.ii.

Amounts recognized in P&L

Expenses with defined benefit plans are detailed below:

| | 2019 | | | | |
|--|----------------------|----------------------|---|-------------------------|----------|
| | Pension plan - DB | Pension plan - VC | Health Promotion Program PRÓ-SAÚDE | Group life insurance | Total |
| Current service cost | (3,356) | (33) | - | - | (3,389) |
| Cost of interest, net | (6,440) | 1 | (4,323) | (578) | (11,340) |
| Expected contributions for administrative expenses | - | - | (514) | - | (514) |
| (Expenses) revenue recognized in P&L (*) | (9,796) | (32) | (4,837) | (578) | (15,243) |

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

c) Bank commitments with the benefit plans (Continued)

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

Amounts recognized in P&L (Continued)

| | 2018 | | | Total |
|--|-------------------|------------------------------------|----------------------|----------|
| | Pension plan - DB | Health Promotion Program PRÓ-SAÚDE | Group life insurance | |
| Current service cost | (3,566) | (221) | (28) | (3,815) |
| Cost of interest, net | (6,447) | (4,832) | (639) | (11,918) |
| Expected contributions for administrative expenses | - | (793) | - | (793) |
| Past service cost | - | 28,123 | 3,288 | 31,411 |
| (Expenses) recognized in P&L (i) | (10,013) | 22,277 | 2,621 | 14,885 |

(i) Expenses were posted as follows: R\$4,454 (2018 - R\$5,517) in "Personnel expenses", R\$14,789 (2018 - R\$11,009) in "Other operating expenses", and R\$(2018 - R\$31,411) in "Other operating income".

d) Actuarial studies

The actuarial liabilities were calculated by an independent actuary using the Projected Unit Credit method, and the studies were prepared for the reporting date June 30, 2019.

i) *Net amount to be recognized in the statement of financial position*

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

| | 2019 | | | | Total |
|---|-------------------|-------------------|------------------------------------|----------------------|-------------|
| | Pension plan - DB | Pension plan - VC | Health Promotion Program PRÓ-SAÚDE | Group life insurance | |
| Defined benefit obligation | (1,313,098) | (741) | (145,566) | (15,733) | (1,475,138) |
| Plan assets | 1,045,563 | 1,707 | 25,318 | - | 1,072,588 |
| (Deficit)/surplus calculated | (267,535) | 966 | (120,248) | (15,733) | (402,550) |
| Asset ceiling effect | - | (966) | - | - | (966) |
| Risk sharing – participant's portion in surplus/deficit | 65,853 | - | - | - | 65,853 |
| (Liabilities), net at 06/30/2019 (1) | (201,682) | - | (120,248) | (15,733) | (337,663) |

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

d) Actuarial studies (Continued)

i) *Net amount to be recognized in the statement of financial position* (Continued)

| | 2018 | | | | Total |
|--|-------------------|-------------------|------------------------------------|----------------------|-------------|
| | Pension plan - DB | Pension plan - VC | Health Promotion Program PRÓ-SAÚDE | Group life insurance | |
| Defined benefit obligation | (1,053,491) | - | (111,190) | (12,413) | (1,177,094) |
| Plan assets | 920,421 | - | 22,806 | - | 943,227 |
| Actuarial (liabilities), net | (133,070) | - | (88,384) | (12,413) | (233,867) |
| Participant's portion in surplus/deficit | (17,113) | - | - | - | (17,113) |
| (Liabilities), net at 06/30/2018 (1) | (115,957) | - | (88,384) | (12,413) | (216,754) |

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

| | 2019 | 2018 |
|---|-----------------|-----------------|
| | Pension plan DB | Pension plan DB |
| Sponsor's portion in future contributions | (118,224) | (82,546) |
| Sponsor's portion in deficit restructuring - 2015 | (17,605) | (16,297) |
| Sponsor's portion in surplus/deficit | (65,853) | (17,113) |
| | (201,682) | (115,956) |

Allocation of the fair value of plan assets

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

| Pension plan - DB | 30/06/2019 |
|--|------------|
| Available | 0.01% |
| Realizable – Pension plan management | 0.67% |
| Realizable – Administrative management | 0.67% |
| Government securities | 37.11% |
| Private credits | 0.18% |
| Investment funds | 50.55% |
| Real estate investments | 4.19% |
| Loans and financing | 1.05% |
| Judicial deposits | 5.57% |

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

d) Actuarial studies (Continued)

i) *Net amount to be recognized in the statement of financial position* (Continued)

Allocation of the fair value of plan assets (Continued)

| Pension plan - VC | 2019 |
|---|--------|
| Available | 0.00% |
| Realizable – Pension plan management | 0.04% |
| Realizable – Administrative management | 0.82% |
| Investment funds | 97.44% |
| Loans and financing | 1.70% |
| <hr/> | |
| Health Promotion Program PRÓ-SAÚDE | 2019 |
| Available | 0.27% |
| Investments linked to technical reserves | 6.97% |
| Unrestricted investments | 34.74% |
| Credits from health plan operation | 0.45% |
| Credits from operation not related to health plan of the operator | 0.21% |
| Government securities | 45.73% |
| Noncurrent | 11.63% |

ii) *Key assumptions used in the actuarial valuation*

The actuarial studies that present BDMG's obligations at June 2019 are based on the following assumptions:

| | 2019 |
|---|---|
| Statutory discount rate for the actuarial liability | |
| Pension plan - DB | 7,468% |
| Pension plan - VC | 7,713% |
| Health Promotion Program PRÓ-SAÚDE | 7,507% |
| Group life insurance | 7,567% |
| Expected annual nominal rate of return on investments | |
| Pension plan - DB | 7,468% |
| Pension plan - VC | 7,713% |
| Health Promotion Program PRÓ-SAÚDE | 7,507% |
| Estimated future annual inflation rate | 3.80% |
| Nominal rate of future salary growth: | |
| BDMG (PCS) | 6,437% |
| BDMG (CC) | 4,319% |
| Annual projection of effective growth of medical expenses (1) | 3.00% |
| Turnover: | |
| Less than three years of service | |
| More than three years | |
| Up to 39 years of age | 4.20% |
| More than 39 years of age | 0.30% |
| General mortality table | AT-2000 Basic downrated by 10%, softened by 10%, M&F |
| Disability table | Álvaro Vindas softened by 70% |
| Disability mortality table | Winklevoss softened by 50% |
| Structure of surviving families | Active employee: Standard family (considering 95% married and 4 years of difference between spouses, with the man older than the woman and younger temporary dependent, with age equivalent to: 24 maximum ((65-age of the holder)/2;0)). Pensioner member: actual family. |

(1) Applicable solely to the Health Plan.

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

Notes to financial statements (Continued)

June 30, 2019 and 2018

(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

d) Actuarial studies (Continued)

iii) *Sensitivity of the defined benefit obligation*

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

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

| | Altered assumption | | | | | | | | | |
|------------------------------------|--|--|---------------------------------------|---------------------------------------|--|--|---|---|---|---|
| | Increase of 0.5% p.a. in discount rate | Decrease of 0.5% p.a. in discount rate | Increase of 1 year in life expectancy | Decrease of 1 year in life expectancy | Increase of 0.5% in salary growth rate | Decrease of 0.5% in salary growth rate | Increase of 0.01% in insurance premium rate | Decrease of 0.01% in insurance premium rate | Increase of 0.5% in medical cost trend rate | Decrease of 0.5% in medical cost trend rate |
| Pension plan - DB | -6.12% | 6.87% | 2.15% | -2.15% | 1.33% | -1.25% | N/A | N/A | N/A | N/A |
| Pension plan - VC | -15.43% | 18.48% | 2.66% | -2.43% | 11.35% | -10.25% | N/A | N/A | N/A | N/A |
| Health Promotion Program PRÓ-SAÚDE | -5.90% | 6.53% | 4.07% | -4.01% | - | - | N/A | N/A | 6.53% | -5.96% |
| Group life insurance | -6.61% | 7.73% | 2.43% | -2.42% | - | - | 3.27% | -3.27% | N/A | N/A |

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

24. Employee benefits (Continued)

d) Actuarial studies (Continued)

iv) *Projected cash flow*

The actuarial studies made for the reporting date June 2018 included the following estimates for payment of benefits and contributions of the sponsor for the second half of 2019:

| | Pension plan - DB | Pension plan – VC (1) | Health Promotion Program PRÓ- SAÚDE | Group life insurance | Total |
|---------------------------------|----------------------|--------------------------|--|-------------------------|--------|
| Expected benefit payments | 43,096 | 30 | 2,744 | 570 | 46,440 |
| Expected employer contributions | 6,159 | 24 | 2,921 | 570 | 9,674 |

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

25. Commitments and responsibilities

BDMG granted sureties and guarantees to customers by providing counter guarantees and financial charges paid by beneficiaries. The balance of these commitments at June 30, 2019 totals R\$195,994 (2018 - R\$208,536).

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

Notes to financial statements (Continued)
June 30, 2019 and 2018
(In thousands of reais, unless otherwise stated)

Board of Directors

| | |
|----------------------------------|---------------|
| Fernando Lage de Melo | Chairman |
| Carlos de Camargo Penteado Braga | Vice-Chairman |
| Ivone Hiromi Takahashi Saraiva | Member |
| Leonardo Guimarães Parma | Member |
| Rodrigo Schuind da Costa Guedes | Member |
| Sérgio Gusmão Suchodolski | Member |
| Sérgio Murilo Bahdur Vieira | Member |

Executive Board

| | |
|---------------------------------|----------------|
| Sérgio Gusmão Suchodolski | President |
| Henrique Amarante Costa Pinto | Vice-President |
| Gustavo de Melo Vasconcelos | Director |
| Marcela Amorim Brant | Director |
| Otávio Lobão de Mendonça Vianna | Director |

General Controllership Management

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