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Banco BMG

Banco BMG S.A. and its subsidiaries

Interim Financial Statements consolidated in IFRS on September 30, 2020 and independent auditor's report

Banco BMG S.A.

(A free translation of the original in Portuguese)

Report on review of consolidated interim financial statements

To the Board of Directors and Stockholders
Banco BMG S.A.

Introduction

We have reviewed the accompanying consolidated balance sheet of Banco BMG S.A. and its subsidiaries ("Financial Conglomerate" or "Consolidated") as at September 30, 2020 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for the nine-month period then ended, and a summary of significant accounting policies and other explanatory information.

Management is responsible for the preparation and fair presentation of the consolidated interim financial statements in accordance with the International Accounting Standard (IAS) 34 – "Interim Financial Reporting" of the International Acocunting Standards Board (IASB). Our responsibility is to express a conclusion on these consolidated interim financial statements based on our review.

Scope of review

We conducted our review in accordance with Brazilian and International Standards on Reviews of Interim Financial Information (NBC TR 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity and ISRE 2410 - Review of Interim Financial Information Performed by the Independent Auditor of the Entity, respectively). A review of interim information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Brazilian and International Standards on Auditing and, consequently, did not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for qualified conclusion

As disclosed in Note 27 (b) (i) to the consolidated financial statements, the Bank's management became aware of illegal acts allegedly perpetuated by some of its current and former officers. These matters came to light in connection with the federal public authorities' investigation, known as operation "*Descarte*". The Board of Directors approved the formation of a Special Committee and the hiring of independent specialists to investigate these allegations and identify any cases of non-compliance with laws and regulations and with the Bank's internal controls, as well as any possible effects on the financial statements.

As the investigation has yet to be concluded, it is not possible to determine any effects arising therefrom. Consequently, we were unable to determine whether the September 30, 2020 consolidated interim financial statements require adjustment or supplemental disclosures with regard to this matter.

Banco BMG S.A.

Qualified conclusion

Based on our review, except for the possible effects of the matter described in the "Basis for qualified conclusion" paragraph, nothing has come to our attention that causes us to believe that the accompanying interim financial statements referred to above do not present fairly, in all material respects, the financial position of BMG S.A. and its subsidiaries ("Financial Conglomerate") as at September 30, 2020, and the consolidated financial performance and cash flows for the nine-month period then ended, in accordance with IAS 34 of the IASB.

Other matters

Statements of value added

The consolidated interim financial statements referred to above include the consolidated statement of value added for the nine-month period ended September 30, 2020 (Attachment I). This statement is the responsibility of the Bank's management and is presented as supplementary information under IAS 34. This statement has been subjected to review procedures performed together with the review of the consolidated interim financial statements for the purpose of concluding whether it is reconciled with the consolidated interim financial statements and accounting records, as applicable, and if its form and content are in accordance with the criteria defined in accounting standard CPC 09 - "Statement of Value Added". Based on our review, except for the possible effects of the matter described in the "Basis for qualified conclusion" paragraph, nothing has come to our attention that causes us to believe that the consolidated statement of value added has not been properly prepared, in all material respects, in accordance with the criteria established in this accounting standard, and that it is consistent with the consolidated interim financial statements taken as a whole.

São Paulo, November 16, 2020

PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5

Edison Arisa Pereira
Contador CRC 1SP127241/O-0

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The Management of Banco Bmg S.A. and its subsidiaries ("Bmg"), in accordance with the legal and statutory provisions applicable to financial institutions authorized to operate by the Central Bank of Brazil, is presenting the Interim Financial Statements under IFRS for the period ended September 30, 2020 along with the independent auditors' report.

Banco Bmg

We are a complete bank with the mission of popularizing financial services in Brazil. We have a 90-year history marked by tradition and innovation. An agile and technological bank, full of advantages centered on client needs.

Product development and delivery, as well as distribution channels, are designed on the basis of the needs of the clients throughout their entire life cycle.

Bmg believes that to be present in the lives of its clients it must be ready to help whenever they require it, regardless of the channel or type of relationship. Through the learning curve of becoming one of the main consumer financing platforms in Brazil, we developed the concept of complementarity channels, offering clients the best between the physical and digital worlds, the first and only PHYGITAL bank.

Customers eligible for payroll products currently represent the Bank's largest active client base, usually beginning their relationship through the payroll credit card, one of the democratic means of payment in the country linked to the market's lowest available interest rates. Through the payroll credit card, we promote financial and digital inclusion in a sustainable and secure manner.

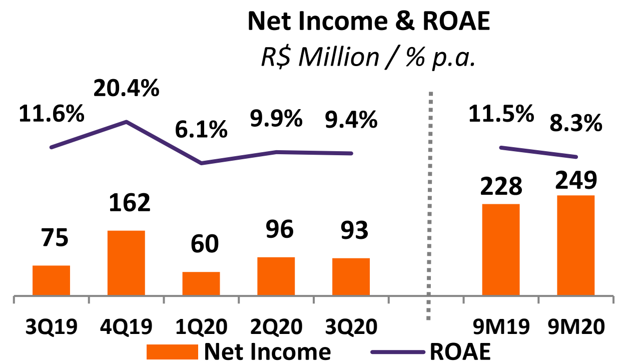
For individual open-waters customers (those who do not have a consignable profile), we have a unique value proposition – the positive account concept. These already represent the majority of new customers who opened accounts with the Bank in the last quarter. This group is highly familiar with the digital world – choosing this as their main channel of interaction with the Bank.

For micro and small companies, the Bank recently launched a digital bank that fully meets the needs of the largest entrepreneurial force in the country.

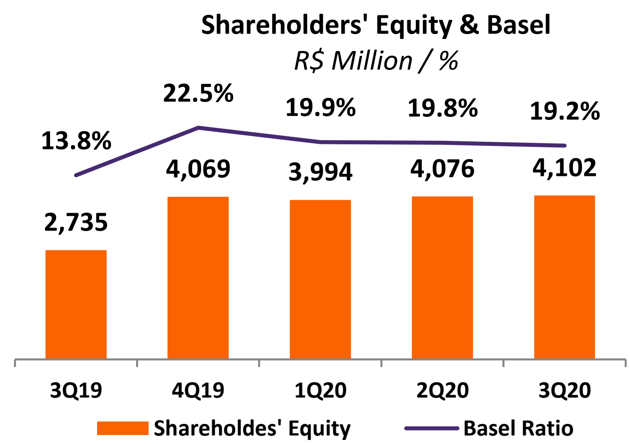
For all audiences, Bmg offers a complete bank, including current account services, credit products, insurance, investments, marketplace and a number of benefits. The value proposition is based on the Positive Account concept, we want our clients to learn how to save and be able to earn money using the Bank's services.

Financial Performance

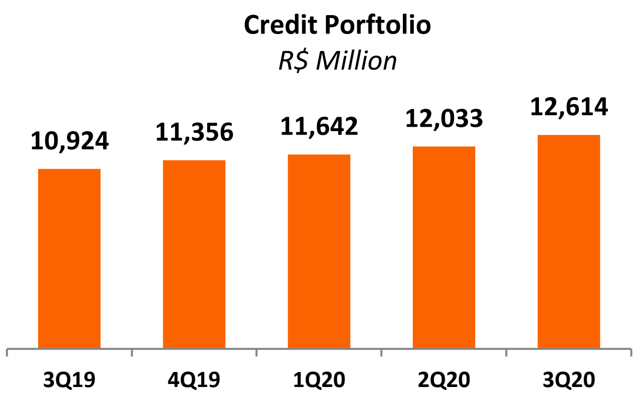
The net income for the first nine months of 2020 was R$ 249 million, compared to R$ 228 million in the same period of 2019, a growth of 9.3%. The Return on Average Equity (ROAE) was of 8.3% per year in the first nine months of 2020.



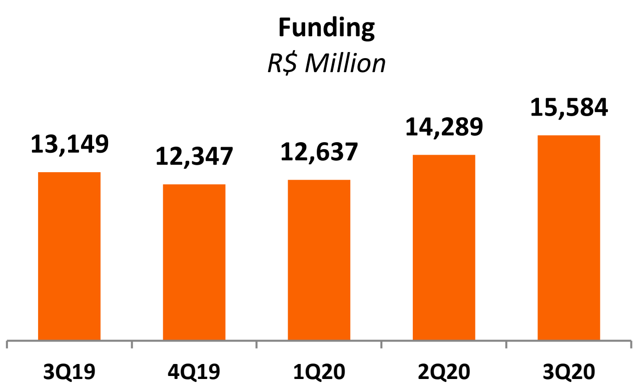
Consolidated Shareholders' Equity on September 30, 2020 amounted to R$ 4,102 million and the capitalization ratio of risk-weighted assets (Basel Ratio) was 19.2%.



The total consolidated portfolio ended September 30, 2020 with a balance of R$ 12,614 million, representing an increase of 15.5% compared to the same period of 2019.



The consolidated funding balance totaled R$ 15,584 million in the end of September 30, 2020, representing an increase of 18.5% compared to the same period of the previous year. Deposits, the major source of funding, accounts for 76.6% of funding.



In the third quarter of 2020, the Bank sold 40% of its stake in CMG Corretora, its indirect subsidiary, to Wiz, recognizing an extraordinary income of R$ 44.8 million (R$ 29 million net of taxes). Additionally, in the same period, the Bank increased its stake in Bmg Granito to 75.0%.

Corporate Governance

With experienced and professionalized management, Bmg opted voluntarily to implement high level corporate governance practices, which includes a Board of Directors with three independent members and 50% women, statutory and non-statutory Committees to support management attended by senior management, duly structured Compliance Processes and Internal Controls, a Code of Ethics, a Money Laundering Prevention Program (PLD), Audit Committee structure composed exclusively of independent members, a strategic and active Investor Relations department, among other initiatives.

In December 2018, the Bank was registered with the Brazilian Securities and Exchange Commission (CVM).

On May 15, 2020, a non-permanent Fiscal Council was installed by the Ordinary Shareholder's Meeting.

Based on best risk management practices, the Bank has developed policies, systems and internal controls to mitigate and control possible losses arising from exposure to the risks to which its activities are exposed, with a set of appropriate processes and routines applied to its operating modalities.

For more information on corporate governance, please visit: www.bancobmg.com.br/ir.

Relationship with Independent Auditors

The adopted policy adheres to the principles that preserve the independence of the auditor, in accordance with internationally accepted criteria, ie, the auditor should not audit his or her own work and neither perform managerial functions at his client nor promote its interests. As established by CVM Instruction 381, in the period ended September 30, 2020, Bmg did not contract and did not have services rendered by PricewaterhouseCoopers Auditores Independentes not related to the external audit, at a level higher than 5% of the total relative fees to external audit services.

Capital Management

The assessment of capital adequacy is made to ensure that the organization maintains a strong capital base to support its activities. It also considers a prospective vision, designed to anticipate possible changes in market conditions.

COVID-19 Pandemic

Beyond just taking all the necessary measures and care to minimize the effects of the pandemic, Bmg adapted the way it relates with its clients, prioritizing remote service and the digital formalization of contracts, directing and accelerating its strategic efforts for technological, cultural and behavioral progress.

The relationship with its main partners has been further refined, with emphasis on adaptations in service format and formalization, thus creating a new, perennial product origination alternative.

For clients, Bmg extended benefits focused on the needs of the moment. The Bank launched the Volta pra Mim Farmácia – a temporary benefit through which clients receive a portion of their payments back in their accounts when using Bmg debit or credit cards in pharmacies. In addition, Bmg has partnered with the Pague Menos pharmacy chain for discounts of up to 30% when presenting the Bmg credit card.

For employees, Bmg bolstered its commitment to transformation by extending the corporate home office model until the end of the year. With proof of engagement and productivity, the extension of the practice to 2021 already was announced. Furthermore, with the comfort of its employees in mind, the Bank allowed the removal of chairs from the office, converted the transportation benefit into an internet assistance credit, allowed the conversion of the meal voucher into food vouchers and improved management communication through frequent live videoconference meetings.

In the social sphere, the Bank continues to make donations to create exclusive structures to combat the virus in hospitals and basic needs for distribution in underprivileged communities.

The rapid response and adaptation of the Bank in the face of such a delicate moment was only possible due to the strong ongoing transformation and modernization process.

Acknowledgements

All these achievements reflect the firm commitment of the Shareholders and Management to continually strive to exceed expectations and always offer its clients high quality service and a healthy environment for its employees.

These gains have been possible thanks to our clients' support and trust and the dedicated efforts of our collaborators and partners/correspondents.

To them all, our deep appreciation.

BANK’S MANAGEMENT

São Paulo, November 16, 2020.

Banco BMG S.A.
Consolidated Balance Sheets
In thousands of reais **(A free translation of the original in Portuguese)**

Assets	Note	09/30/2020	12/31/2019
Current assets		**10,480,148**	**11,305,231**
Cash and deposits on demand	5	**176,073**	**272,936**
Compulsory deposits in the Central Bank		**44,632**	**2,925**
Financial assets		**9,419,045**	**10,227,808**
At amortized cost		**8,101,588**	**9,913,075**
Money market	5	14,999	630,093
Deposit application	6	1,771	42,264
Marketable securities	6	5,257	2,791
Loans and other amounts with financial institutions	6	174,057	86,397
Loan and lease operations	6	8,031,441	9,430,100
Provision for impairment of losses	6	(1,101,362)	(968,221)
Sundry debtors	6	975,425	689,651
At fair value through other comprehensive income		**610,274**	**10,086**
Marketable securities	6	610,274	10,086
At fair value through profit or loss		**707,183**	**304,647**
Derivative financial instruments	6	125,582	41,778
Loan and lease operations	6	573,535	254,723
Money market	6	8,066	8,146
Income tax and social contribution recoverable		**65,725**	**61,279**
Other taxes and contributions recoverable		**310,408**	**308,283**
Available-for-sale non-current assets		**64,306**	**64,979**
Other assets		**399,959**	**367,021**
Non-current assets		**14,381,523**	**8,268,249**
Financial assets		**10,102,548**	**4,188,123**
At amortized cost		**4,483,062**	**1,846,617**
Deposit application	6	44,799	4,213
Marketable securities	6		8,525
Loan and lease operations	6	4,582,092	1,926,005
Provision for impairment of losses	6	(143,829)	(92,126)
At fair value through other comprehensive income		**5,324,441**	**2,103,429**
Marketable securities	6	5,324,441	2,103,429
At fair value through profit or loss		**295,045**	**238,077**
Derivative financial instruments	6	255,659	163,168
Marketable securities	6	39,386	74,909
Income tax and social contribution recoverable		**7,847**	**7,977**
Deferred income tax and social contribution, net	**19**	**2,316,390**	**2,285,762**
Judicial deposits	**18**	**405,093**	**374,327**
Other assets		**255,939**	**240,148**
Investments		**1,693**	
Intangible assets	**10**	**1,161,721**	**1,030,631**
Property and equipment	**9**	**130,292**	**141,281**
Total assets		**24,861,671**	**19,573,480**

The accompanying notes are an integral part of these consolidated interim financial statements.

Banco BMG S.A.
Consolidated Balance Sheets
In thousands of reais **(A free translation of the original in Portuguese)**

Liabilities and equity	Note	09/30/2020	12/31/2019
Current liabilities		**9,604,348**	**6,614,292**
Financial liabilities measured at amortized cost		**6,679,730**	**5,695,739**
Deposits from clients	11	3,525,540	3,710,387
Borrowings or transfers of financial assets	11	170,706	294,055
Borrowings and onlendings	11	291,227	221,018
Borrowings of securities and financial bills	11	2,227,643	214,963
Subordinated financial bills and debt	11		721,258
Other financial liabilities	11	464,614	534,058
At fair value through profit or loss		**1,761,533**	**95,183**
Interfinancial relations	11	1,711,150	95,183
Derivative financial instruments	11	50,383	
Income tax and social contribution payable		**33,300**	**40,186**
Other taxes and contributions payable		**83,637**	**44,137**
Other liabilities	**20**	**1,046,148**	**739,047**
Non-current liabilities		**11,155,485**	**8,889,840**
Financial liabilities measured at amortized cost		**10,101,451**	**7,824,397**
Deposits from clients	11	8,540,836	6,458,841
Borrowings or transfers of financial assets	11	590,448	211,534
Borrowings and onlendings	11	497,421	491,207
Borrowings of securities and financial bills	11	231,973	452,483
Subordinated financial bills and debt	11	132,359	129,427
Other financial liabilities	11	108,414	80,905
At fair value through profit or loss		**35,878**	**35,674**
Derivative financial instruments	11	35,878	35,674
Provisions	**18**	**622,006**	**618,925**
Other liabilities	**20**	**396,150**	**410,844**
Total liabilities		**20,759,833**	**15,504,132**
Equity, capital and reserves attributable to stockholders and parent company		**4,086,786**	**4,053,829**
Capital	21(a)	3,742,572	3,742,572
Capital reserves		2,670	
Other accumulated comprehensive income	21(b)	(28,494)	24,599
Revenue reserves	21(c)	510,846	605,931
Accumulated deficit		(127,011)	(319,273)
Carrying value adjustment		(13,797)	
Non-controlling interests		**15,052**	**15,519**
Total equity		**4,101,838**	**4,069,348**
Total liabilities and equity		**24,861,671**	**19,573,480**

The accompanying notes are an integral part of these consolidated interim financial statements.

Banco BMG S.A.
Consolidated Statements of Income and Comprehensive Income
September 30
In thousands of reais **(A free translation of the original in Portuguese)**

	Note	2020	2019
Interest income and similar earnings	23 (a)	2,953,282	2,583,476
Interest cost and similar expenses	23 (a)	(717,591)	(1,049,615)
Net interest revenue		**2,235,691**	**1,533,861**
Income from services provided	24	73,937	114,202
Equity in the results of associates		556	
Net gain (loss) from financial assets and liabilities	23 (b)	1,448	122,691
Provision for impairment of financial assets	8 (e)	(688,581)	(502,999)
Recovery of loans written off as losses	8	79,566	109,334
General and administrative expenses	23 (c)	(986,886)	(724,133)
Tax expenses	23 (d)	(116,540)	(93,395)
Other operating income (expenses)	23 (e)	(310,412)	(261,823)
Other non-operating income		1,092	87
Profit before income tax and social contribution		**289,871**	**297,825**
Current income tax and social contribution	19 (b)	(28,795)	(38,652)
Deferred income tax and social contribution	19 (b)	(11,749)	(31,200)
Profit for the period		**249,327**	**227,973**
Attributable to:			
Parent company of the bank		252,302	227,876
Non-controlling Interests		(2,975)	97
Basic and diluted earnings per share (in *reais*)	22	0.4262	0.4557
Profit for the period		**249,327**	**227,973**
Other components of comprehensive income			
Items to be subsequently reclassified to profit or loss			
Changes in fair value through other comprehensive income - marketable securities		(88,692)	(604)
Cash flow hedge		167	2,612
Deferred income tax and social contribution on other comprehensive income for the period		35,432	(803)
Change in other comprehensive income for the period	21 (b)	(53,093)	1,205
Total comprehensive income for the period		**196,234**	**229,178**
Attributable to			
Parent company of the bank		199,209	229,081
Non-controlling interests		(2,975)	97

The accompanying notes are an integral part of these consolidated interim financial statements.

Banco BMG S.A.
Consolidated Statement of Changes in Equity
In thousands of reais, unless otherwise stated **(A free translation of the original in Portuguese)**

	Capital	Capital reserves	Revenue reserve	Other comprehensive income (loss)	Treasury stock	Accumulated deficit	Total	Non-controlling interests	Total
At January 1, 2019	**2,542,572**		**427,252**	**(11,159)**		**(339,180)**	**2,619,485**	**3,626**	**2,623,111**
Profit for the period						227,876	**227,876**	97	**227,973**
Other comprehensive income				1,205			**1,205**		**1,205**
Total comprehensive income for the period				**1,205**		**227,876**	**229,081**	**97**	**229,178**
Transactions with stockholders								1,531	**1,531**
Changes in non-controlling interests									
Appropriation of profit for the period			(113,568)				**(113,568)**		**(113,568)**
Lapsed interest on shareholders' equity			204,947			(204,947)			
Total transactions with stockholders			**91,379**			**(204,947)**	**(113,568)**	**1,531**	**(112,037)**
At September 30, 2019	**2,542,572**		**518,631**	**(9,954)**		**(316,251)**	**2,734,998**	**5,254**	**2,740,252**
At January 1, 2020	**3,742,572**		**605,931**	**24,599**		**(319,273)**	**4,053,829**	**15,519**	**4,069,348**
Profit for the period						252,302	**252,302**	(2,975)	**249,327**
Other comprehensive income				(53,093)			**(53,093)**		**(53,093)**
Total comprehensive income for the period				**(53,093)**		**252,302**	**199,209**	**(2,975)**	**196,234**
Changes in non-controlling interests								2,508	**2,508**
Treasury stock					(107,197)		**(107,197)**		**(107,197)**
Treasury shares canceled			(93,400)		93,400				
Appropriation of profit for the period									
Recognition of share-based payment plans		2,670					**2,670**		**2,670**
Interest on capital						(60,040)	**(60,040)**		**(60,040)**
Realization of reserves			(1,685)				**(1,685)**		**(1,685)**
Total transactions with stockholders		**2,670**	**(95,085)**		**(13,797)**	**(60,040)**	**(166,252)**	**2,508**	**(163,744)**
At September 30, 2020	**3,742,572**	**2,670**	**510,846**	**(28,494)**	**(13,797)**	**(127,011)**	**4,086,786**	**15,052**	**4,101,838**

The accompanying notes are an integral part of these consolidated interim financial statements.

Banco BMG S.A.
Consolidated Statements of Cash Flows
September 30
In thousands of reais **(A free translation of the original in Portuguese)**

	01/01/2020 to 09/30/2020	01/01/2019 to 09/30/2019
Cash flows from operating activities		
Profit for the period attributable to controlling stockholders	252,302	227,876
Adjustment to profit attributable to the controlling stockholders		
Recognition of share-based payment plans	2,670	
Provision for impairment of financial assets	688,581	502,999
Equity in the (earnings) loss of subsidiary and associated companies	(556)	
Depreciation	25,502	20,217
Amortization	16,593	
Mark-to-market adjustment - cash flow hedge	112	1,567
Foreign exchange variation of securities		1,408
Foreign exchange variation of funds raised	(271,367)	(122,922)
Foreign exchange variation of borrowings and onlendings		(2,705)
Provisions for contingencies	3,082	17,626
Deferred income tax and social contribution	11,749	31,200
Effect of exchange rate changes on cash and cash equivalents	47,959	4,257
Adjusted profit	**776,627**	**681,523**
Changes in working capital		
(Increase) in compulsory deposits in the Central Bank	(41,707)	(936)
(Increase) in financial assets measured in fair value through profit or loss	(283,209)	(128,432)
(Increase) in fair value through other comprehensive income – marketable securities	(3,874,405)	330,711
(Increase) in financial assets measured at amortized cost	(2,128,633)	(1,779,008)
Decrease in taxes and contributions recoverable	(6,441)	4,751
Decrease in deferred taxes and contributions	(42,377)	1,645
(Increase) in available-for-sale non-current assets	(15,920)	9,627
(Increase) in other assets	(48,730)	65,341
(Increase) Decrease in judicial deposits	(30,766)	(38,388)
Increase (Decrease) in financial liabilities at fair value through profit or loss	1,490,259	(53,178)
Increase (Decrease) in financial liabilities at amortized cost	3,532,413	1,100,866
Increase (Decrease) in current income tax and social contribution	65,566	20,793
Increase (Decrease) in other liabilities/ provisions	1,202,016	(84,595)
Cash from operations	**594,693**	**130,720**
Income tax and social contribution paid	(32,952)	(27,779)
Net cash (used in) operating activities	**561,741**	**102,941**
Cash flows from investing activities		
Acquisition of intangible assets	(73,215)	(22,305)
Acquisitions of property and equipment	(23,870)	(38,249)
Disposal of property and equipment	9,357	1,438
Net cash (used in) investing activities	**(87,728)**	**(59,116)**
Cash flows from financing activities		
Settlement and interest payments on subordinated debts	(899,763)	
Acquisition of Own Shares	(107,197)	
Issuance of eligible equity paid out		124,096
Interest on share equity paid out	(130,584)	(118,809)
Increase (Decrease) in non-controlling interests in subsidiaries	(467)	1,628
Net cash used in financing activities	**(1,138,011)**	**6,915**
Decrease in cash and cash equivalents	**(663,998)**	**50,740**
Cash and cash equivalents at the beginning of the year (note 5)	**903,029**	**871,825**
Effect of exchange rate changes on cash and cash equivalents	**(47,959)**	**(4,257)**
Cash and cash equivalents at the end of the period (note 5)	**191,072**	**918,308**
Decrease in cash and cash equivalents	**(663,998)**	**50,740**

The accompanying notes are an integral part of these consolidated interim financial statements.

1 Operations

Banco BMG S.A. ("Bank" or "Institution") and its subsidiaries (together, "the Group" or "Consolidated") is authorized to operate as a multiple service bank with commercial, credit, financing and investment portfolios. The benefit of the services provided between these companies and the costs of the operational and administrative structures are absorbed, in accordance with the practicability and reasonability of having they allocated to them, together and individually, and they are deemed adequate by the management of the institutions.

The Group is composed of the following subsidiaries: BMG Leasing S.A. ("listed" company), BMG Bank Cayman Ltd., Banco Cifra S.A., Banco BCV S.A., Cifra Financeira S.A., CB Intermediação de Negócios Ltda., ME Promotora de Vendas, BMG Soluções Eletrônicas Ltda., Help Franchising Participações Ltda. and BMG Participações em Negócios Ltda. and its subsidiary BMG Seguros S.A. Detailed information on the subsidiaries is presented in the consolidation note.

Banco BMG S.A. ("BMG" or "Bank"), incorporated as a Publicly Traded Company, controlled by BMG Participações em Negócios Ltda., and located at Avenida Presidente Juscelino Kubitscheck, nº 1.830, São Paulo/SP, Brazil.

In December 2018, the Bank obtained its register as a public company with the Brazilian Securities and Exchange Commission (CVM).

The consolidated interim financial statements prepared under the IFRS were completed and approved by the Bank's management on November 16, 2020.

2 Summary of significant accounting policies

The significant accounting policies applied in the preparation of these consolidated interim financial statements are set out below. These policies have been consistently applied to the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated interim financial statements of Banco BMG S.A. and its subsidiaries were prepared taking into consideration the provisions in Resolution No. 4,776/20 of the National Monetary Council ("CMN"), which requires the preparation of consolidated annual financial statements in accordance with the International Financial Reporting Standards ("IFRS"), as approved by the International Accounting Standards Board ("IASB"), and they evidence all (and only) the information that is relevant to the financial statements, which is consistent with that used by management in its activities.

The financial statements have been prepared under the historical cost convention, as modified by financial assets and financial assets and liabilities (including derivative instruments) measured at fair value, as required by IFRS 9, as a result of the business model.

The preparation of interim financial statements requires the use of certain critical accounting estimates. It also requires the management of the Group to exercise its judgment in the process of applying the accounting olicies of the Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated interim financial statements, are disclosed in Note 3.

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

2.2 Consolidation

(a) Consolidated interim financial statements

The following accounting policies are applied in the preparation of the consolidated interim financial statements.

(i) *Subsidiaries*

Subsidiaries are all entities over which the Group has the control. BMG controls an entity when it is exposed to, or is entitled to its variable returns arising from its involvement with the entity and has the ability to affect such returns. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated on the date that control ceases.

The identifiable assets acquired and liabilities assumed for the acquisition of subsidiaries in a business combination are measured initially at their fair values on the date of the acquisition. The Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the fair value of the acquiree's net assets. The measurement of the non-controlling interest is determined upon each acquisition made. Acquisition-related costs are accounted for in profit or loss for the year as they are incurred.

The consolidated companies and their interests are presented below:

Investees	Country of incorporation	Activity	Interest (%) 2020	Interest (%) 2019
BMG Leasing S.A.	Brazil	Leasing	99.99	99.99
BMG Bank Cayman Ltd.	Cayman Islands	Banking	100	100
Bank BCV S.A.	Brazil	Banking	100	100
Bank Cifra S.A.	Brazil	Banking	100	100
Cifra Financeira S.A.	Brazil	Banking	100	100
ME Promotora de vendas Ltda.	Brazil	Business intermediation	80	80
BMSE Participações Ltda.	Brazil	E-commerce	99.38	99.74
Help Franchising Participações Ltda.	Brazil	Business intermediation	99.98	99.98
BMG Participações em Negócios Ltda.	Brazil	Holding company	99.99	92.99
BMG Seguros S.A.	Brazil	Insurance	70	70
CB Fácil Corretora de Seguros e Negócios Ltda.	Brazil	Business intermediation	99.99	99.99
Granito Soluções em Pagamentos S.A.	Brazil	Sub Acquirer	75.00	65.01

Credit Rights Investment Fund	Interest % 2020	Interest % 2019
Credit Rights Investment Fund NP Esportes	100	100

Transactions, balances and unrealized gains on transactions between Group companies are eliminated. Unrealized losses are also eliminated, unless the transaction provides evidence of impairment of the asset transferred. The accounting policies of subsidiaries have been changed where necessary in order to ensure consistency with the policies adopted by the Group.

Investments, balance sheet account balances, and profit or loss from transactions between the Bank and its direct and indirect subsidiaries have been eliminated in the consolidated interim financial statements.

Income arising from assigned credit operations is recorded in the “Interest income and similar earnings” account in the statement of income and the financing cost is recorded in the “Interest cost and similar expenses” account.

(ii) Transactions with non-controlling stockholders

The Group treats transactions with non-controlling stockholders as transactions with equity owners of the Group. In purchases of non-controlling interests, the difference between any consideration paid and the share acquired of the carrying amount of the subsidiary’s net assets is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded directly in equity in the “Carrying value adjustment” account.

2.3 Segment reporting

In accordance with IFRS 8, an operating segment is a component of an entity that performs business activities from which revenue can be obtained and in which expenses can be incurred, whose profit or loss can be assessed by the entity’s main operational decision-maker, and in relation to which different financial information is available.

The main operational decision maker, responsible for the allocation of funds and the assessment of the performance of the operating segments, is the Executive Board together with the Executive Committee (Comex), which is also responsible for making the Group’s strategic decisions.

The management separate this information into two operating segments: Retail Banking and Wholesale Banking.

These operating segments are described below:

- Retail Banking: profit or loss of the Retail Banking segment arises from the offer of banking products and services to individuals.
- Wholesale Banking: profit or loss of the Wholesale Banking segment arises from the offer of banking products and services to legal entities.

Profit or loss by operating segment is presented in the table below:

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

					2020
	Retail Banking	Wholesale Banking	Total BRGAAP	Adjustments under IFRS	Consolidated under IFRS
Financial margin	1,579,300	529,544	2,108,844	11,755	2,120,599
Service revenue	39,415	2,673	42,088	31,849	73,937
Profit from financial intermediation	**1,618,715**	**532,217**	**2,150,932**	**43,604**	**2,194,536**
Expense of allowance for loan losses	(542,888)	(88,607)	(631,495)	(57,086)	(688,581)
Recovery of credits written-off as losses	66,267	13,299	79,566		79,566
Financial gross income	**1,142,094**	**456,909**	**1,599,003**	**(13,482)**	**1,585,521**
Total expenses	(1,003,079)	(260,989)	(1,264,068)	(77,272)	(1,341,340)
Equity in the results of associates	7,046	(6,014)	1,032	(476)	556
Income (loss) from operations	**146,061**	**189,906**	**335,967**	**(91,230)**	**244,737**
Non-operating (loss)		947	947	44,187	45,134
Statutory profit sharing		(46,672)	(46,672)	46,672	
Income tax and social contribution	(16,285)	(21,155)	(37,440)	(3,104)	(40,544)
Profit or loss	**129,776**	**123,026**	**252,802**	**(3,475)**	**249,327**

					2019
	Retail Banking	Wholesale Banking	Total BRGAAP	Adjustments under IFRS	Consolidated under IFRS
Financial margin	1,337,595	241,518	1,579,113	(15,956)	1,563,157
Service revenue	24,912	4,943	29,855	84,347	114,202
Profit from financial intermediation	**1,362,507**	**246,461**	**1,608,968**	**68,391**	**1,677,359**
Expense of allowance for loan losses	(410,041)	(46,579)	(456,620)	(46,379)	(502,999)
Recovery of credits written-off as losses	99,480	9,854	109,334		109,334
Gross finance result	**1,051,946**	**209,736**	**1,261,682**	**22,012**	**1,283,694**
Total expenses	(788,060)	(167,074)	(955,134)	(30,822)	(985,956)
Equity in the results of associates	(19,623)	265	(19,358)	19,358	
Income (loss) from operations	**244,263**	**42,927**	**287,190**	**10,548**	**297,738**
Non-operating (loss)		63	63	24	87
Statutory profit sharing		(17,804)	(17,804)	17,804	
Income tax and social contribution	(105,554)	41,052	(64,502)	(5,350)	(69,852)
Profit or loss	**138,709**	**66,238**	**204,947**	**23,026**	**227,973**

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("'the functional currency'"). The consolidated interim financial statements are presented in Brazilian *reais* (R$), which is the Bank's functional currency and also the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions, or of valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statement of income.

Foreign exchange variations arising from the settlement of such transactions and from the translation of monetary assets and liabilities into foreign currency at the closing foreign exchange rates are recognized as gain or losses in profit or loss for the year in the "Other operating income and expenses" account.

2.5 Cash and equivalents

Cash and cash equivalents includes cash in hand, bank deposits and short-term highly-liquid money market investments, with maturities of 90 days or less on the date of acquisition, which are used by the Group to manage its short-term commitments, with immaterial risk of change in value.

2.6 Sales with repurchase commitment and purchases with resale commitment

The Group carries out purchase transactions with resale commitment ("resale commitment") and sale transactions with repurchase commitment ("repurchase commitment") of financial assets. The resale commitment and repurchase commitment are accounted for in the "Money market investments" and "Money market funding" accounts, respectively.

The amounts invested in transactions with resale commitment and the amounts raised in transactions with repurchase commitment are recorded initially in the balance sheet at the amounts received in advance or raised and they are **cash** subsequently recorded at amortized cost. The difference between the sale price and the repurchase price is treated as interest and it is recognized during the term of the agreement using the effective interest method. The interest accrued in transactions with resale commitment and the interest incurred in transactions with repurchase commitment is recorded in the "Interest income and similar earnings" and "Interest cost and similar expenses" accounts, respectively.

The financial assets accepted as guarantees in resale commitments can be used, when allowed by the terms of the agreements, as guarantees of repurchase commitments or they can be sold.

In Brazil, the control of the custody of financial assets is centralized and the ownership of the resale commitment and repurchase commitment is temporarily transferred to the buyer. We closely monitor the market value of the financial assets that back the transactions with repurchase commitment and we adjust the amount of the guarantee when appropriate.

The financial assets offered in guarantee to the counterparties are also maintained in the consolidated financial statements. When the counterparty is entitled to sell or use as guarantee the marketable securities offered in guarantee, these securities are reclassified in the balance sheet to an appropriate class of financial assets.

2.7 Financial assets and liabilities

2.7.1 Recognition and measurement

(a) Classification and measurement of financial assets

As from January 1, 2018, the Group started to apply IFRS 9 – Financial instruments and classify its financial assets in the following measurement categories:

(i) Amortized cost;
(ii) Fair value through other comprehensive income;
(iii) Fair value through profit or loss.

The subsequent classification and measurement of financial assets will depend on the business model under which cash flows are managed and their characteristics – SPPI Test.

The business model refers to how the Bank manages its financial assets to generate cash flows. The business model determines whether the cash flows result from the recognition of contractual cash flows, sale of assets or both. Financial assets can be managed for the purpose of: i) obtaining contractual cash; ii) obtaining contractual cash flows and sale; or iii) others.

The assessment of the business models takes into consideration the risks that affect the performance of the business model, how the business managers are compensated, and how the performance of the business model is assessed and reported to management. If cash flows are realized differently from expectations, the classification of the remaining financial assets maintained in this business model is not changed.

When the financial asset is maintained in the business models i) and ii), the application of the SPPI test is necessary.

SPPI Test: assessment of the cash flows generated by the financial instrument for the purpose of verifying whether they consist only of the payment of the principal and interest. To comply with this concept, cash flows must include only a consideration for the value of money in time and the credit risk.

If the contractual terms introduce an exposure to risks or volatility in cash flows, such as exposure to changes in the prices of equity instruments or commodity prices, the financial asset is classified as measured at fair value through profit or loss. Hybrid contracts must be assessed as a whole, including all the embedded characteristics. A hybrid contract that contains an embedded derivative is accounted for on a joint basis, that is, the entire instrument is measured at fair value through profit or loss.

(i) Amortized cost

The amortized cost is the amount for which the financial asset or liability is measured upon initial recognition, plus the adjustments made using the effective interest method, less the repayment of the principal and amortization of interest, adjusted for any provision for expected credit loss.

The assets measured at the amortized cost are managed to obtain the cash flows made up only of payments of the principal and interest (SPPI Test).

Assets are recognized initially at fair value plus transaction costs and they are subsequently measured at the amortized cost using the effective interest method.

Interest, including the amortization of premiums and discounts, are recognized in the consolidated statement of income in the “Interest income and similar earnings" account.

(ii) Financial assets at fair value through other comprehensive income

- Assets managed to obtain the cash flows made up only of payments of the principal and interest (SPPI Test) and for sale;

- Initially and subsequently recognized at fair value plus transaction costs; and

- Unrealized gains and losses (except for the expected credit loss, foreign exchange differences, dividends and interest income) are recognized, net of the applicable taxes, in the “Accumulated comprehensive income” account.

(iii) Financial assets at fair value through profit and loss and financial assets designated at fair value

- Assets that do not meet the classification criteria of the previous categories; or assets designated upon initial recognition as at fair value through profit or loss to reduce “accounting mismatches”;

- Initially and subsequently recognized at fair value;

- Transaction costs are directly recorded in the Statement of income; and

- Gains and losses arising from changes in fair value are recognized in the “Net gain (loss) from investments in securities and derivatives” account.

The Group irrevocably designates financial assets at fair value through profit and loss upon initial recognition (fair value option) when the option significantly reduces or eliminates measurement or recognition inconsistencies that, otherwise, could result from the measurement of assets and liabilities or the recognition of gains and losses on these assets and liabilities on different bases.

Effective interest rate

The effective interest rate is the rate that discounts future estimated receipts or payments over the expected life of the financial asset or liability. For the calculation of the effective interest rate, cash flows are estimated taking into consideration all contractual terms of the financial instrument, but not the future credit loss. The calculation includes all commissions paid or received between the parties to the contract, the transaction costs and all other premiums or discounts. Interest income is calculated by applying the effective interest rate on the gross carrying amount of the financial asset.

In the case of financial assets with recovery problems, the adjusted effective interest rate is applied (considering the expected credit loss) at the amortized cost of the financial asset.

(iv) Financial liabilities at amortized cost

The financial assets that are not classified at fair value through profit or loss are classified in this category and, initially, they are recognized at fair value and, subsequently, they are measured at the amortized cost using the effective interest method. Interest cost is presented in the consolidated statement of income in “Interest cost and similar expenses”.

Borrowings or onlendings of financial assets represent the credit assignment obligations with or without co-obligation. The amounts are represented at the present value of future financial commitments, decapitalized at the original credit assignment rate.

(b) Hedging

The Group adopts hedge accounting.

In accordance with IAS 39, to qualify as accounting hedge, all the following conditions must be met:

- hedging relationship is at its inception formally designated and documented, together with entity's risk management objective and strategy for undertaking the hedge.
- the hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk (consistently with the documentation) for this hedging relationship in particular.

IAS 39 then describes the rules for three types of hedging: fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation. The bank does not have net investment hedge in operations abroad.

The fair values of the many derivative instruments used for hedging purposes are disclosed in Note 7. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining period to maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining period to maturity of the hedged item is less than 12 months.

(i) Fair value hedge

For the derivative financial instruments that are designated and qualify as fair value hedge, the following practices apply:

a) the gain or loss resulting from the new measurement of the hedging instrument at fair value should be recognized in profit or loss; and
b) the gain or loss resulting from the hedged item attributable to the effective portion of the hedged item should adjust the carrying amount of the hedged item that will be recognized in profit or loss.

When the derivative expires or is sold, when the hedge no longer meets the criteria for hedge accounting or when the entity revokes the designation, the entity must prospectively discontinue the hedge accounting. Additionally, any adjustment to the carrying amount of the hedged item must be amortized in profit or loss.

(ii) Cash flow hedge

The effective portion of the changes in the fair value of the derivative financial instruments that are designated and qualified as a cash flow hedge is recognized in other comprehensive income in the "Carrying value adjustment" account. The gain or loss relating to the ineffective portion is immediately recognized in the statement of operations within "Interest and similar proceeds income and expenses".

The amounts accumulated in other comprehensive income are realized in the statement of income in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). For the derivative financial instruments that are designated or qualify as cash flow hedge, the effective portion of the gains or losses on the derivative is directly recorded in other comprehensive income and reclassified to profit or loss in the same period or periods when the hedged transaction affects profit or loss. The portion of gains and losses on the derivative financial instruments that represent the ineffective portion or the components of the *hedge* excluded from the effectiveness analysis is recognized in profit or loss. The amounts originally recognized in the accumulated comprehensive income and subsequently reclassified to profit or loss are recognized in the corresponding income or cost line in which the related hedged item is reported.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in comprehensive income and is recognized in profit or loss when the transaction is recognized in the statement of income. When a transaction is no longer expected to occur, the accumulated gain or loss that was reported in other comprehensive income is immediately transferred to the statement of income within “Interest income and similar earnings” and “Interest cost and similar expenses”.

(c) Modification of contractual cash flows

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and this does not change substantially its terms and conditions, the Group does not write them off. However, the gross carrying amount of this financial asset is recalculated as the present value of the renegotiated or modified contractual cash flows, discounted by the original effective interest rate. Any costs or fees incurred adjust the modified carrying amount and are amortized over the remaining term of the financial asset. If, on one hand, the renegotiation or modification substantially changes the terms and conditions of the financial asset, the Group writes down the original asset and recognizes a new one. The date of the renegoation is, consequently, considered as the date of initial recognition of the new asset for the purpose of calculating the expected credit loss, including determining significant increases in credit risk. The Group also assesses whether the new financial asset can be considered as originated or purchased with credit recovery problems, particularly when the renegotiation was motivated by financial difficulties of the debtor. Differences between the carrying amount of the original asset and the fair value of the new asset are immediately recognized in the statement of income.

(d) Transfer of financial assets

Financial assets are derecognized when the rights to receive cash flows expire or when all risks and rewards of ownership are substantially transferred and such transfer qualifies for derecognition in accordance with the requirements in IFRS 9. If it is not possible to identify the transfer of all risks and rewards, the control must be assessed to determine if the continuous involvement related to the transaction does not prevent the derecognition. If, during the assessment, the retention of risks and rewards is not characterized, the financial asset remains recorded and a liability is recognized for the consideration received.

(i) Derecognition of financial assets

When there are no reasonable expectations of recovery of a financial asset, taking into consideration the historical curves, the financial asset is totally or partially derecognized together with the reversal of the provision for expected credit loss, with no effects on the Group’s statement of income. The subsequent recoveries of the amounts previously derecognized are accounted for as income in the statement of income.

(e) Fair value

Fair value is the price that would be received for the sale of an asset or that would be paid for the transfer of a liability in an arm’s length transaction between market participants on the measurement date.

(f) Equity instruments

An equity instrument is any contract that provides a residual participation in the assets of an entity, after the deduction of all of their liabilities, such as shares and quotas.

The Group subsequently measures all of its equity instruments at fair value through profit or loss, except when management chooses, upon initial recognition, to irrevocably designate an equity instrument as at fair value through other comprehensive income if it is maintained for a purpose other than to generate profit. When this choice is made, the gains and losses in the fair value of the instrument are recognized in Accumulated comprehensive income and are not subsequently reclassified to the statement of income, even upon sale. Dividends continue to be recognized in the statement of income when the Group’s right is recognized.

Gains and losses in equity instruments measured at fair value through profit or loss are accounted for in the statement of income.

2.8 Financial lease operations (as lessor)

When the assets are the subject matter of a financial lease, the present value of the payments is recognized as a receivable in the consolidated balance sheet in the “Loan and lease operations” account.
The initial direct costs, when incurred by the Group, are included in the initial measurement of the lease receivables, reducing the amount of the income recognized over the term of the lease. These initial costs often include commissions and attorneys’ fees.

The recognition of interest income reflects a constant return rate on the Group’s net investment and takes place in the consolidated statement of income in the “Interest income and similar earnings” account.

2.9 Provision for impairment of financial assets

Expected credit loss

The Group assesses the expected credit loss associated with financial assets measured at amortized cost or fair value through other comprehensive income, with loan commitments and with financial guarantee contracts on a prospective basis. The provision for expected credit loss is recognized in the Statement of Income on a monthly basis.

Measurement of expected credit loss

- Financial assets: the loss is measured at the present value of the difference between the contractual cash flows and the cash flows the Bank expects to receive discounted at the effective rate charged;

- Loan commitments: the loss is measured at the present value of the difference between the contractual cash flows that would be due if the loan was contracted and the cash flows the Bank expects to receive;

- Financial guarantees: the loss is measured by the difference between the payments expected to reimburse the counterparty and the amounts expected to be recovered by the Bank.

The Group assesses in every reporting period whether the credit risk significantly increased based on reasonable and sustainable information that is relevant and available without undue cost or effort, including qualitative, quantitative and prospective information. Prospective information is based on macroeconomic scenarios reassessed every year or whenever market conditions so require.

The Group classifies assets in three stages to measure the expected credit loss, in which the financial assets migrate from one stage to another in accordance with the changes in credit risk.

Stage 1: It is understood that a financial instrument in this stage does not present a significant increase in the risk from its initial recognition. The provision for this asset represents the expected loss resulting from possible non-compliance in the next 12 months;

Stage 2: If a significant increase in the risk is identified from the initial recognition, and no deterioration is realized, the financial instrument falls within this stage. In this case, the amount related to the provision for expected loss due default reflects the estimated loss of the financial instrument remaining life. To assess the significant increase in credit risk, quantitative measurement indicators used in regular credit risk management will be used, as well as other qualitative variables, such as the indication of a non-deteriorated operation is it is considered refinanced or operations included in a special agreement, and;

Stage 3: A financial instrument is registered in this stage when it shows indications of clear impairment arising from one or more past event that already materialized in a loss. In this case, the amount related to the provision for losses reflects the expected losses arising from the credit risk in the expected financial instrument remaining life.

Change of stage

An asset will migrate from one stage to another as the credit risk increases. If, in a subsequent period, the quality of a financial asset improves or the significant increase in the credit risk that was previously identified reverses, the financial asset may return to the stage 1, unless it is a financial asset originated or acquired with credit recovery problems.

Domestic and foreign government bonds are considered financial assets with low credit risk and, therefore, they remain in stage 1, in accordance with a study carried out by the Group.

The Group assesses whether the credit risk significantly increased on an individual or collective basis. For the purpose of a collective assessment, financial assets are grouped based on credit risk characteristics shared, taking into consideration the type of instrument, credit risk ratings, the initial recognition date, the remaining term, industry, geographic position of the counterparty among other relevant factors.

2.10 Available for sale non-current assets

In conformity with IFRS 5, assets whose carrying amount can be recovered, particularly by means of a sales transaction instead of the continuous use, were recorded in this category.

They are composed of real estate properties, machinery and equipment and vehicles not used in operations, which were acquired or received as payment in kind.

These assets are sold when they are received as payment in kind. However, those whose negotiation may reveal to be difficult are periodically assessed for *impairment* based on a technical report.

2.11 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the net fair value of the assets and liabilities of the acquired subsidiary. Goodwill on acquisitions of subsidiaries is recorded as “Intangible assets” in the consolidated financial statements. If negative goodwill is determined, the amount is recorded as a gain in the statement of income on the date of acquisition. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

The goodwill is allocated to the Cash Generating Units (“UGC”) for the purposes of impairment testing. The goodwill is allocated to the Cash Generating Units or to the groups of Cash Generating Units, which may benefit from the business combination from which the goodwill originated and they are identified in accordance with the operating segment.

2.12 Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the items

Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the costs can be reliably measured. All other repair and maintenance costs are charged to expenses as incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method as follows:

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

	Years
Buildings	Between 20 and 25
Security system	Between 18 and 20
Installations	Between 8 and 10
Furniture and equipment in use	Between 8 and 10
Communication system	Between 8 and 10
Vehicles	Between 3 and 5
Data processing system	Between 3 and 5

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.13).

The gains and losses on disposals are determined based on the comparison of results with the carrying amount and they are recognized in the "General and administrative expenses" account.

2.13 Provision for impairment of financial assets

Non-financial assets are reviewed for impairment at the balance sheet date or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized by the excess of the asset's carrying amount over its recoverable amount. The recoverable amount is the highest of an asset's fair value less costs to sell and its value in use. For the purpose of assessing the provision for impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash-Generating Units ("UGCs")). The non-financial assets for which a provision for impairment was recognized, except goodwill, are reviewed for an analysis of a possible reversal of the provision for impairment on the date of the presentation of the financial statements.

2.14 Provisions

Provisions for legal claims (labor, civil and tax) are recognized when the Group has a present or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

When there are a number of similar obligations, the probability of settling them is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of settlement related to any one item included in the same class of obligations is small.

These contingencies are assessed based on the best estimates of management, taking into consideration the opinion of legal advisors when it is likely that financial resources will be required to settle the obligations and that the amount of the obligations can be reliably estimated.

2.15 Current and deferred income tax and social contribution

Income tax and social contribution expenses for the year comprise current and deferred taxes. Taxes on profit are recognized in the statement of income (operations), except to the extent that they relate to items recognized in comprehensive income (loss) or directly in equity. In this case, the taxes are also recognized in comprehensive income (loss) or directly in equity.

Corporate Income Tax (IRPJ) is calculated at the rate of 15%, plus a 10% surplus, and Social Contribution on Net Profit (CSLL) is calculated at the rate of 20% for financial and equivalent institutions, and 9% for non-financial subsidiaries, after the adjustments determined by tax legislation are made.

Deferred income tax and social contribution are recognized using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax and social contribution are determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax and social contribution assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

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

2.16 Profit sharing

The Group recognizes a liability and an expense for profit sharing based on a methodology that takes into consideration the profit attributable to the Group's stockholders after certain adjustments. The Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

2.17 Capital

The share capital is composed of common and preferred shares, nominative and with no par value (Note 21 (a)).

2.18 Revenue recognition

The most significant criteria used by the Group to recognize its income and costs are summarized below:

(a) Interest income, interest cost and similar earnings and expenses

Interest income, interest expenses and similar earnings and expenses are recognized using the effective interest method. For the loan operations in which the payment of principal and interest is overdue for 60 days or more, interest income will no longer be recognized.

(b) Commissions, fees and similar items

Income and costs from fees and commissions are recognized in the consolidated statement of income, as part of the effective interest rate, using criteria that vary in accordance with their nature. The main criteria are as follows:

- Income and costs from fees and commissions, related to financial assets and liabilities measured at fair value in profit or loss are recognized when they are incurred.
- Income and costs resulting from transactions or services carried out over a long period of time are recognized over the life of these transactions or services using the straight-line method.
- Income and costs related to services provided in a single act are recognized upon the performance of this single act.

(c) Non-financial income and expenses

They are recognized for accounting purposes on the accrual basis.

(d) Deferred charges and payments

They are recognized for accounting purposes at the amount resulting from the discount of expected cash flows at market rates.

2.19 Earnings per share

Earnings per share are calculated by the division of profit attributed to the Group's controlling stockholders by the weighted average number of common and preferred shares outstanding every year. The weighted average number of shares is calculated based on the periods in which the shares were outstanding.

2.20 Distribution of dividends and interest on capital

The distribution of dividends and interest on capital to the Group's stockholders is recognized as a liability in the Group's financial statements at the end of the year, based on the Group's By-Laws, calculated based on profit or loss determined in accordance with the accounting practices adopted in Brazil applicable to financial institutions authorized to operate by the Central Bank of Brazil. Any amount that exceeds the minimum required is only provided on the date it is approved by the stockholders at the General Stockholders' Meeting.

The tax benefit from interest on capital is recognized in the statement of income.

2.21 New Pronouncements and Amendments and Interpretations of Existing Pronouncements

(a) Accounting Pronouncements applicable for the period ended September 30, 2020

- IFRIC 23 - Uncertainty about Tax Treatments of Profits clarifies how to apply the recognition and measurement requirements of IAS 12 - Income Taxes when there is uncertainty about the acceptance of tax treatment by the tax authority. This interpretation is effective for fiscal years beginning on January 1, 2019 and there were no material impacts on the consolidated interim financial statements.

- IFRS 16 - Leases: The pronouncement replaces IAS 17 - Leases, as well as related interpretations (IFRIC 4, SIC 15 and SIC 27). It eliminates the accounting of operating leases for the lessee by presenting a single lease model, which consists of: (a) initially recognizing all leases in the assets (Right to Use Asset) and liabilities (Other Financial

Liabilities) at present value; and (b) recognizes the depreciation of the Right to Use Asset and the lease interest separately in the income statement.

The Group adopted IFRS 16 under the retrospective transition method modified on January 1st , 2019, using the following criteria:

- discount rate, considering a portfolio of contracts;
- calculation of the lease liability and the Right to Use Asset at the present value of the remaining payments

As of September 30, 2020, the amount of R$127,067 relating to Lease Operations is recorded in Other Assets and the amount of R$143,643 (Note 17) in Other Financial Liabilities.

(b) Accounting Pronouncements that have been issued and are applicable to future periods

- IFRS 17 - Insurance Contracts: The statement replaces IFRS 4 - Insurance Contracts and presents three approaches for evaluation:
- Standard Model: applicable to all insurance contracts without direct participation;
- Premium Allocation Approach (PAA): applicable to contracts with a duration of up to 12 months or when it produces results similar to what would be obtained if the standard model were used. It is simpler than the default model;

- Variable Fee Approach: applicable to insurance contracts with direct participation. Insurance contracts that are substantially service contracts related to investments under which an entity promises a return on investment based on the underlying items.

Insurance contracts must be recognized through the analysis of four components:

- Expected Future Cash Flows: estimate all components of the contract cash flow, considering inputs and outputs of resources;
- Risk Adjustment: estimate of the compensation required by the deviations that may occur between cash flows;
- Contractual Margin: difference between any amounts received before the beginning of contract coverage and the present value of estimated cash flows at the beginning of the contract;
- Discount: projected cash flows should be discounted to present value, so as to reflect the value of the money over time, at rates that reflect the characteristics of the respective flows.

This rule is effective for fiscal years beginning on January 1, 2023. The possible impacts are being assessed and will be concluded by the date of entry into effect of the rule.

3 Critical accounting estimates and judgments

Estimates and judgments are continually reassessed and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Based on assumptions, the Group makes estimates concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are described below. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are described below.

These estimates are based on current expectations and on estimated projections of future events and trends that may affect the consolidated financial statements. The main assumptions that can affect these estimates, in addition to those previously mentioned, are related to the following factors: The main assumptions that can affect these estimates, in addition to those previously mentioned, are related to the following factors:

- Variation in the amounts deposited, in client base and in borrowers' default rates.
- Changes in interest rates.
- Changes in inflation rates.
- Government regulations and tax issues.
- Adverse legal proceedings or disputes.
- Credit, market and other risks arising from credit and investment activities.
- Changes in the market values of Brazilian securities, especially Brazilian government bonds.
- Changes in regional, national and international business and economic conditions.

(a) Measurement of the provision for impairment of financial assets in "Financial Assets Measured at Amortized Cost"

Assets classified in the Financial assets measured at amortized cost category are stated at amortized cost and adjusted by the effective interest rate.

On the base date of the financial statements, the Group must assess the losses inherent to the financial assets measured at the amortized cost. The determination of impairment losses on loans and receivables requires a high level of judgment that involves different evaluation criteria, such as an analysis of the specific characteristics of each loan and receivable portfolio, the existing guarantees and the risk of the operations.

The Group uses internal models to analyze the portfolios of loans and receivables and determine the required provision for losses in accordance with Note 2.9. These models use statistical factors of historical losses observable from a time window that is sufficient to capture seasonal effects and remove the effects of unusual market conditions for groups of loans with similar risk characteristics.

(b) Contingent liabilities

The group periodically reviews its contingencies. These contingencies are assessed based on the best estimates of management, taking into consideration the opinion of legal advisors when it is likely that financial resources will be required to settle the obligations and that the amount of the obligations can be reliably estimated.

For the contingencies classified as "Probable", provisions are recognized in the Balance Sheet in the "Provisions" account, as described in Note 18.

The amounts of contingencies are measured using models and criteria that allow their proper measurement despite the uncertainty that is inherent to terms and amounts.

(c) Deferred income tax and social contribution

Deferred tax assets are recognized only in relation to temporary differences to the extent that it is probable that the Group will have future taxable income against which deferred tax assets can be used. Other deferred tax assets (tax credits and tax loss carryforwards) are recognized only when it is probable that the Group will have sufficient future taxable profits against which such credits can be used. In accordance with current regulation, the expected realization of the Group's tax assets is based on the projection of future revenue and technical studies.

4 Financial risk management

The Group's activities expose it to several financial risks: market risk (including currency risk, fair value and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a specific office of the Group in accordance with the policies approved by the Board of Directors. The Group's Risk department identifies, assesses and protects the Group against any financial risks in co-operation with the Group's operating units. The Board of Directors establishes written principles for overall risk management, as well as for specific areas, such as foreign exchange risk, interest rate risk, credit risk, the use of derivative and non-derivative financial instruments, and investment of cash surplus, and these principles are monitored through reviews of the Asset and Liability Committee ("ALCO").

4.1 Credit risk

The Group is exposed to credit risk, which is the risk that arises when a counterparty causes a financial loss by failing to settle an obligation. Significant changes in the economy or in the financial health of a particular economic activity segment that represents a concentration in the portfolio held by the Group may result in losses that differ from those for which a provision is recognized at the balance sheet date. Therefore, management carefully controls the exposure to credit risk.

Exposures to this type of risk mainly arise from direct loan operations, indirect loan operations (onlendings with the intermediation of financial agents) and other financial instruments. There is also the credit risk in connection with financial agreements that are not recorded in the balance sheet, such as loan commitments. Credit risk control and management are carried out by the Risk Department.

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

4.1.1 Maximum exposure to credit risk

The table below presents the maximum exposure to credit risk, without considering the guarantees received or other credit improvements.

	09/30/2020	12/31/2019
Cash and deposits on demand	176,073	272,936
Money market	14,999	630,093
Compulsory deposits in the Central Bank	44,632	2,925
Financial assets stated at fair value through other comprehensive income – marketable securities	5,934,715	2,113,515
At fair value through profit or loss	620,987	337,778
At fair value through profit or loss - Derivative financial instruments	381,241	204,946
Financial assets measured at amortized cost	12,569,651	11,129,599
Off-balance	5,065,400	4,190,085
Guarantees and sureties	293,660	330,687
Credits to be released	4,771,740	3,859,398
Total maximum exposure to credit risk	**24,807,698**	**18,881,877**

For assets recorded in the balance sheet, the exposures described are based on net carrying amounts. This analysis includes only the financial assets that are subject to credit risk, and non-financial assets are not included.

As shown in the table above, the most significant exposure arises from loans and receivables and available-for-sale financial assets.

The credit risk limits are determined based on internal or external classifications in accordance with the limits determined by the Board of Directors. The use of the credit limits is regularly monitored. See Note 4.1.4 for further disclosure on credit risk.

4.1.2 Risk limit control and mitigation policies

The Group manages, limits and controls credit risk concentrations whenever they are identified, particularly for counterparties and individual groups. Management structures the risk levels it assumes, establishing limits on the acceptable risk extent related to a specific debtor and groups of debtors. These risks are monitored on a rotating basis and are subject to annual or more frequent reviews, when necessary, and are approved by the proper authorities that are determined by the Corporate Credit Committee. The payroll loan credit card is a large volume mass-market product with low average ticket, which reduces the credit concentration risk.

Credit risk exposure is also managed by the regular analysis of actual and potential borrowers with regard to the payments of the principal amount and interest and of the changes of limits when appropriate.

One of the ways to mitigate credit risk is to take guarantees on the release of funds. The Group implements guidelines on the acceptance of specific classes of guarantees or mitigation of credit risk. The main types of guarantees for loan operations are:

- Trust receipt;
- Pledge;
- Mortgage;
- Promissory note;
- Letter of guarantee.

The internal classification tool helps the Group determine the objective evidence of the provision for impairment in accordance with IAS 39, based on the criteria described in Note 2.9.

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

4.1.3 Quality of financial assets

The quality of the Group's financial assets, which are assessed on an individual basis, is measured in accordance with the internal risk classification and is presented as follows:

			09/30/2020
	Internal risk classification		
	Low	**Medium**	**High**
Cash and deposits on demand	176,073		
Money market	14,999		
Compulsory deposits in the Central Bank	44,632		
Loan and lease operations	11,400,306	482,841	730,386
Financial assets stated at fair value through other comprehensive income – marketable securities	5,934,715		
At fair value through profit or loss	620,987		
At amortized cost - Marketable securities	5,257		
Derivative financial instruments	381,241		

			12/31/2019
	Internal risk classification		
	Low	**Medium**	**High**
Cash and deposits on demand	272,936		
Money market	630,093		
Compulsory deposits in the Central Bank	2,925		
Loan and lease operations	10,402,057	336,599	617,449
Financial assets stated at fair value through other comprehensive income – marketable securities	2,113,515		
At fair value through profit or loss	337,778		
At amortized cost - Marketable securities	11,316		
Derivative financial instruments	204,946		

4.1.4 Concentration of risks

The individual risk limits in loan operations are determined in specific operational regulations. Other types of operations follow the exposure limits determined by current legislation. Other types of operations follow the exposure limits determined by current legislation.

These limits are frequently monitored and, in the event of departure from the limit, the officer responsible for risk management will be immediately communicated and will have to develop and manage the performance of an action plan for correction and adjustment.

The high volume of operations carried out by the Institution requires a complex structure of technology environment to process these transactions and internal controls.

4.2 Market risk

Market risk is defined as the possibility of losses resulting from the variation of market prices and rates due to the mismatching of terms, currencies and indexes in the positions held by the Group. Operations classified as market risk sources are those subject to changes in foreign exchange rates, interest rates and commodity prices. The portfolios of held-for-trading investments include all the securities owned by the investment funds, the daily changes in which are regularly monitored.

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

Financial instruments that are not designated for trading basically correspond to Marketable securities. This portfolio includes interest rate, price index and foreign exchange risks. The measurement techniques used to measure and control the market risk are described below:

Market risk measurement techniques

Value at Risk *("VaR")*

VaR is an estimate based on potential loss statistics for the current investment portfolio arising from adverse changes in market conditions. It expresses the "maximum" amount that the Group can lose at a certain confidence level (99%). There is, therefore, a one percent (1%) probability that actual losses are higher than the VaR estimate. This model presumes a holding period for all positions (10 days). In addition, it also presumes that changes during such period will maintain a pattern similar to the changes that occurred in previous ten-day holding periods. The VaR is used to measure the risk of banking portfolio financial operations that are subject to changes in fixed interest rates denominated in Brazilian reais and in the Long-Term Interest Rate (TJLP), changes in price indexes denominated in the Broad Consumer Price Index (IPCA) and the General Market Price Index (IGP-M), and the foreign exchange variation. These limits are daily monitored by the Risk Department

Stress test

As in the management of market risk exposure, financial instruments are segregated into trading and banking portfolios according to best market practices and to the operation classification and capital management criteria of Basel III New Standardized Approach of Bacen. The banking portfolio consists of commercial and structural operations arising from the different business lines of the Group and their hedges. Therefore, the entire portfolio of the Group to be analyzed regarding market risk is classified as banking.

The summarized table below shows the effects of price variations in the projected scenarios and does not necessarily reflect the current position, in view of the market dynamics and the Group's activities.

Stress tests provide an indication of the potential volume of losses that might arise from extreme market situations. The stress tests for the banking portfolio are conducted by the Risk Department.

Banking portfolio

				09/30/2020
Risk factors	**Definition**	**Scenario 1**	**Scenario 2**	**Scenario 3**
Foreign currency	Exposures subject to foreign exchange variation	(1,845)	(2,097)	(2,516)
Interest rates in reais	Exposures subject to changes in fixed interest rates	(25,698)	(64,245)	(128,490)
Foreign exchange coupon	Exposures subject to changes in foreign exchange coupon rates	898	2,245	4,490
IPCA / IGP-M	Exposures subject to changes in price index coupon rates	19,830	49,574	99,148
Total		**(6,815)**	**(14,523)**	**(27,368)**

The Group's financial instruments are classified as banking portfolio and they comprise loan operations, instruments for the raising of financial resources to be used to finance the loan portfolio, available-for-sale marketable securities and derivative financial instruments to be used to *hedge* other operations classified in this portfolio (asset or liability).

The risk factors identified are as follows:

- Interest curve – loss arising from price variations due to variations in Brazilian real-denominated fixed interest rates;

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

- Foreign exchange coupon – loss arising from price variations due to variations in the domestic interest rate for operations indexed to foreign exchange variation;
- Foreign exchange – loss arising from price variations due to variations in any currency.
- IPCA / IGP-M: loss arising from price index variations.

Assumptions for the risk factors

Scenario	Interest curve (fixed) and Foreign exchange coupon curve	Foreign exchange
1	Parallel shift of + 100 basis points	10% increase
2	Parallel shift of + 250 basis points	25% increase
3	Parallel shift of + 500 basis points	50% increase

- Scenario 1 represents a parallel shock of 100 basis points (+1%) in the interest and foreign exchange coupon curves plus a 10% shock in foreign exchange rates.
- Scenario 2 represents a parallel shock of 250 basis points (+2.5%) in the interest and foreign exchange coupon curves plus a 25% shock in foreign exchange rates.
- Scenario 3 represents a parallel shock of 500 basis points (+5%) in the interest and foreign exchange coupon curves plus a 50% shock in foreign exchange rates.

4.3 Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from the exposure of some currencies, primarily with respect to the U.S. dollar. Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operations.

Management established a policy that requires the Group companies to manage their foreign exchange risk. The Group companies whose operations are exposed to foreign exchange risk are required to hedge their foreign exchange risk exposure through *swap* operations carried out under the guidance of the Group' Treasury. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is different from the entity's functional currency.

Concentrations of currency risk–financial instruments recorded in the balance sheet

	09/30/2020	12/31/2019
Assets		
Investments in foreign currency (U.S. dollar)	80,595	221,104
Total financial assets	**80,595**	**221,104**
Liabilities		
Subordinated debt (U.S. dollar)		850,685
Loans abroad (U.S. dollar)	282,128	201,552
Total financial liabilities	**282,128**	**1,052,237**
Total derivatives – Assets (U.S. dollar)	152,774	13,053
Total derivatives – Liabilities (U.S. dollar)	(4,628)	(24,198)
Net financial position recorded in the balance sheet	**148,146**	**(11,145)**

4.4 Cash flow or fair value risk associated with interest rate

The Group's interest rate risk arises mainly from funding via time deposits, interbank deposits and credit lines (FINAME) from the National Bank for Economic and Social Development (BNDES). Funds raised at variable rates expose the Group to cash flow interest rate risk. Meanwhile, funds raised at fixed rates (especially subordinated debts and short-term notes) expose the Group to the fair value interest rate risk. In 2020 and 2019, the Group's variable rate loans were mainly maintained in Brazilian reais.

The Group analyzes its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and financing. Based on these scenarios, the Group calculates the impact on the result of a defined interest rate shift. For each simulation, the same interest rate shift is used for all the currencies. The scenarios are run only for the liabilities that represent the major interest-bearing positions.

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

Based on the various scenarios, the Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. The fixed rates that result from this swap operation are lower than those available if the Group borrowed at fixed rates directly.

The table below summarizes the Group's exposure to interest rate risk and includes financial instruments at their carrying amounts, categorized by the earliest contractual amendment or maturity dates.

				09/30/2020
	Within 90 days	**From 91 to 360 days**	**Over 360 days**	**Total**
Cash and deposits on demand (Note 5)	176,073			176,073
Money market (Note 5)	14,999			14,999
Compulsory deposits in the Central Bank	44,632			44,632
Derivative financial instruments (Note 7)	57,693	67,889	255,659	381,241
Financial assets stated at fair value through other comprehensive income – marketable securities (Note 6)	6,170	604,104	5,324,441	5,934,715
Financial assets measured at amortized cost (Note 6)	4,256,739	3,829,850	4,483,062	12,569,651
At fair value through profit or loss (Note 6)	573,535	8,066	39,386	620,987
Total financial assets	**5,129,841**	**4,509,909**	**10,102,548**	**19,742,298**
	1,711,150			1,711,150
Financial liabilities measured at amortized cost (Note 11)	2,758,591	3,921,139	10,101,451	16,781,181
Derivative financial instruments (Note 7)	13,670	36,713	35,878	86,261
Total financial liabilities	**4,483,411**	**3,957,852**	**10,137,329**	**18,578,591**

				12/31/2019
	Within 90 days	**From 91 to 360 days**	**Over 360 days**	**Total**
Cash and deposits on demand (Note 5)	272,936			272,936
Money market (Note 5)	630,093			630,093
Compulsory deposits in the Central Bank	2,925			2,925
Derivative financial instruments (Note 7)	22,848	18,930	163,168	204,946
Financial assets stated at fair value through other comprehensive income – marketable securities (Note 6)	3,141	6,945	2,103,429	2,113,515
Financial assets measured at amortized cost (Note 6)	7,771,498	1,511,484	1,846,617	11,129,599
At fair value through profit or loss (Note 6)	254,723	8,146	74,909	337,778
Total financial assets	**8,958,164**	**1,545,505**	**4,188,123**	**14,691,792**
Financial liabilities measured at amortized cost (Note 11)	1,838,411	3,857,328	7,824,397	13,520,136
Derivative financial instruments (Note 7)	7,308	87,875	35,674	130,857
Total financial liabilities	**1,845,719**	**3,945,203**	**7,860,071**	**13,650,993**

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

Financial exposure of derivative financial instruments

	09/30/2020		12/31/2019	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Risk factors				
Fixed rate	585,065	1,592,318	399,079	904,591
Foreign currency	1,689,815	660,216	1,515,320	1,172,465
IPCA	1,194,200	252,616	1,154,072	488,693
Others	289,781	989,506	1,229,313	1,702,124
Total	**3,758,861**	**3,494,656**	**4,297,784**	**4,267,873**

4.5 Liquidity risk

Liquidity risk is the possibility that the Group will not have sufficient financial resources to meet its obligations due to the mismatch between payments and receipts, taking into consideration the different currencies and the settlement terms of their rights and obligations.

Liquidity risk management process

Liquidity Risk Management is carried out on a daily basis by the Risk Department through an internal system. The Group's Liquidity Risk Policy sets forth limits (liquidity buffer), which are monitored by ALCO, and, if they are extrapolated, the responsible Committee must be informed. For the decision-making processes, reports, such as cash flow, cash projection for the next six months and effective cash versus limits established and made available by Treasury, are prepared.

Funding approach

The main objective of the Group's Treasury is to provide liquidity to ensure that its financial obligations will be met, ensuring the business sustainability through funding at competitive rates and the diversification of its refinancing sources by counterparty, currency, product and term. In addition, it is aimed at mitigating financial risks through the follow-up and monitoring of the risks inherent to the business, such as market risk and liquidity risk.

Undiscounted cash flows

The table below presents the cash flows in accordance with financial assets and liabilities, described by the remaining contractual maturity after the balance sheet date. The amounts disclosed in the table are the contracted undiscounted cash flows, whose liquidity risk is managed based on expected undiscounted cash inflows.

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

Undiscounted cash flows	**Within 90 days**	**From 91 to 360 days**	**From 361 to 1800 days**	**Over 1800 days**	**Total**
Cash and deposits on demand	177,214				**177,214**
Money market	105,000				**105,000**
Financial assets measured at amortized cost	5,557,277	2,423,410	4,913,581	734,199	**13,628,467**
Financial assets stated at fair value through other comprehensive income – marketable securities	6,164	471,823	2,353,408	1,459,826	**4,291,221**
Financial assets at fair value through profit	600,754	8,126	20,306		**629,186**
Derivative financial instruments	304,409	84,720	236,913		**626,042**
Total receivable	**6,750,818**	**2,988,079**	**7,524,208**	**2,194,025**	**19,457,130**
Deposits					
Demand deposit	107,292				**107,292**
Time deposit	1,173,694	2,240,929	7,616,035	1,619,314	**12,649,972**
Assignments	74,037	192,337	165,316		**431,690**
Interbank deposits	237,871	29,477	7,701		**275,049**
Derivative financial instruments	**212,613**	**42,831**	**33,753**		**289,197**
Marketable securities and financial bills	**92,615**	**971,635**	**455,087**	**1,988**	**1,521,325**
Borrowings and onlendings	**288,299**	**2,561**		**499,868**	**790,728**
Subordinated financial bills and debt	**952,739**			**131,446**	**1,084,185**
Total payable	**3,139,160**	**3,479,770**	**8,277,892**	**2,252,616**	**17,149,438**
Difference receivable (payable)	**3,611,658**	**(491,691)**	**(753,684)**	**(58,591)**	**2,307,692**

4.6 Capital management

The objectives of the Group when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for stockholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group can make adjustments to the amount of dividends paid to stockholders, issue new shares or sell assets to reduce, for example, debt.

The Group's capital management is based on the rules of the Central Bank of Brazil (Bacen), in particular CMN Resolution nº 4,193/13 and supplementary regulations. Financial institutions are required to maintain equity compatible with their assets' risk level, weighted by factors that range from 0% to 1,250%, and a minimum capital to risk-weighted assets ratio of:

I - 8%, as of January 1, 2019.

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For Tier I

II - 6%, as from January 1, 2015.

In addition, equity used for calculating the Regulatory capital is the equity calculated according to the accounting practices applicable to institutions authorized to operate by the Central Bank of Brazil (Bacen) and not to IFRS.

The Basel ratio and regulatory capital calculated to meet the rules of Brazilian Central Bank are as follows:

		Basel III
	2020	**2019**
Tier I regulatory capital	**3,017,681**	**2,913,192**
Common equity tier I	**2,904,546**	**2,802,519**
– Equity (1)	4,123,123	4,081,114
– Prudential adjustments – Resolution No. 4,192/13 of CMN	(1,218,577)	(1,278,595)
Complementary capital (2)	**113,135**	**110,673**
- Subordinated debt	113,135	110,673
Tier II regulatory capital (2)	**19,224**	**18,754**
- Subordinated debt	19,224	18,754
Regulatory capital (a)	**3,036,905**	**2,931,946**
Risk-weighted assets – RWA (b)	**15,791,307**	**13,011,603**
Appropriation of capital		
– Credit risk	14,963,905	12,270,657
– Market risk	4,047	11,812
– Operational risk	823,355	729,134
Solvency ratio (a / b)	**19,23%**	**22.53%**
Tier I capital	**19,11%**	**22.39%**
– Common equity tier 1	18,39%	21.54%
– Complementary capital	0,72%	0.85%
Tier II capital	**0,12%**	**0.14%**
- Capital to hedge the risk of transactions subject to the variation of interest rates classified in the banking portfolio per Resolution No. 3.876 of BACEN - Installment “IRRBB”.	55,785	30.000
Fixed assets ratio	**44.89%**	**11.88%**
Excess capital in relation to fixed assets	**155,154**	**1,117,709**

(1) Equity according to Resolution nº 4,192, of march 1st 2013; and

(2) The instruments eligible for capital, Complementary Capital and Level II, were issued subject to the conditions determined by Resolution No. 4,192, of 1/3/2013, of the CMN, with maturity of the repurchase option, subject to the prior authorization of the Central Bank of Brazil, in 5 years from the instrument issue date.

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

4.7 Fair value estimate

The Group uses the following hierarchy to determine and disclose the fair value of financial instruments:

- Level 1: quoted prices in active markets for the same instrument without change.
- Level 2: quoted prices in active markets for similar instruments or valuation techniques for which all significant inputs are based on observable market data.
- Level 3: valuation techniques for which any significant input is not based on observable market data.

The table below presents the assets and liabilities measured at fair value in September 2020.

Description	Level 1	Level 2	Level 3	Total
Assets				
Financial assets stated at fair value through other comprehensive income – marketable securities	3,532,896	4,886		3,537,782
At fair value through profit or loss		629,186		629,186
Derivative financial instruments		626,042		626,042
Total assets	**3,532,896**	**1,260,114**		**4,793,010**
Liabilities		329,311		329,311
Derivative financial instruments		289,197		289,197
Total liabilities		**618,508**		**618,508**

The table below presents the assets and liabilities measured at fair value in December 2019.

Description	Level 1	Level 2	Level 3	Total
Assets				
Financial assets stated at fair value through other comprehensive income – marketable securities	2,108,629	4,886		2,113,515
At fair value through profit or loss		337,778		337,778
Derivative financial instruments		204,946		204,946
Total assets	**2,108,629**	**547,610**		**2,656,239**
Liabilities				
Derivative financial instruments		130,857		130,857
Total liabilities		**130,857**		**130,857**

The fair value of financial instruments traded in active markets (such as held-for-trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value of an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

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- quoted market prices or financial institution or dealer quotes for similar instruments;
- the fair value of interest rate *swaps* is calculated as the present value of the estimated future cash flows based on yield curves adopted by the market;
- the fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value;
- other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The Group has no Level 3 financial assets.

4.8 Fair value of financial assets and liabilities not measured at fair value

As mentioned above, financial assets owned by the Group are measured at fair value in the consolidated balance sheet, except for loans and receivables and held-to-maturity assets.

For the same purpose, the Group's financial liabilities are stated at amortized cost in the consolidated balance sheet, except for held-for-trading financial liabilities.

A comparison between the carrying amounts of the Group's financial assets not measured at fair value and their corresponding fair values at the end of the year is presented below:

ASSETS	**Carrying amount**	**Fair value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Loan and lease operations	12,613,533	11,897,874		11,897,874		**11,897,874**
LIABILITIES						
Deposits from clients	12,066,376	11,913,977		11,913,977		**11,913,977**
Borrowings and onlendings	788,648	788,648			788,648	**788,648**
Marketable securities and financial bills	2,459,616	2,459,650		2,459,650		**2,459,650**
Subordinated financial bills and debt	132,359	131,365		131,365		**131,365**
Other financial liabilities	573,028	582,790			582,790	**582,790**
Borrowings or transfers of financial assets	761,154	761,154			761,154	**761,154**

The assumptions used to estimate fair value are as follows:

- The amounts of all asset and liability operations subject to fixed rates were adjusted based on the fair value. The fair value rate was determined based on the average rate by product used for all the operations carried out in September 2020.
- All asset and liability operations subject to floating or fixed rates or indexes, such as the Interbank Certificate Index ("CDI"), General Market Price Index ("IGP-M"), Broad Consumer Price Index ("IPCA"), U.S. dollar and National Consumer Price Index ("INPC"), were considered as already measured at fair value, since they are already subject to an index that reflects the fluctuations in the market.
- The fair value amounts were determined using the future cash flow of each operation at the effective rate of the contract and discounted to present value at the market rate, as previously determined, which includes the credit risk of the counterparty.

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4.9 Guarantees for loan operations

BMG uses guarantees to reduce losses on operations with credit risk by managing these guarantees so that they are always sufficient, legally enforceable (effective) and viable, and reviewing them on a regular basis.

Loan operations not related to payroll loans are covered by the following guarantees:

				09/30/2020
		Type of product		
Type of guarantee	Direct consumer credit	Working capital	Other	Total
Trust receipt	880,184	234,379	52,341	1,166,904
Promissory note		4,886	365,939	370,825
Assignment of credit rights		2,238,852		2,238,852
Pledge		409,387	54,845	464,232
Mortgage				
Other		17,804	207,377	225,181
TOTAL	**880,184**	**2,905,308**	**680,502**	**4,465,994**

				09/30/2019
		Type of product		
Type of guarantee	Direct consumer credit	Working capital	Other	Total
Trust receipt	890,796	239,064	144,664	1,274,524
Promissory note		4,886	365,939	370,825
Assignment of credit rights		2,084,474		**2,084,474**
Pledge		313,222	31,853	**345,075**
Mortgage			12,756	**12,756**
Other		28,218	124,977	**153,195**
TOTAL	**890,796**	**2,669,864**	**680,189**	**4,240,849**

When secured loan operations become non-performing, the existing collection policy comprises the following steps: amicable debt collection, attempt to formalize the term of amicable delivery, filing an action for a search warrant of collateral, and ultimately going into auction.

4.10 Business combination

On February 13, 2017, Banco BMG, through its subsidiary CB Intermediação de Negócios Ltda, acquired 99,99% of the capital of CMG Corretora de Seguros for R$316 (total consideration paid).

On March 9, 2018, Banco BMG purchased from the controlling shareholders 99.98% of Help Franchising Participações Ltda. In order to complete the transaction, R$ 6,999 was paid for an equity of R$ 3,908, and goodwill of R$ 3,091 was recorded. Subsequently, a capital increase was made at Help Franchising Participações Ltda. in the amount of R$ 14,997.

On May 25, 2018, 500,000 shares of BMG Participações em Negócios Ltda. were transferred and transferred, totaling R$ 500, with a consequent reduction in Banco BMG S.A.'s stake from 96.50% to 94.49%.

At the Meeting held on October 4, 2018, the corporate name of CB Intermediação de Negócios Ltda. was changed, becoming CBFácil Corretora de Seguros e Negócios Ltda. In the same meeting, a capital increase of R$100 million was made.

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On January 9, 2019 Banco BMG purchased 65.01% of the shares of Granito Soluções em Pagamentos S.A. (formerly Pago Soluções em Pagamento S.A.). In total, R$ 13,500 will be paid for an equity of R$ 2,843, resulting in goodwill of R$ 10,657. Together, a purchase option was signed that can be exercised by Banco BMG at the end of 24 months, as of the closing date, which will correspond to the acquisition of 10% of the shares issued by the company.

In the fourth quarter of 2019, 375,000 split shares of BMG Participações em Negócios Ltda. were assigned and transferred totaling R$375, with a consequent reduction in Banco BMG S.A.'s stake from 94.49% to 92.99%.

On November 29, 2019 BMG Participações em Negócios Ltda., a company controlled by the Bank, entered into a Stock Purchase and Sale Agreement with Assicurazioni Generali S.p.A. ("Generali"), whereby it sold 30% of the share capital to Generali of its investee BMG Seguros S.A. for the amount of R$54,000, generating a gain of R$26,448, adjusted in shareholders' equity. BMG Participações em Negócios retains a 70% interest in the capital stock of BMG Seguros.

On January 31, 2020, a capital increase was made in BMG Participações em Negócios Ltda. in the amount of R$2,500.

On March 2, 2020, a capital stock increase was fully paid in to the CBFacil Corretora de Seguros e Negócios Ltda. subsidiary in the amount of R$ 1,000,000, to improve the Company's operational efficiency and better use of funds.

On March 16, 2020, the Central Bank of Brazil approved a capital reduction in Banco BCV S.A. in the amount of R$334,903, to absorb accumulated losses.

On March 16, 2020, the Central Bank of Brazil approved a capital reduction in Banco Cifra S.A. in the amount of R$96,645, to absorb accumulated losses.

On April 22, 2020, a capital increase was made in BMG Leasing S.A. - Arrendamento Mercantil, in the amount of R$500,000. The Central Bank approved the payment of the capital increase on June 24, 2020.

On April 23, 2020, the BMG Participações em Negócios subsidiary reduced its shareholders' equity by R$6,008 due to the withdrawal of minority shareholders. Thus, Banco BMG's ownership interest went from 92.99% to 99.99%.

On August 6, 2020, the purchase of 40% of the shares belonging to CMG Corretora de Seguros Ltda. was made by Wiz Soluções e Corretagem de Seguros S.A., in the amount of R$44,800. The partnership aims to maximize opportunities for selling security products.

On August 11, the preemptive right was exercised in the acquisition of 1,741,290 new shares of Granito Soluções em Pagamento S.A., through the disbursement of R$12,000, increasing the stake in the company's capital stock from 65.01% to 70%. On the same date, the total amount of R$3,000 was paid proportionally to the other partners, in payment of the acquisition of another 5% in the company's shares, increasing the stake in the capital stock of the company from 70% to 75%.

5 Cash and cash equivalents and short-term interbank investments

	30/06/2020	31/12/2019
Cash and cash equivalents	176,073	272,936
Short-term interbank investments	14,999	630,093
Total	**191,072**	**903,029**

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

6 Financial assets

Classification per nature and category

The classification by nature and category for the purpose of valuating the Bank's assets, except balances relating to "Cash and cash equivalents, Reserves with the Central Bank of Brazil" and "Money market investments", at September 30, 2020 and December 31, 2019 are as follows:

				09/30/2020
	Financial assets measured at fair value through profit or loss	**Financial assets measured at fair value through other comprehensive income**	**Financial assets measured at amortized cost**	**Total**
Loans and other amounts with financial institutions			174,057	**174,057**
Loan and lease operations (i)	573,535		12,613,533	**13,187,068**
Sundry debtors			975,425	**975,425**
Provision for impairment losses			(1,245,191)	**(1,245,191)**
Deposit application			46,570	**46,570**
Marketable securities	47,452	5,934,715	5,257	**5,987,424**
Financial Treasury Bills - LFT		2,079,880		**2,079,880**
National Treasury Bills - LTN		350,290		**350,290**
National Treasury Notes - NTN		3,337,776		**3,337,776**
Certificate of Real Estate Receivables		103,984		**103,984**
Quotas in investment funds	47,452	4,886		**52,338**
Time Deposit			5,257	**5,257**
Debentures		57,899		**57,899**
Derivative financial instruments (Note 7)	381,241			**381,241**
Total	**1,002,228**	**5,934,715**	**12,569,651**	**19,506,594**
Current	**707,183**	**610,274**	**8,091,678**	**9,409,135**
Non-current	**295,045**	**5,324,441**	**4,477,973**	**10,097,459**

				12/31/2019
	Financial assets measured at fair value through profit or loss	**Financial assets measured at fair value through other comprehensive income**	**Financial assets measured at amortized cost**	**Total**
Loans and other amounts with financial institutions			**86,397**	**86,397**
Loan and lease operations (i)	254,723		11,356,105	**11,610,828**
Sundry debtors			689,651	**689,651**
Provision for impairment losses			**(1,060,347)**	**(1,060,347)**
Deposit application			**46,477**	**46,477**
Marketable securities	83,055	2,113,515	11,316	**2,207,886**
Financial Treasury Bills		2,098,543		**2,098,543**
National Treasury Bills		10,086		**10,086**
Quotas in investment funds	83,055	4,886		**87,941**
Time Deposit			11,316	**11,316**
Derivative financial instruments (Note 7)	204,946			**204,976**
Total	**542,724**	**2,113,515**	**11,129,599**	**13,785,838**
Current	**304,647**	**10,086**	**9,282,982**	**9,597,715**
Non-current	**238,077**	**2,103,429**	**1,846,617**	**4,188,123**

(i) Credit operations eligible for assignment, classified as financial assets at fair value through profit or loss.

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7 Derivative financial instruments

(a) Fair value of trading derivatives recognized in assets and liabilities

	09/30/2020		12/31/2019	
	Fair value		Fair value	
	Assets	(Liabilities)	Assets	(Liabilities)
Foreign exchange derivative	152,774	(4,628)	13,053	(24,198)
Interest rate and index derivatives	228,467	(81,633)	191,893	(106,659)
Total	**381,241**	**(86,261)**	**204,946**	**(130,857)**
Current	**125,582**	**(50,383)**	**41,778**	**(95,183)**
Non-current	**255,659**	**(35,878)**	**163,168**	**(35,674)**

Swap transactions, the sole purpose of which is to hedge against risks of the financial assets, backed by the active transaction themselves.

(b) Notional amounts and fair values of the trading derivative financial instruments

	09/30/2020		12/31/2019	
	Reference value (notional)	Net fair value	Reference value (notional)	Net fair value
Foreign exchange derivative	307,231	148,146	703,628	(11,145)
Interest rate derivatives	380,695	(57,860)	1,229,939	(83,322)
Index derivatives	895,500	204,694	2,125,500	168,556
Total	**1,583,426**	**294,980**	**4,059,067**	**74,089**

(c) The breakdown of the notional amounts of the trading derivative financial instruments per maturity as follows:

	09/30/2020	12/31/2019
Within 30 days	161,143	88,139
From 31 to 180 days	195,644	388,690
From 181 to 360 days	253,368	2,467,641
Over 360 days	973,271	1,114,597
Total	**1,583,426**	**4,059,067**

Below are the reference and receivables/payables amounts of futures operations.

			Financial Conglomerate and Bank
Futures	Amounts receivable (note 9)	Amounts payable (note 17b)	Reference value
DAP		(2,962)	1,130,342
DDI	1,535		1,130,255
DI1		(3,613)	5,042,270
DOL	1,145		1,643,914
Position – 09/30/2020	**2,680**	**(6,575)**	**8,946,781**
Position – 12/31/2019	**5,673**	**(14)**	**5,254,872**

(d) Hedging derivative financial instrument transactions

(i) Market risk hedge

The purpose of Banco BMG's hedge relationship is to protect, from exposure to changes in market risk, post-fixed time deposits indexed to the dollar against the CDI.

In September 2020, the Bank settled its position of dollar x DI swap contracts used to hedge exposure to changes in market risk from borrowings indexed to the exchange variation.

To hedge against exposure to changes in market risk of borrowings indexed to foreign exchange variation, the Bank negotiated USD x DI swap contracts in the amount of R$686,712 on September 30, 2019, and the balance of funding on the same date was R$691,045. These instruments generated adjustment to positive market value in the result of the period in the amount of R$631, for the same date.

In September 2020, the transactions were settled in their entirety to protect from exposure to market risk variation of CDBs indexed to the IPCA+ variation ("IPCA plus"), using the coupon of future contracts (DAP) traded on the B3 - Brasil, Bolsa, Balcão stock exchange as hedging instruments and, as an effect of this transaction, the adjustment to market value of the assets accumulated in liabilities in the amount of R$134,813 (2019 – R$70,772) will be deferred daily over the term of the subject assets, linearly, pursuant to current legislation.

To hedge against exposure to market risk variation of the CDBs indexed to the IPCA variation plus coupon, Banco BMG used futures contracts (DAP) traded on the B3 – Brasil, Bolsa, Balcão, as hedging instruments.

During the period from January to September 2020, until the settlement date of the transactions, the instruments an adjustment to negative market value generated in the result in the amount of R$51,482.

On September 30, 2019, the instruments generated an adjustment to negative market value in the result in the amount of R$70,772.

(ii) Cash flow hedge

The purpose of BMG's hedge relationship is to protect the portion of the payment cash flows to be disbursed in the funding of time deposits with floating interest rates indexed by the Interbank Deposit Certificate (CDI) to fixed rates.

In order to protect the future cash flows of the portion of the funding of time deposits against the exposure to the CDI, Banco BMG negotiated future one-day DI contracts on B3 - Brasil, Bolsa, Balcão, and the market present value of the funding is R$4,718,118 (2019 – R$2,272,554). These instruments generated an adjustment to market value in equity of R$112 (2019 – positive in R$9,692), net of tax effects.

(e) Management of derivative financial instruments

The Group is a party to transactions involving financial instruments (differences) recognized in balance sheet or memorandum accounts consistent with market transactions in the same dates to manage its exposure to market, currency, and interest rate risks, which refer basically to transactions intended to hedge assets and liabilities, involving changes in indices used for investing and raising funds, hired for consistent periods, rates, and amounts.

The Group is a party to transactions involving derivative financial instruments (swaps) and futures contracts to hedge own and client assets and liabilities.

These risks are managed through control policies, by setting operating strategies and limits, and several techniques used to monitor liquidity, profitability, and safety positions. The use of derivative financial instruments to minimize market risks originating from interest rate, foreign exchange rate, asset price, and other fluctuations is an integral part of the good practice and a key tool of financial institutions' financial management.

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Market risk is the exposure created by potential fluctuations in interest rates, exchange rates, commodity prices, prices quoted on the stock market, and for other securities, and is the function of the type of product, the transaction volume, and the term and conditions of the contract and the underlying volatility, Risk management is controlled and monitored independently of the areas generating the risk exposure, Assessment and measurement are carried out on a daily basis using indices and statistical data, utilizing tools such as non-parametric "VaR" and sensitivity analysis in stress scenarios, together with ALCO.

8 Financial assets carried at amortized cost

At amortized cost	09/30/2020	12/31/2019
Loans and other amounts with financial institutions	**174,057**	**86,397**
Correspondent accounts	4,535	22,390
Interbranch accounts	169,522	64,007
Loan operations, net	**11,368,342**	**10,295,758**
Sundry debtors	**975,425**	**689,651**
Sundry debtors (i)	501,817	508,474
Provisions for non-recoverable amounts (i)	(79,572)	(68,959)
Payment transaction receivables	207,850	39,743
Amount receivable for assignment of receivables	148,797	16,502
Others	196,533	193,891
TOTAL	**12,517,824**	**11,071,806**
Current	**8,079,561**	**9,237,927**
Non-current	**4,438,263**	**1,833,879**

(i) Refers to amounts for instalments of payroll loan operations pending transfer by public agencies and provisions for non-recoverable amounts.

Loan and lease operations

(a) Breakdown

The breakdown, per classification, of the loan and lease portfolio balances in the consolidated balance sheets is as follows:

	09/30/2020	12/31/2019
Loan and lease operations		
Loans and receivables at amortized cost	12,613,533	11,356,105
Provision for impairment	(1,245,191)	(1,060,347)
Loan and lease operations, net	**11,368,342**	**10,295,758**
Current	**6,930,079**	**8,461,879**
Non-current	**4,438,263**	**1,833,879**

(b) Gross carrying amount (loan portfolio)

Reconciliation of the gross portfolio of loan and financial leasing operations, broken down by stage:

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

Tier 1	Opening balance at 01/01/2020	Recognition/(settlement)	Closing balance at 09/30/2020
Consumer direct credit - Personal credit	8,815,793	830,059	9,645,852
Individuals	10,386	(3,048)	7,338
Consumer direct credit - Vehicles	36	(34)	2
Sales	1,575,842	171,272	1,747,114
Total	**10,402,057**	**998,249**	**11,400,306**
Tier 2	**Opening balance at 01/01/2020**	**Recognition/(settlement)**	**Closing balance at 09/30/2020**
Consumer direct credit - Personal credit	327,175	76,377	403,552
Individuals	4,083	(1,919)	2,164
Consumer direct credit - Vehicles	46	(37)	9
Sales	5,295	71,821	77,116
Total	**336,599**	**146,242**	**482,841**
Tier 3	**Opening balance at 01/01/2020**	**Recognition/(settlement)**	**Closing balance at 09/30/2020**
Consumer direct credit - Personal credit	544,845	129,815	674,660
Individuals	1,507	2,617	4,124
Consumer direct credit - Vehicles	81	(6)	75
Sales	71,016	(19,489)	51,527
Total	**617,449**	**112,937**	**730,386**

Three-tier consolidated	Opening balance at 01/01/2020	Recognition/(settlement)	Closing balance at 09/30/2020
Consumer direct credit - Personal credit	9,687,813	1,036,251	10,724,064
Individuals	15,976	(2,350)	13,626
Consumer direct credit - Vehicles	163	(77)	86
Sales	1,652,153	223,604	1,875,757
Total	**11,356,105**	**1,257,428**	**12,613,533**

Tier 1	Opening balance at 01/01/2019	Recognition/(settlement)	Closing balance at 12/31/2019
Consumer direct credit - Personal credit	7,736,954	1,078,839	8,815,793
Individuals	11,430	(1,044)	10,386
Consumer direct credit - Vehicles	991	(955)	36
Sales	1,045,159	530,683	1,575,842
Total	**8,794,534**	**1,607,523**	**10,402,057**
Tier 2	**Opening balance at 01/01/2019**	**Recognition/(settlement)**	**Closing balance at 12/31/2019**
Consumer direct credit - Personal credit	306,949	20,226	327,175
Individuals	6,926	(2,843)	4,083
Consumer direct credit - Vehicles	675	(629)	46
Sales	14,184	(8,889)	5,295
Total	**328,734**	**7,865**	**336,599**
Tier 3	**Opening balance at 01/01/2019**	**Recognition/(settlement)**	**Closing balance at 12/31/2019**
Consumer direct credit - Personal credit	424,506	120,339	544,845
Individuals	2,400	(893)	1,507
Consumer direct credit - Vehicles	1,348	(1,267)	81
Sales	156,108	(85,092)	71,016
Total	**584,362**	**33,087**	**617,449**

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Three-tier consolidated	Opening balance at 01/01/2019	Recognition/(settlement)	Closing balance at 12/31/2019
Consumer direct credit - Personal credit	8,468,409	1,219,404	9,687,813
Individuals	20,756	(4,780)	15,976
Consumer direct credit - Vehicles	3,014	(2,851)	163
Sales	1,215,451	436,702	1,652,153
Total	**9,707,630**	**1,648,475**	**11,356,105**

On August 20, 2019, the Group entered into a partnership with a securitization company, in which it undertakes to assign, without substantial retention of risks and benefits up to the limit amount of R$1.5 billion, payroll loan operations entered into with INSS retirees and pensioners.

In addition to the amount paid for the assignment of credits, BMG will receive a service fee related to portfolio management, and will remain responsible for the proper formalization of these operations.

In September 2020, the loan portfolio reached a balance of R$1,311,268 and a positive result of R$29,968 (note 23 (a) “Market funding”).

(c) Expected loan losses

Tier 1	Opening balance at 01/01/2020	Recognition/(settlement)	Closing balance at 09/30/2020
Consumer direct credit - Personal credit	323,776	12,701	336,477
Individuals	461	(136)	325
Consumer direct credit - Vehicles	2	(2)	0
Sales	54,184	(884)	53,300
Total	**378,423**	**11,679**	**390,102**

Tier 2	Opening balance at 01/01/2020	Recognition/(settlement)	Closing balance at 09/30/2020
Consumer direct credit - Personal credit	172,632	46,001	218,633
Individuals	1,466	(728)	738
Consumer direct credit - Vehicles	6	(4)	2
Sales	1,372	2,216	3,588
Total	**175,476**	**47,485**	**222,961**

Tier 3	Opening balance at 01/01/2020	Recognition/(settlement)	Closing balance at 09/30/2020
Consumer direct credit - Personal credit	473,394	131,021	604,415
Individuals	1,179	1,689	2,868
Consumer direct credit - Vehicles	74	(3)	71
Sales	31,801	(7,027)	24,774
Total	**506,448**	**125,680**	**632,128**

Three-tier consolidated	Opening balance at 01/01/2020	Recognition/(settlement)	Closing balance at 09/30/2020
Consumer direct credit - Personal credit	969,802	189,723	1,159,525
Individuals	3,106	825	3,931
Consumer direct credit - Vehicles	82	(9)	73
Sales	87,357	(5,695)	81,662
Total	**1,060,347**	**184,844**	**1,245,191**

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

Tier 1	Opening balance at 01/01/2019	Recognition/(settlement)	Closing balance at 12/31/2019
Consumer direct credit - Personal credit	285,001	38,775	323,776
Individuals	507	(46)	461
Consumer direct credit - Vehicles	63	(61)	2
Sales	52,956	1,228	54,184
Total	**338,527**	**39,896**	**378,423**

Tier 2	Opening balance at 01/01/2019	Recognition/(settlement)	Closing balance at 12/31/2019
Consumer direct credit - Personal credit	141,262	31,370	172,632
Individuals	2,609	(1,143)	1,466
Consumer direct credit - Vehicles	114	(108)	6
Sales	2,599	(1,227)	1,372
Total	**146,584**	**28,892**	**175,476**

Tier 3	Opening balance at 01/01/2019	Recognition/(settlement)	Closing balance at 12/31/2019
Consumer direct credit - Personal credit	389,596	83,798	473,394
Individuals	1,891	(712)	1,179
Consumer direct credit - Vehicles	1,245	(1,171)	74
Sales	113,775	(81,974)	31,801
Total	**506,507**	**(59)**	**506,448**

Three-tier consolidated	Opening balance at 01/01/2019	Recognition/(settlement)	Closing balance at 12/31/2019
Consumer direct credit - Personal credit	815,859	153,943	969,802
Individuals	5,007	(1,901)	3,106
Consumer direct credit - Vehicles	1,422	(1,340)	82
Sales	169,330	(81,973)	87,357
Total	**991,618**	**68,729**	**1,060,347**

(d) Breakdown per sector of activity

	09/30/2020	12/31/2019
Private sector:		
Industry	60,213	84,009
Commerce	81,052	119,588
Financial intermediaries	163,079	119,556
Other services	1,465,014	1,241,393
Individuals	10,844,175	9,791,559
Total	**12,613,533**	**11,356,105**

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

Per maturity

	09/30/2020		12/31/2019	
	Valor	%	Valor	%
Past due for over 14 days	742,562	5.9%	666,843	5.9%
Past due for less than 14 days	179,467	1.4%	36,554	0.3%
To fall due:				
Within 30 days	3,566,926	28.3%	7,431,002	65.4%
From 31 to 60 days	1,028,321	8.2%	239,827	2.1%
From 61 to 90 days	371,603	2.9%	184,104	1.6%
From 91 to 180 days	896,163	7.1%	387,255	3.4%
From 181 to 360 days	1,246,399	9.9%	545,006	4.8%
Over 360 days	4,582,092	36.3%	1,865,514	16.4%
Total	**12,613,533**	**100%**	**11,356,105**	**100%**

(e) Changes in the provision for impairment losses

	09/30/2020	09/30/2019
At January 1	**1,060,347**	**991,618**
Addition of provision	688,581	502,999
Write-off against provision	(503,737)	(472,301)
Total of period	**1,245,191**	**1,022,316**

9 Property and equipment

The Group's tangible assets consist of property and equipment in use, The Group does not have tangible assets held as investment property and is not a party to any lease agreement in the period ended September 30, 2020 and December 31, 2019.

Changes in property and equipment:

The depreciation expenses were accounted for in account "General and administrative expenses", in the statement of income.

	Land and buildings	Data processing system	Installations, furniture and equipment in use	Comm. system	Transport, system	TOTAL
In 12/31/2019						
Cost	16,686	140,644	147,018	1,723	8,376	314,447
Accumulated depreciation	(12,972)	(74,958)	(80,517)	(564)	(4,155)	(173,166)
Net carrying amount	**3,714**	**65,686**	**66,501**	**1,159**	**4,221**	**141,281**
In 09/30/2020						
Opening balance	3,714	65,686	66,501	1,159	4,221	141,281
Additions		17,307	5,593	184	786	23,870
Disposals		(7,884)	(1,332)	(9)	(132)	(9,357)
Depreciation	(1)	(16,667)	(7,781)	(97)	(956)	(25,502)
Cost	16,686	150,067	151,279	1,898	9,030	328,960
Accumulated depreciation	(12,973)	(91,625)	(88,298)	(661)	(5,111)	(198,668)
Net carrying amount	**3,713**	**58,442**	**62,981**	**1,237**	**3,919**	**130,292**

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

There is no contractual commitment for the purchase of property and equipment and no property and equipment item was pledged as collateral.

10 Intangible assets

	09/30/2020	12/31/2019
At January 1	**1,030,631**	**1,002,057**
Goodwill on acquisition of subsidiary (Addition/Write-off)	7,137	9,667
Other Intangibles (Addition/Write-off)	123,953	18,990
Total	**1,161,721**	**1,030,631**

	09/30/2020	12/31/2019
Goodwill upon acquisition of the subsidiary	1,018,777	1,011,640
Goodwill on acquisition of subsidiary	142,944	18,991
Net carrying amount	**1,161,721**	**1,030,631**

On August 18, 2011, after the acquisition of Banco BCV S.A., the Company recognized goodwill amounting to R$995,582.

Goodwill arising on the acquisition of Banco BCV S.A. is fully allocated to the retail segment.

Impairment test:

According to a study carried out on the base date of December 31, 2019, the need to recognize the goodwill impairment loss in the period ended in September 30, 2020 was not identified. The recoverable amount of goodwill was calculated based on its value in use, The calculation uses income projections based on the five-year budget, approved by management. The income projections take into consideration the discount rates sensibilized by 10% to 15% and perpetuity sensibilized by 3% to 5%.

11 Financial liabilities

Classification per nature and category

The classification per nature and category for valuation purposes of the Bank's financial liabilities at September 30, 2020 and December 31, 2019 is as follows:

			09/30/2020
	Financial liabilities measured at fair value through profit or loss	**Financial liabilities measured at amortized cost**	**Total**
Client deposits (Note 14)		12,066,376	**12,066,376**
Borrowings or transfers of financial assets (Note 12)		761,154	**761,154**
Borrowings and onlendings (Note 13)		788,648	**788,648**
Borrowings of securities and financial bills (Note 15)		2,459,616	**2,459,616**
Subordinated financial bills and debt (Note 16)		132,359	**132,359**
Other financial liabilities (Note 17)		573,028	**573,028**
Interfinancial relations	1,711,150		**1,711,150**
Derivative financial instruments (Note 7)	86,261		**86,261**
Total	**1,797,411**	**16,781,181**	**18,578,592**
Current	**1,761,533**	**6,679,730**	**8,441,263**
Non-current	**35,878**	**10,101,451**	**10,137,329**

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

			12/31/2019
	Financial liabilities measured at fair value through profit or loss	Financial liabilities measured at amortized cost	Total
Client deposits (Note 14)		10,169,228	**10,169,228**
Borrowings or transfers of financial assets (Note 12)		505,589	**505,589**
Borrowings and onlendings (Note 13)		712,225	**712,225**
Borrowings of securities and financial bills (Note 15)		667,446	**667,446**
Subordinated financial bills and debt (Note 16)		850,685	**850,685**
Other financial liabilities (Note 17)		614,963	**614,963**
Derivative financial instruments (Note 7)	130,857		**130,857**
Total	**130,857**	**13,520,136**	**13,650,993**
Current	**95,183**	**5,695,739**	**5,790,922**
Non-current	**35,674**	**7,824,397**	**7,860,071**

12 Borrowings or transfers of financial assets

	09/30/2020	12/31/2019
Borrowings (assignments with co-obligation)	761,154	505,589
Total	**761,154**	**505,589**
Current	**170,706**	**294,055**
Non-current	**590,448**	**211,534**

13 Borrowings and onlendings

	09/30/2020	12/31/2019
Foreign investments	282,128	201,552
Commitments payable – FGC(*)	497,421	491,207
Onlendings – Domestic - Finame / Rural credit	9,099	19,466
Total	**788,648**	**712,225**
Current	**291,227**	**221,018**
Non-current	**497,421**	**491,207**

	09/30/2020	12/31/2019
Term:		
Within 30 days	496	14,432
From 61 to 90 days		201,552
From 91 to 180 days	282,128	
From 181 to 360 days	8,603	5,034
After 360 days		491,207
Total	**788,648**	**712,225**

(*)These refers to a loan from the FGC - Credit Guarantor Fund, with maturity in 2026.

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

14 Client deposits

	09/30/2020	12/31/2019
Demand deposits	95,349	67,289
Interbank deposits	37,398	53,400
Time deposits	11,901,875	10,048,539
Other deposits	31,754	
Total	**12,066,376**	**10,169,228**
Current	**3,525,540**	**3,710,387**
Non-current	**8,540,836**	**6,458,841**

Term

	Within 30 days	From 31 to 60 days	From 61 to 90 days	From 91 to 180 days	From 181 to 360 days	After 360 days	Total
In 09/30/2020							
Demand deposits	95,349						**95,349**
Interbank deposits	2,077			27,575		7,746	**37,398**
Time deposits	963,652	326,686	453,019	748,632	876,796	8,533,090	**11,901,875**
Other deposits	31,754						**31,754**
In 12/31/2019							
Demand deposits	67,289						**67,289**
Interbank deposits	5,099		33,505	5,224	2,025	7,547	**53,400**
Time deposits	446,116	215,212	196,270	729,134	2,010,513	6,451,294	**10,048,539**

15 Borrowings of securities and financial bills

	09/30/2020	12/31/2019
Financial bills	2,353,511	534,447
Agribusiness credit bills	49,981	83,850
Real estate credit bills	56,124	49,149
Total	**2,459,616**	**667,446**
Current	**2,227,643**	**214,963**
Non-current	**231,973**	**452,483**

(i) Breakdown of the Short-/medium-term notes program:

Term	**09/30/2020**	**12/31/2019**
Within 30 days	27,113	31,180
From 31 to 60 days	53,480	40,739
From 61 to 90 days	28,407	17,783
From 91 to 180 days	51,215	48,118
From 181 to 360 days	2,067,428	77,143
After 360 days	231,973	452,483
Total	**2,459,616**	**667,446**

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

16 Subordinated financial bills and debt

	Issue	Maturity	Currency	Interest Rate (p.y)	09/30/2020	12/31/2019
Foreign (i):						
Subordinated debt (U.S dollar)	Agu-2010	Agu-2020	US$	8.88%		721,258
Local (ii):						
Financial bills subordinated	1nd quarter/19	1nd quarter/26	R$	124% of CDI	5,443	5,293
Financial bills subordinated	2nd quarter/19	2nd quarter/26	R$	122% of CDI	12,776	12,429
Financial bills subordinated	3nd quarter/19	3nd quarter/29	R$	124% of SELIC	1,005	1,032
Financial bills subordinated	2nd quarter/19	Perpetual	R$	IPCA + 6.60% to 6.67% 126% to 130% of SELIC	111,929	109,438
Financial bills subordinated	3nd quarter/19	Perpetual	R$	126% of SELIC	1,206	1,235
Total					**132,359**	**850,685**
Current						**721,258**
Non-current					**132,359**	**129,427**

(i) The funds obtained in connection with the issuance of subordinated debt securities, in accordance with the conditions determined by CMN Resolution 4192, of March 1st, 2013; and;

(ii) Funding made through the issuance of Local Bonds with a subordination clause, subject to the conditions established by CMN Resolution 4,192, dated 03/01/2013. On March 26, 2019, Banco BMG applied to the BACEN for authorization to raise funds through a Local Bond with a subordination clause to be considered eligible to form Level II funds for its Reference Equity.

Banco BMG settled and paid principal and interest on subordinated debt issued abroad, maturing on November 5, 2019 and, on August 5, 2020, in the amount of R$977,894 e R$ 899,763, respectively.

17 Other financial liabilities

	09/30/2020	12/31/2019
Social and statutory	104,270	189,581
Commitments payable – Card	157,011	153,652
Card – transactions paid in installments with no interest	160,959	144,828
Leasing operations	143,643	120,784
Other creditors	7,145	6,118
Total - Current	**573,028**	**614,963**
Current	464,614	534,058
Non-current	108,414	80,905

18 Provisions

	Tax and social security provisions (i)	Provisions for labor charges (ii)	Civil claims (iii)	Total
At the beginning of the year - 2019	**29,189**	**110,582**	**300,183**	**439,954**
Recognition	10,456	29,773	249,898	290,127
(Reversal/Utilization)	(1,770)	(36,615)	(72,771)	(111,156)
Carrying amount in December - 2019	**37,875**	**103,740**	**477,310**	**618,925**
Recognition	18,196	26,369	249,399	293,964
(Reversal/Utilization)	(5,470)	(50,947)	(234,466)	(290,883)
Carrying amount in September - 2020	**50,601**	**79,162**	**492,243**	**622,006**

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

	Taxes and social security	Labor	Civil claims	Total
09/30/2020				
Provisions	50,601	79,162	492,243	622,006
Judicial deposits	(106,516)	(30,771)	(267,806)	(405,093)
12/31/2019				
Provisions	37,875	103,740	477,310	618,925
Judicial deposits	(96,602)	(34,270)	(243,455)	(374,327)

The Group is a party to labor, civil, and tax lawsuits. The assessment to recognize provisions is made according to the criteria described in Note 2.14. The Group's management believes that the provision recognized is sufficient to cover losses arising from the related lawsuits.

In the course of its regular activities, the Group is a party to the following contingencies: a) contingent assets - There are no recognized contingent assets; b) contingent liabilities – Classified shown together with its escrow deposits, as follows:

(i) **Provision for tax risks** - The contingencies are equivalent to the amount of the principal of taxes related to administrative or judicial proceedings, which are subject to self-assessment or official assessment, plus interest and, when applicable, fines and charges. A provision is recorded, regardless of the likelihood of loss, when related to a legal obligation, that is, for a favorable outcome in the matter the law in effect must be declared unconstitutional. For other cases, a provision is recorded whenever the likelihood of loss is probable.

No provision is recognized for tax contingent proceedings in which the likelihood of loss is considered as possible, amounting to an estimated total of R$621,995 (12/31/2019 – R$460,351). These proceedings refer mainly to federal taxes.

The Group is a party to judicial and administrative proceedings, arising in the normal course of its operations, involving tax and other matters.

The main challenges refer to the Social Security Contribution (INSS):

a) CSLL - Law 7.689/88: final and non-appealable court decision declaring the right not to pay Social Contribution on Net Income, under the terms established by Law 7.689/88;

b) IRPJ/IRRF/CSLL 2014 and 2015: questions the collection of income taxes and social contributions on expenses alleged to be non-deductible;

c) PIS and COFINS - Losses from Doubtful Credits: the deduction of losses from credits under Law 9.718/98 is discussed;

d) INSS - Non-Compensatory Funds: questions the payment of the employer's portion on directors' shareholdings, pursuant to Law No. 8.212/91; and

e) SAT - Law nº 11.430/06: under discussion is the unconstitutionality and illegality of the SAT under the terms of article 21-A of Law nº 8.213/91, introduced by Law nº 11.430/06, with the consequent recognition of the non-existence of a legal-tax relationship that obliges the Co-Complainants to comply with such provisions, maintaining the original regulatory and legal wording.

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

(ii) Provisions for labor claims – A calculation is made periodically to determine a claim's amount, stage and the likelihood of loss, which in turn is estimated according to the characteristics as a matter of fact or of law related to the proceeding, The amounts considered as probable losses are provided for in accounting.

The contingencies are related to lawsuits discussing the alleged labor benefits derived from labor laws and regulations specifically relating to a professional category, such as overtime pay, salary equalization, job reinstatement, premium for transfer, among other matters,

The contingent labor lawsuits assessed as possible loos risks are not recognized in the accounting statements, and there is no estimated risk for September 30, 2020 (31/12/2019 – R$6) due to the termination of processes.

(iii) Provisions for civil lawsuits – The provision for individualized civil actions, lawsuits with peculiar characteristics, is periodically recognized based on the determined risk amount and likelihood of loss, The provision for collective civil lawsuits is periodically recognized using as benchmark the average loss over time applied to the base of ongoing cases. The amounts considered as probable losses are provided for in accounting.

The civil contingencies in general arise from compensation claims for property damages and paid and suffering, and most are filed in small claims courts.

No provision is recorded for civil contingencies representing possible risk of loss, amounting to an estimated R$622,958 (12/31/2019 – R$598,336). These claims refer to compensation claims or collections.

19 Current and deferred income tax (IR) and social contribution (CS)

Deferred income tax and social contribution are calculated on income tax and social contribution loss carryforwards and temporary differences arising between the tax bases of these taxes on assets and liabilities and their carrying amounts in the financial statements.

The recoverable amounts are as follows:

	09/30/2020	12/31/2019
Deferred tax asset		
Recoverable within 12 months	228,466	525,269
Recoverable after 12 months	2,230,075	1,809,628
Total deferred tax asset (i)	**2,458,541**	**2,334,897**
Deferred tax liability		
To be settled within 12 months	142,151	49,135
Total deferred tax liability	**142,151**	**49,135**
Deferred tax assets, net	**2,316,390**	**2,285,762**

(i) Deferred income tax and social contribution credits

	09/30/2020	12/31/2019
Deferred tax asset		
On temporary additions	2,013,861	1,935,144
On tax losses/ tax loss carryforwards	776,706	788,785
Social contribution – Provisional Measure (MP) No, 2,158/35)	547	622
Income tax and social contribution on accounting practice adjustments	(332,573)	(389,654)
Total deferred tax asset	**2,458,541**	**2,334,897**

The Group recognizes all tax credits arising from temporary difference or and tax loss carryforwards.

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

The Group adopts the practice of recognizing deferred tax credits and tax payables on all temporary differences and tax loss carryforwards. In 2020, these balances have the following characteristics:

- The Group recognizes income tax loss carryforwards amounting to R$1,854,189 (12/31/2019 – R$1,879,870) and social contribution loss carryforwards amounting to R$1,684,898 (12/31/2019 – R$1,704,712) and social contribution credits—MP 2.158-35—totaling R$547 (31/12/2019 – R$622), which will be recovered according to the projection of future taxable income.

- The tax credits relating to temporary add-back refer mainly to contingencies currently being discussed in courts the realization of which depends of the resolution of the court challenges and the provision for impairment of receivables the realization of which depends of the deductibility criteria prescribed by Law 9.430/96.

(a) The changes in the tax credits can be shown as follows:

					09/30/2020
	Social contribution MP 2.158- 35	Temporary additions	Tax losses/ Tax loss carryforwards	Other	Total
At January 1, 2020	**622**	**1,935,144**	**788,785**	**(389,654)**	**2,334,897**
Recognition	(75)	474,844	1,718		476,487
(Reversal/Utilization)		(396,127)	(13,797)	57,081	(352,843)
At September 30, 2020	**547**	**2,013,861**	**776,706**	**(332,573)**	**2,458,541**

					12/31/2019
	Social contribution MP 2.158- 35	Temporary additions	Tax losses/ Tax loss carryforwards	Other	Total
At January 1, 2019	**547**	**1,613,572**	**705,125**	**(287,571)**	**2,031,673**
Recognition	75	550,476	99,383		649,934
(Reversal/Utilization)		(228,904)	(15,723)	(102,083)	(346,710)
At December 31, 2019	**622**	**1,935,144**	**788,785**	**(389,654)**	**2,334,897**

The effects arising from the adjustments to accounting policy are included in the column “Others”.

(b) Reconciliation of income tax and social contribution in the statement of income

		09/30/2020		09/30/2019
	Income tax	Social contribution	Income tax	Social contribution
Result from taxation on profit	**289,871**	**289,871**	**297,825**	**297,825**
Interest on capital	(60,040)	(60,040)	(113,568)	(113,568)
Statutory interests	(46,672)	(46,672)	(17,804)	(17,804)
Permanent additions (exclusions):				
Technological innovation	(31,764)	(31,764)		
Others	(60,905)	(61,788)	10,886	3,659
Calculation basis	**90,490**	**89,607**	**177,339**	**170,112**
Base rate	13,574	17,921	26,601	25,517
Additional rate	9,049		17,734	
Expense (income) from income tax and social contribution	**22,623**	**17,921**	**44,335**	**25,517**

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

20 Other liabilities

	09/30/2020	12/31/2019
Sundry creditors	629,661	427,898
Insurance operations	512,433	531,506
Provision for payables	300,204	190,487
Total - Current	**1,442,298**	**1,149,891**
Current	**1,046,148**	**739,047**
Non-current	**396,150**	**410,844**

21 Capital and reserves

(a) Capital

As of September 30, 2020, the subscribed and paid-in capital was R$3,742,571, represented by 591,474,531 (five hundred and ninety-one million, four hundred and seventy-four thousand five hundred and thirty-one) shares, of which 400,007,354 (four hundred million, seven thousand, three hundred and fifty-four) were common shares and 191.467.177 (one hundred ninety-one million, four hundred sixty-seven thousand, one hundred seventy-seven) preferred, registered, book-entry shares with no par value.

On October 24, 2019, the Board of Directors approved the increase in the Bank's capital stock, in the amount of R$ 1,200,000, due to the primary offer of 103,448,277 (one hundred and three million, four hundred and forty-eight thousand and two hundred and seventy-seven) preferred shares, all nominative, book-entry and without par value. On November 1, 2019, the Central Bank of Brazil ratified the capital increase.

On October 28, 2019, Banco BMG finalized its Public Offering of Primary and Secondary Distribution of Shares. The shares were traded on the B3 SA - Brasil, Bolsa, Balcão stock exchange, for a unit price of R$11.60 per share. With the completion of the Public Offering of Shares, Banco BMG raised a total of R$1,391,304, of which R$ 1,200,000, originating from the primary issue of shares, were used to increase Banco BMG capital stock, and the costs share issuance amounted to R$37,944, net of tax effects. Cash generation totaled R$ 1,136,760, net of commissions, fees and tax expenses.

At a meeting held on December 10, 2019, Banco BMG's Board of Directors resolved and approved the opening of the Bank's Share Buyback Program ("Buyback Program"), which came into force on December 11, 2019, involving the purchase of up to 11,994,003 (eleven million, nine hundred and ninety-four thousand and three) preferred shares, registered, book-entry, with no par value and without reducing the value of the Bank's share capital, corresponding to up to 10.0% (ten percent) of the shares in circulation, to be held in treasury, canceled or put back into the market or, furthermore, payment of compensation to Bank executives under the Bank's long-term incentive plans, pursuant to §§ 1 and 2 of article 30 of the Brazilian Corporation Law and ICVM 567/15. Acquisition operations will be carried out on the stock exchange over the period comprising December 11, 2019 to December 8, 2020, at market value and intermediated by Inter Distribuidora de Titulos e Valores Mobiliários Ltda.

At a meeting held on March 18, 2020, the Board of Directors of the Bank resolved to cancel 11,981,100 (eleven million, nine hundred and eighty-one thousand and one hundred) preferred shares issued by the Bank held in treasury ("Shares"), without reducing the value of the Bank's capital stock, acquired through the buyback program approved by the Bank's Board of Directors at a meeting held on December 10, 2019. As a result, on the same date, the own stock buyback program approved at the meeting of the Board of Directors on December 10, 2019 ended early.

At the same meeting, the Board of Directors of the Bank approved a new stock buyback program, authorizing the acquisition of up to 10,700,112 (ten million, seven hundred thousand and one hundred and twelve) of the Bank's own preferred shares, without reducing the value of the capital stock, corresponding to up to 10.0% (ten percent) of the outstanding shares for treasury maintenance, cancellation or replacement in the market or, also, payment of remuneration to executives of the Bank under long-term incentive plans of the Bank, according to §§ 1 and 2 of article 30 of the Brazilian Corporations Law and CVM Instruction 567/15. The acquisition operations will be carried out on the stock exchange, at market value, from March 18, 2020 to March 17, 2021.

				Own shares
	Own shares 12/31/2019	Acquisition of Own Shares	Cancellation of own shares	Own shares 09/30/2020
Quantity		15,573,600	(11,981,100)	**3,592,500**
Balance in thousands of reais		(107,197)	93,400	**(13,797)**

		Changes in the number of shares	
	12/31/2019	**Cancellation**	**09/30/2020**
Common	400,007,354		400,007,354
Preferred	203,448,277	(11,981,100)	191,467,177
Total	**603,455,631**		**591,474,531**

		Number of shares in circulation	
	Common	**Preferred**	**Total**
On 12/31/2019	**1,251,558**	**119,868,924**	**121,120,482**
Cancellation of treasury shares		(11,981,100)	(11,981,100)
Change in treasury shares		(3,592,500)	(3,592,500)
Change in shares held by controlling shareholders and officers		(366,800)	(366,800)
On 09/30/2020	**1,251,558**	**103,928,524**	**105,180,082**

(c) Comprehensive income

During the year ender at Septembder 2020 the Group made negative adjustments to comprehensive income amounting to R$ 53093 (09/30/2019 – positive by R$ 1,205). The balance for this fiscal period is a negative R$28,494 (12/31/2019 – positive at R$24,599) and refers mainly to the Cash Flow Hedge.

(d) Revenue reserves

	09/30/2020	12/31/2019
Revenue reserve		
Legal	111,379	98,739
Tax incentives	5,894	5,894
Statutory	393,573	501,298
Total	**510,846**	**605,931**

The changes in the revenue reserves refer to the recognition of a 5% legal reserve on net income for the year and the remaining undistributed amount was allocated to the statutory reserve, as described below.

Legal: Recognized as 5% of net income for the year, limited to 20% of capital.

Statutory: Recognized based on net income not distributed after all allocation and its accumulated is available to stockholders for future decision at a General Stockholders' Meeting.

Tax incentives: Arising on the amounts of the options for income tax incentives.

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

(e) Interest on capital

Stockholders are entitled to receive as mandatory dividends, in each fiscal year, an amount of not less than twenty five percent (25%) of the adjusted net income, as provided for in the Brazilian Corporate Law.

Interest on capital is governed by Law 9.249/95, Article 9 of which, as amended, allows entities to deduct the taxable income and the social contribution duly recorded finance costs resulting from the application of the TJLP on stockholders' equity as shareholder compensation.

As at September 30, 2020, interest on shareholders' equity totaled R$60,040 was provisioned as interest on equity, whose payment shall be defined and properly minuted.

(f) Accumulated deficit

The contra entries to the adjustments referring to the differences between BRGAAP and IFRS that had an impact on the balance sheet were recognized in this account. Additionally, income for said years were also recognized in this account.

22 Earnings per share

(a) Basic and diluted

Basic earnings per share are calculated by dividing the profit attributable to Company's stockholders by the weighted average number of common and preferred shares issued during the year. Diluted earnings per share is calculated by adjusting the weighted average number of common and preferred shares outstanding to assume conversion of all dilutive potential common and preferred shares. However, there are no potentially dilutive Company common and preferred shares and, therefore, basic earnings per share are equal to diluted earnings per share.

Earnings per share	**09/30/2020**	**09/30/2019**
Profit attributable to stockholders of the Company	252,302	227,876
Weighted average number of outstanding shares	592,018,935	500,007,354
Basic and diluted earnings per share (in *reais)*	**0.4262**	**0.4557**

23 Profit or loss

(a) Interest income and cost

The table below shows the breakdown of interest and similar proceeds income and expenses:

	2020	**2019**
Interest income and similar earnings	**2,953,282**	**2,583,476**
Interest on loan and lease operations	2,798,922	2,406,194
Interest on other loans and receivables	11,089	38,662
Interest and marking-to-market of other financial assets, except swap	143,271	138,620
Interest cost and similar expenses	**(717,591)**	**(1,049,615)**
Funds raised in the market	(72,853)	(289,029)
Borrowings and onlendings	(16,366)	(31,352)
Time deposits	(628,372)	(729,234)
Total	**2,235,691**	**1,533,861**

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

(b) Gain (loss), net and financial assets and financial liabilities

	2020	2019
Swap Adjustment Result/Term/Options	(412,225)	(34,421)
Result from futures operations	413,673	157,112
Total	**1,448**	**122,691**

(c) General and administrative expenses

	2020	2019
Salaries and payroll charges	(226,041)	(154,334)
Benefits	(99,319)	(49,558)
Training programs	(3,051)	(2,112)
Depreciation and amortization	(42,095)	(20,217)
Marketing	(89,526)	(73,632)
Promotions and public relations	(10,497)	(9,961)
Communications	(30,724)	(21,857)
Data processing	(76,379)	(54,730)
Insurance	(3,022)	(4,862)
Outsourced services	(104,598)	(91,603)
Specialized technical services	(184,633)	(147,881)
Sundry materials	(6,056)	(6,564)
Banking fees and charges	(17,632)	(5,024)
Transportation	(6,075)	(5,568)
Travelling	(5,802)	(11,642)
Rentals	(21,199)	(15,476)
Other administrative expenses	(60,237)	(49,112)
Total	**(986,886)**	**(724,133)**

(d) Tax expenses

In September 2020, the total balance of tax expenses was R$116,540 (2019 – R$93,395). This amount refers basically to expenses PIS (Social Integration Program) amounting to R$14,427 (2019 – R$11,724) and COFINS (Social Contribution on Revenue) amounting to R$89,936 (2019 – R$70,090).

(e) Other operating income and expenses

	2020	2019
Other operating income		
Recovery of charges and expenses	4,544	34,003
Monetary variation - asset	10,559	3,933
Result from insurance operations	71,938	54,785
Result on disposal of equity interest	44,042	
Other	44,713	41,807
Total	**175,796**	**134,528**

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

	2020	2019
Other operating expenses		
Monetary and exchange variation - liability	(5,777)	(2,643)
Collection expenses	(10,914)	(1,129)
Expenses on fund transfer intermediation	(66,449)	(63,780)
Operating provision expenses (i)	(273,232)	(160,168)
Other	(129,836)	(168,631)
Total	**(486,208)**	**(396,351)**
Total other operating expenses, net	**(310,412)**	**(261,823)**

(i) Basically, reversal and constitution of civil, labor and tax provisions.

24 Revenue from the provision of services

In September 2020, the balance of revenue from the provision of services is R$73,937 (2019 – R$114,202). The balance refers basically to income from banking fees totaling R$12,329 (2019 – R$10,678), revenue from insurance commission of R$389 (2019 – R$62.830) and card interchange revenue R$20,307 (2019 – R$17,530).

25 Dividends and interest on capital payable

Dividends already paid and proposed dividends at September 30, 2020 were calculated according to the Brazilian accounting applicable to financial institutions authorized to operate by the Central Bank of Brazil, on the individual financial statements of Banco BMG S,A, as shown below:

	09/30/2020	09/30/2019
Profit for the year under BRGAAP	252,802	204,947
Recognition of legal reserve (5%)	(12,640)	(10,247)
Calculation basis of dividends	240,162	194,700
Minimum compulsory dividend (25%)	60,041	48,675

Stockholders are entitled to receive as mandatory dividends, in each fiscal year, an amount of not less than twenty-five percent (25%) of the adjusted net income, as provided for in the Brazilian Corporate Law.

Under the accounting practices adopted in Brazil, dividends are recognized at year-end, even if dividends have not been officially declared, which is made at the beginning of the following year.

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

26 Transactions with related parties

a. The intragroup transactions included in consolidation were eliminated from the consolidated interim financial statements. The main balances with related parties can be shown as follows:

	Assets (Liabilities)		Income (Expenses)	
Related parties	**09/30/2020**	**12/31/2019**	**09/30/2020**	**09/30/2019**
Interbank deposits				
BMG Bank (Cayman) Ltd.	439,487	183,625	9,715	5,949
Credit operations				
Key Management personnel	2,678	2,754	184	46
Othres related-party – Legal Person	34,728	20,572	2,479	1,355
Income receivable				
Banco Cifra S.A.	1,524			
Banco BCV S.A.	2,546			
BMG Leasing S.A. – Arrendamento Mercantil	3,751	2,476		
Cifra S.A. Créd.. Fin. Invest.	19	19		
Other receivables				
Banco Cifra S.A.		312		
Banco BCV S.A.	2,370	14,022		
Collection services				
EGL – Empreendimentos Gerais Ltda.	63	78		
Demand deposits				
BMG Leasing S.A. – Arrendamento Mercantil	(160)	(944)		
Cifra S.A. Créd.. Fin. Invest.	(51)			
EGL - Emprendimientos Gerais Ltda	(34)	(41)		
Help Franchising	(125)	(417)		
CB Intermediação de Negócios Ltda	(492)	(1,004)		
ME Promotora de Vendas Ltda	(350)	(414)		
BMG Soluções Eletrônicas S.A	(5)	(10)		
BMG Participações Em Negócios Ltda	(165)	(98)		
CMG Corretora De Seguros	(145)	(183)		
Granito Soluções em Pagamentos S.A.	(25)	(2,228)		
Interbank deposits				
Banco BCV S.A.	(990,044)	(953,879)	(23,493)	(42,958)
Banco Cifra S.A.	(614,207)	(602,752)	(14,675)	(26,746)
BMG Leasing S.A. – Arrendamento Mercantil	(848,760)	(341,938)	(11,239)	(7,589)
Cifra S.A. Créd.. Fin. Invest.	(9,572)	(9,664)	(232)	(498)
Time deposits				
EGL - Empreendimentos Gerais Ltda	(6,764)	(8,772)	(157)	(358)
Help Franchising	(14,590)	(11,978)	(302)	(509)
ME Promotora de Vendas Ltda	(7,221)	(7,554)	(188)	(278)
CB Intermediação de Negócios Ltda	(588,692)	(1,128)	(9,869)	(3,895)
BMG Soluções Eletrônicas S.A	(377)	(368)	(16)	(29)
BMG Participações Em Negócios Ltda	(23,960)	(865)	(296)	(50)
CMG Corretora De Seguros	(8,585)	(6,953)	(188)	(363)
Obrigações por letras financeiras				
CBFacil Corretora de Seguros e Negócios Ltda	(409,180)		(15,021)	
Other liabilities				
BMG Bank (Cayman) Ltd.		(1,819)		
Banco Cifra S.A.	(15)			
Banco BCV S.A.	(1,257)	(10,176)		
Cifra S.A. Créd., Fin. Invest.	(2)	(165)		
EGL - Empreendimentos Gerais Ltda	(314)	(395)		

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

b. Short-term benefits to management members

	2020	2019
Fixed compensation	18,907	11,108
Social security contribution	4,254	2,500
Total	**23,161**	**13,608**

c. Share-based payment

In order to stimulate the development of a long-term vision and alignment between the interests of employees, officers and shareholders of the BMG Group, enabling the Company to attract and retain talent, maximize the generation of income and encourage value creation in a sustainable manner, a Long-Term Incentive Plan was implemented in 2020 with payment based on Shares, whose supervision, planning and control is the responsibility of the Board of Directors.

This program makes it possible for officers and other eligible employees to receive the Company's "BMGB4" preferred shares as a long-term incentive, comprising their respective variable remuneration ("Performance Shares Units" or "PSU"), observing, when applicable, the conditions of CMN Resolution No. 3.921/10, CPC Technical Pronouncement 10 "Share-Based Payment" and the Company's Directors Compensation Policy.

The number of shares to be awarded under this plan shall not exceed 10% of the outstanding shares on March 18, 2020 and will be evaluated according to the weighted average of the closing price of the share in the 20 trading sessions immediately prior to the date of the PSU calculation.

As an effect of the implementation of the Long-Term Incentive Plan, the Bank recognized in Capital Reserves the amount of R$2,670, for payment for the year of 2020, with payment date in the year 2021 pursuant to a resolution at a Shareholders' Meeting.

d. Other information

Pursuant to Resolution Nº 4.693, as of January 2019, financial institutions may carry out credit operations with related parties, in compliance with the conditions and limits defined by the aforementioned resolution. Accordingly, Banco BMG established a policy to conduct credit operations with related parties, duly approved by the Board of Directors and formalized in a specific document made available to the Central Bank of Brazil.

e. Equity interest

The members of the board of directors and the executive board jointly hold the following equity interests in BMG at September 30, 2020:

	Common and preferred shares	
	Number	%
Members of the Board of Directors/ Executive Board	210,354,816	35.6%
Other	381,119,715	64.4%
Total	**591,474,531**	**100%**

27 Other information

(a) Commitments and Guarantees

Guarantees and sureties given by the Financial Conglomerate to customers amount to R$293,600 (12/31/2019 – R$330,687) and are subject to financial charges and counter-guarantees from the beneficiaries.

(b) Subsequent events

(i) As disclosed in the Material Facts released on October 29, 2020 and November 3, 2020, the BMG Financial Group was the object of a search and seizure measure deriving from further inquiries through Operation “Descarte,” in compliance with the decision of the 2nd Federal Criminal Court of São Paulo, investigating alleged offenses related to crimes against the national financial system and the tax regimen that may allegedly have been committed by certain managers of the Bank over the period comprising 2014 to 2016.
At an extraordinary meeting of the Board of Directors, it was decided to create a Special Committee appointed ad hoc, to conduct a thorough and detailed analysis related to the complaint, made up of five members, three of whom are independent, endowed with its own human and financial resources as required for the unrestricted and complete fulfillment of its duties. In this context, a law firm specialized in corporate investigations and a company specialized in forensic audits were contracted.
The purpose of the investigation is to identify possible breaches of laws and regulations and the consequent impacts on the Bank's internal controls and financial statements. The work of the Special Committee, the law firm and the forensic auditors is ongoing, and it is not yet possible to anticipate any results.

(ii) On November 3, 2020, in view of the compliance with all conditions precedent, the transaction foreseen in the purchase and sale agreement for quotas of CMG Corretora de Seguros Ltda., entered into on August 6, 2020, was consummated, pursuant to explanatory note 11.

(c) Other Information

(i) Agreements for the clearing and settlement of liabilities in the National Financial System environment

In order to allow the offsetting of credits and debits held with a single counterparty, whose maturities of the rights and obligations may be accelerated to the date on which the event of default by either parties occurs, the BMG Conglomerate, pursuant to CMN Resolution 3.263, of February 24, 2005, entered into compensation agreements in the scope of derivative agreements, as well as agreements for the offset and settlement of assets and liabilities.

(ii) Impacts of the COVID 19 pandemic (Coronavirus)

In line with the Official Letter No. 02/2020 issued by CVM, in the face of the COVID-19 pandemic, BMG Group is thinking about everyone and, toward this end, has taken all necessary measures and care to minimize the impacts of the pandemic as much as possible.

Beyond just taking all the necessary measures and care to minimize the effects of the pandemic, Bmg adapted the way it relates with its clients, prioritizing remote service and the digital formalization of contracts, directing and accelerating its strategic efforts for technological, cultural and behavioral progress.

The relationship with its main partners has been further refined, with emphasis on adaptations in service format and formalization, thus creating a new, perennial product origination alternative.
For clients, Bmg extended benefits focused on the needs of the moment. The Bank launched the Volta pra Mim Farmácia – a temporary benefit through which clients receive a portion of their payments back in their accounts when using Bmg debit or credit cards in pharmacies. In addition, Bmg has partnered with the Pague Menos pharmacy chain for discounts of up to 30% when presenting the Bmg credit card.

For employees, Bmg bolstered its commitment to transformation by extending the corporate home office model until the end of the year.

With proof of engagement and productivity, the extension of the practice to 2021 already was announced. Furthermore, with the comfort of its employees in mind, the Bank allowed the removal of chairs from the office, converted the transportation benefit into an internet assistance credit, allowed the conversion of the meal voucher into food vouchers and improved management communication through frequent live videoconference meetings.

In the social sphere, the Bank continues to make donations to create exclusive structures to combat the virus in hospitals and basic needs for distribution in underprivileged communities.

The rapid response and adaptation of the Bank in the face of such a delicate moment was only possible due to the strong ongoing transformation and modernization process.

In thousands of reais, unless otherwise stated (A free translation of the original in Portuguese)

APPENDIX I - Consolidated Statement of Value Added

The consolidated statement of value added below is not required by IFRS, but it is being presented as additional information, as required by the Brazilian corporate law for publicly-held companies, and was derived from the Bank's consolidated financial statements and prepared in accordance with IFRS standards.

	01/01/2020 to 09/30/2020	01/01/2019 to 06/30/2019
1 – Revenue	**2,596,540**	**2,561,319**
Financial intermediation	2,954,730	2,706,167
Services rendered	73,937	114,202
Provision for impairment of receivables	(688,581)	(502,999)
Recovery of receivables written off as losses	79,566	109,334
Other operating income	175,796	134,528
Non-operating	1,092	87
2 – Expenses	**1,203,799**	**1,445,966**
Financial intermediation expenses	717,591	1,049,615
Other operating expenses	486,208	396,351
Non-operating		
3 - Inputs acquired from third parties	**595,181**	**482,436**
Materials. energy and other	75,117	72,180
Outsourced services	104,598	91,603
Other	**415,466**	**318,653**
Communication	30,724	21,857
Advertising. promotions and publicity	100,023	83,593
Data processing	76,379	54,730
Specialist technical services	184,633	147,881
Bank fees	17,632	5,024
Transportation	6,075	5,568
4 – Gross value added (1 – 2 – 3)	**797,560**	**632,917**
5 – Depreciation and amortization	**42,095**	**20,217**
6 – Net value added generated by the entity (4 – 5)	**755,465**	**612,700**
7 – Value added received as transfer	**556**	
Equity in the results of investees	556	
8 – Value added to be distributed (6 +7)	**756,021**	**612,700**
9 – Distribution of value added	**756,021**	**612,700**
9.1 Personnel	**328,411**	**206,004**
Direct compensation	174,117	117,273
Benefits	102,370	51,670
Payroll charges	51,924	37,061
9.2 Taxes and fees	**157,084**	**163,247**
Federal	148,896	159,383
State	1,628	
Municipal	6,560	3,864
9.3 Interest	**21,199**	**15,476**
Leases	21,199	15,476
9.4 Payments to stockholders	**249,327**	**227,973**
Earnings retained in the year	249,327	227,973

* * *

Marco Antonio Antunes
(Executive Vice President and Investor Relations Officer)

Paulo Augusto de Andrade
(Chairman and Specialist Member of the Audit Committee)

Damiana Abreu da Silva
CRC - 1SP251315/O-1
(Accountant in Charge)

STATEMENT OF THE DIRECTORS ABOUT THE FINANCIAL STATEMENTS

In compliance with the provisions of art. 25, item VI of the Securities and Exchange Commission Instruction No. 480, of December 7, 2009, Banco BMG S.A.'s Directors hereby declare that, according to their cognizance of the matter, they reviewed, discussed and agreed with the Bank's Financial Statements for the period ended September 30, 2020.

CHIEF EXECUTIVE OFFICER AND INVESTOR RELATIONS OFFICER

In compliance with the provisions of art. 25, item V of the Securities and Exchange Commission Instruction 480/09, the directors of the Bank BMG S.A., HEREBY DECLARE that they have reviewed, discussed and agreed with the financial statements referring to the period ended September 30, 2020 disclosed on this date, as well as that they had reviewed, discussed and agreed with the opinions expressed in the report of the independent auditors PricewaterhouseCoopers - Auditores Independentes, for the period ended September 30, 2020.

São Paulo, November 16, 2020
Executive Officers
Marco Antônio Antunes
Flávio Pentagna Guimarães Neto