

# ANNUAL REPORT 2014

## **THE BRAZILIAN DEVELOPMENT BANK**

*Understand how the BNDES works and the results it delivers to society from the performance report for the year.*

## **PERFORMANCE**

*Some R\$ 187.8 billion was disbursed in 1,130,202 operations to 277,085 clients. Learn about the strategic priorities and examples of projects receiving support.*

## **INTERNAL ENVIRONMENT**

*Management practices, institutional relations, financial sustainability and developing competence in human resources are also part of the report.*

**2014**

# Contents

## mission

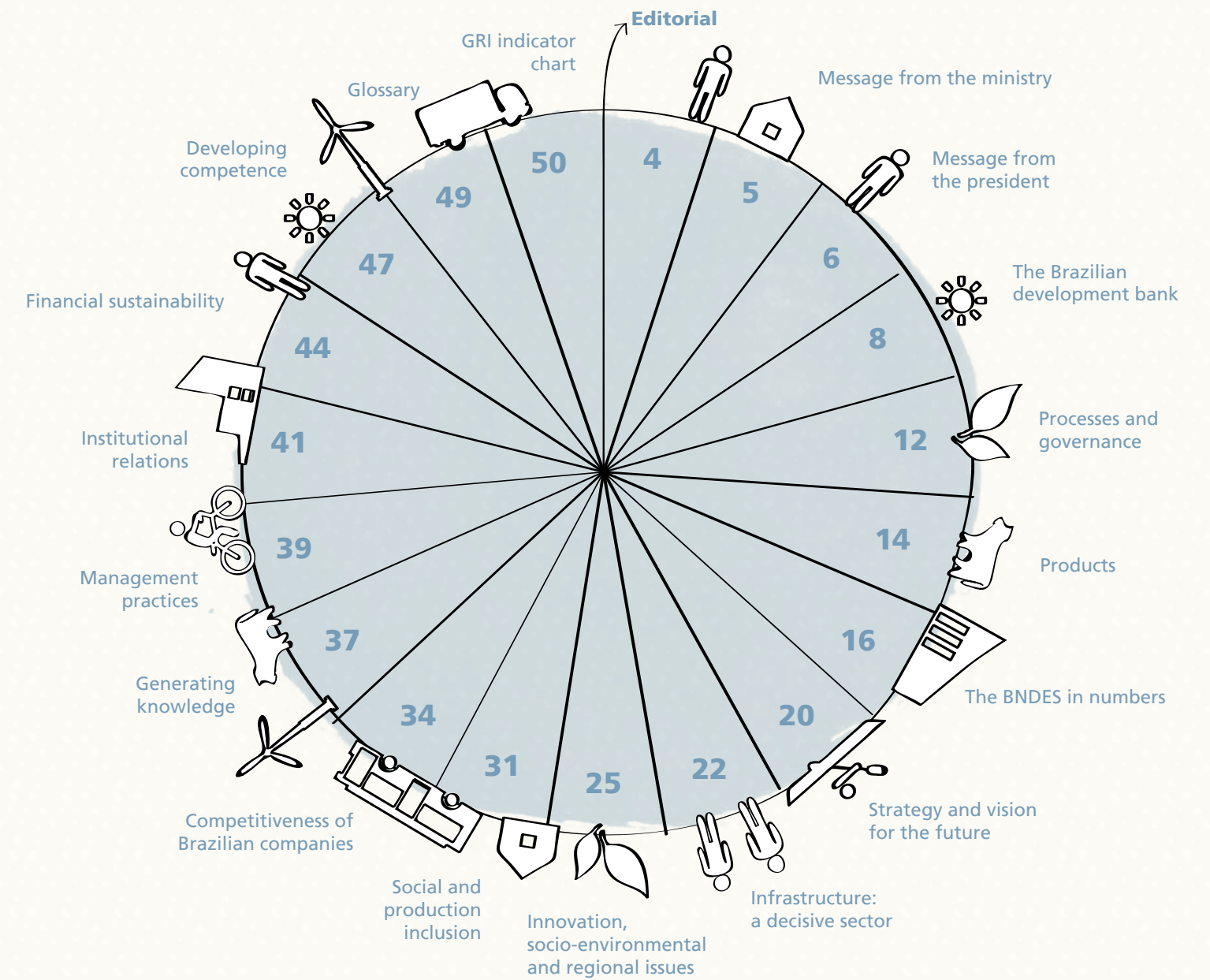
to foster sustainable and competitive development in the Brazilian economy, generating employment while reducing social and regional inequalities.

## vision

to perform its duties as the development bank of Brazil, an institution of excellence that is innovative and proactive in light of the challenges in our society.

## values

commitment to development  
public principles  
excellence  
ethics



This Annual Report presents the highlights of the BNDES' efforts in 2014, focusing on economic, social and environmental aspects, using the capitals and perspectives that comprise the company's Strategic Map.

This edition marks the second year the publication has been in a magazine format, prepared in simple, direct language to reach all parties interested in the Bank's activities and to serve as a gateway for those seeking to know how the BNDES generates value for society, its customers, and the Brazilian economy.

The material produced is the result of progress towards adopting the Integrated Report (IR) principles, while reviewing the reporting process, which is expected to be completed and formalized in 2015. The IR is an international initiative aimed at improving the quality of corporate reports, in an effort towards more transparency and stability in the worldwide economic system.

The texts in this magazine often refer readers to on-line content in the "Learn More\*" sections and to the glossary, whenever a technical or specific term is used. Also in this report, the Bank continues to use Global Reporting Initiative (GRI) indicators.

The report ranges from January to December 2014 and comprises the entire BNDES System, which includes six of the BNDES' facilities – the Federal District, Rio de Janeiro, São Paulo and Recife, Montevideo (Uruguay) and Johannesburg (South Africa) –, as well as the subsidiaries: BNDES Participações S.A. (BNDESPAR), which works in the capitals market; the Special Agency for Industrial Financing (FINAME), dedicated to fostering production and commercialization of machinery and equipment; as well as the BNDES PLC located in London (UK), which aims to help insert Brazilian companies abroad.

The BNDES' results in 2014 reaffirm its historical importance as a pillar in the country's economic and social development. The Bank's initiatives were guided by the Federal Government's ongoing principle to foster development with social inclusion while respecting the environment and reducing regional inequalities.

The Bank expanded its collaboration in the infrastructure segment financing highways, railways, ports, airports and energy. The most significant news is the record support for the production of clean and sustainable energy, especially in implementing the national wind farms. In addition, the Bank improved its instruments and modalities focusing on funding public concessions and public-private partnerships.

The BNDES Finame assured the industrial segment a combination of financial assistance and national production. More than merely financing new machinery and equipment manufactured in Brazil, it proved an effective instrument for industrial policy, helping consolidate important economic sectors, especially the capital goods and automotive industries.

The BNDES' commitment to democratizing credit is embodied in the BNDES Card, the younger brother of BNDES Finame. With disbursements over R\$ 11 billion, it ended the year with roughly 800,000 credit transactions. In this vein, we highlight the development of the Investment Guarantee Fund that, by mitigating risk for the BNDES' financial onlenders, strengthens the policy aimed at attracting micro and small enterprises.

Initiatives aimed at providing support for innovation also received special attention from the Bank. To increase participation in this field, it helped modernize and heighten the competitiveness of domestic enterprises.

The same can be said of financial support to exports of domestic goods and services as well as to internationalizing Brazilian companies.

The BNDES remains one of the few long-term financing sources with appropriate and competitive interest rates for important segments in the Brazilian economy. The Bank's countercyclical role helped mitigate the effects of the international crisis on the Brazilian economy. In its absence, many companies and economic areas would not have obtained resources to carry out their investments.



All this reaffirms that the BNDES is one of the most important assets for Brazilian people and society. By fulfilling its historic mission, the BNDES is building the country's future.

Congratulations to all those who participate and contribute to this institution.

**Mauro Borges**

*Ministry of Development,  
Industry and Foreign Trade (MDIC)*

ICONS USED IN THIS REPORT:

-  Term explained in the Glossary, p. 49
-  GRI indicator for consultation on p. 50

\* Some of the content in the "Learn More" section is not available in English.

\*\* As a result of rounding up, the sum of the numbers in the charts might not be exact; similarly, the sum of the percentages may not total 100. For the same reason, there may be a small variation between values presented in the report.

## Message from the president

A time for transition to a lower amount of disbursements, the year 2014 was marked by adjustments to support conditions and the focus on priority sectors. President Luciano Coutinho explains how the BNDES is addressing this process while maintaining its commitment to fair, sustainable and competitive development.

**The 11% increase in the BNDES' financing to the infrastructure sector helped boost the infrastructure investment rate in Gross Domestic Product (GDP)**

### Economic scenario

In 2014, while developing economies suffered impacts from the slow recovery of the world economy and the reduced growth rate of exports, Brazil was able to maintain a consistent trend of increasing employment and reducing inequalities. At the same time, public policies have managed to maintain the rate of investment in the Brazilian economy stable, with significant growth in the infrastructure sector.

### Infrastructure and energy

Last year, the 11% increase in the BNDES' financing to the infrastructure sector helped boost the infrastructure investment rate in Gross Domestic Product (GDP), reflecting the institution's commitment to fostering a more efficient logistics system, raising national competitiveness in sync with environmental sustainability. Also noteworthy was the increased support for railway transportation, 51%.

Priority given to infrastructure is also reflected in the electricity sector, to which the BNDES disbursed R\$ 19 billion in 2014 for investments in generation, transmission, distribution and power management projects, thus expanding renewable alternative sources. It should be noted that wind energy gained importance in the grid and already has a production sector that is able to supply national projects and to export equipment, besides enabling projects receiving support to constantly reduce average tariffs.

In addition, the first special auction for the solar source was held this year, which, following the success of the wind sector, now has support to progressively nationalize components. The first result is financing for a national factory that manufactures equipment to generate solar energy.

### Environment

The Amazon Fund is one of the main pillars of support for sustainable development: in 2014, some R\$ 417 million was committed to new

projects, creating a portfolio of R\$ 1 billion dedicated to preserving the Amazon Biome, with emphasis on environmental monitoring initiatives in the biome and regularizing small rural properties.

In the Northeast, the BNDES also played a decisive role: in keeping with the priorities of the Water for All Program, we enabled the implementation of 20,000 tanks in the semi-arid region, helping to achieve the national goal of providing supply alternatives to populations suffering from prolonged drought. Considering all the other sectors that help mitigate the negative effects of climate change, our support for the green economy reached R\$ 28.3 billion, a 14% increase compared to 2013.

### Public services

Support for states resulted in a 19% increase in financing aimed at public utilities, focusing on sanitation, health and education. Worthy of note is the support for urban mobility plans, important legacies from planning for the World Cup that are already helping reduce the average time for daily commutes.

The BNDES has devoted special attention to this issue by financing urban subway systems, Rapid Bus Transport lines and surface trains. The BNDES' support for culture, memoirs and art also stands out among other institutions, either through sponsoring the most important films, music, theater festivals and literary meetings, or restoring and preserving historical heritage, also decisive in strengthening production sectors in the creative economy in surrounding areas.

### Innovation

To deal with the structural challenge of resuming industry growth while increasingly incorporating technology and innovation, the BNDES has implemented the Company Innovate plan, a federal initiative launched in 2011 that features the participation of other public institutions. This year, as a demonstration of maturity, the plan reached R\$ 35.3 billion in support for projects.

Considering solely the year 2014, the BNDES' performance with regards to innovation reached R\$ 5.9 billion, a 14% increase over the previous year, and has fostered important achievements, with the production of pharmaceutical drugs and dominance in the market for second-generation ethanol. Internally, the priority to innovation was made possible by creating an area dedicated to

**Despite the challenges, the industry showed positive highlights, namely in the petrochemical, pharmaceutical, foodstuff, electronic equipment and transport materials sectors**

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the capital goods sector, which, with even more focus, supports a driving factor in sustained industrial growth. This effort, coupled with endeavors to expand number of borrowers, is evident in the performance of the BNDES Card, which included new issuers and maintained its path of growth, with a 15% increase in financial support, benefiting over 200,000 micro, small and medium-sized enterprises.

In 2014, despite the challenges, the industry showed positive highlights, namely in the petrochemical, pharmaceutical, foodstuff, electronic equipment and transport materials sectors. At the same time, recent investments in advanced sectors of information technology have enabled us to take advantage of a new coming trend in technological change.

### Regional development

The collection entitled A Territorial Approach to Development was published in 2014 bringing together ideas and diagnostics, as well as outlining opportunities to develop each of the five macro geographical regions. The books consist of contributions from the BNDES' employees and invited experts. Prioritizing regional development is also made possible by implementing an area dedicated to the sustainable development of the Legal Amazon, headquartered in the region itself and aimed at production inclusion, preserving the biome and better dialogue with local authorities. In addition, our presence in the surrounding areas of large-scale projects has become more and more structured, reflecting the efforts made so that benefits from undertakings result in improved standards of living for the local population.

### Diversification and efficiency

This was also the year that marked the beginning of the transition to a new level of performance through reviewing operational policies that regulate financial support conditions. Thus, we have the challenge of focusing on priorities to combine lower disbursement levels with stronger investment rates, ensuring that the cycle of investment continues as does the support to strengthen small and medium-sized enterprises.

For this, it will be increasingly important to foster diversified financing sources, strengthening our role in structuring projects and enabling complementary investment sources, especially the

capitals market and corporate securities. Together with the revision of the model, we optimized processes and internal governance, with a certain impact on reducing the time required for processing funding requests.

In keeping with the challenge to diversify funding sources, our office in London raised international funds for the first time, generating gains for the BNDES and Brazilian companies. Also noteworthy is the institutional progress achieved by formalizing an agreement to establish the New Development Bank, that is, the development bank for the BRICS countries.

In this coming year, the outline of the macroeconomic policy provides the BNDES the opportunity to play an important role in increasing competitiveness in the Brazilian economy, a basic condition to regain steady growth and help reduce inequalities. For this, the Bank will be prompted to work proactively in identifying advancement opportunities and proposing solutions for future issues. I am deeply confident that the BNDES' excellence and creativity will enable it to meet this challenge.

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## WHAT IS

### a development bank?

Development banks are public institutions that emerged in the 1940s during worldwide postwar reconstruction efforts and, since then, have played a significant role in the socio-economic development of the countries and regions where they operate, in accordance with the different stages respectively, whether the scenario is one of stability or crisis.

Each institution has its own way of operating, but by and large, all of them invest intellectual, human, social and financial capital – the latter, in general, employing public sources – to help implement policies and to prompt the private and public sectors to take risks and challenges concerning long-term strategic investments. Over the recent decades, growing attention has been paid to the integration of economic, social and environmental spheres of development.

## WHAT

### does the BNDES do?

The BNDES operates as the main instrument to implement the Federal Government's investment policy, with the task of fostering sustainable and competitive development of the Brazilian economy, generating employment and reducing social and regional inequalities.

## HOW

### does the BNDES relate to other levels of government?

The BNDES is a federal publicly-owned company linked to the Ministry of Development, Industry and Foreign Trade.

The Bank's efforts are established by the Advisory Board, the Auditing Committee and the Fiscal Council, and it reports to several levels of the government: the Ministry of Finance, the Ministry of Planning, Budget and Management, the Central Bank, Brazilian Congress, the Office of the Comptroller General and the Federal Court of Accounts.

## WHO

### are the BNDES' main partners?

The BNDES promotes development in partnership not only with its clients receiving financial support – public, private or individual entrepreneurs of all sizes and from across the country – but also with accredited financial institutions that onlend resources.

## WHAT

### does the BNDES use?

To carry out its efforts, the BNDES has long-term financial resources, structured processes, solid practices, governance policies, deep knowledge of the Brazilian economy, committed and skilled employees, as well as a wide range of relations with the various spheres of civil society, government, intermediary financial institutions, and international organizations.

## WHICH are the BNDES' main activities?

- Financial support for projects
- Structuring public concession projects and public-private partnerships
- Aiding the government to formulate public policies
- Producing knowledge

**WHAT** are the forms of support available for undertakings?  
Long-term financing and operations in the capitals market.

**HOW** does the BNDES define the conditions to support undertakings?  
Economic sectors and priority areas are defined based on public policies, the economic scenario and demand in the country. The BNDES' Operational Policies consolidate the financial support conditions in the form of products, lines of credit and programs. Priority sectors and areas have different conditions: better rates, longer payment terms, and higher percentages of financial participation by the Bank.

**HOW** does the BNDES take part in formulating public policies?  
Producing its own research or supporting studies, using non-reimbursable resources, technical studies or third-party research that can help formulate public policies and are related to economic and social development of Brazil and other territories that present opportunities for Brazilian companies, such as Latin America and Africa.

**HOW** are the operations to support undertakings carried out?

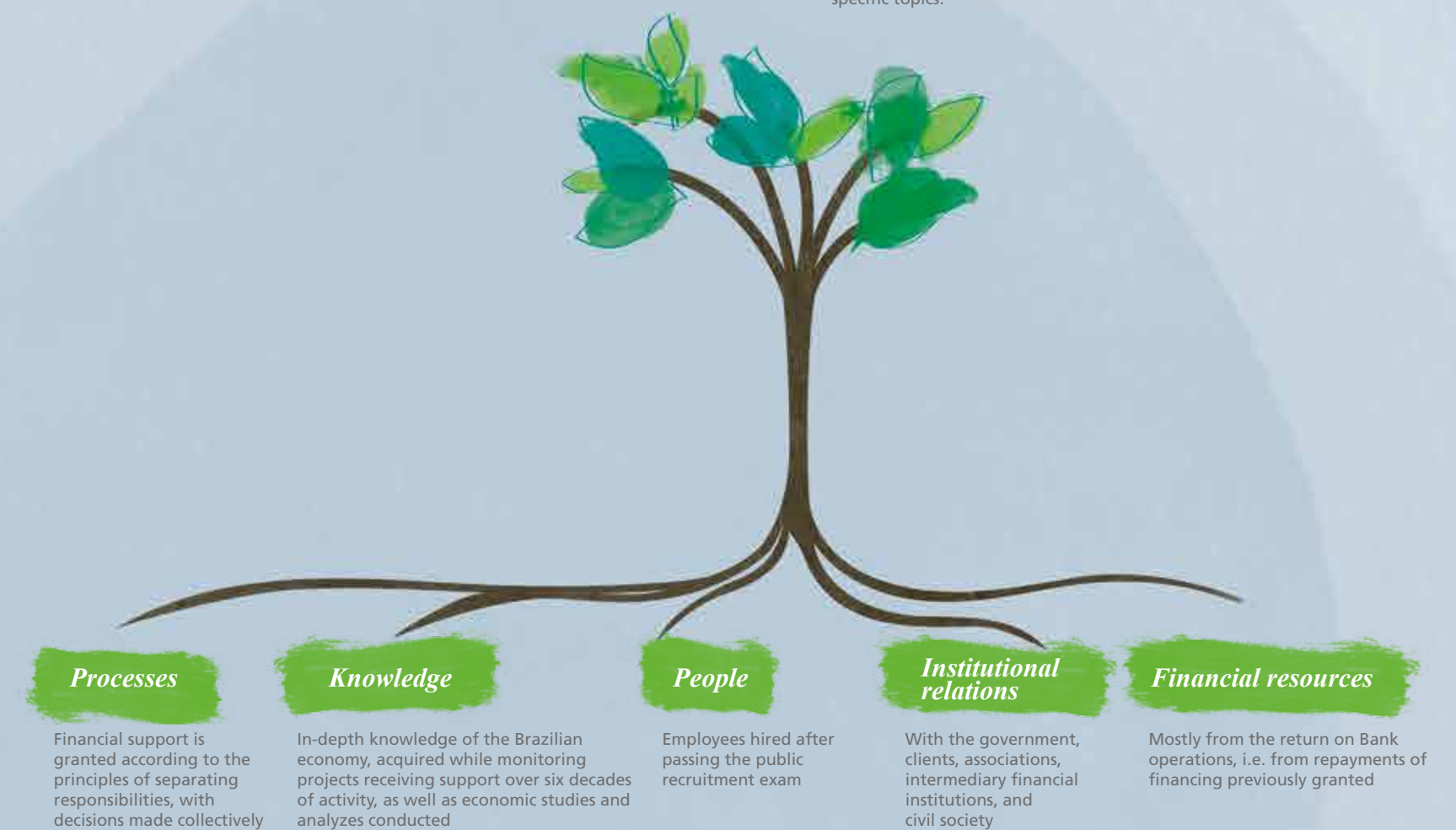
Financing granted directly to clients;  
Indirect financing (conducted through financial institutions, such as commercial banks);  
Financing using the Investment Guarantee Fund (FGI);  
Financing through the BNDES Card, also with the participation of financial institutions;  
Operations in the capitals market through the subsidiary BNDESPAR, such as the subscription of shares, convertible debentures, stakes in investment funds, and other securities.

**HOW** does the BNDES take part in structuring projects?

The BNDES supports public concession projects and public-private partnerships in any of the spheres of government, taking part in several stages of the process, such as contracting feasibility studies and research, issuing public calls-for-submission, including running the public tender itself, and authorizing the private sector.

**HOW** does the BNDES produce knowledge?

Bank employees analyze the economy, economic sectors and national development. The BNDES also contracts third parties to conduct studies on specific topics.



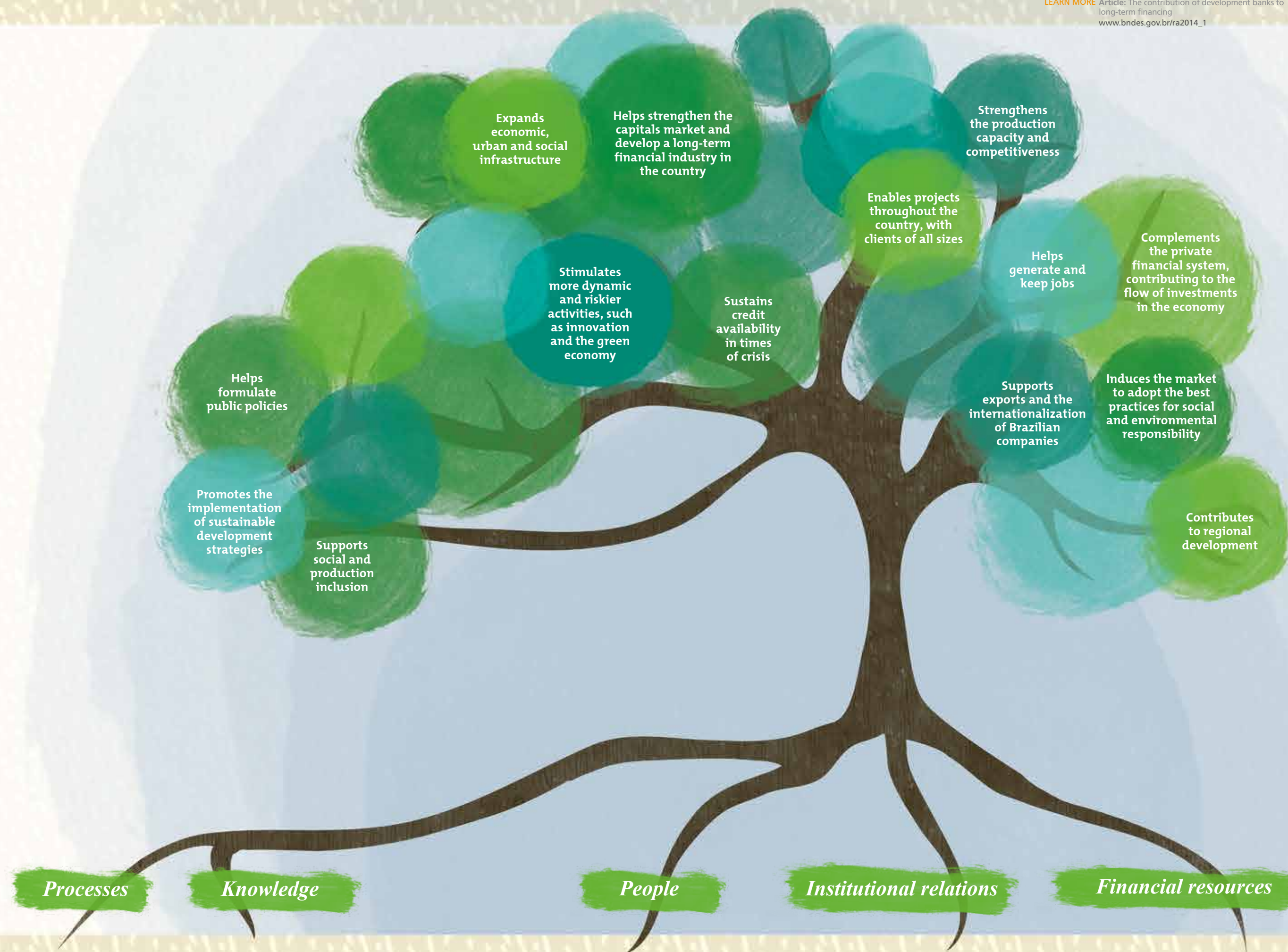
LEARN MORE Article: The contribution of development banks to long-term financing [www.bndes.gov.br/ra2014\\_1](http://www.bndes.gov.br/ra2014_1)

## WHAT

### does the BNDES deliver to society?

Attentive to development in Brazil and in order to meet upcoming challenges, the BNDES operates in an all-encompassing, diverse and comprehensive manner. A set of policies and procedures, as well as several technical, financial and institutional support products and mechanisms, guide and implement its operations based on an integrated vision of sustainable development.

More than a mere goal, sustainable and competitive development is a dynamic process that, at each stage, requires the institution to perform differently. The figure to the left shows the main deliveries to society that the Bank makes to foster development.



All requests forwarded to the Bank for financial support are analyzed according to the principle of separating responsibilities – that is, each phase in a financing operation involves different teams –, with decisions made collectively.

Granting financial support is one of the BNDÉS' most important processes. Its phases vary in accordance with the amount of financing requested and the participation of partner agents – among them, most of the financial institutions in the country –, which

could be intermediaries in the financing operation, fully or partially taking on the credit risk (non-payment) of the operation. Operations are then classified as direct, non-automatic, and automatic indirect operations.

## ACROSS-THE-BOARD TOPICS

Social and environmental aspects, as well as innovation and regional development, are features taken into account throughout the different stages of financing, so as to assess impacts and induce integrated investments into projects. Further information is available in the *Innovation, socio-environmental and regional issues* section.

## SECURITY AND AGILITY

The Bank is making efforts to reduce the minimum time to award financing, ensuring the security of financial operations that, thanks to the quality of analyses conducted, present default rates below the average in the National Financing System. Further information is available in the *Management practices and Financial sustainability* sections.

## DATA ON OPERATIONS

The BNDÉS' financing operations are displayed on the Bank's website, in the Transparent BNDÉS section. In 2014, the Bank implemented changes to its website that have made consultation more comprehensive – disseminating information on all automatic indirect operations, except on those involving the BNDÉS Card – and easier, thus enabling access to information per financed company.

- **DIRECT OPERATIONS**  
As of **R\$ 20 million** with no financial agent
- **NON-AUTOMATIC INDIRECT OPERATIONS**  
As of **R\$ 20 million** with a financial agent
- **AUTOMATIC INDIRECT OPERATIONS**  
Up to **R\$ 20 million** with a financial agent

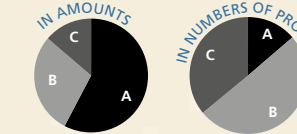
## 1 CONSULTATION

● ● Forwarding a consultation to the Bank – directly or through partners – with information on the company and the project for which the client plans to receive support establish the beginning of the process.

## 2 ELIGIBILITY

● ● The BNDÉS, in accordance with previously established parameters, assesses whether the request contributes to sustainable and competitive development of the country and whether the interested party has the financing conditions required. At this stage, the most appropriate financing products to meet the support

request, such as fixed income, variable income and combined products, are also identified. Also at this stage, the operations that can be classified in accordance with the environmental risk. The charts to the right show the risk profile of projects classified in 2014 (more details on page 29). ● Q1



- A. Activities related to significant or regional environmental impact risks.
- B. Activities associated with lesser or local environmental impact.
- C. Activities do not present any apparent environmental risk.

## 3 ANALYSIS AND APPROVAL

● ● From the new information forwarded by the interested parties or the financial agent, requests classified as eligible undergo a thorough analysis, carried out by multidisciplinary technical teams specialized in the economic sector of the project. At this stage, they assess the guarantees offered and conduct a study on the economic-financial viability of the project, including market analysis, the corporate strategy and company

governance. The social and environmental aspects of the initiative are analyzed in accordance with the BNDÉS' Socio-environmental Policy and guidelines that deal with socio-environmental issues, which are particular to every sector. Another instrument to assist in this analysis is the Company Assessment Methodology (MAE), which assesses intangible assets, such as the company's level of commitment to social and environmental responsibilities and associated practices. ● Q2

● In automatic indirect operations, which are swifter, the financial agent receives, classifies and analyzes the request for financing. After credit is approved, the partner seeks the Bank's approval. Without said approval from the BNDÉS, resources are not released.



**ELIGIBILITY ANALYSES ARE FORWARDED TO A COMMITTEE, COMPRISING EMPLOYEES FROM ALL AREAS OF THE BANK, WHO DISCUSSES IF THE REQUEST WILL BE APPROVED.**

## 4 AWARDING

● ● ● Approved requests are awarded in compliance with the Bank's legal standards. It is important to mention the Social Clause in these contracts, which outlines the struggle against discrimination based on race or gender, child labor and slave labor in Brazil. The Social Clause clearly states that proof of such illegal acts may result in the operation being suspended or terminated ahead of time.

**TECHNICAL ANALYSIS IS SUBMITTED TO THE BNDÉS' BOARD OF DIRECTORS TO APPROVE FINANCING.**



## 5 DISBURSEMENT AND FOLLOW-UP

● Resources are released in stages, in accordance with the implementation of parts of the project. The BNDÉS analyzes the documents that prove the use of financing in compliance with the physical and financial schedule, besides visiting the supported projects. This follow-up process is essential to mitigate credit risk and guarantees the Bank has comprehensive knowledge of many sectors in the Brazilian economy.

● ● In the case of indirect operations, the financial agent performs the detailed follow-up, and the BNDÉS monitors the operations through samples. With regard to automatic indirect support alone, in 2014, follow-up was conducted for some 3,679 lines of credit.

## EFFECTIVENESS

**Besides following up on each project receiving support, the Bank has been fine-tuning its monitoring for direct and indirect impacts resulting from efforts to develop the country. To do so, an important corporate project entitled Effectiveness is underway.**



To meet the varied needs for financial support with a comprehensive view to development is one of the BNDES' challenges. To do so, the Bank boasts a portfolio of policies as well as different products and support instruments. These are always aligned with governmental

policies and in tune with the economic moment and the country's needs. This portfolio enables reimbursable and non-reimbursable financing, fixed- and variable-income market operations, and guarantees. ●

**Products**

Products define systematic operationalization for financing and are designed to enable support not only for public and private enterprises, but also for the production, commercialization and acquisition of goods and services, serving clients of different sizes. Operations can be carried out directly with the BNDES or through a network of accredited financial institutions, in the form of indirect non-automatic support. Products can be characterized per se – such as the BNDES Card – or are linked to credit lines and programs that have specific

conditions for economic sectors, types of customers and investments. There are also funds for reimbursable financing, in which the origin of resources and regulation for support are external to the BNDES – for example, the Merchant Marine Fund and the Climate Fund. All applications for these funds are carried out by means of a BNDES product. The Bank also works with products from the capitals market, through the subscription of bonds, corporate securities in public offerings and investment funds. ●

**Non-reimbursable resources**

Resources do not need to be reimbursed, and investment is restricted to projects of a social, cultural, environmental, scientific and technological nature, complementing reimbursable financial support from the BNDES in these strategic areas. Resources derive partly from the Bank's profit, such as the Social Fund, or from external donations, such as the Amazon Fund. It is important to mention that should the beneficiary institution fail to fulfill obligations established in non-reimbursable financing, it is obliged to repay resources to the Bank.

**Guarantee funds**

There are also funds to complement the BNDES' financing guarantees, such as the Investment Guarantee Fund (FGI), an important instrument aimed at improving access to credit for micro, small and medium-sized enterprises. In this case, there are no disbursements for operations, only payments to the agent who took on the credit risk in default cases.

**IN FOCUS**

Operational Policies consolidate the regulation of the BNDES' policy portfolio, products and financial instruments and are regularly monitored for updates. The Operational Policies were revised and have been in effect since February 2014. Aligned with government guidelines, they focus on maintaining and expanding investments while giving way to greater participation of the private sector in long-term financing, and co-financing opportunities with the private financial system for projects through debentures. ●

The portfolio of instruments has been simplified and new conditions allow gradual change in the Bank's levels of participation as well as the financial cost profile, with reduced stakes in Long-term Interest Rate (TJLP) and including other currencies

in financing operations. Priority sectors have lower financial costs, longer payment terms and a higher percentage of financial participation by the Bank. ●

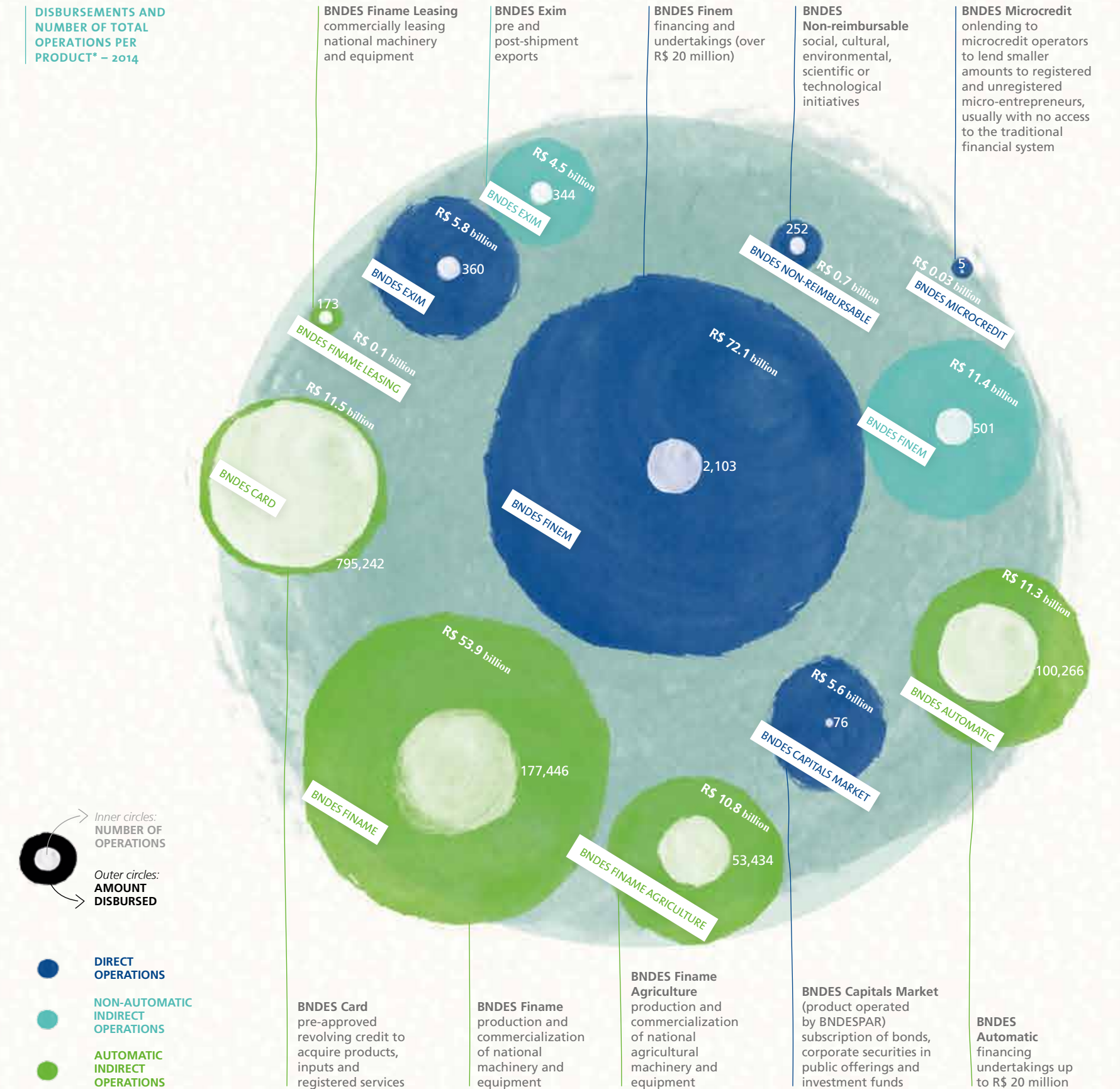
In infrastructure, better conditions were offered to logistics and energy infrastructure, with reduced financial costs and higher levels of participation. Sanitation, urban mobility and projects to modernize public administration were also favored with similar conditions. In the industrial area, priorities were the production of capital goods, engineering and knowledge-intensive sectors, as well as the creative economy. Other priorities include initiatives in the innovation area, technical and technological services and operations that support exports. Projects related to the environment, production

and social inclusion, as well as social efforts made by companies also had access to the Bank's most attractive terms. Entrepreneurs now also have access to conditions that are more favorable as long as, in their projects, they adopt sustainability standards (such as energy efficiency certifications), or the projects are carried out in less developed regions. The Investment Maintenance Program (PSI) of the Federal Government, which supports purchases or exports of capital goods and investments in innovation, was maintained with adjusted conditions for 2014.

These new financing rules increased the priority given by the BNDES to micro, small and medium-sized enterprises (MSME), as they establish that the BNDES' maximum level of participation in an

MSME will always be higher than that in large enterprises. The new conditions were practiced in 2014 and at the end of the year they underwent a review, which generated a new version of the PO to be applied in 2015. The purpose is to continue offering the best possible conditions to priority sectors and ensure that, even with the reduced financing stake in TJLP, there are plenty of resources the BNDES can employ to finance investments, using market cost installments to do so. ●

DISBURSEMENTS AND NUMBER OF TOTAL OPERATIONS PER PRODUCT\* – 2014



# The BNDES in numbers

Present in all sectors of the economy, the Bank serves clients from all regions of the country and of different sizes, ranging from micro and small enterprises to large-scale companies, as well as the public and third sectors.

The Bank's strategy aims at stimulating innovation, local and regional development as

well as socio-environmental development. These are aspects it has elected as the most important for economic support in the current context.

Some R\$ 187.8 billion was disbursed in 2014. Highlights include maintaining the path of growth in releases to infrastructure and innovation, as well as disbursement levels

to the North, Northeast and Central-West regions.

The following illustration shows the main figures in the BNDES' operational performance in 2014. Q3

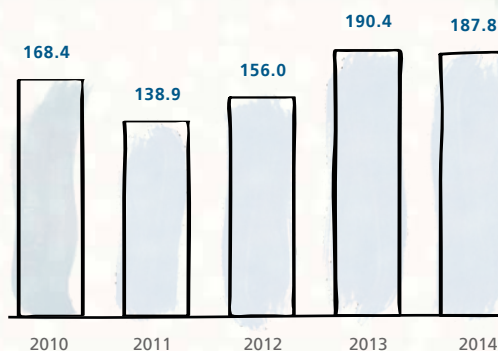
### Economic scenario

The BNDES' disbursements in the last few years reflect the institution's efforts to sustain the offer of credit following the European crisis and that in 2008. The Bank, since 2013, has gradually begun to moderate its activities. Accordingly, for the second consecutive year, eligibility and approvals presented a 16% and 14% reduction, respectively.

More information on the steps in the financing approval can be found in the *Processes and governance* section.



TOTAL DISBURSEMENTS (in R\$ billion)



\* Does not include individuals.



R\$ **5.9** BILLION innovation

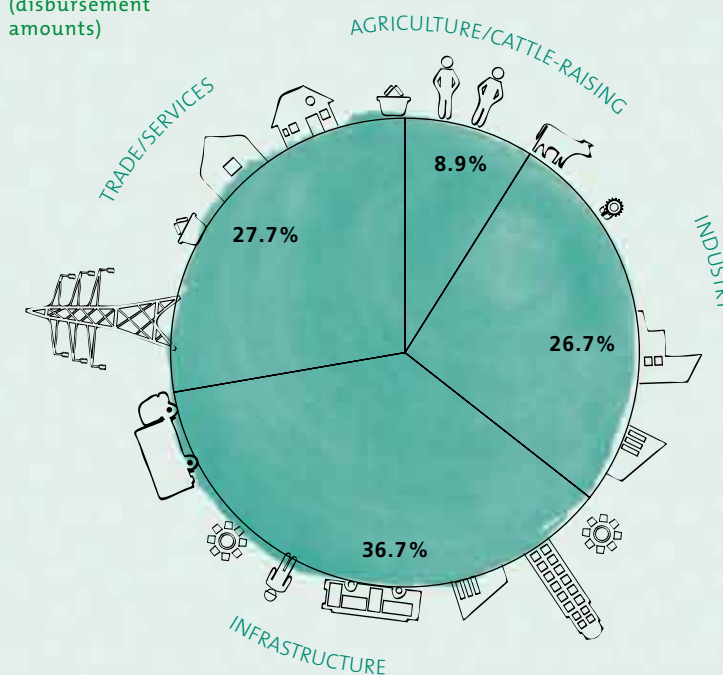


R\$ **25.9** BILLION social development Q3

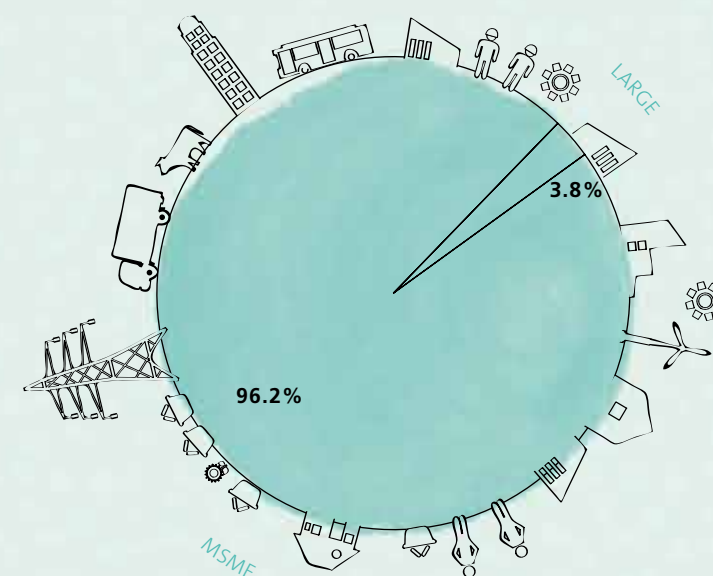


R\$ **28.3** BILLION green economy Q3

DISTRIBUTION PER SECTOR (disbursement amounts)

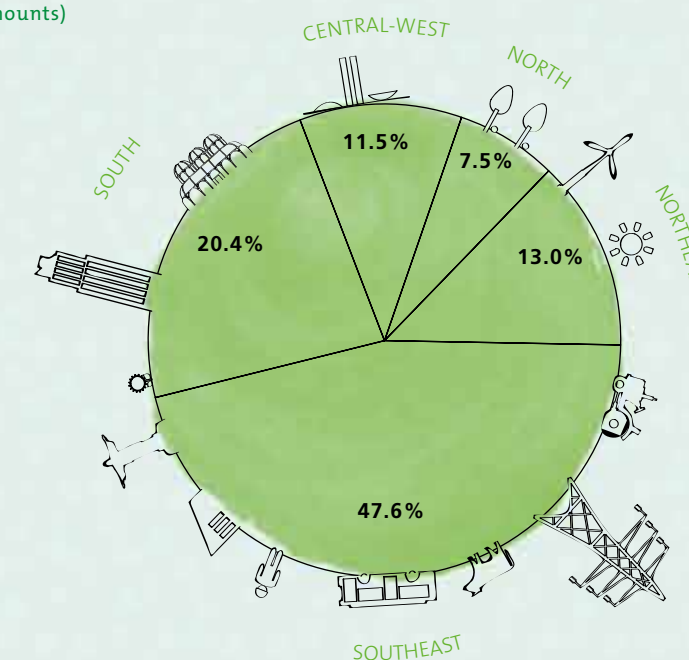


DISTRIBUTION PER CLIENT SIZE (number of operations)

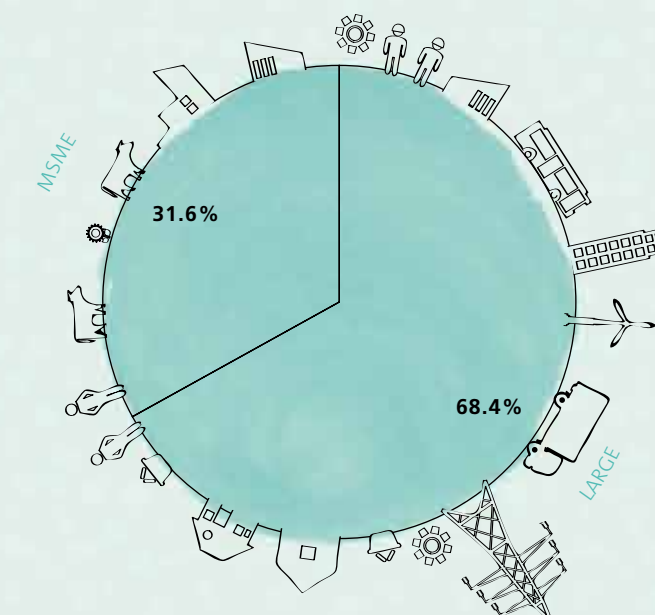


Support for micro, small and medium-sized enterprises (MSME) and individuals remains expressive: some 96% of the financial support operations carried out in 2014 were in this segment.

DISTRIBUTION PER REGION (disbursement amounts)



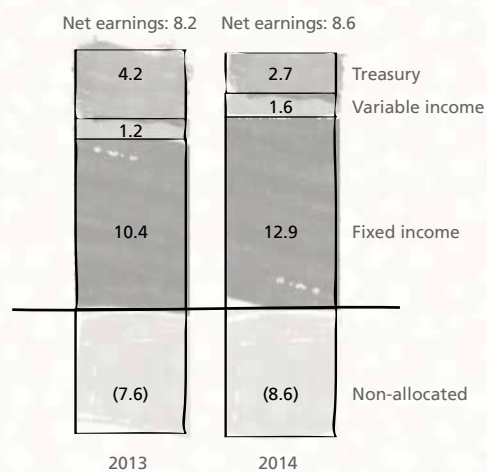
DISTRIBUTION PER CLIENT SIZE (disbursement amounts)



Responsible for large-scale investments in the economy, larger companies are essential in developing the country. From the 500 largest companies headquartered in Brazil, some 480 maintain banking relations with the BNDES.

The BNDES' net earnings reached R\$ 8.594 billion in 2014, an increase of 5.4% compared to the R\$ 8.150 billion recorded in 2013, due to the increase in income from financial intermediation stemming from the 15.2% rise in the credit and onlending operations portfolio, which is the BNDES' main asset, equivalent to 74.2% of total assets on 12.31.2014.

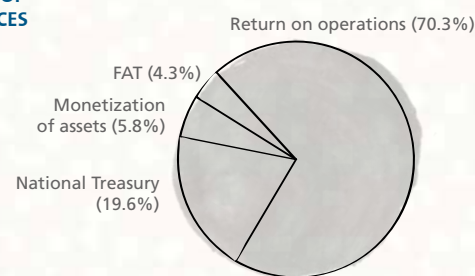
**INFORMATION PER SEGMENT**  
(in R\$ billion)



**Segments**

Fixed income: mainly credit and onlending portfolio.  
Variable income: mainly corporate stakes and investment funds.  
Treasury: management of available cash and cash equivalents.  
Non-allocated: basically, tax, administrative and personnel expenses.

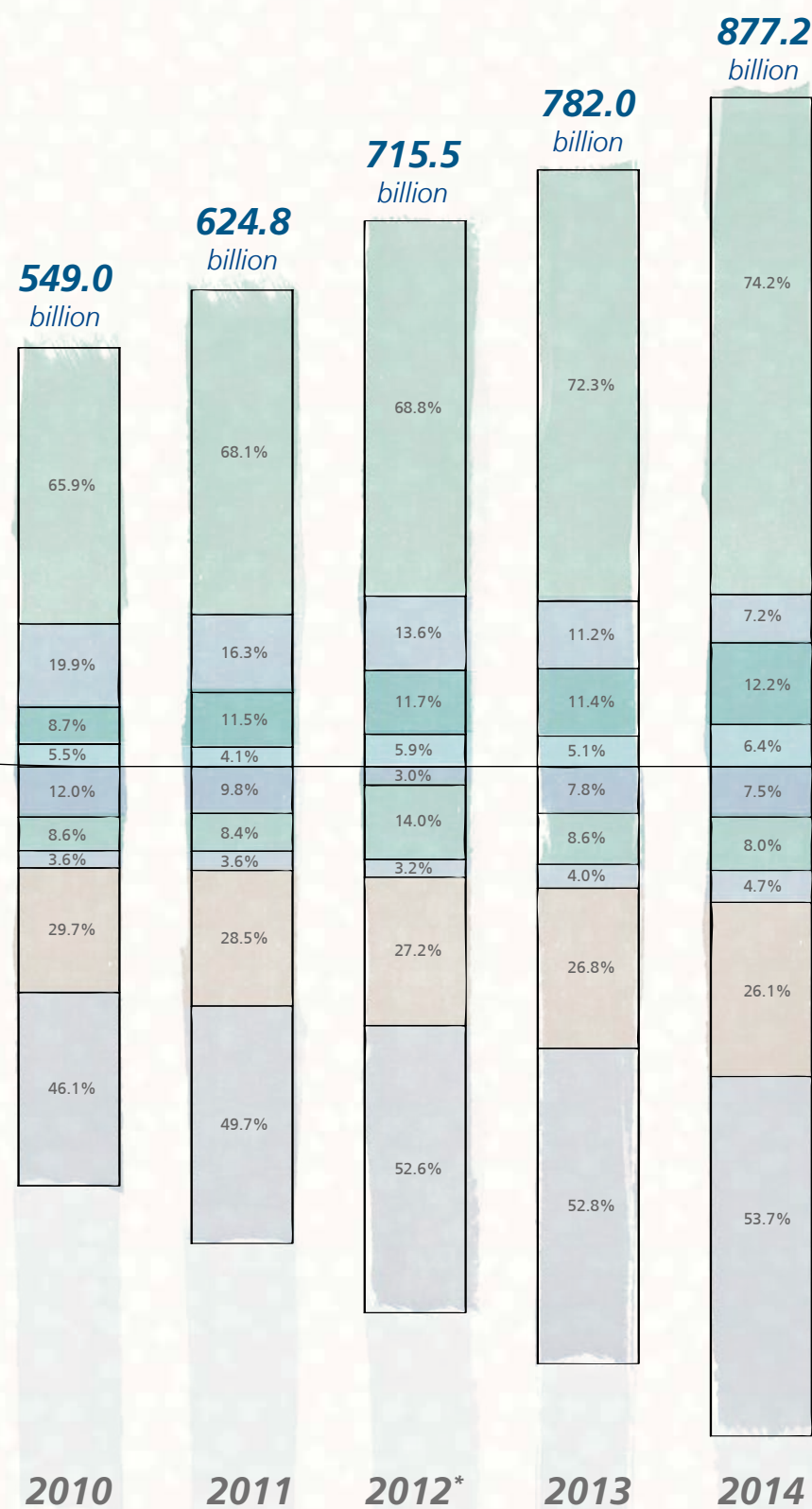
**CASH FLOW PER SOURCE OF RESOURCES**



Return on the BNDES' operations is the main source of resources for its disbursement and investment budgets.

**Total liability**

**Total assets**

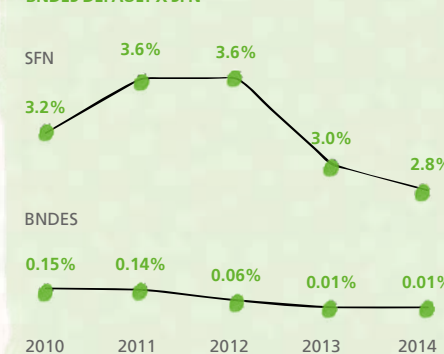


\* Amounts for 2012 previously disclosed were adjusted for comparison as required by accounting norms.

**CREDIT PORTFOLIO AND ONLENDINGS**

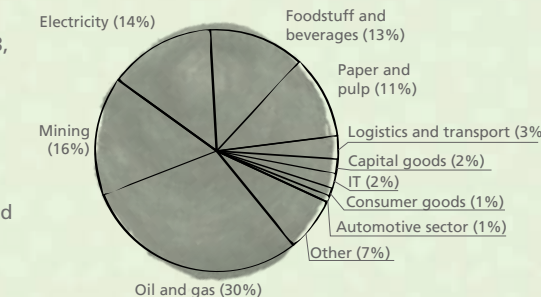
The main asset of the BNDES System includes the loans and financing conducted directly by the BNDES or through partner financial institutions. The 15.2% growth in 2014 reflects the increase in operations in national currency, especially under the Investment Maintenance Program (PSI). In 2014, credits classified between AA and C levels, considered low risk, represent 99.7% of the total portfolio, higher than the 93.2% average in the National Financial System (SFN).

**BNDES DEFAULT X SFN**



The default rate reached 0.01% on December 31, 2014, equal to the lowest rate in history recorded on December 31, 2013, reflecting good management and the high quality of this portfolio, consistency in operational policies, and the BNDES' role as a development bank. Throughout 2014, the volume of renegotiations carried out, which is equal to 0.7% of the credit portfolio, is one indicator that confirms the care the BNDES takes in granting credit. In 2013, renegotiations reached 1.2% of the credit and onlending portfolio.

**VARIABLE INCOME PORTFOLIO OF THE BNDES SYSTEM PER SECTOR**



The variable income portfolio of the BNDES System ended December 2014 with a market value of R\$ 79.5 billion, distributed per sector as the chart shows.

**CORPORATE STAKES (SHARES)**

Shares that the Federal Government included in the BNDES as capital, as well as minority and transitory stakes that represent an instrument to support capitalization and to develop national companies, as well as strengthening Brazil's capitals market. The 27.8% drop in 2014 was caused by the depreciation of the corporate stake portfolio in non-affiliated companies.

**BONDS AND SECURITIES**

Comprising public bonds and debentures.

**OTHER ASSETS**

**NET EQUITY**

In 2014, aiming to expand operational capacity and strengthen its capital structure, a R\$ 20.539 billion debt with the National Treasury was renegotiated and recognized as instruments that are eligible to be deemed principal capital.

**Indicators**

	2013	2014
Basel Index	18.7%	15.9%
Principal Capital Index	10.4%	10.6%
Tier 1 Capital Index	12.5%	10.6%
ROA	1.1%	1.0%
ROE	16.5%	13.1%

**OTHER LIABILITIES**

**FUNDRAISING ABROAD**

Issuance of bonds, loans from multilateral institutions and other loans. In 2014, some R\$ 8.2 billion was raised through external fundraising.

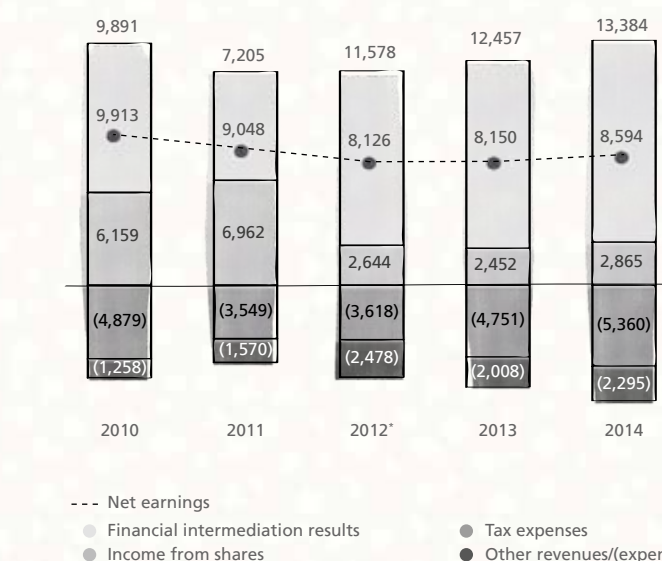
**PIS-PASEP AND FAT**

Since 1988, the PIS-PASEP Fund has not received any more resources, which are now allocated to the Workers' Assistance Fund (FAT). Of the total of this revenue, the Brazilian Constitution guarantees that 40% is secured for the BNDES. The cost is mainly pegged to the TJLP, or to the dollar. In 2014, some R\$ 22.3 billion was raised, of which 88.8% is from constitutional sources.

**NATIONAL TREASURY**

The National Treasury has been the BNDES' main creditor since 2010. The cost is mainly pegged to the TJLP. In 2014, some R\$ 60.0 billion was raised.

**RESULT**  
(in R\$ million)



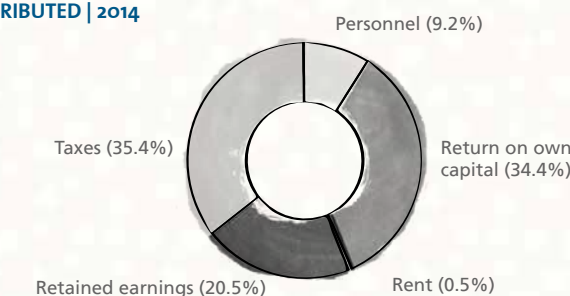
**FINANCIAL INTERMEDIATION RESULTS**

This is the results of investing resources in credit portfolios and onlending, as well as bonds and securities, net after allowances for credit risk. The 7.4% rise in income from financial intermediation in 2014 is due to the expanding credit and onlending portfolio, management of cash resources, and reduced costs for fundraising from the National Treasury.

**RESULTS FROM CORPORATE STAKES (SHARES)**

This is the result from investing resources in the variable income portfolio, which includes shares, variable income derivatives and investment funds. The 16.8% increase compared to 2013 is due not only to the improved result with equity equivalence, but also revenue from dividends, interest on own capital and income from divestitures, partially offset by increased expenses with impairment losses and reduced results from derivatives.

**ADDED VALUE DISTRIBUTED | 2014**



**GENERATED AND DISTRIBUTED WEALTH**

Using a global view towards performance, the Added Value Statement (DVA), which is an important indicator in assessing the social role, presents the company's contributions to generating wealth for the economy in which it operates, and its effective distribution to employees, the government, financial agents and their shareholders. The wealth generated and distributed by the BNDES in 2014 was R\$ 15.7 billion, some 9% higher than in 2013.

## Strategy and vision for the future

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Mature planning practices and strategy management enables the Bank to continuously improve the quality and efficiency of its efforts and the results it delivers to society. In 2014, the BNDES conducted a comprehensive review of its scenarios considering two-time horizons: 15 and three years. For the long-term, qualitative and quantitative, nonprobabilistic scenarios were constructed based on economic consistency models, encompassing both Brazil and the world, with emphasis on the BNDES' interests. Long-term scenarios inspire and guide the Bank's Strategic Planning, whose projected time horizon is three years. To establish goals and objectives for Strategic Corporate Planning, quantitative projections are used for the world economy and Brazil, which, in addition to macroeconomic and econometric models, use information from the BNDES' survey entitled Investment Prospects. Both scenarios and projections guide the review of the Corporate Strategic Map (BSC), helping to build targets and indicators.

### Strategic Corporate Planning

Strategic Corporate Planning guides all the Bank's initiatives in four main perspectives: Sustainable and Competitive Development, Financial Sustainability, Internal Processes, as well as Learning and Competence. The first concerns the BNDES' contribution to Brazil's development based on government plans and the current economic scenario. The other prospects, although they are also coordinated with the external environment, are aimed at developing the BNDES and its products, processes and governance. Each perspective is divided into objectives. Revising Strategic Corporate Planning for the 2015-2017 period not only maintained the four perspectives of the Strategic Map, but also refined the strategic objectives, clarifying propositions and aligning expectations in relation to identified scenarios. Besides this, the corporate project portfolio was defined for 2015.

### Corporate projects

The 2014 corporate project portfolio consisted of 18 projects related to: innovation; effectiveness; sustainability; internationalization; Africa, Latin America and the Caribbean; the BNDES in the North; fixed-income instruments; sources of funding; the BNDES and the financial industry; guarantees; process governance; progress in management; foreign relations; improving analysis for financial support and

organizational adjustments; management reports; career development; institutional culture; and strategically managing people. Projects in the following areas are planned for 2014: climate change; support for medium-sized companies; the BNDES' efforts towards regional development; production chains; operational budget management; guarantees; progress in management; effectiveness; important audiences; prioritizing and allocating structures and people; information technology; digital information; business continuity; allocating and reincorporating people; and institutional culture. ●

### Award

The BNDES was one of the winners of the 15th edition of the award entitled the Palladium Balanced Scorecard Hall of Fame for Executing Strategy, presented annually to companies around the world that achieve extraordinary performance results by using strategic management models based on the Balanced Scorecard. The distinction is awarded by the Palladium Group, the world's leading consulting firm in strategic management and founded by Dr. Robert S. Kaplan and Dr. David P. Norton, the creators of the Balanced Scorecard. With this, the Bank has now become one of more than 190 institutions from over 30 different countries, recognized worldwide for their excellence in strategic management.

### IN FOCUS

#### BRAZIL AND WORLD SCENARIOS FOR 2030

In the international environment, two alternative, nonprobabilistic scenarios were identified for 2030: the first corresponds to an environment in which the two most powerful nations on the planet – the USA and China – manage to reconcile their interests and form an alliance in the next 15 years. Based on this alliance, their leadership may be able to establish the rules of the game in commercial, financial, monetary, environmental, political and military fields, among others. These rules are to be obeyed by most nations, creating thus a Pax Sino-Americana, which, in terms of international economic relations, is a sort of new Bretton Woods

agreement (dating back to 1944, it established rules for financial and trade relations between countries). The new international divide of labor may create two possibilities for emerging countries to step into the game: more specialization in commodities versus diversification based on disseminating new production technologies. In the second international scenario, no country or group of countries can become sufficiently powerful and influential enough to play a hegemonic role. Given the collective inability to establish rules for the world economic and political game, national policies that make use of non-market instruments will tend to prevail and try to defend their own

interests, which often clash and conflict with global interests. Globalization may fall behind, and multilateral organizations may become weaker. There may be disputes for access to secure sources of raw materials, especially among Asian countries. Climate change is expected to cause significant socio-economic impacts while proliferating political and military conflicts. In the new labor divide, there will be restrictions on disseminating new technologies, which limits developing countries from taking part in the worldwide trade of manufactured goods. Regarding the national environment, two alternative and nonprobabilistic scenarios were also identified for 2030.

In the first, there is a clear development project that simultaneously allows: official insertion into the international labor divide; strengthening innovative capacity; and social and environmental responsibility. Political pacts, strong institutions and clear governance will enable this project to be implemented. In the second scenario, government efforts will prevail, which is merely a reaction to internal political demands and the external environment. This may result in slow insertion into the international economy and a sequence of overlapping and possibly conflicting policies. There may be much political instability and economic volatility.

## FOSTERING development

Infrastructure: a decisive sector  
Innovation, socio-environmental and regional issues  
Social and production inclusion  
Competitiveness of Brazilian companies  
Generating knowledge

## Management practices and INSTITUTIONAL RELATIONS

Management practices  
Institutional relations

## Financial SUSTAINABILITY

Diversifying and Integrating products  
Equity structure  
Risk management and return

## Developing COMPETENCE

Innovative environment  
Personal and professional development  
Strategic staff management

In light of BNDES' strategic planning and capitals used to foster sustainable and competitive development, the main achievements in 2014 were organized into four blocks, as highlighted below.

It is worth noting that the review of planning for the 2015-2017 period will be reflected in the Bank's performance as of 2015. For this reason, so as to organization this report, focus was on the planning that helped guide the BNDES' efforts up to 2014.

## Infrastructure: a decisive sector

Advances in infrastructure foster improvements to the population's standard of living, while integrating regions and increasing the competitiveness and productivity of companies in all economic activities, which is why this sector has received such expressive financing from the BNDES.

Support for infrastructure includes **fixed-** and **variable-income** products and has favorable financing conditions in relation to loan terms and financial costs, which is a decisive factor in reducing tariffs charged for public services when becoming operational, in addition to guaranteeing the feasibility of higher risk and more complex projects. ●

To diversify and integrate financial products, the BNDES has encouraged sector projects

to issue **debentures** (negotiable instruments issued by corporations). Fourteen projects that were approved for financing this year expect to issue debentures with guarantees shared between the Bank and the debenture holders – that is, if the issuer fails to meet its financial obligations with debenture holders, these creditors may claim these guarantees for the financing agreement that it signed with the BNDES. This is a mechanism that provides

more safety and encourages the purchase of debentures. Issuing debentures enables an additional **financial leverage** of 10% on average. Thus, long-term financing from BNDES and the **funding** from the capitals market together form a complementary system. ●

The BNDES, through its subsidiary BNDESPAR, also buys stakes in companies that can prospect new business in the sector. In addition, it assists the federal and state governments to structure

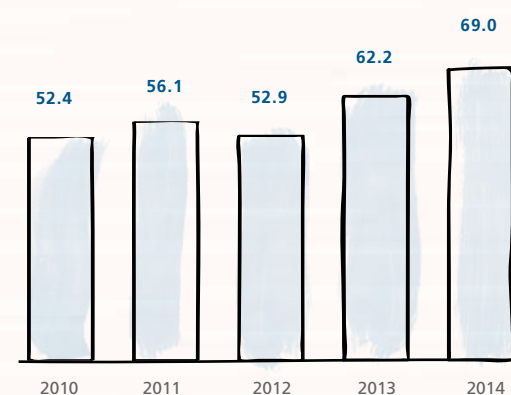
concessions for the private sector and public-private partnerships (PPP).

In 2014, the cycle of investment in energy and logistics remained high. In energy, we seek to expand operations in sectors such as generation (hydro, wind, thermal, nuclear and biomass) and transmission, distribution and rationalization of energy. In logistics, highways, railways, airports, navigation, ports, terminals and warehouses receive support.

Financing for urban mobility projects follows a trend of strong growth. Throughout 2013 and 2014, the main high and medium-capacity transport systems received support from the BNDES. These are sectors that help improve urban mobility in Brazil's main metropolitan areas.

These investments in high and medium-capacity transport systems financed by the BNDES are part of a larger block of investment headed by

DISBURSEMENTS TO  
INFRASTRUCTURE  
(in R\$ billion)



Energy, logistics and urban mobility were the highlights in 2014's disbursements. In addition to receiving the most significant releases in infrastructure in the year, these three areas of activity received significant approvals for new financing, proving that the investment cycle continues to grow. Energy and logistics, for example, reached R\$ 28.9 billion in approvals for 79 operations, which will add 2,534 MW to the electricity grid and 2,594 km to the highway network.

### IN FOCUS

#### AIRPORTS

A **bridge loan** of R\$ 1.1 billion to the Concessionária Aeroporto Rio de Janeiro S.A., which took on operations of the Antonio Carlos Jobim/Galeão International Airport for the next 25 years. The investment plan aims to expand and modernize the airport. By 2016, there are plans to expand the aircraft aprons and stands (parking for planes), arrivals and departure facilities, as well as parking lots. ●

#### HIGHWAYS

In 2014, bridge loans were approved for investments in the following highways: BR-050/GO/MG, BR-060/153/262/DF/GO/MG, BR-163/MS, BR-040/DF/GO/MG and BR-163/MT, all auctioned off in the previous year in concession process to the private sector conducted by the Federal Government with the Bank's support. Financed projects are aimed at recovery, operation, conservation, expanding capacity and maintaining the level of highway services, and are part of the government's Investment Program for Logistics. It is worth noting that, in 2014, another stretch of highway, BR-153/TO-GO, whose concession was structured with the help of the Bank, was auctioned off. All together, the highways correspond to investments of over R\$ 32 billion for the next 30 years.

#### WIND FARMS

Nineteen projects or wind farms were approved for financing in the year. Together they amount to a further 2,150 MW in the system and are a reflection of the success that this sector has achieved in energy auctions. Among the operations, it is worth mentioning support to the tune of R\$ 580.8 million for the project Ventos de São Tomé of the Casa dos Ventos Group, which aims to implement seven wind farms in the state of Pernambuco with total installed capacity of 181.9 MW and energy sold in a 2013 reserve energy auction. More information on renewable energy is available in the Competitiveness section.

#### HYDROELECTRIC PLANTS

Approval of R\$ 504.1 million for the Cachoeira do Caldeirão hydroelectric plant, which will have an installed capacity of 219 MW and will be built on the Araguari River in the municipality of Ferreira Gomes (Amapá state).

### IN FOCUS



#### POWER TRANSMISSION

Some R\$ 899 million in financing was approved for the industry, making it possible to expand the interconnected transmission system, which helps add renewable energy to power plants and to foster energy exchanges between regions. The system also has boasted a system to avoid wasting resources, maximizing the way hydroelectric, wind and biomass sources complement each other.

#### BASIC HEALTH UNITS

A project structured with the help of the Bank to transfer, to the private sector, not only construction and reconstruction, and subsequent maintenance of 77 new basic health units, but also a facility for sterile material and a laboratory, in addition to providing related care services in Belo Horizonte (Minas Gerais state). Investments totaling approximately R\$ 400 million will benefit the population with more modern and well-maintained service units providing more efficient services.

#### IMAGE-BASED DIAGNOSIS

The public-private partnership (PPP) responsible for image diagnosis in the state of Bahia, structured with support from the BNDES, is the first in Brazil to transfer the responsibility for carrying out tests and issuing medical reports in public hospitals to the private sector. The project also helps improve services at public hospitals, by increasing the quality and reducing the waiting time for tests, allowing swifter and more accurate diagnosis. The winning bidder of the PPP was the AFP consortium comprising the companies Alliar, Fidi and Philips.

#### WATERWAYS

In December 2014, BNDESPAR was approved as a partner of Hidrovias, a **greenfield** company that provides integrated logistics in waterways in Brazil. The Bank will invest up to US\$ 40 million in the company to help implement projects focused on the use of waterways. ●

#### THE BNDES HEALTH PROGRAM

Created in 2010, this program provided financing in the amount of R\$ 962 million in nine operations and helped install 6,352 beds, of which 51% were earmarked for the Unified Health System (SUS). Comprising two sub-programs, the BNDES Health program seeks not only to strengthen the capacity of the SUS health services, with emphasis on philanthropic hospitals, but also to help improve infrastructure at health institutions of excellence recognized by the Ministry of Health. In the second sub-program, hospitals are required to use their own resources to invest at least 5% of the amount the Bank will provide in financing for projects to support the institutional development of the SUS.

#### STUDY ON MOBILITY

Support for a study on urban mobility with diagnosis and solutions for 13 municipalities in the metropolitan region of Florianópolis (Santa Catarina state), using non-reimbursable resources from the BNDES Project Structuring Fund (BNDES FEP). The result of a technical collaboration agreement between the state of Santa Catarina and the BNDES, solutions will benefit approximately 950,000 inhabitants, improving standards of living by upgrading public transport and integrating urban projects, with a long-term metropolitan vision. The project has the potential to be a model for other metropolitan areas in Brazil.

# Innovation, socio-environmental and regional issues

LEARN MORE Policy on support for innovation  
www.bndes.gov.br/ra2014\_6

PAC Mobility and the country's states. This set of investments totaled R\$ 92 billion, according to a survey conducted by the BNDES and presented in the next chart, highlighting which of these initiatives have been approved for financing or already have received support from the Bank.

In spite of contributions already made and planned investments, the urban mobility segment will require even greater investments in the coming years due to a large deficit. Mapped Investments comprise only the first cycle in resuming investment in urban mobility, and this is insufficient to cover the deficit. The BNDES' estimates for Brazil's 15 largest metropolitan regions emphasize a need for investments of approximately 4% of Gross Domestic Product (GDP), as shown in the chart below. It is worth noting that projects for investment in mobility require eight to ten years planning and implementation. More information on the study can be found in the publication *BNDES Sectorial* N°. 41, available at the BNDES' Digital Library.

**Projects receiving support from the BNDES\*\*:**

- Bridge loan approved or contracted
- Long-term financing approved
- Long-term financing awarded

\*\* Some requests for financing submitted for the other projects listed in the chart are under assessment and may or may not receive support from the Bank in the future.

**INVESTMENTS ESTABLISHED FOR URBAN MOBILITY\***

\*Includes only investments in high and medium-capacity transport systems.

State	Mode	Project	Investment (R\$ billion)
BA	Subway	Lines 1 and 2 – The Salvador and Lauro de Freitas Subway (implementation)	4.5
CE	BRT	Fortaleza Urban Transportation Program II	0.4
	Subway	East Line – Fortaleza Subway (implementation)	3.3
DF	BRT	South Route BRT	2.2
	Subway	West Route	
ES	BRT	Transcol IV Program – Greater Vitória	0.2
	BRT	Greater Vitória Region BRT (1st stage)	0.7
GO	BRT	North-South Route BRT	0.2
	LRV	Anhanguera Line Light Rail	1.4
MG	Subway	Belo Horizonte Subway – Lagoinha Complex	3.1
PR	Subway	Blue Line – Curitiba Subway (1st stage)	4.6
RS	Subway	Porto Alegre Subway (1st stage)	4.8
RJ	BRT	TransCarioca BRT	1.3
	BRT	TransCarioca BRT	1.5
	Subway	Line 4 Subway (implementation)	10.2
	Monorail	Line 3 Subway – São Gonçalo-Niterói	3.8
	Train	SuperVia (investment program)	2.2
SP	LRV	LRV Downtown Rio (implementation)	1.5
	BRT	Bus corridor	0.3
	Subway	Line 5 – SP Subway (expansion)	6.0
	Subway	Line 2 – SP Subway (expansion)	9.5
	Subway	Line 6 – SP Subway (implementation)	14.4
	Monorail	Line 17 – SP Subway (implementation)	3.2
	Monorail	Line 18 – SP Subway (implementation – 1st stage)	3.5
	Monorail	Line 15 – SP Subway (expansion)	5.6
	Train	Line 8 – CPTM (modernization)	0.7
	Train	Purchasing trains CPTM	1.8
LRV	Santos LRV	0.9	
<b>Total</b>			<b>92</b>

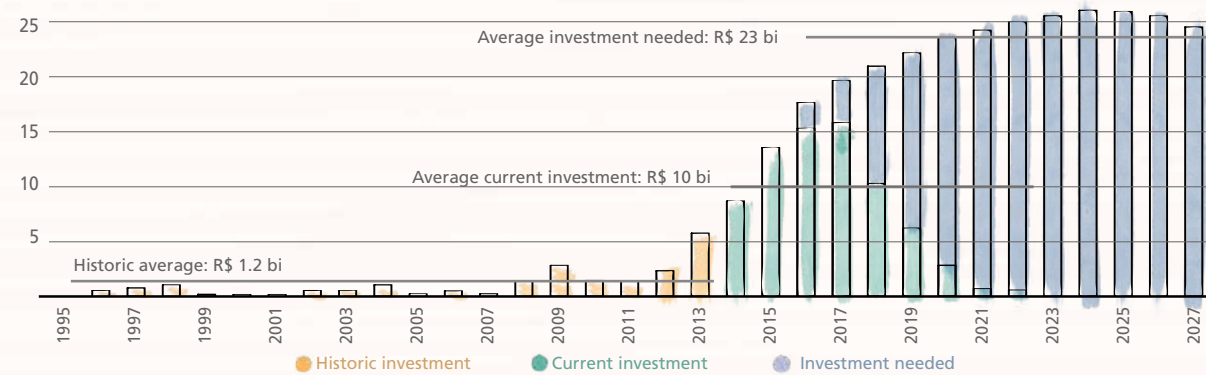
Source: BNDES

**IN FOCUS**

**OTHER MOBILITY PROJECTS**

In addition to the transport systems shown in the table above, the BNDES is financing other mobility projects, such as investments to implement and adapt nine bus terminals in the metropolitan area of Belo Horizonte, as well as two highways, earmarked to connect the Confins International Airport (Tancredo Neves) to Belo Horizonte and other cities in the state of Minas Gerais.

**ESTIMATE OF INVESTMENT NEEDED FOR URBAN MOBILITY (R\$ billion)**



Source: BNDES

Regional, socio-environmental and innovation challenges are part of all the BNDES' operations and activities. The BNDES prioritizes both support for investments focusing on each one of these aspects and the possibilities to integrate them not only with each other, but also with the different ways in which the Bank operates. With this, in addition to the highlights presented, these issues also permeate other deliveries contained in this report.

**Innovation**

The Bank, year after year, has expanded and diversified its innovation project portfolio, which reached R\$ 20 billion in operations with different financial support instruments.

To guide its efforts, the Bank uses the Brazil Maior Plan and the National Science, Technology and Innovation Strategy as a benchmark.

Based on these guidelines, it seeks to act in a complementary manner to the other institutions of the National Innovation System in all sectors of the economy, including the most traditional segments, which are considered low-tech.

Essential to improving the competitive positioning of Brazilian companies, innovation is a strategic priority for the institution. Innovation helps create skilled jobs and increase production efficiency, generating economic and social value for the country. Thus, the BNDES supports and fosters training and the construction of innovative environments, in addition to developing new products and new processes.

Among the Bank's products to support innovation, the BNDES Innovation Line is the main instrument. This low financial cost line of credit aims to support increased business competitiveness through investments in

**IN FOCUS**

**CRIATEC III**

In the *investment funds* modality, the BNDES started selecting managers for Criatec III, the third fund focused on investments in *seed capital*. Expected to begin in 2015, it will have a ten-year term, committed equity estimated at R\$ 200 million, and will invest in innovative companies with revenues of up to R\$ 12 million that operate primarily in the sectors of information technology and communication, biotechnology, new materials, nanotechnology and agribusiness.

The initiative aims to help develop *innovation ecosystems*, implement better management and governance practices, and disseminate entrepreneurial and *venture capital* cultures. The total amount committed by BNDESPAR may reach 80%.

**THE BNDES INNOVATIVE MSME PROGRAM**

This program was launched to increase the competitiveness of Brazil's micro, small and medium-sized enterprises (MSME), financing the investments needed to introduce innovations into the market. Part of the BNDES Innovative MSME resources may also be earmarked for working capital, required to financially strengthen innovative firms.

To be eligible for loans, companies must meet one of the requirements listed in the program regulations, which then qualifies the innovative character. It needs, for example, to have made investments in technology services using the BNDES Card or to be located in technology parks and/or incubators.

**THE BNDES PRODESIGN PROGRAM**

This program completed its first year of operations with approvals reaching R\$ 144 million. It was created with the premise that blend of innovation-design-fashion-marketing occupies an important position in the competitive strategy for certain industries, along with logistics and the control of sales channels.

The program's success has resulted in the following awards: 4th Brazil Design Award, Institution Supporting Design category, offered by the Brazilian Association of Design Companies and Brazil Design Center; and ABIT 2014 Medal of Merit, Public Institutions category, granted by the Brazilian Textile Industry Association (ABIT).

**ETHANOL**

The Sugarcane Technology Center (CTC) received R\$ 300 million in investments from BNDESPAR for research and development as well as commercialization of new varieties of sugarcane. In another transaction with the company totaling R\$ 71 million, the Bank is financing a project to build a second-generation (2G) ethanol demonstration plant, produced from sugarcane bagasse and straw, waste resulting from the production of conventional ethanol.

Abengoa Bioenergy has also received support from the Bank for a second-generation ethanol project. The company will build a third manufacturing plant to produce 2G ethanol in Brazil – which will also be the third to receive financing from the BNDES.

The project, developed in the municipality of Pirassununga (São Paulo state), will increase the capacity to produce ethanol at the plant in São Luis by 64 million liters. Financing totals R\$ 310 million.

Support for both companies is possible under the BNDES-Finep Joint Plan to Support Industrial Technological Innovation of the Sugar-ethanol and Sucochemical Industries (PAISS), an initiative that aims to foster the development and pioneering production of industrial technologies for the sugarcane production sector. Within the scope of the PAISS, some 35 business plans were selected, which generated approximately R\$ 1.6 billion in operations awarded by the BNDES.



Valisere clothing items, company receiving support through the BNDES ProDesign program. Photo: Valisere archive.

**COMPANY INNOVATE PLAN**

As the BNDES and Finep are executive agents, the plan created by the Federal Government in 2013 issued nine calls-for-submission for technology development projects in strategic areas, together with other institutions in the country, such as ministries, companies and regulatory agencies. This plan also included other development initiatives, resulting in a R\$ 27.8 billion portfolio at the BNDES, of which R\$ 16.6 billion has already been awarded.

**FASHION**

Valisere, from the Rosset Group, produces and commercializes underwear and swimwear. The company identified the need to renew its brands, creating a trendier position to win over new consumers. The BNDES, in partnership with Banco Safra S.A., is using the BNDES ProDesign to help develop new collections, including research on trends, product development, production of demo items, production of first run and marketing.

innovation applied to business strategies. These investments may include innovation in products, processes, marketing, besides improving skills and technical expertise in the company.

### Regional and territorial reach

Strengthening the territorial reach as part of the BNDES' planning and operations is an ongoing challenge the Bank faces in its mission to "foster sustainable and competitive development of the Brazilian economy, generating employment and reducing social and regional inequalities" in particular due to the sheer size of Brazil's territory and the country's economic, socio-

cultural and environmental diversity. In 2014, a number of institutional initiatives were conducted to achieve this goal, seeking to incorporate this diversity and the territorial scale into the BNDES' efforts.

The Bank has operations in all of Brazil's states and several municipalities, and, thus, it approaches development in different ways according to the region. Specific programs help enhance local infrastructure and regional development by improving the population's standard of living and implementing infrastructure to support economic activities.

Another local and regional scale for operations is the surrounding areas of projects, which have various instruments to support and integrate the sustainable territorial development approach in keeping with financing for economic activities (chart on page 30).

Establishing a new scale of operation, the North Regional Department of the Bank was approved to be implemented in Belém (Pará state) for better approximation between the Bank and the Amazon region, confirming its role in fostering economic, social and environmental development on a regional scale. This regional representation

office, whose main aim is to boost endogenous economic activities in the North Region and the Legal Amazon, was set up to include a territorial department for planning and efforts, combined with other sectoral and specific areas the BNDES traditionally uses.

Among the BNDES' instruments for the surrounding areas of large projects, in 2014, one that stands apart is the development of the Xingu Territorial Development Agenda (ADT Xingu); carried out within the context of implementing the Belo Monte Hydroelectric Power Plant (box below). This was an important

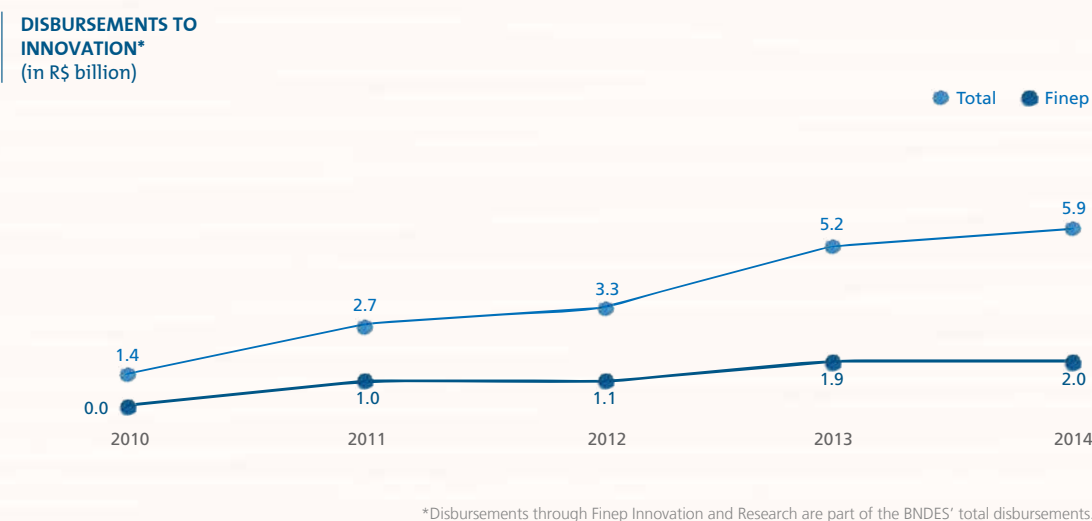
step towards strengthening the territorial approach in large-scale projects. This agenda is one of the practical applications of the Policy for Surrounding Areas of Large-Scale Projects, in which the BNDES works in conjunction with strategic partners – companies, public authorities, organizations and civil society, in order to take advantage of opportunities and minimize negative impacts in the areas affected by projects.

The BNDES established the consolidation of its Regional and Territorial Development Policy as a priority project for 2015, aiming to advance the incorporation of a territorial approach on

different scales and at tactical, operational and strategic levels.

Benefits expected from this project include strengthening and expanding the BNDES' capacity to identify investment opportunities in priority areas, through coordinated efforts, both internally and in conjunction with other public and private agents.

Concerning regional and territorial issues, it is worth noting the launch of the collection Um Olhar Territorial para o Desenvolvimento (A Territorial Approach to Development), with



### IN FOCUS

#### COMMUNICATION TECHNOLOGIES

Zenvia, an enterprise that provides services for mobile devices, joined BNDESPAR's portfolio. The R\$ 35.5 million contribution is related to developing new technologies and expanding the company's business. With the support, the Bank intends to help the company reach revenue and profitability levels to issue an [initial public offering](#) (IPO).

### IN FOCUS

#### OIL AND GAS

The Inova Petro, using its second call-for-submission, selected nine business plans that include innovation projects focusing on the oil and gas sector, amounting to R\$ 185 million. The initiative is part of a joint plan between the BNDES, Finep and Petrobras, and included four specific areas in this call: surface processing, subsea facilities, wells and reserves.

#### AGRICULTURE/CATTLE-RAISING

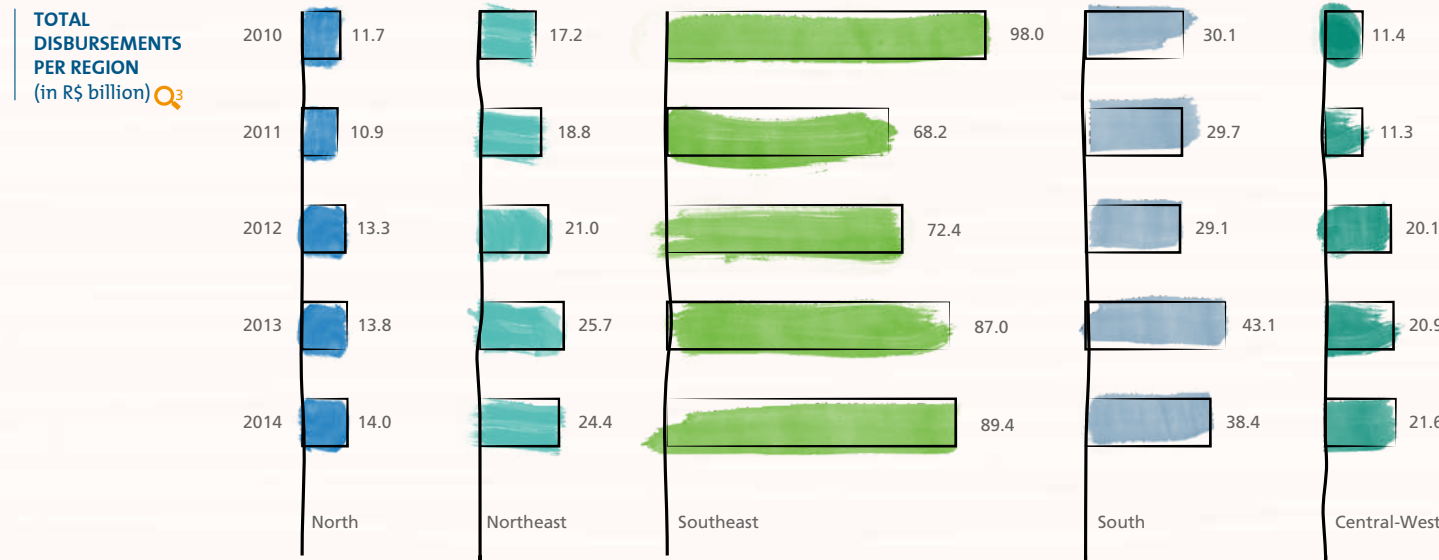
The BNDES employs specific support instruments to develop innovation in agricultural production and the foodstuff industry, such as the Inova Agro and Inovagro programs. In 2014, the Bank totaled R\$ 50 million in operations in those programs. An example is the support provided to Safeeds to manufacture animal feed additives, such as the effervescent energy and vitamin hydrator – a concentrate that combats dehydration and energy deficit in herbivores. It is expected that, in addition to ensuring national capacity to meet the food needs of Brazil's herds, domestic production can compete with similar products from foreign companies.

#### ELECTRIC VEHICLES

While still incipient, the spread of hybrid and electric vehicles will require investments in research, development and innovation, as well as training for manufacturers in the automotive industry due to new technologies. This segment is a priority for the BNDES. In 2014, a project aimed at developing technologies to manage and store energy in electric vehicles was approved for financing. It will be developed by CPqD, a research center specialized in information technology and communication solutions, in partnership with Electric Dreams, a company that invests in the segment.

#### INDUSTRIAL HEALTH COMPLEX

The BNDES recorded more than R\$ 250 million in approved financing for technological development and innovation projects in the segment in 2014. By expanding the possibilities for treatment of various diseases, modern biotechnology is the sector that is breaking new ground in this field and, since 2011, it remains a focus of the Bank's operations. In 2014, we highlight the R\$ 6 million in support with resources from the BNDES Funtec to develop a new treatment that uses stem cells for a cardiovascular disease called refractory angina, which is part of a partnership between the Cardiology Institute of Laranjeiras and CellPraxys, a technology-based company.



### IN FOCUS

#### ADT XINGU

The basic aim of the Xingu Territorial Development Agenda was to help foster opportunities for economic, social, environmental and institutional development in the Xingu region through a coordinated proposal for efforts and investments of various kinds, which were prioritized based on planning and territorial pacts, as well as on integrated efforts made by local and regional players. Work was conducted due to the implementation of the Belo Monte Hydroelectric Plant and was based on the Xingu Regional Sustainable Development Plan (PDRSX).

Efforts to draw up the ADT Xingu began in September 2013, with resources

from the BNDES' Project Structuring Fund (BNDES FEP). The agenda was put together with the help of representatives from the federal, state and municipal governments, non-governmental organizations, civil society and educational and research institutions, as well as the Viva Xingu Consortium, which was responsible for conducting the process.

Four main reports resulted from this joint effort, completed in December 2014, namely:

- Strategies to Plan the PDRSX Management Committee: contains the results of the diagnosis on the region, identification of the main problems

and the preliminary suggestion for initiatives to establish the Strategic Initiative Portfolio, the aim of the following report.

- Strategic Initiative Portfolio (CEI): provides a comprehensive set of initiatives (efforts, studies, projects, programs or works) proposed for the Xingu region and expected to start in the short and medium term, driven by future visions and strategic objectives to be achieved in the territory, in the long run.
- Monitoring System Design: presents the design for methods and forms to oversee implementation of the CEI, by monitoring a series of indicators, with

the potential to assess the results of effectively implementing the initiatives recommended by the portfolio.

- Governance Model: contains the proposal for a set of efforts performed within an existing legal, political and administrative framework and aimed at promoting regional development. The governance format suggested also seeks to meet the demand for new initiatives in the territory, which will be reviewed and selected by those in the territory to align with the CEI initiatives, always aiming to achieve the desired development.

volumes dedicated to each of the five geographical regions in the country. More information in the *Generating Knowledge* section.

**Socio-environmental issues**

Social and environmental issues have always been present in the operations of the BNDES, which establishes its endeavors based on public policy and updates its efforts according to progress in concepts, practices and challenges for development within the national and international contexts.

The BNDES finances projects whose objectives are primarily social or environmental, while offering products and support instruments to

other sectors, with special financial conditions depending on sustainability standards.

To improve its operations, the Bank monitors indicators of support for social development and the green economy, which are formulated to assess efforts in its social and environmental performance. These indicators also allow comparison with other institutions that finance national and international development and demonstrate the rise in the institution's social and environmental efforts (charts below).

Among the specific environmental and social focuses, what stands apart is the consistent growth

in support for initiatives aimed at preserving important natural regions on the planet and increasing the country's energy efficiency through the Amazon Fund, the BNDES' Atlantic Forest Initiative, and the Climate Fund.

The Bank also addresses social and environmental aspects when granting financial support to projects from different sectors. When assessing direct and indirect non-automatic operations, the Bank not only verifies socio-environmental compliance – in which companies must strictly follow Brazilian legislation and environmental licensing –, but also assesses the environmental risk of the project,

and induces improvements for investments and company management in the socio-environmental sphere. In addition to fostering business competitiveness, this approach also strengthens the potential positive social and environmental impacts of the project, with social inclusion, respect and added value for environmental assets.

In 2014, some 620 requests were eligible for environmental classification. The charts below show the environmental risk profile of the eligibility portfolio.

The BNDES verifies the volume of interactions with clients regarding risks as well as environmental and

social opportunities. The criteria in this analysis is the set of direct operations in which dialogue concerning the project's social and environmental aspects occurs more intensely – operations classified with higher potential environmental risk, i.e. category A, or direct operations in which Corporate Social Investments (ISE) received support.

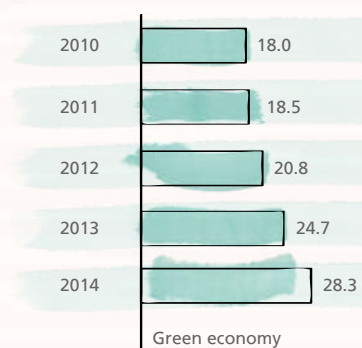
Considering this criterion, dialogue on risks as well as environmental and social opportunities in 2014 occurred with 106 companies. Q

It is worth emphasizing the importance of Corporate Social Investments, a tool that, with different financial conditions, encourages companies to adopt

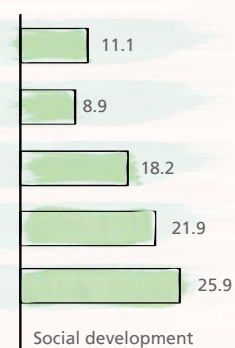
socially responsible practices, including additional investments and those not required by law, such as training skilled labor in local communities, investments in local infrastructure, education and health, as well as encouraging new economic activities (chart on the next page).

The BNDES also produces and disseminates specific socio-environmental knowledge. In 2014, three environmental guidelines were published for the sugar and ethanol sectors, beef cattle as well as water and sewage. These guidelines are designed to direct project analysis in relation to the socio-environmental aspects. In this sense,

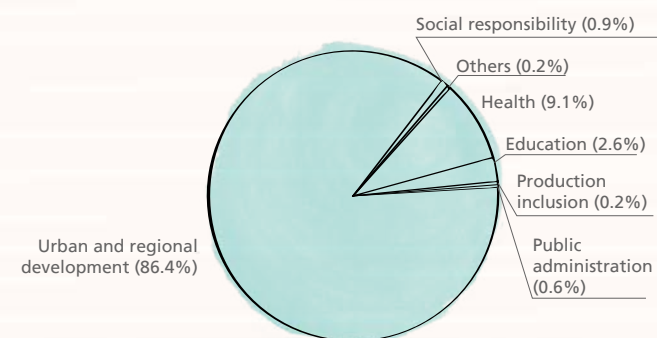
**DISBURSEMENTS TO THE GREEN ECONOMY**  
(in R\$ billion) Q3



**DISBURSEMENTS TO SOCIAL DEVELOPMENT**  
(in R\$ billion) Q4

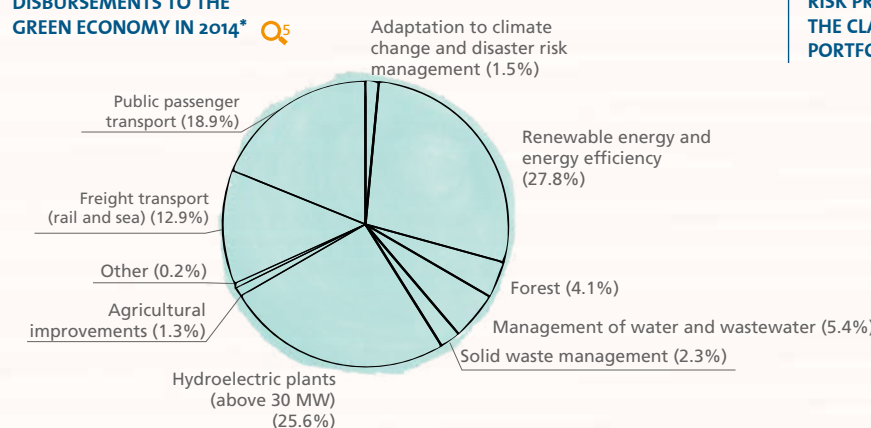


**BREAKDOWN OF DISBURSEMENTS TO SOCIAL DEVELOPMENT IN 2014\*** Q4

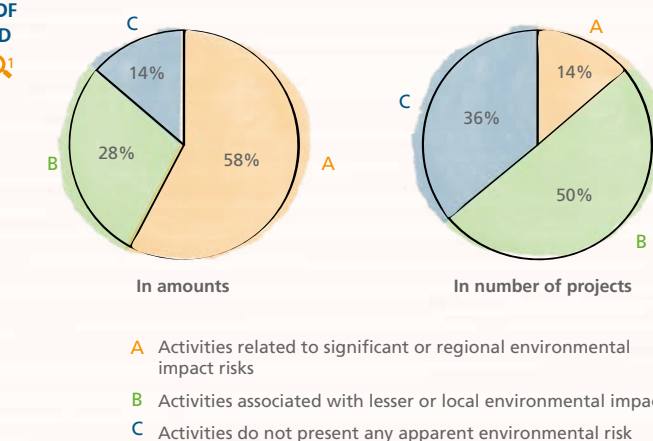


\*Indicators for the Green Economy and Social Development have been improved by more accurately identifying what was previously classified as "others" and by including operations using the BNDES Card.

**BREAKDOWN OF DISBURSEMENTS TO THE GREEN ECONOMY IN 2014\*** Q5



**ENVIRONMENTAL RISK PROFILE OF THE CLASSIFIED PORTFOLIO** Q1



**IN FOCUS**

**AGROECOLOGY**

Covering the entire agricultural production sector, the BNDES supports agroecological initiatives with resources from the BNDES Social Fund. Integrated and Sustainable Agro-ecological Production (PAIS), for example, is a social technology that fosters the generation of income and improves standards of living for family farmers. Rural credit, through the ABC Program, provides support to recover pastures, among other activities, and investments are made through the PRONAF Eco in techniques that reduce the impact of rural activities on the environment.

**CMN RESOLUTION Nº. 4,327/2014**

An important factor in approaching socio-environmental issues was to enact this resolution, which deals with the social and environmental responsibility of financial institutions that the Central Bank of Brazil has authorized to operate. This regulation contains, among other issues, obligations and guidance on implementing the Social and Environmental Responsibility Policy and respective governance. The BNDES adheres to the guidelines in the resolution and recognizes the importance of these issues that are being addressed by financial institutions, the Brazilian Central Bank, and the National Monetary Council.

**SOLID WASTE**

The investment plan of Essencis Soluções Ambientais, which receives support from the Bank, included the Waste Treatment Center and the Environmental Improvement of Caieiras (São Paulo state), the largest enterprise of its kind in Latin America, with an area of 3.5 million m<sup>2</sup>, of which 43% is covered with native vegetation. The complex offers solutions for treating hazardous and non-hazardous waste such as landfills, laboratories, reverse manufacturing, metal recovery and others.

In 2014, another highlight among solid waste projects was financing to implement a landfill area in the city of Rosário, in the metropolitan region of São Luiz (Maranhão state). Moreover, with the Sustainability Innovation Plan, a joint initiative between the BNDES and Finep, business plans related to waste management were approved, employing several innovative technologies to use these materials, such as sludge from sewage treatment plants to produce biogas.

**IN FOCUS**



Aerial view of the Itaituba II national forest, in the state of Pará, which will be included in the call-for-submission for concession concerning the sustainable management of the forest.  
Photo: Cristina Silva, BNDES.

**FOREST CONCESSIONS**

The BNDES has provided support to the Brazilian Forest Service to structure calls-for-submission for concessions of the Itaituba I and II national forests in the state of Pará, aiming at sustainable management of the forest. It is an effective way to preserve the forest coupled with rational and sustainable economic use of natural timber resources, generating development for local populations and inhibiting illegal activities.

**INPE**

The Satellite Environmental Monitoring project in the Amazon Biome, receiving support through resources from the Amazon Fund, will assist the National Institute for Space Research (INPE) in satellite environmental monitoring, studies and mapping uses and land coverage, as well as producing systematic data on deforestation and forest degradation throughout the Amazon region. Considering the potential for sharing the project's results, it will also contribute to environmental monitoring in other Brazilian regions and biomes, as well as in other tropical countries. More information on the Amazon Fund in the *Social and production inclusion* section.



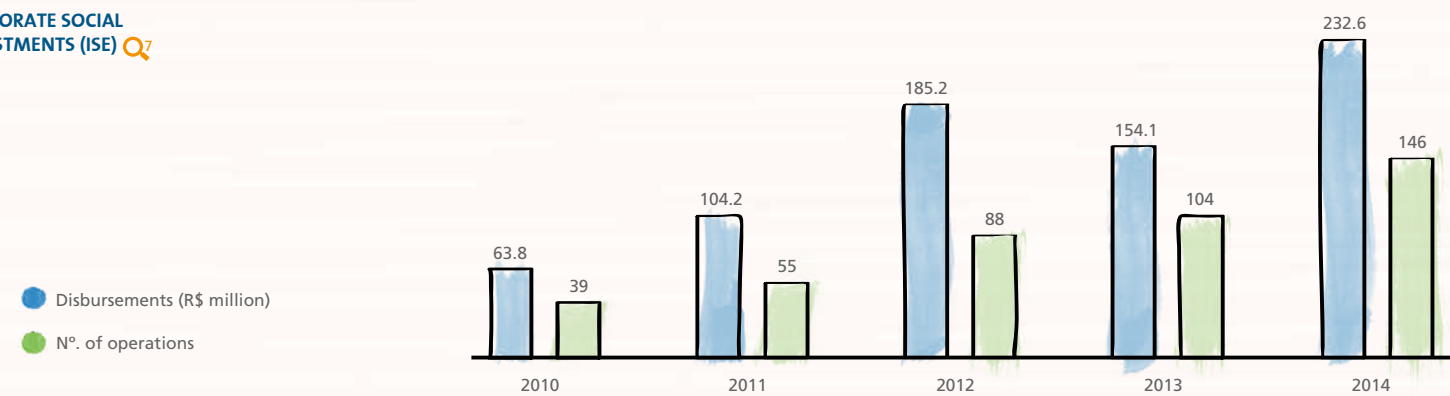
## Social and production inclusion

they systematize the knowledge available in the institution on the environmental aspects and impacts in the sector, as well as the best practices available to raise the level of sustainability.

It is important to highlight that, in 2014, the Sustainability Management Corporate Project was completed. Its main result was to establish the Social and Environmental Sustainability Committee (CSS), which will work towards

integrating social and environmental aspects into the Bank's policies, processes, practices and procedures, in accordance with its Environmental and Social Responsibility Policy and CMN Resolution N°. 4,327/2014, which covers social and environmental responsibility for financial institutions. More information in the box on page 28 and in the *Management practices* section.

### CORPORATE SOCIAL INVESTMENTS (ISE) Q3



### IN FOCUS

#### CORPORATE SOCIAL INVESTMENTS

##### INFRASTRUCTURE

In 2014, a total of 34 social projects were approved, totaling R\$ 98 million for initiatives in surrounding areas of infrastructure projects. Among them are the coordinated efforts to prepare and implement social projects from five wind-farm controlling groups in the state of Rio Grande do Norte. The initiative establishes the use of Corporate Social Investments to support the surroundings areas of the plants in the municipalities of João Câmara and Parazinho. In both cities, situated 40 km from each other, approximately 60% of the population is considered poor. It should be noted that the initiative optimizes the use of resources by discouraging any overlap from similar projects the companies may have.

##### PULP

Implementing a plant that will produce 1.5 million tons/year of pulp in Ortigueira (Paraná state), with production expected to start in the 1Q2016, will receive a total investment of R\$ 7.7 billion and support from the BNDES amounting to R\$ 4.2 billion, of which R\$ 21 million will be earmarked for social investments. With this project, Klabin intends to stand out from competitors by offering a broad portfolio of paper products, in addition to Brazilian pulp, whose quality is recognized worldwide. The project expects quantities of local content to be above the average in the latest projects in the sector, and a competitive edge in relation to logistics. The new plant will be self-sufficient in energy and will even generate surplus energy to be sold to the market.

##### MINING

Vale's Salobo and S11D projects have the BNDES' support to invest more than R\$ 35 million in social initiatives to develop and improve the standards of living for communities in the state of Pará, such as training and qualifying the workforce and local suppliers, as well as constructing, renovating and expanding schools, community centers and health centers. Salobo is a copper exploration and processing project and S11D, which received R\$ 6.2 billion from the Bank in 2014, aims to expand activities in the Carajás mining complex by investing in logistics and implementing a new mine and a new plant. Another important highlight in the latter project is the environmental responsibility: innovations (long conveyor belts and dry processing) have prevented damage to large areas of vegetation and the use of tailings dams, generally used in traditional mining operations.

##### PHARMACEUTICAL INDUSTRY

A social responsibility initiative from Libbs Farmacêutica is fostering the computerization of the public primary health care system in the city of Embu das Artes (São Paulo state), by implementing the e-SUS platform, as well as risk assessment and screening systems. The goal is to reduce the waiting time for users and to optimize care in public health centers. The project has financing amounting to R\$ 2.6 million.

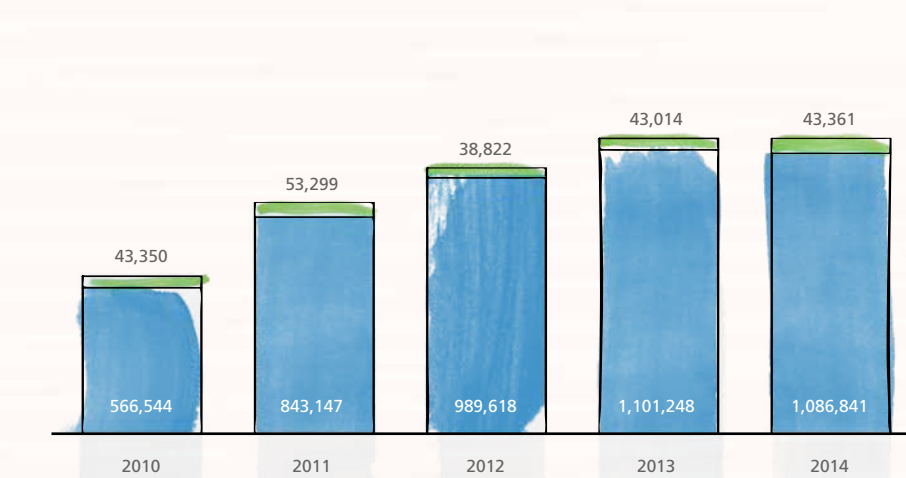
Providing support to micro, small and medium-sized enterprises (MSME) from several sectors and supply chains, as well as generating employment and income, requires the BNDES to maintain a portfolio of products and financing instruments to guarantee and expand access to credit.

This portfolio, in 2014, made significant headway with the launch of the BNDES Program to Support Innovative Micro, Small and Medium-Sized Enterprises, known as BNDES Innovative MSME, to finance investments required to introduce innovations into the market. More information in the *Innovation* section.

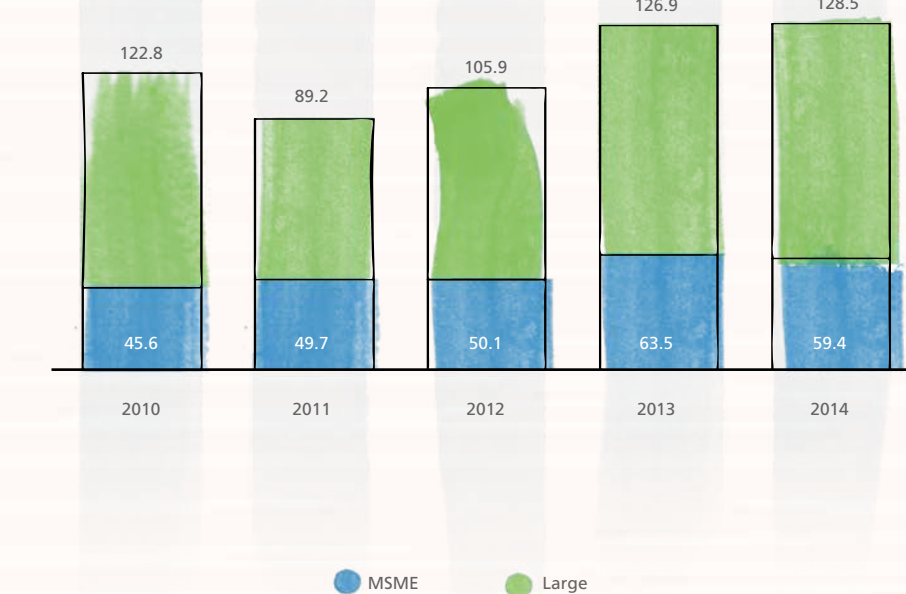
Another instrument to support MSMEs, the BNDES Card, maintained its path of consolidation. The card has managed to cover 97.8% of Brazil's municipalities and 100% of the municipalities in the Southeast this year. This is the third region in the country in which all its municipalities have at least one MSME with the Card – the other two are the South and Central-West regions.

In 2014, the product, which makes use of financial institutions to onlend resources, now has new banks to issue and operate the Card, namely Bansicred and Santander, and there was an increase of approximately 20% in total cards issued. Also this year, an agreement within the scope of the Card was signed with the Federal Inland Revenue Service to allow different types of queries to be sent to that body, for example, a tax certificate of good standing for beneficiaries. Launched in 2003, the BNDES Card offers revolving and pre-approved credit of up to R\$ 1 million per issuing bank to purchase certified products available on its operations website on the Internet.

### NUMBER OF OPERATIONS PER CLIENT SIZE



### DISBURSEMENTS PER CLIENT SIZE (in R\$ billion)



Aimed at complementing the guarantees required for loans and, thus, broadening access to credit, the Investment Guarantee Fund (FGI) recorded an increase, in 2014, in the total amount financed with guarantees, especially to support MSME innovation projects, and the number of transactions with beneficiaries in the North and Northeast regions. The Fund also has the participation of the National Treasury, the BNDES and, by December 2014, another 23 financial institutions – including large commercial banks, automotive banks, development agencies and regional development banks.

It is also worth emphasizing the importance of the Investment Maintenance Program (PSI). Released as part of governmental measures to mitigate the effects of the international financial crisis on the Brazilian

economy, it has allowed Brazilian companies, many of them MSMEs, to keep their investment plans (chart on next page).

Disbursements from the BNDES Support Program to Strengthen the Capacity to Generate Employment and Income (BNDES PROGEREN) remained low, as expected. The program was an instrument that, during the crisis, sought to meet the demand for working capital for MSMEs. This decline should continue in the coming years, when greater participation of other financial institutions in this type of credit operation is expected.

Support for family farming projects is another highlight in democratizing access to credit. In partnership with development banks, cooperative banks, credit unions and other institutions, the

BNDES has been working on projects to combat rural poverty and promote social and production inclusion of family farmers, medium-sized farmers as well as agrarian reform settlers. Among the initiatives, we emphasize the collective investments, such as civil works and agricultural infrastructure facilities, the purchase of agricultural machinery and equipment, as well as encouragement of production cooperatives, through resources from Agricultural Programs of the Federal Government, the National Program for Strengthening Family Agriculture (PRONAF), the National Support Program for Medium-sized Rural Producers (PRONAMP) and also using non-reimbursable resources from the Social Fund, which comprises profits from the BNDES.

Among the BNDES' efforts that promote social and production inclusion, highlights also include the achievements made with the BNDES Microcredit product, through onlending operations to financial institutions and onlending agents resulting in approximately 170,000 loans to micro and small enterprises or individuals in 2014. The Bank provides funding for the country's microfinance institutions which, in turn, grant the loans. The Banco do Nordeste, the Development Agency in the State of Santa Catarina, the Banco do Estado do Rio Grande do Sul and the civil society organizations of public interest (OSCIP) CEAPE/SE and Blusol are responsible for circulating approximately R\$ 300 million from the product. ●

Finally, it is worthy of note that the Amazon Fund has also achieved important results in social and production inclusion, with environmental sustainability.

The Fund surpassed the R\$ 1 billion mark in financial support for 69 projects, of which five have already been completed. In 2014, it approved 21 projects, nine of which were forwarded in the Call-for-Submission for Sustainable Production Projects. It also launched a new call-for-submission for projects aimed at supporting Plans for Land and Environmental Management in indigenous territories.

It is also worth noting that, this year, the Bank revised the contract for access to credit after negotiations with the Brazilian Financial Institution Association for Development (ABDE) and the Brazilian

Bank Federation (FEBRABAN). This instrument provides the basis for all onlending operations using resources from the BNDES system carried out by financial institutions.

The new contract reinforces the partnership with agents by consolidating, improving and standardizing the provisions on onlending operations they carry out, mitigating the operational and legal risks and expanding the reach of the Bank's operations.

Another institutional highlight was the consolidation of the following aspects into a single unit, known as the Agricultural, Cattle-Raising and Social Inclusion Division: support activities, policy-making, credit structuring and granting to the production section comprising the agricultural/cattle-raising and food production sector.

RESULTS FROM THE INVESTMENT GUARANTEE FUND (FGI)

2013-2014 comparison

Growth of **26%** in the total financed amount that the FUND guaranteed, which shows an increase in the average amount for guaranteed operations

The BNDES Innovative MSME program stands apart, with **57%** of operations guaranteed by the Fund

In 2014, the North and Northeast regions accounted for **19,5%** of the operations guaranteed by the FGI, an increase of 5.8 percentage points compared to 2013

Consolidated

Since its inception, the Fund has already supported approximately 26,000 operations totaling R\$ 4.6 billion in financing to more than 17,000 different beneficiaries

More than **50%** of beneficiaries obtained credit from the BNDES for the first time

MAIN PRODUCTS AND PROGRAMS SUPPORTING MSMES (in R\$ billion)

	2013	2014
BNDES Finame/PSI	43.7	39.3
BNDES Card	10.0	11.5
Agriculture and cattle raising programs	2.7	3.4
BNDES Progeren	3.7	1.5
Others	3.4	3.7
<b>Total</b>	<b>63.5</b>	<b>59.4</b>

The Investment Maintenance Program (PSI), created in 2009, remains an important tool for minimizing domestic industry's loss of competitiveness.

Disbursements from this product increased by 15% compared to 2013, with 795,000 operations performed.

The reduction in disbursements from this program was due to the revision of its operating conditions, in keeping with guidance to restrict the BNDES' participation in financing isolated working capital.

IN FOCUS

SOCIAL FUND

In terms of social and production inclusion, the BNDES Social Fund stands out as a non-reimbursable resource, with R\$ 268 million disbursed in 2014 to support groups of family farmers and agrarian reform settlers, waste pickers, self-managed enterprises and the expansion of credit cooperatives. The Social Fund enabled, for example, in a partnership with the National Supply Company, support for more than 300 groups of small producers to access purchase programs, such as the Food Acquisition Program and the National School Meals Program.

CAR IN THE STATE OF RORAIMA

The Rural Environmental Registration (CAR) is the nationwide electronic public record, compulsory for all rural properties. Its purpose is to integrate environmental information on rural properties to establish a database to control, monitor and combat deforestation. The Amazon Fund is helping implement the CAR in the state of Roraima with R\$ 10.8 million, which will benefit landowners, temporary-owners (bailments) and agrarian reform settlers in the 15 municipalities in the state.

COOPERACRE

A network that encompasses approximately 4,000 families in 31 cooperatives and associations affiliated with Cooperacre will receive support from the Amazon Fund in the amount of R\$ 5.1 million to produce Brazil nuts and fruit pulp. The initiative, which helps strengthen the sustainable forest-based economy in the state of Acre, was selected through the Call-for-Submission for Sustainable Production Projects in the Fund.

LIVING WITH THE DROUGHT

In 2014, the BNDES invested R\$ 210 million in non-reimbursable resources from the BNDES Social Fund to help implement 20,000 system units for capturing and storing water for family farming production in Brazil's semi-arid region, benefiting more than 20,000 families. The initiative, almost completed, was split into two operations: one in partnership with the Banco do Brasil Foundation to implement 12,000 units, and the other with the Brazilian Semi-Arid Cooperation (ASA) for 8,000 units.

EXTERNAL REPORT ON THE AMAZON FUND

The Norwegian Agency for Development Cooperation (NORAD), one of the main donors to the Amazon Fund, published an evaluation report on the Fund in 2014. The agency highlighted the solid reputation of the BNDES, the high degree of transparency in managing and providing support to projects, as well as an overall assessment of the stakeholders. Another issue addressed in the document was the procedures adopted by the Bank, which, according to the NORAD, improved standards for managing beneficiaries of the resources. It is worth noting that the BNDES periodically publishes its own report on the Fund, available online at the BNDES' Digital Library.

IN FOCUS

FAMILY FARMING

Using the BNDES States Program, structuring was carried out to support investments aimed at strengthening production infrastructure for family farms in the state of Rio Grande do Sul, through the State Support Fund for Developing Small Rural Establishments and the Rio Grande do Sul Land Fund. Investments amounting to approximately R\$ 92 million are planned for these efforts, which will be allocated to infrastructure, production and agro-industrialization in agrarian reform settlements.

TRADE

The Flower Market (Mercadão de Flores), a retail outlet commercializing plants, natural flowers and artistic objects, received support from the BNDES through the BNDES Automatic Product, with associated working capital, to build a 228.92 m<sup>2</sup> office building in the municipality of Santa Cruz do Sul (Rio Grande do Sul state).



The Mercadão de Flores is an example of a small business receiving support from the Bank.

Photo: Josimar de Souza Martins, BNDES.

# Competitiveness of Brazilian companies

LEARN MORE FEP Chemical industry  
www.bndes.gov.br/ra2014\_9

It is essential to foster investments that allow Brazilian companies to explore opportunities and overcome challenges in their specific markets. These investments, along with those earmarked to expand infrastructure, innovation, environmental sustainability, regional development as well as social and production inclusion (issues from the previous pages), are fundamental to the competitive development of the national economy. The systemic approach to competitiveness, together with a sectorial view, especially helps strengthen production segments in the industry and foreign trade.

In 2014, not only do the challenges that the domestic industry has faced in recent years persist, but some factors that were helping maintain economic activity stable have also begun to reach their limit.

In such a scenario, it is natural that a substantial amount of entrepreneurial efforts are then geared towards gains in productivity and efficiency. It is then up to policy makers and those that implement them to understand the dynamics and needs of each sector, while identifying opportunities to help strengthen the competitiveness of Brazilian companies, for innovation in supply segments and the development of strategic sectors.

Therefore, it is important to mention that the BNDES Investment Maintenance Program (PSI) has been an important tool in minimizing domestic industry's loss of competitiveness. The program had total disbursements of R\$ 76 billion this year.

Given the importance of the capital goods segment in strengthening Brazil's industrial park, a new

department was established in the BNDES in 2014, the Capital Goods Department, part of the Industrial Division, and it is dedicated exclusively to machinery and equipment manufacturers. The goal is to provide services to a class of mostly small and medium-sized Brazilian companies that now face difficulties related to competitiveness due to imported products and slowing growth in the domestic economy.

Among priorities is the development of a complete diagnosis for this industry by understanding better the challenges from a technological, financial and logistical point of view. During the year, the Bank implemented an intense development agenda, strengthening ties with industry associations, regional federations of industries, as well as ministries, besides presenting its proposals in the mass media and actively participating in fairs, seminars and conferences.

This agenda has resulted not only in operations with new clients, but also in a better understanding

of the challenges the sector faces, culminating in preparing a new program dedicated to capital goods manufacturers, the BNDES ProBK. This program aims to facilitate access for smaller companies in the sector to direct financing from the BNDES.

Also to improve support for the capital goods sector, the CFI website was launched, through which previously-registered manufacturers, or those who wish to register on the Computerized Manufacturers Accreditation system (CFI), send documentation the BNDES requires, consult their accreditation requests, and change information.

The new system also automatically reports, via e-mail, any pending issue or progress in the analysis, which makes the procedure simpler and more transparent. Registration on the CFI is essential for a company to receive BNDES financing to commercialize machinery, equipment, systems or components.

Another important event this year for the CFI was the implementation of specific rules to include domestic companies from the solar power generation sector and related equipment (box below), based on the Progressive Nationalization Plan (PNP).

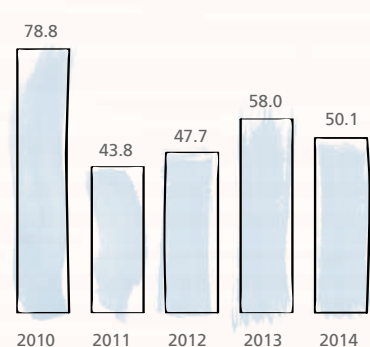
With regard to exports from Brazilian companies, the Bank's support also seeks to maintain competitiveness by ensuring payment terms for export sales similar to those practiced abroad, or by offering a cost for working capital that does not affect production costs of exporting companies.

The economic reality for Brazilian exporters' trading partners determines to what extent financing can play a role in competitive business. Besides this, the year 2014 was critical for some of the most important partners of Brazilian exporters, namely Angola, Venezuela and Argentina; projects were carried out at a slower pace and investment decisions were postponed. Within this context,

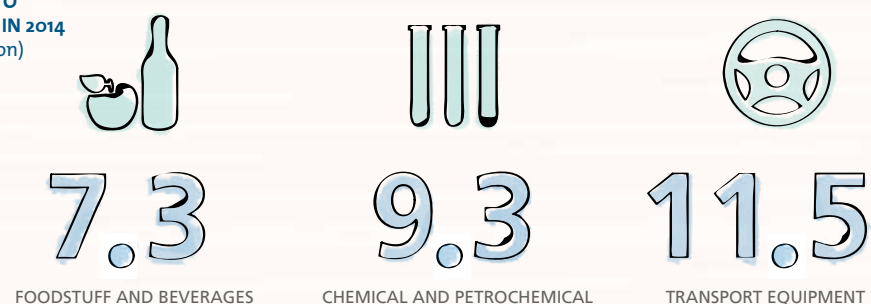
there was a decrease in requests for support aimed at exports, and, therefore, disbursements to foreign trade showed a drop of 19% from 2013 to 2014, particularly with regard to exports of engineering services, which shrank 27%.

The aircraft industry, on the other hand, experienced a favorable period, given that Embraer recorded a rise in orders and maintained its rate of production (box on page 36). In 2015, it is expected that the projects will slowly regain a normal pace, which should reflect favorably in disbursements in favor of Brazilian exports.

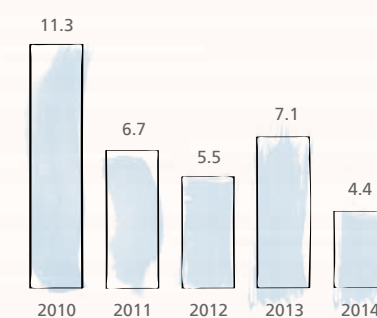
DISBURSEMENTS TO INDUSTRY (in R\$ billion)



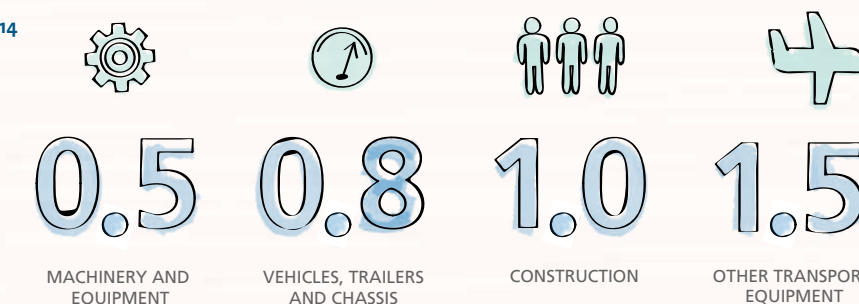
HIGHLIGHTS OF SUPPORT TO INDUSTRY IN 2014 (in R\$ billion)



DISBURSEMENTS TO EXPORTS (in US\$ billion)



HIGHLIGHTS IN SUPPORT FOR EXPORTS IN 2014 (in US\$ billion)



## IN FOCUS

### AUDIOVISUAL SECTOR

The BNDES, in partnership with the National Cinema Agency (ANCINE), will participate in the most encompassing initiative ever undertaken to digitalize the exhibition circuit for Brazilian film. As an onlending agent of resources from the Audiovisual Sectorial Fund (FSA), the Bank approved financing to the tune of R\$ 123.3 million for Quanta DGT, to enable 770 national movie theaters to migrate to the new digital technology standard. Implementing the project will result in almost 100% of Brazil's exhibition circuit using the digital standard by the end of 2015, accelerating the historical slow progress of this area in Brazil compared to the rest of the world.

### AUTOMOTIVE INDUSTRY

Financing was approved for Ford Brazil to create, develop and produce the new Ka vehicle at its plant in Camaçari (Bahia state). This is Ford's second global vehicle – the first was the EcoSport – fully designed in Brazil, with Brazilian engineering, technology and design.

### OIL AND GAS

Loans in the amount of R\$ 409.7 million were awarded to eight projects in the supply sector for oil and natural gas goods and services. All projects awarded in 2014 will help increase the local content in the oil and gas sector.

### CHEMICAL INDUSTRY

A study, receiving support from the BNDES FEP, on the potential to diversify Brazil's chemical industry has identified and detailed the main challenges in competitiveness for the sector, with proposals for the following steps. These include improving the regulatory environment and increasing technological innovation efforts with strategic priority for segments focusing on primary products and biomass chemistry.

The study also found potential for investments of up to R\$ 47 billion between 2015 and 2030 in the 21 most competitive segments of Brazil's chemical industry. With regard to the Bank financing the sector, it is worth noting that seven projects from processed plastics companies were approved in 2014.

### COOPERATIVISM

Cooperativism is a way of organizing production, marketing and credit that is capable of generating social and production inclusion and increasing productivity and income in the agricultural and cattle-raising sector. In 2014, agricultural cooperatives were responsible for approximately R\$ 5.9 billion in disbursements from the Bank, in programs such as Procap-Agro, Prodecoop, PSI and PRONAF Agro-industry, which support the payment of shares, the equity restructuring for cooperatives, modernization of production systems, and the acquisition of machinery and equipment.

## IN FOCUS

### CLIMATE FUND

Dedicated to financing projects that can help reduce greenhouse gas emissions, the Climate Fund awarded two projects, totaling R\$ 18.6 million, to support the production sector for smart grid equipment. Through the intensive use of information and communication technologies (TIC), smart grids allow optimized production, distribution and power consumption, making it feasible for new suppliers and customers to enter the grid, with significant improvements in monitoring, management, automation and quality of the energy supplied. Both projects were selected from the Inova Energia's call-for-submission.

### AGRICULTURAL IMPLEMENTS

BNDESPAR bought into Stara, the largest agricultural implements company in Brazil. The awarded amount totals approximately R\$ 120 million, which is related to implementing the company's business plan. The construction of a new plant and renewal of its product portfolio are expected to receive the main investments.

### LOCAL CONTENT IN RENEWABLE ENERGY PROJECTS

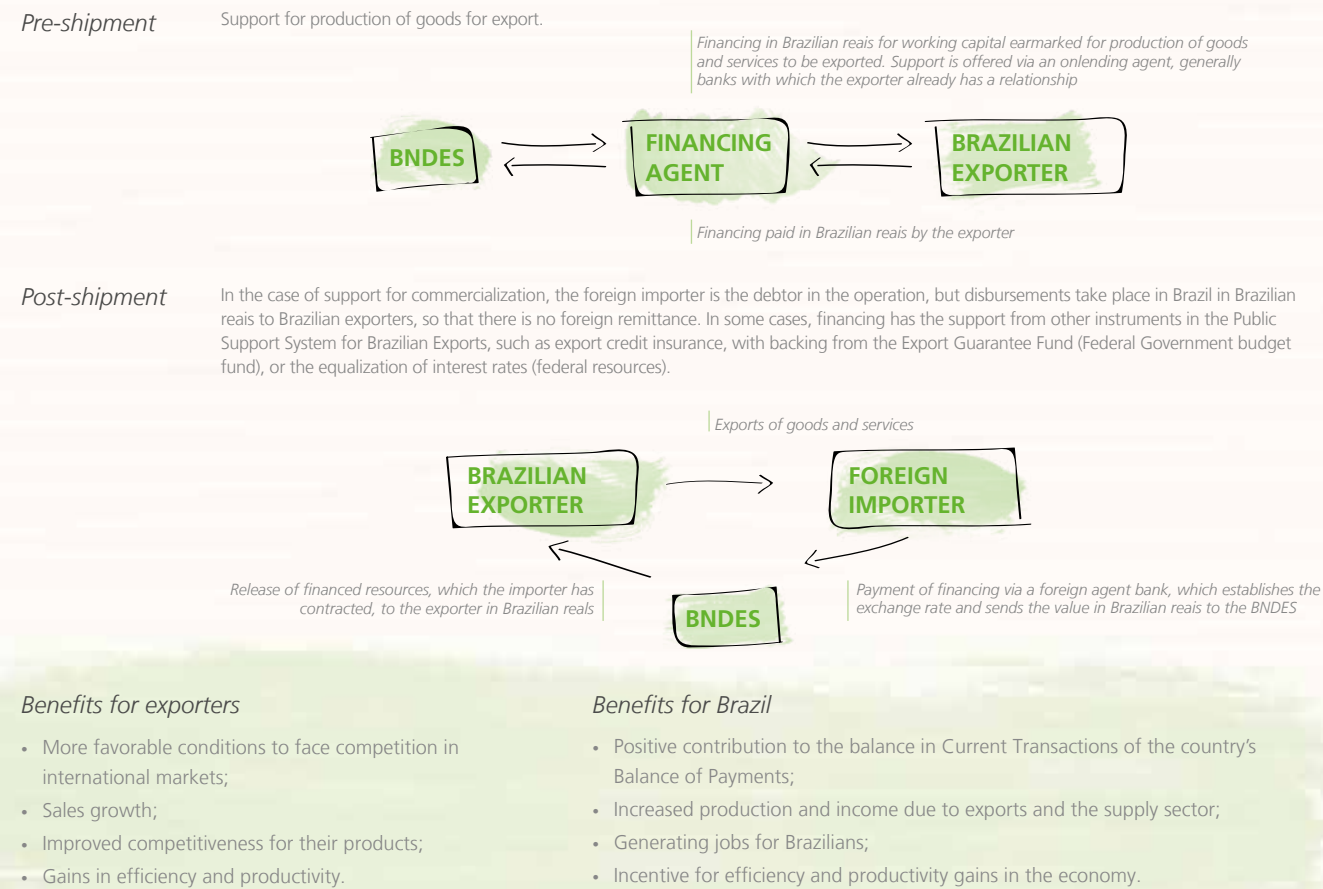
Prepared by the BNDES, the Methodology for Accreditation and Analysis of Local Content in Photovoltaic Modules and Systems aims to stimulate the development of a network of Brazilian equipment suppliers for the solar power generation segment.

Only equipment registered in the Computerized Manufacturers Accreditation system (CFI) can be financed by the BNDES in accordance with the new methodology. It requires specific components and processes to be progressively nationalized during the period the manufacturer implements the business plan previously submitted to the Bank. This methodology will be important to encourage the winning entrepreneurs of the first power generation auction held in 2014 – which resulted in contracting 889.66 MW of power at an average price of R\$ 215.12 per MWh – to acquire photovoltaic systems that meet the requirements stipulated for their solar stations.

In the case of the wind industry, similar work was conducted in 2013, and specific methodology for wind turbines was developed. This, as of 2014, has resulted in the accreditation of seven manufacturers of such equipment. The presence of these companies in the market has increased the competitiveness of wind power and has enabled a significant expansion of wind farms in Brazil's energy grid.

## How does the BNDES support exports?

Support is provided to meet the exporter's needs and in accordance with the characteristics of its activities. In the so-called pre-shipment modality, financing is earmarked for production of goods for export. In the post-shipment modality, financing is aimed at commercializing Brazilian machinery, equipment and services abroad. In all cases, the release of the BNDES' resources always occurs in reais, in Brazil, to the Brazilian exporter.



### IN FOCUS

#### MSME EXPORTER

Facilitating exports from micro, small and medium-sized enterprises, considering the significant challenges they face, is an achievement worthy of recognition. For example, in 2014, Indústria Camargo, a Brazilian micro-enterprise that, since 2004, has manufactured a wide range of machinery to produce wood panels, carried out its first export together with the debut of a Paraguayan bank in the operation using the BNDES Automatic Exim product.



The palletizer, equipment in the MDF production line, is an example of a product exported by Indústria Camargo. Photo: Indústria Camargo archive.

#### BIOFUELS

A study on the feasibility to produce biofuels in the countries listed in the Economic and Monetary Union of West Africa (UEMOA), which received support from the BNDES using non-reimbursable resources from the BNDES' Project Structuring Fund (BNDES FEP), came to important conclusions on establishing the biofuels sector in the UEMOA. These include opportunities for Brazilian companies to export machinery and equipment. Brazilian know-how in the agricultural and biofuel areas, coupled with the cooperation of governments in the UEMOA and the technical analysis of possibilities in the countries, brought to light three conclusions with regard to establishing the industry in the region: (i) producing biofuels needs to be part of an agro-energy plan to ensure food security and power generation; (ii) producing ethanol from sugarcane is the most appropriate when adopting biofuels; and (iii) mobilizing local and UEMOA governments is essential to ensure the conditions for market development.

#### PARTNERSHIPS IN AFRICA

From its office in Johannesburg, South Africa, and through trade missions organized by the Federal Government, the Bank, in 2014, signed partnerships with 37 financial institutions in African countries to create channels that can help Brazilian exporters of machinery and equipment interested in exploring business on that continent. Partnerships are aimed at implementing political and commercial risk mitigation mechanisms, enabling the presence of the BNDES in key markets that make up the African economy.

#### EMBRAER

Support for the sale of aircraft to Skywest, a company that controls the US' two largest regional companies. In March 2014, the BNDES approved an operation to the tune of approximately US\$ 1 billion to finance exports of Embraer E-175 aircraft. The operation, carried out at a time when large US airlines have been recording positive results, while renewing and expanding their fleets, revealed a difference compared to other financing operations the Bank has made to the sector in recent years: for all aircraft, the BNDES will assume the corporate risk of the Skywest Group, which will help diversify the Bank's portfolio in the industry, thus promoting financial sustainability.

## Generating knowledge

The BNDES focuses on knowing, debating and also proposing solutions to Brazil's economic, social and environmental challenges. The Bank has several types of efforts in this field.

The analyses and projections the BNDES prepares are made available to society through studies and publications, participation in seminars, producing articles for foreign vehicles, and services for researchers and other interested parties. In addition, sponsoring events to discuss the direction of the country and the organization of activities open to the public at the Bank's premises also contribute to this aim. More information on sponsorship in the *Institutional relations* section.

### IN FOCUS

#### ESTUDOS PRÓPRIOS (BANK STUDIES)

Among the Bank's own research available to society, one highlight is the launch of the first edition of *Panoramas Setoriais* (Sectorial Panoramas), in which the BNDES' experts thoroughly examine several economic sectors, with regard to competition standards, degree of competitiveness, structuring production sectors and technology trends. Also worthy of note is the publication of journals, such as *Revista do BNDES* (The BNDES Magazine), which provides analysis on the Brazilian economy and development, and the *BNDES Setorial* (Sectorial BNDES), which disseminates technical knowledge on the BNDES applied to project analysis. Another journal released – a joint edition with the first edition of *Panoramas* – was the *Perspectivas do Investimento* (Perspectives for Investment), with maps and analyses of projects and strategic plans for companies to invest, within a time range of four years. The study revealed a qualitative change in investments expected for 2015-2018, which totaled R\$ 4.1 trillion and showed a more technology-intensive profile and, generally, less capital-intensive.



The publication *Sectorial Panoramas* was launched in 2014 and provides detailed analysis of several sectors in the economy. Picture: BNDES.

#### APOIO A ESTUDOS EXTERNOS (SUPPORT FOR EXTERNAL STUDIES)

Two external studies that received support from the Bank using non-reimbursable funds from the BNDES Project Structuring Fund (BNDES FEP) were completed. These studies addressed diversification within the Brazilian chemical industry and the feasibility to produce biofuels in the countries listed in the Economic and Monetary Union of West Africa. It is also worth mentioning an ongoing study on urban mobility in the metropolitan region of Florianópolis (Santa Catarina state). More information in the sections *Infrastructure* and *Competitiveness*.

### IN FOCUS

#### PRÊMIO BNDES DE ECONOMIA (BNDES ECONOMICS AWARD)

The latest edition of the award received 23 doctoral theses from nine graduate centers in economics from Brazilian universities. The winning thesis was *Financial exclusion and its relation with poverty and income inequality in Brazil*, produced by Tonyedson Pereira and Lana (Federal University of Minas Gerais).

In the Master's degree category, some 42 dissertations were submitted by 18 graduate centers in economics from Brazilian universities. The winning dissertation was *Vulnerability of families to fall into poverty: an analysis for six metropolitan areas (2002-2011)*, produced by Solange Ledi Gonçalves (Federal University of Minas Gerais).

Since 1977, the BNDES Economics Award has stimulated research in the field of pure and applied economics from a national, regional or sectoral perspective. Dissertations and doctoral theses that are unpublished and approved by the country's graduate centers in economics compete for the award.

#### PRESTAÇÃO DE CONTAS À SOCIEDADE (ACCOUNTABILITY TO SOCIETY)

To be accountable to society for its efforts, the BNDES conducted a study on its impact on public budgets, including the effects on tax revenues resulting from induced economic growth and income expansion.

The study concluded that the impact of the BNDES on the monetary policy of the Brazilian Central Bank is restricted and concentrated, so that it does not reduce the effectiveness of restrictive government policies.

In addition, the BNDES has continued with research on development banks and their role in inducing investments and implementing countercyclical policies, showing the relationship between the behavior of their disbursements and the performance of gross fixed capital formation in the country.

## Management practices

### How the BNDES invests its resources

The importance the BNDES has gained in recent years has made the institution the focus of intense debate. Although one of its most striking features is its ideological approach, the Bank is aware of the arguments raised, in particular, criticism. Two pieces draw attention. Some say that support from the BNDES favors large-scale companies. Others, that its efforts do not help increase investment in the economy.

It should be noted: when it comes to investment, the important companies are large. The Brazilian Institute of Geography and Statistics (IBGE) data from 2011 show that industry companies with annual revenues above R\$ 90 million accounted for 84% of investments in the sector. At the BNDES, industrial companies of this size accounted for 78% of disbursements to the sector in the same period. In 2013, this indicator reached 76% and, in 2014, 79%. In this sense, the representativeness of smaller companies is higher in investments financed by the Bank than in the industry in general.

In addition, one must bear in mind that smaller companies are not present (or are marginally present) in investments in infrastructure, export and the public sector, which were responsible for 35% of the BNDES disbursements in 2013 and 36% in 2014. Ignoring them, we have equal participation between large and micro, small and medium-sized companies in the BNDES' disbursements.

That is: where smaller companies are important, the BNDES' efforts are intense. Companies with revenues under R\$ 90 million accounted for 81% of financing for agriculture and 60% of disbursements to the service sector in 2013. In 2014, these figures were, respectively, 82% and 56%.

Did the BNDES financing help raise investments? The increase in disbursements was expressive, but in real terms it occurred from 2007 to 2010 basically. Adjusted for inflation, disbursements in 2013 and 2014 are still below the 2010 record, a year in which the BNDES played a critical countercyclical role in relation to the world crisis.

It is possible to list three factors that influenced disbursements most in recent years. The first were accelerated investments in 2007 and 2008, with a 3.5 percentage point increase in GDP, compared with a rise of 2.3 percentage points in the Bank's disbursements. This is when disbursements were driven by investments in general.

The second was the arrival of large-scale projects. Industry began making robust investments in new plants. Besides steel, paper and pulp were highlights. In infrastructure, large-scale projects in electricity and, more recently, in logistics were resumed. From 2007 to 2012, investments in infrastructure increased R\$ 47 billion, at 2011 prices, while the BNDES' disbursements to the sector grew R\$ 22 billion, leveraging other sources of financing.

The third factor was the counter-cyclical role in 2009 and 2010. Efforts were important for 21% growth in gross fixed capital formation in 2010, more than offsetting a 7% decline in 2009.

The role of the BNDES is not risk-free, transcending those involved in conventional banking. Its mission and programs extend beyond credit analysis itself, considering social and environmental impacts, innovation, job creation and other externalities.

This does not mean that the effectiveness of the BNDES should not be assessed. Therefore, the Bank is conducting internal studies. External evaluations are also encouraged. This is not about eliminating ideology, but the aim is for the debate to gain objectivity.

\* Article by Fernando Puga, head of the Area of Economic Research. Published in the *Folha de S. Paulo* newspaper on 8.29.2014, and updated with figures from January to December 2014.

### IN FOCUS

#### DIGITAL LIBRARY

The year 2014 marked the launch of the BNDES' Digital Library. It is structured in communities and collections that group publications that are edited, sponsored or financed by the institution, as well as works on its operations, its history and on issues related to economic and social development.

As a result of the BNDES' comprehensive performance in several areas, the Digital Library brings together documents from economic sectors such as energy, pulp and paper, oil and gas, aviation, culture, among others. Moreover, it is constantly growing, with regular inclusions of new documents and the potential incorporation of new communities.

Advances in knowledge management (GC) at the Bank were recognized in the research *Knowledge management in public administration – what has changed in the 2004-2014 period*, published by the Applied Economic Research Institute (IPEA). The study classified the different organizations into groups according to the degree of GC clarification and formalization: initial, intermediate and advanced. The BNDES was classified at the intermediate level, highlighting the large number of practices implemented with positive results.

#### A TERRITORIAL APPROACH AT DEVELOPMENT

The collection *Um Olhar Territorial para o Desenvolvimento* (A Territorial Approach to Development) was launched and sought to identify the Bank's different initiatives in the Brazilian macro-regions and territories, as well as to uncover opportunities to improve efforts and operational tools, in favor of more balanced, coordinated and sustainable development.

The series consists of five volumes, one for each of the country's macro-regions, with articles written by authors from the Bank and guests.

With regard to the Bank's cross-the-board activities, another set of publications that deserves mention is the socio-environmental guides. Further information in the *Innovation, socio-environmental and regional issues* section.



Covers from the collection, dedicated to regional and territorial development. Picture: BNDES.

To meet its commitments to the country, the BNDES constantly reviews its internal processes, particularly its management and corporate integration practices.

The Bank is implementing integrated management for its varied resources toward a business model guided by processes. This internal initiative, which involves redesigning processes and reviewing technological solutions, was named the AGIR Project and, in 2014, it reached an important milestone when it completed the Market Applications Program, the PAM.

The program provided support to: human resources, planning, budgeting, costs, auditing, legal, accounting, risk management, finance and administration processes. Implementing the PAM has already resulted in part of the benefits expected from the project, such as: integration; faster approval flows; modernization of internal rules; greater speed and security in access and flow of information, as well as better control.

Another significant item the AGIR offered was the implementation of the new Corporate Website, which offered new possibilities for communication, collaboration, interaction and information sharing among Bank employees. With these steps accomplished, the AGIR project

is now aiming at implementing solutions linked to the final processes to complete the BNDES' business platform.

Integrating corporate management and risk management is the aim of another set of initiatives in 2014 that deserve attention. These include continuous monitoring which enables the several divisions at the BNDES to objectively see the degree of compliance with regulations to which they are subject, encouraging compliance and continuously improving processes through automated monitoring. The result of the work allows managers to visualize the vulnerabilities in processes more easily.

In 2014, work was carried out in nine of the BNDES' macro-processes, encompassing 14 distinct areas. In 2015, results from continuously monitoring will be displayed at the strategic level, while the Board of Directors will oversee a specific indicator.

The work received an Honorable Mention in the 2<sup>nd</sup> Competition for Good Practices of the Office of the Comptroller General (CGU). This

### IN FOCUS

In 2014, the BNDES carried out eight administrative procurements guided by environmental sustainability parameters, highlighting the national architecture procurement that selected the preliminary design for the building annex to EDSERJ – the building that has housed the BNDES since the early 1980s, in the center of Rio de Janeiro.

The annex will unite all the Bank's departments in the city in the same group of buildings and will generate savings as renting rooms in other locations will no longer be necessary.

Some 64 proposals were received from all regions throughout the country. The winner was the work of the architect Daniel Gusmão, with a creative and harmonious fusion between modern features at the new EDSERJ building and the surrounding historical buildings: the Santo Antônio Convent and the Third Order of the Church of São Francisco of Penance.

These two buildings form the complex on the Santo Antônio Hill, one of the oldest and most important preserved colonial complexes in the city.

Presented in a public hearing with participation of the Franciscan Fraternity, public authorities and social organizations, the launch of the call-for-submission, besides the environmental sustainability requirements, established prerequisites regarding compliance with the law and with the technical standards in force, integration and revitalization of the surrounding areas and preservation of historical heritage.

On the latter issue, for example, one of the conditions in preparing the preliminary design was that the new building would respect the limit of 42 meters above sea level and thus not interfere with the view of the historic complex for observers located in Largo da Carioca square, a busy spot downtown Rio, near the buildings.



Front view of the annex building design that won the BNDES Architecture Award. Picture: Daniel Gusmão Arquitetos Associados.

activity was rated among the five best practices of the 44 enrolled in the category Strengthening Administrative Internal Controls by several agencies and entities of the Federal Executive Branch.

Moreover, it is worth mentioning the implementation of a governance structure to price financial instruments, thus standardizing methodologies between the areas that perform this process. Another significant advance was to develop the business plans and business continuity strategies for the BNDES, an initiative that involved all areas in the institution, generating higher return capacity in the event of any loss or crisis situation.

Economic research also plays a key role in the Bank's risk management. In addition, it helps assess projects requesting financing and guides the implementation of the Operational Policies (the Bank's financial support conditions for several production sectors). In 2014, the paper Brazil-World Scenarios for 2030 was drafted (more information in the section *Strategy and vision for the future*), which resulted in creating future references for the BNDES when making decisions. It consists of a reflection on opportunities and threats to the BNDES in fulfilling its mission, taking the year 2030 as the horizon. Scenarios incorporate multiple aspects and variables (economic, political and social). Situations, and their possible outcomes, which would have a greater impact on variables that are important to the BNDES' mission are identified.

It is worth mentioning a diagnosis carried out on long-term investment financing models in Brazil as a part of the corporate design for the Financial Industry and the BNDES. Results of the diagnosis were compared with the international profile and a methodology for monitoring and disseminating market indicators was developed to guide the Bank in its strategic and credit decisions.

In 2014, management of sustainability and socio-environmental issues related to the BNDES' operations was enhanced by establishing the Social and Environmental Sustainability Committee, made up of some of the institution's deputy managing directors. The Bank already had a formal set of corporate policies and practices related to social and environmental responsibility. However, specifically in relation to governance, there was a need to strengthen the Bank's structure regarding this issue.

The Committee aims to promote the integration of social and environmental aspects into policies, processes, practices and procedures of the BNDES System, in keeping with its Social and Environmental Responsibility Policy (PRSA). Creating the Committee meets the requirements in the CMN Resolution N°. 4,327/2014, which covers social and environmental responsibility for financial institutions Brazil's Central Bank has authorized to operate. More information on regulation can be found in the *Innovation, socio-environmental and regional issues* section.

Also in 2014, one highlight is the preparation of the Multi-Year Plan to Implement and Monitor the BNDES' Social and Environmental Responsibility Policy, organized into five interdisciplinary and complementary sections. Preparing the plan also meets the obligations under that resolution and will be managed by the Social and Environmental Sustainability Committee.

Another committee created in 2014 also played an important role in promoting best management practices and corporate integration. The Committee for Sectorial Analysis (CAS) fostered better systematization for BNDES' sectorial knowledge as well as advances in analyzing and mapping out projects and strategic plans for companies. In their meetings, members discuss the outlook for Brazil's and the world's economies, share information on economic sectors, and address Brazil's investment prospects. Based on these discussions, the CAS provides diagnoses and conducts studies that offer an assessment of trends and challenges for production sectors. They are available to society at the BNDES' Digital Library. More information in the *Generating knowledge* section.

It is worth noting that, in 2014, the Variable Income Portfolio Management Policy was standardized, establishing, among other things, guidelines to operate and manage the variable income operations the BNDES System carried out. 📍

## Institutional relations

Efforts to expand the dialogue and strengthen the BNDES' image and presence with its interlocutors help consolidate the institution's relations. The BNDES constantly strengthens its relations by implementing improvements in channels and vehicles to interact with its assorted audiences and by managing its own trademark.

A highlight in 2014 was the completion of the corporate project External Relations, which was dedicated to the following aims: (i) to increase knowledge of how the BNDES' relationships are conducted with key external players; (ii) to propose guidelines and corporate principles to guide the Bank's foreign relations practices; (iii) to help align how the BNDES' varied divisions relate to their outside interlocutors, by adopting an integrated

approach and coordinating corporate efforts related to the matter; and (iv) to identify opportunities to improve the management of external relationships, by proposing good practices identified in the market. Among the project's results throughout the year are establishing and holding ten meetings with the External Relations Committee (CRE), whose purpose is to monitor and analyze, for advisory purposes, corporate and strategic affairs related to the institution's relationships.

It is also worth highlighting the advances in developing an External Relations Policy which defines audience segments identified by the project as well as values and guidelines that should support the BNDES' relationship with each of them. As part of the project, the external relationship maps were completed for 24 divisions within the Bank, a process that involved visits and research on the topic.

### Day-to-day communications

The Bank maintains contact with the public, aiming at meeting the different information needs of its clients, society, control organizations and partners so as to formulate policies and improve its efforts.

Some of the instruments used in external public relations include the Call Center, the Corporate Assistance counter, the online tool known as More BNDES, the Citizen Information Service (SIC), the BNDES' website and the Ombudsperson's Office.

The main results for 2014 in these and other methods for contacting the public are summarized below and on the following pages.

The website Complain Here gained importance in 2014 as a contact channel between the BNDES and its clients, recording an increase in the number of messages related to the Bank, especially due to the greater dissemination of this tool to consumers in general.

In its regular activities, the Bank works with the government to establish and implement policies; with financial institutions and other partners to improve interaction with clients; and with public and private customers to improve products and discuss results, besides negotiating to enable financing operations.

### IN FOCUS

#### ECO-EFFICIENCY

The BNDES' fixed asset management, which the Rio de Janeiro headquarters (CEDSERJ) carries out, complies with good environmental responsibility practices, developing efforts in energy efficiency, water consumption, waste management, among other activities focused on improving eco-efficiency aspects.

Energy consumption dropped from 16,475 MWh in 2013 to 16,041 MWh in 2014. 📍 The total water consumption was 69,098,386 liters, of which 68,386 liters were bottled. 📍

All waste produced at the headquarters is earmarked for waste-picker cooperatives, 📍 fully complying with Decree N°. 5,940/06. In total, some 151,963 kilograms of material were produced in 2014, such as office paper, scrap metal, newspapers, paper towels and plastic cups. 📍



### IN FOCUS

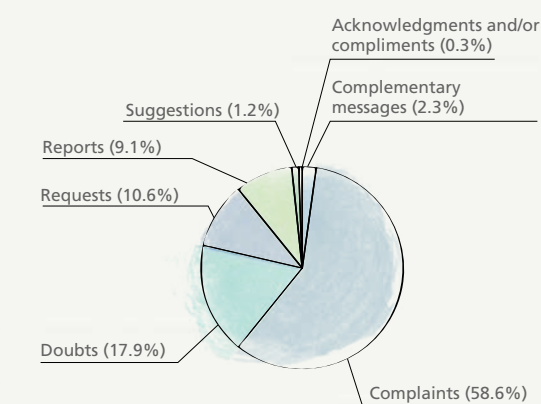
#### CHANGES TO FINAME

Decree N°. 8,222 of 4.1.2014, makes changes to the decree that created the Special Agency of Industrial Financing (FINAME), a member company of the BNDES System, highlighting the creation of new statutory bodies: General Meeting, Advisory Board, Executive Board of Directors and the Fiscal Council.

### IN FOCUS

#### OMBUDSPERSON'S OFFICE

1,526 contacts made as follows:



### PARTNERSHIPS AND DIALOGUE

In an effort to establish new channels for dialogue with society, in a structured and direct manner, in November 2013, the BNDES inaugurated the Forum for Dialogue between the BNDES and civil society. In 2014, quarterly meetings were attended by representatives from thirty non-governmental organizations and social movements of importance in the Brazilian context. Engaging the BNDES in this forum reaffirms the institution's commitment to transparency in its activities, as one of the principles valued in its relationship with society.

Another highlight in the dialogue with partners was the BNDES' coordination in the Council for Competitiveness of the Chemicals Industry within the Brazil Maior Plan, responsible for discussing and proposing public policies for the sector. In 2014, the Council for Competitiveness managed to implement important efforts, such as developing the Renewable Chemistry Technology Agenda, sponsored by the Brazilian Association for Industrial Development (ABDI), and completing the Study on the Diversification of the Chemistry Industry, sponsored by the BNDES' Project Structuring Fund (more information in the section *Competitiveness of Brazilian companies*). This study has become an important benchmark in the industry, involving corporate, academia and government representatives concerned with common proposals.

In support for micro, small and medium-sized enterprises, it is worth highlighting the partnership with Sebrae to hold Credit Seminars in 104 cities in 2014; the events aimed at presenting the Bank's financing options, besides celebrating 10 years of Trein@ BNDES. The distance teaching tool has already trained more than 80,000 people on the Bank's lines and products, including employees from financial institutions that onlend resources. Undergoing redesign, content in the online courses will be adapted for the different target audiences, featuring exercises and games.

Also important was the Bank's participation in the committee coordinating the study *Northeast 2022* conducted by Banco do Nordeste, which involved putting together long-term scenarios for the region, in addition to making sections on the opportunities and challenges in this macro-region.

The BNDES' Internal Auditing Department, linked directly to the Advisory Board, coordinates the BNDES System's dialogue with external control and oversight bodies such as the Federal Court of Accounts, the Office of the Comptroller General, and the Brazilian Central Bank.

It is worth noting that support for scientific and technical events, as well as initiatives aimed at disseminating knowledge also plays an important role in communicating with the BNDES' assorted audiences, either through providing space for seminars, lectures and meetings at the Bank's premises or in the form of sponsorship.

In 2014, the Bank sought to learn from the experiences that entities similar to the BNDES had, bringing executives from international finance development institutions and university researchers to events such as "The present and the future of finance development institutions: a dialogue aimed at learning." Other initiatives that warrant mention were sponsorship for the annual meeting of the National Association of Graduate Centers in Economics (ANPEC) and the first international seminar on semiconductors in Latin America, SEMI LatinAmerica.

Similarly, in the field of culture, the Bank sponsors publications and external music,

dance, film and literature events, besides opening up its premises for free and open concerts, highlighting the classical music project "Classical Wednesdays," launched in 2014 after inaugurating the new BNDES Space. Even during renovations, a nationwide contest that selected 79 popular and classical music concerts (including instrumental) for the 2014 to 2015 season.

In sports, it is important to mention the BNDES' support to unify the training centers for fast canoeing and kayaking (Curitiba CT), to implement the Paracanoeing Training Center in São Paulo, to renew the Standing Slalom Team in

Foz do Iguaçu (Paraná state) and to hold Brazil's championships such as Slalom (Três Coroas, Rio Grande do Sul state), Speed (Curitiba, Paraná state) and World Rafting (Foz do Iguaçu, Paraná state). With the BNDES' support, now all Olympic kayaking modalities have the structure required to train at a high level.

The Bank also supports equestrianism within the scope of the 2016 Brazil Medals Plan – an initiative run by the President's Office to place Brazil among the top ten in the Olympic Games and in the top five in the Paralympic Games in Rio in 2016. In 2014, the projects Brazil Equestrianism Medals and the World

Equestrian Games received sponsorship. All the BNDES' sports sponsorships are made possible through the tax benefit established in the Sports Incentive Law.

With regard to advertising, also essential in communicating with customers and society, the BNDES held campaigns using humor, real stories and concrete data.

The "Facts" campaign, using numbers and data, presented the BNDES' financing policy and the benefits for the country in a straightforward fashion. The "Possible stories" campaign brought to TV cases presented in the 2013 Internet film campaign "Count on the BNDES."

The campaign "The numbers of the BNDES Card work in favor of your company" has been successful since 2011 and remained on air. In the year of the World Cup, it received a new line of credit: "The BNDES Card in the World Cup," which addressed the product's advantages for micro, small and medium-sized enterprises (MSME) preparing for the event. The World Cup was the topic in another institutional campaign, which showed the Bank's role in preparations for the tournament and benefits for the population from the BNDES' investments.

IN FOCUS

COMMUNICATION AND TRANSPARENT INFORMATION IN FINANCIAL AND GLOBAL MARKETS

The BNDES develops a constant dialogue with public and private economic agents to stimulate more international integration and to strengthen the competitiveness of Brazilian companies. It is worth highlighting the new agreements signed with institutions abroad, such as the BPI Groupe (France), the China Development Bank (CDB), the China Investment Bank (CIC), the China Exim Bank, the Official Credit Institute of Spain (ICO), the Cassa Depositi e Prestiti, the Bank of Tokyo-Mitsubishi and the development banks in the BRICS countries – State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank), Export-Import Bank of India, China Development Bank Corporation and Development Bank of Southern Africa (DBSA).

In frequent contact with international investors, the BNDES explains its role in the Brazilian economy and the potential for investment in Brazil. Through its offices in London, Montevideo and Johannesburg, the Bank expanded the exchange of experiences and information related to structuring international operations, as well as capacity-building with financial institutions and development agencies to create financial solutions that meet the needs of its clients and local particularities.

The year 2014 was marked by a series of events that BNDES had the opportunity to organize. Among them was the 2014 BRICS Financial Forum in Fortaleza. The first BNDES Day was held in London to consolidate its position as a bond issuer in the foreign financial market, attracting representatives from banks, fund managers and European organizations.

The BNDES increased its international visibility in environmental performance by participating in initiatives such as the Sustainable Energy for All (SE4ALL), promoted by the United Nations (UN) in New York, and the International Development Finance Club (IDFC), an association linked to climate finance issues, infrastructure, poverty reduction and innovation, in Cape Town (South Africa) and Washington (United States).

EVENTS TARGETING MSMEs

Reaching an audience of 2,157 people, the cycle of lectures BNDES Closer to You aimed at disclosing the Bank's methods for financing, traveled through 17 cities in five regions, among them Macapa (Amapá state), Nova Friburgo (Rio de Janeiro state), Fortaleza (Ceará state) and Goiânia (Goiás state). The Credit Seminars, a joint initiative between the BNDES and SEBRAE, mainly targeted micro and small enterprises, bringing together more than 9,000 participants. In addition, some 1,600 contacts were made at trade fairs.

CITIZEN INFORMATION SERVICE (SIC)

Some 667 requests were made for information, all of which were answered within the deadlines established by the Information Access Law.

CORPORATE ASSISTANCE

Corporate assistance was offered to more than 1,000 contacts made in the offices in Rio de Janeiro, Recife, São Paulo and the Federal District, most of which were micro and small businessmen. The international offices are located where Brazilian exporters operate and seek to establish partnerships with companies and governments in other countries.

WEBSITE

The www.bndes.gov.br received a monthly audience of 250,000 visitors on average.

BNDES CALL CENTER

Service was provided to around 700,000 contacts made by external audiences, of which 90% was by telephone and the remainder via text messages.

IN FOCUS

CULTURAL PROJECTS

Sponsorship was provided for 62 cultural projects, besides events and presentations held at the Bank's premises.

Sponsorship for external projects alone accounted for approximately R\$ 23 million in investments. Among these are very traditional events, such as the 12<sup>th</sup> Paraty International Literary Festival – FLIP (Rio de Janeiro state), the 38<sup>th</sup> International Film Festival in São Paulo, and other projects that have been gaining importance and bringing cultural production to new locations, which is the case of the 7<sup>th</sup> Cine Fest Brazil-Canudos (Bahia state). Projects performed at the BNDES Space include the "Classical Wednesdays," launched in 2014 with a focus on classical music, and the previously established "Thursdays at the BNDES," which receives renowned Brazilian artists and new talents.

SOCIAL NETWORKS AND THE OMBUDSPERSON'S OFFICE

The YouTube channel ended the year with double the audience compared with the end of 2013, and it reached the milestone of one million views, a total of 72 videos posted, including the animation *The BNDES in your life* (image) and a series on financial responsibility. The Bank also maintains profiles on Twitter (@bndes\_imprensa) and Slideshare. The Complain Here website recorded and answered 38 complaints and, from the companies that assessed the service, some 68.8% considered their problems solved and 75% would continue to do business. The BNDES' reputation on the website is "good," that is, grade five on the six-point scale on the website.



Orquestra Crióla's presentation at the BNDES Space, which was reopened after renovation and now includes a theater equipped with new technologies and a wider stage with curtains, backstage and lighting. Photo: André Telles, BNDES.



The animation *BNDES in your life* was one of the publications on YouTube in 2014. Picture: BNDES

CONTROL

The BNDES underwent due diligences and audits in 2014, which, together, gave rise to 610 requests for information, which were all properly addressed.

INSTITUTIONAL LECTURES

Some 45 presentations in Portuguese, English and Spanish were made to a total audience of 1,205 visitors from education institutions, as well as Brazilian and foreign delegations.

TECHNICAL PROJECTS

Sponsorship was provided to 60 technical projects, such as seminars, congresses and fairs, amounting to R\$ 9 million in investments.

SPORT SPONSORSHIP

Disbursements of R\$ 17.8 million in sports sponsorship projects.

PRESS CONFERENCES

A total of 183 press releases were sent and 14,173 articles citing the BNDES were published.

The BNDES needs to be a financially healthy and robust institution committed to carrying out its mission with society.

## Diversifying and integrating products

The BNDES, today, is the main long-term funding instrument in Brazil. One of its strategic priorities is to help create other support mechanisms for investments with prolonged maturity periods, involving other agents and sources of resources.

The combined use of fixed-rate instruments (such as financing and debentures) and variable-rate instruments (such as shares and quotas in investment funds) expands possibilities to finance investments, while paving the way to developing a long-term financing industry in the country.

Besides this, integrating fixed and variable-income instruments adds potential to the BNDES' support, helping expand its financial sustainability.

With regard to fixed income, the BNDES has acquired simple debentures in public offerings to support growth strategies at issuing companies and to develop Brazil's corporate fixed-income market.

The BNDES has offered some clients – usually companies listed at BM&FBovespa – with

the option for financing that merges fixed and variable-income: the mixed operation. One part of the support package requested is carried out using instruments that are convertible into shares, complementing BNDES Finem, the Bank's fixed-income product.

These operations, together with the Bank's other efforts, help strengthen and modernize Brazil's capitals market by adding the offer of securities, developing new products for investors, and democratizing the ownership of corporate capital.

Another important effort is stimulus for initial public offerings of shares from its portfolio of corporate stakes.

Additionally, the BNDES has sought to help develop the access market, which is the stock market's segment for small and medium-sized enterprises to make their initial share offering. With the development of this segment, it is expected that a larger universe of people will have access to the intense generation of wealth of these companies and that these, in turn, can count on permanent financing from the capitals market for growth.\*

Aimed at developing a market with nationwide access, the Bank participated in institutional work in partnership with leading market players, which carried out a diagnosis of the main access markets in the world and several proposals stimulate development. In parallel, the Bank launched two mechanisms to stimulate offerings in this segment.

One is the BNDES' Access Market Program. With a budget of over R\$ 1 billion, the Bank plans to work as an anchor investor in IPOs, guaranteeing the subscription of up to 20% of the securities issued by companies in the Bovespa Mais segment at a certain price, if interest for support is proven. By making that commitment, the Bank improves the chance of success in the public offering, helping to reduce the company's effort in fundraising and inducing a “multiplying effect” because it conveys a credible message to the market, as the BNDES is an important and qualified national investor.

Another initiative aimed at the segment is the funds for the access market. With equity estimated at R\$ 250 million, of which up to 30%

belongs to the BNDES, two new investment funds were selected by the Bank; they will be the first in Brazil with activities earmarked for companies that are listed in or wish to enter the access market. The funds will have qualified management, and resources from other investors will be leveraged.

Launched in May 2014, the call-for-submission for fund managers attracted 13 proposals from candidates, two of whom with complementary activities in the process were selected. The funds will support companies as it evolves, both strengthening the capital structure of private companies, and buying shares during or after the initial public offering.

## Equity structure

The BNDES' financial sustainability for the long term requires efforts to build an equity structure that is suited to its investment budget.

Aimed at diversifying its sources or resources, the Bank raised € 650 million and US\$ 1.5 billion by issuing two series of bonds in 2014. External

fundraising allows: more diversified sources of funds, lower risks, and incentives for other Brazilian issuers, and stronger relations with the international financial community.

The BNDES also raised funds via a loan with Bank of Tokyo-Mitsubishi (BTMU) in the amount of US\$ 500 million, and US\$ 100 million through its London subsidiary (BNDES PLC).

The subsidiary started operations in 2014 with positive financial results. This operation showed that the BNDES may benefit from its foreign fundraising using its international vehicle.

Throughout the year, institutional contacts for fundraising abroad were intensified, and a total of US\$ 941 million was raised by the BNDES, with institutions such as the Japan Bank for International Cooperation (JBIC), Kreditanstalt für Wiederaufbau (KfW), the Swedish Export Credit Corporation (SEK) and the Agence Française de Développement (AFD), and the first bilateral loans were signed with the last two banks.

It is also worth noting that debts recognized as eligible for core capital were agreed upon

### IN FOCUS

#### BRAZILIAN PAYMENT SYSTEM (SPB)

The BNDES joined the Brazilian Payment System (SPB) on June 30, 2014. Thereafter, the Bank began to conduct its financial transactions directly through a reserve bank account with the Central Bank, with no need for another financial institution to intermediate, as before.

The new model has brought benefits to both clients using direct operations and financial agents using indirect operations. A significant portion of payments began to be made by bank-issued slips with bar codes and not through collection notices. Invoices, including those to settlement contracts in advance, can be issued via the BNDES' website, adding practicality and agility to the process.

For the BNDES, the change represented an opportunity to improve its billing and settlement process, the quality of services provided to clients and partners, besides making operations more efficient in the financial market, as well as improving cash management and payment services.

#### PUBLIC SHARE OFFERINGS

To help develop Brazil's capital market, in October 2014, BNDESPAR Ourofino Saúde Animal conducted its initial public offering of shares, the only one in the segment in the year. The company specializes in vaccines for cattle, horses, poultry and pork, as well as veterinary products for pets. The operation was extremely successful, reaching the top price range, and total demand exceeded the offer 3.5 times. The IPO raised approximately R\$ 420 million and both Brazilian and foreign investors were involved. The offer took place in the BM&FBovespa New Market, a segment whose companies meet the highest standards of corporate governance on the Brazilian stock market. In this IPO operation, the Bank reduced its stake from 20% to 12%, earning approximately R\$ 90 million with the divestiture.

The company has maintained relations with the BNDES System since 2005, when it signed the first financing agreement with the Bank in the amount of R\$ 12 million to implement its main plant in the city of Cravinhos (São Paulo state). Between 2007 and 2008, BNDESPAR invested R\$ 105 million in the animal health group accumulating, thus, 20% equity interest. In the following years, with support from the Bank, Ourofino implemented other plants aimed at producing hormonal and biological therapeutics (vaccines for FMD) and pesticides. In June 2014, the company finished building the first phase of a biotechnology plant designed to be one of the largest and most modern in Latin America, with capacity to safely produce more than 13 different vaccines for cattle, swine and pets.

#### CALLS-FOR-SUBMISSION

The BNDES broke new ground in 2014 when it carried out multi-sectoral selections, in which it is possible to choose one or more managers for investment funds in different sectors and moments. Under this modality, the Bank will provide R\$ 2 billion in investments to the market over the next two years and may select up to 12 fund managers.

Up to 2014, BNDESPAR's choice of funds and their managers was usually made through a specific call-for-submission, in which a manager is selected for a specific investment fund after assessing the investment needs and opportunities in certain market sectors, production sectors or regions. Analyzing and planning the securities portfolio and BNDESPAR's strategic guidelines are also assessed.

### IN FOCUS

#### TREASURY POLICY

In recent years, especially since 2008, there has been significant growth in the size of the BNDES' operations. With assets exceeding R\$ 800 billion, annual disbursements of approximately R\$ 190 billion and annual mandatory expenses, constructing and maintaining larger liquid assets reserves, capable of ensuring the stability of disbursements and covering disbursements even during crunch periods in financial markets, has become a necessity.

From this perspective, the BNDES' treasury portfolio of net assets gained importance. The treasury portfolio, besides ensuring that resources are made available promptly to beneficiaries receiving financial support, also began to play the important role of generating revenues that allowed the BNDES to reduce the return on its loan portfolio, i.e., the bank's spread charged to clients. Combining steady minimal growth in the Bank's capital, treasury operations primarily benefited the BNDES' clients.

#### HOW DOES THE BNDES ADDRESS OPERATIONS IN DEFAULT?

Most of the resources used in financing carried out in 2014 came from return on the Bank's operations. Thanks to thorough analyzes of requests for support, the Bank posted its lowest default rate ever. It is worth noting that, each fiscal year, the default rate has been significantly lower than the National Financial System average, which means that repayments of such financing have become one of the main sources of resources for new support throughout the years. More information in the section *The BNDES in numbers*.

Some operations, however, go into default. When this occurs, the first effort is to try to renegotiate the debt out of court, seeking an agreement between parties. This is fundamental, because maintaining its commitment to development is just as important as recovering credit. Thus, the economic feasibility of the company is assessed, seeking an alternative that preserves jobs and maintains the company solvent whenever possible. Renegotiations for 44 credit operations in default were concluded and approved in 2014, totaling R\$ 3.1 billion. At the same time, some R\$ 379 million was received.

If negotiations are unsuccessful, collection procedures are implemented through legal action, calling in guarantees (machinery, equipment, vehicles etc.). In these cases, principles and norms published by regulatory organizations are adopted – especially those from Brazil's Central Bank – aimed at mitigating risks, quickly and thoroughly organizing the sale of goods offered by debtors, through auctions or competition procedures. These are widely advertised, highlighting that the amount bid by the winner of the auction is fully employed to pay off the outstanding debt.

\*Currently, Bovespa Mais is the only segment to access the stock market that exists in Brazil, has its own regulations, and requires adherence to best corporate governance practices. It also offers special conditions to companies, such as listing prior to the IPO – a period in which the company gains visibility and confidence from the market -, reduced service fees and no charges to produce independent evaluation reports.



## Developing competence

and renegotiated with the Federal Government, totaling R\$ 20.5 billion, so as to increase the share of higher quality capital at the BNDES.

Under Resolution CMN N°. 4,192/2013, the reference equity of financial institutions consists of two tiers: I and II. Tier I consists of the core capital and supplementary capital, in which core capital is the most important component in the structure, with greater ability to absorb losses and from which all regulatory deductions are made.

### Risk management and return

The BNDES has to consciously take on risks that are compatible with institutional goals, based on solid methodology and quality information. The main aim of risk management and internal controls at the BNDES is to contribute to the institution's financial sustainability by measuring and monitoring credit, market, liquidity and operating risks to which the company is exposed and assessing internal controls.

In 2014, this process focused on consolidating methodologies for identification and analysis, as well as acquiring and implementing information systems to support risk management, aiming to reduce possible losses arising from such risks.

It is worth highlighting, in the course of this year, that, when consolidating risk management at the BNDES, the quality of reporting information improved due to more significant participation in decision-making forums, as did the circulation of risk information, aiming to bolster the institution's operational and strategic decisions.

One of the main challenges for financial institutions – integrating risk management with corporate management – showed important progress, with a considerable increase in the number of processes whose risks and internal controls were evaluated, besides defining risk limits, holding stress tests and periodically assessing the credit portfolio, which gained prominence in corporate level monitoring. All these initiatives help disseminate a risk culture at the BNDES, providing greater synergy between risk management and decision-making. More information in the section *Management practices*.

The BNDES, every quarter, discloses qualitative and quantitative information on the structure and management of credit, as well as market and operational risk in the institution, in the Risk Management Report. Among other information, the document presents data on the credit portfolio with different levels of segregation, the exposure

of the BNDES to larger customers in relation to the total portfolio, overdue operations and allowances for losses, instruments for mitigating credit risk, as well as information on the Bank's trading portfolio and corporate shares (stakes).

Among the indicators used to conduct the BNDES' risk management, presented in the Risk Management Report, is the monitoring of capital ratios as required by the Brazilian Central Bank (BCB). According to regulations issued by the regulator, the institution must retain enough capital, called Reference Equity, to cover the total of its assets weighted by credit, market and operational risk.

The chart below shows the total of these variables for December 2013 and December 2014. Note that the portion of assets weighted by credit risk is the most expressive in the BNDES and the institution's capital ratios are comfortably above the minimum amounts the regulator requires.

It should be noted that, in 2014, the BNDES completed the second Report on Internal Capital Adequacy Assessment Process (ICAAP) for December 31, 2013. In short, this report aims to assess whether the capital (Reference Equity) retained by the institution is enough to properly carry out its activities, considering the risks to which it is subject and the intended goals. Also as part of the institution's capital management,

a particular mention should be made concerning the review of the BNDES' Capital Management Corporate Policy, improving the procedures for capital management in the institution.

	(R\$ million)	
Own resources and Risk-Weighted Assets*	DEC. 2013	DEC. 2014
<b>Reference Equity – RE</b>	<b>108,669</b>	<b>97,851</b>
= (+) Tier I Capital	72,446	65,234
(+) Capital Core (CC)	60,418	65,234
(+) Supplementary Capital (SC)	12,028	-
(+) Tier II Capital	36,223	32,617
(-) Deductions from the RE	-	-
<b>Risk Weighted Assets – RWA</b>	<b>580,237</b>	<b>615,706</b>
= (+) Credit Risk	545,944	575,861
(+) Market Risk	23,257	28,055
(+) Operational Risk	11,036	11,790
<b>Basel Index (RE/RWA)</b> (Regulatory Minimum = 11%)	<b>18.73%</b>	<b>15.89%</b>
<b>Tier 1 Capital Index (NI/RWA)</b> (Regulatory Minimum = 5.5%)	<b>12.49%</b>	<b>10.59%</b>
<b>Core Capital Index (CC/RWA)</b> (Regulatory Minimum = 4.5%)	<b>10.41%</b>	<b>10.59%</b>

\* In international and in internal regulations issued by the Brazilian Central Bank, notably the CMN Resolution N°. 4,193/13, the RWA stands for Risk-Weighted Assets. The CMN resolution establishes the method to calculate the RE and RWA.

Developing and adding value to technical and behavioral competences required to foster sustainable development are a constant concern of the Bank when dealing with its employees. Following are the BNDES' internal efforts that favored a more innovative organizational environment, that fostered personal and professional development for its employees, and that add value to personnel management aiming at results and performance assessment.

### Innovative environment

An innovative environment is fundamental to constantly upgrade products, operational instruments and processes, in a continuous effort to improve the quality and efficiency of the Bank's operations and its results for society. The BNDES maintains the Process Office, which coordinates efforts, while focusing on the benefits from process-based management, operating as technical support to identify organizational impacts on corporate initiatives as well as innovating and integrating processes. Additionally, the role of the Corporate Project Office, which fosters project management practices, is to help achieve better results, working in across-the-board initiatives that stimulate and promote integration among different organizational units.

### Q12 Personal and professional development

Driven by the need to foster the acquisition and development of competences to meet its growing needs, the Bank continued to offer support to attend graduate courses in Brazil and abroad, certification, language courses, open courses and customized courses. This year, support was provided for some 161,941 hours of training, corresponding to 4,557 participations (45 of them in graduate courses), resulting in an average of 57 training hours per employee.

With regard to training in customized content, one highlight is the increasing participation of internal instructors, ensuring contents were more suited to the training needs for the job. The training topics were diverse, such as law, accounting, tax, finance, executive training, behavioral courses, economics and use of information technology tools.

\* This section shows consolidated figures from 2014 or relating to the workforce on 12.31.2014.

### IN FOCUS

#### AVERAGE TRAINING HOURS PER EMPLOYEE

HIGH SCHOOL LEVEL

23 hours

UNDERGRADUATE LEVEL

78 hours

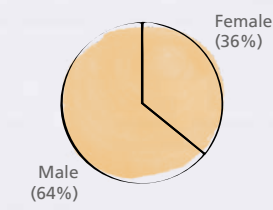
#### DIVERSITY AND INCLUSION

The BNDES maintains an ongoing commitment to eliminating all forms of inequality and discrimination in the workplace and in the institutions that participate in its chain of relations. In this sense, it is worth highlighting that the Pro-Equality of Gender and Race Program was picked up by the Secretariat on Policies for Women which is part of the President's Office; the recognition of same-sex relationships for social security purposes; and the continuity of the program to include employees with disabilities. In December 2014, some 42 people with disabilities had become part of the institution's staff.

Among the initiatives throughout the year, it is worth mentioning an event on sexual and psychological harassment in the workplace and training for BNDES professionals on the legislation establishing the racial quota in public recruitment exams held by public enterprises, aiming at adapting the Bank's next selection process.

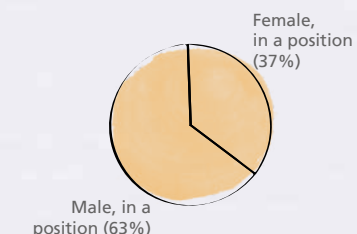
### Q3

#### BREAKDOWN OF ALL STAFF PER GENDER

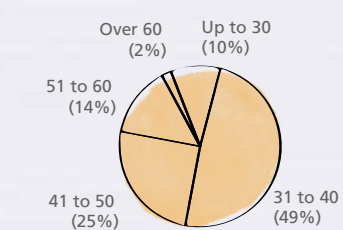


### Q4

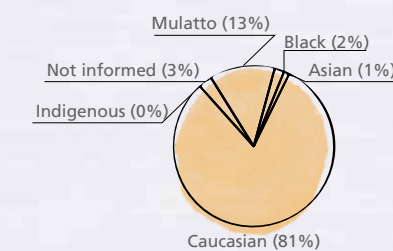
#### EXECUTIVE AND APPOINTED STAFF PER GENDER



#### EXECUTIVE AND APPOINTED STAFF PER AGE GROUP



#### BREAKDOWN OF ALL STAFF PER RACE



### Strategic staff management

The Employee Agenda is the tool to assess performance and to agree on result-based actions. It encourages reflection and feedback between managers and employees and seeks to prioritize skills and identify the most relevant deliveries expected for the period. In 2014, some 94% of employees participated in the Employee Agenda

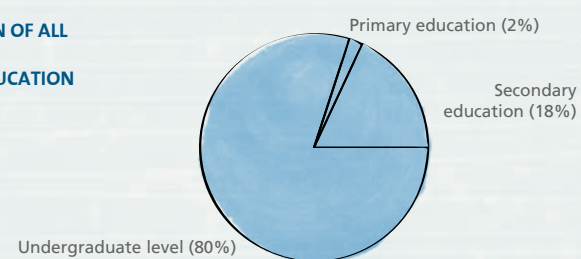
cycle. The tool is being revised to improve the current performance appraisal process even more.

In recognition for its Training and Development, as well as its Compensation and Benefits policies, the BNDES was nominated for the second time for the HR Top of Mind award, ranking among the top five most recognized companies in the category Attracting and Retaining Talent.

Also in 2014, demonstrating the strategic importance of people management for the Bank, the Human Resources Management Committee was created and is responsible for supporting and guiding policies and processes related to the subject.

#### IN FOCUS

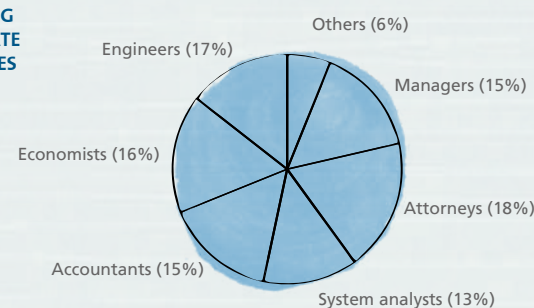
##### BREAKDOWN OF ALL STAFF PER CARRIER/EDUCATION



##### BREAKDOWN OF ALL STAFF PER GENDER AND REGION

Place	Female	Male	Total
Brasília	15	20	35
Johannesburg		3	3
London		4	4
Montevideo	1	2	3
Recife	9	21	30
Rio de Janeiro	993	1,779	2,772
São Paulo	15	19	34
<b>Total</b>	<b>1,033</b>	<b>1,848</b>	<b>2,881</b>

##### BREAKDOWN OF CAREERS AMONG UNDERGRADUATE LEVEL EMPLOYEES



##### ABSENTEEISM | WORK SAFETY AND HEALTH RATES

Injury rate (TL) <sup>1</sup>	<b>4.30</b> (Southeast Region)
Occupational disease rate (TDO)	<b>14.70</b> (Northeast Region)
Lost days rate (TDP) <sup>2</sup>	<b>Zero</b>
Absenteeism rate (TA) <sup>3</sup>	<b>2.77</b> (Southeast Region)
Deaths caused by accidents at work or occupational diseases	<b>5.83</b> (Northeast Region)
	<b>0.78</b> (Southeast Region)
	<b>0.65</b> (Central-West Region)
	<b>0.51</b> (Northeast Region)
	<b>Zero</b>

### PERSONNEL

The BNDES ended 2014 with 2,881 employees, of which 98.5% have been hired for an indefinite period through public recruitment exams. The remaining 1.5% is made up of temporary employees, and those allocated to the BNDES. The turnover rate for the year was 2%.<sup>Q16</sup> It is worth noting that the Bank has 84 employees reinstated due to a decision from the Ministry of Planning, Budget and Management (MPOG), which are not counted in the BNDES' staff limit, currently at 2,840 employees, authorized by the Department of Coordination and Governance of State Companies of the MPOG. It is also worth highlighting that the BNDES only outsources services unrelated to its core activities, such as cleaning, security and messaging.

All employees fall under the Collective Bargaining Agreement and are entitled to medical and dental care benefits, life insurance, travel allowance, day care, educational assistance and a meal allowance, as well as profit sharing and remuneration that is consistent with the market. Currently, the proportion of the lowest wage compared to the national minimum wage is 338.7%.<sup>Q17</sup><sup>Q18</sup>

The BNDES also offers ten working days paternity leave, the option of 180 days maternity leave, rooms for breastfeeding and a one-hour allowance every six months after returning from maternity leave. In 2014, rates for return to work and retention after paternity/maternity leave were 100%.

### ETHICS

In 2014, the BNDES' Ethics Commission analyzed 109 claims, of which 95 were consultations or requests for authorization to carry out parallel activities, nine reports or representations and service was provided to five employees. All claims were analyzed. Two conduct agreements were signed, and a written warning was issued for a case filed in the previous year. Among the matters, there were some that warrant a mention, such as interpersonal conflicts and conflicts of interests, carrying out parallel activities, receiving presents and gifts; stakes in commercial companies; participation in events and seminars and securities transactions. ●

<sup>1</sup> Frequency of accidents with injuries, resulting in lost hours. Some 2,000 annual work hours per worker were taken into account (NBR 14280), that is, some 5,516,000 man-hours, based on employees on December 31, 2014. There were a total of 25 accidents (1 typical accident and 24 commuting accidents) with injury and leave, involving only Rio de Janeiro (Southeast Region) and Pernambuco (Northeast Region).

<sup>2</sup> Work days, as of the day following the injury up to one day before returning to work. A total of 166 work days were lost due to occupational accidents (typical and commuting accidents) in Rio de Janeiro (Southeast Region) and 14 days in Pernambuco (Northeast Region). The total number of days programmed is five days/week x 48 weeks/year (considering vacations) for each employee involved. TDP = Days lost/Days programmed x 100.

<sup>3</sup> Medical absence. Holidays, leave for study, maternity/paternity leaves, extensions, leave in advance, bereavement, marriage/honeymoon and monitored time-off are not included. The total number of days programmed is five days/week x 48 weeks/year (considering vacations) x N°. of employees per region, based on employees on December 31, 2014. TA = Days absent/Days programmed x 100.

## Glossary



### Bonds

Government-issued debt instrument.

### Bridge loan

Financing to a project in order to speed up investments by providing resources when the long-term financing operation is being structured, with which the bridge loan must necessarily be associated.

### Compliance

Adherence to standards, policies, guidelines and regulations.

### Convertible debentures

Debt securities that can be converted, under certain conditions, into a stake in the issuing company.

### Debentures

Medium and long-term debt securities issued by companies in which the debenture holder becomes the company's creditor.

### Financial leverage

This corresponds to the ratio between equity capital and third party resources (loans and financing) used to implement a project. By investing third-party resources, entrepreneurs can implement a project even though they do not have enough equity capital for the total investment. Leveraging makes it possible to increase the yield on equity capital.

### Fixed income

Financial operations in which return is paid in accordance with set conditions, such as government securities, savings, financing and simple debentures.

### Funding

This is the mobilization of third-party resources via the capitals market or banking market with an amortization period compatible to the maturity of the investment which is to be implemented.

### Greenfield

A company or project that has no pre-existing operation, that is, which is still under implementation or which is in its initial stage of operations.

### Initial public offering (of shares)

More commonly known as the acronym IPO, the initial public offering is the first sale of a company's shares on the stock exchange market, which marks its entry into the capital market.

### Innovation ecosystems

Set of factors and agents that contribute to innovation, such as universities, venture capitalists, researchers, technology parks and business incubators.

### Investment funds

Corporate structures working as gated communities, which aim to foster collective investment of participants' resources by issuing quotas representing the equity. Such structures bring together investments from several individuals and use them to invest in securities, normally stakes in companies.

### Market cost

Aiming to increase resources for long-term financing, the BNDES raises funds from various sources on the market. The resources obtained in this way have a cost, called reference costs in the market. These costs do not include the long-term interest rate (TJLP) and the BNDES uses them in onlending in long-term financing operations with competitive conditions that are comparable to those offered by other financial institutions.

### Securities

Any securities or investment contracts issued by companies that generate the right to interest (stakes), partnership or return, including those resulting from rendering services, whose returns arise from the work of the entrepreneur or third parties. For the issuer, securities are an alternative way to raise funds in relation to the traditional financing, while for the buyer they represent an investment with potential for returns higher than fixed-income securities. Examples: stocks, debentures or quotas in investment funds.

### Seed capital

Model of investment aimed at supporting companies and projects in the initial stage of operation, seeking to make its business model feasible.

### TJLP

The Long-Term Interest Rate (TJLP) is determined quarterly by the National Monetary Council and is a reference to calculate interest on the BNDES' long-term financing. The TJLP was established in 1994 as the most attractive rate for long-term investments compared to other rates in the Brazilian economy.

### Variable income

Financial transactions involving securities in which the return is not known at the time of investment.

### Venture capital

Investments to acquire equity in companies with accelerated growth but that offer higher risk, with expectations for remuneration from dividends or capital gains due to the appreciation of these assets from the time they were acquired up to effective divestment.

# GRI Table of indicators

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## Credits

Occurrence in the report	Page	Indicator GRI	Description
1	13 and 29	FS02	Procedures to assess and categorize social and environmental risks in business lines
2	13	FS01	Policies with specific social and environmental components applied to business lines
3	16, 27 and 31	FS06	Percentage of the business lines portfolio per specific region, per size (i.e. micro/small and medium/large) and per sector
4	16 and 28	FS07	Monetary value of products and services created to provide specific social benefits for each business line, shown per purpose
5	16, 28 and 29	FS08	Monetary value of products and services created to provide a specific environmental benefit for each business line, shown per purpose
6	19	EC01	Direct economic value generated and distributed, including revenue, operational costs, employee remuneration, donations and other investments in the community, accumulated profit and payments to capital providers and governments
7	29 and 30	FS05	Interaction with clients, investors and commercial partners in relation to risks, as well as social and environmental opportunities
8	40	EN05	Energy saved due to improvements in conservation and efficiency
9	40	EN08	Total water withdrawn per source
10	40	EN02	Percentage of recycling-derived materials used
11	40	EN22	Total weight of residues per type and disposal method
12	47	LA11	Programs to manage competence and continuous learning that foster the continuing employability of staff members and to oversee staff members in the final days of their careers
13	47	LA10	Average of training hours per year, employee, per employee category
14	47	LA13	Breakdown of groups responsible for corporate governance and employees per category, listed per gender, age, minorities and other diversity indicators
15	48	LA07	Rates per region for injury, occupational diseases, days lost, absenteeism and deaths related to work, per region
16	48	LA02	Total number and turnover rate per employee, age, gender and region
17	48	LA09	Topics related to health and safety covered by formal agreements with trade unions
18	48	LA04	Percentage of employees covered by collective bargaining agreements

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Julio Cesar Maciel Ramundo  
Guilherme Narciso de Lacerda  
Fernando Marques dos Santos  
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Rubens Gama Dias Filho  
Raul Lycurgo Leite  
Rodrigo Sampaio Marques  
Isabella Martins do Carmo  
Roberta Moreira da Costa Bernardi Pereira

##### Editing

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Editing coordination  
Communication Department,  
Publicity Department

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Refinaria Design

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## Telephone numbers and addresses

### **BNDES – Brazilian Development Bank**

#### **Rio de Janeiro Business Building**

Av. República do Chile, 100 | Centro  
20031-917 | Rio de Janeiro | RJ

#### **Ventura Corporate Towers Building**

Av. República do Chile, 330 | Centro  
20031-170 | Rio de Janeiro | RJ

#### **BNDES Call Center**

+55 21 2172 6337  
[www.bndes.gov.br/contactus](http://www.bndes.gov.br/contactus)

#### **Ombudsperson's Office**

+ 55 0800 702 6307

### **Offices**

#### **Brasília**

Centro Empresarial Parque Cidade  
Setor Comercial Sul – SCS | Quadra 9 | Torre C | 12º andar  
70308-200 | Brasília | DF  
Tel.: + 55 61 3204 5600 | Fax: + 55 61 3204 5635

#### **São Paulo**

Av. Presidente Juscelino Kubitschek, 510  
5º andar | Vila Nova Conceição  
04543-906 | São Paulo | SP  
Tel.: + 55 11 3512 5100 | Fax: + 55 11 3512 5199

#### **Recife**

Rua Padre Carapuceiro, 858 | 18º e 19º andares  
Centro Empresarial Queiroz Galvão  
Torre Cícero Dias | Boa Viagem  
51020-280 | Recife | PE  
Tel.: + 55 81 2127 5800 | Fax: + 55 81 2127 5806

#### **London**

BNDES PLC  
6-8 Tokenhouse Yard | 4th floor  
EC2R 7AS | London | United Kingdom  
Tel.: +44 20 7151 3650 | Fax: +44 20 7151 3674  
[bndes.uk@bndes.gov.br](mailto:bndes.uk@bndes.gov.br)

#### **Montevideo**

BNDES *América Latina y el Caribe*  
Avenida Luis Alberto de Herrera, 1.248 | Torre II | 3º piso  
World Trade Center Montevideo | 11300  
Montevideo | Uruguay  
Tel.: +598 2622 8875  
[bndes.alc@bndes.gov.br](mailto:bndes.alc@bndes.gov.br)

#### **Johannesburg**

BNDES Africa  
Illovo Edge Office Park  
Building 1, 4th floor  
Cnr Fricker & Harries Road | Illovo | Sandton 2196  
Johannesburg | South Africa  
Tel.: +27 (0) 11 243 5200  
Fax: +27 (0) 11 243 5201 | +27 (0) 11 243 5202

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