

# GOVERNANCE, CONTROL AND TRANSPARENCY

The nature of our work requires a careful management process involving various committees; relationship with external supervision and control agencies; and the commitment and responsibility of managers and employees regarding integrity and transparency in the conducting of their activities.

## GOVERNANCE

### Management replacement

On June 1<sup>st</sup>, 2016, Maria Silvia Bastos Marques took office as president of BNDES, being the first woman in the Bank's history to assume this position. Maria Silvia, who had already been a BNDES director in 1992, has master and doctorate degrees in Economy from Fundação Getulio Vargas, with a degree in Public Administration, besides having a long career as an executive in public and private sectors.

The president formed a new Board of Directors, comprised of eight directors, among career employees, market professionals and public-sector professionals.

### Our organization chart

We are organized in divisions, each one responsible for different areas, and they are headed by deputy managing directors.

See our organization chart on the second cover page of this report

Due to the fusion of some areas and the creation of others, there was a reduction from 25 to 19 deputy managing directors.

See below some of the main changes in our internal organization, that occurred in the second half of 2016:

### Legal Board

The search for a more independent BNDES legal service stimulated its restructuring and the creation of a specific board, to which the Legal Department is linked. Therefore, we seek to internally increment the legal safety needed for the activities and our personnel as well as, in an external perspective, aiming to improve the institutional relationship with control bodies.

### Controller Board

Aiming at greater agility and independence in the generation of information, in a single unit we gathered several attributions typical of a comptroller board, up to then distributed over other internal units. Such decision allowed taking advantage of synergies, seeking improvement of quality and greater efficiency in the generation of information relevant to the decision-making by the senior management.

### Monitoring and evaluation

The creation of a department to take care of monitoring and evaluation (previously a management attribution) reinforced the importance given to the subject. Among the unit's attributions we can emphasize the development of methodologies and the coordination of the implementation and management of results of the Monitoring System and

Evaluation of the effectiveness of the financial support granted by BNDES.

### Compliance

In line with the best market practices, we structured a department dedicated to compliance, which, for us, encompasses the dimensions of adherence (accomplishment of any internal or external rule, and agreements that fall upon BNDES) and integrity (operation based on ethical values and principles, besides rules and procedures related to promoting good corporate practices and prevention of illegal, illegitimate or unethical practices).

### Governance model

Our structure of governance has the treatment of subjects collectively as basis, privileging the transparent and collective decision-making. It is comprised of an Advisory Board, Fiscal Council, Auditing Committee, Executive Board of Directors and specific committees.

**BNDES' Advisory Board** is the highest governance level. Its members are assigned by decree of the president of the Republic. Among its attributions are: to opine on relevant issues of the country's economic and social development more directly related to BNDES' efforts; to counsel the Bank's president on the general lines that guide his/her actions; to analyze and approve, by proposal of the Bank's president, the general policies and long-term operations programs; and to approve the institution's balance sheets and financial statements.

See the composition of the Advisory Board in Credits

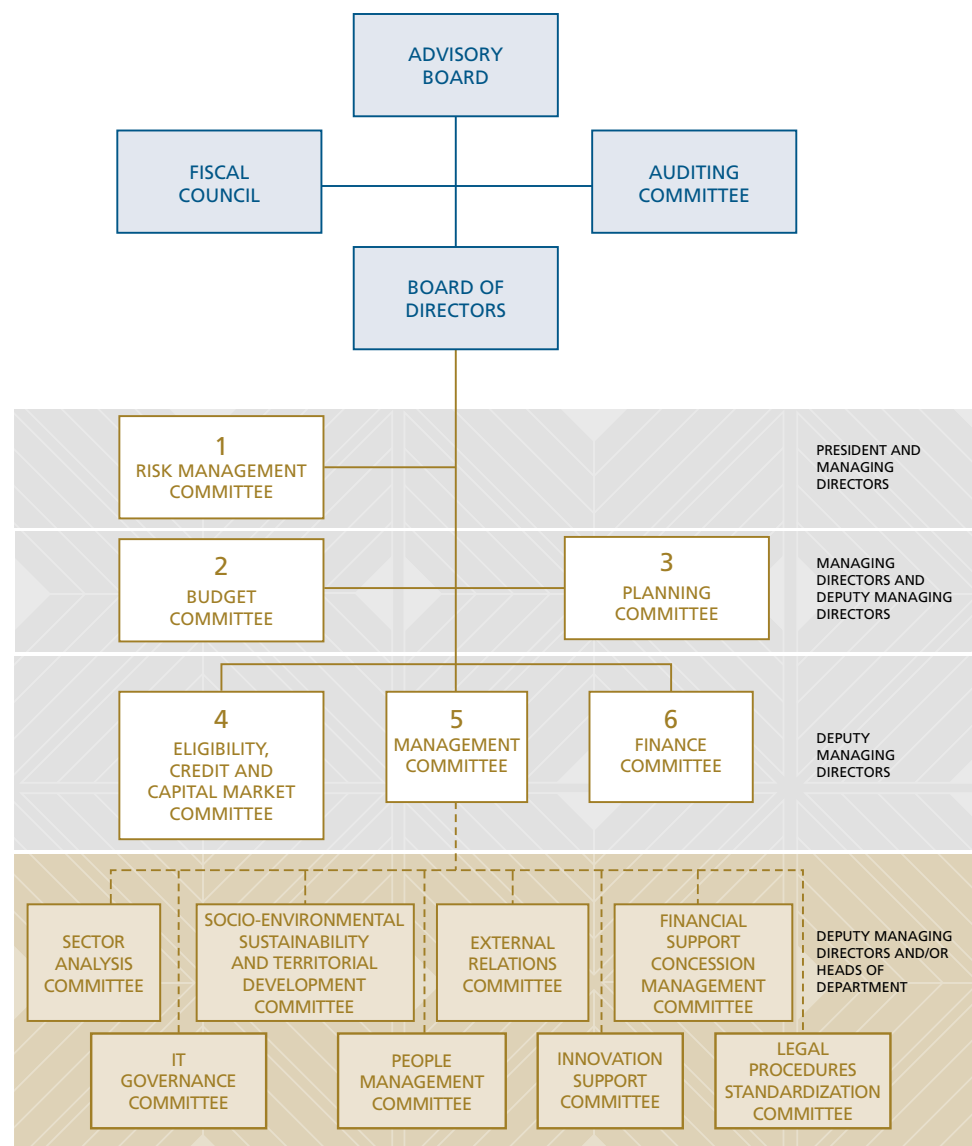
The Executive Board of Directors has deliberative power and counts on a wide structure of specific advisory committees that act as instrument of strategic alignment, congregating several hierarchical instances such as managing directors, deputy managing directors, and heads of departments, according to the finality.

All committees analyze the efficacy of the process pertinent to their spheres of operation and report, directly or indirectly (in some cases the matter is previously addressed by the **Management Committee**) to the Executive Board of Directors, which meets once a week. Thus, economic, social and environmental aspects are approached in all spheres of our governance.

Over 2016, some adjustments regarding the **composition of BNDES' committees** were made, in large part as a reflection of the organizational restructuring that took place in the institution in the second half of the year.

The following figure illustrates the organization and the composition of the main elements of the collective bodies' structure that were in force in 2016.

See the composition of the committees at [www.bndes.gov.br/colégiados-bndes](http://www.bndes.gov.br/colégiados-bndes)



- 1 Risk Management Committee:** monitors the regulatory environment related to the Bank's risks and internal controls, and counts on three subcommittees: Credit Risk, Market Risk and Operational Risk.
- 2 Budget Committee:** its main responsibility is to carry out the monitoring of the execution of our disbursement budget.
- 3 Planning Committee (CP):** it debates strategic subjects; oversees the compliance with rules related to the macro-process of planning and strategy management, coordinates the processes of definition, formalization, monitoring and learning of the corporate strategy and directs the process of execution of the corporate strategy. The CP counts on the Director of Projects Sub-committee to accompany the strategic corporate projects monthly.
- 4 Eligibility, Credit and Capital Market Committee (CEC):** discusses and deliberates operational matters related to eligibility, credit and capital market.
- 5 Management Committee (MC):** works to normalize management standards, promotes the strengthening of relations among our fundamental units, and oversees the implementation of the strategic guidelines defined by the Board of Directors and Planning Committee, provided for in our corporate plan and approved by the Advisory Board and Board of Directors. The MC has eight sub-committees for further discussions and support decision-making. It also represents the first level of debates of relevant themes for later submission to the Board of Directors and other spheres of our governance.
- 6 Finance Committee (CAF):** analyzes financial, accounting and equity matters and oversees the consistency between the operational, financial and credit dimensions.

### Law of State-owned Companies

Law 13,303 of June 30, 2016, also known as the Law of State-owned Companies, brought important changes for the BNDES System and for other State-owned companies, and one can highlight new rules for assignment of leaders and members of the Advisory Board; observance of minimal transparency requirements, such as the annual dissemination of integrated report, or sustainability report; obligation of dissemination of all and any remuneration of the managers; and definition that the control bodies must have unrestricted access to the information needed for their activities, including confidential information.

The Law of the State-owned Companies fixed its own regime of bidding processes and contracts for the State-owned companies, withdrawing the general regime of bidding processes set forth by Law 8,666/1993. This new regime, incorporated into the BNDES' internal rules, presents more flexible rules, assuring the competitiveness of State-owned companies that explore economic activities.

With the new law, it was necessary to review and adapt the social statutes of BNDES, BNDESPAR and FINAME, as well as the internal regulations of the Fiscal Council and Advisory Board.

In line with this change, two new policies were structured:

#### BNDES System assignment policy in collective bodies

In August 2016, we concluded the updating of the additional criteria, beyond legal and regulatory requisites, considered in the assignment of counselors for the Advisory Board and

Fiscal Council of companies of which we are stakeholders. Among such criteria, the professional assigned needs to have previous experience of at least, three years as counselor or member of the Executive Board of private companies and must not, among other restrictions, be framed in cases of ineligibility set forth in Supplementary Law 64/90, be in some positions in the Public Administration or have acted in decision structure of political party or in work linked to electoral campaigns.

#### Dividends policy

The distribution of BNDES' results has been historically done, under the terms of our Social Statute. With the new Law of State-owned Companies, we discussed the implementation of a policy of distribution of dividends with the National Treasury, complementary to the Social Statute, which destines at least 40% of our profit to our capitalization. Thus, we established conditions and limits for distributing results, allowing strengthening of our capital structure, reducing our leverage and meeting the capital need to face the prudent demands to which we are submitted. The Board of Directors, our Advisory Board and the National Treasury approved the terms of the new standard, validated in BNDES' General Meeting, and with the Union in 2017.

#### Induction of good practices of governance

We are signatory of the Corporate Governance Development Framework, commitment signed by 34 financial institutions of development to jointly promote actions to deal with risks and opportunities related to

the corporate governance of their clients and companies invested. We understand that the stimulus to good practices of governance not only brings consequences for the quality of the financial support granted by us, but also impacts on the strengthening of the capital market.

### ETHICS AND INTEGRITY

Ethics, one of our values, is the ground on which BNDES has been built since its creation. Thus, we demand from our professionals a faultless ethical conduct in the exercise of their duties. We believe that development only exists with ethics. In 2016, we had no cases of corruption or fines for not complying with laws and standards related to our services and practices.

#### Ethics management

The ethics management is conducted by the BNDES' Ethics Committee (CET/BNDES) and by the Secretariat of the Ethics Committee linked to our President's Office. In 2016, CET/BNDES started 82 preliminary procedures in which the following themes can be emphasized: conduct verification; authorization for performing parallel activities, in special participation in commercial society; gifts and souvenirs; internal relationship; and transaction with securities.

Our Code of Ethics had its revision approved in April 2016, counting on the direct participation of our personnel, through suggestions submitted in internal public consultation. The revision was crucial to adequate them to new legislation marks, such as the Conflict of Interests Law (Law

12,813/2013), Clean Company Law (Law 12,846/2013) and the Access to Information Act (Law 12,527/2011). One included issues as the expressed mention of repudiation to moral harassment and other kinds of psychological violence, besides the obligation of meeting the guidelines on the combat against corruption and prevention of money laundering, combating the financing of terrorism as well as not colluding with any fraud and corruption acts.

In 2016, we can highlight the reformulation of the Ethics Committee's website, which sought to make the electronic platform more accessible to employees, facilitating the communication of eventual ethical deviations for due checking.

#### Compliance Corporate Policy and Integrity Program

In 2016, the Advisory Board approved the Compliance Corporate Policy and the Integrity Program, prepared in line with good practices adopted by the market and recommended by regulatory agencies, based mainly on Decree 8,420/2015, and on the Guide for Implementation of the Integrity Program in State-owned Companies, published by the Ministry of Transparency, Supervision and Office of the Federal Comptroller General of the Union (CGU).

In addition to the measures taken by the Bank, these documents enumerate the principles and guidelines to strengthen the culture of conformity, ethics and integrity in all our activities and operations.

#### Participations and adhesions to initiatives

In 2016, we participated in the discussion on ethics and integrity, adhering to new groups and initiatives. One of them was the Rio Compliance Group, which held the opening meeting in our headquarters, congregating professionals from public and private companies, banks, law firms, consultancy companies, universities and third sector entities, located in Rio de Janeiro. It meets monthly and has as its objective to disseminate knowledge and exchange experiences and information among its members, by means of meetings, lectures and presentations.

We also adhered to the National Strategy to Combat Corruption and Money Laundering (ENCCLA), an initiative under the coordination of the Ministry of Justice and Public Security, formed by more than 70 bodies from Legislative, Executive and Judiciary powers, in addition to civil society acting directly or indirectly in preventing and combating corruption and money laundering, formulating actions that will have to be executed every year.

In April, we adhered to the Business Pact for Integrity and Against Corruption, the main initiative of the Clean Company Project, which is coordinated by the Ethos Institute. Comprised of seven fundamental commitments, with procedures for preventing corruption and disseminating the principles to the value chain, the pact is based on the UN Brazil Convention Against Corruption, on the Charter of Principles of Social Responsibility, on the 10<sup>th</sup> principle of the Global

Pact and on the guidelines of the Organization for Economic Co-operation and Development (OECD).

Lastly, in the scope of the OECD's Recommendation on Anti-Corruption Measures in Public Credits for Exports, for the first time we participated in the mechanism to disseminate practices for preventing and combating corruption of foreign public employees by foreign export companies supported by the Bank. Along with the other countries adherent to the OECD's Recommendation on Anti-Corruption Measures in Public Credits for Exports, we also participated in the joint initiative to improve such measures based on the experience of the respective public agencies of credit for exports and on the contributions from international organizations that represent the civil society.

#### Auditing

Our internal auditing unit, linked directly to the Advisory Board, coordinates our interlocution with external control and supervision agencies, such as the Federal Court of Accounts (TCU), CGU and the Brazilian Central Bank.

In 2016, we received diligences and went through audits which together totaled 974 demands for information, all properly treated. Answering the indications of internal audit, there were 279 action plans presented of which 62% were totally executed up to the end of the year.

#### Relationship with control agencies

We performed work plans, events and agreements with the control

agencies, aiming to improve the governance and transparency of our actions and reinforce our commitment and responsibility regarding the integrity and probity in the conducting of our activities.

Throughout 2016, several gatherings and specific meetings of the president and directors with representatives from control agencies were held. We also promoted activities for preventing ethical infractions, with participation of the aforementioned bodies.

One of the highlights was the event "Ethics, Integrity and transparency at BNDES", held in March and that counted on the participation of the then Minister of CGU, Luiz Navarro. On the occasion, the agreement of technical cooperation was signed with the commitment from both parties to offer inputs for teaching activities, sharing training and qualification courses, and cooperation to improve the BNDES integrity program.

Because of this agreement, in December we held the 1<sup>st</sup> BNDES Week of Ethics and Integrity to homage the International Anti-Corruption Day, with a panel on conflict of interest, which counted on the presence of representatives from CGU and UN Global Pact. During the week, we also held an event earmarked for the Bank's senior management, with participation of CGU.

Moreover, we prepared a work plan related to the support for exports, defining actions and their respective schedules of implementation, aiming to

meet TCU's determinations and recommendations, as well as promoting improvements in the process of credit granting and follow-up of operations. The plan was presented to TCU in September 2016 and it will be the object of regular monitoring by the body.

#### TRANSPARENCY

##### Transparency Corporate Project

The Transparency Corporate Project concentrates initiatives developed by several divisions in order to give greater visibility, dissemination and understanding by our target audiences of various aspects related to our operation. Among the main initiatives delivered up to December 2016, was the launch of the **new website**, with a specific section dedicated to **Transparency**.

##### Access to information

Our **website** is the main tool of the Bank's active transparency. For instance, on the website there is information about sources of resource, report of accountability, information on procurement and contracts, and statistics of disbursement of resources.

We also have the Citizen Information Service (SIC) for receiving information requests, supported by the **Access to Information Act**.

Learn more in the section *Our relationships*

Access [www.bndes.gov.br/transparencia](http://www.bndes.gov.br/transparencia)

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#### UNDERSTAND THE KINDS OF SECRECY SET FORTH BY LAW

All BNDES' information that is not classified as confidential is made available to society, according to orientations of the Access to Information Act. See below the types of secrecy to which we are subject:

##### Bank secrecy

The bank secrecy is understood as the individual right of clients and third parties to the maintenance of secrecy of their economic and financial data. Thus, the financial institutions have as their duty not to disclose, other than the legal hypotheses, data obtained from their clients and third parties in the exercise of their bank activities. The observance of bank secrecy is a great guarantee of public interest, in favor of the credibility, stability and solidity of the financial system.

##### Corporate secrecy

Corporate secrecy is a guarantee of protection of data and documents produced by a company in the exercise of its economic activity. The finality of the corporate secrecy is to protect information that provides the entrepreneur or entrepreneur society, competitive advantages fundamental to the activity success, whose disclosure may cause material or moral damages, such as brands, patents, know-how and industrial secrets.

# RISK MANAGEMENT AND FINANCIAL SUSTAINABILITY

To accomplish our mission we need to be a financially healthy and robust institution. For this purpose we seek to diversify products, strengthen our equity structure and manage the risks to which we are exposed.

## RISK MANAGEMENT

One of the main objectives of our risk and internal control management is to contribute to our financial sustainability through the measurement and monitoring of risks to which we are exposed (see the chart on the right), and internal control evaluation.

A highlight of 2016 was the development of a global framework of risk appetite, which was the proposal for defining minimal acceptable limits for our main prudent indicators, with prevision of unfolding to market, credit and operational risks. This proposal undergoes a consolidation process and will be implemented in 2017 as a pilot project.

Another relevant event was the implementation of a new market risk management system. The main gains are: (i) possibility of customization of pricing models allowing a more precise valuation of non-standardized financial instruments (exotic); (ii) greater resolution, given the possibility of measuring the individual risk of each one of the some three million active contracts in our

	MAIN RISKS	MEASURES FOR MITIGATION
MACROECONOMIC	<p><b>Changes in the macroeconomic conjuncture</b> The financial return of our operations depends on the performance of the Brazilian economy, since the clients' capacity of payment is affected by macroeconomic factors, such as inflation, fall in gross domestic product (GDP), falling income levels, rising unemployment, fluctuations in exchange and interest rates etc.</p>	<ul style="list-style-type: none"> <li>Periodic monitoring of the economy performance and analysis of its impact on our operations.</li> <li>Establishment of risk limits, monitored periodically, to assist the decision-making by the senior management.</li> <li>Diversification of the financial support portfolio.</li> <li>Performance of the Financial Affairs Committee (CAF).</li> </ul>
MARKET	<p><b>Volatility of the capital market</b> Considering the volume of our stock portfolio, comprised also of some of the main assets listed at BM&amp;FBovespa, we are subject to high volatility of the Brazilian stock market, which is reflected in the behavior of our capital over time, offering risks to the compliance with regulatory limits as well.</p>	<ul style="list-style-type: none"> <li>Development of a methodology to assist the senior management in the definition of the market risk appetite.</li> <li>Implementation of the market risk module of a system that will integrate the activities of the management of the portfolio of <b>variable income</b> with the analysis of risk and corresponding return, from negotiations of stocks and debentures to verification and risk analysis.</li> </ul>
CREDIT	<p><b>Concentration of credit portfolio</b> The portfolio reflects the characteristic of concentration observed in the Brazilian entrepreneur market.</p> <p><b>Deterioration of credit</b> Reduction in the quality of the credit portfolio in times of unfavorable economic conjuncture.</p>	<ul style="list-style-type: none"> <li>Establishment of indicator of concentration risk in order to assist the decision-making.</li> <li>Development of a methodology for greater monitoring of exposures, aiming to anticipate possible alert states.</li> <li>Adoption of additional provision for doubtful accounts, aiming to act preventively due to the uncertainties of the market.</li> </ul>
OPERATIONAL	<p><b>Operational failures</b> Losses resulting from failures, deficiency or inadequacy of internal processes, people and systems, or from external events, inherent in any business.</p>	<ul style="list-style-type: none"> <li>Identification and systematic analysis of the main operational risks and their internal controls, with the objective of implementing treatment actions and improving the methodologies used for managing operational risk.</li> <li>Structuring of initiatives for improving the process of identification of fraud risks and for identifying and monitoring the key risk indicators.</li> <li>Improvement of the contingency structure to bear the unavailability of Information Technology Systems. In the last few years, this structure has been tested by both technological and business perspectives and the results presented evolution in relevant aspects of the data recovery process.</li> </ul>
LEGAL	<p><b>Non-observance of legal order and internal standards</b> Due to the complexity of legal and normative structures, in addition to laws or regulations alterations applicable to our performance.</p>	<ul style="list-style-type: none"> <li>Treatment in the scope of the methodologies of operational risk management, emphasizing the conformity to laws and standards applicable to our performance and special attention to decisions from the Administrative and Judicial Courts.</li> </ul>
SOCIO-ENVIRONMENTAL	<p><b>Risk of image and credit associated to operations that generate socio-environmental damages</b> Possibility of losses resultant from socio-environmental damages associated with deterioration of the institution's image.</p>	<ul style="list-style-type: none"> <li>Verification of legal conformity and observance of criteria established in our policies and processes of analysis and monitoring according to the specificities of each operation.</li> <li>Advances regarding the execution of the Multi-Year Plan for Implementation and Monitoring of our Policy of Social and Environmental Responsibility under the management of the Social and environmental Sustainability Committee (CSS).</li> </ul>

portfolio; and (iii) automation of routines, demanding less time of monitoring by our employees.

We also improved the operational risks management, developing a specific methodology for evaluating risks associated with fraud.

We finished configuring all methodologies of credit risk classification on the Financial Analysis and Credit Tools (FACT) platform, continuing the automation of the preparation process of risk classifications and integration of our other systems, initiated in 2015. Among these systems we can highlight one more phase of the credit risk system, delivered in early 2016, which allows computerized and decentralized control of our clients' credit limits.

It is also worth mentioning the new system of guarantees which started working in 2016 and is integrated with the credit risk system, enabling alterations to the operation structure of guarantees to be promptly reflected on our clients' operation exposure and margin.

The methodologies of credit risk monitoring advanced on two important fronts: great exposures and self-evaluation of capital. The first will identify external factors that may contribute to the deterioration of the credit quality of the main exposures and with that propose mitigation measures with in advance. The second will more realistically allow evaluating the risk to which our credit portfolio is exposed, also attending to the increased regulatory agencies' demands to estimate and inform such measures in regular reports.

Our adhesion to the Brazilian Payment System (SPB) is another important theme. Since our integration in June 2014, the financial return significantly surpassed the initial investment to adhere to the system.

The entry to the SPB allows maintaining our own Bank Reserve account at the Central Bank of Brazil and communicating directly with other participants via the National Financial System Network (RSFN). Currently the change allows settling our financial transactions directly without intermediation from other institutions to make payments and receive credit notifications, among other activities.

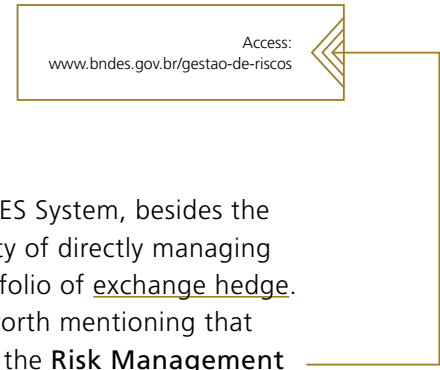
Thus, we have more agility to process payments and receipts, greater autonomy to manage the financial availabilities of

the BNDES System, besides the possibility of directly managing our portfolio of **exchange hedge**.

It is worth mentioning that through the **Risk Management Report** we quarterly disclose, qualitative and quantitative information on the structure and processes of credit risks management and the institution's operational market.

Among the indicators used in our risk management, we can highlight the monitoring of the capital indexes demanded by the Central Bank. According to the standards issued by the regulatory agency, we must maintain capital – called reference equity – sufficient to cover the total of our assets pondered by operational, credit and market risks.

According to the table below, the portion of the assets pondered by



OWN RESOURCES AND RISK-WEIGHTED ASSETS (R\$ MILLION)	DEC. 2014	DEC. 2015	DEC. 2016
<b>Reference equity (RE)</b>	<b>97,851</b>	<b>94,997</b>	<b>135,620</b>
(+) Tier I capital	65,234	63,331	90,413
Capital core (CC)	65,234	63,331	90,413
Supplementary capital (SC)	-	-	-
(+) Tier II Capital	32,617	31,665	45,207
(-) Deductions from the RE	-	-	-
<b>Risk-weighted assets (RWA)</b>	<b>615,706</b>	<b>644,331</b>	<b>624,850</b>
(+) Credit risk	575,861	601,621	534,199
(+) Market risk	28,055	16,981	58,312
(+) Operational risk	11,790	25,729	32,339
<b>Basel Index + ACP (RE/RWA) (regulatory minimum = 10.5%)</b>	<b>15.89%</b>	<b>14.74%</b>	<b>21.70%</b>
<b>Tier I Capital Index + ACP (NI/RWA) (regulatory minimum = 6.625%)</b>	<b>10.59%</b>	<b>9.83%</b>	<b>14.47%</b>
<b>Core Capital Index + ACP (CP/RWA) (regulatory minimum = 5.125%)</b>	<b>10.59%</b>	<b>9.83%</b>	<b>14.47%</b>

the credit risk is the most expressive in our institution and that our capital indexes are comfortably above the minimal values demanded by the regulatory agency.

### FINANCIAL SUSTAINABILITY

From a financial point of view, one of the main occurrences of the year was the advance payment of R\$ 100 billion in debts with the Union. The objective was to align our performance with the Federal Government's economic policy, without prejudicing our operational capacity during the next years.

To solve legal doubts on a possible violation of Article 37, item II, of the Fiscal Responsibility Law (LRF), the TCU adjudged the subject in November 2016, concluding the legality of the advanced payment to the National Treasury besides considering it meritorious, as long as resources are used exclusively for the reduction of the public debt.

According to cash flows projected up to 2019, the advance devolution of this amount will not compromise the capacity of liquidity and of meeting the expected demand for disbursement. The expectation is that the flows of disbursements return to their historic patterns before the global crisis, initiated in the second half of the past decade.

Still with respect to our **funding**, it is necessary to register that we maintained institutional partnerships with multilateral organisms and official credit agencies to enable investments in sustainable development.

We emphasize the most recent loan operation approved with the Inter-American Development Bank, our main external creditor,

in the amount of US\$ 750 million, aiming to support renewable energy projects such as wind and solar energy and biomass, and projects of energy efficiency.

The operation was approved by the competent bodies of both institutions, which await the authorization of the provision of guarantee by the Brazilian Federal Senate in order to continue the contract signing.

In 2016, we altered the methodology of definition of the basic **spread** of our credit operations, excluding the profitability of **variable income** and treasury portfolios from the model.

As a result, the mark of profitability on our total assets to be sought by the global mark of basic **spread** became incident only for the total of assets of the credit portfolio.

Thus, the global mark of basic **spread** started being defined as the margin needed to cover operational expenses and assure a profitability mark on the assets of the BNDES System' consolidated income, regardless of the shareholders' equity and the number of dividends distributed to the Union.

Aiming for more efficiency, another change in 2016 was the improvement of our budget model that will allow greater knowledge of the profitability of lines and programs we operate and, consequently, obtain better quality to manage costs and make decisions.

Besides planning the administrative expenses per unit, with monthly follow-up of deviations, as we have already done up to 2016, from 2017 we will make projections for every result with detailing per **area**

and department. Then, the units will have profit planning for the whole year, with analysis of this result per accounting item.

### DEFAULT, CAUSES AND HOW WE MITIGATE IT

The default regarding the credits we granted reached 2.81% on 12.31.2016. Although this rate is superior to that observed at the end of 2015, it is still 0.9 percent below the rate of the National Financial System, which reached 3.71% during the period.

Such increase is mainly due to the extension of the recessive cycle and to specific cases of great exposures.

It is important to emphasize that we are continuously improving our credit policy, seeking to minimize the expected loss in relation to default through the adoption of consecrated mechanisms, such as the obligation of constitution of guarantees regarding the credits granted.

Moreover, following the demand of the Central Bank of Brazil, we constituted provisions in accordance with the classification of operations risk and with the default period of payment of financial obligations. We periodically analyze the need to constitute additional provision in function of other factors, such as the sectoral risk, for instance. Thus, we maintain sufficient capital to absorb eventual losses. The unfavorable economic scenario and the increased credit risk in 2016 implied constitution of regulatory provisions amounting to R\$ 9.49 billion, with recovery of credits of R\$ 0.33 billion, resulting in an expense of R\$ 9.16 billion at the end of the year.

Learn more in the section *The Brazilian development bank*

Know our organization chart on the second cover page of this report