

GOVERNANCE, ETHICS AND TRANSPARENCY

GOVERNANCE

MANAGEMENT REPLACEMENT

On June 1st, 2017, the economist Paulo Rabello de Castro took office as the president of BNDES, after the departure of Maria Silvia Bastos Marques, who presided over the institution until May 26, 2017.

Rabello de Castro holds a degree in economics from the Federal University of Rio de Janeiro (UFRJ), a law degree from the University of Rio de Janeiro (Uerj) and a Ph.D. in economics from the University of Chicago. Having worked in the public and private sectors, he is also the author of books in these areas of knowledge.

After 11 months, he left office, giving place to Dyogo Oliveira, who assumed the Presidency of the Bank on April 9, 2018. Holding a degree in Economics from the University of Brasília (UnB), Dyogo is a specialist in Public Policy and Government Management by the National School of Public Administration (Enap) and in Foreign Trade, International Negotiations and Foreign Exchange by FGV Brasília; and has a master degree in Economics from UnB. He has been a public servant since 1998 and was the Minister of Planning, Development and Management before assuming the Presidency of BNDES.

OUR STRUCTURE

We are organized in divisions, each one responsible for different areas, which are headed by deputy managing directors. In 2017, among the changes in our internal organization, it is worth of notice the redesign of the Capital Markets Division, broken down into two to allow a greater commitment of the teams to the processes and the monitoring of the portfolio.

In 2018, our structure was readjusted based on the institution's new strategy.

GOVERNANCE MODEL

Our structure of governance has as principle addressing issues in a collegial manner, privileging the transparent and collective decision-making. It is composed of an Advisory Board, Fiscal Council, Auditing Committee, Executive Board of Directors and specific committees.

BNDES's Advisory Board is our highest governance level. Among its attributions are to opine on relevant issues regarding the country's economic and social development more directly related to BNDES's actions; advise the Bank's president on the general guidelines for his/her actions; approve the Bank's general

GRI INDICATORS:
102-16 | 102-17 | 102-18 | 102-19 | 102-20 | 102-22
102-23 | 102-24 | 102-26 | 102-27 | 102-28 | 102-30
102-31 | 102-33 | 202-2 | 205-2 | 205-3

policies, including corporate governance; and to opine on the financial statements of the institution. The president of the BNDES's Advisory Board does not perform any other executive function at the Bank.

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

HOW ARE ADVISORY BOARD MEMBERS SELECTED?

The Advisory Board is composed of 11 members, one of which is an indication of the Ministry of Labor, one of the Ministry of Finance, one of the Ministry of Foreign Affairs, one of the Ministry of Foreign Trade, three of the Ministry of Planning, Development and Management, one is elected by direct vote of BNDES's employees and three are independent members, appointed by the Ministry of Planning.

Law 13,303/2016 and Decree 8,945/2016 established specific requirements for Advisory Board's members, such as possessing recognized knowledge and academic training compatible with the office, and determined that the appointment process should be evaluated by a statutory committee of the public company, the Eligibility Committee.

The Secretariat of Coordination and Governance of State-owned Enterprises (Sest) conducts a preliminary analysis of the nominee's supporting documents and consults the Chief of Staff Office of the Presidency of the Republic to confirm the nomination. If there is no objection, the Ministry of Planning sends the documentation for analysis by the BNDES Eligibility Committee.

After the Committee, by absolute majority, has verified the fulfillment of all requirements and the absence of impediments, the ministry responsible for the nomination should forward its final decision to the Attorney General of the National Treasury (PGFN). The nomination must then be submitted to the BNDES General Assembly, which is responsible for deciding on the election and dismissal of the members of the Advisory Board.

The General Assembly will be led by the president of BNDES; in case of absence, the president should appoint a director as a substitute. At least one member of the Fiscal Council and a prosecutor of the Attorney General of the National Treasury, representing the Federal Government, which is the sole shareholder of BNDES, shall be present.

meets once a week. Thus, economic, social and environmental aspects are approached in all spheres of our governance. The following figure illustrates the organization and composition of the main elements of the collegiate structure that was in force in 2017, with a summary of its main attributions.

The authority to deal with issues related to economic, social and environmental development is delegated to deputy managing directors and heads of department, as defined in the Basic Internal Organization of BNDES.

GOVERNANCE IN STATE-OWNED COMPANIES

We obtained grade 9.5, reaching level 1 of governance in the first evaluation cycle of the IG-Sest, index of governance of the federal State-owned companies, elaborated

by Sest. This result represents the best grade among the four existing rating levels.

This indicator's purpose is to evaluate compliance with the requirements of Law 13,303/2016 (Law of State-owned Companies) and with the guidelines set forth in the resolutions of the Inter-ministerial Committee on Corporate Governance and Management of Corporate Stakes Held by the Federal Government (CGPAR).

The IG-Sest will be determined quarterly until June 30, 2018, as established by said law, based on the following dimensions: (i) Management, control and auditing; (ii) councils, committees and Board of Directors; and (iii) transparency of information.

COMPLIANCE WITH IFRS9

We have initiated a plan to comply with the requirements of the new International Financial Reporting Standards (IFRS9). All stages of the work plan and its partial results were presented to the governance bodies of the BNDES System (Advisory Board, Fiscal Council, Auditing Committee and other internal committees).

The Bank's business models and the characteristics of its financial assets are being analyzed for their contractual cash flows.

Based on preliminary analysis, we expect no material changes in the classification of our financial assets. However, we may have the IFRS financial result affected due to the requirements for the constitution of a provision for expected losses.

This norm has been applicable since January 1, 2018, for the preparation of consolidated financial statements, but the expectation is that BCB will adopt IFRS9 only in 2019.

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY

In 2017, we advanced in the implementation of the Multi-Year Plan of the Social and Environmental Responsibility Policy (PRSA) 2015-2017. The cooperation agreement with the International Finance Corporation (IFC) deserves mention, aiming to improve BNDES's social and environmental management system; as well as the benchmarking on the socioenvironmental performance of

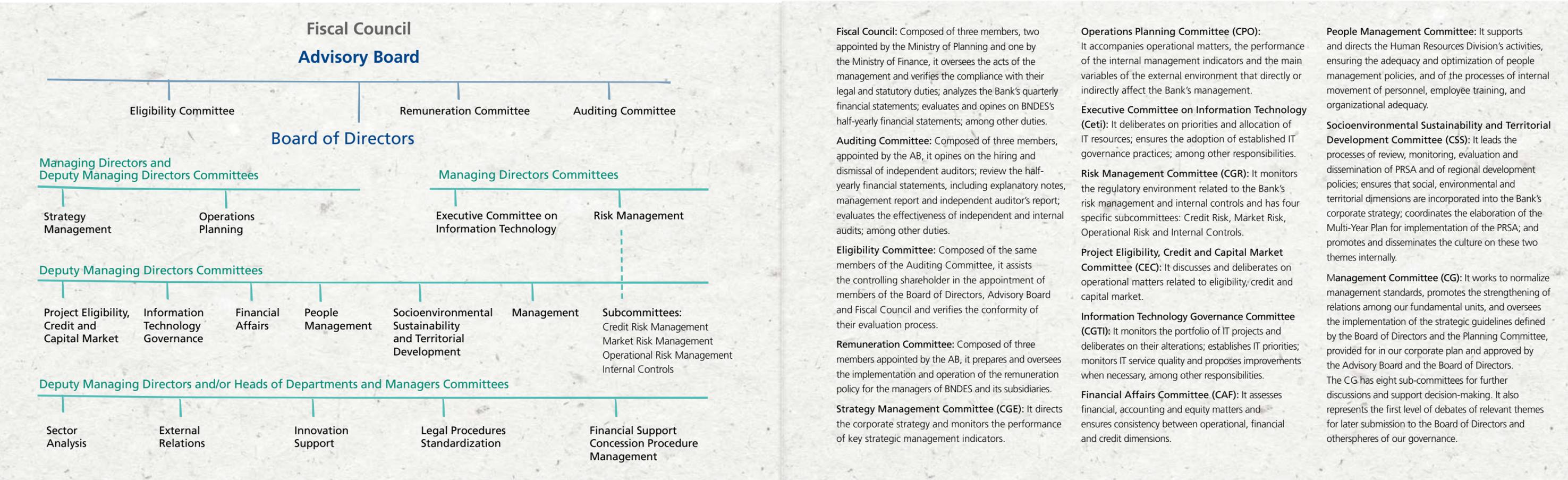
international development financial institutions, and the construction of a socioenvironmental policy related to capital market operations, which is being assessed for approval by the Bank's decision-making bodies. The new multi-year plan, containing the activities to be carried out during the 2018-2020 period, was approved in 2018.

Another important action in 2017 was the adherence to the Mainstreaming Climate Action in Financial Institutions initiative, whose objective is to integrate climate concerns into the performance of financial institutions, in order to identify opportunities, strengthen risk management, and ensure better allocation of capital.

CAPITAL MARKET – STEWARDSHIP

Through BNDESPAR, we have joined the Amec Code of Principles and Duties of Institutional Investors – Stewardship, developed by the Association of Capital Market Investors (Amec).

With our adherence, we expect to demonstrate BNDESPAR's commitment to adopt good resource management practices; align ourselves with important resource managers, assuming a relevant role in defending the sustainability of financial and capital markets; meet society's and control bodies' demand for information on BNDESPAR's operations; and count on the qualified support of Amec and the other signatories in the development of our own Stewardship program.



ETHICS AND INTEGRITY

Behaving ethically is a duty of our managers, employees and service providers. Our commitment to ethics is expressed in our statement of values and our **code of ethics**, which is also applicable to all who interact with the BNDES, including clients and accredited partner financial institutions. In 2017, there is no record of losses due to internal or external fraud.

ETHICS MANAGEMENT

Ethics management is conducted by the BNDES's Ethics Committee (CET/BNDES) and by its executive secretariat, linked to our presidency. In 2017, we opened 93 preliminary procedures and focused our efforts on internal preventive actions to disseminate ethical values, such as performing communication campaigns and organizing courses and events on the subject.

In 2017, the president of CET/BNDES took over the coordination of the National Forum of Ethics Management in State-owned Companies, together with Petrobras Distribuidora S.A. This will enable us to suggest topics that we consider relevant for inclusion in the agenda of discussions with the Public Ethics Committee of the Presidency of the Republic (CEP), strengthening ethical management in the Bank and confidence in the work of CET/BNDES.

CPMI, CPI AND INTERNAL ENFORCEMENT COMMITTEES

In 2017, a mixed parliamentary inquiry commission (CPMI) and a parliamentary inquiry commission (CPI) were set up in the Federal Senate to investigate possible irregularities in BNDES operations.

The CPMI began its activities in May aiming to investigate supposed irregularities involving the company JBS in operations carried out with BNDES. Its final report was approved in December and contains no evidence pointing to fraud or misdemeanor, nor does it make recommendations to the Bank.

Read more at:
www.bndes.gov.br/ethics

BNDES was recently authorized to adhere to the leniency agreement signed between the Federal Public Ministry and J&F Investimentos S.A., in order to allow access to BNDES information of interest related to its operations.

The CPI was set up in August to investigate supposed irregularities in financing granted by BNDES under the globalization program aimed at national companies, as well as supposed irregularities in support operations to the public administration. Completed in March 2018, its final report recognizes the importance of BNDES to Brazil and does not present any element to discredit our operations. This opinion proposes five recommendations to the Bank, which are being discussed internally for compliance.

RECOMMENDATIONS OF THE CPI

1. To create an internal commission to investigate possible irregularities in the application by the federal states of funds granted through BNDES financing, especially with regard to the direct supervision of the application of these resources and the quality of the investments made; as well as to establish mechanisms ensuring that changes in the purpose or intended use of each construction project are previously agreed with the BNDES.
2. To regulate the offering by states and municipalities of the rights related to equity funds as collateral for loans.
3. To define, in the case of loans to states and municipalities, that the National Treasury should guarantee credit operations.
4. To adopt as standard of conduct the analysis and disclosure of the intended purposes of each financing, as well as whether these purposes were achieved after the project completion.
5. To take into account not only the accounting profit but also the fulfillment of the targets (positive externalities) of the financing granted for granting a profit sharing to BNDES's managers and employees, at the time of signing the collective labor agreement (Law 10,101, of December 19, 2000).

The document also proposes the elaboration of a bill with new rules for Bank's loans, with three objectives:

- I. To discipline the financing by development banks established or maintained by the Federal Government aimed at the acquisition of assets abroad or participation in foreign companies;
- II. To create the Development Credit Letter (LCD);
- III. To establish transparency rules and activity limits to private government relations agents or pressure groups in their relations with development banks maintained by the Federal Government.

The document also suggests the drafting of a bill with new rules for financing.

The investigations of both commissions have given us opportunities to demonstrate the integrity of our practices and our effective commitment to the country's development. Internally, we set up commissions to verify the occurrence of irregularities in the processes of certain financing and shareholding operations. Three of the commissions established in the last two years have already been completed and two are ongoing. The completed commissions indicated opportunities for improving internal processes and controls, as well as specific measures related to some of their findings.

INTERNAL AUDITING

Our internal audit unit, directly linked to the Advisory Board, has as its mission to strengthen corporate governance, risk management and the internal

Read more at:
www.bndes.gov.br/combating-fraud

control system, through objective assessments and consultancies and interaction with external control bodies: TCU, CGU and BCB.

In 2017, the control bodies initiated several processes and audits related to our operations, which together totaled 2,228 items of demands, all of which were properly responded by the Bank. Over the year, we monitored 177 processes or audits conducted by the control bodies.

Internal Auditing activities in 2017 resulted in the proposal of 128 action plans, of which 85 were implemented over the year. The others have implementation deadlines beyond 2017 and will continue to be monitored and reported by the Internal Auditing to the governance bodies.

PREVENTING CORRUPTION AND MONEY LAUNDERING

In 2017, we reviewed our corporate policy for preventing money laundering and terrorist financing (PPLD) to improve internal procedures and controls in line with the size and volume of the Bank's operations. Some of our policy guidelines are ensuring top management commitment to the theme; adoption of internal rules, procedures and controls for the PPLD consistent with the risks associated with the BNDES System, based on the risk-based approach; promote Know your Client, Know your Partner, Know your Supplier and Know your Employee procedures; strengthening the culture of money laundering and terrorist financing prevention (PLD/CFT); and monitoring and reporting suspicious operations or situations to the Financial Activities Control Council (Coaf).

In the analysis of funding requests we have included the application of

a questionnaire about the client's integrity program, so that we can know better the profile of each company and evaluate their money laundering and fraud prevention controls.

We implemented a series of initiatives to strengthen the Bank's culture of integrity, such as sending BNDES's employees to Coaf training sessions; conducting a seminar on the regulatory bodies' take on PLD/CFT and the prevention procedures adopted by national and international development banks; producing a **guide** and training all employees and members of senior management on PLD/CFT; and preparing the BNDES's Conduct and Integrity Guide, which consolidates the main rules and guidelines for a decision-making in line with the ethical precepts that govern the Bank and the practices expected in the institution's daily routine.

Within the scope of the National Strategy to Prevent Corruption and Money Laundering (Enccla), we committed ourselves to the following initiatives in 2018: preparing and approving the National Plan to Prevent Corruption; proposing measures for preventing private corruption; consolidating the strategy to strengthen the primary prevention of corruption; implementing measures to restrict and control the use of cash; and deepening the studies on the use of virtual currencies for money laundering purposes aiming to present proposals for regulation or legislative adaptations.

As part of the Integrity and Ethics Week activities – held in the week of December 9, the International Anti-Corruption Day – we organized an action, in partnership with CGU, the Alliance for Integrity and the Brazilian Institute of Business Law and Ethics, dedicated to micro, small and medium-sized enterprises. Among other issues, the participants discussed the role of

MSMEs in the fight against corruption and the implementation of integrity programs in these companies.

Materials on integrity in MSMEs have been disseminated in our social networks, reinforcing our role as an inducer of good practices in the subject.

RESPECT FOR HUMAN RIGHTS

We pay particular attention to the issue of human rights. In 2017, we adapted our regulations and internal procedures to the Brazilian Inclusion Law and, in the external context, we participated in an initiative of the Ministry of Human Rights regarding the Protocol of Actions to Protect the Rights of Children and Adolescents in the Context of Construction Works and Enterprises.

Since 2007 we have been participating in the Gender and Race Pro-Equality Program. This year, we advanced in the 1st Work Plan (2016-2018) of the Gender Equality and Diversity Policy of the BNDES System.

We introduced gender equality as a selection criterion in **Amazon Fund's** public calls for third sector projects. In public calls for the promotion of sustainable productive activities and the strengthening of territorial and environmental management of indigenous lands, the proposed projects had to indicate the extent to which they would consider the different interests of men and women and integrate actions to promote equality in their interventions. For the approved projects, outcome and impact indicators were established to measure, for example, the active participation of women in decision-making. In *ex post* evaluations of project effectiveness, we have considered since 2015 how the project has contributed to the promotion of gender equality.

Learn more in the section
[Our performance > Social and environmental](#)

The Amazon Fund's Guidance Committee (COFA) established support for indigenous lands as the focus for the 2017-2018 period. The guidelines and criteria for using the fund's resources establish rules for the protection and promotion of the rights of indigenous peoples and traditional communities, such as the obligation to submit a document proving the prior consent of these communities or their representative institutions before supporting the project.

TRANSPARENCY

CORPORATE TRANSPARENCY PROJECT

The corporate project Transparência (Transparency) brings together initiatives to increase the visibility and understanding, by our stakeholders, of various aspects related to our performance. The main initiatives related to the project in 2017 were the preparation of the Information Disclosure Policy, of the Related Party Transactions Policy and of our website's governance standards; the overhaul of the structure of the explanatory notes to the financial statements of the Bank and its subsidiaries; and the quarterly disclosure of historical financial data.

ACCESS TO INFORMATION

Our website is the main transparency instrument of the Bank, possessing a specific section dedicated to this purpose. It presents, for example, information on funding sources, accountability reports, purchase and contract operations, and resource disbursement statistics.

In 2017, we included in the website's Transparency section our new Information Disclosure Policy,

the exports financing contracts for engineering goods and services, and a question and answer document aiming to clarify BNDES's operations with JBS. We also offer the **Citizen Information Service** to receive requests under the Access to Information Law.

GREEN BOOK

In commemoration of our 65 years, we launched in 2017 the *Livro verde: nossa história tal como ela é* (Green book: our history as it is), with the purpose of rendering an account to Brazilian society of our performance over the current century, between 2001 and 2016.

The book serves a dual purpose: to relate the controversial issues that surrounded our performance in the period; and to present an integrated and comprehensive report of our activities in various fields in those 16 years. The publication also has two appendixes that include a historical approach to the role of the Bank, which goes back to the creation of the BNDES in 1952, and a survey of our main financing operations.

A digital version of the **Green book** is available on our website, where you can also request a printed copy in Portuguese.

CONFIDENTIALITY

All BNDES information not classified as confidential is made available to society, as provided by the Access to Information Law. The main types of confidentiality we are required to maintain are:

Bank secrecy

The bank secrecy should be understood as the individual right of clients and third parties to the maintenance of the confidentiality of their economic and financial data. Thus, financial institutions have the duty not to disclose, outside legal hypotheses, the data obtained

Learn more in the section *Our relationships*

from their clients and third parties in the exercise of their banking activity. Observance of bank secrecy is a guarantee of public interest, in favor of the credibility, stability and soundness of the financial system.

Corporate secrecy

Corporate secrecy is a guarantee of protection of the data and documents produced by a company in the exercise of its economic activity. The purpose of corporate secrecy is to protect information that provides the entrepreneur or company with competitive advantages essential to the business' success, such as brands, patents, expertise and industrial secrets, the disclosure of which could lead to material or moral damages.

BNDES-CGU COOPERATION AGREEMENT

We have entered into a cooperation agreement with the CGU to extend mechanisms for social participation and access to information through integrated actions and the exchange of experiences between the two institutions.

Among the actions of the work plan were the financing of Hackfest 2017 – the third edition of the programming marathon organized by CGU in partnership with the Public Ministry of the state of Paraíba, the Court of Accounts of the state of Paraíba and other local partners. The Hackfest aims to involve society in the fight against corruption, through the development of technological solutions.

Access at www.bndes.gov.br/greenbook

RISK MANAGEMENT

We measure and monitor the risks to which we are exposed and periodically evaluate our internal controls.

We achieved some important advances in market risk management in 2017, such as the implementation of the monitoring of day trading operations and of the market risk of exotic debentures with embedded optionality and the introduction of more comprehensive **stress tests**.

Credit portfolio concentration is one of the risks that we monitor closely. We observe the exposure to the concentration risk of the loan portfolio, following our own methodology aimed at predicting possible warning situations and providing mitigating measures. In addition, we have developed a methodology for quantifying individual concentration risk and we are developing a methodology for quantifying sectoral concentration risk. These metrics will be monitored and periodically reported to BCB.

In 2017, we approved the overhaul and updating of several norms that make up our credit policy, with the purpose of aligning it with the Bank's strategy, improving forms of support, methodologies and pricing of credit risk. Among the proposed norms, we emphasize the definition of the Incentive Operations Credit Policy for MSMEs, which simplifies

Learn more on the next page

GRI INDICATORS:
102-15 | 102-30

	MAIN RISKS	MEASURES FOR MITIGATION
MACROECONOMIC	<p>Changes in the macroeconomic conjuncture 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"> Periodic monitoring of the economy performance and analysis of its impact on our operations. Establishment of risk limits, monitored periodically, to assist the decision-making by the senior management. Diversification of the financial support portfolio. Performance of the Finance Committee (CAF).
MARKET	<p>Volatility of the capital market Considering the volume of our stock portfolio, comprised also of some of the main assets listed at B3 (former BM&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>	<p>Implementation of the market risk module of a system that will integrate the activities of the management of the portfolio of variable income with the analysis of risk and corresponding return, from negotiations of stocks and debentures to verification and risk analysis.</p>
CREDIT	<p>Concentration of credit portfolio The portfolio reflects the characteristic of concentration observed in the Brazilian entrepreneur market.</p> <p>Deterioration of credit Reduction in the quality of the credit portfolio in times of unfavorable economic conjuncture.</p>	<ul style="list-style-type: none"> Development of indicator of concentration risk in order to assist the decision-making. Utilization of a methodology for monitoring of high risk exposures, aiming to anticipate possible alert states. Adoption of additional provision for doubtful accounts, aiming to act preventively due to the uncertainties of the market.
OPERATIONAL	<p>Losses resulting from failures, deficiency or inadequacy of internal processes, people and systems, or from external events, inherent in any business.</p>	<p>Identification and systematic analysis of the main operational risks and their internal controls, aiming to implement treatment actions and improve the methodologies used for managing operational risk.</p>
LEGAL	<p>Nonobservance of legal order and internal standards due to the complexity of legal and normative structures, in addition to laws or regulations alterations applicable to our performance.</p>	<p>Utilization of methodologies of operational risk management, emphasizing the conformity to laws and standards applicable to our performance and special attention to decisions from Administrative and Judicial Courts.</p>
SOCIOENVIRONMENTAL	<p>Possibility of losses resultant from socioenvironmental damages associated with deterioration of the institution's image.</p>	<ul style="list-style-type: none"> 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. 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 Socioenvironmental Sustainability and Territorial Development Committee (CSS).

and standardizes the special treatment given to the segment; the risk pricing review, which now differentiates the spread risk based on the term of the transaction; the revision and simplification of the rules for granting credit limits to financial intermediaries; and the improvement of the risk classification methodologies for entities abroad.

Over the year, the Bank underwent a new operational risk identification cycle, mapping the most relevant risks and existing controls. The probability of occurrence of these risks and the financial impact arising from them were assessed, and plans were established when necessary.

INTEGRATED RISK MANAGEMENT

The Advisory Board is responsible for approving corporate risk management and internal control policies, which formalize the credit, market, liquidity and operational risk management processes, as well as the BNDES's process of internal controls management. The AB also defines the overall level of risk appetite and approves the stress-testing program.

It is also incumbent upon the AB to determine the implementation and oversee the risk management and internal control systems for preventing and mitigating the main risks to which the Bank is exposed, including those related to the integrity of the accounting and financial information and to the occurrence of corruption and fraud.

The board is continuously informed about BNDES's practices of risk management through periodic bulletins and presentations of

specific topics. The main activities and highlights of the year related to operational risk, internal control and compliance are presented in the annual risk management report, which is approved by the Board of Directors and by the Advisory Board.

In addition, throughout the year, norms and documents relevant to BNDES compliance management were submitted to senior management for approval, such as the norm on internal verification procedures, the **policy for preventing money laundering and terrorist financing**, and the compliance program.

In order to underscore the need for financial institutions to manage capital and relevant risks in an integrated and continuous manner, BCB issued the Resolution CMN 4,557/2017. Throughout the year, we incorporated to our risk management some important concepts established by this resolution, such as:

- concentration risk, which is incorporated in the definition of credit risk;
- connected counterparties and identification criteria;
- restructured financial instruments and identification criteria;
- problematic assets and identification criteria.

The latest BNDES initiative for integrated risk management was the establishment of integrated risk limits based on regulatory capital indicators. These limits are formalized in the Integrated Risk Monitoring Policy (PMRI), approved in February 2018 by the BNDES's Advisory Board. This policy reinforces our commitment to risk control by assigning responsibilities to managers

Learn more in the section
Governance, ethics and transparency

and a monitoring and reporting structure to the Bank's operating units.

INTEGRATED STRESS TESTS

In general terms, the integrated stress tests consist of simulating BNDES's balance sheet, result, capital and risks (credit, market, liquidity and operational) based on an internally developed simulation model, ALM@Risk, with the purpose of dynamically and prospectively evaluating BNDES's capital capacity in relation to a series of business, market and regulatory restrictions. The test results are reported periodically to the Bank's senior management.

We performed two integrated stress tests throughout 2017. The first was performed earlier in the year in the context of the internal capital adequacy assessment process (Icaap). The second was the BCB-coordinated Bottom-Up Stress Test (Tebu) pilot project that assesses the impact on Banks' financial indicators resulting from adverse economic scenarios provided by BCB for the next three years.

In addition to meeting the regulatory demands associated with Icaap and BCB, the test results can also be used managerially as input for other analyzes, for example, by altering the profile of operations and rollover strategies, hedge policies etc.

INCREASE IN CAPITAL INDICATORS

The main prudential indicators (Basel index, Tier I capital index and Core capital index) increased as a result of a 7.9%

rise in the main capital (from R\$ 90,413 million to R\$ 97,579 million) and especially of a 14.8% reduction in risk-weighted assets (RWA) (from R\$ 624,850 million to R\$ 532,011 million).

RISK APPETITE

In 2017, we conducted a pilot experiment of the risk appetite framework, which culminated in the submission of a proposal for the appreciation of BNDES's collegiate bodies for effective implementation in 2018. This initiative met the BCB's requirement (CMN Resolution 4,557/2017) for the definition of risk appetite by financial institutions.

The BNDES declaration of risk appetite contemplates quantitative and qualitative aspects, as well as the risk relationship

with the Bank's **strategic planning**. It is aimed at our internal public, in order to guide the actions of all employees, and addresses the different risks of the institution, especially credit, market and operational risks.

EVALUATION OF THE INTERNAL CONTROL SYSTEM

Based on the principles of the Committee of Sponsoring Organizations of the Treadway Commission (Coso), BNDES considers that its Internal Control System (SCI) adheres to internationally accepted good practices. The satisfactory outcome of the evaluation resulted in the identification of opportunities for improvement that further enhances the effectiveness of the Bank's SCI.

Learn more in the section *Our strategy*

OWN RESOURCES AND RISK-WEIGHTED ASSETS (R\$ million)	DEC. 2015	DEC. 2016	DEC. 2017
Reference equity (RE)	94,997	135,620	146,368
(+) Tier I capital	63,331	90,413	97,579
Capital core (CC)	63,331	90,413	97,579
Supplementary capital (SC)	-	-	-
(+) Tier II Capital	31,666	45,207	48,789
(-) Deductions from the RE	-	-	-
Risk-weighted assets (RWA)	644,332	624,850	532,011
(+) Credit risk	601,621	534,199	478,161
(+) Market risk	16,981	58,312	18,465
(+) Operational risk	25,730	32,339	35,385
Basel Index + ACP (PR/RWA) (regulatory minimum = 10.5%)	14.74%	21.70%	27.51%
Tier I Capital Index + ACP (NI/RWA) (regulatory minimum = 7.25%)	9.83%	14.47%	18.34%
Core Capital Index + ACP (CP/RWA) (regulatory minimum = - 5.75%)	9.83%	14.47%	18.34%

UNAVAILABILITY OF ACCESS AND RECOVERY OF INFORMATION TECHNOLOGY ASSETS

We have developed two complementary strategies to mitigate the risks of interruption in physical access to the buildings where we operate in Rio de Janeiro. The first deals with the implementation of telecommuting for contingency use, allowing our most critical processes to be remotely operated by teams that do not require direct interaction. The second deals with the elaboration of a contingency plan for the movement of teams between the Bank's operating locations, allowing the reduction of time for resumption of the activities that require face-to-face interaction.

INFORMATION SECURITY

In May 2017, the Risk Management Committee approved the Strategic Plan for Information Security. In addition to seeking greater alignment of information security (IS) actions with the Bank's strategy, the document presents a diagnosis of the situation of the IS in the BNDES and enumerates eight issues, prioritized by the senior management. The plan provides for the execution of 35 actions between 2017 and 2018, among them initiatives to strengthen IS culture and governance.

Also in 2017, the Bank's Board of Directors approved the new version of the Corporate Information Security Policy. This is the fourth version of the policy, which now includes rules for disciplining issues such as the use of cloud computing services and the use of personal devices in the BNDES's technology environment.

FINANCIAL SUSTAINABILITY

RETURN OF RESOURCES

In view of the request by the National Treasury for the advance payment of R\$ 180 billion of the Bank's debt with the Federal Government, in order to use these resources to reduce public debt, in the second half of 2017 we made early settlements in three contracts, in the total amount of R\$ 50 billion. In the first months of 2018, we analyzed the possibility of early repayment of the remaining R\$ 130 billion requested, preserving the prudential banking limits, among which liquidity requirements, and considering two other demands for resources involving FAT and PIS-Pasep resources, as well as the prospect of the resumption of economic growth affecting the demand for long-term financing – especially projects of infrastructure and purchase of machinery and industrial equipment – and working capital financing. The repayment is expected to occur between June and August 2018.

The repayment of R\$ 9.1 billion to PIS/Pasep in October 2017 was determined by Resolution 6, dated September 11, 2017, of the Fund's Board of Directors. This rule aimed to meet the cash requirement estimated for payment to quota holders, due to Provisional Measure 797/2017, which reduced the age for withdrawal to 65 years for men and 62 years for women.

TLP

The Long-Term Rate replaced the Long-Term Interest Rate on BNDES contracts signed as of January 1, 2018. The new rate was announced on March

31, 2017, by BCB and the Ministry of Finance and established by Law 13,483/2017, on September 21, 2017.

In 2017, we endeavored to adapt internal processes and IT systems, alter operational policies, prepare internal regulations and, especially, to communicate in a transparent way these changes for the external and internal public.

With the enactment of the new law, the **resources** of the FAT, PIS/Pasep, FMM and resources transferred by the National Treasury after the renegotiation of contracts will be remunerated by TLP, in the case of amounts invested in financing operations contracted as of January 1, 2018, and by the Selic rate, in the case of amounts not applied. Exports financing operations, included in the FAT Cambial modality, will continue to be remunerated by Libor plus the variation of the US dollar or euro.

The amounts already contracted up to December 2017 will continue to be remunerated by TJLP. In relation to the remuneration of resources registered as BNDES's liabilities, the calculations will be made by the new debt system that is in process of implementation.

FUNDRAISING WITH INTERNATIONAL ORGANIZATIONS

In 2017, three new operations were contracted with international organizations: US\$ 300 million with the New Development Bank (NDB) in April to support renewable energy projects;

Learn more in the section
The Brazilian development bank

US\$ 750 million with the Inter-American Development Bank (IDB) in November to support sustainable energy projects; and US\$ 141.72 million with KfW in December to support renewable energy and energy efficiency projects.

The inflow of funds already contracted totaled US\$ 613 million for the year: a US\$ 13 million tranche of the contract to support energy efficiency and renewable energy with the French Development Agency (AFD), celebrated in 2014; a US\$ 100 million tranche relating to the Green IV contract signed with the Japan Bank for International Cooperation (JBIC) in 2015; and a US\$ 500 million installment related to the contract signed with the IDB in November 2017 to support sustainable energy projects.

GREEN BONDS

In May 2017, we issued US\$ 1 billion in **green bonds** in the international market. Green bonds have characteristics similar to conventional bonds, but the funds raised must be destined to finance environmentally sustainable projects, certified by a verification company specialized in the environmental area. In the case of BNDES, the funds raised are invested in wind or solar generation projects. It was the first green bond of a Brazilian financial institution and Global Capital chose it as one of the three best green bond issuances in Latin America in 2017.

The operation resulted in an investor return of 4.80% per year, representing a premium of 269.3 basis points over

Learn more at www.bndes.gov.br/green-bonds-report

US Treasury bill rates and about 60 basis points over external bonds issued by the Federative Republic of Brazil.

BNDES OPERATIONS AS DEALER OF THE CENTRAL BANK

In 2017, we were accredited for the first time by BCB to act as a dealer of its Open Market Department (Demab). The dealers are institutions that, by supporting BCB in its management of the financial system's liquidity, contribute to the fulfillment of its mandate as the institution responsible for monetary policy in Brazil.

DEFAULT

The default in the BNDES's loan portfolio reached 2.08% (90 days) on December 31, 2017. Although this rate is lower than at the end of 2016 (2.43% – 90 days) and below the rate of the National Financial System, which reached 3.25% in the period, it is still above the historical levels observed, due to the prolongation of the recessive cycle and the increase of risk in specific sectors.

Always seeking to mitigate risk and minimize losses and constantly studying how to improve our credit policy, we have adopted standard mitigating mechanisms, such as the constitution of guarantees regarding the credits granted, as well as ensuring the adequate remuneration of the **credit risk** incurred, through the collection of the risk spread rate.

We are continuously monitoring the credit risk of our debtors. As required by BCB, we have constituted provisions

Learn more in the section Risk management

in accordance with the classification of operations risk and the default period of payment of financial obligations. We also periodically analyze the need to constitute additional provision in function of other factors, such as sectoral risk, for instance. Thus, we maintain sufficient capital to absorb eventual losses.

The unfavorable economic scenario and the increase in credit risk in 2017 implied the provisioning of R\$ 7.175 billion, with credit recovery of R\$ 473 million, resulting in an expense of R\$ 6.702 billion at the end of the year.

CREDIT RENEGOTIATION

Although operations financed by BNDES are subject to careful analysis, as in any financial institution, we are still subject to the risk of debtors facing difficulties in honoring their debts and other obligations.

Once the default has occurred, it is common to start with an attempt to renegotiate the debt in an extrajudicial way, seeking an agreement between the parties. This effort is essential, in view of the objectives of recovering credit and maintaining a commitment to development. In this way, whenever possible, it is good practice to seek alternatives that preserve not only the credit held by the BNDES, but also the economic viability and continuity of the affected project.

If, however, the negotiation does not reach a satisfactory term, procedures are taken for recovery through judicial action, with execution of the guarantees established in favor of the Bank (real estate, machinery, equipment etc.).

In such cases, compliance with the principles and rules issued by the regulatory bodies is maintained, aiming at the alienation of the assets offered by the debtors, according to the means provided by law.

The renegotiation index reached 3.62% of the credit and onlendings portfolio in 2017, lower than the 6.34% registered in 2016.

GUARANTEES

The constitution of guarantees, whether real or fiduciary, is an important instrument to mitigate credit risk widely adopted by financial institutions, aiming to strengthen and give greater security to credit operations. In addition to providing greater alignment of interests between the guarantor and the debtor, collaterals can be used to mitigate credit recovery losses.

Our practice is to require credit guarantees in our operations, these being considered for regulatory purposes and for pricing the operational risk. In that sense, in 2017, the rules regarding guarantees of foreign trade financing operations were improved to reflect the current market conditions.

ASSET RESEARCH

The service of investigation of assets of defaulting debtors, known as asset research, contracted by BNDES through bidding in 2016, has already been used to research more than 140 individuals and legal entities.

The use of an asset search service is another tool to assist us in recovering credits, either through administrative or judicial procedures.