

Financial Statements

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

June 30, 2021
with Independent Auditor's Report

BANCO DE DESENVOLVIMENTO DE MINAS GERAIS - BDMG

Management Report

1H21

MESSAGE FROM MANAGEMENT

The Management of Banco de Desenvolvimento de Minas Gerais S.A. (BDMG), in compliance with the legal and regulatory requirements, presents the Financial Statements for 1H21.

The first six-month period was marked by efforts towards a set of actions that will provide the basis for the expansion and strengthening of BDMG's performance in the economy of Minas Gerais. Among the actions presented in this report, we highlight the launch of the public notice for municipal infrastructure projects, the recognition of the BDMG rating and the Bank's commitment to the State government in the global campaign Race to Zero - to zero carbon emissions by 2050, in addition to other important achievements related to minimizing the impacts of the health crisis, in particular for small entrepreneurs.

Aware of the effects of the crisis brought about by the COVID-19 pandemic, since March 2020, the Bank has been establishing and updating preventive measures to preserve the health of all employees, partners and customers. The Bank adapted its dynamics and processes to the remote work regime, preserving its ability to provide services to the people of Minas Gerais and reaffirming its commitment to acting as a strategic agent for fostering development in this challenging scenario.

This report is organized in seven parts. In the first, we present the global, national and regional economic scenario. Next, the operating results with highlights for the first half of 2021 and the social and environmental impacts. In the third part, we report the highlights of the performance in the period, followed by institutional positioning and social responsibility actions. Sections 6 and 7 present the activities related to the Bank's financial sustainability, with the themes of funding, rating and risk management, and the financial statements.

BDMG management appreciates the support of its shareholders, customers and employees and all those who contributed to the results achieved in the period. In particular, it would like to thank the people of Minas Gerais, which is the reason for all the Bank's efforts for the sustainable social and economic development of the state.

1 | ECONOMIC SCENARIO

The first half of 2021 consolidated a gradual and heterogeneous process of recovery of the Brazilian and Minas Gerais economy after the strong and unprecedented shock caused by the pandemic in 2020. Despite the increase in cases and deaths observed in the first months of the year, associated with the circulation of more aggressive and transmissible Covid-19 variants, the economic activity proved to be more resilient, with less intense impacts than those observed at the beginning of the pandemic. With the progress of vaccination rollout, favorable external environment and reduction of tax uncertainties in the short term, a more sustained growth is expected in the second half of 2021, with the partial normalization of the most affected sectors.

The external scenario remains favorable and helps to explain the resilience of the local economy at the beginning of 2021. Since the end of last year, even with fluctuations related to the regional evolution of the pandemic, the main global economies have been showing remarkable growth, in a trend that has accelerated with strong progress in vaccination in the US and Europe in 2021. This recovery favors the economy of Minas Gerais and Brazil due to the increase in international trade flows, the strong appreciation of exported commodities such as iron ore, coffee, soybeans and corn. In addition, global financial conditions with very low interest rates and large liquidity expansion continue to stimulate risk appetite and capital flows to emerging countries.

National context

Nationally, the level of Brazilian economic activity in May this year, measured by the Central Bank's IBC-BR - the latest available reading - is already equivalent to the pre-pandemic level, although with great sectorial heterogeneity.

The agricultural sector was the least affected, managed to grow in 2020 and continued to leverage growth in the first quarter of 2021. After unprecedented declines in the most acute period of the crisis, the industry and trade sectors recovered supported by government incentive measures and already present accumulated growth in the last 12 months. The services sector was the most affected, and has been recovering more slowly but consistently.

An aggregate growth of 4.5% in the Brazilian GDP is expected this year. The main risks to this performance are the effects of the recent increase in inflation on the confidence of households and companies, already affected by high and persistent unemployment rates, the water crisis and the need for additional measures to restrict mobility caused by new Covid-19 strains circulating in the country.

Regional context

At the state level, the economy of Minas Gerais presented a dynamic similar to what happened nationally, but with a more robust recovery in the main sectors, and in April 2021 it was already at a level 3.7% higher than in February 2020. In the industry, there was a more intense recovery in mineral extraction, stimulated by the strong appreciation of iron ore and the recovery of the low base since the dam crisis in 2019.

In the processing industry, the strong recovery of the automotive industry is also highlighted, stimulated by investments and nationwide gains arising from the automotive industrial park in Minas Gerais. However, at the beginning of the year, the water crisis had a negative impact on the industrial performance of Minas Gerais, with negative effects on the generation of hydroelectric energy in the state and the restriction of inputs for the food industry.

In agriculture, after an excellent year with production records and high prices, the effects of the drought and the negative biennial in coffee production could lead to a retraction of the State's agricultural GDP in the second half of 2021. In services, the progress in the vaccination rollout and health security tend to further encourage personal services throughout the year, consolidating the ongoing recovery.

An aggregate growth of 3.0% is expected for the Minas Gerais economy in 2021. The risks to this scenario are similar in nature to those in the national context.

2 | OPERATING PERFORMANCE AND IMPACTS

The total disbursement in the first half of 2021 was R\$780.1 million for 1,629 customers. Compared to disbursements for the same period in 2020, there is a 26% decrease, which reflects the implementation of emergency credit programs at the time of the outbreak of the health crisis. Considering the entire pandemic period, the Bank accumulates R\$3.5 billion injected into the economy of Minas Gerais, contributing to the strengthening, recovery and overcoming of this adverse scenario, serving 14,060 customers between March 2020 and June 2021.

Analyzing disbursements by segment ¹, R\$89.9 million were allocated to 1,345 micro and small enterprises, which represent 83% of the number of customers served by BDMG in the period. For medium and large companies, R\$228.9 million were disbursed to 75 medium-sized companies and R\$407.5 million to 33 large companies. For the public sector, R\$51.3 million were disbursed for projects in 175 municipalities.

As for the origin of funds disbursed in the first half, 65% were own funds and/or arising from domestic and international funding; 33% were from transfers and 2% from investment funds. Regarding transfers, 20% came from the Fund for the Defense of the Coffee Economy (FUNCAFÉ) and 12% came from the National Development Bank (BNDES).

The sectors that stood out in terms of disbursement volume were Commerce and Services, with R\$364.8 million, or 47%. The Processing Industry appears in second place, with 25% of disbursements or R\$ 190.9 million, followed by the Agriculture, Livestock and Forestry sector, which represented 15%, with R\$ 120.2 million.

Regarding distribution by macroregion, R\$464 million were released to companies located in the Central, Southern and Triângulo Mineiro regions (MG), or 59% of the total. Other macroregions in the state received 41% (R\$316.5 million).

The companies served in 2021 are located in 398 municipalities, of which 314 (79%) have an MHDI lower than the Brazilian average. It is noteworthy that in the North region of Minas Gerais, 49% was directed to photovoltaic solar energy projects, contributing to the growth of renewable energy projects in the region.

Present in 764 of the 853 municipalities in Minas Gerais (90%), BDMG has worked with capillarity, benefiting all regions of the state, generating a significant social and economic impact.

¹ The classification of the size of companies in BDMG: Micro and Small Businesses: annual gross sales of up to R\$4.8 million; Average: from R\$4,8 to R\$300 million and Large Businesses, above R\$300 million.

Social and environmental impacts

When applying the Input-Product Matrix², an econometric methodology that measures the impacts of BDMG's disbursements on the Minas Gerais state economy, an additional value of R\$313,2 million is estimated to have been generated in the Minas Gerais state production, with R\$23 million in State VAT (ICMS), stimulating the creation of 9,163 new jobs.

Assessing the social effects of financing on the economy of Minas Gerais, R\$ 67.4 million were disbursed to 1,349 customers with revenues of up to R\$30 million, 22% for productive microcredit³. These funds benefited 267 municipalities, 71% of them with MHDl below the Brazilian average and contributed to the maintenance of 6,880 jobs, 89% of them in micro and small enterprises.

Focusing on efforts for economic recovery, mainly supporting the overcoming of the economic effects of the pandemic (offering the products BDMG Giro Já, BDMG Pronampe and BDMG Solidário Coronavírus, among others), BDMG disbursed R\$42.2 million to 841 customers in 193 municipalities, 63% of them with MHDl below the Brazilian average. These funds contributed to the preservation of 3,763 jobs.

With regard to gender inclusion, BDMG disbursed R\$22.8 million considering MSEs that have at least one woman in their corporate structure. Of that total, product BDMG Pronampe deserves to be highlighted, which served 153 companies, disbursing R\$9.2 million, representing 28% of total disbursements through this product in the period.

BDMG Empreendedoras lines, specific for MSEs controlled by women who hold more than 50% interest in the company, were responsible for the disbursement of R\$7.6 million. Financing through these products reached 235 companies until June 2021, located in 110 different cities (57% of them with MHDl below the average) and assisted in the maintenance of 898 jobs. The women entrepreneurs represented 17% of the total number of customers served via BDMG Digital.

Financing for health includes a hospital, two diagnostic support centers, in addition to a project for investments in 40 basic health units. In financing the hospital, 70,000 people are directly benefited, including around 15,000 patients and 1,600 workers.

Regarding the impacts related to green financing, the renewable energy projects contracted in the first half have the capacity to generate 29.2 GWh/year. Together, these projects have the potential to generate energy equivalent to the consumption of 9,847 households with four people, on average, for a period of one year. In terms of avoided greenhouse gases (GHG), it is possible to estimate that 2,186 tCO₂e/year will no longer be emitted into the atmosphere.

² Amounts at June/2020 prices. Note: Production: sum of all final goods and services produced at the location in question. The production value may be higher than the state GDP, as it considers other intermediate complements and consumption present in the final value, in addition to the value added and indirect taxes. Value Added: in each economic activity this is obtained by the difference between the production value and the intermediate consumption absorbed by the activity. Its sum plus indirect taxes forms GDP. Compensation: compensation for the stimulated work (employment) required to increase production due to the exogenous shock resulting from the loan granted. Employment: stimulated work required by the additional production required. ICMS: key indirect tax imposed by the state. According to the Constitution, 25% of the amount paid is transferred to the municipalities, while 75% remains with the state of Minas Gerais. All the additional production obtained with the exogenous loan shock helps to leverage the payment of this tax and reinforces the coffers of the federal units of Minas Gerais.

³ Productive microcredit refers to loans granted to micro businesses with sales of up to R\$360 thousand and disbursements of up to R\$21 thousand.

With regard to the production of biofuel by the sugar-alcohol sector, the category concentrated 29% of the funds intended to renewable energies, totaling R\$22.8 million. These funds financed the planting of 1,800,000 ton of sugarcane and the production of 17,819,000 L of ethanol.

3 | PERFORMANCE HIGHLIGHTS

Clean Energy

Projects related to Sustainable Development Goal - SDG 7 - Affordable and Clean Energy received R\$92.7 million, distributed among 25 customers and in 24 municipalities. This represented a growth of 90% compared to the same period last year. Photovoltaic solar energy projects should be highlighted, representing 36% of the disbursement for energy efficiency and renewable energy.

In relation to projects financed by BDMG with funds from the European Investment Bank (EIB), R\$52.7 million were disbursed for projects involving photovoltaic plants, hydroelectric power plants (CGH) and public lighting. Since 2019, when the contract with the EIB was entered into, R\$177.9 million have already been contracted, with R\$142.9 million in disbursements.

In order to increase the dialogue with customers and provide more transparency on how the bank works with the theme of sustainability, the Green Credit page was created on the BDMG website - [https://www.bdmg.mg.gov.br/credito -green/](https://www.bdmg.mg.gov.br/credito-green/) Users can obtain information about products for financing renewable energy and energy efficiency, connection with the Sustainable Development Goals (SDGs), history, impact, etc.

Agribusiness

Given the significance of agribusiness in the state economy, BDMG stands out as a great supporter of Minas Gerais farmers. In the first six-month period, 49% of the Bank's disbursement was allocated to that segment, totaling R\$379.8 million, with a decrease of 11% compared with the same period last year.

The financing was made substantially through lines that use resources from Funcafé, Agribusiness Credit Bills (LCA) and BNDES. The disbursement tied to LCA lines was R\$196.3 million, or 52% of the total allocated to agribusiness – a decrease of 25% in relation to 1H20.

Social and environmental certifications

Of the amount disbursed to the agribusiness sector, R\$172.9 million went to customers with some sustainable agriculture certification, such as UTZ Certified, which provides food safety for their products, in addition to the enterprise's social and environmental criteria. Other examples include FairTrade and 4C - Common Code for the Coffee Community. This amount corresponds to 46% of the disbursement for agribusiness. It is noteworthy that the certifications aim to guarantee the quality and origin of the products, whether for commerce, industry and, mainly, for consumers, in alignment with SDG 2 - Zero Hunger and Sustainable Agriculture.

Fund for the Defense of the Coffee Economy (Funcafé)

For crop year 2020/2021, BDMG initially received R\$392 million, but requested new credit limits that led the Bank to contract a record R\$462 million, 100% of the amount made available to it at the end of the

process. This is the 2nd largest budget of the fund in Brazil, second only to a bank with national operations. This consistent growth trajectory is supported by customer loyalty, with offers in line with the market, fast processes and proactive and timely service.

Funcafé represented 42% of disbursements for the sector (R\$158 million) with an increase of 7% compared to the same period in 2020. Of these, 77% were destined to agricultural producers who have some agricultural certification and financed the planting of more than 284 thousand bags of coffee for customers with annual processing capacity of more than 14 million bags.

For the 2021/2022 crop, which started in July, BDMG will operate, in principle, funds amounting to R\$355.5 million. This amount is the fund's largest budget in Brazil when it comes to banking institutions with regional operations, and the sixth largest overall.

Cresol Minas Partnership

In June, a partnership agreement was entered into for a pilot project with Cresol Minas. The cooperative will act as a financial agent, transferring funds from BDMG and allowing the Bank to increase its capillarity in reaching rural producers of different sizes.

Municipalities

In its contribution to reducing regional and social inequalities, BDMG has been improving financing mechanisms for local governments, seeking to provide the investments necessary for sustainable economic and social development, including the improvement of public administration.

The support provided to the state municipalities prioritizes structuring projects, with economic/social impact and that aim at transforming the local reality. The purpose of the financing is the construction, renovation and expansion of public buildings, energy efficiency, cogeneration of energy, water and sewage supply, solid waste management, mobility and urban drainage, in addition to the possibility of acquiring machinery and equipment. We point out that many of these projects are aligned with Sustainable Development Goals (SDG 6 - Drinking Water and Sanitation), (SDG 9 - Industry, Innovation and Infrastructure) or (SDG 11 - Sustainable Cities and Communities).

In the first half, R\$43.5 million were disbursed for projects in 157 municipalities in Minas Gerais. Another R\$7.8 million were disbursed in operations involving non-reimbursable funds from third parties (Fundação Renova⁴) for 21 municipalities. Of the disbursements made in 2021, R\$37million was allocated to 141 City Administrations (90%) located in municipalities with MHD below the Brazilian average. Currently, BDMG has an active portfolio of loans with the public sector of R\$621 million, though contracts with 448 City Administrations of Minas Gerais.

2021 Municipal Notice

On April 8, the 2021 Municipal Notice was launched, with a budget of R\$300 million for contracting new operations through four lines of financing: Sustainable Cities (clean energy, energy efficiency, modernization of public buildings and smart cities), Urbaniza (urban mobility and drainage), Sanitation

⁴ Fundação Renova is the entity responsible for organizing efforts to repair the damage caused by the collapse of the Fundão dam, in Mariana (MG). It is a non-profit organization, the result of a legal commitment called the Transaction and Conduct Adjustment Term (TTAC).

(water supply systems, sewage systems and urban solid waste) and Maq (machinery, equipment and vehicles). Greater emphasis was placed on supporting sustainable projects, in addition to special conditions for cities with MHDl below the state average.

The Bank accelerated the qualification of registered projects, a process that became 100% digital. Thus, this analysis, which previously took up to four months to complete, was completed in just three weeks, bringing more speed and less bureaucracy to the entire process.

As a result, 454 financing proposals in 345 Minas Gerais municipalities were approved. The biggest demand came from the Urbaniza line, representing 39% of qualifications. In second place, the Sustainable Cities line - new in this edition - with 35%, highlighting 104 projects to improve public lighting and 58 projects to generate electricity.

Project platform: advisory services for the State Government

Under the cooperation agreement entered into in April 2020 with the Inter-American Development Bank (IDB) and the service agreement with the Minas Gerais Infrastructure and Mobility State Office (SEINFRA) - whose purpose is to enable investments, guarantee the maintenance of the road stretches and strengthening the State's logistical infrastructure - throughout the first half of 2021, several products of the structuring of the Lote Ouro Preto highway concession were completed, such as a traffic study, registration of the highway system, exploration program and environmental studies. The concession covers road stretches in the municipalities of Brumadinho, Ouro Preto, Mariana, Viçosa and Rio Casca, among others.

In relation to the concession of three conservation units of Rota das Grutas Peter Lund, a project that is part of the State Park Concession Program (Parc) of the State Forestry Institute (IEF), the approval of the winning bid was published on March 2, whose concession arrangement is expected to be entered into in August. The concession project model was designed by BDMG, consolidating the Bank's operations in the project structuring segment also for the state government.

Project platform: partnerships for the Infrastructure segment

Under the Technical Cooperation Agreement signed with the State Office for the Environment and Sustainable Development (SEMAD), and with the objective of promoting the development of public policies for environmental management and basic sanitation, BDMG has been technically assisting SEMAD in search for an economically feasible solution for the creation of regional basic sanitation units, in compliance with the new legal framework for basic sanitation, through Federal Law No. 14026, of July 15, 2020.

In this context, upon the presentation by the State Government of Bill No. 2884/2021, BDMG has developed studies and projections for the establishment of an agreement between the Minas Gerais state municipalities in the State of Minas Gerais for the regionalized provision of sanitation and solid waste services. The objective is to drive gains of scale and ensure access of the Minas Gerais state population to public basic sanitation services.

BDMG Digital Financing for Micro and Small Enterprises (MSEs)

The important role that Micro and Small Enterprises (MSEs) play in an economy is undeniable, especially in the generation of jobs and income. They are also essential actors for sustainable

development, since they are directly related to SDG 8 - *Decent Work and Economic Growth*. BDMG, a permanent partner of MSEs, is always seeking to expand and streamline access to credit for businesswomen and entrepreneurs, either via its online platform, BDMG Digital, or through banking correspondents.

Of the total of R\$86.1 million allocated to MSEs in the first half, R\$58.7 million were provided via the BDMG Digital platform (68% of the total). The highlights were the BDMG Pronampe products, with R\$32.7 million and BDMG Geraminas Fidelidade, with R\$7 million.

Since the beginning of the pandemic, in March 2020 until June of this year, more than R\$922.8 million were released via digital BDMG, of which R\$883.8 million was only for MSEs, 96% of the total financed via the platform.

New Products for MSEs

In early May, BDMG Giro Já was created, a financing line that provides working capital for MSEs in the areas of industry, commerce and services and for production cooperatives. Financing amounts range from R\$5,000 to R\$480,000, at different rates. In less than two months of activity, BDMG Giro has already served 80 companies, with a total disbursement of R\$2.9 million.

The BDMG Solar Fotovoltaico product for MSEs was also revised, on the BDMG Digital platform, with the objective of financing investments in photovoltaic solar energy.

Gender inclusion

In the context of Agenda 2030, the Bank has strengthened its policy of encouraging female entrepreneurship (SDG 5), either through exclusive lines or by offering, whenever possible, differentiated conditions for the segment in general purpose products. In March, BDMG launched special conditions for the Empreendedoras de Minas line, aimed at micro and small enterprises that have a female presence of at least 50% in the capital. The line's initial interest rate, already reduced in 2020 due to the pandemic, was even lower in March due to the celebration of International Women's Day. The Bank's initiative aims to strengthen female entrepreneurship and gender equality.

In May, BDMG Giro Já Empreendedoras was launched, a financial product with special conditions, also aimed at companies from all sectors of the economy headed by women.

Innovation

Providing support to companies for investment in technological innovation is essential for their alignment with current market demands, which are increasingly competitive. BDMG seeks to promote innovation in the Minas Gerais production sector, enable the creation and access to the credit market for technology-based companies and support innovation projects.

Through loans, BDMG, in partnership with Fapemig, Finep and BNDES, finances innovative projects developed by companies in the Minas Gerais state. In the first half, R\$10.4 million were contracted and R\$9.7 million were disbursed in innovation projects.

In May, BDMG's first innovation notice was published to qualify companies with sales of up to R\$16 million, focusing on innovation projects for contracting credit operations with BDMG, with amounts between R\$150 thousand and R\$1 million. The notice resulted in 32 companies qualified for initial analysis, with a total amount of R\$20.4 million requested. Funding comes from Finep and Fapemig, in addition to the Bank's own funds.

In addition to stimulating innovation through financing, BDMG also works with investment instruments to support innovative companies with high growth potential. In the first six-month period, R\$2.56 million was paid up in this portfolio, consisting of nine Equity Investment Funds (FIPs) and a Venture Debt Fund. Together, these funds have already invested R\$75.1 million in 31 Minas Gerais companies.

The Bank holds equity interest in two companies, with 6.5% of the shares of Unitec Semicondutores S.A. in the semiconductor industry being implemented in Ribeirão das Neves, state of Minas Gerais (MG), of which it has been a shareholder since 2012, and 5.97% of Biomm S.A. biopharmaceutical industry located in Nova Lima (MG), of which it has been a shareholder since 2013.

Hub Hubble

Created in 2017, Hubble is another key initiative to foster the innovation ecosystem. Based at the Bank, selected startups participate in the hub where a space with adequate infrastructure is made available for a team of up to three people, with access to technology, in an intensive and innovative way, receiving mentoring and acquiring market traction.

A partnership between BDMG, with LM Ventures and Banco Olé Consignado, Hubble Hub is already in the 2nd Batch, beginning at the end of 2019, having selected 13 startups. The companies develop various solutions for the financial market, from new products such as microcredit, quantitative investment funds, payroll loans and credit lines for middle-market, to solutions to generate more efficiency, such as payment solutions, blockchain, artificial intelligence and machine learning and management software.

Innovation Partnerships

During the first six-month period, BDMG established several partnerships focused on innovation. At the end of March, the registration and selection steps for startups enrolled with the Minas Gerais Government acceleration program, Seed MG, began, of which BDMG is a participant, in partnership with the Minas Gerais State Economic Development Office (SEDE).

Another project that sought to discuss the innovative impact of the Bank's financing was the partnership with the university SKEMA Business School, through which undergraduate students carried out an impact assessment of BDMG's innovation portfolio and searched for strengths, needs and potential solutions.

The Bank also renewed its partnership with EMBRAPPII and FAPEMIG, contributing with reimbursable financing to EMBRAPPII Units and Hubs.

Together with the State Planning and Management Department and the State Office of the Ombudsman, BDMG launched the 6th edition of the Inova Minas Gerais Award. The objective is to encourage good practices and innovative ideas that contribute to government management. There are two modalities: "Successfully Implemented Initiatives" and "Implementable Innovative Ideas". Public servants, civil servants, interns and scholarship holders who work in the Executive Branch of the State of Minas Gerais may participate in the contest.

4 | INSTITUTIONAL POSITIONING

Partnerships

BDMG, together with the French Development Agency (AFD), the Global Fund for Cities Development (FMDV) and the Institute for Sustainable Development and International Relations (IDDRI), spearheaded the creation of the Alliance of Subnational Development Banks in Latin America and the Caribbean, aiming to reaffirm the importance of Subnational Development Banks in the implementation of the Global Agendas in the subcontinent. The dialogue platform was formed from the Finance in Common Summit - the main meeting of public development banks in the world, held in November 2020 - to strengthen the conditions for financing urban development and stimulate the pipeline of projects.

During the first six-month period, BDMG took part in monthly meetings with the other 25 development institutions from several countries that, likewise, undertook to join efforts to improve their gender equality policies and contribute to the achievement of SDG 5.

Reinforcing its commitment to sustainability, in March, BDMG published its first report on the UN Global Compact website, the month in which it completed one year as a signatory. The Bank was invited to have a seat on the Brazilian Network of the Global Compact (CORB), the body representing the Global Compact in the country, being the first Brazilian development bank to hold such a position. BDMG will be the representative of SDG 8 (Decent Work and Economic Growth) in the program that aims to mobilize leaders to act as catalysts for sustainability in their companies.

Committed to SDG 17, whose purpose is to “Strengthen the means of implementation and revitalize the global partnership for sustainable development”, BDMG entered into new partnerships, during the first half of 2021, with institutions that also seek to join efforts in favor of the 2030 Agenda.

In that context, BDMG, together with the Government of Minas Gerais, joined the Race to Zero program, a global campaign to bring together leaders with the objective of achieving zero net emissions of greenhouse gases by 2050. It is noteworthy that Minas Gerais became the first state in Latin America and the Caribbean to join the campaign that was formalized in June, together with the UK ambassador to Brazil. As a participant in the program, the State will update the Energy and Climate Change Plan within 12 months, establishing measures to zero emissions by 2050. By 2030, an intermediate target for reducing gas emissions should be established.

Also in June, a Memorandum of Understanding was entered into with the UK Embassy. The instrument, which aims to attract private capital for green investments in the state, will support the development of tools and methodologies that will allow BDMG to improve means of financing low-carbon infrastructure in the state of Minas Gerais.

In May, the Bank and the Far South Regional Development Bank (BRDE) entered into a technical cooperation agreement that will allow the exchange of experiences, knowledge and the exchange of collaborators, in yet another step that signals the Bank’s interest in strengthening its ties with other subnational bodies related to development and sustainability.

BDMG and the Harvard University entered into a technical cooperation agreement that allowed the beginning of an unprecedented exchange program. Through that partnership, a university student is participating in a supervised internship period at BDMG. That technical cooperation may even be the first of many and represents another point of contact between BDMG and other sources of excellence in research and knowledge.

BDMG as a knowledge platform and agent

Another way in which BDMG has been working to strengthen its range of partnerships is by participating in debates and presentations at different events. Thus, the Bank has been able, at the same time, to share knowledge and experiences and state its positions on important issues. An example is the Workshop organized by the Italian G20 Presidency in February, which discussed “Financing Infrastructure Investments for Local Communities”. In May, BDMG participated in the 13th International Economic Forum on Latin America and the Caribbean, which brought together, virtually, heads of state and managers of development agencies in the region, as well as partner organizations worldwide. The event was promoted by the Organization for Economic Co-operation and Development (OECD), with support from the IDB and AFD.

In the same month, BDMG was present at the Latin America and Caribbean Climate Week 2021 (LACCW), which brought together leaders from across the continent to discuss actions to fight climate change and the recovery of economies after the pandemic. In the online event Journée Clients 2021, organized by the AFD, in June, the Bank shared its actions and the connection of its operations with the 2030 Agenda on the panel “Financial institutions in Brazil: Strategies for Raising Funds Abroad for Sustainable Development”.

5 | SOCIAL RESPONSIBILITY

BDMG Cultural

In the first six-month period, BDMG Cultural continued with a series of actions to promote, recognize and disseminate different artistic languages, contributing to boost cultural productions in Minas Gerais, even in the face of the restrictions imposed by the pandemic.

The key initiatives hosted by BDMG Cultural in the period include the following:

- 20th BDMG Instrumental Award - applications and disclosure of the 12 selected in the first stage and disclosure of the schedule;
- Marco Antônio Araújo Award - supports instrumental music works by independent authors produced in the year prior to the award – applications and disclosure of the winner;
- Flávio Henrique Award - supports the release of authorial CDs of Brazilian songs produced independently, by singers from Minas Gerais or living in the state - applications, selection and disclosure of results;
- Three exhibitions of the BDMG Cultural Exhibition Cycle at the BDMG Cultural Art Gallery, with the launch of physical and virtual catalogs and exhibition websites. Artists: Esther Az, Eugênia França and Clarice G Lacerda;
- Virtual version of the Instante Suspenso movie exhibition with course, debates and the exhibition of the films awarded in the 6th edition of the BDMG CULTURAL / FCS notice for fostering of short low-budget films;
- Opening of the new 2021 cycle of the Educational program – “A *Invenção de uma Outra Natureza*” - online workshop with the artist, storyteller, author and educator Stela Barbieri;

- Publication of the notice for the LAB Cultural program - program to encourage artistic research, selection and disclosure of the 20 selected;
- Publication of three additional episodes of podcast “*É Cultura?*” (Spotify and website) referring to the first season of educational program *Fabulações da Natureza*.

There was also the launch of various content on social networks, in addition to the second season of the educational program with the theme *Fabulações do Amor* (Fable of Love), with 3 episodes of the podcast “*É Cultura?*”, in addition to the creation of the BDMG Cultural channel on LinkedIn.

6 | FINANCIAL SUSTAINABILITY

Funding and rating

In the first six-month period, BDMG continued its strategy of diversifying funding sources, seeking funding to support its countercyclical action and development of the Minas Gerais state. In this sense, the Bank began negotiations involving new sources of financing, as well as continued negotiations for the development of new lines with its current partners in the local and international markets.

In February, BDMG received the first tranche of funds, in the amount of EUR 17.5 million, from the French Development Agency (AFD), referring to the second contract with the agency, entered into in 2020. Part of that fund was used to reimburse financing made in 2020, related to minimizing the social and economic effects of the pandemic. Another part is being used to strengthen the Bank’s strategy, financing projects aligned with the SDGs.

Also noteworthy are the funds raised in the domestic market through issue of Agribusiness Credit Bills (LCA) and Bank Deposit Certificates (CDB). Together, more than R\$160 million were raised in the first six-month period. Of that amount, more than 80% refers to investors residing in other states of Brazil.

In June 2021, credit rating agency Moody’s América Latina (Moody’s Local), assigned BDMG a BBB.br rating, with a stable outlook. According to the agency, this rating reflects the bank’s social commitment to supporting development in the state of Minas Gerais through long-term financing for local companies, which results in modest profitability rates and concentration of loans by geography and by borrower. At the same time, the ratings are supported by the Bank’s strong capital adequacy ratio, with a track record of retained earnings and reinvestments, an important tool to address the potential weakening in asset quality and profitability pressures resulting from a historically large volume of renegotiations and extensions of loan installments. The Bank’s rating also considers BDMG’s successful efforts to diversify its funding structure, accessing long-term funds from multilateral agencies and local investors.

In June 2021, Moody’s Investor Services assigned BDMG a global B2 rating with stable outlook, which reflects the Bank’s consolidated operations in its regional market, as well as the strong alignment and importance of its operations to the development policy of its controller, the State of Minas Gerais (B2 stable). The assessment considers the concentrated asset risk per borrower in the state of Minas Gerais, despite its recent efforts to diversify loans to micro and small businesses. The credit profile reflects the large volume of renegotiations that can add volatility to its asset risk and profitability metrics. At the same time, BDMG’s rating assessment reflects its strong capitalization that provides protection against asset risk deterioration and its efforts to diversify the flow of funding by accessing funds from various multilateral agencies and other local instruments.

Integrated Risk Management

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

The Bank manages and monitors credit, market, liquidity, operational and social and environmental risks, with a view to mitigating these risks and optimizing operational effectiveness and results. Thus, the adopted risk management practices are commensurate with the nature and specificities of the operations performed by the Bank, maintaining control standards, with a capital adequacy ratio higher than the minimum requirement adopted in Brazil.

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

Credit risk includes the possibility of losses associated with the borrower's noncompliance with its financial obligations under the agreed terms, devaluation or reduction of expected remuneration from a financial instrument, recovery costs, concentration risk. In 2021, due to the continuity of the COVID-19 crisis, and the effects resulting from the "purple wave" that the State faced during the first half of the year, scenarios were monitored considering the expected resumption of the significant sectors of the loan portfolio to assess the impacts and changes in credit risk policies and methodologies were proposed, aiming to balance the need to preserve the Bank's controls, metrics and financial sustainability.

Market risk is represented by losses arising from fluctuation in the market prices of positions held by the institution, due to mismatches in its asset and liability transactions, such as amounts, terms, currencies and indexes. In the first half of the year, we highlight the reduction in currency risk through hedge accounting operations to mitigate currency risk arising from funds raised in foreign currency and internalized. In addition, the mapping of investment funds was improved in market risk management.

Liquidity risk refers to the possibility that the institution will not be able to efficiently meet its obligations, whether expected or unexpected, current or future, including those arising from guarantees given, without affecting its daily operations and without incurring significant losses. It also refers to the possibility of the institution not being able to negotiate a position at market price due to the high volume, in relation to that normally traded, or due to some market discontinuity. In 2021, within the scope of liquidity risk management, an assessment and adjustment of the level of financial reserves was carried out by the Risk and Capital Committee.

The social and environmental risk refers to the possibility of losses arising from social and environmental damage. In 2021, partnerships were established to improve the social and environmental risk methodology. In that sense, BDMG entered into a partnership with company WayCarbon to develop a tool to assess loan operations in relation to climate transition risks and physical risks.

Operational risk is defined as the possibility of incurring losses resulting from failure, deficiency or inadequacy of internal processes, people and systems, or from external events. It determines the exposure to operational risks that could adversely impact the Institution's internal processes, compliance, financial performance, and image, should they occur. In the first six-month period, the managers of the organizational units, with the support of the internal controls and operational risk unit, worked to comply with the established timetable for reviewing processes, with a view of risks, listed as

priorities. An additional report was implemented for the institution's executive board members, after completing each stage of the schedule.

The annual reports required by Bacen were also completed: Operational Risk Report (CMN Resolution No. 4557) and the Internal Controls Report (CMN Resolution No. 2554); and also the biannual report that provides for the Internal Controls Environment (Bacen Circular Letter No. 3467).

7 | FINANCIAL STATEMENTS

BDMG ended 1H21 with net income of R\$54,1 million and equity of R\$2.031,8 million.

The Bank has portfolio securities classified as held to maturity, amounting to R\$199,9 million, for which management, in compliance with Circular Letter No. 3068/2001 issued by the Central Bank of Brazil (Bacen), states that it has the financial ability to hold them to maturity.

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

Financial statements

June 30, 2021

Contents

Independent auditor's report on financial statements	1
Audited financial statements	
Statement of financial position	7
Statement of profit or loss	9
Statement of comprehensive income	10
Statement of changes in equity	11
Statement of cash flows	12
Notes to financial statements	13



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A free translation from Portuguese into English of Independent auditor's report on financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil

Independent auditor's report on financial statements

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

Opinion

We have audited the financial statements of Banco de Desenvolvimento de Minas Gerais S.A. – BDMG (“Bank”), which comprise the statement of financial position as at June 30, 2021, and the related statements of profit or loss, of comprehensive income, 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, 2021, and its financial performance and cash flows for the six-month period then ended in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil (BACEN).

Basis for opinion

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

Key audit matters

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

Provision for expected credit losses

As mentioned in Notes 3.11 and 7.3, 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. 2682/99 of the National Monetary Council (CMN). This was considered a key audit matter in view of the materiality of the amount recorded for the total allowance for expected credit losses in connection with credit risks as at June 30, 2021, totaling R\$626,116 thousand, and the fact that the classification of the customers’ risk level and the assessment of guarantees involve management’s judgment. Additionally, in 2021, as a result of the second wave of COVID-19, management reviewed the judgments and estimates used in determining the provision, such as the weighting of macroeconomic scenarios, in order to adapt the assumptions previously applied to the Bank’s current scenario of operations in order to reflect the increase in credit risk.

How our audit addressed this matter

We understood and evaluated the significant internal controls prepared by Management in connection with credit granting processes and determination/review of the credit risk rating. Moreover, 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. We recalculated the expected credit losses based on parameters set by CMN Resolution No. 2682/99, comparing them with all accounting records. Through analytical procedures, we analyzed the main variations of ratings, and the behavior of loans based on previously established expectations, as well as the Bank’s assessment of the impacts caused by the current social and economic scenario resulting from the Covid-19 pandemic. We also evaluated the sufficiency of disclosures in explanatory notes.

Based on the result of the audit procedures carried out on the provision for expected credit losses, which is consistent with management’s assessment, we consider that the criteria and assumptions associated with the provision adopted by management, as well as the respective disclosures in Notes 3.11 and 7.3, 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 3.19 and 18. This was considered a key audit matter given the significance of the provision recorded as at June 30, 2021, totaling R\$361,326 thousand, and the complexity of the actuarial liability assessment models, which include the use of long-term assumptions, such as: general mortality, disability, medical costs, salary growth, family structure, discount rate, and inflation.

How our audit addressed this matter

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

Based on the result of the audit procedures carried out on the post-employment benefit plans, which is consistent with management's assessment, we consider that the criteria and assumptions for evaluation of actuarial obligations adopted by management, as well as the respective disclosures in Notes 3.19 and 17, are acceptable, in the context of the financial statements taken as a whole.

Realization of tax credits

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

This was considered a key audit matter in view of the materiality of the amount recorded, totaling R\$631,169 thousand as at June 30, 2021, 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 3.18, 4.4 and 15.b.



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 P&L, which included the Bank's assessment of the impacts caused by the current social and economic scenario resulting from the second wave of Covid-19 on its projected 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 P&L, prepared by management, as well as the respective disclosures in Notes 3.18, 4.4 and 15, are acceptable in the context of the financial statements taken as a whole.

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 the 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:

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



- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Belo Horizonte, August 27, 2021

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

A handwritten signature in blue ink, appearing to read 'Rogério', is written over the printed name.

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

A free translation from Portuguese into English of financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil

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

Statements of financial position
June 30, 2021 and December 31, 2020
(In thousands of reais)

	Note	06/30/2021	12/31/2020 (restated)
Assets			
Current assets			
		3,507,474	3,389,176
Cash and cash equivalents	6	162,346	838,925
Financial instruments		3,343,103	2,548,442
Interbank investments	6.1	1,374,271	730,704
Marketable securities	7.1	26,406	60,468
	5 and		
Derivative financial instruments	7.2	8,051	18,008
Loans and similar transactions	7.3	2,023,370	1,879,711
Other financial assets	7.4	18,118	21,379
Allowance for expected credit losses		(107,113)	(161,828)
Marketable securities	7.1	-	(67)
Loans and similar transactions	7.3	(107,113)	(161,761)
Other assets	9	2,025	1,809
Noncurrent assets			
		4,863,365	5,169,727
Long-term receivables			
		4,825,083	5,131,981
Financial instruments	7	4,140,235	4,391,461
Interbank investments	7	42,818	-
Marketable securities	7.1	624,121	529,912
	5 and		
Derivative financial instruments	7.2	54,373	74,907
Loans and similar transactions	7.3	3,914,685	4,167,600
Other financial assets	7.4	133,533	131,543
Allowance for expected credit losses		(629,295)	(512,501)
Marketable securities	7.1	(110,292)	(109,426)
Loans and similar transactions	7.3	(519,003)	(403,075)
Other assets	9	53,679	75,391
Deferred tax assets	15.b	631,169	665,129
Property and equipment in use	8.a	16,608	16,735
Properties and other fixed assets		58,491	58,105
(Accumulated depreciation)		(41,883)	(41,370)
Intangible assets	8.b	21,674	21,011
Intangible assets		48,626	43,901
(Accumulated amortization)		(26,952)	(22,890)
Total assets		8,370,839	8,558,903

See accompanying notes.

	Note	06/30/2021	12/31/2020 (restated)
Liabilities and equity			
Current liabilities		1,704,775	1,817,923
Financial liabilities		1,599,081	1,737,418
Deposits	10.1	209,494	201,430
Funds from acceptance and issue of securities	10.1	261,978	174,634
Borrowings and onlending	10.2	1,127,609	1,361,354
Domestic onlending	10.2.b	1,022,118	1,229,684
Foreign borrowings	10.2.a	105,491	131,670
Provisions	11	22,343	25,158
Obligations with defined post-employment benefits	11.a	20,330	21,859
Tax, labor and civil contingencies	11.b	1,221	2,567
Other contingencies	11.c	792	732
Other liabilities	5 and 12	83,351	55,347
Noncurrent liabilities		4,634,304	4,803,699
Long-term liabilities		4,634,304	4,803,699
Financial liabilities	10	3,966,369	3,996,807
Deposits	10.1	583,688	607,258
Funds from acceptance and issue of securities	10.1	294,715	281,143
Borrowings and onlending	10.2	2,965,286	3,091,463
Domestic onlending	10.2.b	1,470,988	1,612,186
Foreign borrowings	10.2.a	1,494,298	1,479,277
Derivative financial instruments	7.2	122,680	16,943
Provisions	11	572,430	630,578
Obligations with defined post-employment benefits	11.a	340,996	405,286
Tax, labor and civil contingencies	11.b	220,727	214,620
Other contingencies	11.c	10,707	10,672
Other liabilities	5 and 12	63,051	140,086
Deferred tax obligations	15.c	32,454	36,228
Equity	13	2,031,760	1,937,281
Capital	13.a	2,111,184	2,111,184
Other comprehensive income (loss)	13.b	(118,467)	(158,815)
Income reserves	13.c	1,952	-
Retained earnings (accumulated losses)	13.c	37,091	(15,088)
Total liabilities and equity		8,370,839	8,558,903

See accompanying notes.

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

Statement of profit or loss
Six-month periods ended June 30
(In thousands of reais, unless otherwise stated)

	Note	2021 1 st half	2020 1 st half
Trading revenues		407,449	365,639
Loans	14.a	439,354	264,234
Gains (losses) on marketable securities	14.b (i)	36,183	15,120
Gains (losses) on derivative financial instruments	14.b (i)	(120,414)	91,608
Gains (losses) on exchange transactions		52,326	(5,323)
Trading expenses		(104,179)	(203,180)
Loans and onlending	14.b (ii)	(76,552)	(193,581)
Market funding transactions	14.b(ii)	(27,627)	(9,599)
Gains (losses) on allowance for loan losses		(150,916)	(22,673)
Allowance for loan losses		(150,837)	(22,544)
Allowance for loan-like transactions		(79)	(129)
Gross profit from trading transactions		152,354	139,786
Other operating income/expenses		(29,961)	(74,902)
Service revenues		15,301	15,769
Other operating income	14.c iii)	46,799	12,037
Personnel expenses		(53,179)	(58,325)
Other administrative expenses	14.c (ii)	(19,129)	(18,137)
Tax expenses	14.c (i)	(10,773)	(9,173)
Other operating expenses		(8,980)	(17,073)
Expenses with provisions	14.c (v)	(23,707)	(21,884)
Tax, labor and civil		(4,138)	(2,595)
Actuarial		(19,221)	(18,583)
Other		(348)	(706)
Operating income (expenses)		98,686	49,537
Nonoperating income (expenses)		(616)	119
Income before income taxes and profit sharing		98,070	49,656
Income and social contribution taxes	15.a	(38,242)	(22,441)
Provision for income tax		(21,128)	-
Provision for social contribution tax		(17,410)	-
Deferred tax assets		296	(22,441)
Statutory profit sharing		(5,697)	(1,780)
Net income for the six-month period		54,131	25,435
Basic net earnings per thousand shares – R\$		0.00076	0.00036

See accompanying notes.

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

Statement of comprehensive income
Six-month periods ended June 30, 2021 and 2020
(In thousands of reais, unless otherwise stated)

	<u>2021</u>	<u>2020</u>
Net income for the six-month period	<u>54,131</u>	25,435
Items to be subsequently reclassified to profit or loss	<u>(1,008)</u>	11,228
Financial assets available for sale	<u>(2,852)</u>	21,450
Tax effect on losses on financial assets	<u>1,416</u>	(10,650)
Losses transferred to P&L	<u>738</u>	738
Tax effects	<u>(310)</u>	(310)
Items that will not be subsequently reclassified to P&L	<u>41,356</u>	10,745
Actuarial assessment	<u>75,192</u>	19,537
Tax effects	<u>(33,836)</u>	(8,792)
Other comprehensive income	<u>40,348</u>	21,973
Comprehensive income for the six-month period	<u>94,479</u>	47,408
Basic net earnings per thousand shares – R\$	<u>0.00133</u>	0.00067

See accompanying notes.

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

Statements of changes in equity

Six-month periods ended June 30, 2021 and 2020

(In thousands of reais, except for interest on equity per share)

	Capital	Income reserves Legal	Equity adjustments	Other equity adjustments	Retained earnings	Total
Balance at December 31, 2019	2,004,971	-	3,323	(153,035)	(34,376)	1,820,883
Capital increase (Note 12.a)	100,000	-	-	-	-	100,000
Other comprehensive income	-	-	11,228	10,745	-	21,973
Equity adjustments	-	-	11,538	19,537	-	31,075
Tax effect on other comprehensive income (loss)	-	-	(310)	(8,792)	-	(9,102)
Net income for the six-month period	-	-	-	-	25,435	25,435
Balance at June 30, 2020	2,104,971	-	14,551	(142,290)	(8,941)	1,968,291
Balance at December 31, 2020	2,111,184	-	10,409	(169,224)	(15,088)	1,937,281
Other comprehensive income	-	-	(1,008)	41,356	-	40,348
Equity adjustments	-	-	(2,114)	75,192	-	73,078
Tax effect on other comprehensive income (loss)	-	-	1,106	(33,836)	-	(32,730)
Net income for the six-month period	-	-	-	-	54,131	54,131
Legal reserve (Note 13c)	-	1,952	-	-	(1,952)	-
Balance at June 30, 2021	2,111,184	1,952	9,401	(127,868)	37,091	2,031,760

See accompanying notes.

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

Statements of cash flows

Six-month periods ended June 30, 2021 and 2020

(In thousands of reais)

	2021	2020
Cash flows from operating activities		
Income before taxes and profit sharing	98,070	49,656
Adjustments:		
Depreciation and amortization	4,575	3,526
Set-up of provisions and liabilities, net	24,635	22,904
Set-up of allowance for loan losses	150,916	22,673
Set-up of provision for losses	832	1,584
Allocation of deferred revenue	(8,884)	(7,742)
Exchange gains (losses), net	(117,099)	110,922
Recovery of loans written off as loss	(116,114)	(2,657)
Gains from monetary restatement of noncurrent loans	(45,504)	(14,187)
Market value adjustment of derivative instruments and hedged items	122,434	(833)
Loss on financial assets available for sale	(12,278)	(6,543)
Loss on financial assets held to maturity	(6,891)	(6,223)
Loss on financial assets for trading	-	(889)
Adjusted net income	94,692	172,191
Changes in working capital	(104,516)	(33,258)
Interbank investments	(29,830)	-
Derivative financial instruments	15,814	(77,566)
Loans	177,116	(516,839)
Other receivables	1,252	(18,511)
Other assets	21,497	(10,515)
Deposits	(15,507)	271,267
Financial bills	100,916	61,763
Foreign borrowings	56,324	194,256
Onlending obligations	(348,763)	32,400
Other liabilities	(80,592)	29,906
Provisions	(9,762)	(8,933)
Deferred income	7,019	9,514
Cash flows from (used in) operating activities	(9,824)	138,933
Income and social contribution taxes paid	(14,324)	(4,181)
Net cash flows from (used in) operating activities	(24,148)	134,752
Cash flows from investing activities		
Acquisition of permanent assets	(5,112)	(5,497)
Acquisition of financial assets available for sale	(33,420)	(3,587)
Receipt of financial assets available for sale	6,216	343,576
Acquisition of financial assets held to maturity	(63,008)	(15,755)
Receipt of financial assets held to maturity	47,122	9,579
Receipt of financial assets for trading	-	61,928
Net cash flows from (used in) investing activities	(48,202)	390,244
Cash flows from financing activities		
Capital increase	-	100,000
Net cash flows from financing activities	-	100,000
(Decrease) Increase in cash and cash equivalents, net	(72,350)	624,996
Cash and cash equivalents at beginning of six-month period	1,556,641	90,310
Exchange gains on cash	52,326	(5,322)
Cash and cash equivalents at end of six-month period	1,536,617	709,984

See accompanying notes.

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

Notes to the financial statements

June 30, 2021

(In thousands of reais, unless otherwise stated)

1. Operations

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

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

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

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

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

On August 27, 2021, the Board of Directors approved the financial statements and authorized their disclosure.

2. Presentation of the individual financial statements

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

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

2. Presentation of the individual financial statements (Continued)

In compliance with these rules, statement of financial position accounts are stated in order of liquidity and maturity, statement of financial position balances are presented in comparison with those for the immediately preceding year, and other statements are presented in comparison with the same six-month periods for which they were presented.

The following accounting pronouncements related to the process of convergence with the international accounting standards, issued by the Brazilian FASB (CPC), adopted by CMN/Bacen, are considered in the preparation of these individual financial statements, as applicable:

- CPC 00 (R1) – Conceptual Framework for Financial Reporting - CMN Resolution No. 4144/2012
- CPC 01 (R1) - Impairment of Assets - CMN Resolution No. 3566/2008
- CPC 02 (R2) - Effect of Changes in Exchange Rates and Translation of Financial Statements - CMN Resolution No. 4524/2016
- CPC 03 (R2) - Statement of Cash Flows - CMN Resolution No. 4720/2019
- CPC 04 (R1) – Intangible Assets – CMN Resolution No. 4534/16
- CPC 05 (R1) – Related Party Disclosures - CMN Resolution No. 4636/2018
- CPC 10 (R1) – Share-Based Payment – CMN Resolution No. 3989/2011
- CPC 23 - Accounting Policies, Changes in Accounting Estimates and Errors - CMN Resolution No. 4007/2011
- CPC 24 – Events after the Reporting Period - CMN Resolution No. 4818/2020
- CPC 25 - Provisions, Contingent Liabilities and Contingent Assets - CMN Resolution No. 3823/2012
- CPC 27 – Property, Plant and Equipment – CMN Resolution No. 4535/2016
- CPC 33 (R1) – Provides for the general criteria for measurement and recognition of social and labor obligations – CMN Resolution No. 4877/2020
- CPC 41 – Earnings per Share – BCB Resolution No. 2/12/08/2020
- CPC 46 – Fair Value Measurement – CMN Resolution No. 4748/2020

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

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

2. Presentation of the individual financial statements (Continued)

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

The Bank adopts information security practices to guarantee the confidentiality, integrity, availability, and authenticity of the information necessary for maintenance of its business. The Bank has an accounting technology structure that uses a number of operating systems that are integrated to the accounting system, and any non-computerized information is entered manually. The main operating systems, which control credit transactions, financial management and assets, account for the largest number of entries and were developed internally. Operating systems contracted from third parties that are necessary for the execution and control of complementary activities are also used.

3. Summary of significant accounting practices

3.1. Functional and presentation currency

a) Functional and presentation currency

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

b) Transactions and balances

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

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

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.1. Functional and presentation currency (Continued)

b) Transactions and balances (Continued)

Exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of profit or loss as a subitem of trading, except for the debit balances arising from exchange differences on loans, which are reclassified as other operating expenses, and the credit balances arising from exchange differences on funding expenses and payables due to borrowings and onlending, which are reclassified as other operating income. Reclassification occurs only when the credit or debit balance exceeds the sum of the other remuneration components recorded in the respective expense or income accounts.

Assets and liabilities in foreign currency are translated into local currency (Brazilian reais) at the exchange rate at the reporting date. The exchange rate applicable at June 30, 2021 is: US\$1.00 = R\$5.0022 (12/31/2020: US\$1.00 = R\$5.1967) and €1.00 = R\$5.9276 (12/31/2020: €1.00 = R\$6.3779).

3.2. Recognition of profit or loss

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

3.3. Statements of comprehensive income

Comprehensive income comprises the amount determined as net income for the period plus future changes in income and expenses that are already recorded in assets or liabilities matched with equity, but which have not yet affected P&L.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.4. Statement of cash flows

The statement of cash flows uses the indirect method, which adjusts profit or loss for the following effects:

- Non-cash transactions;
- Deferrals or accruals of past or future operating receipts or payments; and
- Income or expense items associated with cash flows from investing or financing activities.

For the purposes of this statement, cash and cash equivalents refer to the balances of cash available and interbank investments readily convertible into cash or with original maturity on or before three months from the investment date.

3.5. Current and noncurrent assets

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

3.6. Measurement of assets and liabilities

Financial assets and liabilities are stated at amortized cost due to the application of the accrual method of accounting for recognition of the related interest income and expenses.

Contingent liabilities and legal obligations whose disbursement date is uncertain are measured at present value since they are initially recognized at the estimated loss amount and are updated on a monthly basis.

3.7. Cash and cash equivalents

Cash and cash equivalents refer to the balances of cash available and interbank investments readily convertible into cash or with original maturity on or before three months from the investment date (Note 6).

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.8. Interbank investments

Repurchase agreements are adjusted to market value. Other assets are stated at acquisition cost, plus earnings accrued up to the reporting date, net of valuation allowance, where applicable (Note 6.1).

3.9. Marketable securities

In accordance with BACEN Circular Letter No. 3068/2001 and supplementary regulations, marketable securities are classified into the following categories, according to management's intentions, taking into consideration the following accounting criteria established by the Circular Letter (Note 7.1):

- (a) Trading securities: marketable securities purchased for frequent and active trading. They are recorded at market value, and the realized and unrealized gains and losses are recorded directly in the statement of profit or loss for the period (Note 7.1(a)).
- (b) Securities available for sale: marketable securities used as part of the cash flow management strategy. These securities are recorded at market value, with accrued income (yield curve) recognized in the statement of profit or loss for the period, 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 period after being specifically identified on the trading date, matched against equity, net of the related tax effects. This category also includes investment fund shares that, because they are not traded in an active market, are recorded at acquisition values (Note 7.1(b)).
- (c) Securities held to maturity: securities for which management has the intent and financial ability to hold to maturity, recorded at cost of acquisition, plus accrued earnings, recognized in the statement of profit or loss for the period. Financial ability is defined based on cash flow projections, not considering the possibility of early redemption of these securities (Note 7.1(c)).

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.9. Marketable securities (Continued)

Management establishes guidelines for the classification of marketable securities within the categories defined in BACEN Circular Letter No. 3068/2001. The classifications of the securities in the portfolio, as well as of those acquired during the period, are assessed according to these guidelines. As established in the Circular Letter, the marketable security classification reassessment can only be made at the statement of financial position date, and the transfer from the category "Held to maturity" to the other categories can only occur for an isolated, unusual, nonrecurring and unexpected reason happening after the classification date (Note 7.1).

Income from marketable securities, irrespective of the category into which they are classified, are prorated on a daily basis by reference to the agreed index and interest rate through to the maturity date or final sale of the security, and recorded directly in P&L for the period.

Losses on securities classified as available for sale and held to maturity that are not temporary losses are recognized directly in P&L for the period and become a component of the new cost of the asset.

3.10. Derivative financial instruments

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

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

As informed in Note 7.2, derivatives are measured at fair value and recorded as assets, when positive, and as liabilities, when negative, and changes in fair value are recognized in profit or loss, and, due to their nature, are classified as market risk hedge. The financial instruments classified as such and the related hedged items have their appreciation or devaluation in relation to the fair value recognized in profit and loss accounts for the period.

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

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.11. Loan portfolio and allowance for expected credit losses

Loans and similar credit transactions are classified into nine risk levels from AA (lowest risk) to H (highest risk) and stated at realizable values including, when applicable, earnings accrued on a daily pro rata basis, based on the index variation and contractual interest rate. The earnings accrued on overdue loans are recorded as revenues up to the 59th day and, as of the 60th day, they are no longer accrued, with recognition in profit or loss only when the installments are effectively received, as established by article 9 of CMN Resolution No. 2682/1999. For transactions with terms longer than 36 months, this Resolution also allows double counting over the delay intervals defined for the nine risk levels.

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.

Transactions overdue for more than 180 days and classified as level H are written off against the existing provision after being classified at this risk level for six months and start to be controlled in memorandum accounts. When renegotiated, these transactions return to equity accounts classified at risk level "H" and, subsequently, in view of a material fact, they can be reclassified to a lower risk category. Any gains arising from renegotiations are only recognized when actually received.

The allowance for expected credit loss is based on analysis of the outstanding balance of the transactions, on the values of guarantees, on the history of losses and on the risks of the portfolio being set up in accordance with the criteria established in CMN Resolution No. 2682/1999 to classify the customer's and the transaction's credit risk (Note 7.3).

3.12. Credit assignment

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

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.12. Credit assignment (Continued)

CMN Resolution No. 3533/2008, whose adoption was postponed by CMN Resolutions No. 3673/2008 and No. 3895/2010 to January 1, 2012, which changed the form of recognition of credit assignment transactions, carried out from then on, 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 transaction.

For balances assigned before January 1, 2012, there were no retroactive changes in the criteria for recognition of credit assignments. BDMG did not carry out credit assignments as from January 1, 2012, therefore these changes had no impacts on its financial statements (Note 7.3(f)).

3.13. Other financial assets

These assets are stated at realizable values including, where applicable, earnings accrued on a daily pro rata basis, less the related unearned income or provisions, when necessary (Note 7.4).

3.14. Other assets

Other assets are recorded as assets not for use, received in accord and satisfaction or arising from the execution of guarantees, which are initially recognized at the lesser of the value of the item received or the measurement value. Subsequently, they are adjusted by the lesser of the value of the measurement carried out annually for each asset or by the value offered at an auction sale.

Other assets also include prepaid expenses arising from commissions and other prepaid fees arising from loans and securities issued abroad recorded at cost and amortized in accordance with the term of the related items (Note 9).

Current and deferred tax assets and liabilities

These tax assets and liabilities are recorded in accordance with CMN Resolution No. 4842/2020. The current tax assets are those taxes the Bank is legally entitled to offset or obtain a refund in the future, and the deferred tax assets or tax credits are tax assets arising from temporary tax differences and tax losses. Current tax liabilities refer to taxes payable for the current period and prior periods, and deferred tax liabilities refer to income taxes payable in the future period relating to taxable temporary differences.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.15. Property and equipment in use and intangible assets

Property and equipment in use, except acquisitions prior to 1995, which were restated according to the regulations effective at the time, and intangible assets are recorded at the cost of acquisition, net of the related accumulated depreciation and amortization, and adjusted for impairment if the annual impairment tests indicate that these assets are recognized for an amount above their recoverable amount (Note 8).

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

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

When the carrying amount of an asset exceeds its estimated recoverable amount (Note 8-a), a provision is set up to adjust the carrying amount of this asset to its recoverable amount.

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

3.16. Current and noncurrent liabilities

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

Deposits and funding

Deposits, funding, foreign loans and domestic financing are stated at the amounts of the liabilities (amortized cost) and include, when applicable, the charges payable restated until June 30, 2021.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.16. Current and noncurrent liabilities (Continued)

Deposits and funding (Continued)

Foreign loans with interest rate risk and foreign currency risk supported by the Bank have hedge swaps to exchange foreign currencies for the Brazilian real and agreed floating or fixed rates for future rates or fixed rates. The terms and conditions of the loan and the associated derivative qualify as a matched transaction so that, economically, it results in a debt in Brazilian reais with fixed or future interest rates. In these cases, the debt is measured at fair value through profit or loss to eliminate the accounting mismatch between the loan and the associated derivative instrument.

Other liabilities

They are stated at known and estimated amounts plus applicable charges, if any.

3.17. 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 – Provisions, Contingent Liabilities and Contingent Assets, issued by the CPC.

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

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.17. 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 11(b)).

Legal obligations - tax and social security: these derive from legal proceedings related to tax obligations, challenging their constitutionality, and are fully recognized in the financial statements, regardless of the likelihood of a favorable outcome (Note 11).

3.18. Current and deferred income and social contribution taxes

The provision for income tax is recorded at the base rate of 15% of taxable profit, plus 10% surtax. Provision for social contribution tax on adjusted net income was recorded at the rate of 15% of taxable profit in the period from 01/01/2019 to 02/29/2020, and at 20% as from March 1, 2020, as established by article 32 of Constitutional Amendment No. 103, of November 12, 2019 (Note 15).

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

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

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

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

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

As a result of Provisional Executive Order No. 1034 of March 1, 2021, which increased the rate of Social Contribution Tax on Net Profit (CSLL) from 20% to 25% for the period from 07/01/2021 to 12/31/2021, being signed into Law No. 14183 of July 14, 2021, the tax credit balance was adjusted, in accordance with Note 15 a.

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

Deferred income and social contribution tax assets are recognized to the extent that future taxable profit is likely to be available against which the temporary differences can be used. Tax credits on income and social contribution tax losses are realized according to the generation of taxable profits, observing the limit of 30% of taxable profit of the base period.

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

3.19. Employee benefits

The Bank sponsors 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 11, 2011) and variable contribution pension plans.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.19. Employee benefits (Continued)

- (ii) Healthcare and dental care benefit: this plan provides coverage for medical and dental expenses to its participants. This benefit, made through partial payment of the monthly contribution by the Bank, is guaranteed to active participants and pensioner members who are already retired until February 22, 2018, as well as to those who have retired under the conditions established by the Voluntary Resignation Program, whose membership period ended on April 30, 2018. For the other employees, the plan is assured by the Bank for the period in which they remain as active participants, and in the form of self-sponsorship after they retire in accordance with the conditions established in the PRÓ-SAÚDE Regulation.
- (iii) Life insurance: this benefit is sponsored by the Bank, which pays part of the premium of the group life insurance policy and, as from February 22, 2018, is ensured to active employees and pensioner members who had the benefit on that date.

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

- (iv) Voluntary employment termination program: the objective of this Program, when implemented, is to benefit the employees in condition to retire and who meet the requirements established in its regulation. In 2020, the program was opened on May 5, 2020, with a 15-day enrollment period from that date.
- (v) Other benefits: the Bank also offers to its active employees other benefits, such as profit sharing, maternity leave extended for an additional sixty days and paternity leave extended for an additional fifteen days. Furthermore, BDMG grants lifetime pension benefits to a pensioner member and retirement benefits to two retired former employees, for not having been hired under the Consolidation of the Labor Laws (CLT) regime, at the time the Bank was still an autonomous government agency.

All the benefits granted by the Bank, including those granted to active employees that do not represent post-employment benefits, such as profit sharing and extended maternity and paternity leaves, are accounted for in accordance with CPC 33 (R1) - Employee Benefits, as approved by CMN Resolution No. 4877/2020.

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 updated for the reporting date of June 30. The rate used to discount post-employment benefit obligations to present value was determined based on market yields, calculated on the reporting date of these financial statements.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.19. Employee benefits (Continued)

Information on recognition of employee benefits is detailed in Note 18.

3.20. Employee profit sharing

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

3.21. Capital

The capital of BDMG, recorded in equity, comprises registered common shares with no par value (Note 13(a)).

3.22. Capital remuneration

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

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

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

3.23. Earnings per share

BDMG's capital consists exclusively of common shares held by shareholders and which cannot be diluted since the Bank does not operate with financial products or instruments that can be converted into shares.

Thus, the profit presented in the Bank's financial statements refers to basic earnings per share, calculated by dividing net profit by the total number of common shares. Information on earnings per share is presented in Note 13 (e).

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

3. Summary of significant accounting practices (Continued)

3.24. Revenues and expenses

They are recognized on an accrual basis in the statement of profit or loss for the periods to which they refer.

3.25. Related parties

The disclosures on related parties included in the accompanying notes to the financial statements are in accordance with CMN Resolution No. 4818/2020. According to this regulation, the Bank discloses its transactions with related parties, which could affect its financial position and profit or loss. Legal entities and individuals that meet the criteria of BDMG's internal Resolution No. 209-A/2018 are considered related parties. The related parties with which the Bank carried out transactions during the period are disclosed in Note 16.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

4. Application of accounting judgments and estimates with significant effects

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

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

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

The reviews carried out also took into account the expected impact on the economy due to the Covid-19 pandemic.

4.1. Impairment of nonfinancial assets

Nonfinancial assets held for sale, accounted for in accordance with CMN Resolution No. 4747/2019, are technically assessed to check the feasibility of recovery of their carrying amount. The valuations consider estimates defined according to the conditions that affect the item at the time they are carried out. The Bank establishes a provision for loss when the valuation of the asset is less than the accounted value, and the recognized loss may be reversed based on future valuations.

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

4.2. Allowance for expected credit losses

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

The allowance related to expected losses on the loan portfolio comply with CMN Resolution No. 2682/1999, as stated in Note 7.3.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

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

4.2. Allowance for expected credit losses (Continued)

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

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

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

4.3. Fair value of derivative financial instruments

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

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

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

4.4. Deferred tax assets

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

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

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

4.4. Deferred tax assets (Continued)

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

4.5. Provision for tax, civil and labor contingencies

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

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

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

A provision for tax and social security proceedings for which the constitutional grounds are discussed, in compliance with Circular Letter Bacen No. 3429/2010, is recognized for the amount in dispute plus charges, while the provision for labor and civil contingencies corresponds to the estimated disbursement plus applicable charges. The provisioned amounts are adjusted whenever there is a decision that impacts the book value.

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

The Bank's contingencies are described in Note 11-b.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

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

4.6. Defined benefit retirement plan obligations

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

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

4.7. Provisions for loan commitments, guarantees and legal claims

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

5. Restatement of comparative amounts

In compliance with BCB Resolution No. 2/2020, the statement of financial position comprising the financial statements as of December 31, 2020 is being restated due to inconsistencies in the segregation between current and noncurrent in the balance of the following accounts:

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

5. Restatement of comparative amounts (Continued)

	Original balances presented	Restatement	Balances at 12/31/2020 Restated
Assets			
Current assets	3,464,083	(74,907)	3,389,176
Financial instruments	2,623,349	(74,907)	2,548,442
Derivative financial instruments	(i) 92,915	(74,907)	18,008
Noncurrent assets	5,094,820	74,907	5,169,727
Long-term receivables	5,057,074	74,907	5,131,981
Financial instruments	4,316,554	74,907	4,391,461
Derivative financial instruments	(i) -	74,907	74,907
Liabilities			
Current liabilities	1,811,186	6,737	1,817,923
Other liabilities	(ii) 48,610	6,737	55,347
Noncurrent liabilities	4,810,436	(6,737)	4,803,699
Long-term liabilities	4,810,436	(6,737)	4,803,699
Other liabilities	(ii) 146,823	(6,737)	140,086

(i) Derivative financial instruments – Restatement due to reclassification of balances in the statement of financial position from “current assets” to “noncurrent assets” according to the term of realization of the derivative instrument contracts;

(ii) Other liabilities – Restatement due to reclassification of balances in the statement of financial position from “current liabilities” to “noncurrent liabilities” according to the term for payment of amounts referring to deferred income.

6. Cash and cash equivalents

Cash and cash equivalents are broken down as follows:

	06/30/2021	12/31/2020
Cash and cash equivalents	6,717	4,765
Cash and cash equivalents in foreign currency (i)	155,629	834,160
Interbank investments (ii)	1,374,271	717,716
	1,536,617	1,556,641

(i) The variation in this account is due to funds raised abroad, deposited in December 2020 and partially internalized in this six-month period.

(ii) Repurchase agreements and interbank deposits maturing within 90 days are considered in these investments.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

6. Cash and cash equivalents (Continued)

6.1. Interbank investments

	06/30/2021	12/31/2020
Investments in repurchase agreements – own portfolio:		
Financial Treasury Bills (LFT)	1,249,993	717,716
National Treasury Notes	124,278	-
Investments in interbank deposits, net of provision	42,818	12,988
	1,417,089	730,704

Interbank investments mature as follows:

	Overdue	Up to 30 days	From 31 to 360 days	Above 360 days	Total
National Treasury Bills	-	1,249,993	-	-	1,249,993
National Treasury Notes	-	124,278	-	-	124,278
Interbank deposits	6,388	-	-	42,818	49,206
Provision for losses	(6,388)	-	-	-	(6,388)
	-	1,374,271	-	42,818	1,417,089
Balance at 06/30/2021	-	1,374,271	-	42,818	1,417,089
Balance at 12/31/2020	-	717,716	12,988	-	730,704

7. Financial instruments

7.1. Marketable securities

	06/30/2021			12/31/2020		
	Number	Curve yield	Market value	Number	Curve yield	Market value
Securities available for sale (b)	37,478,693	376,582	340,350	17,311,928	367,311	333,933
Government bonds – Unrestricted: LFT	20,850	226,751	223,915	20,850	223,868	220,812
Corporate bonds	37,457,843	149,831	116,435	17,291,078	143,443	113,121
Investment fund shares	33,413,998	53,958	53,958	17,291,078	47,570	47,570
Floating income securities	4,043,845	95,873	119,505	4,043,845	95,873	122,579
Provision for losses on floating income securities	-	-	(57,028)	-	-	(57,028)
Securities held to maturity (c)	118,301	254,995	199,885	98,144	202,005	146,954
Government bonds – National Treasury Notes (NTN-B)	21,000	78,846	77,000	21,000	76,948	74,364
Unrestricted	21,000	78,846	77,000	19,360	70,939	68,355
Linked to capital increase	-	-	-	1,640	6,009	6,009
Corporate bonds	97,301	176,149	122,885	77,144	125,057	72,590
Debentures	67,144	76,070	76,070	77,144	82,900	82,900
Provision for debenture credit risk	-	-	(53,249)	-	-	(52,432)
Agribusiness Receivables Certificates - CRA	30,157	30,213	30,213	-	-	-
Commodities – Agricultural Commodities Note (CPR)	-	69,866	69,866	-	42,157	42,157
Provision for CPR credit risk	-	-	(15)	-	-	(35)
	37,596,994	631,577	540,235	17,410,072	569,316	480,887
Current			26,406			60,401
Noncurrent			513,829			420,486

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

7. Financial instruments (Continued)

7.1. Marketable securities (Continued)

a) Securities held for trading

BDMG does not have securities classified under this category as of 06/30/2021 and 12/31/2020.

b) Securities available for sale

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

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

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

Changes in the equity adjustment of securities available for sale

	<u>Unrealized gains (losses)</u>	<u>Tax effects</u>	<u>Mark to market</u>
Balance at 12/31/2020	21,065	(10,656)	10,409
Adjustment in the period	(2,114)	1,106	(1,008)
Balance at 06/30/2021	18,951	(9,550)	9,401

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

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

Notes to the financial statements (Continued)
 June 30, 2021
 (In thousands of reais, unless otherwise stated)

7. Financial instruments (Continued)

7.1. Marketable securities (Continued)

b) Securities available for sale (Continued)

Changes in the equity adjustment of securities available for sale (Continued)

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

Maturity of securities available for sale

	06/30/2021 12/31/2020								
	From 91 to 180 days	From 181 to 360 days	More than 360 days	Total	From 31 to 60 days	From 61 to 90 days	From 181 to 360 days	More than 360 days	Total
Government bonds	-	-	223,915	223,915	-	-	-	220,812	220,812
LFT	-	-	223,915	223,915	-	-	-	220,812	220,812
Corporate bonds	965	8,078	107,392	116,435	8,786	6,374	1,813	96,148	113,121
Investment fund shares	965	8,078	44,915	53,958	8,786	6,374	1,813	30,597	47,570
Floating income securities			62,477	62,477	-	-	-	65,551	65,551
Total	965	8,078	331,307	340,350	8,786	6,374	1,813	316,960	333,933

c) Securities held to maturity

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

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

7. Financial instruments (Continued)

7.1. Marketable securities (Continued)

c) Securities held to maturity (Continued)

Aging list of securities held to maturity

	06/30/2021						Total
	Within 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 360 days	More than 360 days	
Government bonds	-	-	-	-	-	77,000	77,000
NTN - Unrestricted	-	-	-	-	-	77,000	77,000
Corporate bonds	1,061	879	1,665	1,688	12,070	105,522	122,885
Debentures, net of provision	-	-	-	-	-	22,821	22,821
Agribusiness Receivables	-	-	-	-	-	-	-
Certificates - CRA	163	-	-	208	404	29,438	30,213
Investments in Commodities (CPR)	898	879	1,665	1,480	11,666	53,263	69,851
Total	1,061	879	1,665	1,688	12,070	182,522	199,885

	12/31/2020						Total
	Within 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 360 days	More than 360 days	
Government bonds	-	-	-	-	-	74,364	74,364
NTN - Unrestricted	-	-	-	-	-	68,355	68,355
Linked to capital increase	-	-	-	-	-	6,009	6,009
Corporate bonds	4,163	7,380	6,347	19,120	6,418	29,162	72,590
Debentures	-	-	846	1,427	977	27,218	30,468
Investments in Commodities (CPR)	4,163	7,380	5,501	17,693	5,441	1,944	42,122
Total	4,163	7,380	6,347	19,120	6,418	103,526	146,954

i) *National Treasury Notes*

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

	Maturity date	06/30/2021	12/31/2020
NTN-B	05/15/2022	78,846	76,948
Mark to market		(1,846)	(2,584)
Current value		<u>77,000</u>	<u>74,364</u>

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

7. Financial instruments (Continued)

7.1. Marketable securities (Continued)

c) Securities held to maturity (Continued)

i) *National Treasury Notes* (Continued)

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

Until 06/30/2021, R\$738 (R\$738 at 06/30/2020) was allocated to profit or loss, totaling R\$13,332 (R\$11,856 at 06/30/2020) in allocations already made in P&L.

ii) *Debentures*

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

	Number	Maturity date	06/30/2021	12/31/2020
Acquisition				
January 2019	67,144	11/01/2024	76,070	74,787
November 2019	10,000	15/10/2022	-	8,113
			76,070	82,900
Provision for credit risk			(53,249)	(52,432)
Current value			22,821	30,468

7.2. Derivative financial instruments

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

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

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

7. Financial instruments (Continued)

7.2. Derivative financial instruments (Continued)

Derivatives are recorded at fair value and held as assets when positive, and as liabilities, when negative. They are subsequently revalued also at fair value, with the valuations or devaluations recognized directly in profit or loss for the period. These 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. These derivatives, as well as related financial assets and liabilities, are adjusted to market value, and gains and losses are posted directly to profit or loss.

In accordance with BACEN Circular Letter No. 3082/2001, the Bank adopts the hedge accounting methodology for recognition of derivatives, recording external funding operations (hedged items) and derivative financial instruments (hedging instruments) based on their market value. Thus, the variation in the hedged item is offset by the variation in the hedging instrument considering the cumulative effect of the transaction.

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

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

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

At the beginning of the transaction, as established in BACEN Circular Letter 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 and the market value variation of the hedged item.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

7. Financial instruments (Continued)

7.2. Derivative financial instruments (Continued)

a) Hedging of amounts receivable or payable

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

	06/30/2021	12/31/2020
Guarantees in effect:		
Interbank deposits	42,818	12,988
Funding in interbank deposits	24,178	72,673

b) Position of foreign funding hedged by derivatives

	Commence ment	End	Index	Funding	06/30/2021		12/31/2020	
					Balance (foreign currency)	Balance R\$ (Curve)	Balance (foreign currency)	Balance R\$ (Curve)
CAF 1	09/27/2013	09/27/2023	Libor 6M + 3.65% p.a.	US\$ 15,000	4,456	22,286	5,348	27,791
CAF 2	10/21/2013	10/23/2023	Libor 6M + 3.65% p.a.	US\$ 30,000	8,889	44,459	10,670	55,441
CAF 3	12/19/2013	12/19/2023	Libor 6M + 3.65% p.a.	US\$ 30,000	8,832	44,174	10,600	55,077
BID	08/04/2014	08/16/2021	Libor 6M + 2.25% p.a.	US\$ 50,000	4,587	22,943	9,180	47,699
AFD3	02/02/2017	11/28/2025	Euribor 6M + 2% p.a.	€ 15,000	5,487	32,509	6,097	38,871
BEI	03/02/2020	02/20/2030	Libor 6M + 0.451% p.a.	US\$ 9,301	9,322	46,626	9,327	48,464
FONPLATA	05/21/2020	05/19/2025	Libor 6M + 3.02% p.a.	US\$ 36,000	36,139	180,755	36,142	187,796
BEI 2	12/03/2020	12/03/2030	1.032% p.a.	US\$ 11,241	11,250	56,266	11,250	58,456
BEI 3	12/03/2020	12/03/2030	1.032% p.a.	US\$ 35,703	35,731	178,710	35,732	185,665
CAF6 (*)	01/08/2021	12/18/2026	Libor 6M + 2.5% p.a.	US\$ 40,000	40,035	200,241	-	-
CAF6 (*)	03/11/2021	12/18/2026	Libor 6M + 2.5% p.a.	US\$ 60,000	60,473	300,361	-	-
BID INVEST (*)	03/09/2021	12/19/2027	Libor 3M + 4.25% p.a.	US\$ 50,000	50,006	250,110	-	-
						1,379,440		705,260
Mark to market						4,115		2,096
Market value						1,383,555		707,356

(*) Tranche internalized in 2021 and swap taken out for hedging purposes as from the internalization date.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

7. Financial instruments (Continued)

7.2. Derivative financial instruments (Continued)

c) Swap amounts recorded

		06/30/2021	06/30/2020
	Amount receivable / payable (asset/liability account)	Net effect (profit or loss account)	Net effect (profit or loss account)
	Notional value (memorandum account)		
(USD + Libor + Rate) x (BRL + %CDI) ⁽¹⁾	89,856	(2,104)	72,496
(EUR + Euribor + Rate) x (BRL + %CDI) ⁽¹⁾	27,643	(2,403)	11,044
(USD + Libor + Rate) x (BRL + Rate) ⁽¹⁾	41,634	(2,523)	8,068
(USD + Rate) x (BRL + %CDI) ⁽¹⁾	1,044,814	(99,112)	-
(USD + Libor + Rate) x (BRL + %CDI) ⁽²⁾	242,592	(14,272)	-
	<u>1,446,539</u>	<u>(120,414)</u>	<u>91,608</u>

(1) Difference receivable

(2) Difference payable

d) Swaps by maturity

	Within 30 days	From 31 to 180 days	From 181 to 360 days	More than 360 days	Total
Long position – Difference receivable					
Foreign currency	-	8,051	-	54,373	62,424
Total – 06/30/2021	<u>-</u>	<u>8,051</u>	<u>-</u>	<u>54,373</u>	<u>62,424</u>
Total – 12/31/2020	-	-	18,008	74,907	92,915
Short position – Difference payable					
Foreign currency	-	-	-	(122,680)	(122,680)
Total – 06/30/2021	<u>-</u>	<u>-</u>	<u>-</u>	<u>(122,680)</u>	<u>(122,680)</u>
Total – 12/31/2020	-	-	-	(16,943)	(16,943)
Net exposure – 06/30/2021	<u>-</u>	<u>8,051</u>	<u>-</u>	<u>(68,307)</u>	<u>(60,256)</u>
Net exposure – 12/31/2020	-	-	18,008	57,964	75,972

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

7. Financial instruments (Continued)

7.2. Derivative financial instruments (Continued)

e) Swaps by index and nominal value

	Nominal value	Curve yield	Mark to market	Market value
Long position – Difference receivable				
(US\$ + Libor + Rate) x (BRL + %CDI)	89,856	43,365	619	43,984
(EUR + Euribor + Rate) x (BRL + %CDI)	27,643	12,241	951	13,192
(US\$ + Libor + Rate) x (BRL + Rate)	41,634	4,143	1,105	5,248
(USD + Rate) x (BRL + %CDI)	-	-	-	-
Total – 06/30/2021	<u>159,133</u>	<u>59,749</u>	<u>2,675</u>	<u>62,424</u>
Total – 12/31/2020	<u>434,473</u>	<u>89,475</u>	<u>3,440</u>	<u>92,915</u>
Short position – Difference payable				
(US\$ + Libor + Rate) x (BRL + %CDI)	1,044,814	(115,892)	3,687	(112,205)
(EUR + Euribor + Rate) x (BRL + %CDI)	-	-	-	-
(US\$ + Libor + Rate) x (BRL + Rate)	242,592	(8,228)	(2,247)	(10,475)
Total – 06/30/2021	<u>1,287,406</u>	<u>(124,120)</u>	<u>1,440</u>	<u>(122,680)</u>
Total – 12/31/2020	<u>202,284</u>	<u>(15,598)</u>	<u>(1,345)</u>	<u>(16,943)</u>
Net exposure – 06/30/2021	<u>1,446,539</u>	<u>(64,371)</u>	<u>4,115</u>	<u>(60,256)</u>
Net exposure – 12/31/2020	<u>636,757</u>	<u>73,877</u>	<u>2,095</u>	<u>75,972</u>

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

7.3. Loan portfolio

	06/30/2021	12/31/2020
Loan portfolio (loans and credits similar to loans)	5,938,055	6,047,311
Allowance for expected credit losses	(626,116)	(564,836)
Net balance	5,311,939	5,482,475

Of the total loans of R\$5,938,055 (12/31/2020 - R\$6,047,311), the amount of R\$3,279,775 (12/31/2020 - R\$3,304,412) was granted with own resources and R\$2,658,280 (12/31/2020 - R\$2,742,899), originally, with onlending received from other financial institutions.

The balance of the renegotiated loan portfolio totals R\$2,119,227 (12/31/2020 - R\$1,962,855).

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

7. Financial instruments (Continued)

7.3. Loan portfolio (Continued)

a) Concentration of credit risk exposure (gross value)

	06/30/2021		12/31/2020	
	Balance	%	Balance	%
Major debtor	200,217	3	199,666	3
10 largest debtors	1,032,263	16	1,011,193	16
20 largest debtors	1,665,964	25	1,584,673	24
50 largest debtors	2,718,589	42	2,544,062	39
100 largest debtors	3,499,820	54	3,339,334	52
Other customers	3,041,596	46	3,129,367	48

The table considers exposures in the concept of extended portfolio, that is, considers the loan portfolio and other exposures to credit risk as co-obligations, credit notes and credits to be released.

b) Classification by type and segment of activity

	06/30/2021	12/31/2020
Loans	1,766,614	1,771,005
Manufacturing	671,467	638,566
Trade	563,088	587,981
Other services	532,059	544,458
Financing to the private sector	3,561,557	3,613,588
Manufacturing	1,176,281	1,169,067
Trade	218,378	265,353
Other services	1,004,165	1,047,630
Agricultural and agro-industrial	1,149,161	1,118,362
Individuals	1,494	1,706
Other	12,078	11,470
Financing to the public sector (direct and indirect municipal administrations)	609,884	662,718
Subtotal	5,938,055	6,047,311
Allowance for loan losses	(625,892)	(564,691)
Allowance for losses on credits similar to loans	(224)	(145)
	5,311,939	5,482,475
Current	1,916,257	1,717,950
Noncurrent	3,395,682	3,764,525

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

7. Financial instruments (Continued)

7.3. Loan portfolio (Continued)

c) Classification by maturity and risk levels

Risk level	06/30/2021									12/31/2020
	Total	Overdue (in days)		Falling due (in days)						Total
		From 15 to 90 days	More than 90 days	Up to 90	From 91 to 360	From 361 to 1080	From 1081 to 1800	From 1801 to 5400	More than 5400	
AA	2,099,466	9,686	-	136,315	422,287	1,033,998	286,509	187,331	23,340	2,087,883
A	1,582,026	14,677	-	264,713	476,095	655,229	109,170	62,142	-	1,665,807
B	773,247	61,154	-	69,609	199,836	226,583	105,566	110,499	-	714,596
C	505,675	16,476	1,953	43,594	108,512	207,459	84,350	43,331	-	586,552
D	251,141	20,687	587	16,437	39,661	104,275	51,699	17,795	-	296,196
E	106,501	1,242	18,221	5,190	11,605	52,152	18,000	91	-	99,746
F	28,745	3,104	7,140	1,835	2,889	6,194	2,151	5,047	385	234,714
G	226,723	20	62	2,099	1,010	210,370	8,262	4,900	-	27,205
H	364,531	12,494	29,008	6,174	18,998	39,887	34,480	125,864	97,626	334,612
	5,938,055	139,540	56,971	545,966	1,280,893	2,536,147	700,187	557,000	121,351	6,047,311

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

7. Financial instruments (Continued)

7.3. Loan portfolio (Continued)

d) Classification by risk level and provision

Risk level	%	06/30/2021			12/31/2020	
		Portfolio	Allowance for loan losses based on minimum required percentages	Allowance for loan losses	Portfolio	Allowance for loan losses
AA	0	2,099,466	-	-	2,087,883	-
A	0.5	1,582,026	(7,910)	(7,921)	1,665,807	(8,329)
B	1	773,247	(7,732)	(7,750)	714,596	(7,185)
C	3	505,675	(15,170)	(15,403)	586,552	(18,061)
D	10	251,141	(25,114)	(25,482)	296,196	(30,325)
E	30	106,501	(31,950)	(31,950)	99,746	(29,924)
F	50	28,745	(14,373)	(14,372)	234,714	(117,357)
G	70	226,723	(158,706)	(158,706)	27,205	(19,043)
H	100	364,531	(364,531)	(364,532)	334,612	(334,612)
		5,938,055	(625,486)	(626,116)	6,047,311	(564,836)

e) Changes in allowance for loan losses

	06/30/2021	12/31/2020
Opening balance	564,836	432,613
(+) Set-up of allowance, net of reversals (i)	150,916	205,498
(-) Loans written off as losses (ii)	(89,636)	(73,275)
Balance of allowance for loan losses	626,116	564,836

(i) In the first six-month period, two operations with significant amounts that were written off as losses were recovered upon agreement. Pursuant to CMN Resolution No. 2682/1999, provisions equal to the amounts recovered were set up for this renegotiated transactions, given their classification as level H risk for recovered amounts not received.

(ii) Transactions are transferred to loan losses (memorandum accounts) after 6 months of their classification as risk H and if they are overdue for a period exceeding 180 days. In the six-month period, the operations of two customers with significant amounts met the criteria established in the rules of the Central Bank and had their balances classified as loan losses.

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

7. Financial instruments (Continued)

7.3. Loan portfolio (Continued)

f) Credit assignment

The balance of transactions assigned with guarantee, recorded in memorandum accounts as shown below, refers to transactions that were assigned until December 31, 2011 (prior to effectiveness of CMN Resolution No. 3533/2008, whose adoption was postponed by CMN Resolutions No. 3673/2008 and 3895/2010 to January 1, 2012):

	<u>06/30/2021</u>	<u>12/31/2020</u>
Assignment prior to the effective date of CMN Resolution No. 3533/2008:		
Guarantees pending settlement	17,563	16,447
Transactions settled to be transferred	251	164
	<u>17,814</u>	<u>16,611</u>

7.4. Other financial assets

	<u>06/30/2021</u>	<u>12/31/2020</u>
Debtors for escrow deposits (a)	128,505	127,538
Notes and credits receivable (b)	2,171	2,676
Sundry debtors – domestic (c)	7,910	11,269
Income receivable (d)	2,045	1,813
Taxes and contributions to be offset (e)	4,472	4,510
Other	6,548	5,116
Total	<u>151,651</u>	<u>152,922</u>
Current	18,118	21,379
Noncurrent	133,533	131,543

(a) Debtors for escrow deposits

These deposits result from legal inquiries, particularly of a tax and fiscal nature, as disclosed in Note 11-b(i).

<u>Breakdown</u>	<u>06/30/2021</u>	<u>12/31/2020</u>
Deposits for tax suits filed	124,182	123,283
Deposits for labor claims	2,959	2,942
Deposits for civil suits	1,364	1,313
Total	<u>128,505</u>	<u>127,538</u>
Current	-	294
Noncurrent	128,505	127,244

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

7. Financial instruments (Continued)

7.4. Other financial assets (Continued)

- (b) The notes and credits receivable balance refers to remuneration of R\$2,171 (R\$2,676 as of 12/31/2020) to be refunded by National Treasury Office (STN), arising from rural loans financed with resources of the STN and renegotiated as determined by applicable legislation.
- (c) The balance of sundry debtors substantially comprises the amount of R\$7,534 (R\$10,730 as of 12/31/2020) relating to the non-default bonus granted to customers of agricultural transactions renegotiated in accordance with the provisions of Law No. 9138/1995, as amended, to be returned by the STN, and R\$376 (R\$539 as of 12/31/2020) referring to other receivables.
- (d) Income receivable, net of the respective provisions, amounts to R\$1,624 (R\$1,486 as of 12/31/2020) and mainly arises from commissions for services provided, referring to loans granted with resources of the development funds administered by BDMG. The remuneration is payable upon maturity of the contracted installments, and an allowance is recorded based on the percentage of the risk level under which the transaction generating the remuneration is classified. This risk classification is in line with the Bank policy, which extended to the transactions funded by resources from the managed funds the same criteria established in CMN Resolution No. 2682/1999 for loans of BDMG's own portfolio, and R\$421 (R\$327 as of 12/31/2020) refers to other income receivable.
- (e) The balance of R\$4,472 (R\$4,510 as of 12/31/2020) refers to taxes paid in advance and not offsetable in the period.

8. Property and equipment in use and intangible assets

a) Property and equipment in use

	06/30/2021		12/31/2020	
	Cost	Accumulated depreciation	Net amount	Net amount
Real estate	44,206	(28,913)	15,293	15,296
Facilities, furniture and equipment	6,316	(5,848)	468	501
Data processing equipment	7,202	(6,638)	564	694
Other	518	(484)	34	35
Construction in progress	249	-	249	209
	58,491	(41,883)	16,608	16,735

Insurance coverage (unaudited) - in order to cover possible damages to its property and equipment, the Bank has insurance coverage amounting to R\$50,000 (51,700 as of 12/31/2020).

b) Intangible assets

	06/30/2021		12/31/2020	
	Cost	Accumulated amortization	Net amount	Net amount
Data processing system (software)	48,626	(26,952)	21,674	21,011

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

9. Other assets

	<u>2021</u>	<u>2020</u>
Nonfinancial assets held for sale(i)	50,861	81,849
Provision for nonfinancial assets held for sale	(7,216)	(17,541)
Prepaid expenses (ii)	11,535	12,313
Other	524	579
	<u>55,704</u>	<u>77,200</u>
Current	2,025	1,809
Noncurrent	53,679	75,391

- (i) In this six-month period, two properties were sold, recorded for R\$31,040, with a provision for impairment in the amount of R\$11,740. The sale of these properties resulted in a decrease in the aforementioned balances;
- (ii) This refers to amounts paid as fees and commissions on loans and issuance of securities abroad, recorded at the amount disbursed and amortized according to the maturity of the related transactions.

10. Financial liabilities

10.1. Deposits and funding

	<u>06/30/2021</u>	<u>12/31/2020</u>
Deposits		
Interbank deposits (a)	563,325	601,071
Time deposits (b)	229,857	207,617
Funding		
Agribusiness Credit Bills (LCA)	556,693	455,777
	<u>1,349,875</u>	<u>1,264,465</u>
Current	471,472	376,064
Noncurrent	878,403	888,401

Deposits

(a) Interbank deposits:

- R\$24,178 – to cover a clause in derivative contracts that requires that the party with a difference payable in excess of a given amount hold interbank deposits in the institution that is the counterparty to the transaction. These deposits have 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;
- R\$539,147 - funding from financial institutions for time deposits with special guarantee (DPGE).

(b) Time deposits – the balance comprises securities directly issued for funding – R\$140,181 at 06/30/2021 – and securities issued as guarantees to loan transactions amounting to R\$89,676.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

10. Financial liabilities (Continued)

10.1. Deposits and funding (Continued)

Deposits (Continued)

Deposit maturities

							06/30/2021	12/31/2020
	Up to 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 360 days	More than 360 days	Total	Total
Interbank deposits	104,018	-	-	-	76,160	383,147	563,325	601,071
Guarantee margin	-	-	-	-	24,178	-	24,178	72,674
DPGE	104,018	-	-	-	51,982	383,147	539,147	528,397
Time deposits	1,244	3,300	690	5,006	19,076	200,541	229,857	207,617
With certificate	1,244	3,300	690	5,006	19,076	118,144	147,460	126,807
DPGE	-	-	-	-	-	82,397	82,397	80,810
	105,262	3,300	690	5,006	95,236	583,688	793,182	808,688
Current							209,494	201,430
Noncurrent							583,688	607,258

Funding

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

Maturities

							06/30/2021	12/31/2020
	Within 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 360 days	More than 360 days	Total	Total
Agribusiness Credit Bills (LCA)	3,069	5,940	4,405	128,560	120,004	294,715	556,693	455,777
Current							261,978	174,634
Noncurrent							294,715	281,143

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

10. Financial liabilities (Continued)

10.2. Borrowings and onlending

a) Foreign borrowings

	06/30/2021		12/31/2020	
	Curve	Market	Curve	Market
Institution:				
CAF	611,521	614,522	658,436	659,146
BID	22,943	22,869	47,699	47,526
AFD	197,126	198,077	109,943	110,842
BEI	281,602	280,460	292,585	294,591
FONPLATA	180,755	180,383	187,796	186,451
CARGILL	51,616	51,616	52,521	52,521
BID INVEST	250,110	251,862	259,870	259,870
		<u>1,599,789</u>		<u>1,610,947</u>
Current		105,491		131,670
Noncurrent		1,494,298		1,479,277

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

Covenants require compliance with certain financial ratios and these obligations, when applicable, are standardized for loan and financing contracts abroad.

The Bank represents that all conditions contained in these contracts have been met.

Funds by institution of origin

i) CAF - Latin American Development Bank (*)

The financing of US\$100 million obtained from CAF in August 2013, 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.

In December 2020, BDMG entered into a new contract with CAF, with a credit limit in the amount of 100 million dollars, fully released on 12/18/2020, with interest by reference to 6-month libor plus fixed rate of up to 2.5% p.a. and maturity within 6 years.

(*) CAF was formerly known as Corporación Andina de Foment – CAF.

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

10. Financial liabilities (Continued)

10.2. Borrowings and onlending (Continued)

a) Foreign borrowings (Continued)

Funds by institution of origin (Continued)

i) CAF - Latin American Development Bank (Continued)

Tranches released

Tranche	Date of release	Maturity	Release (US\$)	06/30/2021		12/31/2020	
				Curve (R\$)	Market (R\$)	Curve (R\$)	Market (R\$)
CAF 1	09/27/2013	09/27/2023	15,000	22,286	22,398	27,791	27,902
CAF 2	10/21/2013	10/23/2023	30,000	44,459	44,656	55,441	55,610
CAF 3	12/19/2013	12/19/2023	30,000	44,174	44,557	55,077	55,507
CAF 6	12/18/2020	12/18/2026	100,000	500,602	502,911	520,127	520,127
			175,000	611,521	614,522	658,436	659,146

ii) 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.

Position of the tranche released

Tranche	Date of release	Maturity	Release (US\$)	06/30/2021		12/31/2020	
				Curve (R\$)	Market (R\$)	Curve (R\$)	Market (R\$)
1	08/04/2014	08/16/2021	50,000	22,943	22,869	47,699	47,526

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

10. Financial liabilities (Continued)

10.2. Borrowings and onlending (Continued)

a) Foreign borrowings (Continued)

Funds by institution of origin (Continued)

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

In December 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. In August 2020, a new loan agreement was entered into with AFD, releasing 17.5 million Euros on 02/03/2021, bearing interest at the 6-month Euribor rate plus 4.09% p.a. and payment term of 11 years. The purpose of these transactions was the financing of municipal climate-related infrastructure projects and the expansion of basic services.

Tranches released

Tranche	Date of release	Maturity	Release (€)	06/30/2021		12/31/2020	
				Curve (R\$)	Market (R\$)	Curve (R\$)	Market (R\$)
AFD 1(*)	07/22/2014	11/28/2025	9,000	26,695	26,695	31,919	31,919
AFD 2(*)	10/13/2014	11/28/2025	7,000	20,763	20,763	24,826	24,826
AFD 3(**)	02/02/2017	11/28/2025	15,000	44,492	45,443	53,198	54,097
AFD 4	02/03/2021	07/30/2032	17,500	105,176	105,176	-	-
			48,500	197,126	198,077	109,943	110,842

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

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

iv) European Investment Bank (EIB)

In October 2019, BDMG entered into a €100 million agreement with EIB to finance Renewable Energy and Energy Efficiency Projects, which will be released in tranches of different amounts, maturing within 13 years. In March 2020, the Bank received the funds from the 1st tranche, totaling US\$9.3 million, bearing interest at the six-month Libor rate, plus 0.451% p.a. and with maturity of 10 years. In December 2020, the Bank received tranches 2 and 3, totaling US\$11.2 million and US\$35.7 million, respectively, subject to interest at a fixed rate of 1.032% p.a. and a 10-year payment term.

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

10. Financial liabilities (Continued)

10.2. Borrowings and onlending (Continued)

a) Foreign borrowings (Continued)

Funds by institution of origin (Continued)

iv) European Investment Bank (EIB) (Continued)

Tranche	Date of release	Maturity	Release (US\$)	06/30/2021		12/31/2020	
				Curve (R\$)	Market (R\$)	Curve (R\$)	Market (R\$)
EIB	03/02/2020	02/20/2030	9,301	46,626	47,732	48,464	49,277
EIB 2	12/03/2020	12/03/2030	11,241	56,266	55,728	58,456	58,741
EIB 3	12/03/2020	12/03/2030	35,703	178,710	177,000	185,665	186,573
			56,245	281,602	280,460	292,585	294,591

v) Plata Basin Financial Development Fund (FONPLATA)

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

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

Tranche	Date of release	Maturity	Release (US\$)	06/30/2021		12/31/2020	
				Curve (R\$)	Market (R\$)	Curve (R\$)	Market (R\$)
FONPLATA	05/21/2020	05/17/2025	36,000	180,755	180,383	187,796	186,451

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

10. Financial liabilities (Continued)

10.2. Borrowings and onlending (Continued)

a) Foreign borrowings (Continued)

Funds by institution of origin (Continued)

vi) Cargill Financial Services International

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

Tranche	Date of release	Maturity	Release (US\$)	06/30/2021		12/31/2020	
				Curve (R\$)	Market (R\$)	Curve (R\$)	Market (R\$)
CARGILL	09/30/2020	09/06/2024	10,000	51,616	51,616	52,521	52,521

vii) Inter-American Investment Corporation - BID Invest

On December 18, 2020, BDMG issued sustainable bonds in the amount of US\$50 million, with registration on the New York Stock Exchange, which were fully acquired by IDB Invest. These bonds subject BDMG to interest at the 3-month USD Libor rate plus 4.25% per annum every quarter. They mature within 7 years, with redemption in six (6) annual installments, and the first installment due on December 29, 2022.

Tranche	Date of release	Maturity	Release (US\$)	06/30/2021		12/31/2020	
				Curve (R\$)	Market (R\$)	Curve (R\$)	Market (R\$)
1	12/29/2020	12/29/2027	50,000	250,110	251,862	259,870	259,870

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

10. Financial liabilities (Continued)

10.2. Borrowings and onlending (Continued)

b) Domestic onlending

The onlending refers to obligations arising from resources obtained from funds and official programs to be onlent to finance projects in the state of Minas Gerais. The principal and related charges mature by 2038, and financial charges are defined in the operating policies of each agency or fund that is transferring the resources funds. The BNDES/FINAME system is the main source of onlending from BDMG to its customers.

The balances of such obligations are as follows:

	<u>06/30/2021</u>	<u>12/31/2020</u>
BNDES (i)	916,171	984,740
FINAME	780,831	877,952
Funcafé (ii)	338,109	496,037
Fungetur (iii)	325,863	339,345
FINEP	100,022	110,774
CEF	14,128	14,565
BNB	9,070	10,310
National treasury	8,912	8,147
	<u>2,493,106</u>	<u>2,841,870</u>
Current	1,022,118	1,229,684
Noncurrent	1,470,988	1,612,186

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

	<u>06/30/2021</u>	<u>12/31/2020</u>
BNDES Automático	235,334	245,911
BNDES FINEM	253,524	235,584
BNDES Automático GIRO	60,701	81,136
BNDES Automático PCA	74,400	72,923
BNDES Automático PRODECOOP	48,851	50,832
BNDES Automático TJLP	36,841	48,419
PESA/BNDES	34,497	29,246
BNDES MPME INOVADORA	24,247	29,144
BNDES FINEM PSI	24,380	27,865
BNDES Automático PROGEREN	12,031	35,578
BNDES Automático MODERAGRO	17,976	16,292
BNDES Automático ABC	15,958	16,000
BNDES Automático Inovagro	14,724	13,316
BNDES SAUDE	9,849	10,693
Other	52,858	71,801
	<u>916,171</u>	<u>984,740</u>

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

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

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

11. Provisions

	06/30/2021	12/31/2020
Actuarial obligations (a)	361,326	427,145
Contingent liabilities: tax, labor and civil (b)	221,948	217,187
Provision for other contingencies (c)	11,499	11,404
	594,773	655,736
Current	22,343	25,158
Noncurrent	572,430	630,578

a) Actuarial obligations

This provision, referring to the benefits sponsored by the Bank to its active and assisted employees, as detailed in Note 18, is broken down as follows:

	06/30/2021	12/31/2020
Actuarial liability related to the Pension Plan – defined benefit (DB) and variable contribution (VC) ⁽¹⁾	232,004	262,622
Actuarial liability related to the Health Promotion Program (PRO-SAÚDE), and healthcare and dental care plan ⁽²⁾	111,963	145,566
Actuarial liability related to life insurance	17,359	18,957
Total	361,326	427,145
Current	20,330	21,859
Noncurrent	340,996	405,286

(1) The variation mainly refers to the increase in the obligation's discount rate, which directly impacts the liability reduction.

(2) The reduction in actuarial liabilities with the dental and health care plan is due to the increase in the obligation's discount rate, as well as the reduction in health care costs in relation to expected costs.

b) Contingent tax, labor and civil liabilities

The Bank is a party to tax, labor and civil proceedings arising in the normal course of its activities. These lawsuits may result in the recognition of provisions, based on the legal advisors' assessment of the likelihood of loss.

b.1) *Lawsuits whose risk of loss has been assessed as probable*

Contingent liabilities refer to the lawsuits listed below by nature and changes occurred in the period:

	12/31/2020	Provisions recorded	Restatement	(Write-offs)	06/30/2021
Tax (i)	190,803	1,221	1,078	-	193,102
Civil (ii)	8,705	1,388	-	-	10,093
Labor (iii)	17,679	1,074	-	-	18,753
Total	217,187	3,683	1,078	-	221,948
Current	2,567				1,221
Noncurrent	214,620				220,727

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

11. Provisions (Continued)

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

b.1) *Lawsuits whose risk of loss has been assessed as probable* (Continued)

i) Legal obligations and tax contingencies

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

These provisions are updated on a monthly basis at the SELIC rate and, in the projection of the Bank's P&L, the expected realization of the related tax credits considers the distribution over a 10-year period (Note 15-c).

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

	12/31/2020	Provision	Update	06/30/2021
Change in COFINS tax base - Law No. 9718/1998	125,502	-	757	126,259
Change in PIS/PASEP tax base – Law No. 9718/1998	65,248	-	321	65,569
Other contingencies and legal obligations	53	1,221		1,274
	190,803	1,221	1,078	193,102

To guarantee and suspend the requirement to pay the aforementioned tax contingencies, judicial deposits were recorded under Other receivables - Debtors for escrow deposits:

	06/30/2021		12/31/2020	
	Provision	Deposits	Provision	Deposits
Change in COFINS tax base - Law No. 9718/1998	126,259	56,757	125,502	56,456
Change in PIS/PASEP tax base established by Law No. 9718/1998	65,569	65,569	65,248	65,248
Other contingencies and legal obligations	1,274	1,886	53	1,609
	193,102	124,212	190,803	123,313

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

11. Provisions (Continued)

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

b.1) *Lawsuits whose risk of loss has been assessed as probable* (Continued)

i) Legal obligations and tax contingencies (Continued)

BDMG is a party to a legal proceeding in connection with COFINS and PIS/PASEP contribution taxes where it seeks to stop paying such taxes, under the terms of Law No. 9718/1998 which, in addition to imposing COFINS on financial institutions, increased the PIS/PASEP tax base by establishing that revenue should encompass gross operating income and non-operating income. In view of decisions handed down in the course of the proceeding, the Bank made judicial deposits until December 2014 to cover COFINS contributions on service revenue. From January 2015 onwards, when changes introduced by Law No. 12973/2014 became effective, PIS/PASEP and COFINS on all revenues are paid regularly.

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

ii) *Civil contingencies*

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

Civil contingencies refer mostly to lawsuits that question debt amounts, contractual provisions and interim statute of limitations.

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

To cover the risks associated with these proceedings, the Bank made judicial deposits recorded in the subaccount "Debtors for escrow deposits", including R\$1,334 (R\$1,284 as of 12/31/2020).

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

11. Provisions (Continued)

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

b.1) *Lawsuits whose risk of loss has been assessed as probable* (Continued)

iii) Labor contingencies

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

Judicial deposits of R\$2,959 (R\$2,941 as of 12/31/2020) to appeals associated with labor claims are recorded in the subaccount "Debtors for escrow deposits".

b.2) *Lawsuits whose risk of loss has been assessed as possible*

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

	06/30/2021		12/31/2020	
	Number	Balance	Number	Balance
Tax	8	87,860	8	87,263
Labor	2	1,147	1	50
Civil	23	2,163	22	2,066
	33	91,170	31	89,379

Among the tax proceedings assessed as possible loss for which no provision was set up, the significant ones are as follows:

- Fine not included in the amount deposited in court to cover COFINS contributions related to the abovementioned proceeding. The updated amount of the fine totals R\$2,880 (R\$2,871 as of 12/31/2020).

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

11. Provisions (Continued)

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

b.2) *Lawsuits whose risk of loss has been assessed as possible* (Continued)

- COFINS related to the accrual period of 2010-2011 resulting from notice drawn up by the Brazilian IRS, in the updated amount of R\$59,912 (R\$59,522 as of 12/31/2020), which discusses the understanding in the notice of adopting a billing concept that is more comprehensive than that provided for in the governing legislation - and consolidated in the Federal Supreme Court (STF) - at the time of the notice.

Of the total updated amount of this tax notice, a provision for the updated principal amount is recorded in the amount of R\$31,129 (R\$30,943 as of 12/31/2020) as it is a tax obligation under the terms of BACEN Circular Letter No. 3429/2010. The remaining debt, in the total updated amount of R\$28,783 (R\$28,579 as of 12/31/2020), referring to automatic fine and charges of the Office of the Attorney General of the National Treasury (PGFN) does not have a provision.

- COFINS related to the accrual period of 2014 resulting from notice drawn up by the Brazilian IRS, in the updated amount of R\$38,305 (R\$37,992 as of 12/31/2020), which discusses the understanding in the notice of adopting a billing concept that is more comprehensive than that provided for in the governing legislation - and consolidated in the Federal Supreme Court (STF) - at the time of the notice.

Of the total updated amount of this tax notice, a provision for the updated principal amount is recorded in the amount of R\$20,727 (R\$20,577 as of 12/31/2020) as it is a tax obligation under the terms of BACEN Circular Letter No. 3429/2010. The remaining debt, in the total updated amount of R\$17,578 (R\$17,415 as of 12/31/2020), referring to automatic fine and charges of the Office of the Attorney General of the National Treasury (PGFN) does not have a provision.

- Automatic fine arising from notices served by the Brazilian IRS for collection of COFINS in the accrual period of 2013 related to the proceedings above and not considered in the amount of the provision set up. The updated amount of the automatic fine totals R\$9,337 (R\$9,233 as of 12/31/2020).
- 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 updated amount of the notice totals R\$10,658 (R\$10,602 as of 12/31/2020).
- Notice served by the Brazilian IRS referring to exclusions carried out by the Bank from the IRPJ tax base related to tax triggering events in 1997 and 1998. The portion of the notice referring to 1997 is assessed as possible loss, in the updated amount of R\$18,351 (R\$18,292 as of 12/31/2020).

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

11. Provisions (Continued)

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

b.3) *Guarantees offered in tax proceedings*

The following proceedings have guarantees offered by the Bank:

- Proceeding related to IRPJ for 1997, in the updated amount of R\$18,351 (R\$18,292 as of 12/31/2020) for which no provision was set up given that the likelihood of loss is assessed as possible. This arises from notice served by the Brazilian IRS requiring payment of tax credit referring to the improper exclusion of the debit balance of the IPC/BTNF-1990 difference from the IRPJ taxable base in the base year 1997. The head office of the Bank, located at Rua da Bahia nº 1600, and the attached building located at Rua Bernardo Guimarães nº 1592 have been pledged as collateral for this proceeding and accepted by the Finance Authorities.
- Proceeding related to IRPJ for 1998, in the restated amount of R\$53,884 (R\$53,698 as of 12/31/2020) for which no provision was set up given that the likelihood of loss is assessed as remote. As a result of this proceeding, the head office of the Bank, located at Rua da Bahia nº 1600, and the attached building located at Rua Bernardo Guimarães nº 1592 have been pledged as collateral and accepted by the Finance Authorities.
- Municipal tax enforcement proceeding related to Service Tax (ISS) for the accrual period from 05/2009 to 12/2012, for which the Bank pledged as collateral a real property (land) from nonfinancial assets held for sale. The case totals R\$1,147 (R\$981 as of 12/31/2020) and no provision has been recorded given that the likelihood is assessed as remote.
- Municipal tax enforcement proceeding related to Service Tax (ISS) for the accrual period from 09/2013 to 02/2018, for which the Bank pledged as collateral an urban property (an apartment in Belo Horizonte) from nonfinancial assets held for sale. The case totals R\$601 (R\$511 as of 12/31/2020) and no provision has been recorded given that the likelihood is assessed as remote.
- Administrative tax proceeding involving COFINS for the accrual period of 2010-2011. In view of the unfavorable decision handed down in December 2019 for the administrative tax proceeding involving COFINS for the accrual period of 2010-2011, and as a result of the tax enforcement proceeding estimated to be filed by the Federal Government (PGFN) for discussion of the COFINS tax credit for the accrual period of 2010-2011, BDMG took out a surety bond of R\$59,163 in guarantee of the proceeding, assessed as possible loss.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

11. Provisions (Continued)

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

b.3) *Guarantees offered in tax proceedings* (Continued)

- Administrative tax proceeding involving COFINS for the accrual period of 2014. In view of the unfavorable decision handed down in December 2020 for the administrative tax proceeding involving COFINS for the accrual period of 2014, and as a result of the tax enforcement proceeding estimated to be filed by the Federal Government (PGFN) for discussion of the COFINS tax credit for the accrual period of 2014, BDMG took out a surety bond of R\$37,992 in guarantee of the proceeding, which has been accepted by the PGFN on December 21, 2020.

c) Provisions for sundry contingencies

Changes in these provisions in the year, until 06/30/2021, are as follows:

	<u>12/31/2020</u>	<u>Provisions recorded</u>	<u>Restatement</u>	<u>(Write-offs)</u>	<u>06/30/2021</u>
Attorney's fees ⁽¹⁾	8,327	9	73	(211)	8,198
Guarantee assumed in loans assigned to STN ⁽²⁾	3,077	276	-	(52)	3,301
	<u>11,404</u>	<u>285</u>	<u>73</u>	<u>(263)</u>	<u>11,499</u>
Current	732				792
Noncurrent	10,672				10,707

(1) Attorney's fees refer to amounts owed by BDMG in contingent tax, labor and civil proceedings, as well as in relation to agreed upon success fees due with an outsourced law firm in tax proceedings.

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

12. Other liabilities

Balance breakdown

	<u>06/30/2021</u>	<u>12/31/2020</u>
Financial and development funds (a)	51,967	125,250
Sundry creditors – domestic (b)	21,308	27,939
Provision for payments to be made (c)	25,284	15,960
Current tax liabilities (d)	29,816	6,865
Deferred income (e)	17,195	19,060
Other	832	359
Total	<u>146,402</u>	<u>195,433</u>
Current	83,351	55,347
Noncurrent	63,051	140,086

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

12. Other liabilities (Continued)

Balance breakdown (Continued)

- (a) Financial and development funds - the statement of financial position balance of R\$51,967 (R\$125,250 as of 12/31/2020) refers to resources from state funds, funds linked to official agencies and private funds that are made available to the Bank so that it may carry out its activities as a financial agent of these funds.

The decrease in the balance in the six-month period is due to the transfer to the State of R\$78,564 referring to returns on financing from state funds linked to the Minas Gerais State Investment Fund – MG Investe, received by the Bank.

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

	<u>06/30/2021</u>	<u>12/31/2020</u>
State funds	3,825,157	3,822,194
Private funds	39,331	38,866
Other funds	83,034	81,863
	<u>3,947,522</u>	<u>3,942,923</u>

- (b) Sundry creditors – balance breakdown

	<u>06/30/2021</u>	<u>12/31/2020</u>
Receivables from customers to be offset	10,314	13,649
BACEN Compulsory – Installment payment from enrollment with the Non-Tax Debt Settlement program (PRD) in August 2017	5,432	7,280
Attorney's fees payable (received from customers)	2,277	1,893
Sundry	3,285	5,117
	<u>21,308</u>	<u>27,939</u>

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

	<u>06/30/2021</u>	<u>12/31/2020</u>
Vacation pay, 13 th monthly salary and charges	17,442	13,497
Employee profit sharing	5,578	910
Other	2,264	1,553
	<u>25,284</u>	<u>15,960</u>

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

12. Other liabilities (Continued)

Balance breakdown (Continued)

(d) Current tax liabilities – balance breakdown

	<u>06/30/2021</u>	<u>12/31/2020</u>
Provision for taxes and contributions	24,167	-
Taxes and social contributions on salaries	3,096	4,223
Other taxes and social contributions payable	2,553	2,642
	<u>29,816</u>	<u>6,865</u>

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

13. Equity

a) Capital

The subscribed capital of BDMG comprises 71,093,757,547 (71,093,757,547 at 12/31/2020) registered common shares with no par value, totaling R\$2,111,184 (R\$2,111,184 as of 12/31/2020).

Shareholding interest:

<u>Shareholder</u>	<u>Capital breakdown</u>		
	<u>Amount</u>	<u>Number of shares</u>	<u>Equity interest - %</u>
Minas Gerais State	1,908,303	64,600,467,793	90.86
Companhia de Desenvolvimento de Minas Gerais			
CODEMGE	184,061	5,890,944,550	8.29
MGI - Minas Gerais Participações	18,820	602,345,163	0.85
Departamento de Edificações e Estradas de Rodagem do			
Estado de Minas Gerais - DEER-MG	-	41	-
Total	<u>2,111,184</u>	<u>71,093,757,547</u>	<u>100.00</u>

b) Equity adjustments

	<u>06/30/2021</u>	<u>12/31/2020</u>
Mark to market (i)	9,401	10,409
Other equity adjustments (ii)	(127,868)	(169,224)
Total	<u>(118,467)</u>	<u>(158,815)</u>

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

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

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

13. Equity (Continued)

c) Income reserve

Legal reserve in the amount of R\$1,952 (12/31/2020 - R\$0), calculated based on 5% of net income.

d) Retained earnings (accumulated losses)

In the first half of 2021, the Bank recorded profit of R\$54,131 (R\$25,435 as of 06/30/2020), and the balance of R\$37,091 (loss of R\$8,941 at the six-month period ended 06/30/2020) remained in the retained earnings (accumulated losses) account.

e) Earnings per share

	<u>2021</u>	<u>2020</u>
	<u>1st half</u>	<u>1st half</u>
Net income	54,131	25,453
Number of shares ⁽¹⁾	71,093,758	70,870,154
Net earnings per share	0.00076	0.00036

f) Recurring and nonrecurring income

In accordance with BCB Resolution No. 2/2020 and the criteria defined in BDMG's internal policy, breakdown of P&L for the six-month period is as follows:

	<u>2021</u>	<u>2020</u>
	<u>1st half</u>	<u>1st half</u>
Recurring result	51,187	25,435
Non-recurring result ⁽¹⁾		
• Adjustment of the tax credit balance ⁽²⁾	2,944	-
	<u>54,131</u>	<u>25,435</u>

(1) Amounts net of tax effects, as applicable.

(2) Adjustment of the tax credit balance in compliance with Provisional Executive Order No. 1034 of 03/01/2021 signed into Law No. 14183 of 07/14/2021, which amends Law No. 7689 of 12/15/1988 to increase the rate of Social Contribution Tax rate for financial institutions from 20% to 25% in the period from 07/01/2021 to 12/31/2021.

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

14. Statement of profit or loss accounts

a) Income from lending operations

	<u>2021</u>	<u>2020</u>
	<u>1st half</u>	<u>1st half</u>
Interest on loans and financing	271,931	238,126
Credits recovered (1)	167,423	26,108
	<u>439,354</u>	<u>264,234</u>

(1) The credit recovery was mostly due to renegotiation of two transactions in the amount of R\$156,323 that were written off as loss, for which a provision of R\$110,495 was set up in the six-month period for the amount not received and refinanced to one of the customers.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

14. Statement of profit or loss accounts (Continued)

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

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

	2021	2020
	1st half	1st half
Gains (losses) on derivative transactions – swap ⁽¹⁾	(120,414)	91,608
Gains on repurchase agreements	15,756	2,448
Gains on fixed income securities	10,166	14,384
Gains from (losses on) investment funds	10,050	(1,716)
Exchange differences of cash and cash equivalents in foreign currency ⁽²⁾	52,326	(5,323)
Other	211	4
	(31,905)	101,405

(1) Gains (losses) on derivative transactions - swap - The derivative instruments were contracted by the Bank for the purpose of hedging against currency fluctuations and other financial charges contracted in foreign loan transactions. With the appreciation of the Brazilian currency (Real) against the euro and the dollar in the first half of 2021, a negative adjustment was made in derivatives used by the Bank to hedge its liabilities.

(2) Result of exchange differences of cash and cash equivalents in foreign currency arising from foreign funding and borrowings partially internalized during the first half of the year. The positive result was determined especially in the first quarter due to the devaluation of the national currency.

ii) *Trading expenses*

	2021	2020
	1st half	1st half
BNDES and FINAME onlending expenses	(59,734)	(60,057)
Onlending expenses – other institutions	(15,010)	(11,262)
Agribusiness credit bill expenses ⁽¹⁾	(12,818)	(4,706)
Interbank deposit and repurchase agreement expenses ⁽²⁾	(14,809)	(3,234)
Expenses with financial and development fund obligations	(1,176)	(2,038)
Foreign borrowing expenses ⁽³⁾	(632)	(120,224)
Financial bill expenses	-	(1,659)
	(104,179)	(203,180)

(1) Agribusiness credit bill expenses - The increase in expenses is directly related to the increase in the book balances with the issuance of these securities (06/30/2021 - R\$556,693 and 6/30/2020 - R\$364,973).

(2) Interbank deposit and repurchase agreement expenses - The increase in expenses is directly related to the increase in the book balances with the issuance of these securities (06/30/2021 - R\$793,181 and 6/30/2020 - R\$410,997).

(3) Foreign borrowing expenses - Decrease in foreign borrowing expenses due to the appreciation of the Real against the Euro and the Dollar in the first half of 2021, which also offset the increase in expenses arising from new operations with the European Investment Bank (EIB), Fonplata, Cargil, CAF – Development Bank of Latin America and the French Development Agency (AFD). For foreign borrowings at its own risk, the Bank has derivative instruments in the form of swaps to hedge against variations arising from fluctuations in the euro and dollar price and other charges.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

14. Statement of profit or loss accounts (Continued)

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

i) *Tax expenses*

	2021	2020
	1st half	1st half
PIS and COFINS	(9,222)	(7,668)
Service Tax (ISSQN)	(765)	(789)
Other	(786)	(716)
	(10,773)	(9,173)

ii) *Administrative expenses*

	2021	2020
	1st half	1st half
Outsourced services and expert technicians	(4,962)	(4,941)
Advertising and communication	(2,352)	(2,172)
Data processing	(2,687)	(1,757)
Depreciation and amortization	(4,577)	(3,526)
Registration	(1,531)	(1,994)
Maintenance and materials	(1,580)	(1,316)
Rent and infrastructure	(424)	(552)
Travel and transportation	(160)	(495)
Other	(856)	(1,384)
	(19,129)	(18,137)

iii) *Other operating income*

	2021	2020
	1st half	1st half
Income from hedged items marked to market ⁽¹⁾	42,852	8,299
Reversal of sundry provisions	642	1,623
Income from equalization - STN	363	7
Other	2,942	2,108
	46,799	12,037

(1) The hedged items (foreign loans) are calculated at market value based on the future exchange coupon curve. Therefore, the determining impact for generation of the recorded revenue is related to the behavior of the future exchange coupon curve, but we also point out the volume of new transactions contracted by BDMG with the European Investment Bank (EIB), Fonplata, Cargill, CAF – Development Bank of Latin America and the French Development Agency (AFD).

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

14. Statement of profit or loss accounts (Continued)

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

iv) *Other operating expenses*

	2021	2020
	1st half	1st half
Expense with INDI agreement	(2,878)	(2,166)
Expenses with BDMG Cultural agreement	(2,251)	(2,452)
Expenses with discounts granted on renegotiations	(779)	(7,964)
Fees/commissions on foreign borrowings	(886)	(39)
Expenses with bonus and discount on loans	(604)	(1,043)
Damages	(99)	(78)
Expenses with guarantees given	-	(259)
Other	(1,483)	(3,072)
	(8,980)	(17,073)

v) *Expenses with provisions*

	2021	2020
	1st half	1st half
Post-employment benefit – private pension plan - VB and VC	(13,124)	(13,017)
Post-employment benefits – health and life insurance	(6,097)	(5,531)
Other long-term benefits	-	(35)
Provision for tax contingencies	(1,676)	(771)
Provision for civil contingencies	(1,388)	(1,132)
Provision for labor contingencies	(1,074)	(692)
Provision for rural transactions with guarantee	(266)	(504)
Other	(82)	(202)
	(23,707)	(21,884)

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

15. Income and social contribution taxes

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

	Six-month periods ended	
	06/30/2021	06/30/2020
Income before IR, CSLL and profit sharing	98,070	49,656
Profit sharing	(5,697)	(1,780)
Income before income and social contribution taxes	92,373	47,876
Current rates	45%	45%
Income and social contribution taxes at current rates	(41,568)	(21,545)
Effects on tax calculation:		
Nondeductible expenses and nontaxable income	(283)	(896)
Tax incentives	694	-
Other amounts ⁽¹⁾	2,915	-
Income and social contribution tax expenses	(38,242)	(22,441)
Deferred tax assets	296	(22,441)
Current income and social contribution taxes payable	(38,538)	-

(1) Under "Other amounts", the amount of R\$2,941 is highlighted, resulting from the increase in the CSLL rate on the banks' net income from 20% to 25% on temporary differences, for the period from July to December/2021, according to Provisional Executive Order (MP) No. 1034/202.

b) Tax credits

BDMG tax credits recorded on temporary differences and on income and social contribution tax losses, made in accordance with CMN Resolution No. 4842/2020, considers expectation of realization within 10 years, due to the positive tax results in the projection of P&L. These tax results may change, since they are estimated based on internal assumptions and future economic scenarios, and are therefore not directly related to expectation of accounting profits.

In 2019, following approval of Constitutional Amendment No. 103, of November 12, 2019, the CSLL rate was changed from 15% to 20%. As of March 1, 2020, tax credits, expected to be realized after that date, were adjusted against profit or loss.

In compliance with Provisional Executive Order No. 1.034 of March 1, 2021, which amends Law No. 7689 of 12/15/1988, signed into Law No. 14183, of July 14, 2021, to increase the CSLL rate of financial institutions from 20% to 25% in the period from July 1, 2021 to December 31, 2021, the tax credits expected to be realized in that period were adjusted by R\$2,587 thousand and R\$ 357thousand relating, respectively, to temporary differences and social contribution tax losses, totaling R\$2,944 thousand.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

15. Income and social contributions taxes (Continued)

b) Tax credits (Continued)

Origin of tax credits

	12/31/2020	Accrual	Realization	06/30/2021
Doubtful receivables	282,442	117,419	(103,857)	296,004
Post-employment benefit	192,216	9,042	(38,134)	163,124
COFINS (change in tax base established by Law No. 9718/1998)	42,844	205	-	43,049
Devaluation of marketable securities	49,272	375	(16)	49,631
Change in PIS/PASEP tax base established by Law No. 9718/1998	11,465	-	-	11,465
Civil, labor and tax contingencies	14,539	1,803	(95)	16,247
Guarantee with STN	1,367	152	(19)	1,500
Other	7,808	41,140	(45,107)	3,841
Total temporary differences	601,953	170,136	(187,228)	584,861
IRPJ tax loss - 25%	33,597	-	(9,340)	24,257
CSLL tax loss - 20%	26,975	-	(7,108)	19,867
Subtotal	662,525	170,136	(203,676)	628,985
Mark to market of marketable securities available for sale	2,604	-	(420)	2,184
Total tax credits	665,129	170,136	(204,096)	631,169

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

	Nominal value	Present value
Year:		
2021	38,241	37,051
2022	80,775	75,955
2023	133,724	120,821
2024	81,328	70,603
2025	71,171	59,366
2026	47,150	37,789
2027	44,648	34,383
2028	30,911	22,872
2029	73,379	52,169
2030	29,842	20,385
Total	631,169	531,394

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 4.08% p.a. (4.15% p.a. as of 12/31/2020).

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

15. Income and social contributions taxes (Continued)

c) Deferred tax obligations

	<u>06/30/2021</u>	<u>12/31/2020</u>
Deferred income	20,721	22,969
Mark to market of marketable securities available for sale	11,733	13,259
Total	<u>32,454</u>	<u>36,228</u>

16. Related parties

Pursuant to CMN Resolution No. 4693/2018, the Bank's internal regulations, Law No. 13303/2016, and State Decree No. 47154 regarding this issue, BDMG carried out the following transactions with related parties:

Legal entities

State of Minas Gerais, state departments and Fundação João Pinheiro

- State of Minas Gerais - rendering of services acting as financial agent of the state funds, with a financing balance of R\$688,399 as of June 30, 2021 (R\$709,413 as of December 31, 2020). The accrual of commission income, which is an integral part of financial charges of financing agreements, totaled R\$3,470 (R\$3,797 in the first half of 2020);
- In the second half of 2020, BDMG entered into a technical assistance and advisory service agreement with the State of Minas Gerais through the Minas Gerais Infrastructure and Mobility State Office (SEINFRA) to structure the road concession for Ouro Preto – Brumadinho in the amount of R\$5,665, if successful, and R\$3,600, if unsuccessful, effective for 36 months. No revenues and/or costs/expenses were recorded with this agreement in the first half of 2021;
- Agreements entered into with the State of Minas Gerais through the Economic Development Office (SEDE) with the following objectives, amounts and estimated deadlines for execution:
 - Provision of advisory and technical assistance services for activities that include scenario diagnosis, economic-financial feasibility assessment, legal analysis and modeling of the privatization of MGS, including specialized and accessory services. Total compensation: R\$1,904. Estimated deadline for completion as from the agreement effectiveness date: 40 weeks. No revenues and/or costs/expenses related to this agreement were recorded.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

16. Related parties (Continued)

Legal entities (Continued)

State of Minas Gerais, state departments and Fundação João Pinheiro (Continued)

- Provision of advisory and technical assistance services for the preparation of economic and financial feasibility study, legal analysis, modeling, monitoring of the bidding procedure for engagement of market agent(s) specialized in structuring, constitution, administration, custody and operation of the Real Estate Investment Fund - FII, in which real estate assets of Cohab Minas will be paid in, as well as monitoring of the proposed measures presented by the engaged agent in the pre-operational phases of the FII, namely its Constitution and Operation. Total compensation: R\$1,590. Estimated deadline for completion as from the agreement effectiveness date: 75 weeks. No revenues and/or costs/expenses related to this agreement were recorded.
- Provision of advisory and technical assistance services for the preparation of the procedures for divestment of CODEMGE assets, distributed among equity interests and silent partnership, interests in equity investment funds and real estate with activities of a business nature; and the provision of advisory and technical assistance services to monitor the execution of alternatives for the divestment of certain assets, in the specific cases of equity interests and silent partnership, and interests in equity investment funds. Total compensation: R\$19,989. Estimated deadline for completion as from the agreement effectiveness date: 105 weeks. No revenues and/or costs/expenses related to this agreement were recorded.
- Provision of advisory and technical assistance services for corporate restructuring aiming at the future privatization of Companhia de Desenvolvimento Econômico de Minas Gerais – CODEMIG. Total compensation: R\$4,322. Estimated deadline for completion as from the agreement effectiveness date: 80 weeks. No revenues and/or costs/expenses related to this agreement were recorded. The agreement was suspended by the State on June 16, 2021 for a term of 60 days.
- State Department of Economic Development (SEDE): No employee was assigned in 2021. In 2020, there were two employees at a cost for BDMG. The expense with such assignment in 1H21 totaled R\$0 (R\$111 in 1H20).
- State Agriculture, Livestock and Supply Department (SEAPA): assignment of one employee at no cost for the Bank;

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

16. Related parties (Continued)

Legal entities (Continued)

State of Minas Gerais, state departments and Fundação João Pinheiro (Continued)

- State Department of Planning and Management (SEPLAG): Assignment of two professionals at a cost for the Bank. The expense with such assignments in the current six-month period totaled R\$301 (R\$270 in 1H20).
- Fundação João Pinheiro, public institution linked to the State Planning and Management Department: In compliance with State Law No. 11050/1993, the Bank's Bylaws authorize the donation of 5% of the net income for the year to the Foundation, unless accumulated losses are recorded. No donations were made to Fundação João Pinheiro in 1H21 and 1H20.

BDMG has, at no cost, an employee assigned to the Foundation.

Direct related parties

- Institute of Integrated Development of Minas Gerais (INDI), a nonprofit private legal entity linked to the State Economic Development Department. As established by state Law No. 22287, of September 14, 2016, INDI is an associate of the Bank, which holds 50% of INDI's units of interest, answering for contribution of financial resources corresponding to 50% of the entity's expenses. Expenses with INDI in the current six-month period amount to R\$2,878 (R\$2,166 in 1H20);
- DESBAN – BDMG Social Security Foundation, a nonprofit privately-held supplementary pension plan entity, sponsored by BDMG, which, as detailed in Note 18, make contributions to the Foundation in order to provide social security and healthcare benefits for its employees. BDMG assigns one employee to DESBAN, which bears the employee-related costs;
- AFBDMG – BDMG Employee's Association, a nonprofit association that manages the Group Life Insurance described in Note 18.a) (iii).
- Cultural Institute of Banco de Desenvolvimento de Minas Gerais - BDMG Cultural, a nonprofit civil association, organized by BDMG in conjunction with BDMG Employee's Association (AFBDMG) to create a space for fostering culture in Minas Gerais. The Bank maintains BDMG Cultural by assigning employees without charge, in addition to making contributions to the Institute. Expenses arising from the Bank's agreement with BDMG Cultural totaled R\$2,251 (R\$2,452 in 1H20).

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

16. Related parties (Continued)

Legal entities (Continued)

- BIOMM S.A. - Publicly-traded company, incorporated in the city of Nova Lima, Minas Gerais (MG), on October 3, 2001. The Bank holds 5.97% of the Company's capital, given that it absorbed, in September 2018, the shares its subsidiary BDMGTEC, then extinguished, held in the Company. As of that date, pursuant to CMN Resolution No. 4636/2018, the Company became a related party given that the Bank and BIOMM have a member of the Board of Directors in common. The Bank has financing that was granted to the Company before becoming its shareholder. At 06/30/2021, the balance of financing totals R\$20,107 (R\$20,305 at 12/31/2021).

Individuals

The members of the Board of Directors, the Supervisory Board, the Audit Committee and the Executive Board are related parties of the Bank and receive fees comprising salaries, social charges and benefits. In the current six-month period, expenses with these charges amount to R\$3,105 (R\$2,869 in 1H20).

17. Risk and capital management

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

1. Capital management

a) *Capital management*

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

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

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

17. Risk and capital management (Continued)

1. Capital management (Continued)

a) *Capital management* (Continued)

BDMG's capital management structure is as follows:

- Board of Directors;
- Risk and Capital Committee;
- Executive Board;
- Officer in charge of capital management;
- Officer in charge of risk management (CRO);
- Unit in charge of capital management;
- Unit in charge of integrated risk management;
- Other units that may be involved in the capital management process.

The responsibilities of the capital management structure are described below:

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

The capital management structure, as well as the information on risk and capital management in the Basel III Monitoring Report, is described at <https://www.bdmg.mg.gov.br/transparencia-documentos/?demonstracoes>.

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

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

17. Risk and capital management (Continued)

1. Capital management (Continued)

a) *Capital management* (Continued)

The preparation of the capital plan considers the following:

i) Within the strategic planning scope

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

ii) Conditions specifically related to capital

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

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

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

b) *Regulatory capital*

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

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

17. Risk and capital management (Continued)

1. Capital management (Continued)

b) *Regulatory capital* (Continued)

	<u>06/30/2021</u>	<u>12/31/2020</u>
Equity	2,031,760	1,937,281
Tier 1 Capital or Core Capital - (a)	1,901,476	1,746,079
Capital for operations with the public sector (b)	400,000	542,000
Regulatory capital (RC) (a-b)	1,501,476	1,204,079
Total risk weighted assets (RWA)	6,089,424	6,442,207
Credit risk	5,378,852	5,559,588
Market risk	39,709	213,848
Operational risk	670,863	668,771
Portion of capital for coverage of interest rate risk of non-negotiable portfolio (RWA R_{BAN})	90,450	75,730
Minimum regulatory capital	676,557	671,634
Basel ratio (RC/RWA)	24.66%	18.69%
Extended Basel ratio (RC/(RWA + R_{BAN}))	24.30%	18.47%

c) *Sensitivity analysis*

In compliance with article 35 of BCB Resolution No. 2/2020, BDMG performed a sensitivity analysis to recognize the book values that may change as a result of changes in the methods, assumptions and estimates considered for the next fiscal year. Based on the review carried out in June 2021 of the projection prepared within the scope of the financial statements of 12/31/2020, the variables whose fluctuations have a more immediate impact on the result for the next year, i.e. allowance for loan losses, credit recovery and service revenue, were stressed.

Sensitized variable	Impact on net income (net of taxes)			
	10% worse	20% worse	30% worse	40% worse
ECL	(56,880)	(62,051)	(67,222)	(72,393)
Credit recovery	(19,385)	(21,147)	(22,909)	(24,672)
Services	(11,764)	(12,833)	(13,903)	(14,972)

The sensitivity analysis for the actuarial liability is shown in Note 18 c (iv).

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

17. Risk and capital management (Continued)

2. Risk management

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

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

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

Credit risk

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

Operational risk

The Operational Risk Management Policy establishes roles, responsibilities and own methodology for management of such risks for the Bank, in order to identify, assess and adequately respond to risks.

Compliance risk

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

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

17. Risk and capital management (Continued)

2. Risk management (Continued)

Liquidity risk

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

Market risk

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

Social and environmental risk

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

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

Sensitivity analysis for market risks

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

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

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

17. Risk and capital management (Continued)

2. Risk management (Continued)

Sensitivity analysis for market risks (Continued)

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

The table below summarizes the sensitivity values for the parallel scenario of increase and the parallel scenario of decrease, calculated by Delta EVE, referring to the banking portfolio position at June 30, 2021.

June/2021	Δ EVE	Δ EVE
	Parallel shock increase	Parallel shock decrease
Coupon rate DOLLAR	(110)	63
Coupon rate EURO	(17,870)	20,498
Fixed rate	42,407	(52,010)
Coupon rate IPCA	7,485	(8,287)
Coupon rate IGPM	19,572	(21,184)
Coupon rate TJLP	7,401	(9,355)
Coupon rate TLP	2,140	(2,865)
Coupon rate TRD	11,445	(32,060)
TOTAL BRL	90,450	(125,761)
Δ EVE	90,450	20,561

Note: Variation measures have losses represented by positive values, as per paragraph 3, article 13 of Circular No. 3876, whose methodology is adopted for this sensitivity test.

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

Variation measures have losses represented by positive values, as per paragraph 3, article 13 of Circular No. 3876, which regulates the adopted methodology.

18. Employee benefits

BDMG, as mentioned in Note 3.19, grants its employees the following post-employment benefits: private pension plan benefits, health and dental care, life insurance and benefits related to the Voluntary resignation program, when this program is implemented.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

18. 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 financial statements: actuarial calculation for the statements of financial position in December and actuarial restatement in the statements of financial position in June, considering the statement of financial position of December of the prior year.

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 nonprofit privately-held supplementary pension plan entity. The objective of both plans is to ensure that participating employees and their beneficiaries are granted portions supplementing the General Social Security Regime (RGPS).

Defined benefit pension plan

The defined benefit pension plan, which has been closed to new participants since November 11, 2011, is based on a capitalization financial regime for calculation and accrual of its reserves, which result from the participant's and sponsor's contributions. The sponsor's contributions are limited to the total of regular participants' contributions, taking into account their specific characteristics, in conformity with the matching contribution determined in Constitutional Amendment No. 20/1998.

BDMG's defined benefit plan in 2015 had the following technical deficit to be restructured. Regarding this plan, it is also necessary to comply with article 29 of the Board for Management of Supplementary Pension Plans (CGPC) No. 26, of September 29, 2008, in force at the time, which establishes the mandatory restructuring of the plan's deficit between the participants (active employees, pensioner members, and surviving spouse) and sponsors, taking into account the proportion of the regular contributions made in the year when the deficit occurs.

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 the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

18. Employee benefits (Continued)

a) Characteristics of the benefit plans (Continued)

i) *Pension plan* (Continued)

Defined benefit pension plan (Continued)

	Restructuring - Desban - in 2015	Restructuring- Sponsor - 12/31/2020 (*)	Restructuring- Sponsor - 12/31/2021 (**)
Amount of the restructuring	28,135.40	33,870.00	37,160
Sponsor's share	14,067.70	16,935.00	18,580
Participant's share	14,067.70	16,935.00	18,580
Deadline for restructuring	20 years	2021 to 2036	2021 to 2036

(*) The restructuring amount defined according to the flow of liability discounted to present value, in accordance with the assumptions defined in BDMG's actuarial assessment in December 2020.

(**) 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 2021.

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".

The lifetime pension benefits granted to a pensioner member and retirement benefits granted to two retired former employees, for not having been hired under the Consolidation of the Labor Laws (CLT) regime at the time the Bank was still an autonomous government agency, are recorded together with the actuarial liabilities of the Defined Benefit Pension Plan (DB).

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

18. Employee benefits (Continued)

a) Characteristics of the benefit plans (Continued)

i) *Pension plan* (Continued)

Variable contribution plan

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

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

ii) *Healthcare and dental care benefit*

PRO-SAÚDE is a Private Healthcare Plan that provides coverage for medical and dental expenses to active participating employees and their dependents, as described in Note 3.19, managed by DESBAN and operating under the capitalization regime. This benefit is guaranteed to active participants, while in this condition, to pensioner members who were already retired on February 22, 2018, as well to as those who retired under the conditions established by the Voluntary Resignation Program, whose membership period ended on April 30, 2018.

iii) *Group life insurance*

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

iv) *Voluntary resignation program*

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

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

18. Employee benefits (Continued)

b) BDMG participants in the pension plans

The number of participants is distributed as follows:

	<u>06/30/2021</u>	<u>12/31/2020</u>
Plans:		
Defined benefit (DB) – pensioner members	536	538
Defined benefit (DB) – active participants	221	219
Variable contribution (VC) – active participants	69	69
Defined benefit (DB) – self-sponsored participants	9	11
Benefits paid directly by the Entity ⁽¹⁾	3	3
Variable contribution (VC) – pensioner members	1	1
Variable contribution (VC) – self-sponsored participants	-	-
Total	<u>839</u>	<u>841</u>

(1) Refers to life-time pension granted to a pensioner member and retirement benefits granted to two retired former employees, for not having been hired under the Consolidation of the Labor Laws (CLT) regime at the time the Bank was still an autonomous government agency, as explained in Note 3.19 (v).

c) Bank commitments on benefit plans

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

	<u>Six-month periods ended</u>	
	<u>06/30/2021</u>	<u>06/30/2020</u>
Pension plan - DB	5,663	5,571
Health Promotion Program PRÓ-SAÚDE	4,166	3,832
Group life insurance	582	595
Pension plan - VC	324	303
Voluntary resignation program	-	181
Total	<u>10,735</u>	<u>10,482</u>

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

18. Employee benefits (Continued)

c) Bank commitments on benefit plans (Continued)

i) *Changes in net actuarial liabilities*

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

	Pension plan - DB		Pension plan - VC		Health Promotion Program PRÓ-SAÚDE		Group life insurance	
	06/30/2021	12/31/2020	06/30/2021	12/31/2020	06/30/2021	12/31/2020	06/30/2021	12/31/2020
Reconciliation (liabilities)/assets recognized								
Opening (liabilities), net	(380,793)	(332,852)	-	-	(145,566)	(126,841)	(18,957)	(19,439)
Participant's portion in surplus (-)/deficit (+)	118,171	97,001	-	-	-	-	-	-
Opening (liabilities), net (1)	(262,622)	(235,851)	-	-	(145,566)	(126,841)	(18,957)	(19,439)
(Expenses)/income recognized in profit or loss for the period	(12,824)	(22,627)	(17)	(37)	(5,449)	(8,878)	(648)	(1,174)
Gains/(losses) recognized in equity (2)	37,475	(14,485)	(11)	(20)	36,027	(15,480)	1,701	550
Employer's contributions	5,663	12,048	28	57	3,025	5,633	545	1,106
Benefits paid directly by the entity	304	374	-	-	-	-	-	-
Transfer from lifetime pension (other obligations)	-	(2,081)	-	-	-	-	-	-
Closing (liabilities), net (1)	(232,004)	(262,622)	-	-	(111,963)	(145,566)	(17,359)	(18,957)

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

(2) Actuarial gains/(losses) are recorded in "Other equity adjustments" in equity, as mentioned in Note 13.b.ii.

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

18. Employee benefits (Continued)

c) Bank commitments on benefit plans (Continued)

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

Amounts recognized in profit or loss

Expenses with defined benefit plans are detailed below:

	01/01/2021 to 06/30/2021				Total
	Pension plan - DB	Pension plan - VC	Health Promotion Program PRÓ-SAÚDE	Group life insurance	
Current service cost	(4,041)	(18)	-	-	(4,059)
Cost of interest, net	(8,783)	1	(4,970)	(648)	(14,400)
Expected contributions for administrative expenses	-	-	(479)	-	(479)
(Expenses) income recognized in profit or loss (1)	(12,824)	(17)	(5,449)	(648)	(18,938)
	01/01/2020 to 06/30/2020				Total
	Pension plan - DB	Pension plan - VC	Health Promotion Program PRÓ-SAÚDE	Group life insurance	
Current service cost	(4,626)	(26)	-	-	(4,652)
Cost of interest, net	(8,104)	1	(4,372)	(673)	(13,148)
Expected contributions for administrative expenses	-	-	(486)	-	(486)
(Expenses) income recognized in profit or loss (1)	(12,730)	(25)	(4,858)	(673)	(18,286)

(1) Expenses accounted for were segregated as follows: R\$5,848 (R\$6,262 in 1h20) referring to benefits to be granted (active employees) and R\$13,090 (R\$12,024 in 1H20) referring to benefits granted (pensioner members). For the VC Pension Plan, the contributions related to the defined contribution portion (DC), recorded in expenses, amounted to R\$297 (R\$276 in 1H20).

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

18. Employee benefits (Continued)

d) Actuarial studies

The actuarial liabilities were calculated by an independent actuary using the Projected Unit Credit method, and the studies prepared as of June 30, 2021 are in effect.

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

	Pension plan - DB			Pension plan - VC			Health Promotion Program PRO-SAÚDE			Group life insurance		
	1H21	Year 2020	1H20	1H21	Year 2020	1H20	1H21	Year 2020	1H20	1H21	Year 2020	1H20
(Deficit)/surplus calculated												
Actuarial obligations determined on actuarial assessment	(1,372,755)	(1,456,645)	(1,349,342)	(979)	(1,112)	(978)	(140,695)	(172,570)	(147,768)	(17,359)	(18,957)	(17,669)
Fair value of plan assets	1,045,518	1,075,852	1,018,052	2,325	2,119	1,902	28,732	27,004	25,755	-	-	-
(Deficit)/surplus calculated	(327,237)	(380,793)	(331,290)	1,346	1,007	924	(111,963)	(145,566)	(122,013)	(17,359)	(18,957)	(17,669)
Asset ceiling effect, additional liabilities and risk sharing												
Asset ceiling effect	-	-	-	(1,346)	(1,007)	(924)	-	-	-	-	-	-
Risk sharing (Deficit to be shared x 50%)	95,233	118,171	96,958	-	-	-	-	-	-	-	-	-
Closing asset ceiling effect, additional liabilities and risk sharing	95,233	118,171	96,958	(1,346)	(1,007)	(924)	-	-	-	-	-	-
Net (liabilities)/assets determined ((deficit)/surplus determined less asset ceiling effect and additional liabilities) (1)	(232,004)	(262,622)	(234,332)	-	-	-	(111,963)	(145,566)	(122,013)	(17,359)	(18,957)	(17,669)
Opening fair value of assets	1,075,852	1,096,708	1,096,708	2,119	1,906	1,906	27,004	25,171	25,171	-	-	-
Benefits paid in the period using plan assets	(36,622)	(77,090)	(35,276)	(14)	(20)	(10)	(3,557)	(6,927)	(3,336)	-	-	-
Participant's contributions in the period	2,681	5,794	2,717	28	57	26	-	-	-	-	-	-
Employer's contributions in the period	5,663	12,048	5,571	28	57	26	3,025	5,633	2,794	-	-	-
Earnings expected from assets	35,951	66,220	37,763	76	123	67	918	1,578	861	-	-	-
Gains/(losses) on fair value of plan assets (2)	(38,007)	(27,828)	(89,431)	88	(4)	(113)	1,342	1,549	265	-	-	-
Closing fair value of assets	1,045,518	1,075,852	1,018,052	2,325	2,119	1,902	28,732	27,004	25,755	-	-	-

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

18. Employee benefits (Continued)

d) Actuarial studies (Continued)

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

	Pension plan - DB			Pension plan - VC			Health Promotion Program PRO-SAÚDE			Group life insurance		
	1H21	Year 2020	1H20	1H21	Year 2020	1H20	1H21	Year 2020	1H20	1H21	Year 2020	1H20
	Opening actuarial obligations	(1,456,645)	(1,429,560)	(1,429,560)	(1,112)	(1,049)	(1,049)	(172,570)	(152,012)	(152,012)	(18,957)	(19,439)
Cost of current service, net	(4,041)	(7,974)	(4,626)	(18)	(39)	(26)	-	-	-	-	-	-
Participant's contributions in the period	(2,681)	(5,794)	(2,717)	(28)	(57)	(26)	-	-	-	-	-	-
Interest on actuarial obligations	(48,752)	(87,017)	(49,252)	(39)	(64)	(36)	(5,888)	(9,375)	(5,233)	(648)	(1,174)	(673)
Benefits paid in the period	36,926	77,464	35,276	14	20	10	3,078	5,846	2,850	545	1,106	556
Gains/(losses) on actuarial obligations (2)	-	-	-	-	-	-	-	-	-	-	-	-
Actuarial gain/(loss) – changes in assumptions (discount rate)	137,228	20,900	121,482	208	122	254	18,721	7,794	17,805	1,599	520	1,753
Actuarial gain/(loss) – change in HCCTR assumption from 3% to 3.75%	-	-	-	-	-	-	-	(15,520)	-	-	-	-
Actuarial Gain / (Loss) - Change in assistance costs different from expected	-	-	-	-	-	-	14,003	(8,785)	(11,035)	-	-	-
Actuarial gain/(loss) – experience adjustments	(34,790)	(22,583)	(17,864)	(4)	(45)	(105)	1,961	(518)	(143)	102	30	134
Transfer from lifetime pension (other obligations)	-	(2,081)	(2,081)	-	-	-	-	-	-	-	-	-
Closing actuarial obligations	(1,372,755)	(1,456,645)	(1,349,342)	(979)	(1,112)	(978)	(140,695)	(172,570)	(147,768)	(17,359)	(18,957)	(17,669)

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

18. Employee benefits (Continued)

d) Actuarial studies (Continued)

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

	Pension plan - DB			Pension plan - VC			Health Promotion Program PRÓ-SAÚDE			Group life insurance		
	1H21	Year 2020	1H20	1H21	Year 2020	1H20	1H21	Year 2020	1H20	1H21	Year 2020	1H20
Determination of deficit to be shared												
(Deficit)/surplus determined eligible for sharing (2)	(321,960)	(375,365)	(324,028)	-	-	-	-	-	-	-	-	-
Employer's obligation with future contributions (Regular contributions)	112,914	122,088	113,273	-	-	-	-	-	-	-	-	-
Employer's obligation with future contributions (ad hoc contributions – deficit restructuring 2015)	18,580	16,935	16,839	-	-	-	-	-	-	-	-	-
(Deficit) to be shared	(190,466)	(236,342)	(193,916)									
Asset ceiling, minimum funding requirements and risk sharing												
Opening asset ceiling effect, additional liabilities and risk sharing	118,171	97,001	97,001	(1,007)	(857)	(857)	-	-	-	-	-	-
Interest expected on asset ceiling effect, additional liabilities and risk sharing	4,018	6,144	3,385	(36)	(57)	(30)						
Gains/(losses) on asset ceiling effect, additional liabilities and risk sharing (1)	(26,956)	15,026	(3,428)	(303)	(93)	(37)						
Closing asset ceiling effect and additional liabilities	95,233	118,171	96,958	(1,346)	(1,007)	(924)	-	-	-	-	-	-

(1) Actuarial gains/(losses) are recorded in "Other equity adjustments" in equity, as mentioned in Note 13.bii.

(2) Portion of the deficit of the Defined Benefit Pension Plan before the inclusion of the actuarial obligation with the statutory retirees and lifetime pension, which totaled R\$5,277 at 06/30/2021 (R\$5,428 at 12/31/2020).

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

18. Employee benefits (Continued)

d) Actuarial studies (Continued)

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

The plan assets at June 30, 2021 and December 31, 2020 are allocated by category of assets, as follows:

Pension plan - DB	06/30/2021	12/31/2020
Available	0.01%	0.00%
Realizable – Pension plan management	0.47%	0.49%
Realizable – Administrative management	0.75%	0.68%
Government bonds	36.29%	37.71%
Investment funds	53.53%	52.34%
Private credits	0.55%	0.43%
Real estate investments	2.03%	2.07%
Loans and financing	0.76%	0.77%
Judicial deposits	5.61%	5.51%
Total	100.00%	100.00%

Pension plan - VC	06/30/2021	12/31/2020
Available		
Realizable – Pension plan management		
Realizable – Administrative management	1.23%	1.12%
Investment funds	98.25%	97.57%
Loans and financing	0.52%	1.31%
Total	100.00%	100.00%

Health Promotion Program PRÓ-SAÚDE	06/30/2021	12/31/2020
Available	0.17%	0.07%
Investments linked to technical reserves	6.46%	6.66%
Unrestricted investments	39.61%	35.31%
Credits from health plan operation	0.33%	0.52%
Credits from operation not related to health plan of the operator	0.18%	0.21%
Government bonds	42.65%	46.02%
Long-term receivables	10.60%	11.21%
Total	100.00%	100.00%

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

18. Employee benefits (Continued)

d) Actuarial studies (Continued)

iii) *Key assumptions used in the actuarial valuation*

The actuarial studies that report BDMG's obligations at June 30, 2021 and December 31, 2020 are based on the following assumptions:

	<u>06/30/2021</u>	<u>12/31/2020</u>
Statutory discount rate for the actuarial liability		
Pension plan - DB	10.51472%	6.9148%
Pension plan - VC	10.6667%	7.2442%
Health Promotion Program PRÓ-SAÚDE	10,5497%	7.0035%
Group life insurance	10.5468%	7.0528%
Expected annual nominal rate of return on investments		
Pension plan - DB	10.5147%	6.9148%
Pension plan - VC	10.6667%	7.2442%
Health Promotion Program PRÓ-SAÚDE	10.5497%	7.0035%
Estimated future annual inflation rate	5.97%	3.32%
Nominal rate of future salary growth:		
BDMG (PCS)	8.75%	6.03%
BDMG (CC)	6.69%	4.02%
Health Care Cost Trend Rate - HCCTR (1)	3.75%	3.75%
Turnover:		
Up to 39 years of age	4.00%	4.00%
More than 39 years of age	0.30%	0.30%
General mortality table		
Disability table		
Disability mortality table		
Structure of surviving families		
	AT-2012 Basic IAM downrated by 10%, segregated by gender. Adjusted Álvaro Vindas downrated by 70%. Winklevoss downrated by 50%. Benefits to be granted: average family structure assumption: <ul style="list-style-type: none"> • percentage of married individuals (dependents): 86.30%; • woman spouse five years younger than the policy holder; • age of youngest child (Z): $Z = 24 - \text{MAX}[(63 - X)/2; 0]$, where "x" is the policy holder's age Benefits granted: Actual family.	AT-2012 Basic IAM downrated by 10%, segregated by gender. Adjusted Álvaro Vindas downrated by 70%. Winklevoss downrated by 50%. Benefits to be granted: average family structure assumption: <ul style="list-style-type: none"> • percentage of married individuals (dependents): 86.30%; • woman spouse five years younger than the policy holder; • age of youngest child (Z): $Z = 24 - \text{MAX}[(63 - X)/2; 0]$, where "x" is the policy holder's age Benefits granted: Actual family.

(1) Applicable solely to the Health Plan.

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

18. Employee benefits (Continued)

d) Actuarial studies (Continued)

iv) *Sensitivity of the defined benefit obligation*

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

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

	Altered assumption							
	Increase of 0.5% p.a. in discount rate	Decrease of 0.5% p.a. in discount rate	Increase of 1 year in life expectancy	Decrease of 1 year in life expectancy	Increase of 0.5% in salary growth rate	Decrease of 0.5% in salary growth rate	Increase of 0.5% in medical cost trend rate	Decrease of 0.5% in medical cost trend rate
Pension plan - DB	-5.37%	5.97%	2.20%	-2.24%	1.03%	-0.96%	N/A	N/A
Pension plan - VC	-13.35%	16.30%	-1.11%	1.27%	9.06%	-8.91%	N/A	N/A
Health Promotion Program PRÓ-SAÚDE	-5.74%	6.34%	4.77%	-4.70%	-	-	6.47%	-5.91%
Group life insurance	-5.82%	6.39%	-2.80%	2.84%	-	-	N/A	N/A

v) *Projected cash flow*

The actuarial studies made for reporting date of June 30, 2021 included the following estimates for payment of benefits and contributions of the sponsor for the second half of 2021:

Estimated cash flow	Pension plan - DB	Pension plan - VC (1)	Health Promotion Program PRÓ-SAÚDE	Group life insurance	Total
Expected benefit payments using plan assets	48,897	34	2,713	560	52,204
Expected benefit payments directly by the company	366	-	-	-	366
Expected employer contributions	6,731	41	3,016	560	10,348

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

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

Notes to the financial statements (Continued)
June 30, 2021
(In thousands of reais, unless otherwise stated)

18. Employee benefits (Continued)

d) Actuarial studies (Continued)

v) *Projected cash flow* (Continued)

The weighted average duration of actuarial obligations is as follows:

	Pension plan - DB	Pension plan - VC	Health Promotion Program PRÓ-SAÚDE	Group life insurance
06/30/2021	12.62	32.51	13.26	13.21
12/31/2020	12.10	31.29	12.64	13.02

19. Other information

1. Actions to mitigate the effects of COVID-19

In the current six-month period, the Bank maintains the main measures taken since the beginning of the COVID-19 pandemic: its operating activities continue to be carried out remotely and it continues to monitor operations that may adversely impact its results. Despite the uncertainty surrounding the future impacts related to the pandemic, the Bank continues to adopt measures aimed at financing the State's companies to face this period of great difficulties.

The most significant measures adopted in the current six-month period were as follows:

- Maintenance of support given to customers to face the difficulties generated by the pandemic by making funds available for new operations and renegotiation of loans already granted;
- Possibility of renegotiation for all customers with PRONAMPE (Support Program for Micro and Small Businesses) agreements, observing the provisions of the FGO regulation amended on 03/09/21 and definition of new parameters for renegotiation of MSB's with financing of products from BDMG's own resources.

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

- Loans - an increase in the level of delayed payment of loans as the situation worsens;

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

19. Other information (Continued)

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

- Civil provisions - a greater volume of lawsuits may occur as a result of contracts and renegotiations carried out in the context of the urgent measures adopted;
- Nonfinancial assets held for sale - in the event of an increase in default, the growth of assets received under agreements guaranteed by chattel mortgage is expected.

Due to the degree of uncertainty surrounding the effects of the pandemic, its impacts on assets and liabilities listed above have not yet been measured.

20. Event after the reporting period

Internalization of loans taken out abroad

In July/2021, funds totaling R\$169,277 (US\$29,124) were internalized, referring to loans taken out with the AFD and the EIB and which were deposited in the BDMG account abroad. The Bank contracted swap-type derivatives to hedge against risks related to interest rates and exchange differences on internalized funds.

Board of Directors

Fernando Lage de Melo
Carlos de Camargo Penteado Braga
Ivone Hiromi Takahashi Saraiva

CEO
Deputy CEO
Member

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

Notes to the financial statements (Continued)

June 30, 2021

(In thousands of reais, unless otherwise stated)

Marcio Rezende Magalhães	Member
Luiz Antônio do Souto Gonçalves	Member
Sergio Eduardo Weguelin Vieira	Member
Sergio Gusmão Suchodolski	Member
Sergio Murilo Bahdur Vieira	Member

Executive Board

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

Controllership Supervisory Board

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