

OUR STRATEGY

In 2017 we began a broad process of reflection and strategic planning, encompassing the formulation of a business plan and short, medium and long-term strategic guidelines, which should guide our actions in the 2018-2030 period.

STRATEGIC REFLECTION

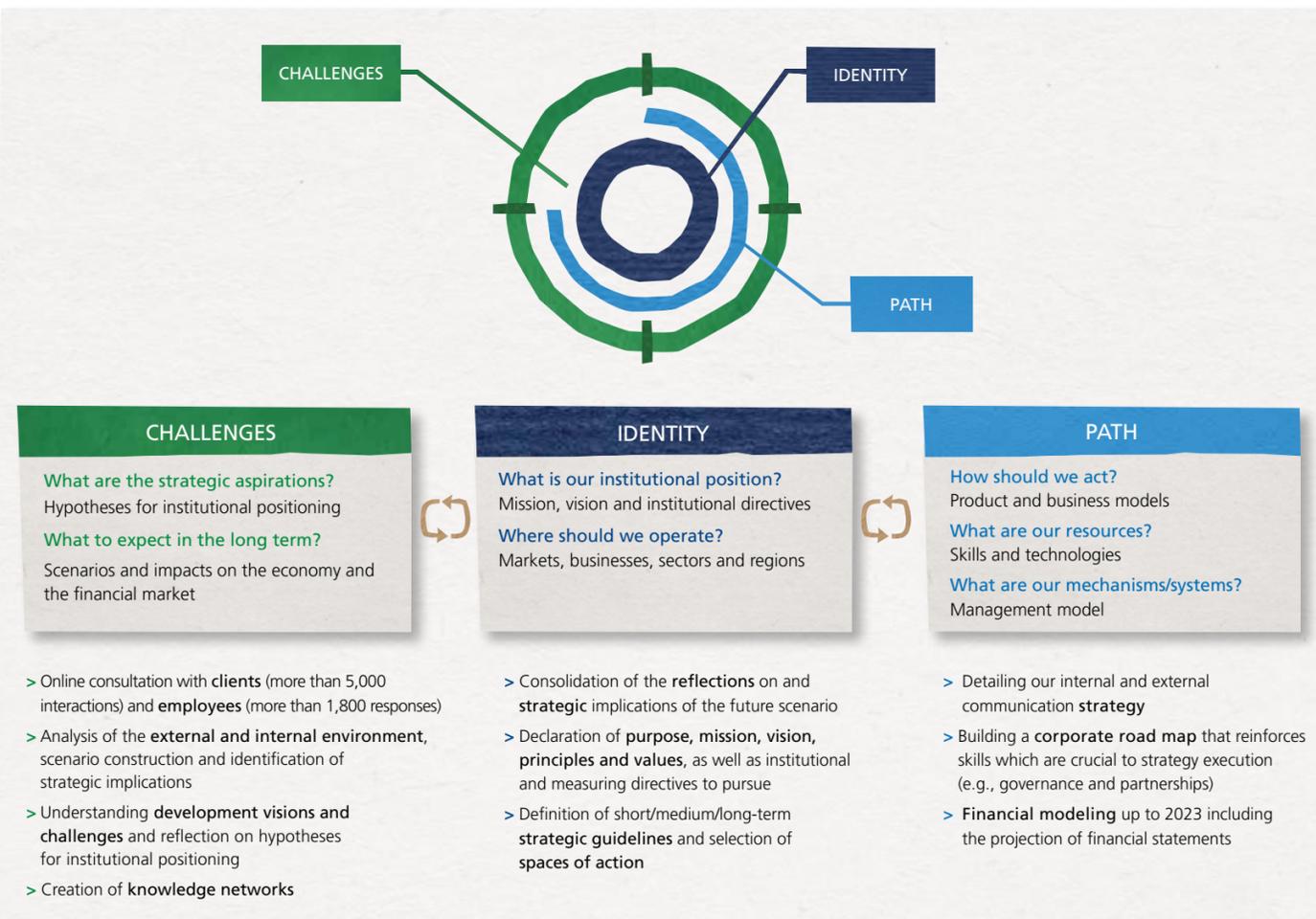
In order to strengthen strategic planning in public organizations, the Law of State-owned Companies (Law 13,303, dated June 30, 2016) established for state-owned companies the obligation of approval by the Board of Directors of a business plan for the following annual fiscal year and of an updated long-term strategy analyzing risks and opportunities for the next five-year period at least.

GRI INDICATORS:
102-16 | 102-26

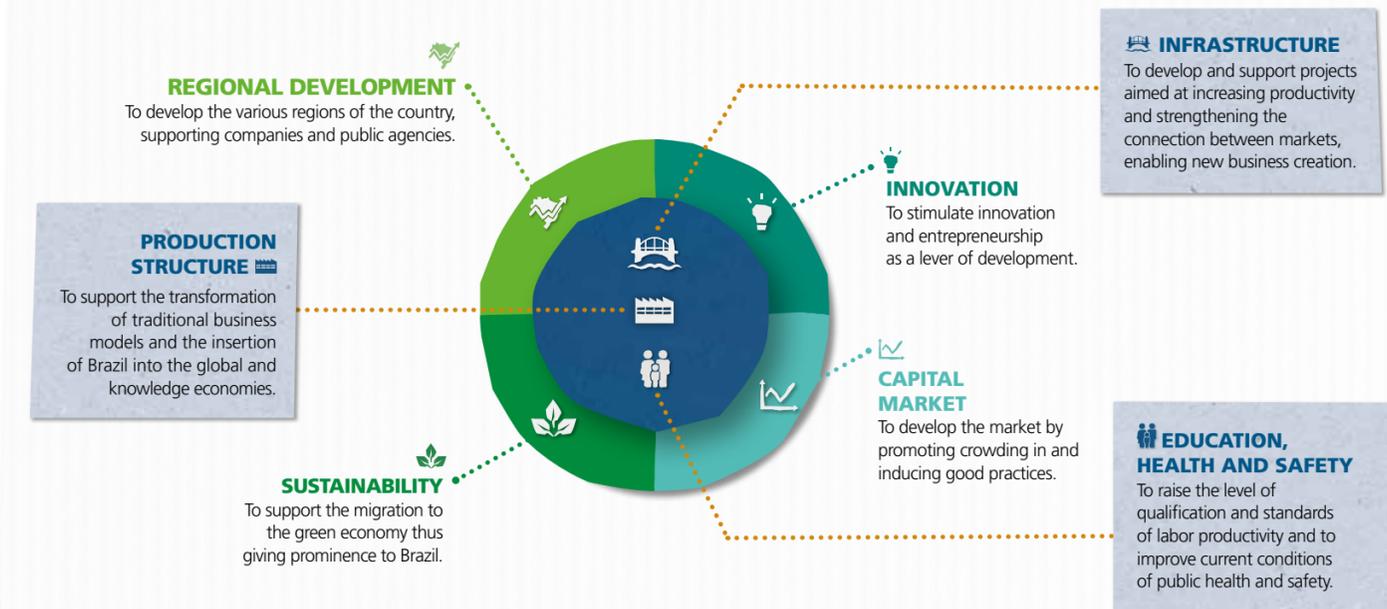
Learn more in the section *Financial sustainability*

This law met our intentions to promote a broad process of reflection and strategic planning, of which we have a long history in the Bank and which now has been made more pressing because of recent events such as the end of the TJLP and the anticipated fund returns to the National Treasury.

With the support of Roland Berger Strategy Consultants, we initiated the "Developing futures" project in August 2017, which was divided into three stages, as shown below.



STRATEGIC GUIDELINES



As a result of the project, we reviewed our institutional identity; established short, medium and long-term strategic guidelines; mapped and analyzed strategy risks; and developed a business plan. The project also involved the definition of strategic objectives, a roadmap with the main paths and milestones that we must follow in order to achieve our vision for the future, as well as the systematic monitoring of the external environment and the indicators corresponding to the defined objectives.

In March 2018, the new institutional identity and the strategic guidelines were assessed and approved by the Advisory Board.

BRAZIL, DEVELOPED COUNTRY

Strategic planning established as a vision "making Brazil a developed country by 2035." This is not just

BNDES's vision, but rather a shared dream, which is intended to be achieved with the support of several other organizations and of Brazilian society.

In order to visualize our goal and the size of the challenge, we considered a scenario in which the country achieves a *per capita* income of about US\$ 25,200 and a Human Development Index (HDI) of 0.864. This would make Brazil's income and HDI levels similar to those of countries like Portugal and Greece today and would involve an average *per capita* income growth of 2.7% per year between 2018-2035 (which would imply a GDP growth of 3.2% on average), as well as improvements in education and health services.

Guided by this vision, we redefined our strategic guidelines in three large verticals and four transversal spaces of action, according to the figure above.

INSTITUTIONAL IDENTITY

PURPOSE
To transform the lives of generations of Brazilians, promoting sustainable development.

VALUES
Ethics, public principles and commitment to development.

PRINCIPLES
Transparency, effectiveness, dialogue, cooperation and the pursuit of excellence.

MISSION
To facilitate financial solutions that contribute with investments for the sustainable development of the Brazilian nation.

FUTURE VISION
Perspective for the country: Making Brazil a developed country by 2035.

Strategic institutional perspective: Being recognized as Brazil's development bank due to its relevance and effectiveness.

KNOWLEDGE NETWORKS

In order to provide information for the strategic reflection process and stimulate the continuous sharing of knowledge, knowledge networks were mapped and structured in 12 themes: market intelligence, socioenvironmental, fintechs, innovation, education, effectiveness, culture and skills, infrastructure, external relations, health, regional development and smart cities.

Each of the networks, composed of specialists from different areas of the Bank, was responsible for supporting the different work fronts and the development of planning deliveries. These networks will continue to operate after the end of planning activities, with the objective of periodically supporting institutional reflection. The aim is to build a bridge between knowledge generation and strategic thinking. The networks were initially composed of employees of the Bank, but one of their objectives is to involve external participants, contributing to our dialogue with other organizations and representatives of society.

CORPORATE PROJECTS 2017

Throughout the year, we also involved our staff in various corporate projects, in tune with strategic directions previously mapped. In 2017, these initiatives included the structuring of new distribution channels for our lines and products, such as an application for MSMEs and an electronic interface for using the BNDES Card in other internet sites and the implementation of **BNDES Online**. We also reviewed our accreditation methodology for machines and equipment, incorporating intangible elements into the eligibility requirements, as well as reformulating

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Our performance> MSMEs

the BNDES Fianças and Avais product and structuring corporate debt funds.

Other themes on which we focused throughout the year were a new process for granting financial support faster and with better controls; the development of a strategic communication planning; and the improvement in governance and in the processes that guarantee the society's access to information about our performance.

In the Education project, we listened extensively to institutions and external experts and defined principles and guidelines to support projects related to education and human capital development, guiding **short and medium-term actions** and contributing to BNDES's strategic planning process.

CORPORATE PROJECTS 2018

In the scope of the new strategic reflection, we structured 12 macro-projects of planning implementation,

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Challenges and vision for the future

with the purpose of meeting our biggest and **most immediate challenges**.

INTERNAL INNOVATIVE INITIATIVES

In order to stimulate internal innovation, we launched in 2017 the *ideiaLab* program, which involved representatives of all our divisions, mobilizing over four hundred employees in its idea formulation stage.

More than three hundred ideas were registered in the program's digital platform – in the categories of products and services, forms of dialogue with society and efficiency of processes – and the ten most voted by our staff were sent for the evaluation of the superintendents, who selected those

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Our performance> Education

MACHINERY AND EQUIPMENT ACCREDITATION

In order to be able to finance automatically the commercialization of machinery, equipment, systems and components, we regulate suppliers of these products through the BNDES's Computerized Suppliers Accreditation system (CFI). In order to qualify, the supplier must perform in the country industrial activity compatible with its competitors in the sector and prove the index of nationalization required for the product. The quality or technical-operational performance of the product is not evaluated.

In 2017, a revision of the accreditation methodology was approved by BNDES's Board of Directors, which will take effect on December 3, 2018, replacing the current nationalization index criteria based on sale price and weight.

The new methodology establishes the Accreditation Index (IC), which, in addition to considering the product's manufacturing, labor and national services costs, incorporates qualitative elements related to investments in innovation, skilled labor, added value and technological content of the product, contributing to a modern policy of productive consolidation.

Another advantage is that the new methodology recognizes the heterogeneity of the industrial machinery and equipment sector, granting flexibility to the manufacturer and being adaptable to the different sectors that can be supported.

This will further stimulate investment in productive capacity and research, promoting productivity growth, competitiveness and the insertion of the national industry into global production chains and international markets for capital goods, as well as the generation of skilled jobs and income.

with greater impact and feasibility for implementation throughout 2018.

The first place went to the creation of a Communication and Institutional Relation Division aiming to improve the interaction with our public; and the second place to the creation of a "crypto-bond" based on blockchain technology. The other ideas were sent to the divisions responsible for evaluation of interest, feasibility and implementation schedule.

We also held our first programming marathon (Hackathon BNDES), which brought together more than 100 employees and resulted in the development of thirty mobile application prototypes to meet our business needs.

Throughout the year, we also promoted internal events and visits to other organizations to investigate benchmarks in innovation and digital transformation. These activities resulted in a cooperation agreement with the German development bank KfW aimed at developing applications using blockchain technology to increase transparency and efficiency in the use of public funds.

OPERATIONAL POLICIES (OP)

Our **OPs** specify the criteria adopted for the approval of financing and determine the conditions for future loans. They reflect our mission, vision and values, principles and guidelines.

After a broad review of the OPs, which came into effect in January 2017, we updated it again at the year's end in order to incorporate the change in the financial cost of BNDES's financing due to the TLP.

In addition to the adoption of the new rate, the update of the OPs carried out in 2017 established other important adjustments:

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The Brazilian development bank

- **Maximum participation in TLP:** We altered the maximum levels of TLP participation in our financing. Projects related to themes that we consider to be priorities, due to their high impact in the promotion of sustainable development, may have up to 80% TLP participation. In our standard lines, this limit is at most 60%.
- **Acquisition of machinery for MSMEs:** Through the BNDES Finame line, we finance up to 100% of the value of machinery and equipment acquired by micro, small and medium enterprises.
- **Size classification:** We increased the maximum revenue limit applied to the small business segment, from R\$ 3.6 million to R\$ 4.8 million, in compliance with the General Law of Micro and Small Companies.
- **BNDES Giro:** In order to meet the working capital needs of companies at a time of economic recovery, we extended BNDES Giro until December 31, 2018, establishing a budget of R\$ 32 billion for the program – R\$ 27 billion for indirect operations and R\$ 5 billion for direct operations.

At the beginning of 2018, new adjustments were made as a follow-up to the adjustments required by the entry into force of the TLP and by the completion of the strategic planning process. The main changes were: the extension of maximum funding terms; participation limits are now linked to the total investment; and the reducing of the basic spread.

The extension of both grace and amortization term limits will, above all, benefit financing for infrastructure projects. Investments in railways, roads, waterways and urban mobility may have maturity of up to 34 years. There are three other maturity limits: up to 24 years, for alternative energy projects, ports, airports, exports and regional development; up to twenty years for

financing education, health, safety and telecommunications and others; and up to five years for working capital.

With the new OP, we started to calculate the maximum percentage of participation of our financing based on the total investment of the project, and not only on the financeable items. The change is in line with usual market practices.

Additionally, there is a reduction in the basic spread (the rate through which BNDES is remunerated), focusing on the priority sectors defined by strategic planning. Thus, the rates charged fall from 1.7% per annum (p.a.) to 0.9% p.a. in projects in the sectors of public safety, innovation, environment, solar energy, sanitation, solid waste treatment and professional qualification. In other cases, spreads can reach up to 2.1% p.a., with intermediate bands of 1.3% p.a. and 1.7% p.a.

SUSTAINABLE DEVELOPMENT GOALS (SDG)

The Agenda 2030 for Sustainable Development, adopted in 2015 by Brazil and the other member states of the United Nations (UN), is intrinsically linked to our operations. Projects related to the 17 objectives and the 169 targets included in the agenda are eligible for better financial conditions in several of our financing lines, as well as to our support with nonreimbursable resources.

Investments in health (SDG 3), education (SDG 4), sanitation (SDG 6), clean energy (SDG 7), innovation (SDG 9) and mobility (SDG 11) are examples. Also, the nonreimbursable support made through the Amazon Fund, the ecological restoration line and the Climate Fund, which contribute to the fight against global warming (SDG 13) and to the protection and recovery of terrestrial ecosystems and biodiversity (SDG 15).

Likewise, the allocation of resources from the Social Fund to productive inclusion projects, focusing on family agriculture, is aligned with objectives such as the fight against poverty (SDG 1) and hunger (SDG 2), the promotion of gender equality (SDG 5), water availability (SDG 6), decent work (SDG 8), reduction of inequalities (SDG 10), promotion of sustainable production and consumption (SDG 12) and strengthening of partnerships (SDG 17).

In May 2017, together with the United Nations Development Program (UNDP), we held the IV Seminar on the Location of SDG in Brazil: Partnerships to Integrate, Innovate and Include, in order to mobilize key actors and promote reflection on partnership and development financing.

HOW DO WE MEASURE AND EVALUATE OUR OPERATIONS?

Throughout 2017, 247 operations were analyzed based on the methodology of the **Thesis of Investment Impact on Projects** (see box). Of the 32 highlighted projects in 2017, 11 are related to infrastructure, including sanitation, solar energy and rail or BRT, and 18 involve nonreimbursable resources.

The diagnosis generated by Tiip is used to define the purposes and effectiveness indicators for the monitoring of project results. These indicators make up the Results Table (RT), an instrument that we have also used since the beginning of the year in our nonautomatic investment operations in the areas of infrastructure and industry. The RT presents the purposes of the support

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The Brazilian development bank

THESIS OF INVESTMENT IMPACT ON PROJECTS (TIIP)

Tiip is an *ex ante* analysis methodology – that is, performed prior to the execution of an investment – applied during the framing stage of an operation, with the purpose of identifying and making explicit the social return and expected benefits of a project, providing elements of effectiveness to analyze the merits of the operation.

Inspired by practices of other financial and development institutions, the methodology contemplates five dimensions – national economy, environmental, social, regional and client. The final grade of each dimension reflects the composition of the grades attributed to the different criteria that compose it and the weights associated with them.

Cisterns – Socioenvironmental impact of operations

The support for the implantation of more than 6,800 second water cisterns destined for the productive activities of low income rural families affected by the drought in the Brazilian semiarid area exemplifies how Tiip can be used in the initial evaluation of a project.

This project was classified as a highlight, according to the grades obtained in the different evaluation dimensions.

- I. **Social:** benefits to the population in situation of high social vulnerability; significant job and income generation.
- II. **Regional:** support to low-income municipalities with precarious infrastructure of basic services; enabling

of productive activities and contribution to the dynamism of localities; maintenance of the population in the region, avoiding exodus to large urban centers.

- III. **Economic:** provision of basic water infrastructure.
- IV. **Environmental:** decreased strain on the scarce water resources and on the semiarid soil; contribution to the reintroduction of vegetation.
- V. **Client:** incorporation of family monitoring services to some of the implemented social technologies, in a new partnership with the Ministry of Social and Agrarian Development, in order to provide better services to the population.

TIIP CISTERNS IN THE SEMIARID PROJECT



for a certain intervention, formulated according to the expected results; the amount of funding allocated to each purpose; and the effectiveness indicators chosen to evaluate the achieved results. In 2017, 99% of the projects approved

used this tool for the establishment of purposes and verifiable indicators.

We expect the adoption of the RT to disseminate the practice of defining project purposes regarding their results; to structure the basis underpinning the

subsequent monitoring and evaluation of results; and to generate better information for all BNDES's stakeholders.

See below an RT example from a modernization and expansion project for the water supply and sewage systems of the municipality of Pará de Minas (MG).

Both Tiip and RT are tools adopted in BNDES's macroprocess of effectiveness promotion, approved in January 2018 by the Board of Directors.

The macroprocess details the Bank's monitoring and evaluation (M&E) system, establishing three layers of operation:

- monitoring and self-assessment of results of nonautomatic operations (systematic evaluations associated with the operational flow);
- impact evaluations – which seek to capture the causal effect of BNDES performance – of a strategic or thematic nature; and

- directed use of the information produced by the previous layers (e.g., in the *Effectiveness Report*, the *Effectiveness Recommendations Report*, and the Identification of Potential Clients).

Thus, we established a regular cycle of monitoring and self-assessment (evaluation performed by the operational team) of the support granted, whose main objectives are to enable organizational learning and improve our performance.

RESULTS TABLE: EXPANSION OF THE WATER SUPPLY AND SANITARY DISPOSAL SYSTEMS OF THE MUNICIPALITY OF PARÁ DE MINAS (MG)

OBJECTIVES (EXPECTED RESULTS)	EXPANSION OF WATER SUPPLY	EXPANSION OF SEWAGE COLLECTION AND TREATMENT	PROMOTION OF OPERATIONAL IMPROVEMENTS
INVESTMENT	R\$ 62 million	R\$ 17 million	R\$ 25 million
IMMEDIATE RESULTS	Water treatment capacity: 100 L/s (from 240 L/s in 5/2015 to 340 L/s in 6/2020)	Sewage treatment capacity: 80 L/s (from 180 L/s in 5/2015 to 260 L/s in 6/2020)	Water meters installed: 3,069 units (from 31,158 in 5/2015 to 34,227 in 6/2020)
	New water connections: 3,069 connections (from 31,543 in 5/2015 to 34,612 in 6/2020)	New sewer connections: 3,008 connections (from 28,762 in 5/2015 to 31,770 in 6/2020)	Replacement of old and obsolete water meters: 20,573 units (from 0 in 5/2015 to 20,573 in 6/2020)
	Extension of drinking water network: 51.5 km (from 369.0 km in 5/2015 to 420.5 km in 6/2020)	Network extension, interceptors, sewage collectors and discharge lines: 10 km (from 251.5 km in 5/2015 to 261.5 km in 6/2020)	Replacement of water network: 8.75 km (from 0 in 5/2015 to 8.75 km in 6/2020)
	Water reserve capacity: 2,000 m ³ (from 7,123 m ³ in 5/2015 to 9,123 m ³ in 6/2020)		Replacement of network, interceptors, sewage collectors and discharge lines: 5.452 km (from 0 in 5/2015 to 5.452 km in 6/2020)
EXPECTED EFFECTS	Degree of service coverage: 100% of the population (from 95% in 5/2015 to 100% in 6/2020)	Service coverage: 90% of the population (from 88% in 5/2015 to 90% in 6/2020)	Losses – treated and unbilled water: 33.6% of total volume (from 37.9% in 5/2015 to 33.6% in 6/2020)
	Population that will gain access to the water network: 8,499 inhabitants (from 84,972 in 5/2015 to 93,471 in 6/2020)	Population that will gain access to sewage network: 5,413 inhabitants (from 78,711 in 5/2015 to 84,124 in 6/2020)	Losses – minimize risk of contamination by leakage in the sewage network: R\$ 0 in environmental fines (R\$ 0 in 5/2015 and R\$ 0 in 6/2020)