Banco do Nordeste

FINANCIAL STATEMENTS

Bank and FNE

Position: 12.31.2017

ANNUAL MANAGEMENT REPORT-2017

1. CEO'S WORD

Banco do Nordeste hired into 4.9 million operations in 2017, amounting to R$26.4 billion, which accounts for a 19.3% increase in relation to 2016. Of this amount, R$15.97 billion stems from Fundo Constitucional de Financiamento do Nordeste (FNE). This is the largest annual investment ever made with Fund resources, 42.1% higher than last year.

The 2017 Operating Income increased by 160% in relation to 2016, and reached R$1.1 billion, in comparison to the R$442.4 million reported in the prior year. The Bank's net income amounted to R$681.7 million, funds that return to the Region, as the Bank feeds back the financing system of the regional economy.

This result was not dependent on the continuity of the drought in the Region and on the challenging economic scenario, evidencing the importance of a development bank in the financing of productive activities in all 1,990 municipalities in eleven states (Northeast, and north of the Minas Gerais and Espírito Santo states)

The Bank also increased efforts to ensure that 79.9% of the FNE's investments (excluding Infrastructure) were directed to the priority microregions classified as low income, stagnant and dynamic, according to the criteria of the National Policy for Regional Development (PNDR).

Maintaining a prominent position in the microfinance segment, Banco do Nordeste financed, through Crediamigo, an urban microfinance program, R$8.05 billion in 2017, representing a 1.24% increase in relation to the disbursement in 2016. In total, there were 4.03 million operations, with an average of 16 thousand disbursements per day.

Through Agroamigo, a rural microcredit program, R$2.32 billion was taken out in 518.7 thousand operations, corresponding to 17.7% increase in relation to the amounts that were taken out in 2016. It is also worth noting the increase in the banking system use made possible by the Program, with the opening of 329,554 checking accounts in 2017.

It is also important to highlight the launch of products and services that guarantee agility and simplification in taking out loans. Thus, in 2017, Banco do Nordeste launched products such as credit simulators associated with *BNB Cards* and *BNB Agro*; the Giro BNB Digital, which offers revolving and pre-approved credit to retail companies; and the *Agroamigo Mobile* application, developed for use in mobile devices for the preparation of Pronaf Group B customer credit proposals.

A significant event was the regularization of debts, which contributed to the recovery of the dignity and citizenship of rural producers. The benefits granted, for example, by Law No. 13340/2016 and by National Monetary Council (CMN) Resolution No. 4591/2017, contributed to the regularization of debts, in the amount of R$7.94 billion, through 295,466 operations, among which, 271,408 operations with FNE funding.

The Bank has also improved its operational efficiency (management of administrative expenses in relation to the margin of financial brokerage and service revenues). Based on this ratio, in 2017 there was a 16 percentage-point improvement in relation to 2016.

Total expenses with credit provisioning were 39.1% lower when compared to 2016, resulting in a significant improvement in the financial brokerage margin and, consequently, in the operational efficiency levels.

In 2017, Agroamigo received, given the Agroamigo Mobile application, which gave more agility to the process of credit release, the Agrobanco Award, awarded by the Latin American Association of Development Financing Institutions (Alide).

This is how Banco do Nordeste presents the results of its actions in 2017, in the context of progress, achievements and learning, and with the effort and commitment of all its employees, aware that 2018 will require more efforts in its essential mission to be the Development Bank of the Region.

Romildo Carneiro Rolim
Chief Executive Officer

1.1 Highlights:

We present below the highlights in actions, recognitions and awards achieved by Banco do Nordeste in 2017.

Actions:

- Implementation, by Banco BNB Ombudsman's Office, of Portal BNB Transparente, which allows to provide information of social interest on the Bank.
- The São Paulo-SP and Rio de Janeiro-RJ Offices - has the goal to promote investments and attract new customers and businesses - prospected financing with FNE funds, amounting to R$8.4 Billion, mainly fostering the infrastructure industry in the Northeast Region.
- Launch of the Voluntary Termination Program (PID), which benefited 234 employees, and had a budget of R$54.2 million.

Awards/Recognitions

- 2017 Agrobanco Award, awarded by the *Latin American Association of Development Financing Institutions* (Alide), to the Agroamigo Program for the development of the Agroamigo Mobile application, which contributed to the improvement in the quality of proposals, and expedited the credit release process;
- For the BNB Card, a product developed to reduce bureaucracy in the access to FNE funds, Bank was awarded the "Best Practices Award" by the *Brazilian Association of Credit Card Companies* (ABECS Award).
- Banco do Nordeste was recognized by the Central Bank as the Financial Institution with the lowest number of complaints with that government agency, among banks with more than 4 million customers;
- Banco do Nordeste's Ombudsman's Office is number two in the first result of the *Ombudsman Quality Ranking*, started in the 3rd quarter of 2017 and published by the Central Bank.

2. BUSINESS MODEL

Banco do Nordeste (BNB) invests resources in the Region through its loans and financing operations, and offers financial products and services to economic agents, aiming to produce results that guarantee both its sustainability and the interests of society. Fundo Constitucional de Financiamento do Nordeste (FNE) is the main source of funds used by the Bank.

The solution of major regional issues, the transformation of the Northeast and its more effective participation in the national socioeconomic scenario characterize the major challenges and main target of Banco do Nordeste's actions, as the Development Bank of the Region, which operates by expanding opportunities, strengthening productive agents, producing impacts of the northeastern society interest, generating jobs, improving the income of families, promoting social and financial inclusion, and operating in an area of great economic need, such as the semi-arid.

Since 2009, the customer management methodology that defines the composition of segments has been adopted as a business model, observing the grouping of characteristics, value propositions, relationship cycle and classification of product groupings. This model streamlines the process of granting credit, diversifies and increases the scale of loans and financing, integrating the relationship in different businesses to the perception of value-added of the Bank's actions, in addition to developing products and services tailored specifically to the customers' needs.

In order to achieve a better geographic coverage and detect opportunities to boost its business, the Bank systematically conducts market sizing studies. Banco do Nordeste ended 2017 with 754 physical service points, 292 branches and 462 microcredit units.

3. BUSINESS STRATEGY

Strategy is a "vision" of the path, or to where Institution should be headed, and is translated into a joint commitment of instruments, responsibilities and goals, which make up a multi-annual program of policies, activities, investments and actions, aimed at improving the quality management and resource investment efficiency.

The strategy must be tested as for its consistency and with its identities and economic theories, its adherence to numbers and its consistency with the historical process of development of the Bank's area of activity.

Banco do Nordeste's business strategies were defined based on the main trends of the economic macro-environment, the financial industry and the risks envisaged in the possible scenarios designed for Brazil and for its area of operation.

3.1 Business Planning

The Bank's Business Planning comprises strategic, tactical and operational plans. The first one, called Strategic Planning, contains the mission, vision, values and five-year goals, as well as the expected results and impacts of the Bank's action in its area of operation. The tactical plan involves the actions and activities of the General Management, and the operational plan of the business units.

The expected results are agreed through a "Management Agreement", a management tool that seeks to improve the Bank's results in a process of negotiation and formalization of the responsibilities between each of the Executive Boards and the units linked to them.

Banco do Nordeste, in its strategic operation, highlights:

- ü Mission: "Acting as the development Bank of the Northeast region".
- ü Vision: "Being the preferred Bank in Northeastern Brazil, recognized for its ability to promote the well-being of families and the competitiveness of companies in the Region".

Planning at Banco do Nordeste is guided by the following assumptions: corporate vision, clearness of course, management for results, participation, continuity and flexibility. The implementation and success of the chosen strategy are supported by the following principles: Meritocracy, Focus on Customers and Results, Innovation and Integrity.

The Business Planning preparation for the 2017-2021 period included:

- ü Reflective analysis of the results achieved in the prior year, and identification of improvement opportunities;
- ü Legal and regulatory issues to which the Bank is subject;
- ü Research with internal and external audiences;
- ü Scenario studies and designs with definition; and
- ü Analysis of strategy risk profiles.

In 2017, the Bank intensified the process to develop digital products and services to its customers, and estimated an improvement in indicators related to savings and transformation of Bank services. Projects were prioritized to enable the registration and opening of checking accounts through the Internet, simplify and virtualize the process of granting credit, and better serve customers through digital channels.

3.2 Planning the future in 2018

For 2018, the scenario is challenging compared to the amount planned for financing, which strengthens the Bank's purpose to expand internal and external strategies, in cooperation with other entities that participate in the promotion of regional development, by promoting the necessary credit support for production activities.

Thus, the message that Banco do Nordeste brings to society and its staff is that the best strategy is to be prepared for the future, thereby highlighting the need of constant modernization for regional development.

In this regard, major guidelines that will guide the Strategic Planning for the 2018-2022 period include:

- ü Improving FNE more and more
- ü Advancing in microcredit leadership
- ü Being the Bank of small and medium-sized companies in Northeastern Brazil

3.3 Fundo Constitucional de Financiamento do Nordeste (FNE)

Fundo Constitucional de Financiamento do Nordeste (FNE) is made up of public funds intended to finance production activities, and its purpose is to contribute to the social and economic development of its basic area of operation, i.e., Northeastern Brazil and North of the Minas Gerais and Espírito Santo states.

As the financial institution that manages the FNE, Banco do Nordeste consolidates its role as a development bank in the Northeast region, supporting production projects and public policies that impact the rural and urban Northeastern communities, through its credit and development activities.

The credit action with FNE resources is guided by specific regulations, and directs support to priorities for regional development. It is a public funding policy, with an annual program of implementation prepared by Banco do Nordeste in a participatory manner with representatives of the productive sectors, and government entities in the states.

Thus, the allocation of resources in terms of beneficiaries, area and economic sector is linked to the achievement of Fund objectives, the demands of states and the expected results of BNB's actions as the operator and administrator of this source of funds.

3.4 FNE performance in 2017

Based on the FNE Annual Program, Banco do Nordeste contracted financing in 2017 in the amount of R$3.65 billion for Infrastructure projects, and R$12.32 billion for the Rural, Industrial, Agroindustry, Tourism, and Trade and Services sectors, totaling R$15.97 billion in the year. The average amount per operation was R$27,400.51, and the distribution per state is presented in Table 1.

Table 1 - BNB/FNE 2017: Financing - Total and per State (R$ millions)

	Infrastructure		Other industries	
State	**Amount raised**	**%**	**Amount raised**	**%**
AL	-	-	448.5	3.6
BA	943.2	25.8	3,315.0	26.9
CE	170.2	4.7	1,551.1	12.6
ES	-	-	149.8	1.2
MA	-	-	1,635.3	13.3
MG	-	-	640.2	5.2
PB	176.2	4.8	726.9	5.9
PE	838.5	23.0	1,323.2	10.7
PI	1,104.7	30.3	1,241.4	10.1
RN	406.8	11.1	695.3	5.6
SE	10.4	0.3	594.0	4.8
Total	**3,649.97**	**100.0**	**12,320.88**	**100.0**

Source: Banco do Nordeste – Planning Executive Board (2017).

Despite the restrictive context imposed by the drought continuity in the Northeast region and the national economic crisis, the various internal actions to improve credit process and financing programs, as well as external actions, such as communication, prospection and negotiation programs, enabled a 42.1% increase in volume of funds taken out in 2017, compared to 2016, when the amount financed was R$11.24 billion.

In terms of number of operations, an 8.2% increase compared to 2016, 582,867 financing operations were contracted in 2017 by rural producers, individual entrepreneurs and companies, with coverage of 100% of the FNE area, with operations conducted in all 1,990 municipalities, in 11 states, as presented in Table 2.

Table 2 - FNE: Financing operations by economic industry (R$ millions)

Industry	2016		2017		Variation % Amount 2017/2016
	Number of operations	Amount	Number of operations	Amount	
Rural	508,757	6,067.70	549,166	6,358.9	4.8
Trade and Services	25,963	2,960.8	29,616	4,824.0	62.9
Industrial	3,230	1,468.6	3,450	922.0	-37.2
Tourism	571	345.8	592	216.0	-37.7
Infrastructure	2	397.6	43	3,650.0	818.0
Total	**538,523**	**11,240.5**	**582,867**	**15,970.9**	**42.1**

Source: Banco do Nordeste – Planning Executive Board (2017).

Regarding the spatial deconcentration of FNE financing in 2017, by Banco do Nordeste, we highlight not only the significant results in the support to smaller-sized companies, 65% of total, and the credit in all 1,990 municipalities in the area covered by the Fund, but also the financing of R$4.7 billion for enterprises in the semi-arid.

The National Policy for Regional Development (PNDR) advocates support for regional subsystems, with a view to reducing regional inequalities and promoting equality in access to development opportunities.

In this sense, it should be noted that the total number of financing operations contracted for the semi-arid region exceeded the annual target, 14.6% higher than the amount financed in 2016, a growth generated mainly by the increase in total family farmers financing (Pronaf), rural entrepreneurs and micro and small enterprises (MSE), in that order.

Financing to the priority microregions (Low Income, Stagnant, Dynamic), subsystems also included in the PNDR, totaled R$9.8 billion, approximately 79.9% of the FNE's annual financing, except for Infrastructure; while the Integrated Development Regions (Rides) recorded operations amounting to R$464.2 million, exceeding the projected R$380.0 million.

In order to achieve these results, a number of external actions, particularly with smaller projects, were carried out by Banco do Nordeste, among which the following could be highlighted in 2017: the eighth edition of FNE Itinerant, a series of meetings to disclose, promote and provide business services to micro and small enterprises (SMEs) and to individual microentrepreneurs (MEIs), prioritizing inland municipalities in line with the criteria of the National Policy for Regional Development (PNDR).

During these events, information and financing simulations are presented, as well as face-to-face services provided by BNB branches, their managers and development agents, which includes bank registration and scheduling of management visits, as well as local articulations to strengthen cooperation with local public and private partners.

Also participate in these events the Ministry of National Integration (MI) and the Northeast Development Supervisory Office (Sudene), as institutional partners, as well as the Brazilian Service for Support to Micro and Small Enterprises (Sebrae), City Governments and, according to the reality of each location, other entities, such as Shopkeepers' Chamber (CDL), the State Board of Accountancy (CRC), among others that also contribute to the mobilization and provision of services to the target audience of the meetings.

Since its first edition in 2010, more than 820 FNE Itinerant events have been held in the eleven states in which financing is available, serving more than 50,000 participants, preferably in inland municipalities, in the semi-arid region and without physical branches of BNB.

For 2018, the FNE Investment Plan, approved by the Bank's Board of Directors and submitted to Sudene Deliberative Council (Condel/Sudene), foresees funds in the region of R$30 billion, of which: R$14.5 billion as a specific program for infrastructure projects, R$14.8 billion in standard programs for other sectors, and R$0.7 billion for the financing of higher education students in the region, through Student Financing (FIES).

3.5 FNE challenges in 2018

2018 brings news for the National Policy for Regional Development (PNDR). For the first time, since its creation, the Constitutional Funds for Regional Development have a non-discretionary rule for the formation of their charges. The novelty was brought by Provisional Executive Order (MP) No. 812, of December 27, 2017, with special emphasis on the role of the Regional Imbalance Ratio (CDR) as a component for pricing the charges of these funds. The CDR to compute the charges of FNE is the ratio between the average household income in the Northeast region and the Brazilian average household income. This discount factor is related to the pre-fixed component of the Long-Term Rate (TLP), the reference rate used by BNDES for contracted operations, with directed credit, outside PNDR's area of operation. The advance is considerable, as there will be greater predictability of the future trajectory of FNE interest. Such a mechanism will also guarantee that, while regional inequalities remain, the FNE charges will always be differentiated, as established by the Federal Constitution.

More competitive regional interest rates are a necessary but not sufficient condition for reducing regional inequalities. Such inequalities will be reduced as productivity differentiators across regions are also eliminated.

2018 will be especially challenging given the different charges brought by program factors of Provisional Executive Order No. 812, in addition to the recently signed agreements with Finep and EmbrapII. Finally, in terms of institutions, Banco do Nordeste maintains its historic commitment to cooperation and dialogue with all other formulators and managers of public policies, in order to improve the coordination of actions and the effectiveness of policies and programs.

Finally, a significant movement of inclusion and financial recovery of families in the Region is expected for 2018. In this regard, we can highlight three fundamental factors: (a) the effects of Law No. 13340/2016 on the regularization of rural debts; (b) fall in default, resulting from the expected economic recovery; and (c) expansion of urban microcredit (Crediamigo) and rural microcredit (Agroamigo) operations. All factors reported here, combined with the expected economic recovery for the year, make 2018 a promising year in terms of prospects for Regional Development.

4. STRATEGIES FOR DEVELOPMENT

4.1 Scientific, Technological and Development Funds

As part of its role as a catalyst for regional development, Banco do Nordeste supports technical studies, research projects, technological diffusion and innovation through the granting of non-reimbursable funds from the Fund for Economic, Scientific, Technological and Innovation Development (Fundeci) and the Regional Development Fund (FDR).

In 2017, Banco do Nordeste supported, with non-reimbursable funds from Fundeci, twenty-two (22) agreements, totaling R$4.0 million, enabling the development of research projects and technological diffusion, as well as technical and scientific events.

Among the agreements signed in 2017, the following are worth mentioning: a) “Validation and Diffusion of Technology for Water Treatment in the Semi-Arid “; b) “Aerophotogrammetric System for Optimization of Rural Environmental Register (CAR)”; c) “Prospecting of Mangrove Microorganisms for Remediation of Areas Contaminated by Hydrocarbon and Organic Agrochemicals” and "Development of Nanobioinsecticide Prepared from Orange Essential Oil with Application in the Control of Insects in Agriculture”.

4.2 Sustainability

In continuity with its management model that seeks the sustainability of its business, Banco do Nordeste has developed several social and environmental responsibility actions. The main actions are highlighted below:

- Development of actions included in Banco do Nordeste’s Social and Environmental Responsibility Policy Action Plan (PRSA), available on the Internet: https://www.bnb.gov.br/politica-de-responsabilidade-socioambiental.
- Allocation of fiscal incentive resources to social projects under the Fund for the Rights of the Child and Adolescent (FIA), the Sports Incentive Law and the Fund for the Rights of the Elderly and the National Oncology Assistance Program (Pronon). In 2017, 58 projects were registered in favor of four social programs, distributed as follows: 17 for the Public Notice for the Elderly, 32 for FIA, five for Sports, and four for Pronon.
- Contracting of 11,440 financing operations related to the environment and innovation, totaling R$612.2 million through the environmental programs FNE Verde, Pronaf Semárido, Pronaf Floresta, Pronaf Eco, Pronaf Agroecologia and FNE Inovação.

4.3 Territorial Development Policy

The Territorial Development Policy of Banco do Nordeste becomes reality mainly through the Territorial Development Program (BNB Prodeter).

BNB Prodeter was created to promote the local and territorial development of the Region, and to increase the competitiveness of the economic activities of the area of operation of Banco do Nordeste. Prodeter’s objectives are: strengthening production chains and incorporate technological innovations into production activities, enhancing the participation of local economic agents in the preparation of Development Plans of production activities. The first stage of Prodeter started in 2016, with the preparation of Action Plans for production activities in 21 territories in all the states where the Bank operates. In 2017, 50 new territories were included in Prodeter.

5. PERFORMANCE

5.1 Financial and economic performance

Profit or loss

The 2017 Operating Income increased by 160% in relation to 2016, and reached R$1.1 billion, in comparison to the R$442.4 million reported in the prior year. This significant growth was mainly due to the reduction of expenses with allowances loan losses, including those resulting from co-obligation with FNE, and the increase in the financial margin due to the reduction in borrowing costs and increase in revenues from renegotiations and settlements of credit operations based on Law No. 13340/2016. However, due to the net realization of tax credits of R$326.3 million, Net Income for the Year was 6.9% lower than that achieved in 2016, resulting in R$681.7 million, which represented earnings per share amounting to R$7.89. The main reasons for such tax credit realization: reduction in expenses with provisions; higher level of recovery of credits written off as loss; and increase in losses from credit operations, arising from the allowance for loan losses, for tax purposes under Law No. 9430/96.

Total Assets

Banco do Nordeste's total assets were R$54.0 billion at the end of 2017, representing a 16.7% increase compared to the end of 2016. Included in BNB assets are the amounts related to FNE resources available (R$16.7 billion) and funds restricted to the loans of this Fund, i.e., related to operations contracted and awaiting the release of funds (R$5.9 billion). Growth of BNB's asset balances in December 2017, as compared to December of the prior year, was mainly influenced by the increase in all cash balances, interbank investments and marketable securities. This increase was mainly driven by a R$5.9 billion increase in total FNE funds available and restricted.

In relation to the balances of loans of BNB's own portfolio, net of allowances for loan losses, there was a R$2.0 billion reduction between 2017 and 2016. The main changes in 2017, in relation to the balances at 2016 end, in the credit portfolio were: R$1.8 billion reduction in loans with domestic funds (except for Crediamigo and BNB Savings Account); R$313.8 million growth in Foreign Funding (Foreign Exchange); R$195.1 million reduction in the balance of investments with funds from BNDES and FINAME and an increase in the balance of the Crediamigo Program operations by R$93.3 million. As regards FNE's total asset balances in December 2017, a 10.5% growth (R$74.5 billion in 2017, R$67.4 billion in 2016) was mainly due to the inflow of R$7.0 billion from the National Treasury. When comparing the positions at December 31, 2017 and December 31, 2016, there is a 2.0% increase in the balances of investments in FNE credit operations (adjusted by provisions) and 35.6% in total funds available and restricted.

Table 3 – Total Assets (R$ millions)

Specification	BNB		FNE	
	31/12/2016	31/12/2017	31/12/2016	31/12/2017
Cash and cash equivalents, Interbank Deposits and Marketable Securities (*)	30,498.7	39,952.1	11,295.8	16,719.0
Funds restricted to credit operations......................................	0.0	0.0	5,369.5	5,871.6
Interbank accounts	287.2	584.1	2,222.9	2,394.8
Loans..	11,138.4	9,099.5	48,530.3	49,505.9
Other credits	4,150.4	4,194.5	9.2	9.4
Other assets	31.8	32.0	0.9	0.8
Permanent assets	214.6	184.8	-	-
Total	**46,321.1**	**54,046.9**	**67,428.6**	**74,501.5**

(*) This item includes funds available and restricted to FNE credit operations

Marketable securities

At December 31, 2017, marketable securities amounted to R$26.4 billion.

In compliance with Circular No. 3068, of November 8, 2002, issued by the Central Bank of Brazil, Banco do Nordeste prepared a cash flow projected for classification purposes of the Marketable Securities portfolio. This cash flow demonstrates that sufficient resources are available to meet all credit granting obligations and policies without the need to dispose of securities classified as held-to-maturity securities. Accordingly, the Bank's senior management declares that the institution has the financial ability and the intention to maintain the securities classified in this category to maturity.

FNE cash and cash equivalents

At the end of 2017, the FNE cash balance reached R$16.7 billion, a R$5.4 billion increase in relation to the balance at the end of 2016. The balance of funds restricted to operations increased by 9.4%, reaching R$5.9 billion at December 31, 2017. The increase in cash and cash equivalents is due to the fact that the pace of investments, given the reduction in economic activity, is still lower than that of new inflows and reimbursements. The latter, in 2017, reached R$11.4 billion against the R$10.2 billion in 2016.

Equity and profitability

At December 31, 2017, Banco do Nordeste recorded R$3.5 billion in equity. Capital amounted to R$2.8 billion, comprising 86,371,464 paid-in common book-entry shares, with no par value. The return on Average Equity for 2017 was 19.8% p.a.

Capital Adequacy Ratio

In relation to compliance with the regulations determined by the Central Bank of Brazil, concerning the capital structure of financial institutions, known as a whole by Basel III, Banco do Nordeste has complied with the minimum capital requirements stipulated, which guarantees the Bank a margin to continue expanding its business. Details of the Bank's position with respect to these requirements, at December 31, 2017, can be seen in Table 4 below:

Table 4 – Minimum Capital Requirements (R$ millions)

Specification	31/12/2016	31/12/2017
Base capital (PR)	**6,099.9**	**6,300.0**
. Tier I	4,109.0	4,115.7
. Tier II	1,990.9	2,184.3
Risk-Weighted Assets (RWA)	**38,048.6**	**39,615.6**
RBAN amount	**2,624.5**	**2,353.5**
Margin on required ACP	**1,588.3**	**1,243.6**
Basel ratios:		
. Principal Capital Ratio (Minimum requirement of 4.5%)	10.80%	10.39%
. Tier I ratio (Minimum requirement of 6.0%)	10.80%	10.39%
. Basel ratio (Minimum requirement 9.25%)	16.03%	15.90%
. Basel ratio including RBAN	15.00%	15.01%

(*) Basel ratio minimum requirement was 9.875% in December/2016.

Source: Control and Risk Executive Board – Financial Control Supervisory Office

5.2 Operating performance

Volume of contracted operations

In 2017, Banco do Nordeste contracted R$26.4 billion in all its area of operation, which represents a 19.3% increase in relation to 2016, and a total of 4.9 million operations.

Long-term financing encompassing rural, industrial, agroindustry, infrastructure, trade and service investments accounted for 62.5% of contracted resources, totaling R$16.5 billion - a 35.7% growth compared to the prior year.

Short-term loans to Direct Consumer Credit (CDC), Working Capital, Credit Card, Secured Account, Exchange, and Discount, as well as the Crediamigo program, totaled R$9.9 billion, a 0.6% decrease compared to 2016, as presented in Table 5.

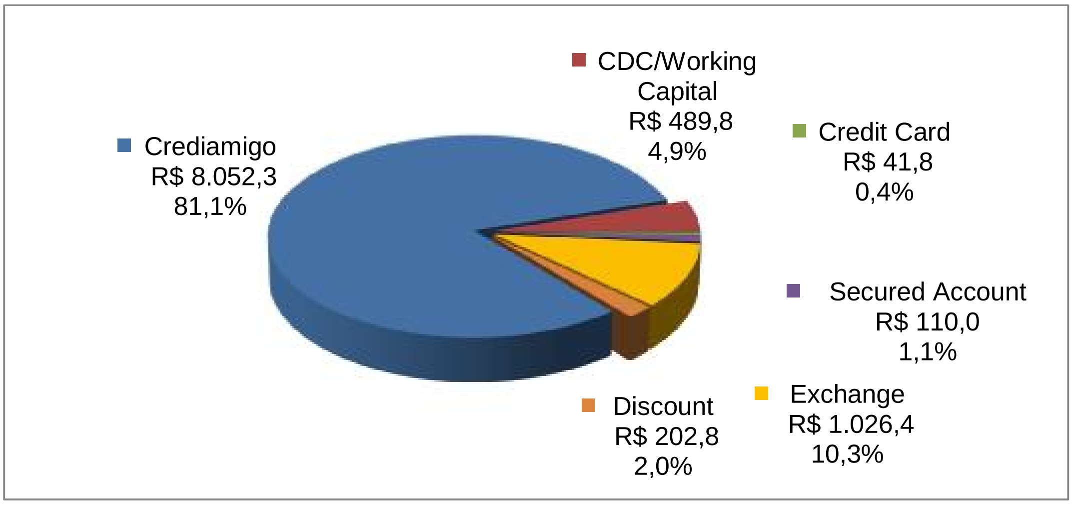
Table 5 – Loan operations (R$ million)

Type	2016		2017		Variation Amount
	Number of operations	Amount	Number of operations	Amount	
Long term	558,595	12,174.5	595,984	16,517.8	35.7%
Short term	4,452,423	9,983.8	4,283,540	9,923.1	(0.6%)
Total	**5,011,018**	**22,158.3**	**4,879,524**	**26,440.9**	**19.3%**

Source: Control and Risk Executive Board – Financial Control Supervisory Office

In relation to short-term loans (Figure 1), which accounted for 37.5% of the contracted volume (R$9.9 billion), BNB's urban microcredit program, Crediamigo, accounted for 81.1% of the operations (R$8.1 billion) and the Exchange product, to encourage exports and imports from and to the Northeastern region, totaled R$1.0 billion - a 51.5% increase in relation to 2016.

Figure 1 – Short-term loans in 2017 by Product/Program (R$ millions)



Source: Control and Risk Executive Board – Financial Control Supervisory Office

Of the total amount of long-term loans contracted in 2017, R$16.0 billion came from the FNE, a 42.1% increase compared to the prior year.

Small customers accounted for half of the amount financed, i.e., R$7.9 billion. Large customers were the ones that presented the highest percentage of evolution, reaching R$5.5 billion, mainly due to the resources invested in infrastructure work in renewable energy plants, such as wind and solar, as shown in Table 6.

Table 6 - FNE – Operations contracted by size (R$ millions)

Size	2016		2017		Variation Amount
	Number of operations	Amount	Number of operations	Amount	
Small	536,629	6,858.4	580,292	7,993.3	16.5%
Medium	1,486	1,387.1	2,014	2,469.2	78.0%
Large	408	2,995.0	561	5,508.4	83.9%
Total	**538,523**	**11,240.5**	**582,867**	**15,970.9**	**42.1%**

Source: Control and Risk Executive Board – Financial Control Supervisory Office

Operational efficiency

Banco do Nordeste has improved its operational efficiency (management of administrative expenses in relation to the entire margin of financial brokerage and service revenues). The analysis of the results in this relationship shows a 9.3 percentage point improvement, since the number reached in 2017 was 68.2% compared to the 77.5% reached in 2016.

In 2017, administrative expenses increased by 6.3% compared to 2016, representing an additional volume of R$186 million. Factors that contributed most to this increase were the annual salary adjustments and the implementation of the Voluntary Termination Program, which resulted in expenses of R$54.2 million, but will be recovered in less than 12 months by the reduction in payroll costs and social charges, provided by the termination of 234 employees. In addition to the period inflation, expenses with lease agreements and Information Technology services, and with the operation of rural and urban microcredit also contributed to this increase.

However, the significant increase in financial margins has led to significant improvements in efficiency. While revenues from financial brokerage remained at levels similar to those reached in 2016, and service revenues reached R$2.3 billion in 2017, funding expenses and expenses on loans and onlendings, dropped R$111.7 million. In addition to this reduction in costs, total expenses with credit provisioning were 39.1% lower when compared to 2016, providing a significant improvement in the financial brokerage margin and, consequently, in operational efficiency levels. The reduction of expenses with credit provisioning was motivated by: review and improvement of credit management focusing upon the systematic monitoring of provisions at various institutional levels, started in 2016; the reduction of the loan portfolio; and settlements and renegotiations of debts based on Law No. 13340/2016.

Fund raising

At December 31, 2017, Banco do Nordeste recorded fund raising of R$8.5 billion, a 2.9% reduction (R$255.2 million) in relation to the balance presented in December 2016, in line with the strategy of better adjusting funding levels to resource needs. Demand deposits amounted to R$239.9 million and time deposits totaled R$5.9 billion, a 3.1% decrease in relation to the prior year. Savings deposits stood out, with a balance of R$2.3 billion and an evolution of 7.8% in 12 months. The balance of agribusiness credit bills (LCA) declined by 41.7%, mainly as a result of the reduction in funding in the period.

The deposit and LCA amounts for December 2017 and December 2016 are detailed in Table 7 below:

Table 7 – Fund raising in 2017 (R$ millions)

Fund raising	Dec/16	Dec/17	Variation
Demand deposits	346.0	239.9	-30.7%
Savings deposits	2,113.3	2,277.5	7.8%
Time deposits	6,038.0	5,850.9	-3.1%
Agribusiness credit bill	302.7	176.5	-41.7%
Total	**8,800.0**	**8,544.8**	**-2.9%**

Source: Banco do Nordeste, Control and Risk Executive Board

Distribution and management of investment funds

At the end of 2017, equity of investment funds reached R$6,255.1 million, a 15.4% increase compared to the end of 2016. In the same position, Banco do Nordeste managed 22 investment funds, with 70,695 shareholders, an evolution of 7.5% in relation to the prior year. Revenue from investment fund management totaled R$34.8 million in 2017, a 15.2% growth in relation to 2016.

5.3 Performance by segment

Family Farming

Banco do Nordeste is the main financial agent in the Northeast region of the National Program for Strengthening Family Farming (Pronaf), currently with an active portfolio of R$8.67 billion, and 1.79 million operations. In 2017, 542 thousand financing contracted, totaling R$2.85 billion, representing 105.6% of the target established for the period. Of the amount invested, 68.9% comprise financing in the semi-arid region. Compared to the prior year, there was a 15.8% increase in the volume of funds invested and 8% in the number of operations contracted, including the operations carried out under the Agroamigo methodology (Rural Microcredit Program - Agroamigo).

Land Credit Program

The Rural Poverty Combat Program is made up of two subprojects: the Subproject for Land Acquisition (SAT), which funds the acquisition of rural property, and the Subproject for Community Investment (SIC), which funds non-reimbursable community investments complementary to the association of farmers contemplated with the SAT. In turn, the Consolidation of Family Farming (CAF) program funds the acquisition of rural property with existing improvements, as well as the realization of basic and productive infrastructure investments.

In 2017, 166 operations were carried out under SAT, which totaled R$6.29 million and 26 SIC onlending agreements in the amount of R$7.77 million. Under the CAF program, seven operations were contracted in the amount of R$408.8 thousand.

Small and Mini Rural Producers

In 2017, the Segment of Small and Mini Rural Producers, which serves rural producers, individuals, with gross annual revenues of up to R$3.6 million, contracted 6,141 credit operations, representing a 6% increase in relation to the contracts in 2016. The funds invested, coming from FNE, correspond to R$1.145 billion, exceeding the target established for the period by 9%.

Rural microentrepreneur

Banco do Nordeste was a pioneer in the design of its own methodology for rural microfinance with the Agroamigo Program, launched in 2005, considering the importance of family farming for the region where it operates, initially targeting family farmers in the lower income range of Pronaf. Currently, Agroamigo serves family farmers through two modalities: Agroamigo Crescer, aimed at customers of Pronaf Group B and Agroamigo Mais, to serve the other Pronaf groups, in operations of up to R$15 thousand, except for Groups A and A/C.

In 2017, R$2.32 billion was financed, with the hiring of 518.7 thousand operations by Agroamigo, representing a 17.7% growth in relation to the amounts contracted in 2016. Agroamigo reached an active portfolio of R$4.1 billion and more than 1.36 million operations. The amounts and quantitative data made by Agroamigo are contained in the information related to the Family Farming segment.

Urban microentrepreneur

Banco do Nordeste operates in the urban microfinance segment through the Crediamigo Program, which disbursed R$8.05 billion in 2017. The amount of disbursements reached 4.03 million operations. At the end of 2017, Crediamigo had over two million customers with active loans. Crediamigo’s operating capacity averaged 16,000 disbursements per day. Default, represented by loans overdue for more than 90 days in relation to the active portfolio, stood at 1.56%. Another important participation of Crediamigo relates to banking, since the Program opened 329,554 checking accounts in the course of 2017. The current accounts of Crediamigo customers are not subject to any fees.

Micro and Small Enterprises (MSE)

The Micro and Small Enterprise (MSE) segment relies on Banco do Nordeste to support credit, in line with government guidelines, notably those governing the FNE, as well as the provisions of Supplementary Law No. 123, of December 14, 2006, which determines that official financial institutions should direct their actions to support the MSE, comprising companies with gross annual revenues of up to R$3.6 million.

In 2017, R$2.6 billion was contracted with the MSE segment through its long and short-term credit lines, with R$2.4 billion with FNE resources related to long-term operations and R$229.7 million in short-term credit operations using, in this case, internal resources.

Banco do Nordeste served 24,626 micro and small enterprises. The commercial sector was the main beneficiary, served with R$1.4 billion in contracted operations, corresponding to 59.5% of FNE funds invested by Banco do Nordeste in this segment. In the semi-arid region, which is one of the priority sub-areas of the National Policy for Regional Development (PNDR), 15,409 operations were contracted, with FNE resources alone, representing 54.0% of total operations.

Corporate

In 2017, Banco do Nordeste reached year end with 690 Corporate customers, targeting companies with gross annual revenues in excess of R$200 million. This year, the segment contracted R$2.59 billion in operations with funds from the FNE, exceeding by 46.8% the volume contracted in the same period in 2016, 62.9% of which was intended to the infrastructure industry. With regard to short-term loans, including foreign exchange transactions, the volume of R$950 million was contracted.

Agribusiness Individuals

In 2017, the total amount of operations contracted in the Agribusiness Segment, which serves rural producers with gross annual revenue of over R$3.6 million, was R$1.239 billion with FNE resources, distributed in 521 operations. The amount corresponds to 101.05% of the goal established for 2017.

Individuals

The Individual Segment, until November 2017, achieved a 13% expansion in the business customer base, reaching an average balance of R$246.5 million in Commercial Credit operations.

Government

Clients of the Government segment are represented by entities that are part of the public administration, direct and indirect, with all of their respective agencies, except for indirect public administration entities, categorized as “non-dependent”, according to current legislation. In 2017, the portfolios of the Government segment comprised 1,939 customers, reached an average balance of R$1.00 billion in funding and a balance of loan operations in the region of R$691.3 million.

Business

The business segment consists of small-medium, medium and large-sized companies, covering legal entities with annual revenues from R$3.6 million to R$200.0 million. At the end of 2017, the Bank reached a figure of 12,420 customers with a profile of the business segment, a 61.74% increase compared to the figure at the end of 2016.

In 2017, the business segment portfolios presented the following results: contracting of short-term loans and foreign trade in the amount of R$879.46 million, down 40% in relation to the prior year; long-term loan operations, including operations with FNE resources in the amount of R$5.59 billion, achieving performance 119% higher than in 2016. BNB’s funding in 2017 reached R$2.9 billion, which represents an 11.53% increase in relation to the average balance at the end of the prior year.

Total investments (with all sources) in the business segment in 2017 totaled R$6.47 billion, of which: R$795 million in Agribusiness; R$2.65 billion in Trade and Services; R$1.00 billion in Industry, and R$2.02 billion in Infrastructure.

5.4 Credit recovery

2017 came with a great opportunity to regularize debts, particularly of rural producers that suffered from the droughts of recent years, through the enactment of Law No. 13340/2016 and CMN Resolution No. 4591/2017.

The amounts obtained in 2017 with the credit recovery recorded the amount of R$7.94 billion, providing cash receipts in the region of R$875.45 million. 295,466 operations were regularized, of which 271,408 were operations with the FNE source and 24,058 with a non-FNE source, thus reflecting the best figures in Banco do Nordeste's history.

The Bank gathered a strong and representative team to implement solutions that simplify standards and processes in all industries, to communicate with producers and, above all, to the actions of Branches and Asset Restructuring Management with a view to making more renegotiations, and saving the dignity and citizenship of the producers of the various segments.

6. CORPORATE GOVERNANCE

Governance in the Public Sector is understood as "a set of mechanisms of leadership, strategy and control put into practice to ASSESS, DIRECT and MONITOR the management, with a goal to conducting public policies and providing services of interest to society" (available at: http://www.tcu.gov.br/governanca).

In this regard, Banco do Nordeste, as an entity of the Indirect Public Administration, maintains, in its Corporate Governance structure, boards that aim to evaluate, direct and monitor its management. The Board of Directors – assisted by the Audit and Compensation Committees and by the Internal Audit – the Executive Board and an Ethics Committee are present in this order.

The Bank's Corporate Governance structure, available at https://www.bnb.gov.br/estrutura-organizacional, is as follows:

- General Meeting;
- Board of Directors;
- Executive Board;
- Supervisory Board;
- Audit Committee;
- Compensation Committee;
- Internal Audit;
- Internal Controls;
- Commission of Ethics;
- Independent Audit.

The Bank's governance structure is defined in its Articles of Incorporation, which is the instrument that governs the social relationships within publicly-held entities, available on the Internet, at http://www.bnb.gov.br/estatuto-social.

In addition to its Articles of Incorporation, the Bank has Internal Regulations of the Executive Board, Supervisory Board, and Audit Committee, as guides to the actions and practices of its Statutory Management Members. These documents are in harmony with the other regulations and laws in force and are important instruments of Corporate Governance, insofar as they strengthen the decision-making process and the Bank's administrative and operational dynamics.

In the institutional relationships established by the Bank, the Code of Ethical Conduct of Banco do Nordeste, made available on the Internet for all stakeholders, is observed. This code stands out as the main guiding instrument of business ethics in the Institution. In line with two basic values of the Institution, access to and transparency of information, the organizational architecture of the Bank is also normalized, including its organizational units, subordination, assignments, organization chart and distribution of the number jobs available. The Bank has management mechanisms that adopt the best Corporate Governance practices, guaranteeing effectiveness and independence in risk management and internal controls.

Internally, the decision-making policy is given collegially in all its units for the purpose of ensuring the strengthening, and providing greater security to the governance of the Institution. For this purpose, strategic level committees, subcommittees and commissions are used, aimed at mitigating the risks associated with the decision-making process.

6.1 Audit

Banco do Nordeste's Audit Supervisory Board aims to evaluate risk management, control and governance processes, in order to add value to the organization and report the effectiveness of the internal control system to top management. It uses the risk-based process audit methodology, through which it has deepened the knowledge of Bank processes, contributing to the improvement of control structures, in an independent and objective manner.

In 2017, the Internal Audit carried out evaluation work, with emphasis on: (a) System of Internal Controls; (b) objects of a legal nature, such as: Accounting, Strategic Program, Worker Support Fund (FAT), Integrity Program, Partnership Agreement and Liquidity and Market Risk; and (c) objects of the credit process (Master Data, Concession, Management and Credit Recovery).

6.2 Internal controls

Banco do Nordeste's Internal Control Structure is based on good corporate governance practices; the integrity of people and their ethical values; commitment of its employees to act with the focus upon business goals and transparency; organizational structure that ensures the segregation of duties, and that allows the adequate delegation of authority and attributions; in addition to the policies and practices of risk management, compliance and information security.

The objectives of BNB Internal Control Structure are: a) to maintain the risks inherent in the Bank's processes, products, services and systems within the limits of the existing risk management policies; b) to test and evaluate the institution's adherence to the legal framework, infra-legal regulations, recommendations of supervisory bodies and, where applicable, codes of ethics and conduct; c) to monitor the flow of information to ensure consistency in decision-making and accountability; and d) to contribute to the optimization of business results.

The General Shareholders' Meeting, the Board of Directors, assisted by the Audit Committee and the Internal Audit, together with the Supervisory Board, constitute the top Governance level of Banco do Nordeste. In the management plan, the Collegiate Board is the managing board of the Internal Control Structure, and the Chief Control and Risk Officer is responsible before the national monetary authority for risk management, internal controls and compliance.

Decision and/or evaluation committees are also essential components of the control and risk management structure, which are specialized in a variety of subjects. In addition to the various specialized committees, the Bank has an Integrity and Ethics Committee, among others, whose task is to oversee the Bank's Integrity Policy, by determining the steps and actions required to improve integrity mechanisms in the Institution.

Banco do Nordeste's Ethics Committee also plays an important role in the Structure of Internal Controls, since its function is to promote the Code of Ethical Conduct and to represent the citizen (whether or not a customer) within the business environment, including mediating conflicts and acting for the improvement of internal processes in the institution.

Segregation of duties is another differentiator. It is applied in order to comply with the principles and good practices of corporate governance and the requirements of regulation, without prejudice to the integration of processes. It is therefore appropriate to point out that: a) the management of third-party resources is completely separated of the Bank's resource management actions; b) the loan operation control activities are developed in a distinct environment and independent of the business area; c) the duties of risk assessment are segregated from those affected by the granting of the credit; d) the preparation/renewal of customer records, instruction of concession proposals and credit renegotiation are separated from the business area; e) the Bank's treasury activities are separate from the Investment Fund management activities; and f) the activities of creating models and methods for managing credit, market, liquidity and operational risks are separated from business management activities.

Controllership and accounting activities are also segregated, which allows a better allocation of control, tax planning and budget duties, as well as better adaptation of activities related to accounting and financial management of FNE resources.

It also includes the Internal Control Structure of Banco do Nordeste, a set of policies, standards and procedures that are to formalize administrative decisions and actions, as well as guidance for performance of activities at different levels of the organization and which are available for access to the Institution's employees.

As an institution that manages public resources, Banco do Nordeste also has a commitment to society in guiding its actions in the market in a socially and environmentally responsible manner, curbing the practice of fraud and corruption. Therefore, the Bank develops Integrity and Ethics actions, which work as instruments of good governance, involving: ethical posture, vigilant practice of internal controls, sustainability, transparency and integrity of the organization, its employees, partners or related parties.

In preparing and publishing the Compliance Policy in 2017, Banco do Nordeste further strengthened its commitment to the compliance of its processes and the integrity of its operations with its employees, relevant authorities, its customers and with society in general.

In this regard, the Committee for the Administrative Process of Accountability (Compar) was also created in 2017, in accordance with Federal Law No. 12846. It is a specific collegiate with the following attributions:

a) Proposing, for approval by the Executive Board, policies, guidelines and procedures to prevent and combat corruption.
b) Instituting, judging and filing the subject matter of the Administrative Process of Accountability (PAR).
c) Designating an investigative commission and/or process commission to investigate the process of accountability and issue an opinion for judgment.
d) Suspending the effects of the act or process that is the object of the investigation.

e) Forwarding the final report of the PAR, issued by the commission, to the following agencies, in cases any illegal acts to be investigated in other instances are determined: The Attorney General's Office, the Federal Attorney General's Office (AGU) and its related agencies and legal representation agency not covered by the AGU.

f) Determining and jointly judging, in the same case, the acts contemplated as administrative violations to Law No. 8666, of 1993, or to other public administration bidding rules and contracts that are also classified as injurious acts under Law No. 12846, of 2013.

Banco do Nordeste's Internal Control Structure therefore provides reasonable assurance to BNB management that the objectives related to efficiency and operational effectiveness, the reliability of financial and operating information, compliance with applicable laws and regulations and the protection of Bank's assets have been met, also including the good Corporate Governance practices adopted by the market and indicated by regulatory and supervisory bodies.

As a result, all policies and guidelines guide Banco do Nordeste for the transparency of its actions with shareholders, the market and society, for compliance with the laws, standards and regulations of the national financial system and for the institutional management carried out under models that guarantee the fulfillment of the mission, the continuity of the organization and the generation of favorable and sustainable results.

7. RISK MANAGEMENT

Banco do Nordeste's Corporate Risk Management Policy includes, as an essential principle, maintenance of a structured and integrated risk management system with the institution's management activities. In this regard, it provides information that supports the various decision-making bodies of the Bank in evaluation the risks involved, and is intended to guide the management of credit, market, liquidity and operational risks that are interposed to the attainment of business objectives. Accordingly, rules based on corporate governance principles and good practices were established under the guidance of the Bank senior management and of the oversight bodies.

The organizational structure of risk management, internal controls and corporate security is unified at the strategic and specific level regarding its business and support units, observing the principle of segregation of duties. The units and their basic responsibilities related to risk management, internal controls and corporate security are described below:

- Board of Directors - Approving policies on risk, internal controls and corporate security;
- Executive Board - Defining policies on risk, internal controls and corporate security, and submitting them to the Board of Directors; approving operating limits and risk management methodologies;
- Control and Risk Executive Board - Coordinating the implementation of policies on risks, internal controls and corporate security; monitoring the performance of risk management, internal controls and corporate security areas;
- Risk Management Committee - Assessing and escalating matters related to risk management to higher levels;
- Tactical and Operational Subcommittee on Risk Management - Making tactical and operational decisions that offer subsidies to the Risk Management Committee;

- Supervisory Board of Internal Controls, Security and Risk Management - Coordinating the operational management of risks, internal controls and corporate security, and monitoring their results;

- Risk Management Department - Managing, at corporate level, credit, market, liquidity and operational risks; proposing the definition of methodologies and models for managing credit, market, liquidity and operational risks; promoting the dissemination of the risk management culture in the Bank;

- Management units of products, services, systems and processes exposed to credit, market, liquidity and operational risks - Managing risks related to the products, services, systems and processes they manage, and respective controls, according to the defined methodologies and models.

In managing credit risk, we highlight the following procedures: a) Use of an own credit risk management model; b) Establishment and monitoring of maximum exposure limits per customer/economic group; c) Monitoring of risk of concentration of the Loan Portfolio; d) Stress tests of the loan portfolio; e) Application of the loss measurement model in accordance with the International Financial Reporting Standards (IFRS); f) Restatement of the Real Estate Restatement Index (IRBI); g) Monitoring of the operations approved by the State Committees specifically in order to maintain at least 80% of the loan portfolio at risk levels from “AA” to “C”; h) Monitoring of the changes between rating classes of the loan portfolio (mobility and stability indexes); and i) Monitoring the credit risk of the portfolio of investment funds managed by the Bank.

Regarding management of operational risk, we highlight the following activities: a) Identification of operational risks in the institution’s processes and request for the implementation of mitigating actions; b) Application of Self-Assessment of Risks and Controls in the Institution’s business and support processes; c) Qualification of operational loss events observing the current Organizational Architecture; d) Calculation of the Capital Allocation Portion - Basic Model BIA; and e) Follow-up on the Implementation of the Action Plan - Actions Mitigating operational risks in the Institution’s processes.

In managing the market and liquidity risk, we highlight the following actions: a) Calculation of the value of exposures to market risk in the Bank; (b) Calculation of market risk portions of risk-weighted assets (RWA) and bank portfolio interest rate risk (RBAN) used in calculating minimum capital requirement; c) Monitoring of the Bank’s liquidity indicators; c) Daily control of exposures and limits of resources managed by the treasury; d) Preparation of the prudential adjustments to the pricing of BNB assets, pursuant to Central Bank of Brazil regulation; e) Monitoring of the market and liquidity risks of investment fund portfolios managed by Banco do Nordeste; f) Performance of stress tests, sensitivity analyses and adherence tests of the models used in the management of market and liquidity risks.

Banco do Nordeste’s risk management process is therefore based on compliance with current legislation, adoption of good market practices and use of defined and documented methodological models that can be tested for consistency, reliability and transparency of results.

8. RELATIONSHIPS

8.1 Customer relationship

Banco do Nordeste adapted its customer relationship policy in light of Resolution No. 4539/2016, by CMN (National Monetary Council), aiming at providing better customer service and consolidating

institutional image of credibility, security and competence.
Among the relationship channels available, we highlight:

The Citizen Information Service (SIC), created by the Law on Access to Information, provides active transparency services (available at http://www.bnb.gov.br/acesso-a-informacao) and passive transparency services (available at http://www.bnb.gov.br/acesso-a-informacao/servico-de-informacao-ao-cidadao-sic).

The Customer Relationship and Citizen Information Center held 2,897,070 calls in 2017, of which: 318,912 telephone calls (SAC and CAC); 102,822 for multimedia channels (SIC, email, social networks, consumindor.gov, complaints sites); 90,920 payment slips issued at the customer request; 2,384,416 active services including: business guidance for businesses, credit and insurance administration charges, monitoring of business and relationship opportunities, banking security monitoring, insurance renewal and management of electronic service.

Ombudsman's Office

It is the last instance of answering the complaints of customers and users of the entity's products and services, and of citizens in general. It is the main communication channel for receiving complaints, whether from the external or internal public, which are recorded and submitted to the bodies responsible for their analysis and checking. The area receives suggestions and compliments on all the aspects that permeate the institution activities, always in pursuit of excellence in service to the products and services offered by Banco do Nordeste. The Ombudsman's Office serves as a channel for mediation of conflicts between the public and the institution, and contributes to the improvement and correction of deficiencies in processes, products and services, from the issuance of Ombudsman Recommendations to other Bank areas, based on the analysis of all the manifestations received.

According to the Central Bank of Brazil, Banco do Nordeste remained as the Financial Institution with the lowest number of complaints with that government agency, among banks with more than 4 million customers. The ranking is formed based on demands registered by the public and considers commercial, multiple, cooperative, and investment banks, branches of foreign banks, savings banks, credit, financing and investment companies (SCFI) and pooled financing administrators. In the first result of the Ombudsman Quality Ranking, which began in the third quarter of 2017 and also published by the Central Bank, Banco do Nordeste's Ombudsman is number two; this new ranking aims to provide society with qualitative information on the performance of the ombudsmen of financial institutions.

In 2017, the Ombudsman's Office conducted the implementation of the Portal BNB Transparante, which aims to provide access to information of social interest on the Bank, such as social and cultural investments, financing and research, and administrative contracts, as well as data on loans contracted backed by public funds, made available through interactive panels through which maps and graphs can be obtained with statistical information of those operations.

8.2 Digital Experience, and Information and Communication Technology (ICT)

The customer experience structure involves traditional customer service channels and new digital interfaces. The customer's digital experience focuses upon the future, includes user interface interaction services, process optimization of systems responsible for business rules, and webservices.

The Bank's Information Technology (IT) Supervisory Office has sought ways to better meet the growing demands of business areas, and has increasingly focused its efforts upon the development of digital banking technologies. By generating higher-quality IT solutions, it directly collaborates to achieve corporate results, adds value to the organization, and promotes business growth.

The efficiency of IT investments is optimized with a focus upon reducing the costs of credit and microcredit operations, and increasing the use of electronic channels. As a result of the Bank's ongoing investment in improving the customer's digital experience, it can be highlighted that, in 2017, of the total volume of Bank transactions:

- 41% in digital channels (26% in internet banking and 15% in mobile banking)
- 29% in self-service
- 21% of transactions carried out directly in the branch tellers, and
- 9% carried out with cards.

8.3 Relationship with society

Sponsorship - The sponsorship actions conciliate Federal Government guidelines with institutional and market interests, aiming to broaden relationships, promote products, increase business, and strengthen the brand. In 2017, R$6.7 million was allocated to 296 projects, of which 52 were cultural and 244 were institutional-marketing in nature. Of the total resources invested, 38% had a source in tax incentive laws.

Culture - Banco do Nordeste understands Culture as a development driver and adopts the guidelines for democratizing access to artistic-cultural manifestations, supporting production, fruition, circulation and artistic-cultural formation, and granting credit to the cultural economic activities. Its three cultural centers (Fortaleza and Cariri, in Ceará state, and Sousa, in Paraíba state) offer the community a democratic space of accessibility to the various areas of the arts, through a free artistic and cultural agenda, promoting the formation of audiences and professional development of local and regional cultural agents. In 2017, cultural events reached an estimated audience of 494,000 people, in the areas of performing arts (theater), visual arts, cinema, literature, music, training workshop, children's activities and cultural tradition.

8.4 Relationship with employees

Banco do Nordeste ended 2017 with 6,925 employees, 346 Highschool Scholars, 780 Higher Education Scholars and 451 Young Apprentices in its workforce. 29,978 training opportunities were offered, of which 24,803 refer to the Virtual Learning Community (distance learning), 5,002 to face-to-face courses and 173 for formal education opportunities.

On March 1, 2017, Banco do Nordeste implemented the electronic attendance control system, a tool that allows both the Bank and its employees to automate and control the working day. This initiative is based on a specific collective agreement signed with the entities representing the employees (Contraf and Contec).

In the second half of 2017, the Voluntary Termination Program (PID) was implemented to optimize expenses for greater operational efficiency by encouraging termination of employees who met certain conditions contained in own regulation. Said Program has allowed the termination of 234 employees.

9. ENTITIES OF PENSION PLAN AND HEALTH CARE FOR EMPLOYEES

9.1 Camed

The Assistance for Banco do Nordeste do Brasil Employees (Camed Saude), established in 1979, is a member of the Camed Group, together with Camed Administradora and Corretora de Seguros Ltda. and the Creche Paulo VI. Camed Saúde has a portfolio of 38,366 beneficiaries and is present in the Northeast and Southeast regions, north of Minas Gerais state, and the Federal District.

In 2017, Camed Saúde recorded surplus of R$732 thousand, as shown in the table below. This result was lower than in 2016 by 94%, mainly due to the increase in costs with medical, hospital, dentistry and related services, which grew by 18% in relation to the prior year, representing a R$39 million increase, while Operating Revenue from monthly fees and charges increased by only 6%, corresponding to R$10 million, as presented in Table 8. Over the year, the Entity management sought other alternatives for economic-financial balance, seeking rationalization of administrative expenses, reduction of the cost of care and incorporation of other revenues, such as those arising from corporate interest in other companies.

Table 8 – Camed Saúde Economic Performance (R$ thousand)

Fund raising	YTD 2017 (A)	YTD 2016 (B)	(A/B) - 1	(A-B)
Total revenues	240,358	241,872	-1%	(1,514)
Total expenses	239,626	229,930	4%	9,696
Profit or loss	**732**	**11,941**	**-94%**	**(11,210)**

Source - CAMED Controllership Management

Camed Corretora, which is present throughout Brazil, through the Bank's Branches, closes 2017 with a profit of R$6.2 million, representing a 39% growth in relation to the prior year, as presented in Table 9. This result is mainly due to the evolution of operating revenues from insurance sales commissions from R$34 million in 2016 to R$41 million in 2017, representing an 18% growth for the year.

Table 9 – Camed Corretora Economic Performance (R$ thousand)

Fund raising	YTD 2017 (A)	YTD 2016 (B)	(A/B) - 1	(A-B)
Total revenues	43,944	37,414	17%	6,530
Total expenses	37,706	32,921	15%	4,785
Profit or loss	**6,238**	**4,492**	**39%**	**1,746**

Source – CAMED Controllership Management

9.2 Capef

Banco do Nordeste Employees' Pension Fund (Capef) is a privately-held Entity of Supplementary Pension Plans (EFPC), created in 1967, which manages assets amounting to R$4.27 billion at December 31, 2017. Capef has 12,162 participants and beneficiaries assisted. These participants are grouped into two pension plans: one defined benefit plan - BD Plan, closed plan for new participants and one variable contribution - CV Plan I, created in 2010.

The BD Plan closed 2017 with 1,525 active participants, 3,798 retirees and 1,244 pensioners, and obtained, in 2017, a return of 9.74% equivalent to 126.82% of its actuarial target of 7.68% (INPC + 5.50% per year).

The CV Plan I is a plan that is in the reserve accumulation phase. In 2017, this plan achieved a return of 10.03%, equivalent to 116.49% of its actuarial target of 8.61% (IPCA + 5.50% per year). This plan closed the year with 5,372 active participants, 188 retirees and 35 pensioners.

10. LEGAL INFORMATION

In relation to CVM Rule No. 381/03, dated January 14, 2003, Banco do Nordeste informs hereby that *Ernst & Young* Auditores Independentes S/S, engaged as Independent Auditor, did not provide, in 2017, any services other than independent audit services.

Banco do Nordeste

Financial Statements

B A N K

In thousands of reais (R$)

Position: 12.31.2017

Banco do Nordeste do Brasil S.A.

Balance sheets
Years ended December 2017 and 2016
General Management and Branches in Brazil
(Amounts in R$ thousand)

	Notes	12/31/2017	12/31/2016
Assets			
Current assets		**22,276,591**	20,985,048
Cash and cash equivalents	5	**161,518**	184,575
Interbank investments	6.a	**12,931,084**	9,465,283
Open market investments		**12,787,577**	9,314,933
Interbank deposits		**143,507**	150,350
Marketable securities and derivative financial instruments	7	**2,335,215**	4,050,575
Own portfolio		**1,458,959**	2,907,381
Linked to repurchase agreements		**876,256**	855,690
Linked to guarantees given		**-**	287,504
Interbank accounts		**517,430**	221,155
Unsettled payments and receipts		**8,155**	1,190
Linked Credits:			
Central Bank Deposits	8.a	**506,318**	218,335
Interbank Onlending		**-**	784
Correspondents		**2,957**	846
Interdepartmental accounts.		**84**	-
Internal transfer of funds		**84**	-
Loans		**4,183,701**	4,774,641
Loans	9.a	**4,676,166**	5,322,670
Public sector		**186,731**	238,571
Private sector		**4,489,435**	5,084,099
(Allowance for loan losses)	9.a	**(492,465)**	(548,029)
Other credits		**2,115,657**	2,257,019
Exchange portfolio	10.a	**885,164**	612,278
Income receivable	10.b	**16,480**	13,921
Securities trading	10.c	**12**	12
Other	10.d	**1,219,789**	1,826,346
(Allowance for other loan losses)	10.e	**(5,788)**	(195,538)
Other assets		**31,902**	31,800
Other assets		**14,649**	14,442
(Valuation allowance)		**(620)**	(613)
Prepaid expenses		**17,873**	17,971
Long-term receivables		**31,585,567**	25,121,511
Marketable securities and derivative financial instruments	7	**24,524,324**	16,798,301
Own portfolio		**23,665,336**	16,322,718
Linked to repurchase agreements		**3,091**	44,099
Derivative financial instruments		**426,513**	403,488
Linked to guarantees given		**429,384**	27,996
Interbank accounts		**66,639**	66,075
Linked Credits:			
National Treasury-Rural Credit Funds.	8	**-**	6
National Housing System (SFH)	8	**66,639**	66,069
Loans		**4,915,752**	6,363,766
Loans	9	**5,368,348**	7,051,287
Public sector		**1,041,162**	1,141,948
Private sector		**4,327,186**	5,909,339
(Allowance for loan losses)	9	**(452,596)**	(687,521)
other credits		**2,078,852**	1,893,369
Other	10.d	**2,106,090**	1,922,193
(Allowance for other loan losses)	10.e	**(27,238)**	(28,824)
Permanent assets	12	**184,779**	214,569
Investments		**1,591**	1,909
Other investments		**6,877**	7,212
(Provision for losses)		**(5,286)**	(5,303)
Property and equipment in use		**163,240**	192,757
Property and equipment in use		**169,752**	170,087
Revaluation of property and equipment in use		**107,132**	107,628
Other property and equipment in use		**277,150**	273,752
(Accumulated depreciation)		**(390,794)**	(358,710)
Intangible assets		**19,948**	19,903
Intangible assets		**19,948**	19,903
Total assets		**54,046,937**	46,321,128

	Notes	12/31/2017	12/31/2016
Liabilities and equity			
Current liabilities		**21,632,803**	16,536,899
Deposits	13.b	**5,410,955**	5,949,100
Demand deposits		**239,932**	345,990
Savings deposits		**2,277,515**	2,113,346
Interbank deposits		**1,548,266**	1,111,078
Time deposits		**1,345,242**	2,378,686
Open market funding	13.c	**983,405**	966,859
Own portfolio		**876,278**	896,579
Third-party portfolio		**107,127**	70,280
Funds from acceptance and issue of securities	15	**184,357**	310,611
Funds from real estate, mortgage, credit and similar notes		**176,500**	302,735
Liabilities for foreign marketable securities		**7,857**	7,876
Interbank accounts		**317**	593
Payables and receivables to be settled		**317**	593
Interdepartmental accounts..		**5,660**	7,181
Third-party funds in transit		**5,660**	7,170
Internal transfers of funds		**-**	11
Borrowings	14.b	**951,482**	637,742
Foreign borrowings		**951,482**	637,742
Domestic onlending - official institution	14.c	**161,679**	150,737
National Treasury		**187**	253
National Bank for Economic and Social Development (BNDES)		**142,072**	125,251
Finame		**19,420**	25,233
Foreign onlending	14.d	**143,354**	141,564
Foreign onlending		**143,354**	141,564
Other liabilities		**13,791,594**	8,372,512
Collection of taxes and other contributions	16.a	**1,453**	2,547
Exchange portfolio	16.b	**9,318**	4,022
Social and statutory	16.c	**138,114**	164,522
Tax and social security	16.d	**303,202**	618,741
Securities trading	16.e	**153**	153
Financial and development funds	16.f	**10,913,835**	4,439,550
Other	16.i	**2,425,519**	3,142,977
Long-term payables		**28,872,097**	26,421,734
Deposits	13.b	**6,397,227**	4,658,220
Interbank deposits		**34,623**	87,767
Time deposits		**6,362,604**	4,570,453
Open market funding	13.c	**3,042**	2,778
Own portfolio		**3,042**	2,778
Funds from acceptance and issue of securities	15	**1,004,912**	988,259
Liabilities for foreign marketable securities		**1,004,912**	988,259
Domestic onlending - official institution	14.c	**1,358,892**	1,518,511
National Treasury		**263**	198
BNDES		**1,293,434**	1,427,340
Finame		**65,195**	90,973
Foreign onlending	14.d	**491,871**	622,712
Foreign onlending		**491,871**	622,712
Other liabilities		**19,616,153**	18,631,254
Tax and social security		**42,954**	-
Financial and development funds	16.f	**12,614,943**	13,198,250
Subordinated debt eligible to capital	18	**2,205,468**	2,012,874
Debt instruments eligible to capital	16.g	**1,000,000**	1,000,000
Other	16.i	**3,752,788**	2,420,130
Equity	19	**3,542,037**	3,362,495
Capital		**2,844,000**	2,844,000
Domiciled in Brazil		**2,844,000**	2,844,000
Revaluation reserves		**11,769**	14,491
Income reserves		**1,685,026**	1,157,951
Equity adjustments		**(998,758)**	(653,947)
Total liabilities and equity		**54,046,937**	46,321,128

Banco do Nordeste do Brasil S.A.

Income statements
Years ended December 31, 2017 and 2016 and six-month period ended December 31, 2017
General Management and Branches in Brazil
(Amounts in R$ thousand)

	Notes	2nd half/2017	Year/2017	Year/2016
Income from financial intermediation		**2,619,266**	**5,403,702**	5,438,822
Loans	9.a.2	**1,050,342**	**2,000,122**	2,055,623
Gains (losses) on marketable securities transactions	7.b	**1,509,334**	**3,273,447**	3,510,588
Gain (loss) on derivative financial instruments	7.d	**(11,852)**	**(2,900)**	(249,874)
Foreign exchange gains (losses)	11.b	**47,816**	**110,323**	86,983
Compulsory deposit gains (losses)	8.b	**23,626**	**22,710**	35,502
Expenses from financial intermediation		**(1,620,439)**	**(3,777,807)**	(4,121,105)
Open market funding	13.d	**(476,133)**	**(1,102,588)**	(1,356,044)
Borrowings and onlending	14.e	**(978,333)**	**(2,132,844)**	(1,991,066)
Allowance for loan losses	9.e	**(165,973)**	**(542,375)**	(773,995)
Gross income from financial intermediation		**998,827**	**1,625,895**	1,317,717
Other operating income/expenses	20	**(139,467)**	**(477,557)**	(875,338)
Income for services provided		**1,092,892**	**2,249,415**	2,248,374
Income from bank fees		**33,503**	**66,266**	60,984
Personnel expenses:		**(983,790)**	**(1,900,347)**	(1,804,945)
Personnel expenses.		**(878,563)**	**(1,695,015)**	(1,610,890)
Post-employment benefits.		**(105,227)**	**(205,332**	(194,055)
Other administrative expenses		**(638,711)**	**(1,236,068)**	(1,145,621)
Tax expenses		**(154,503)**	**(302,304)**	(288,492)
Other operating income		**1,060,046**	**1,914,125**	2,160,642
Other Operating expenses		**(548,904)**	**(1,268,644)**	(2,106,280)
Operating income (expense)		**859,360**	**1,148,338**	442,379
Nonoperating income (expense)		**16,570**	**14,177**	(308)
Income before income taxes and profit sharing		**875,930**	**1,162,515**	442,071
Income and social contribution taxes	21	**(468,281)**	**(437,794)**	335,450
Provision for income tax		**(43,110)**	**(61,710)**	(182,362)
Provision for social contribution tax		**(34,717)**	**(49,744)**	(149,895)
Deferred tax asset		**(390,454)**	**(326,340)**	667,707
Statutory profit sharing		**(23,945**	**(42,976)**	(45,450)
Net income		**383,704**	**681,745**	732,071
Interest on equity	19.d	**(95,781)**	**(165,014)**	(175,048)
Number of shares (in thousands)		**86,371**	**86,371**	86,371
Basic/diluted earnings per share (in R$)		**4,44**	**7,89**	8,48

Banco do Nordeste do Brasil S.A.

Statement of changes in equity
Years ended December 31, 2017 and 2016 and six-month period ended December 31, 2017
General Management and Branches in Brazil
(Amounts in R$ thousand)

	Paid-in capital	Revaluation reserve	Income reserve				
Events	**Capital**	**Own assets**	**Legal**	**Statutory**	**Equity adjustments**	**Retained earnings (accumulated losses)**	**Total**
Balances at 12/31/2015.	2,844,000	16,621	200,726	397,703	(615,864)	-	2,843,186
Equity adjustments:							
Marketable securities adjustment.	-	-	-	-	134,788	-	134,788
Actuarial gains (losses)	-	-	-	-	(172,871)	-	(172,871)
Other events:							
Revaluation of assets:							
Realization of reserves (net of tax effects)	-	(2,130)	-	-	-	2,130	-
Reversal of prior-year expenses (net of tax effects)	-	-	-	-	-	369	369
Net income for the year	-	-	-	-	-	732,071	732,071
Allocations:							
Reserves.	-	-	36,603	522,919	-	(559,522)	-
Prepayment of IOE monetarily restated	-	-	-	-	-	(56,472)	(56,472)
Provision for complementary IOE for the year...	-	-	-	-	-	(118,576)	(118,576)
Balances at 12/31/2016	2,844,000	14,491	237,329	920,622	(653,947)	-	3,362,495
Changes in the year	-	(2,130)	36,603	522,919	(38,083)	-	519,309
Balances at 12/31/2016	2,844,000	14,491	237,329	920,622	(653,947)	-	3,362,495
Prior-year adjustments:							
Positive	**-**	**-**	**-**	**-**	**-**	**19,250**	**19,250**
Negative	**-**	**-**	**-**	**-**	**-**	**(12,035)**	**(12,035)**
Equity adjustments:							
Marketable securities adjustment	**-**	**-**	**-**	**-**	**53,597**	**-**	**53,597**
Actuarial gains (losses)	**-**	**-**	**-**	**-**	**(398,408)**	**-**	**(398,408)**
Other events:							
Revaluation of assets:							
Realization of reserves (net of tax effects)	**-**	**(2,722)**	**-**	**-**	**-**	**3,129**	**407**
Net income for the year	**-**	**-**	**-**	**-**	**-**	**681,745**	**681,745**
Allocations:							**-**
Reserves	**-**	**-**	**34,087**	**492,988**	**-**	**(527,075)**	**-**
Prepayment of IOE monetarily restated	**-**	**-**	**-**	**-**	**-**	**(71,001)**	**(71,001)**
Provision for complementary IOE for the year	**-**	**-**	**-**	**-**	**-**	**(94,013)**	**(94,013)**

Banco do Nordeste do Brasil S.A.

Statement of changes in equity (Continued)
Years ended December 31, 2017 and 2016 and six-month period ended December 31, 2017
General Management and Branches in Brazil
(Amounts in R$ thousand)

	Paid-in capital	Revaluation reserve	Income reserve				
Events	**Capital**	**Own assets**	**Legal**	**Statutory**	**Equity adjustments**	**Retained earnings (accumulated losses)**	**Total**
Balances at 12/31/2017	**2,844,000**	**11,769**	**271,416**	**1,413,610**	**(998,758)**	**-**	**3,542,037**
Changes in the year.	**-**	**(2,722)**	**34,087**	**492,988**	**(344,811)**	**-**	**179,542**
balances at 06/30/2017	**2,844,000**	**12,829**	**252,231**	**1,127,460**	**(947,998)**	**-**	**3,288,522**
Prior-year adjustments:							
Positive	**-**	**-**	**-**	**-**	**-**	**16,352**	**16,352**
Equity adjustments:							
Marketable securities adjustment	**-**	**-**	**-**	**-**	**22,938**	**-**	**22,938**
Actuarial gains (losses)	**-**	**-**	**-**	**-**	**(73,698)**	**-**	**(73,698)**
Other events:							
Revaluation of assets:							
Realization of Reserves (net of tax effects)	**-**	**(1,060)**	**-**	**-**	**-**	**1,060**	**-**
Net income for the six-month period	**-**	**-**	**-**	**-**	**-**	**383,704**	**383,704**
Allocations:							
Reserves	**-**	**-**	**19,185**	**286,150**	**-**	**(305,335)**	**-**
Prepaiment of IOE monetarily restated	**-**	**-**	**-**	**-**	**-**	**(1,768)**	**(1,768)**
Provision for complementary IOE for the year.....	**-**	**-**	**-**	**-**	**-**	**(94,013)**	**(94,013)**
Balances at 12/31/2017	**2,844,000**	**11,769**	**271,416**	**1,413,610**	**(998,758)**	**-**	**3,542,037**
Changes in the six-month period	**-**	**(1,060)**	**19,185**	**286,150**	**(50,760)**	**-**	**253,515**

Banco do Nordeste do Brasil S.A.

Cash flow statements
Years ended December 31, 2017 and 2016 and six-month period ended December 31, 2017
General Management and Branches in Brazil
(Amounts in R$ thousand)

	2nd half/2017	Year/2017	Year/2016
Cash flows from operating activities			
Net Income for the Period	**383,704**	**681,745**	732,071
Adjustments to Net Income:			
Depreciation and Amortization Expenses	**19,620**	**39,835**	41,993
(Reversal of) Provision for impairment of other assets	**(5)**	**6**	(12)
Allowance for loan losses, net	**177,029**	**452,371**	762,641
Allowance for Losses on Other Receivables, net	**(11,056)**	**90,004**	11,354
Provision for Financial Guarantees provided, net (FNE Risks).	**127,820**	**518,204**	969,562
Provision for Financial Guarantees provided, net (FDNE Risks)	**(42)**	**33**	(50)
Provision for contingencies, net	**(49,674)**	**(33,278)**	112,365
Provision for other contingencies, net	**30,594**	**37,402**	-
Actuarial liabilities (Post-employment benefits).	**104,512**	**203,964**	193,070
Provision for Debt Instruments Eligible to Capital	**147,780**	**193,014**	277,379
Reversal of provision for interest on equity instruments eligible to capital	**-**	**-**	(72,515)
Monetary Restatement of Judicial Deposits	**19,949**	**45,961**	63,759
Deferred Tax Asset	**(390,455)**	**(326,341)**	667,707
(Reversal of) Provision for Losses on Restricted Deposits-SFH	**8,035**	**(3,671)**	23,002
Setup (Reversal of) Other operating provisions	**-**	**-**	18,625
Adjusted net income	**567,811**	**1,899,249**	3,800,951
Interbank investments	**425,581**	**(30,005)**	(152,858)
Interbank and Interdepartmental accounts	**(77,504)**	**(295,048)**	(91,534)
Loans	**877,948**	**1,586,583**	298,863
Other Credits	**279,969**	**192,215**	(823,853)
Other assets	**(8,991)**	**323**	342
Deposits	**823,770**	**1,154,901**	(207,186)
Open Market Funding	**(6,386)**	**16,811**	(701,606)
Funds from acceptance and issue of securities	**(40,706)**	**(109,602)**	(120,602)
Loans and onlending obligations	**301,243**	**36,012**	(719,146)
Derivative financial instruments	**3,721**	**(23,024)**	206,986
Other liabilities	**1,688,836**	**5,424,906**	4,772,497
Reversal of Revaluation Reserve	**-**	**407**	-
Income and Social Contribution Taxes Paid	**(9,051)**	**(102,399)**	(340,158)
Prior-period adjustments	**16,352**	**7,215**	-
Cash provided by/(used in) operating activities	**4,842,593**	**9,758,544**	5,922,696
Cash flows from investing activities			
Addition To Investments	**321**	**318**	(100)
Addition To Investments in property and equipment in use	**(2,141)**	**(19,324)**	(22,860)
Addition To Investments in intangible assets	**(45)**	**(45)**	(3,293)
Addition ToInvestments in assets not for own use	**(280)**	**(679)**	(317)
Disposal of investments.	**-**	**-**	57
Disposal (write-off) of property and equipment in use.	**2,352**	**9,007**	4,123
Disposal of assets not for own use	**232**	**247**	181
Available-for-sale securities	**(1,765,750)**	**(5,934,041)**	(8,593,803)
Cash used in investing activities	**(1,765,311)**	**(5,944,517)**	(8,616,012)
Cash flows from financing activities			
Dividends and interest on equity paid	**(68,983)**	**(187,360)**	(71,376)
Hybrid debt/equity instruments paid	**-**	**-**	(393,390)
Debt Instruments Eligible to Principal Capital paid	**-**	**(213,928)**	-
Cash used in financing activities	**(68,983)**	**(401,288)**	(464,766)
Increase/(decrease) in cash and cash equivalents	**3,008,299**	**3,412,739**	(3,158,082)
Statement of changes in cash and cash equivalents			
At beginning of period	**9,833,669**	**9,429,229**	12,587,311
At end of period	**12,841,968**	**12,841,968**	9,429,229
Increase/(decrease) in cash and cash equivalents	**3,008,299**	**3,412,739**	(3,158,082)

Banco do Nordeste do Brasil S.A.

Statements of value added
Years ended December 31, 2017 and 2016, and Six-Month period ended December 31, 2017
General Management and Branches in Brazil
(Amounts in R$ thousand)

	2nd half/2017	%	12/31/2017	%	12/31/2016	%
Revenues	**4,107,401**		**7,836,668**		7,028,239	
Financial intermediation	**2,619,266**		**5,403,702**		5,438,822	
Services rendered and bank fees	**1,126,395**		**2,315,681**		2,309,358	
Allowance for loan losses	**(165,973)**		**(542,375)**		(773,995)	
Other income/expenses	**527,713**		**659,660**		54,054	
Expenses from financial intermediation	**(1,454,466)**		**(3,235,432)**		(3,347,110)	
Inputs acquired from third parties	**(600,299)**		**(1,157,810)**		(1,064,500)	
Materials, energy and other expenses	**(47,223)**		**(92,597)**		(84,032)	
Third-party services	**(300,161)**		**(571,646)**		(541,345)	
Other	**(252,915)**		**(493,567)**		(439,123)	
Data processing and telecommunications	**(137,858)**		**(280,795)**		(253,034)	
Advertising, promotions and publications	**(23,670)**		**(36,588)**		(25,874)	
Transportation	**(16,075)**		**(29,684)**		(27,343)	
Security	**(30,347)**		**(60,421)**		(56,146)	
Travel	**(7,705)**		**(14,624)**		(13,324)	
Other	**(37,260)**		**(71,455)**		(63,402)	
Gross value added	**2,052,636**		**3,443,426**		2,616,629	
Retentions	**(19,620)**		**(39,835)**		(41,993)	
Depreciation, Amortization and Depletion	**(19,620)**		**(39,835)**		(41,993)	
Net value added produced by the entity	**2,033,016**		**3,403,591**		2,574,636	
Total value added to be distributed	**2,033,016**		**3,403,591**		2,574,636	
Distribution of value added	**2,033,016**		**3,403,591**		2,574,636	
Personnel	**877,601**	**43.17**	**1,682,679**	**49.44**	1,600,801	62.2
Work compensation	**633,378**	**31.15**	**1,202,065**	**35.32**	1,129,295	43.9
Salaries	**609,433**		**1,159,089**		1,083,845	
Profit sharing	**23,945**		**42,976**		45,450	
Benefits	**201,833**	**9.93**	**395,758**	**11.63**	390,106	15.2
Provisions (post-employment benefits)	**105,227**		**205,333**		194,054	
Benefits - Other	**96,606**		**190,425**		196,052	
Unemployment Compensation Fund (FGTS)	**42,390**	**2.09**	**84,856**	**2.49**	81,400	3.2
Taxes, rates and contributions	**752,919**	**37.03**	**1,000,744**	**29.40**	202,636	7.9
Federal	**737,127**		**969,792**		174,585	
State	**17**		**47**		53	
Municipal	**15,775**		**30,905**		27,998	
Third-parties capital remuneration	**18,792**	**0.92**	**38,423**	**1.13**	39,128	1.5
Rent	**18,792**		**38,423**		39,128	
Equity remuneration	**383,704**	**18.87**	**681,745**	**20.03**	732,071	28.4
Interest on equity (IOE)	**95,781**	**4.71**	**165,014**	**4.85**	175,048	6.8
Government	**48,848**		**84,157**		89,275	
Other	**46,933**		**80,857**		85,773	
Dividends	**-**	**0.00**	**-**	**0.00**	-	0.0
Government	**-**		**-**		-	
Other	**-**		**-**		-	
Retained profits in the period	**287,923**	**14.16**	**516,731**	**15.18**	557,023	21.6

Contents - Notes to Financial Statements

1. The Bank and its characteristics

Banco do Nordeste do Brasil S.A. is a mixed economy publicly-held financial institution established by Federal Law No. 1649 of July 19, 1952, with head office at Avenida Dr. Silas Munguba, nº 5700, Passaré, Fortaleza, Ceará, Brazil, and its mission is: "to operate as the Development Bank for the Brazilian Northeast Region". Banco do Nordeste is authorized to operate all the portfolios permitted for multiple service banks, except mortgage loan portfolio. As an institution devoted to regional development, the Bank operates as the executive agent of public policies and is responsible for managing Fundo Constitucional de Financiamento do Nordeste (FNE) - the main source of funds used by the Bank for long-term financing - and the operation of the National Family Farming Strengthening Program (Programa Nacional de Fortalecimento da Agricultura Familiar - Pronaf) in its jurisdiction. The Bank is also the operator of the Northeast Investment Fund (Fundo de Investimentos do Nordeste - FINOR) and the Northeast Development Fund (Fundo de Desenvolvimento do Nordeste - FDNE). It has the largest micro-financing program in Latin America, consolidated under Crediamigo and Agroamigo, which facilitate access to loans to small entrepreneurs who engage in production-related, product sale, and service activities in urban and rural areas. In addition to federal funds, the Bank has access to other sources of financing in the domestic and foreign markets through funds raised directly, as well as partnerships with domestic and foreign institutions, including multilateral institutions such as the World Bank and the InterAmerican Development Bank (IDB).

2. Basis of preparation and presentation of financial statements

The financial statements were prepared in accordance with the provisions from the Brazilian Corporation Law, as amended by Laws No. 11638 and No. 11941 of 12/28/2007 and 05/27/2009, respectively, and regulations of the National Monetary Council (Conselho

Monetário Nacional - CMN), the Central Bank of Brazil (Banco Central do Brasil - BACEN), and the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários - CVM), and are presented in accordance with the Standard Chart of Accounts for National Financial Institutions (Plano Contábil das Instituições do Sistema Financeiro Nacional - Cosif).

The pronouncements issued by Brazil's Financial Accounting Standards Board - FASB (Comitê de Pronunciamentos Contábeis - CPC) in the process of convergence between the Brazilian accounting standards and the International Financial Reporting Standards (IFRS), adopted by the CMN by way of rules amended as well as those approved by the CVM that do not clash with CMN rules, are included in the Bank's financial statements as follows:

- CPC 00 (R1) - The Conceptual Framework for Financial Reporting (CMN Resolution No. 4144 of 09/27/2012);
- CPC 01 - Impairment of Assets (CMN Resolution No. 3566 of 05/29/2008);
- CPC 02 (R2) - Effects of Changes in Foreign Exchange Rates and Translation of Financial Statements (CMN Resolution No. 640 of 10/07/2010);
- CPC 03 - Cash Flow Statement - (CMN Resolution No. 3604 of 08/29/2008);
- CPC 05 - Related-Party Disclosures (CMN Resolution No. 3750 of 06/30/2009);
- CPC 09 - Statement of Value Added (CVM Rule No. 557 of 11/12/2008);
- CPC 12 - Present Value Adjustment (CVM Rule No. 564 of 12/17/2008);
- CPC 22 - Segment Reporting (CVM Rule No. 582 of 07/31/2009);
- CPC 23 - Accounting Policies, Changes in Accounting Estimates and Errors (CMN Resolution No. 4007 of 08/25/2011);
- CPC 24 - Subsequent Events (CMN Resolution No. 3973 of 05/26/2011);
- CPC 25 - Provisions, Contingent Liabilities and Contingent Assets (CMN Resolution No. 3823 of 12/16/2009);
- CPC 26 (R1) - Presentation of Financial Statements (CVM Rule No. 760 of 12/22/2016);
- CPC 27 - Property, Plant and Equipment (CVM Rule No. 583 of 07/31/2009);
- CPC 32 - Income Taxes (CVM Rule No. 599 of 09/15/2009);
- CPC 33 (R1) - Employee Benefits (CMN Resolution No. 4424 of 06/25/2015); and
- CPC 41 - Earnings per Share (CVM Rule No. 636 of 08/06/2010).

3. Summary of significant accounting practices

a) Functional currency

The Bank's functional and reporting currency is the Brazilian real.

Assets and liabilities denominated in foreign currency are initially recognized at the average currency rate in force on the transaction date, while nonmonetary assets are stated at historical cost.

At the end of each period, monetary assets and liabilities denominated in foreign currency are restated by the average exchange rate, and any variations are recorded in P&L for the year.

b) <u>P&L recognition criteria</u>

Revenues and expenses are recognized on a monthly basis, following the accrual method and considering the pro rata temporis criterion.

c) <u>Current and noncurrent assets and liabilities</u>

Assets and receivables are stated at realizable values, plus income earned and currency variations and currency fluctuation, less unearned income or allowance, if applicable. Liabilities are stated at original amounts plus, if applicable, charges and monetary and currency variations incurred, less deferred expenses. Available funds from FNE are classified in Current liabilities and Long-term payables according to the expected outflow of funds.

Receivables and payables are recorded in Current assets and Long-term receivables and in Current liabilities and Long-term payables, respectively, according to maturity dates.

d) <u>Cash and Cash Equivalents</u>

These correspond to the balances of cash and cash equivalents, interbank investments and marketable securities immediately convertible into cash or with original maturity equal to or less than ninety days, with an insignificant risk of change in their market value.

e) <u>Interbank Investments</u>

Interbank investments are recorded at acquisition cost or investment value, plus income earned and adjusted by the allowance for losses, when applicable.

f) <u>Marketable Securities</u>

Marketable securities are recorded at cost, plus brokerage and other fees, and are classified and evaluated as follows:

Available-for-sale securities: securities not classified as either trading securities or held-to-maturity securities and reported at marked value, net of taxes, with unrealized gains and losses matched against Equity; and

Held-to-maturity securities: securities that the Bank has the positive intent and ability to hold to maturity, stated at acquisition cost, plus income earned, against P&L for the period.

The classification of Available-for-sale securities and Held-to-maturity securities in current assets and long-term receivables was determined according to their maturities, which does not mean unavailability of the securities, which are of the highest quality and highly liquid.

g) Derivative financial instruments

Banco do Nordeste limits its operations in the derivative market to *swap* transactions intended solely to hedge its asset and liability positions.

Swap transactions are stated in balance sheet and memorandum accounts, according to their nature, based on prevailing accounting standards and legal provisions. They are measured at market value upon preparation of monthly trial balances and half-yearly balance sheet. Valuations or devaluations are stated in income or expense accounts. The rates disclosed by B3 S.A. are used to calculate the market value of these transactions.

Hedge Accounting

Considering the risk of foreign exchange exposure and conditions of the funding market abroad through long-term Senior Unsecured Notes - Eurobonds, the Bank designated derivative financial instruments (swap contracts) to fully hedge the loans raised and corresponding interest payable (market risk hedge). To equalize the effects of marked-to-market of derivative financial instruments designated as hedging instruments, the hedged item is also adjusted for changes in market value.

Changes in the market value of derivatives designated as hedging instruments and the market value adjustment of the hedged item (recorded as part of its book value) are recognized in P&L for the period. If the hedging instrument expires or is sold, cancelled or exercised, or when the hedging position does not fall under hedge accounting conditions, the hedging relationship ends.

The risk management objectives and the hedging strategy of such risks during the entire transaction are adequately documented, and so is the assessment of the transaction effectiveness. A hedge is expected to be highly effective if the changes in market value or cash flow attributed to the hedging instrument offsets the changes in market value of the hedged item, in an interval between 80% and 125%.

h) Loans, advances on exchange contracts, other receivables with loan features and allowance for loan losses

Loans, advances on exchange contracts, and other receivables with loan features are classified in accordance with ,management's judgment on risk level, taking into consideration the economic scenario, past experience and specific risks related to the operation, debtors and guarantors, considering the standards established by CMN Resolution No. 2682 of 12/21/1999, which require the periodic analysis of the portfolio and its rating into nine risk levels, where "AA" is the minimum risk and "H" is the maximum risk, as well as the classification of operations in arrears for more than 15 days as past due operations.

Income from loans over 59 days past due, regardless of the risk level, is only recognized as income when realized.

H-rated operations remain under this rating for 180 days, when they are then written off against the existing allowance and controlled for at least five years, no longer being included in the statements of financial position.

Renegotiated operations are kept at least at the same level into which they were classified.
Renegotiated loans that have been written off against the allowance are rated as H, and any recoveries are recognized as income when received.

i) Prepaid expenses

These refer to funds used in prepayments, whose benefits or service rendering will occur in coming years.

j) Permanent assets

Investments: these are stated at cost, net of allowance for losses.

Property and equipment in use: include depreciation calculated by the straight-line method at the following annual rates: Buildings - 4%; data processing systems and vehicles - 20%; tractors and motorcycles - 25%; and other items - 10%. Real properties in use include the revaluation amount.

Intangible assets comprise disbursements for acquisition of software rights that are currently in the implementation phase, the useful lives of which are estimated within 10 years, from the date of their availability for use, and will be amortized on a straight-line basis. When applicable, intangible assets will be adjusted for impairment losses.

k) Taxes

Corporate Income Tax (IRPJ) is calculated at the rate of 15% plus a 10% surtax (on taxable profit exceeding R$240 for the year), and Social Contribution Tax on Net Profit (CSLL) is calculated at the rate of 20% (until 12/31/2018, in compliance with Law No. 13169 of 10/06/2015), after adjustments in corporate profit defined in tax legislation. Deferred tax assets and liabilities are calculated on temporary differences between accounting and tax bases, arising from allowances for loan losses, provisions for post-employment benefits, mark-to-market of marketable securities, derivative financial instruments, and hedged item.

For accrual, maintenance and write-off of deferred tax assets, the criteria observed are established by CMN Resolution No. 3059, of 12/20/2002, and Bacen Circular No. 3171 of 12/30/2002, the latter establishing the procedures for recognition and accouting registration, and are supported by technical studies on capacity for realization (Note 21). The provisions of the CVM are also applicable, when not conflicting with the CMN and Bacen rules.

The federal contribution taxes on gross revenue for Public Service Employee Savings Program (PASEP) and for Social Security Financing (COFINS) are calculated at the rates of 0.65% and 4.00%, respectively.

l) Employee benefits

The Bank grants its employees short-term and post-employment benefits. Short-term benefits are recognized and measured at their original amounts (excluding the effect of the discount to present value or actuarial calculation), on an accrual basis.

Post-employment benefits refer to “defined benefit” and “variable contribution” pension plans, a defined benefit health care plan and defined benefit group life insurance.

For “defined benefit” plans and for the portion of unplanned benefits of the variable contribution plan, which has characteristics of defined benefit plan, the net current service cost and net interest on net actuarial liabilities, including interest on the defined benefit asset limit effect, as applicable, are recognized in P&L, whereas actuarial gains and losses and return on plan assets, less amounts considered in net interest, are recognized under “Equity adjustments”, in Equity.

Contributions referring to the portion of defined contribution of the variable contribution plan are recognized in P&L.

m) Deposits and open market funding

Deposits and open market funding are recognized at the amount of liabilities, and related charges, when applicable, are recorded on a pro rata day basis.

n) Impairment of assets

Impairment losses are recognized when the carrying amount of an asset exceeds its recoverable amount. Significant nonfinancial assets are reviewed at least at the end of each reporting period, to determine if there is any indication of impairment loss.

o) Provisions, contingent assets, contingent liabilities and legal obligations

Provisions, contingent assets, contingent liabilities and legal obligations are recognized, measured and disclosed according to the criteria defined in CPC 25 - Provisions, Contingent Liabilities and Contingent Assets, approved by CMN Resolution No. 3823 of 12/16/2009, and BACEN Circular Letter No. 3429 of 02/11/2010.

Provisions for civil, tax, labor and other claims are recognized in the financial statements when, based on the opinion of legal advisors and management, the likelihood of loss in a given legal or administrative proceeding is assessed as probable, the settlement of which is likely to result in an outflow of economic benefits, and the amounts involved can be reliably measured upon court reference/notification, reviewed as required by procedural changes, and monetarily restated on a monthly basis.

The assessment of the provision and contingent liability, risk level of new lawsuits, and reassessment of already existing claims are made by the Banks’s Legal Department, case by case, and are classified according to the likelihood of loss, as probable, possible and remote. Such classification is based on analysis of the following factors: i) reasonableness of the factual and legal arguments of the other party; ii) arguments and legal basis developed by the Bank; iii) history of losses in similar cases;
iv) understanding of higher courts and supervisory authorities on the matters in litigation; v) decisions already rendered on each proceeding (decision, award, injunction, interim relief, writ of payment or writ of attachment, etc.); and vi) existence of procedural defects in administrative and legal proceedings.

Contingencies classified as probable losses are accounted for and represented by Civil proceedings (claiming compensation for pain and suffering and property damages, including, among others, protest of notes, return of checks, and provision of information to credit reporting agencies); Labor claims (claiming labor rights, in light of specific professional category legislation, such as overtime pay, salary equalization, job reinstatement, transfer allowance, severance pay, retirement supplementation, including enforcement notices issued by Regional Labor Offices and others); Tax and Social Security proceedings (represented by legal and administrative proceedings involving federal and municipal taxes); and Other proceedings (such as enforcement notices issued by Regional Councils that regulate the exercise of professions). For lawsuits unfavorable outcome of which is possible or remote, provisions are not set up, as provided for in legal and regulatory requirements, except for legal obligations.

Contingent assets and liabilities are not recognized in the financial statements.

Legal obligations derive from tax obligations and a provision in their full amount is recognized in the financial statements, regardless of the likelihood of success in ongoing lawsuits.

p) Subordinated debts

Subordinated debts are recorded at the cost of acquisition, restated by reference to the extra-market rate disclosed by BACEN when the funds are available and, when invested, by reference to the charges agreed upon by the borrowers.

q) Interest on Equity (IOE) and Dividends

The shareholders are entitled to receive, as mandatory minimum dividend for each year, 25% (twenty-five percent) of the net income for the year, adjusted according to the Law, as established in the Bank's Charter. Interest on equity may be attributed on dividends.

r) Use of estimates

The preparation of the financial statements includes estimates and assumptions, such as in determining allowances for loan losses, market value measurement of financial instruments, provision for contingencies, impairment losses and other provisions, e.g. provision for actuarial liabilities for health care and supplementary pension plans, and life insurance. Actual results could differ from such estimates and assumptions.

s) Earnings per share

The Bank's basic and diluted earnings per share were calculated by dividing net income attributable to shareholders by the weighted average number of total common shares. The Bank has no stock option, subscription bonus or any other right to acquire shares. Accordingly, basic and diluted earnings per share are the same.

4. Segment reporting

For management purposes, the Bank is organized into two operating segments based on products and services:

(a) Own Portfolio - comprises own portfolio products and services such as: lending and market operations, fund management and provision of other banking services and collaterals; and

(b) FNE - comprises loans within the scope of FNE.

Bank management manages operating income (loss) separately in order to make decisions on the fund allocation and performance assessment. The performance of each segment is assessed based on the financial margin plus bank fees.

For the periods ended 12/31/2017 and 12/31/2016, no revenue from transactions with one single customer accounted for 10% or more of the Bank’s total revenue.

The table below shows information on revenues, costs, expenses and financial margin of operating segments. Administrative expenses, as well as other expenses not directly allocated to each operating segment, are classified as corporate expenses and were included in column “Total”:

Specification	2nd half/2017 Own portfolio	FNE	Total	01/01 to 12/31/2017 Own portfolio	FNE	Total	01/01 to 12/31/2016 Own portfolio	FNE	Total
Revenues	**2,120,061**	**1,575,821**	**3,695,882**	**4,010,893**	**3,321,112**	**7,332,005**	5,264,818	2,334,339	7,599,157
Income from loans	**1,050,342**	**-**	**1,050,342**	**2,000,122**	**-**	**2,000,122**	2,055,623	-	2,055,623
Gains (losses) on marketable securities transactions	**577,587**	**931,747**	**1,509,334**	**1,236,609**	**2,036,838**	**3,273,447**	2,430,958	1,079,630	3,510,588
Gains (losses) on derivative financial instruments	**(11,852)**	**-**	**(11,852)**	**(2,900)**	**-**	**(2,900)**	(249,874)	-	(249,874)
Foreign exchange gains (losses)	**47,816**	**-**	**47,816**	**110,323**	**-**	**110,323**	86,983	-	86,983
Compulsory investment yield	**23,626**	**-**	**23,626**	**22,710**	**-**	**22,710**	35,502	-	35,502
Other revenues	**432,542**	**644,074**	**1,076,616**	**644,029**	**1,284,274**	**1,928,303**	905,626	1,254,709	2,160,335
Expenses	**(706,938)**	**(1,041,920)**	**(1,748,858)**	**(1,783,334)**	**(2,514,779)**	**(4,298,113)**	(2,168,062)	(2,924,363)	(5,092,425)
Expenses on open market funding	**(476,133)**	**-**	**(476,133)**	**(1,102,588)**	**-**	**(1,102,588)**	(1,356,044)	-	(1,356,044)
xpenses on borrowings and onlending	**(64,832)**	**(913,501)**	**(978,333)**	**(138,371)**	**(1,994,473)**	**(2,132,844)**	(38,023)	(1,953,043)	(1,991,066)
Allowance for loan losses (Note 9)	**(165,973)**	**(128,415)**	**(294,388)**	**(542,375)**	**(520,264)**	**(1,062,639)**	(773,995)	(969,562)	(1,743,557)
Other contingent liabilities (Note 20.g)	**-**	**-**	**-**	**-**	**-**	**-**	-	(947)	(947)
Proagro provision receivable	**-**	**(4)**	**(4)**	**-**	**(42)**	**(42)**	-	(811)	(811)
Financial margin	**1,413,123**	**533,901**	**1,947,024**	**2,227,559**	**806,333**	**3,033,892**	3,096,756	(590,024)	2,506,732
Service revenues	**258,714**	**834,178**	**1,092,892**	**483,443**	**1,765,972**	**2,249,415**	431,851	1,816,523	2,248,374
Income from fees, charges and commissions	**33,503**	**-**	**33,503**	**66,266**	**-**	**66,266**	60,984	-	60,984
PASEP and COFINS	**(63,600)**	**(72,962)**	**(136,562)**	**(76,834)**	**(191,803)**	**(268,637)**	(147,789)	(110,840)	(258,629)
Income after fees and commissions	**1,641,740**	**1,295,117**	**2,936,857**	**2,700,434**	**2,380,502**	**5,080,936**	3,441,802	1,115,659	4,557,461
Administrative expenses			**(1,622,501)**			**(3,136,415)**			(2,950,566)
Personnel expenses			**(983,790)**			**(1,900,347)**			(1,804,945)
Depreciation and amortization			**(19,620)**			**(39,835)**			(41,993)
Other administrative expenses			**(619,091)**			**(1,196,233)**			(1,103,628)
Other expenses			**(393,414)**			**(712,692)**			(1,026,756)
Expenses with provisions, except allowance for loan losses			**(45,012)**			**(69,314)**			(138,067)
Income before taxation and profit sharing			**875,930**			**1,162,515**			442,072
ncome and social contribution taxes			**(468,281)**			**(437,794)**			335,449
Profit sharing			**(23,945)**			**(42,976)**			(45,450)
Net income			**383,704**			**681,745**			732,071

5. Cash and cash equivalents

Specification	12/31/2017	12/31/2016
Cash and cash equivalents in local currency	**145,271**	127,664
Cash in foreign currency	**16,247**	56,911
Total cash and cash equivalents	**161,518**	184,575
Interbank investments [(1)]	**12,680,450**	9,244,654
Total cash and cash equivalents	**12,841,968**	9,429,229

(1) Transactions whose maturity on the investment date is within 90 days.

6. Interbank investments

a) Breakdown

Specification	12/31/2017	12/31/2016
a) Open market investments	**12,787,577**	9,314,933
Resale agreements pending settlement - Self-funded position	**12,680,450**	9,244,654
Resale agreements pending settlement - Financed position	**107,127**	70,279
b) Interbank deposits	**143,507**	150,350
Investments in foreign currencies	**27,953**	-
Interbank investments	**115,554**	150,350
Total	**12,931,084**	9,465,283
Short-term	**12,931,084**	9,465,283

b) Income from interbank investments

Specification	2nd half/2017	01/01 to 12/31/2017	01/01 to 12/31/2016
a) Income from open market investments (Note 7.b)	**463,338**	**960,863**	1,175,179
Self-funded position	**459,486**	**953,270**	1,165,753
Financed position	**3,852**	**7,593**	9,426
b) Income from interbank deposits (Note 7.b)	**606**	**6,892**	350
Total	**463,944**	**967,755**	1,175,529

7. Marketable securities and derivative financial instruments

a) Marketable securities

The restated cost (plus income earned) and the market value of marketable securities are as follows:

(a.1) Marketable Securities and Derivative Financial Instruments

Specification	12/31/2017	12/31/2016
Available-for-sale securities	**26,230,001**	20,259,164
Held-to-maturity securities	**203,025**	186,224
Swap differential receivable	**426,513**	403,488
Total	**26,859,539**	20,848,876
Short-term	**2,335,215**	4,050,575
Long-term	**24,524,324**	16,798,301

(a.2) Available-for-sale securities

Specification	12/31/2017								
	Maturity								
	No maturity	0 to 30 days	31 to 180 days	181 to 360 days	Over 360 days	Cost value	Market/book value	Market adjustment	Maturity
Fixed income securities	-	-	2,153,220	142,110	23,478,025	26,335,849	25,773,355	(562,494)	
Financial Treasury Bills (LFT)	-	-	1,145,941	-	21,468,104	22,598,239	22,614,045	15,806	2018 to 2023
National Treasury Notes (NTN)	-	-	-	-	1,332,596	1,256,840	1,332,596	75,756	2050
Financial Bills	-	-	990,275	142,084	585,742	1,754,333	1,718,101	(36,232)	2018 to 2019
Debentures	-	-	16,904	-	87,545	688,011	104,449	(583,562)	2018 to 2041
Federal government securities - FCVS	-	-	-	-	3,838	4,615	3,838	(777)	2027
Federal government securities - other	-	-	-	-	-	33,396	-	(33,396)	1993
Agrarian Debt Securities (TDAs)	-	-	100	26	200	415	326	(89)	2018 to 2022
Investment fund shares	392	-	-	-	-	1,997	392	(1,605)	
Social Development Funds (FDS)	-	-	-	-	-	1,605	-	(1,605)	No maturity
Investment Guarantee Fund (FGI)	362	-	-	-	-	362	362	-	No maturity
Operation Guarantee Fund (FGO)	30	-	-	-	-	30	30	-	No maturity
Variable income securities	26,870	-	-	-	-	22,247	26,870	4,623	
Other tax incentives (FINOR)	171	-	-	-	-	109	171	62	No maturity
Publicly-traded companies shares	26,699	-	-	-	-	22,138	26,699	4,561	No maturity
Security deposits (1)	-	-	-	-	429,384	429,490	429,384	(106)	
Financial Treasury Bills (LFT)	-	-	-	-	413,770	413,041	413,770	729	2020 to 2023
Federal government securities - other	-	-	-	-	-	845	-	(845)	1993
Debentures	-	-	-	-	15,614	15,604	15,614	10	2019
Total of category	27,262	-	2,153,220	142,110	23,907,409	26,789,583	26,230,001	(559,582)	
Tax credit (Note 21.c)								270,294	
Provision for deferred taxes and contributions (Note 21.d)								(39,987)	
Total market value adjustment								(329,275)	

Specification	No maturity	0 to 30 days	Maturity 31 to 180 days	181 to 360 days	Over 360 days	Cost value	Market/book value	Market adjustment	Maturity
					12/31/2016				
Fixed income securities	-	-	2,113,406	1,606,186	16,191,268	20,574,867	19,910,860	(664,007)	
Financial Treasury Bills (LFT)	-	-	1,975,238	1,468,599	12,997,447	16,474,904	16,441,284	(33,620)	2017 to 2022
National Treasury Notes (NTN)	-	-	-	-	1,561,353	1,532,143	1,561,353	29,210	2050
Financial Bills	-	-	138,060	137,564	1,528,758	1,858,041	1,804,382	(53,659)	2017 to 2019
Debentures	-	-	-	-	98,278	670,579	98,278	(572,301)	2018 to 2041
Federal government securities - FCVS	-	-	-	-	5,133	5,116	5,133	17	2027
Federal government securities - other	-	-	-	-	-	33,507	-	(33,507)	1993
Agrarian Debt Securities (TDAs)	-	-	108	23	299	577	430	(147)	2017 to 2022
Investment fund shares	327	-	-	-	-	1,895	327	(1,568)	
Social Development Funds (FDS)	-	-	-	-	-	1,568	-	(1,568)	No maturity
Investment Guarantee Fund (FGI)	313	-	-	-	-	313	313	-	No maturity
Operation Guarantee Fund (FGO)	14	-	-	-	-	14	14	-	No maturity
Variable income securities	32,477	-	-	-	-	13,025	32,477	19,452	
Other tax incentives (FINOR)	109	-	-	-	-	109	109	-	No maturity
Publicly-traded companies shares	32,368	-	-	-	-	12,916	32,368	19,452	No maturity
Security deposits (1)	-	-	287,504	-	27,996	316,390	315,500	(890)	
Financial Treasury Bills (LFT)	-	-	287,504	-	7,439	295,107	294,943	(164)	2017 to 2022
Federal government securities - other	-	-	-	-	-	848	-	(848)	1993
Debentures	-	-	-	-	20,557	20,435	20,557	122	2019
Total of category	32,804	-	2,400,910	1,606,186	16,219,264	20,906,177	20,259,164	(647,013)	
Tax credit (Note 21.c)								284,811	
Provision for deferred taxes and contributions (Note 21.d)								(20,670)	
Total market value adjustment								(382,872)	

(1) Breakdown: Guarantees on stock exchange transactions R$254,543 (R$230,402 at 12/31/2016); guarantees on clearing house association transactions R$2,896 (R$2,617 at 12/31/2016); guarantees on legal proceedings R$145.732 (R$58,733 at 12/31/2016); and other guarantees R$26,213 (R$23,748 at 12/31/2016).

Account “Federal Government Securities - Other” under items Fixed Income Securities and Security Deposits records cash investments in government securities named by the National Treasury as NUCL910801, maturing on 08/31/1993, but not yet redeemed by the National Treasury. These securities recorded a full devaluation due to their maturity, without, however, falling under the concept of permanent loss, as provided by BACEN Circular Letter No. 3068 of 11/08/2001.

In view of the classification of assets under “Available-for-sale securities”, the amount of R$(559,582) ((R$647,013) at 12/31/2016) was recorded in Equity under “Market value adjustments” account. Such adjustment, net of taxes, corresponds to R$(329,275) ((R$382,872) at 12/31/2016).

(a.3) Held-to-maturity securities

Specification	No maturity	0 to 30 days	31 to 180 days	181 to 360 days	Over 360 days	Cost (book) value	Market value (1)	Maturity
	12/31/2017							
	Maturity							
Fixed income securities	**-**	**-**	**12,624**	**-**	**190,401**	**203,025**	**139,857**	
National Treasury Notes (NTN) - P	**-**	**-**	**-**	**-**	**166,832**	**166,832**	**103,664**	**2030**
Investment Fund Shares - Criatec	**-**	**-**	**-**	**-**	**10,240**	**10,240**	**10,240**	**2019**
Investment Fund Shares - Criatec II	**-**	**-**	**-**	**-**	**11,218**	**11,218**	**11,218**	**2023**
Investment Fund Shares - Criatec III	**-**	**-**	**-**	**-**	**958**	**958**	**958**	**2025**
FIP Brasil Agronegócios	**-**	**-**	**12,624**	**-**	**-**	**12,624**	**12,624**	**2018**
Nordeste III FIP	**-**	**-**	**-**	**-**	**1,153**	**1,153**	**1,153**	**2022**
Total of category	**-**	**-**	**12,624**	**-**	**190,401**	**203,025**	**139,857**	

Specification	No maturity	0 to 30 days	31 to 180 days	181 to 360 days	Over 360 days	Cost (book) value	Market value (1)	Maturity
	12/31/2016							
	Maturity							
Fixed income securities	-	-	-	10,676	175,548	186,224	144,981	
National Treasury Notes (NTN) - P	-	-	-	-	156,328	156,328	115,085	2030
Investment Fund Shares - Criatec	-	-	-	10,676	-	10,676	10,676	2017
Investment Fund Shares - Criatec II	-	-	-	-	8,366	8,366	8,366	2023
Investment Fund Shares - Criatec III	-	-	-	-	438	438	438	2025
FIP Brasil Agronegócios	-	-	-	-	10,237	10,237	10,237	2018
Nordeste III FIP	-	-	-	-	179	179	179	2022
Total of category	-	-	-	10,676	175,548	186,224	144,981	

(1) The market values described above are for illustrative purposes only, and no accounting record has been made in this respect, as required by BACEN Circular Letter No.3068 of 11/08/2001.

(a.4) In the period, there were no reclassifications of marketable securities into the categories above, and no held-to-maturity securities were sold.

(a.5) The criteria below are used to obtain market value, according to the following order of priority:

- 1st - Market Prices disclosed by the National Association of Financial Market Institutions (Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais - Anbima) and B3 S.A.;
- 2nd - Goodwill/Negative Goodwill on transactions occurred over the past 3 months in B3 S.A.; and
- 3rd - Calculation of probable realizable value based on own pricing model.

(a.6) Bank Management states that the institution has the financial capacity and the intention to keep these securities held under this category until maturity.

b) Gain (loss) on marketable securities

Specification	2nd half/2017	01/01 to 12/31/2017	01/01 to 12/31/2016
Open market investments (Note 6.b)	**463,338**	**960,863**	1,175,179
Interbank deposits (Note 6.b)	**606**	**6,892**	350
Fixed income securities	**1,045,231**	**2,305,001**	2,334,030
Variable income securities	**159**	**691**	1,029
Total	**1,509,334**	**3,273,447**	3,510,588

c) Derivative financial instruments

The Bank operates under a conservative investment policy focused on investing strictly in compliance with the maturity terms and rates established by the respective sources of funds in order to avoid any mismatching among assets and liabilities in terms of maturities, interest rates and applicable indexes.

At 12/31/2017, the Bank had swap transactions registered with B3 S.A., and the notional value of these transactions is recorded in memorandum accounts (notional value) while the related book value is recorded under the captions 'Differential payable' and 'Differential receivable', as shown below:

	Breakdown at 12/31/2017							
		Market value		Curve value		Market adjustment		Market adjustment, net
Specification	**Notional value**	**Differential receivable**	**Differential payable**	**Differential receivable**	**Differential payable**	**Positive**	**Negative**	
Long position								
Foreign currency (dollar)	**578,615**	**426,513**	**-**	**413,894**	**-**	**12,619**	**-**	**12,619**
Short position								
Fixed rate	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**578,615**	**426,513**	**-**	**413,894**	**-**	**12,619**	**-**	**12,619**
Provision for deferred taxes and contributions (Note 21.d)								**5,048**

Specification	Notional value	Market value: Differential receivable	Market value: Differential payable	Curve value: Differential receivable	Curve value: Differential payable	Market adjustment: Positive	Market adjustment: Negative	Market adjustment, net
				Breakdown at 12/31/2016				
Long position								
Foreign currency (dollar)	578,615	403,488	-	392,844	-	10,644	-	10,644
Short position								
Fixed rate	-	-	-	-	-	-	-	-
Total	578,615	403,488	-	392,844	-	10,644	-	10,644
Provision for deferred taxes and contributions (Note 21.d)								4,258

Specification	12/31/2017 Differential receivable	12/31/2017 Differential payable	12/31/2016 Differential receivable	12/31/2016 Differential payable
Within 3 months	**-**	**-**	-	-
3 to 12 months	**-**	**-**	-	-
1 to 3 years	**426,513**	**-**	403,488	-
3 to 5 years	**-**	**-**	-	-
Total	**426,513**	**-**	403,488	-

c.1) *Derivative financial instruments classified as market risk hedge (hedge accounting)*

Specification	12/31/2017				
	Curve value		Market value		
Hedging instruments	**Assets - dollar**	**Liabilities - CDI**	**Assets - dollar**	**Liabilities - CDI**	**Market value adjustment**
Swap - Foreign currency - Long position	**999,154**	**585,260**	**1,011,773**	**585,260**	**12,619**

Hedged item	Curve value (1)	Market value (1)	Market value adjustment
Eurobonds - Senior Unsecured Notes	**999,274**	**1,011,786**	**12.512**
Tax credit (Note 21.c)			**5,004**

(1) Net of tax effects at source on interest from loan of R$982.

Specification	12/31/2016				
	Curve value		Market value		
Hedging instruments	**Assets - dollar**	**Liabilities - CDI**	**Assets - dollar**	**Liabilities - CDI**	**Market value adjustment**
Swap - Foreign currency - Long position	984,503	591,659	995,147	591,659	10,644

Hedged item	Curve value (1)	Market value (1)	Market value adjustment
Eurobonds - Senior Unsecured Notes	984,622	995,151	10.529
Tax credit (Note 21.c)			4,211

(1) Net of tax effects at source on interest from loan of R$969.

The transactions with derivative financial instruments for hedging purposes were assessed as effective under BACEN Circular Letter No. 3082 of 01/30/2002, based on the financial flows (principal and interest) of the hedged item, Eurobonds - Senior Unsecured Notes, and of hedging instruments (swap contracts).

d) Gain (loss) on derivative financial instruments

Specification	2nd half/2017	01/01 to 12/31/2017	01/01 to 12/31/2016
Swap	**(11,852)**	**(2,900)**	(249,874)
Total	**(11,852)**	**(2,900)**	(249,874)

8. Interbank accounts - linked credits

a) Linked credits

Specification	12/31/2017 Gross amount	12/31/2017 Provision	12/31/2017 Net amount	12/31/2016 Gross amount	12/31/2016 Provision	12/31/2016 Net amount
Mandatory payments	**382,760**	**-**	**382,760**	122,735	-	122,735
Compulsory reserves - Cash funds	**123,558**	**-**	**123,558**	95,600	-	95,600
National Housing System (SFH)	**74,821**	**(8,182)**	**66,639**	70,580	(4,511)	66,069
National Treasury - Rural credit	**-**	**-**	**-**	651	(645)	6
Total	**581,139**	**(8,182)**	**572,957**	289,566	(5,156)	284,410
Short-term	**506,318**	**-**	**506,318**	218,341	(6)	218,335
Long-term	**74,821**	**(8,182)**	**66,639**	71,225	(5,150)	66,075

b) Compulsory investment yield/loss

Specification	2nd half/2017	01/01 to 12/31/2017	01/01 to 12/31/2016
Income from linked credits - Central Bank of Brazil	**12,894**	**21,429**	7,220
Income from linked credits - SFH	**2,018**	**4,240**	5,125
Income from linked credits - Rural Credit	**-**	**33**	68
Appreciation (Depreciation) of linked credits	**8,714**	**(2,992)**	23,089
Total	**23,626**	**22,710**	35,502

9. Loan portfolio and allowance for loan losses

a) Loan portfolio and allowance for loan losses

Specification	12/31/2017 Gross amount	12/31/2017 Allowance	12/31/2016 Gross amount	12/31/2016 Allowance
Loans	**10,044,514**	**(945,061)**	12,373,957	(1,235,550)
Short-term	**4,676,166**	**(492,465)**	5,322,670	(548,029)
Long-term	**5,368,348**	**(452,596)**	7,051,287	(687,521)
Other accounts with loan features	**913,565**	**(5,788)**	619,979	(195,538)
Short-term	**911,561**	**(5,788)**	616,758	(195,538)
Long-term	**2,004**	**-**	3,221	-
Total	**10,958,079**	**(950,849)**	12,993,936	(1,431,088)

a.1) *Breakdown of loan portfolio*

Specification	12/31/2017	12/31/2016
Advances to depositors	**374**	441
Loans	**4,749,224**	5,313,172
Discounted notes	**33,978**	49,836
Financing	**1,929,132**	2,412,656
Financing in foreign currency	**60,186**	62,423
Refinancing with the Federal Government (Note 29.a.1)	**-**	552,221
Rural and agroindustrial financing	**1,394,921**	1,872,488
Real estate financing (1)	**243**	243
Infrastructure and development financing	**1,876,456**	2,110,477
Loans subtotal	**10,044,514**	12,373,957
Income receivable from advances granted	**11,204**	38,950
Debtors for purchase of assets	**1,311**	3,172
Notes and credits receivable (Note 10)	**50,221**	70,841
Advances on Exchange Contracts (ACC) (2) (Note 11.a)	**850,829**	507,016
Other accounts with loan features subtotal	**913,565**	619,979
Total	**10,958,079**	12,993,936

(1) Refer to transactions contracted before the discontinuance of real estate financing activities.

(2) Accounts classified as “Other payables/ foreign exchange portfolio”.

a.2) *Income from loans*

Specification	2nd half/2017	01/01 to 12/31/2017	01/01 to 12/31/2016
Loans and discounted notes	**477,855**	**976,773**	1,122,500
Financing	**258,581**	**571,108**	636,931
Rural and agroindustrial financing	**200,379**	**297,554**	196,465
Recovery of loans written off as losses	**113,527**	**154,684**	99,599
Other amounts	**-**	**3**	128
Total	**1,050,342**	**2,000,122**	2,055,623

b) Breakdown by maturity

b.1) *Current loans (1)*

Type of customer/activity	01 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Over 360 days	Total at 12/31/2017	Total at 12/31/2016
Rural	10,041	2,806	474	4,741	8,192	1,331,800	**1,358,054**	1,780,128
Manufacturing	43,621	57,496	36,151	133,948	709,464	1,639,017	**2,619,697**	2,653,134
Government	9,958	9,958	31,594	29,942	81,792	532,293	**695,537**	1,380,519
Other services	101,971	97,685	108,360	238,011	260,160	1,121,022	**1,927,209**	2,471,145
Trade	734,025	601,607	526,043	883,532	307,496	481,733	**3,534,436**	3,773,594
Financial brokers	37	28	28	80	157	534	**864**	207
Housing	76	33	27	65	74	311	**586**	672
Individuals	27,398	12,182	7,630	15,394	14,474	14,654	**91,732**	94,793
Total 12/31/2017	**927,127**	**781,795**	**710,307**	**1,305,713**	**1,381,809**	**5,121,364**	**10,228,115**	
Total 12/31/2016	1,040,815	896,071	737,381	1,553,234	1,141,093	6,785,598		12,154,192

(1) Include loans overdue up to 14 days.

b.2) *Past-due loans*

Type of Customer/Activity	Falling due installments							
	01 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Over 360 days	Total at 12/31/2017	Total at 12/31/2016
Rural	81	42	2	142	718	892	**1,877**	36,609
Manufacturing	3,581	3,857	3,446	10,781	20,875	120,306	**162,846**	118,231
Other services	62,971	4,178	3,717	13,339	21,737	65,174	**171,116**	137,527
Trade	14,253	11,395	8,749	18,371	26,175	61,683	**140,626**	220,678
Financial brokers	-	-	-	-	-	-	**-**	19
Individuals	232	230	221	609	897	2,014	**4,203**	3,635
Total 12/31/2017	**81,118**	**19,702**	**16,135**	**43,242**	**70,402**	**250,069 (1)**	**480,668**	
Total 12/31/2016	29,875	27,780	24,269	62,434	104,396	267,945		516,699

Type of customer/activity	Past-due installments								
	01 to 14 days	15 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Over 360 days (2)	Total at 12/31/2017	Total at 12/31/201
Rural	-	705	451	1,068	1,282	495	40,019	**44,020**	52,671
Manufacturing	702	3,130	5,060	7,773	8,852	9,132	77	**34,726**	36,110
Other services	2,919	2,892	4,448	5,158	22,800	12,591	2,294	**53,102**	73,492
Trade	1,891	9,830	13,581	10,381	25,745	44,400	177	**106,005**	143,418
Financial brokers	-	-	-	-	2	-	-	**2**	2
Housing	-	-	-	-	169	78	-	**247**	396
Individuals	73	889	1,012	774	2,446	5,712	288	**11,194**	16,956
Total 12/31/2017	**5,585**	**17,446**	**24,552**	**25,154**	**61,296**	**72,408**	**42,855 (1)**	**249,296**	
Total 12/31/2016	8,312	20,602	36,118	30,854	86,129	94,875	46,155		323,045

(1) These include amounts referring to loans taken out based on CMN Resolution No. 2471, of 02/26/1998.

(2) Classified as current assets in the balance sheet.

c) Breakdown by risk level

Risk level	12/31/2017				12/31/2016			
	Current loan (1)	Past-due loan	Total portfolio	Allowance	Current loan (1)	Past-due loan	Total portfolio	Allowance
AA	**4,112,754**	**-**	**4,112,754**	**-**	5,269,455	-	5,269,455	-
A	**4,112,276**	**-**	**4,112,276**	**(20,561)**	3,796,590	-	3,796,590	(18,983)
B	**1,073,569**	**30,020**	**1,103,589**	**(11,037)**	792,390	45,384	837,774	(8,378)
C	**98,991**	**34,045**	**133,036**	**(3,992)**	657,005	51,108	708,113	(21,243)
D	**365,755**	**28,980**	**394,735**	**(39,473)**	712,588	43,742	756,330	(75,633)
E	**61,102**	**38,088**	**99,190**	**(29,757)**	185,810	92,886	278,696	(83,609)
F	**21,902**	**236,755**	**258,657**	**(129,328)**	22,255	118,838	141,093	(70,546)
G	**50,870**	**39,600**	**90,470**	**(63,329)**	110,218	67,075	177,293	(124,104)
H	**330,896**	**322,476**	**653,372**	**(653,372) (2)(3)**	607,881	420,711	1,028,592	(1,028,592) (2
Total	**10,228,115**	**729,964**	**10,958,079**	**(950,849)**	12,154,192	839,744	12,993,936	(1,431,088)

(1) Include loans overdue up to 14 days.

(2) Includes allowance to cover the Bank risk on loan transactions with indication of irregularities in the amount of R$17 (R$230 at 12/31/2016).

(3) Includes effects of renegotiations of loans, based on Law No. 13340, of 09/28/2016, which authorized granting of rebates and renegotiation of debts from rural credit operations contracted up to 12/31/2011, with FNE funds and mixed funds from FNE and other sources.

d) Changes in the allowance for the period

Specification	12/31/2017	12/31/2016
Opening balance of allowance for losses on loan portfolio	**1,431,088**	1,127,873
(+) Allowance recognized/(reversed) for the period	**543,965**	791,974
(-) Loans written off as loss for the period	**(1,024,204)**	(488,759)
(=) Net allowance for losses on loan portfolio	**950,849**	1,431,088
Opening balance of allowance for losses on other receivables without loan features	**28,824**	46,804
(+) Allowance recognized for the period	**1,215**	230
(-) Reversal of allowance for the period	**(2,801)**	(18,210)
(=) Net allowance for losses on other receivables without loan features (Note 10.e)	**27,238**	28,824
(=) Balance of allowance for loan losses	**978,087**	1,459,912

e) Breakdown of the allowance expense balance

Specification	2nd half/2017	01/01 to 12/31/2017	01/01 to 12/31/2016
(+) Allowance for loan losses - expenses	**177,028**	**452,374**	762,641
(+) Expenses on allowance for losses on other receivables	**-**	**101,396**	46,501
(+) Reversal of operating provisions	**(9,805)**	**(9,805)**	(17,168)
(=) Balance of expenses with allowance for losses with loan features	**167,223**	**543,965**	791,974
(+) Allowance for losses on other receivables without loan features	**609**	**1,156**	231
(-) Reversals of allowances for other receivables without loan features	**(1,859)**	**(2,746)**	(18,210)
(=) Balance of expenses on allowance for loan losses (Note 4)	**165,973**	**542,375**	773,995

f) Financial guarantees provided

Specification	12/31/2017		12/31/2016	
	Balance	Allowance	Balance	Allowance
In connection with the International Commodity Trade	**2,234**	**-**	1,822	-
Other bank guarantees	**450**	**-**	-	-
Public sector	**21,491,232**	**(3,084,589)**	21,054,923	(3,231,000)
FDNE	**127,239**	**(636)**	119,260	(604)
FNE	**21,363,190**	**(3,083,953)**	20,930,819	(3,229,308)
Proagro	**803**	**-**	4,844	(1,088)

g) Loan concentration

Specification	12/31/2017		12/31/2016	
	Balance	% of portfolio	Balance	% of portfolio
10 major debtors	**2,270,716**	**20,72**	2,643,611	20,34
50 major debtors	**4,377,577**	**39,95**	4,948,296	38,08
100 major debtors	**5,002,911**	**45,65**	5,729,029	44,09

h) In the year, receivables that had been written off as loss were recovered in the amount of R$154,683 (R$99,599 at 12/31/2016) and renegotiations amounted to R$713,377 (R$1,282,081 at 12/31/2016).

10. Other receivables

Specification	12/31/2017	12/31/2016
a) Foreign Exchange Portfolio (Note 11.a)	**885,164**	612,278
b) Income receivable	**16,480**	13,921
c) Trading and intermediation of securities	**12**	12
d) Sundry	**3,325,879**	3,748,539
Tax credits - Provisions (Note 21.c)	**1,328,513**	1,594,773
Tax credits - Actuarial provisions (Note 21.c)	**681,068**	537,643
Tax credits - marketable securities, derivative financial instruments and hedged item (Note 7.a.2., Note 7.c and Note 21.c)	**275,298**	289,022
Debtors for escrow deposits	**352,207**	692,167
Taxes and contributions to be offset	**74,244**	303,112
Tax incentive options	**26,748**	26,748
Notes and credits receivable (Note 9.a.1)	**50,221**	70,841
Advances and early salary payment	**2,378**	2,446
Payments to be refunded	**14,267**	17,802
Amounts receivable - bonus/rebates	**282,358**	79,287
Other amounts	**238,577**	134,698
e) Allowance for losses on other receivables	**(33,026)**	(224,362)
Receivables with loan features (Note 9.a)	**(5,788)**	(195,538)
Receivables without loan features (Note 9.d)	**(27,238)**	(28,824)
Total	**4,194,509**	4,150,388
Short-term	**2,115,657**	2,257,019
Long-term	**2,078,852**	1,893,369

11. Foreign exchange portfolio

a) Breakdown

Specification	12/31/2017	12/31/2016
Assets - Other receivables (Note 10)	**885,164**	612,278
Foreign exchange purchase pending settlement	**865,655**	570,689
Rights on foreign exchange sales	**8,502**	2,639
Advances received in local currency	**(197)**	-
Income receivable from advances granted	**11,204**	38,950
Current assets (Note 10)	**885,164**	612,278
Liabilities - Other obligations (Note 16.b)	**9,318**	4,022
Foreign exchange purchase obligations	**851,617**	508,389
Foreign exchange sales pending settlement	**8,530**	2,649
(Advances on exchange contracts - ACC) (Note 9.a.1)	**(850,829)**	(507,016)
Current liabilities (Note 16.b)	**9,318**	4,022

b) Foreign exchange gains (losses)

Specification	2nd half/2017	01/01 to 12/31/2017	01/01 to 12/31/2016
Exchange gains	**48,315**	**111,227**	88,307
Exchange losses	**(499)**	**(904)**	(1,324)
Total	**47,816**	**110,323**	86,983

12. Permanent assets

a) Investments

Specification	12/31/2016 Book balance	01/01/2017 to 12/31/2017 Changes Additions	Write-offs	Book balance	12/31/2017 Cost value	Book balance
Shares and units of interest	652	**-**	**(321)**	**331**	**331**	**331**
Artworks and valuables	1,257	**3**	**-**	**1,260**	**1,260**	**1,260**
Total	1,909	**3**	**(321)**	**1,591**	**1,591**	**1,591**

b) Property and equipment

Specification	12/31/2016 Book balance	01/01/2017 to 12/31/2017 Changes Additions	Write-offs	Depreciation	Book balance	12/31/2017 Cost value	Accumulated depreciation	Book balance
Buildings	82,859	**594**	**(422)**	**(10,229)**	**72,802**	**259,308**	**(186,506)**	**72,802**
Data processing system	46,757	**13,718**	**(7,017)**	**(20,381)**	**33,077**	**148,465**	**(115,388)**	**33,077**
Furniture and equipment in use	29,126	**4,460**	**(1,183)**	**(5,355)**	**27,048**	**76,250**	**(49,202)**	**27,048**
Land	17,631	**(55)**	**-**	**-**	**17,576**	**17,576**	**-**	**17,576**
Facilities	5,536	**46**	**(12)**	**(1,153)**	**4,417**	**19,161**	**(14,744)**	**4,417**
Communication system	43	**28**	**(13)**	**(13)**	**45**	**273**	**(228)**	**45**
Security system	7,760	**533**	**(359)**	**(1,299)**	**6,635**	**18,667**	**(12,032)**	**6,635**
Transportation system	3,045	**-**	**(1)**	**(1,404)**	**1,640**	**14,334**	**(12,694)**	**1,640**
Total	192,757	**19,324**	**(9,007)**	**(39,834)**	**163,240**	**554,034**	**(390,794)**	**163,240**

c) Intangible assets

Specification	12/31/2016 Book balance	01/01/2017 to 12/31/2017 Changes Additions	Write-offs	Amortization	Book balance	12/31/2017 Cost value	Book balance
Spending on intangible assets under development	19,903	**45**	**-**	**-**	**19,948**	**19,948**	**19,948**
Total	19,903	**45**	**-**	**-**	**19,948**	**19,948**	**19,948**

At 12/31/2017 and 12/31/2016, no impairment losses were recorded on permanent assets.

13. Deposits, Open Market Funding, Funds from Acceptance and Issue of Securities, Debt Instruments Eligible to Capital and Subordinated Debts

a) Breakdown of deposits, funds from acceptance and issue of securities, debt instruments eligible to capital and subordinated debts by maturity

Specification	0 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	5 to 15 years	Above 15 years	Total at 12/31/2017	Total at 12/31/2016
Demand deposits	239,932	-	-	-	-	-	**239,932**	345,990
Demand deposits	239,932	-	-	-	-	-	**239,932**	345,990
Savings deposits	2,277,515	-	-	-	-	-	**2,277,515**	2,113,346
Interbank deposits	539,773	1,008,493	34,623	-	-	-	**1,582,889**	1,198,845
Time deposits	702,242	643,000	4,414,903	792,901	1,130,070	24,730	**7,707,846**	6,949,139
Time deposits	129,383	616,426	2,814,460	690,508	1,012,387	24,730	**5,287,894**	5,517,628
Interest-yielding judicial deposits	562,981	-	-	-	-	-	**562,981**	520,393
Finor/cash and cash equivalents and reinvestments - Law No. 8167	-	-	1,534,756	57,490	57,489	-	**1,649,735**	655,578
FAT - Available funds	2,441	6,726	13,057	8,926	6,331	-	**37,481**	28,279
FAT - Invested funds	7,437	19,818	52,630	35,977	26,590	-	**142,452**	226,701
Other	-	30	-	-	27,273	-	**27,303**	560
Funds from acceptance and issue of securities	71,814	112,543	1,004,912	-	-	-	**1,189,269**	1,298,870
Eurobonds	-	7,857	1,004,912	-	-	-	**1,012,769**	996,135
Agribusiness Credit Bills (LCA)	71,814	104,686	-	-	-	-	**176,500**	302,735
Debt instruments eligible to capital	-	-	-	-	-	1,000,000	**1,000,000**	1,000,000
Subordinated debts	-	-	-	-	-	2,205,468	**2,205,468**	2,012,874
Total at 12/31/2017	**3,831,276**	**1,764,036**	**5,454,438**	**792,901**	**1,130,070**	**3,230,198**	**16,202,919**	
Total at 12/31/2016	4,566,724	1,692,987	2,484,369	1,897,418	1,240,489	3,037,077		14,919,064

b) Deposits

Specification	12/31/2017	12/31/2016
Demand deposits	**239,932**	345,990
Government deposits	**5,985**	13,196
Restricted deposits	**93,751**	180,732
Legal entities	**108,855**	114,855
Individuals	**30,611**	35,462
Other amounts	**730**	1,745
Savings deposits	**2,277,515**	2,113,346
Free savings deposits - Individuals	**1,482,561**	1,359,437
Free savings deposits - Legal entities	**794,209**	753,097
From related parties and Financial System Institutions	**745**	812
Interbank deposits	**1,582,889**	1,198,845
Time deposits	**7,707,846**	6,949,139
Time deposits	**5,287,894**	5,517,628
Interest-yielding judicial deposits	**562,981**	520,393
Other time deposits	**1,856,971**	911,118
Interest-yielding special deposits/FAT (Note 27 and Note 29)	**179,933**	254,980
Available funds (Note 27)	**37,481**	28,279
Proger Urbano	**948**	1,709
Protrabalho	**15,597**	709
Infrastructure	**15,736**	22,297
PNMPO	**5,200**	3,564
Funds invested (Note 27)	**142,452**	226,701
Proger Urbano	**10,619**	12,717
Protrabalho	**31,784**	63,802
Infrastructure	**26,847**	60,055
PNMPO	**73,202**	90,127
Finor/cash and cash equivalents and reinvestments (Law No. 8167/91)	**1,649,735**	655,578
Other amounts	**27,303**	560
Total	**11,808,182**	10,607,320
Short-term	**5,410,955**	5,949,100
Long-term	**6,397,227**	4,658,220

c) Open market funding

Specification	12/31/2017	12/31/2016
Own portfolio	**879,320**	899,357
Financial Treasury Bills (LFT)	**879,320**	899,357
Third-party portfolio	**107,127**	70,280
National Treasury Bills (LTN)	**107,127**	70,280
Total	**986,447**	969,637
Short-term	**983,405**	966,859
Long-term	**3,042**	2,778

d) Expenses with open market funding

Specification	2nd half/2017	01/01 to 12/31/2017	01/01 to 12/31/2016
Funding expenses	**(435,655)**	**(1,008,214)**	(1,177,787)
Time deposits	**(230,479)**	**(544,870)**	(714,003)
Savings deposits	**(46,770)**	**(98,665)**	(112,991)
Judicial deposits	**(19,949)**	**(45,961)**	(63,759)
Interbank deposits	**(23,398)**	**(46,778)**	(52,142)
Special deposits	**(28,557)**	**(65,894)**	(87,340)
Funds from acceptance and issue of securities	**(80,105)**	**(193,347)**	(135,608)
Other deposits	**(6,397)**	**(12,699)**	(11,944)
Expenses with open market funding	**(40,478)**	**(94,374)**	(178,257)
Third-party portfolio	**(3,852)**	**(7,593)**	(9,425)
Own portfolio	**(36,626)**	**(86,781)**	(168,832)
Total	**(476,133)**	**(1,102,588)**	(1,356,044)

14. Borrowings and onlending

a) Borrowings and onlending by maturity

Specification	0 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	5 to 15 years	Above 15 years	Total at 12/31/2017	Total at 12/31/2016
Foreign borrowings	172,693	778,789	-	-	-	-	**951,482**	637,742
Domestic onlending	41,936	119,743	334,811	346,343	573,856	103,882	**1,520,571**	1,669,248
Foreign onlending	24,915	118,439	196,090	197,758	98,023	-	**635,225**	764,276
Total at 12/31/2017	**239,544**	**1,016,971**	**530,901**	**544,101**	**671,879**	**103,882**	**3,107,278**	
Total at 12/31/2016	351,598	578,445	571,165	617,310	767,832	184,916		3,071,266

b) Borrowings

Specification	Annual restatement rate (%)	12/31/2017	12/31/2016
Foreign borrowings/foreign currency payables	USD	**951,482**	637,742
Total		**951,482**	637,742
Short-term		**951,482**	637,742

c) Domestic onlending - official institutions

Specification	Annual restatement rate (%)	12/31/2017	12/31/2016
National Treasury	IGP-DI + 2.00	**450**	451
BNDES		**1,435,506**	1.552.591
POC (credit facility granted by the BNDES agents to small and medium-sized companies to buy shares in capital increases)	Fixed rate 1.50 to 11.10/TJLP + 0.00 to 4.00/IPCA + 9.41/Exc.	**1,065,137**	1.158.948
Credit Facility for investment in agriculture	var. + 2.00 to 4.00	**370,369**	393.643
Finame		**84,615**	116.206
“Programa Automático” (program for purchase of new machinery and equipment by companies based in Brazil)	Fixed rate 1.50 to 7.00/TJLP + 0.00 to	**63,575**	94.315
Agricultural Program	4.00/Exc. var. + 2.00 to 4.00	**21,040**	21.891
Total (Note 29.a.1)		**1.520.571**	1,669,248
Short-Term		**161.679**	150,737
Long-Term		**1.358.892**	1,518,511

d) Foreign onlending

Specification	Annual restatement rate (%)	12/31/2017	12/31/2016
BID-Prodetur I (Tourism Development Program with funds provided by the IDB)	USD + 4.58	**191,947**	283.715
BID-Prodetur II	USD + 2.33	**437,340**	473.742
BID - Other programs	USD + 2.33	**5,938**	6.819
Total		**635.225**	764,276
Short-term		**143.354**	141,564
Long-term		**491.871**	622,712

e) Expenses on borrowings and onlending

Specification	2nd half/2017	01/01 to 12/31/2017	01/01 to 12/31/2016
Expenses on onlending	**(104,175)**	**(219,476)**	(203,232)
Domestic onlending - Official institutions in Brazil	**(57,945)**	**(114,817)**	(155,168)
National Treasury	**(7)**	**(7)**	(24)
BNDES	**(56,367)**	**(111,741)**	(149,829)
Finame	**(1,571)**	**(3,069)**	(5,315)
Foreign onlending expenses	**(46,230)**	**(104,659)**	(48,064)
Expenses on onlending with foreign banks	**(34,194)**	**(82,540)**	(28,424)
Expenses on financial and development funds	**(839,964)**	**(1,830,828)**	(1,759,410)
Total	**(978,333)**	**(2,132,844)**	(1,991,066)

15. Funds from acceptance and issue of securities

a) Liabilities for foreign marketable securities

Specification	Funding date	Maturity	Annual interest (%)	Contractual amount in thousands of US dollars	Contractual amount at 12/31/2017 (2)	Market value at 12/31/2017 (2)	Market value at 12/31/2016 (2)
Eurobonds -Senior Unsecured Notes[1]	03/05/2012	03/05/2019	4,375	**300,000**	**1,000,257**	**1,012,769**	996,135
Total				**300.000**	**1,000,257**	**1,012.769**	996,135
Short-term						**7,857**	7,876
Long-term						**1,004,912**	988,259

(1) The notes are not subject to interim repayments and principal is settled on the transaction maturity date. Interest on notes is payable every six months.

(2) Considering tax effects.

According to Note 7.c.1, swap transactions conducted to hedge dollar-denominated liabilities against market fluctuations, arising from foreign funding, were classified as hedging accounting, and therefore the liability balances are adjusted to market value.

b) Agribusiness Credit Bills (LCAs) issued

Specification	Annual interest (%)	Nominal value	12/31/2017	12/31/2016
Agribusiness Credit Bills (LCA) (1)	81.16 of the CDI	170,423	**176.500**	302.735
Short-term			**176.500**	302,735

(1) Note with average maturity term of 145 days.

16. Other liabilities

Specification	12/31/2017	12/31/2016
a) Collection and transfer of taxes and levies	**1,453**	2,547
Funds from Proagro	**171**	313
Federal taxes received	**26**	361
IOF payable	**775**	1,439
Other taxes and levies	**481**	434
b) Foreign exchange portfolio (Note 11.a)	**9,318**	4,022
c) Social and statutory	**138,114**	164,522
Dividends and bonuses payable	**94,222**	118,810
Profit sharing	**43,892**	45,712
d) Tax and social security	**346,156**	618,741
Provision for tax contingencies (1)	**-**	64,902
Taxes and contributions	**-**	812
Tax proceedings (Note 22.f.1)	**-**	64,090
Provision for deferred taxes and contributions	**164,858**	129,346
Marketable securities and derivative financial instruments (Note 21.c)	**45,035**	24,928
Revaluation of buildings and land (Note 21.d)	**144**	2,305
From credits recovered and hedged items (Note 21.d)	**119,679**	102,113
Provision for income and social contribution taxes (Note 21.a.2)	**92,554**	335,687
Income tax	**49,047**	181,602
Social contribution tax	**43,507**	154,085
Taxes and contributions payable	**88,744**	88,806
e) Securities trading	**153**	153
f) Financial and development funds	**23,528,778**	17,637,800
FNE (Note 29.a.1)	**22,599,975**	16,674,513
Other amounts	**928,803**	963,287
g) Debt instruments eligible to capital (Note 17 and Note 29.a.1)	**1,000,000**	1,000,000
b) Subordinated debts eligible to capital (Note 18 and Note 29.a.1)	**2,205,468**	2,012,874
i) Other	**6,178,307**	5,563,107
Provision for contingencies	**332,084**	339,891
Labor claims (Note 22.f.1.ii)	**169,253**	172,866
Civil proceedings (Note 22.f.1.iii)	**116,349**	166,126
Other proceedings (Note 22.f.1.iv)	**33,154**	899
Tax proceedings (Note 22.f.1.i)	**13,328**	-
Provision for financial guarantees provided	**3,084,588**	3,241,673
FNE (Note 22.f.2.i)	**3,083,952**	3,229,308
Onlending	**1,137**	1,128
Full risk - BNB	**87,599**	145,238
Shared risk	**2,995,216**	3,082,942
FDNE (Note 22.f.2.ii)	**636**	604
Proagro (Note 22.f.2.iii)	**-**	1,088
Other contingent liabilities	**-**	10,673
Actuarial liabilities	**1,900,021**	1,287,567
Retirement and DB pension plan (Note 25.b and Note 29.a.2)	**411,216**	363,118
Health care plan (Note 25.b and Note 29.a.2)	**1,354,238**	807,550
Life insurance - Post-employment benefit (Note 25.b and Note 29.a.2)	**134,567**	116,899
Accrued payments	**441,475**	441,447
Personnel expenses	**181,764**	181,576
Other amounts	**67,238**	55,007
Interest and charges on debt instruments eligible to capital	**192,473**	204,864
Other amounts	**420,139**	252,529
Total	**33,407,747**	27,003,766
Short-term	**13,791,594**	8,372,512
Long-term	**19,616,153**	18,631,254

(1) Reclassified to Provision for Tax Contingencies, according to BACEN Circular Letter No. 3782 of 09/19/2016.

17. Debt instruments eligible to capital

On 01/19/2016, the Bank and Federal Government entered into a loan agreement in the amount of R$1,000,000 for purposes of classification as instrument eligible to principal capital, as provided for in article 16 of CMN Resolution No. 4192 of 03/01/2013, amended by CMN Resolution No. 4278 of 12/31/2013 and CMN Resolution No. 4311 of 02/20/2014.

Interest will be settled in an annual lump-sum payment, restated by the Selic rate up to the effective payment date, within 30 days from the payment of dividends referring to P&L determined in the closing balance sheet of the fiscal year.

In case the retained earnings balance, of income reserves, including legal reserve and capital reserves of the Bank, is not sufficient to absorb its losses calculated upon closing of the balance sheet of the fiscal year, the Bank will be relieved from the remuneration and will use the amounts due as interest overdue and the principal balance, in that order, up to the amount required to offset losses, the debt to which the agreement refers being duly settled for all purposes.

Any unpaid charges will not accrue. In the event the payment or dividend credit is not performed (including as interest on equity) until December 31 of the subsequent fiscal year, the financial charges unpaid will no longer be enforceable definitely.

The obligation has no maturity date and it may only be redeemed or repurchased by the issuer, subject to prior authorization by BACEN.

Specification	Amount issued	Remuneration	Funding date	12/31/2017	12/31/2016
Debt instruments eligible to capital (Notes 16.g and 28.a.1)	1.000.000	Profitability on Equity	19/01/2016	**1,000,000**	1.000.000
Long-term				**1.000.000**	1.000.000

18. Subordinated debts

Specification	12/31/2017	12/31/2016
Fundo Constitucional de Financiamento do Nordeste (FNE) (1)	**2,205,467**	2,012,874
Funds available	**1,734,734**	1,459,779
Funds applied	**470,734**	553,095
Total (Notes 16.h and 29.a.1)	**2,205,468**	2,012,874

(1) These comprise two funding operations with FNE in the original amounts of R$600,000 and R$400,000 of 07/20/2009 and 03/01/2010, respectively.

19. Equity

a) Capital

The Bank's capital in the amount of R$2,844,000 (R$2,844,000 at 12/31/2016) is represented by 86,371,464 common, book-entry, paid-in shares with no par value, held as follows:

Breakdown at 12/31/2017		
Shareholders	**Number of shares**	**% of Capital**
Federal Government	**44,049,447**	**51.00**
BB FGEDUC Multimarket Investment Fund	**30,207,318**	**34.97**
BB FGO Investment Fund Shares	**6,220,150**	**7.20**
National Development Fund (FND)	**3,846,968**	**4.45**
Other	**2,047,581**	**2.38**
Total	**86,371,464**	**100.00**

Breakdown at 12/31/2016		
Shareholders	**Number of shares**	**% of Capital**
Federal Government	44,049,447	51.00
BB FGEDUC Multimarket Investment Fund	30,212,068	34.98
BB FGO Investment Fund Shares	6,225,200	7.21
National Development Fund (FND)	3,846,968	4.45
Other	2,037,781	2.36
Total	86,371,464	100.00

b) Revaluation reserve

The amount of R$11,769 (R$14,491 at 12/31/2016) refers to revaluation of property and equipment in use, recognized on 02/26/1993. This reserve will be maintained through its effective realization date either as a result of depreciation, write-off or disposal, pursuant to CMN Resolution No. 3565 of 05/29/2008. In the period, the amount of R$3,129 (R$2,130 at 12/31/2016) was transferred to Retained Earnings (Accumulated Losses) and comprised the profit distribution base.

c) Interest on equity (IOE) for the year

The Bank's Charter ensures to shareholders minimum dividend of 25% on net income calculated in the year, adjusted according to Law.

The Board of Directors proposes distribution of dividends as interest on equity (IOE) of R$165,014, of which R$164,506 is attributed to the dividend amount for 2017, corresponding to 25% on adjusted net income, which is the calculation base of dividends and IOE. As a result of this proposal, and considering the prepayment of IOE for the first half of 2017, monetarily restated in the amount of R$71,001, the amount of R$94,013 was recorded in a provision account, for payment of complementary IOE for the year.

IOE was accounted for under "Expenses", however, for purposes of disclosure of the financial statements, it was reclassified to "Retained earnings (accumulated losses)". Total IOE for the year reduced tax expenses amounting by R$72,151 (R$77,721 at 12/31/2016).

d) Payment of IOE for 2016

The distribution of complementary dividends of R$118,159, in the form of IOE, for the year ended 12/31/2016, was approved at the Annual/Extraordinary General Meeting held on 03/24/2017. The payment occurred on 04/11/2017.

e) Statement of calculation of IOE:

Specification	01/01 to 12/31/2017	01/01 to 12/31/2016
1. Net income for the year	**681,745**	732,071
2. Legal reserve	**(34,087)**	(36,604)
3. Debt adjustments to Retained Earnings (Accumulated Losses)	**(12,035)**	(295)
4. Revaluation reserve transferred to retained earnings (accumulated losses)	**3,129**	2,130
5. Credit adjustments to Retained Earnings (Accumulated Losses)	**19,250**	664
6. Calculation base of dividends/interest on equity capital	**658,002**	697,966
7. Gross Interest on Equity	**165,014**	175,048
8. Withholding Income Tax on IOE	**(508)**	(528)
9. Net IOE attributable to dividends (item 7 + item 8)	**164,506**	174,520
10. Prepayment of IOE adjusted by the SELIC	**(71,001)**	(56,472)
11. Gross complementary IOE of R$1.088478492 per share (at 12/31/2016: IOE of R$1.372858491 per share) (item 7 - item 10)	**94,013**	118,576
12. Complementary IOE net of income tax of R$1.085059693 per share (at 12/31/2016: IOE of R$1.368658056 per share)	**93,718**	118,213
13. Gross IOE for the year (item 7/item 6 = 25.0781%) (25.0656 at 12/31/2016)	**165,014**	175,048
14. Net IOE for the year (item 9/item 6 = 25.0000%) (25.0000 at 12/31/2016)	**164,506**	174,520

f) Legal reserve

The legal reserve corresponds to 5% on net income calculated in the year and amounts to R$34,087 (R$36,604 at 12/31/2016).

g) Statutory reserve

The Statutory Reserve in the amount of R$492,988 (R$522,919 at 12/31/2016) represents the remaining balance of net income calculated in the year, after establishment of the Legal Reserve and payment of IOE/dividends.

h) Equity adjustment

Specification	12/31/2017	12/31/2016
Marketable securities available for sale	**53,597 (1)**	134,788 (1)
Actuarial gains and losses (post-employment benefits)	**(398,408) (1)**	(172,871)
Equity adjustment	**(344,811)**	(38,083)

(1) Amounts net of tax effects.

20. Other operating income (expenses)

Specification	2nd half/2017	01/01 to 12/31/2017	01/01 to 12/31/2016
a) Service revenue	**1,092,892**	**2,249,415**	2,248,374
Investment fund management	**18,539**	**34,815**	30,327
Fund and program management	**846,754**	**1,790,085**	1,835,429
Services rendered	**227,599**	**424,515**	382,618
b) Income from bank fees	**33,503**	**66,266**	60,984
c) Personnel expenses	**(983,790)**	**(1,900,347)**	(1,804,945)
Earnings	**(602,466)**	**(1,145,147)**	(1,070,120)
Social charges	**(196,249)**	**(391,742)**	(388,723)
Retirement and pension plan - DB and VC I Capef Plans	**(54,372)**	**(103,724)**	(90,737)
Health care plan - Camed Natural Plan	**(45,946)**	**(91,893)**	(97,910)
Life insurance - Post-employment benefit	**(4,909)**	**(9,716)**	(5,407)
Benefits, training sessions, fees and compensation of interns	**(79,848)**	**(158,125)**	(152,048)
d) Other administrative expenses	**(638,711)**	**(1,236,068)**	(1,145,621)

Data processing	**(123,516)**	**(249,302)**	(222,299)
Advertising and publicity	**(17,641)**	**(26,390)**	(17,457)
Third-party services	**(263,980)**	**(502,473)**	(478,110)
Rentals, material and public utilities	**(40,662)**	**(80,998)**	(77,725)
Travel	**(7,705)**	**(14,624)**	(13,324)
Communications	**(14,342)**	**(31,493)**	(30,735)
Depreciation and amortization	**(19,620)**	**(39,835)**	(41,993)
Asset maintenance and upkeep	**(25,353)**	**(50,022)**	(45,435)
Surveillance, security and transportation	**(46,422)**	**(90,105)**	(83,489)
Promotions, public relations and publications	**(6,029)**	**(10,198)**	(8,417)
Financial system services	**(16,297)**	**(35,636)**	(31,492)
Specialized technical services	**(19,884)**	**(33,537)**	(31,743)
Insurance	**(903)**	**(1,941)**	(2,628)
Court, notary and attorney fees	**(20,317)**	**(42,399)**	(39,202)
Worker' union dues and Associations	**(813)**	**(2,065)**	(2,088)
Condominium fees, catering, kitchen and meals	**(2,947)**	**(6,035)**	(5,613)
FUNDECI (Science and Technology Development Fund)	**-**	**(3,000)**	(3,783)
Other amounts	**(12,280)**	**(16,015)**	(10,088)
e) Tax expenses (Note 21.e)	**(154,503)**	**(302,304)**	(288,492)
COFINS and PIS/PASEP	**(136,583)**	**(268,694)**	(258,652)
ISS and IPTU/Improvement tax	**(15,489)**	**(29,749)**	(26,841)
Other amounts	**(2,431)**	**(3,861)**	(2,999)
f) Other operating income	**1,060,046**	**1,914,125**	2,160,642
Del credere commission on fund management	**647,556**	**1,291,243**	1,262,176
Exchange losses on borrowings	**65,832**	**135,036**	356,575
Exchange losses on funding expenses	**53,250**	**101,190**	239,550
Exchange loss on reclassification of Development Financial Fund obligation expenses	**2,792**	**5,423**	12,587
Reversal of operating provisions for risks on FNE transactions	**594**	**1,006**	1
Reversal of operating provisions for risks on FDNE transactions	**-**	**-**	67
Recovery of charges and expenses	**3,636**	**6,352**	8,329
Reversal of provision for IRPJ and CSLL	**-**	**-**	299
Reversal of operating provisions	**75,100**	**82,425**	112,271
Interest and commissions	**6,559**	**8,763**	10,061
Monetary restatement	**1,176**	**1,223**	2,781
Mark-to-market adjustment	**3,361**	**6,965**	22,138
FNE - Recovery of amounts settled by the Bank	**167,337**	**216,282**	48,430
Other amounts	**32,853**	**58,217**	85,377
g) Other operating expenses	**(548,904)**	**(1,268,644)**	(2,106,280)
Exchange losses on exchange area	**(852)**	**(2,053)**	(682)
Exchange loss on loans granted	**(67,737)**	**(142,348)**	(385,478)
Negative monetary restatement of loans	**(13,927)**	**(44,146)**	(141)
Discounts granted in renegotiations	**(45,298)**	**(60,863)**	(1,402)
Loan charges	**(5,381)**	**(15,095)**	(2,929)
Tax contingencies	**(104)**	**(4,791)**	(19,335)
Risks on FNE transactions	**(128,415)**	**(520,264)**	(969,562)
Risks on FDNE transactions	**(5)**	**(80)**	(17)
Labor claims	**(13,306)**	**(25,496)**	(74,910)
Civil proceedings	**(9,089)**	**(12,369)**	(43,643)
Other proceedings	**(22,513)**	**(26,658)**	(179)
Other contingent liabilities	**-**	**-**	(947)
Hybrid debt/equity instruments	**-**	**-**	(20,213)
Debt instruments eligible to capital	**(147,781)**	**(193,014)**	(277,379)
FNE remuneration - available funds - article 9-A of Law No. 7827	**(63,353)**	**(143,299)**	(164,143)
FNE remuneration - invested funds - article 9-A, Law No. 7827	**(23,684)**	**(49,295)**	(56,449)
Other amounts	**(7,459)**	**(28,873)**	(88,871)
Total	**(139,467)**	**(477,557)**	(875,338)

21. Taxes and contributions

a) Income and social contribution taxes

The Bank is subject to the taxable profit regime whereby taxes are computed based on the Bank's accounting records, and income and social contribution taxes are paid monthly on an estimated basis, and may be suspended or reduced whenever the taxable profit calculation is more favorable to the Bank when compared to the estimate. Income and social contribution tax expenses are as follows:

a.1) Specification of the provision for income and social contribution tax expense	Income tax 01/01 to 12/31/2017	Income tax 01/01 to 12/31/2016	Social contribution tax 01/01 to 12/31/2017	Social contribution tax 01/01 to 12/31/2016
Income before income taxes and profit sharing	**1,162,515**	442,071	**1,162,515**	442,071
Statutory profit sharing	**(42,976)**	(45,450)	**(42,976)**	(45,450)
Interest on Equity (IOE)	**(165,014)**	(175,048)	**(165,014)**	(175,048)
Income before taxes, less statutory profit sharing and interest on equity	**954,525**	221,573	**954,525**	221,573
Permanent additions/exclusions	**(12,311)**	(13,852)	**(12,267)**	(13,523)
Temporary additions/exclusions	**(724,724)**	562,376	**(724,724)**	562,374
Taxable income	**217,490**	770,097	**217,534**	770,424
Expenses with provision for IRPJ and CSLL - before tax incentives and revaluation reserve	**(54,349)**	(192,500)	**(43,507)**	(154,085)
Deductions (tax incentives)	**5,302**	10,898	**-**	-
Provision for IRPJ/CSLL on revaluation reserve realized	**(303)**	968	**(242)**	775
Provision for taxes on LPA adjustments	**-**	162	**-**	133
Current IRPJ/CSLL expenses - after tax incentives and revaluation reserve	**(49,350)**	(180,472)	**(43,749)**	(153,177)
Provision for deferred taxes and contributions - arising from tax credits recovered and derivative financial instruments	**(12,360)**	(1,890)	**(5,995)**	3,284
Provision for income and social contribution taxes	**(61,710)**	(182,362)	**(49,744)**	(149,893)
IRPJ/CSLL tax credits - provisions, derivative financial instruments and hedged item	**(171,327)**	421,411	**(155,013)**	246,296
Total IRPJ/CSLL	**(233,037)**	239,049	**(204,757)**	96,403
Effective rate (%)	**24,41**	(107,89)	**21,45**	(43,51)

a.2) Specification of the provision for IRPJ and CSLL	Income tax 12,31,2017	Income tax 12,31,2016	Social contribution tax 12,31,2017	Social contribution tax 12,31,2016
Provision for income and social contribution taxes	**49,350**	180,472	**43,749**	153,177
Provision for taxes on revaluation reserve realized	**(303)**	968	**(242)**	775
Provision for taxes on LPA adjustments	**-**	162	**-**	133
Provision for income and social contribution taxes (Note 16.d)	**49,047**	181,602	**43,507**	154,085
Taxes and contributions recoverable on prepayments, including withholding taxes	**(31,406)**	(162,776)	**(28,154)**	(127,628)
Taxes payable (recoverable) for the period	**17,641**	18,826	**15,353**	26,457

b) Reconciliation of IR and CSLL charges

Specification	12/31/2017	12/31/2016
Income before taxes and profit sharing	**1,162,515**	442,071
Total charge of 45% - IRPJ (25%) and CSLL (20%)	**(523,132)**	(198,932)
Statement of tax levy:		
Income and social contribution taxes for the period	**(437,794)**	335,450
Increase/decrease in income and social contribution taxes arising from:	**(85,338)**	(534,382)
Profit sharing/IOE	**(93,596)**	(99,224)
Actuarial gains and losses	**(52,943)**	(77,792)
Other income/FNE/Del Credere/Ops Onlending - Article 9º- A of Law No. 7827	**(13,621)**	(15,636)
Temporary differences - Other provisions (labor, civil, tax and other proceedings)	**(36,152)**	(38,563)
Temporary differences on actuarial provisions	**97,218**	(245,266)
Temporary differences - transactions with reimbursement longer than 10 years	**(27,983)**	(137,977)
Other amounts/difference from the CSLL rate increase from 15% to 20%	**41,739**	80,076
Total reconciled tax levy	**(523,132)**	(198,932)

c) Tax credits on temporary differences

Income and social contribution tax credits on temporary differences of allowances for loan losses and provisions for post-employment benefits are recorded in conformity with the following major standards: CMN Resolution No. 3059 of 12/20/2002, BACEN Circular Letter No. 3171 of 12/30/2002 and CVM Ruling No. 371 of 06/27/2002; and are based on technical studies conducted every six months on recognition of Deferred Tax Assets and Liabilities.

In accordance with BACEN Circular Letters No. 3068 of 11/08/2001 and No. 3082 of 01/30/2002, tax credits on market value adjustment of marketable securities were accrued, regarding securities classified as Available-for-Sale, and on Derivative Financial Instruments.

In connection with recognition of tax credits on Provisions for Contingent Labilities (Labor, Civil, Tax), as recommended in article 1, item II, of CMN Resolution No. 3059, of 12/20/2002, they must be expected to be realized within a maximum period of ten (10) years. Given the absence of a horizon for the outcome of matters related to the legal proceedings that are provisioned, the Bank prudently does not recognize Deferred Tax Asset on these provisions.

	12/31/2017		12/31/2016		12/31/2017	12/31/2016
Specification	**IRPJ**	**CSLL**	**IRPJ**	**CSLL**	**Total**	
Effect on P&L						
a) Provisions						
Opening balance	**939,423**	**655,350**	706,770	515,481	**1,594,773**	1,222,251
Recognition	**37,278**	**22,755**	256,065	166,086	**60,033**	422,151
Realization/ reversal	**(174,481)**	**(151,812)**	(23,412)	(26,217)	**(326,293)**	(49,629)
Closing balance (Note 10.d)	**802,220**	**526,293**	939,423	655,350	**1,328,513**	1,594,773
b) Actuarial provisions						
Opening balance	**328,578**	**209,065**	136,667	100,745	**537,643**	237,412
Recognition	**149,189**	**52,002**	193,901	109,263	**201,191**	303,164
Realization/ reversal	**(32,093)**	**(25,674)**	(1,990)	(943)	**(57,767)**	(2,933)
Closing balance (Note 10.e)	**420,995**	**260,072**	328,578	209,065	**681,067**	537,643
c) Derivative financial instruments						
Opening balance	**-**	**-**	-	-	**-**	-
Recognition	**27**	**16**	8,919	5,352	**43**	14,271
Realization/ reversal	**(27)**	**(16)**	(8,919)	(5,352)	**(43)**	(14,271)
Closing balance (Note 7.c)	**-**	**-**	-	-	**-**	-
d) Hedged item						
Opening balance	**2,632**	**1,579**	5,786	3,472	**4,211**	9,258
Recognition	**7,039**	**4,223**	26,004	15,602	**11,262**	41,606
Realization/ reversal	**(6,543)**	**(3,926)**	(29,158)	(17,495)	**(10,469)**	(46,653)
Closing balance (Note 7.c.1)	**3,128**	**1,876**	2,632	1,579	**5,004**	4,211
Effect on equity						
e) Marketable securities						
Opening balance	**174,065**	**110,746**	223,773	151,483	**284,811**	375,256
Recognition	**101,904**	**70,083**	495,382	358,110	**171,987**	853,492
Realization/ reversal	**(111,225)**	**(75,279)**	(545,090)	(398,847)	**(186,504)**	(943,937)
Closing balance (Note 7.a.2)	**164,744**	**105,550**	174,065	110,746	**270,294**	284,811

Income and social contribution tax credits recognized and not recognized in assets are broken down as follows:

Specification	Income tax 12/31/2017	Income tax 12/31/2016	Social contribution tax 12/31/2017	Social contribution tax 12/31/2016
1. Total temporary differences	**6, 244,779**	6,186,088	**6,244,779**	6,186,088
2. Tax credits on temporary differences	**1,561,195**	1,546,522	**1,222,085**	1,237,218
3. Tax credits recognized in assets on Provisions	**1,223,216**	1,268,001	**786,364**	864,415
4. Tax credits recognized in assets due to mark-to-market of marketable securities, derivative financial instruments and hedged item	**167,872**	176,697	**107,426**	112,325
5. Total tax credits recognized in assets (item 3 + item 4) (1)	**1,391,088**	1,444,698	**893,790**	976,740
6. Tax credits not recognized in assets (item 2 - item 5) (2)	**170,107**	101,824	**328,295**	260,478

(1) Tax credits are recognized in assets under “Other receivables - other”.

(2) Not recognized in assets as they do not meet the realization requirements provided for in CMN Resolution No. 3355 of 03/31/2006, and considering a technical study on recognition of deferred tax assets and liabilities.

c) Tax credits on temporary differences (Continued)

Estimated realization of tax credits on temporary differences of Allowance for Loan Losses at 12/31/2017 is as follows:

Period	Goal for over - SELIC rate - average (%)	Realization of IRPJ credit Book value	Realization of IRPJ credit Present value	Realization of CSLL credit Book value	Realization of CSLL credit Present value	Total Book value	Total Present value
2018	6.92	224,728	217,334	179,782	173,867	404,510	391.201
2019	8.25	172,059	153,716	103,235	92,230	275,294	245.946
2020	8.19	71,802	59,291	43,081	35,575	114,883	94.866
2021	8.06	81,094	61,970	48,657	37,182	129,751	99.152
2022	7.97	166,303	117,703	99,782	70,622	266,085	188.325
2023	7.97	24,660	16,165	14,796	9,699	39,456	25.864
2024	7.97	22,057	13,392	13,234	8,035	35,291	21.427
2025	7.97	19,508	10,970	11,705	6,582	31,213	17.552
2026	7.97	11,762	6,126	7,057	3,675	18,819	9.801
2027	7.97	8,248	3,978	4,963	2,394	13,211	6.372
Total		**802.221**	**660,645**	**526,292**	**439,861**	**1,328,513**	**1,100,506**

Estimated realization of tax credits on temporary differences of Actuarial Provisions at 12/31/2017 is as follows:

Period	Goal for over - SELIC rate - average (%)	Realization of IRPJ credit Book value	Realization of IRPJ credit Present value	Realization of CSLL credit Book value	Realization of CSLL credit Present value	Total Book value	Total Present value
2018	6.92	37,376	36,148	29,902	28,918	67,278	65.066
2019	8.25	38,679	34,555	23,207	20,732	61,886	55.287
2020	8.19	39,757	32,830	23,854	19,698	63,611	52.528
2021	8.06	40,717	31,114	24,430	18,669	65,147	49.783
2022	7.97	41,662	29,487	24,997	17,692	66,659	47.179
2023	7.97	42,648	27,956	25,589	16,774	68,237	44.730
2024	7.97	43,670	26,514	26,202	15,908	69,872	42.422
2025	7.97	44,600	25,079	26,760	15,047	71,360	40.126
2026	7.97	45,584	23,740	27,350	14,244	72,934	37.984
2027	7.97	46,302	22,334	27,781	13,401	74,083	35.735
Total		**420.995**	**289,757**	**260,072**	**181,083**	**681,067**	**470,840**

Any tax credit on market value adjustments of marketable securities, derivative financial instruments and Hedged item, determined at present value, pursuant to BACEN Circular Letters No. 3068 of 11/08/2001 and No. 3082 of 01/30/2002, will be realized according to the maturities of the securities:

	IRPJ		CSLL		Total	
Period	**Book value**	**Present value**	**Book value**	**Present value**	**Book value**	**Present value**
2018	33,517	33,517	26,814	26,814	60,331	60,331
2019	2,306	2,306	1,383	1,383	3,689	3,689
2020	3,247	3,247	1,949	1,949	5,196	5,196
2021	362	362	217	217	579	579
2022	43	43	26	26	69	69
2027	194	194	117	117	311	311
2027 onwards	128,203	128,203	76,920	76,920	205,123	205,123
Total	**167,872**	**167,872**	**107,426**	**107,426**	**275,298**	**275,298**

Total estimated realization of tax credits at 12/31/2017 is as follows:

Period	IRPJ		CSLL		Total	
	Book value	**Present value**	**Book value (1)**	**Present value**	**Book value**	**Present value**
2018	295,621	286,999	236,498	229,599	532,119	516,598
2019	213,044	190,577	127,825	114,345	340,869	304,922
2020	114,806	95,368	68,884	57,222	183,690	152,590
2021	122,173	93,446	73,304	56,068	195,477	149,514
2022	208,008	147,233	124,805	88,340	332,813	235,573
2023	67,308	44,121	40,385	26,473	107,693	70,594
2024	65,727	39,906	39,436	23,943	105,163	63,849
2025	64,108	36,049	38,465	21,629	102,573	57,678
2026	57,346	29,866	34,407	17,919	91,753	47,785
2027	54,744	26,506	32,861	15,912	87,605	42,418
2027 onwards	128,203	128,202	76,920	76,921	205,123	205,123
Total	**1,391,088**	**1,118,273**	**893,790**	**728,371**	**2,284,878**	**1,846,644**

(1) Considering the change in rate to 20% up to 12/31/2018 and to 15% from 01/01/2019 onwards.

d) Provision for deferred taxes and contributions

Specification	12/31/2017		12/31/2016		12/31/2017	12/31/2016
	IRPJ	**CSLL**	**IRPJ**	**CSLL**	**Total**	
Effect on P&L						
a) Derivative financial instruments						
Opening balance	**2,661**	**1,597**	5,781	3,469	**4,258**	9,250
Recognition	**6,983**	**4,190**	14,318	8,591	**11,173**	22,909
Realization/ reversal	**(6,489)**	**(3,894)**	(17,438)	(10,463)	**(10,383)**	(27,901)
Closing balance (Note 7.c and 16.d)	**3,155**	**1,893**	2,661	1,597	**5,048**	4,258
b) Revaluation reserve						
Opening balance	**1,281**	**1,024**	2,249	1,799	**2,305**	4,048
Recognition	**25**	**20**	-	-	**45**	-
Realization/ reversal	**(1,226)**	**(980)**	(968)	(775)	**(2,206)**	(1,743)
Closing balance (Note 16.d)	**80**	**64**	1,281	1,024	**144**	2,305
c) From recovered credits (1)						
Opening balance	**61,352**	**40,761**	56,342	42,172	**102,113**	98,514
Recognition	**12,288**	**6,903**	5,106	3,349	**19,191**	8,455
Realization/ reversal	**(421)**	**(1,204)**	(96)	(4,760)	**(1,625)**	(4,856)
Closing balance (Note 16.d)	**73,219**	**46,460**	61,352	40,761	**119,679**	102,113
Effect on equity						
d) Marketable securities						
Opening balance	**12,311**	**8,359**	947	667	**20,670**	1,614
Recognition	**261,377**	**157,598**	76,230	47,382	**418,975**	123,612
Realization/ reversal	**(248,840)**	**(150,818)**	(64,866)	(39,690)	**(399,658)**	(104,556)
Closing balance (Note 7.a.2 and Note 16.d)	**24,848**	**15,139**	12,311	8,359	**39,987**	20,670

(1) Pursuant to article 12 of Law No. 9430 of 12/27/1996.

The provisions on market value adjustments to marketable securities and derivative financial instruments determined at present value will be written off according to the following schedule:

	IRPJ		CSLL		Total	
Period	**Book value**	**Present value**	**Book value**	**Present value**	**Book value**	**Present value**
2018	1,156	1,156	925	925	2,081	2,081
2019	3,179	3,179	1,907	1,907	5,086	5,086
2022	697	697	418	418	1,115	1,115
2023	4,032	4,032	2,419	2,419	6,451	6,451
2027 onwards	18,939	18,939	11,363	11,363	30,302	30,302
Total	**28,003**	**28,003**	**17,032**	**17,032**	**45,035**	**45,035**

The provisions on revaluation reserves determined at present value will be written off according to the following schedule:

	Goal for over - SELIC rate -	IRPJ		CSLL		Total	
Period	**average (%)**	**Book value**	**Present value**	**Book value**	**Present value**	**Book value**	**Present value**
2018	6.92	80	78	64	62	144	140
Total		**80**	**78**	**64**	**62**	**144**	**140**

The provisions on taxes recovered, according to article 12 of Law No. 9430 of 12/27/1996, determined at present value, will be written off according to the following schedule:

	Goal for over - SELIC rate -	IRPJ		CSLL		Total	
Period	**average (%)**	**Book value**	**Present value**	**Book value**	**Present value**	**Book value**	**Present value**
2018	6.92	12,649	12,233	10,119	9,786	22,768	22.019
2019	8.25	11,699	10,452	7,020	6,271	18,719	16.723
2020	8.19	10,064	8,311	6,038	4,986	16,102	13.297
2021	8.06	7,091	5,418	4,254	3,251	11,345	8.669
2022	7.97	6,746	4,774	4,048	2,865	10,794	7.639
2023	7.97	6,216	4,075	3,730	2,445	9,946	6.520
2024	7.97	5,306	3,222	3,184	1,933	8,490	5.155
2025	7.97	4,987	2,804	2,992	1,683	7,979	4.487
2026	7.97	1,750	911	1,050	547	2,800	1.458
2027	7.97	1,377	664	826	398	2,203	1.062
2027 onwards	7.97	5,334	3,431	3,199	2,058	8,533	5.489
Total		**73.219**	**56,295**	**46,460**	**36,223**	**119,679**	**92,518**

Total amounts of provisions for tax liabilities at 12/31/2017 are as follows:

	Realization of IRPJ credit		Realization of CSLL credit		Total	
Period	**Book value**	**Present value**	**Book value (1)**	**Present value**	**Book value**	**Present value**
2018	13,885	13,467	11,108	10,773	24,993	24,240
2019	14,878	13,631	8,927	8,178	23,805	21,809
2020	10,064	8,311	6,038	4,986	16,102	13,297
2021	7,091	5,418	4,254	3,251	11,345	8,669
2022	7,443	5,471	4,466	3,283	11,909	8,754
2023	10,248	8,107	6,149	4,864	16,397	12,971
2024	5,306	3,222	3,184	1,933	8,490	5,155
2025	4,987	2,804	2,992	1,683	7,979	4,487
2026	1,750	911	1,050	547	2,800	1,458
2027	1,377	664	826	398	2,203	1,062
2027 onwards	24,273	22,370	14,562	13,421	38,835	35,791
Total	**101,302**	**84,376**	**63,556**	**53,317**	**164,858**	**137,693**

(1) Considering the change in rate to 20% up to 12/31/2018 and to 15% from 01/01/2019 onwards.

e) Tax expenses

Specification	2nd half/2017	01/01 to 12/31/2017	01/01 to 12/31/2016
COFINS and PIS/PASEP	**(136,583)**	**(268,694)**	(258,652)
ISS and IPTU/Improvement tax	**(15,489)**	**(29,749)**	(26,841)
Other amounts	**(2,431)**	**(3,861)**	(2,999)
Total (Note 20.e)	**(154,503)**	**(302,304)**	(288,492)

22. Provisions, contingent assets, contingent liabilities and legal obligations - tax and social security

(a) The Bank is a party to various ongoing administrative and legal proceedings involving civil, tax, labor and other matters. Bank management understands that the provisions set up are sufficient to cover the likelihood of losses arising from the respective legal and administrative proceedings, as follows:

Specification	12/31/2017		12/31/2016	
	Base value	Provision	Base value	Provision
a) Provision for contingencies				
a.1) Tax proceedings (Note 22 f.1.i)	**2,180,185**	**13,328**	3,034,793	64,090
i) Legal obligation	**1,910**	**1,910**	977	977
ii) Other liabilities - other	**2,178,275**	**11,418**	3,033,816	63,113
Probable	**11,418**	**11,418**	63,113	63,113
Possible	**2,028,355**	**-**	2,844,284	-
Remote (1)	**138,502**	**-**	126,419	-
a.2) Labor claims	**468,951**	**169,253**	456,644	172,866
Probable (Note 22 f.1.ii)	**169,253**	**169,253**	172,866	172,866
Possible	**153,668**	**-**	145,990	-
Remote	**146,030**	**-**	137,788	-
a.3) Civil proceedings	**6,283,743**	**116,349**	5,483,090	166,126
Probable (Note 22 f.1.iii)	**116,349**	**116,349**	166,126	166,126
Possible	**1,151,253**	**-**	1,256,790	-
Remote (2)	**5,016,141**	**-**	4,060,174	-
a.4) Other contingencies (Note 22 f.2.iv)				
i) Securitized transactions (3)	**6,729**	**6,729**	10,673	10,673
ii) Other proceedings	**837,060**	**26,425**	711,329	899
Probable	**26,425**	**26,425**	899	899
Possible	**14,502**	**-**	9,716	-
Remote	**796,133**	**-**	700,714	-

(1) The contingent liability relating to tax proceedings assessed as remote loss refers to one (1) proceeding, with balance of R$115,980 at 12/31/2017 (R$105,310 at 12/31/2016).

(2) Contingent liabilities relating to civil proceedings assessed as remote loss are concentrated in five (5) cases, with balance of R$3,009,366 at 12/31/2017. These proceedings refer to the following matters: (i) extraordinary contribution of post-employment benefit and payment of legal fees - R$1,721,681; (ii) consequential damages and loss of profits for not providing technical assistance - R$404,837; (iii) payment of fine due to undue inclusion in the bad payer system - R$371,847; (iv) refund of undue payment - R$307,423; and (v) compensation for pain and suffering and loss of profits - R$203,578 (R$2,456,134 at 12/31/2016).

(3) This refers to the credit risk on securitized transactions based on Law. No. 9138 of 11/29/1995 that is recorded in memorandum accounts.

(b) The Bank is involved in lawsuits handled by outside attorneys, most of which relate to loan collection actions, whose assessment of the provision for contingent liabilities is performed by its Legal Department.

(c) Tax proceedings classified as Legal Obligation pursuant to the terms of BACEN Circular Letter No. 3429 of 02/11/2010, whose amounts were presented in the table above, challenge municipal taxes.

(d) Below is a brief description of proceedings to which the Bank is party, involving significant contingent liabilities assessed as possible risk of loss:

Tax proceedings

Four tax proceedings challenging the tax deficiency notice. At 12/31/2017, estimated losses amount to R$1,808,128 (R$2,693,426 at 12/31/2016).

Civil proceedings

Civil proceeding challenging loss of profits and payment of management fees. At 12/31/2017, estimated losses amount to R$245,601 (R$213,841 at 12/31/2016).

Civil proceeding challenging reassessment (solutio indebiti). At 12/31/2017, estimated losses amount to R$68.516 (R$59.656 at 12/31/2016).

Civil proceeding claiming compensation. At 12/31/2017, estimated losses amount to R$121,791 (R$52.748 at 12/31/2016).

Civil proceeding challenging payment of fees. At 12/31/2017, estimated losses amount to R$47,839 (R$83,305 at 12/31/2016).

Civil proceeding filed in 2014 related to post-employment benefits. At 12/31/2017, the estimated possible loss amounts to R$57,835 (R$34,026 at 12/31/2016).

(e) Legal and appeal deposits made to guarantee legal and administrative proceedings, recognized for probable possible and/or remote contingent liabilities, are set out as under:

Specification	12/31/2017	12/31/2016
Labor claims	**88,073**	463,666
Tax proceedings	**129,832**	126,816
Civil proceedings	**69,904**	72,857
Total	**287,809**	663,339

(f) Changes in provisions

f.1) Tax, Labor, Civil and Other Contingencies

	12/31/2017				
Specification	**Opening balance**	**Recognition**	**Reversal**	**Write-off**	**Closing balance**
i) Tax proceedings (Note 16.i)	**64,090**	**7,327**	**(56,736)**	**(1,353)**	**13,328**
ii) Labor claims (Note 16.i)	**172,866**	**43,485**	**(26,488)**	**(20,610)**	**169,253**
iii) Civil proceedings (Note 16.i)	**166,126**	**74,908**	**(64,159)**	**(60,526)**	**116,349**
iv) Other proceedings (Note 16.i)	**899**	**37,493**	**(5,236)**	**(2)**	**33,154**

Specification	12/31/2016 Opening balance	Recognition	Reversal	Write-off	Closing balance
i) Tax proceedings (Note 16.d)	46,515	23,672	(4,607)	(1,490)	64,090
ii) Labor claims (Note 16.i)	249,461	113,406	(41,995)	(148,006)	172,866
iii) Civil proceedings (Note 16.i)	142,592	70,865	(27,237)	(20,094)	166,126
iv) Other proceedings (Note 16.i)	720	594	(407)	(8)	899

f.2) Provisions for financial guarantees provided

Specification	12/31/2017 Opening balance	Recognition	Reversal/use/write-off	Closing balance
i) FNE	**3,229,308**	**1,970,123**	**(2,115,479)**	**3,083,952**
ii) FDNE	**604**	**608**	**(576)**	**636**
iii) Proagro	**1,088**	**9**	**(1,097)**	**-**
iv) Other	**10,673**	**27,719**	**(5,238)**	**33,154**

Specification	12/31/2016 Opening balance	Recognition	Reversal/use/write-off	Closing balance
i) FNE	2,792,367	1,785,737	(1,348,796)	3,229,308
ii) FDNE	654	33	(83)	604
iii) Proagro	2,644	668	(2,224)	1,088
iv) Other contingent liabilities	37,800	1,334	(28,461)	10,673

23. Employee and officer compensation (in Brazilian reais)

a) Monthly employee compensation

Gross compensation (1)	01/01 to 12/31/2017	01/01 to 12/31/2016
Maximum	**40,492.52**	39,548.87
Minimum	**1,643.01**	1,487.83
Average	**10,590.05**	10,236.57

(1) Includes overtime (including night shift premium), when actually incurred.

b) Compensation paid to the Executive Board, Board of Directors and Supervisory Board for the period

Specification	12/31/2017	12/31/2016	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Gross compensation (1)	**Executive Board**		**Board of Directors**		**Supervisory Board**	
Highest individual compensation (2)	**843,352.57**	964,628.09	**50,452.50**	69,911.90	**61,804.30**	65,626.12
Lowest individual compensation (3)	**428,190.44**	761,833.48	**50,452.50**	53,572.44	**50,452.50**	53,572.44
Average individual compensation (4)	**826,239.35**	913,957.21	**52,608.04**	51,351.17	**54,536.09**	57,291.50
Number of members (5)	**6.92**	7.75	**6.28**	6.33	**5.08**	5.25

(1) Amounts approved at the 99th Annual General Meeting held on 12/14/2016.

(2) Amount computed without any exclusion, considering all compensation amounts recognized for the period.

(3) Amount reached after excluding all those who have not served in their position during the entire period.

(4) This corresponds to the total compensation for the period paid by each board divided by the number of officers/directors.

(5) The number of officers/directors corresponds to the annual average number of officers/directors of each board calculated on a monthly basis.

At 12/31/2017, the Bank had 6,925 employees (7,214 at 12/31/2016), a headcount decrease of 4.00%.

24. Profit sharing

The employees' profit sharing proposal for year corresponds to R$41,253 (R$43,762 at 12/31/2016), equivalent to 6.05% of net income for the year (5.98% at 12/31/2016) and 25% (25.00% at 12/31/2016) of dividends/interest on equity for the year.

The profit sharing expense for the year amounts to R$42,976, of which R$41,253 is allocated to employees and R$1,723 to officers.

25. Post-employment benefits

Pursuant to CMN Resolution No. 4424, which approved CPC 33 (R1) - Employee Benefits, the post-employment benefit information is presented below. Actuarial valuations are conducted by a qualified independent actuary, based on information provided by Caixa de Previdência dos Funcionários do Banco do Nordeste do Brasil (CAPEF), Caixa de Assistência dos Funcionários do Banco do Nordeste (CAMED) and the Bank.

a) <u>General description of the benefit plan characteristics</u>

a.1) *Pension plan of Banco do Nordeste do Brasil's employees*

The Bank sponsors two complementary pension plans named Defined Benefit (DB) and Variable Contribution (CV I) managed by CAPEF, a closed-ended private pension plan entity that provides complementary retirement benefits based on the contribution period, age and disability to the plan participants, as well as supplementary pension and savings plans to their dependents.

In general terms, to the current participants, the Defined Benefit (DB) plan benefits are calculated based on the difference between the employees' contribution salary and the INSS retirement benefit, weighted by the number of contributions paid to the plan, limited to 360, including any working hours extension, weighted by the number of contributions paid thereon, all effective since July 1997 and projected in accordance with the plan regulation up to the date of the participant's retirement. In addition, a rate equivalent to 21.25% is discounted out of the benefit as a special contribution, resulting on average in 78.75% of the average contribution salary.

The scheduled retirement benefits of the VC I plan are calculated based on the balance of the individual account for each participant on the date of retirement and are paid in two phases, as follows: the first phase as annuity within the deadline established under the Defined Contribution (DC) plan and the second phase as life annuity under the Defined Benefit (DB) plan. In addition, the plan provides coverage for unplanned benefits, such as disability and death in activity, and these benefits are classified by the Bank as defined benefit.

The VC I plan is supported by the Actuarial Solvency Fund that will be used to cover any future actuarial insufficiency of mutual pension plan portfolios, as well as supported by the Mutual Fund for Risk Benefits, in order to supply the payment of complementary capital in case of disability or death of the participant, referring to the insurance coverage of the benefits resulting from these events. The Actuarial Solvency Fund consists of amounts received from participants on a monthly basis, from the application of the actuarial solvency rate on the amount of contributions of active participants; balance of the sponsor's account related to active participant that has opted for redemption and for the amount obtained by the recovery of complementary capital for disability in case of return of the vested participant due to pension for disability, having returned to the 'able' condition, provided that the referred to complementary capital for disability has arisen from the insurer. The Mutual Fund for Risk Benefits is established from the application of a risk rate (of death or disability) on the monthly contributions received from active participants.

According to the entity's statute, the following statutory board are responsible for the management and oversight of CAPEF: Decision-Making Board, Executive Board and Supervisory Board.

The Decision-Making Board is a borad for top-tier decision and guidance and shall primarily define the CAPEF's management policy and benefit plans. It is composed of representatives of the Bank, active participants and participants' and vested beneficiaries' representatives.

The Executive Board is responsible for executing the general guidelines and standards set by the Decision-Making Board and other provisions contained in the relevant legislation, charter, benefit plan regulations, covenants and adhesion terms.

The Supervisory Board is the internal control board and shall mainly monitor and oversee CAPEF activities.

The DB and VC I Plans are ruled by MPS/CGPC Resolution No. 26 of 09/29/2008, amended by CNPC Resolutions No. 10 of 12/19/2012; No. 13 of 11/04/2013; No. 14 of 02/24/2014; No. 16 of 11/19/2014; and No. 22 of 11/25/2015, which provides for conditions and procedures to be observed by closed-end complementary pension entities in determining P&L, allocation and use of surplus and in deficit restructuring of pension benefit plans. Pursuant to the legislation mentioned above, the surplus of VC I Plan, within CAPEF, is fully allocated to the Reserve for Contingency, and for purposes of compliance with the provision of CMN Resolution No. 4424, which approved CPC 33 (R1), it is not recognized by the Bank, as described in subparagraph II of sub item b.1.

a.1.1) *Actuarial method in the scope of the Plans administered by CAPEF*

Classified as defined benefit, the DB plan adopts the fully funded financial system in the actuarial calculation of math reserves related to all benefits offered to its participants and beneficiaries. VC I plan combines the characteristics of the defined contribution plan and the defined benefit plan. This plan adopts the fully funded financial system in the actuarial calculation of math reserves for planned benefits and the shared risk coverage regime for the other benefits offered to its participants and beneficiaries.

a.2) *Health care plan*

The Bank is the sponsor of a health care plan managed by CAMED, named Natural Plan, whose primary purpose is to provide health care to its associate participants and dependents, through granting of subsidies to cover or reimburse expenses incurred in connection with health promotion, protection and recovery.

The Natural Plan is adapted to Law No. 9656 of 06/03/1998, which regulates the Brazilian health care plans. CAMED is registered with the National Regulatory Agency for Private Health Insurance and Plans (ANS), the regulatory Agency of this sector, under registration No. 38.569-7.

CAMED is subject to set up financial guarantees established by ANS to comply with the requirements of the adjusted Minimum Required Capital (MRC) for operations, Solvency Margin and set up of Technical Reserves in order to ensure payment to service providers, by binding of collateral assets as established by regulation.

CAMED statutory boards are: Social Board, Decision-Making Board, Executive Board and Supervisory Board.

The CAMED's Decision-Making Board is a board for monitoring and top-tier administrative decision, composed of representatives of the Bank and of the Social Board. The Executive Board is responsible for executing the general guidelines and standards set by the Decision-Making Board and other provisions contained in the relevant legislation and in CAMED's charter.

The Supervisory Board is the supervisory board of CAMED's management acts and shall essentially monitor and direct the company's activities.

a.2.1) *Contributions*

The Natural Plan is funded primarily by contributions made by the associate participants, contributions related to the enrollment of natural dependents, financial protection and emergency service fees, financial co-participation paid by each associate participant for services utilized and matched contributions from the Bank.

In 2016, CAMED started to refund the contributions prepaid by the Bank as follows: a) single payment of: R$22,504; and b) the remaining balance in monthly installments of R$432.

a.3) *Group life insurance*

The Bank's benefits policy to its employees comprises collective policy agreement of group life insurance intended for its employees and retired former employees. Such policy provides basic coverage for death by natural and accidental causes and additional coverage for disability caused by accident and disease. Insurance premiums are determined by applying rates by age groups. The employees contribute with 50% of this premium amount and the Bank with the remaining 50%, in the form of the Collective Bargaining Agreement (2016/2018). Retirees are responsible for full payment of the premium. Every six-month period, the Bank actuarially assesses the benefit that consists of indirect subsidy to current retirees.

a.4) *Past due obligations and contributions due*

At 12/31/2017, the Bank has no past due obligations or contributions due referring to the pension plans, BD and VCI, health care plan, Natural plan, and the group life insurance, neither informal practices that originate constructive obligations that may be included in the measurement of the defined benefit obligation.

a.5) *Contribution Ratio (Participants/Sponsor)*

At 12/31/2017, the ratio of participants' contributions to Bank contributions meets the parity set by Resolution No. 9 of 10/08/1996 of the Department for Coordination and Control of State-Owned Entities (CCE), with a contribution ratio of 1:1 (1:1 at 12/31/2016).

a.6) *Risk exposure*

The Defined Benefit, Variable Contribution I, Natural and Group Life Insurance plans are mainly exposed to the following risks:

Plan	Type of risk	Risk description
DB/VC I/Natural	Actuarial Risk	The actuarial risk is related to the plan's failure to honor the payment of benefits, due to the adoption of inappropriate actuarial tables and assumptions, or even mismatch between assets and liabilities. In the case of health care plans, this risk associated with the activity of provision of services through accredited chain and/or reimbursement of supplementary health events. This risk is related both to the adequacy of the technical bases used in pricing and to the adequacy of the provision level. Any mismatches in these two variables may have an impact on the health provider's loss ratio.
DB/VC I/Natural	Liquidity risk	Liquidity risk is the possibility of mismatches between tradable assets and liabilities, which may affect the ability to have funds available for payment of benefits and other plan obligations.
DB/ VC I/ Natural	Operational/legal risk	The operational risk is associated with losses resulting from the plan operation and may be subdivided into four categories: people risk (unpreparedness, negligence or fraud); process risk (inefficient organization, flow of information and of weak processes, ill-defined responsibilities, etc.); legal risk (arising from processes and routines that flout the legal system); and risk of technology (data processing subject to errors and equipment failures).
DB/VC I/Natural/Group Life Insurance	Market risk	The market risk is related to changes in interest rates and asset prices that impact the economic and financial performance of the benefit plan.
DB and VC I	Credit Risk	The credit risk arises when counterparties do not wish or are not able to fulfill their contractual obligations. Its effect is measured by the cost of cash flow replacement in the event of default by the counterparty. The rating downgrade by specialized agencies may also increase the credit risk, given that investors' confidence is affected, which may cause reduction in the market value of organizations.
DB/VC I/Natural/Group Life Insurance	Longevity risk	The present value of the plan liabilities is calculated based on the best mortality estimate of the plan participants. An increase in the life expectancy of plan participants will increase the plan liabilities.
Natural	Administrative expense risk	Risk generated by the possibility of administrative expenses being higher than those estimated in the assessment, increasing actuarial liabilities.
DB/Natural	Risk of retirement postponement	The present value of the plan liabilities is calculated considering the possibility of retirement postponement, and in the event such postponement does not become effective, the amount of liabilities is likely to increase.
VC I	Risk of disability or death and coverage of complementary capital	Risk of participant becoming disable or in case of death without a reserve sufficient to pay for the benefits.

a.7) *Number of participants of the post-employment benefit plan*

Specification	Assets	Vested participants	Total
DB Plan	1.531	4.906	6.437
VC I Plan	5.079	216	5.295
Natural Plan	6.551	4.998	11.549
Group life insurance	4.950	3.578	8.528

a.8) *Strategies for crosschecking assets and liabilities*

The actuarial risks associated with the DB Plan are related to the variation and changes in the participant's registry and events expressed by the actuarial tables. No variation is expected on the contribution salary or benefit amounts in addition to those provided for in the plan's regulations.

Regarding the VC I Plan, the actuarial risk is reduced since the obligations relating to individual accounts of participants and benefits provided under the defined income phase at a defined term have full protection against actuarial deficits, although the smaller pension plan obligations relating to the benefits provided under the life annuity phase may occasionally develop actuarial imbalances. For these obligations, there are protection mechanisms against actuarial deficits such as: (i) the establishment of pension funds; and (ii) the adjustment of the benefit calculated based on the investment profitability statutory rate achieved, with limitations set out in the Regulation. This plan also relies on pension funds aiming to restore the plan's actuarial balance whenever there is actuarial deficit and still provide the insurance coverage of benefits arising from disability or death of a participant. In addition, for both plans, periodic registry updates are performed, as well as specific technical studies to assess adherence and convergence of assumptions used in the plan's actuarial valuations.

CAPEF counts on specific areas for investment management in addition to management advisory services that strengthens the monitoring of investment risks. Investments are monitored on a daily basis in order to check issues focused on classification, returns on assets and follow-up of the evolution of the plan's actuarial goal. The Investment Committee holds monthly meetings for discussion of the risks involved in operations, impacts on plan, classification matters and analysis of the economic scenario, and also quarterly risk reports are prepared, with simulation of the monthly and annual profitability, crosschecking of returns on assets against the actuarial goal over time, the plan's liquidity projected in the long-term, Markovitz efficient frontier for variable income funds, follow-up of assets of corporate bonds, comments on investments of the various investment portfolios, and VaR of fixed and variable income segments. The Asset Liability Management (ALM) study is conducted every year and aims to assist the plan's administrators in choosing the most suitable portfolio to their goals, taking into consideration the characteristics and peculiarities of the assets and the plan's financial position. The result of this study allows long-term investments, without compromising the obligations or the achievement of the actuarial goal.

Concerning the Natural Plan, it is highlighted the actuarial or underwriting risk associated with the activity of provision of services through accredited chain and/or reimbursement of supplementary health events. This risk is related both to the adequacy of the technical bases used in pricing and to the adequacy of the provision level. The risk assessment by CAMED is performed by preparing actuarial studies, through detailed analysis of the plan.

CAMED has financial instruments to fund its activities or invest its funds available. The risks associated with these instruments are managed through conservative strategies, intended to ensure liquidity, profitability and safety. The criteria for investments consider fund allocation limits in accordance with the regulation established by ANS. The credit risk associated with these investments is reduced by the restriction of its operations with top-tier financial institution according to the market and concentration of investments in fixed income government securities and corporate bonds with short-term maturity. The credit risk associated with the possibility of not receiving monthly amounts and charges is mitigated by the possibility of collection in payroll and authorization to debit in current account, as well as by the legal possibility of interrupting the service to beneficiaries of the health care plans after a certain period of default. Risk management monitors the changes in exposure scenarios to which CAMED is subject.

b) Actuarial Obligation Analysis

At 12/31/2017, the plans administered by CAPEF and CAMED as well as the Group Life Insurance are recorded in the Bank's financial statements, as follows:

(b.1) Private pension plans

(i) DB Plan: the present value of the actuarial obligation amounting to R$4,161,598 (R$3,870,805 at 12/31/2016) is partially based on plan assets amounting to R$3,750,382 (R$3,507,687 at 12/31/2016), resulting in a present value of the uncovered actuarial obligations of R$411,216 (R$363,118 at 12/31/2016). The obligation referring to vested participants amounts to R$3,452,221 (R$3,198,339 at 12/31/2016) and that referring to active participants amounts to R$709,377 (R$672,466 at 12/31/2016);

(ii) VC I Plan: for unplanned benefits (DB portion) that have characteristics of the defined benefit plan, the present value of the actuarial obligation amounting to R$21,807 (R$12,024 at 12/31/2016) is lower than the fair value of plan assets amounting to R$44,629 (R$29,299 at 12/31/2016), resulting in a surplus of R$22,822 (R$17,275 at 12/31/2016), which has not been recognized as it is intended for building up a solvency fund and the plan mutual fund.

(b.2) Health care plan: the present value of the actuarial obligation amounting to R$1,470,786 (R$923,372 at 12/31/2016) is partially based on plan assets amounting to R$116,548 (R$115,822 at 12/31/2016), resulting in a present value of the uncovered actuarial obligations of R$1,354,238 (R$807,550 at 12/31/2016). The obligation referring to vested participants amounts to R$1.041.680 (R$733,468 at 12/31/2016) and that referring to active participants amounts to R$429,106 (R$189,904 at 12/31/2016).

(b.3) Group life insurance: the present value of the uncovered actuarial obligations amounts to R$134,567 (R$116.899 at 12/31/2016), and there are no assets for this plan. The obligation related to vested participants amounts to R$125,919 (R$111,717 at 12/31/2016) and that related to active participants amounts to

R$39,698 (R$35,500 at 12/31/2016). Of this total, a cross-subsidy is also deducted in the amount of R$31,050 (R$30,318 at 12/31/2016).

c) Reconciliation of opening and closing balances of the obligation present value

	Capef			
	DB Plan		VC I Plan	
Specification	12/31/2017	12/31/2016	12/31/2017	12/31/2016
1. Present value of actuarial obligation at the beginning of the year	**(3,870,805)**	(3,287,130)	**(12,024)**	(9,502)
2. Interest expense	**(397,366)**	(411,523)	**(1,274)**	(1,237)
3. Current service cost	**(8,474)**	(7,674)	**(188)**	(527)
4. Benefits paid by the plan	**412,521**	384,186	**447**	305
5. Vested participant contributions (retirees and pensioners)	**(76,868)**	(71,517)	**-**	-
6. Reversal of the contribution balance from DC portion to DB portion of the plan	**-**	-	**(955)**	(2,638)
7. Administrative expenses paid by the plan	**-**	-	**-**	97
8. Remeasurements of actuarial gains (losses)	**(220,606)**	(477,147)	**(7,813)**	1,478
8.1. From experience adjustments	**(2,656)**	(51,570)	**(6,135)**	3,306
8.2. From changes in biometric assumptions	**(88,928)**	-	**(1,008)**	-
8.3. From changes in financial assumptions	**(129,022)**	(425,577)	**(670)**	(1,828)
9. Present value of actuarial obligation at the end of the year	**(4,161,598)**	(3,870,805)	**(21,807)**	(12,024)

	Camed			
	Natural Plan		Life insurance	
Specification	12/31/2017	12/31/2016	12/31/2017	12/31/2016
1. Present value of actuarial obligation at the beginning of the year	**(923,372)**	(879,202)	**(116,899)**	(56,505)
2. Interest expense	**(95,400)**	(113,548)	**(12,198)**	(7,088)
3. Current service cost	**(8,339)**	(13,587)	**(1,072)**	(764)
4. Benefits paid by the plan (1)	**88,835**	65,655	**11,095**	9,837
5. Vested participant contributions (retirees and pensioners)	**(18,324)**	(17,272)	**(3,089)**	(3,088)
6. Administrative expenses paid by the plan	**11,839**	10,414	**-**	-
7. Remeasurements of actuarial gains (losses)	**(526,025)**	24,168	**(12,404)**	(59,291)
7.1. From experience adjustments	**(194,259)**	189,333	**(1,207)**	(49,296)
7.2. From changes in biometric assumptions	**(116,336)**	-	**(2,866)**	-
7.3. From changes in financial assumptions	**(73,678)**	(136,854)	**(8,331)**	(27,783)
7.4. From changes in demographic assumptions	**(5,431)**	(28,311)	**-**	17,788
7.5. From adjustment to the Administrative Exp. methodology	**(76,161)**	-	**-**	-
7.6. From adjustment to the co-payment methodology	**(142,190)**	-	**-**	-
7.7. From increase in costing sources	**82,030**	-	**-**	-
8. Present value of actuarial obligation at the end of the year	**(1,470,786)**	(923,372)	**(134,567)**	(116,899)

(1) Camed: Natural Plan - net of co-participations paid by associate participants.

d) Reconciliation between opening and closing balances of the fair value of plan assets

	Capef			
	DB Plan		VC I Plan	
Specification	12/31/2017	12/31/2016	12/31/2017	12/31/2016
1. Fair value of plan assets at the beginning of the year	**3,507,687**	3,051,653	**29,299**	31,247
2. Interest income	**362,783**	385,176	**3,316**	4,249
3. Employer's contributions (1)	**77,321**	71,831	**1,550**	1,509
4. Active participants contributions	**407**	428	**1,556**	1,512
5. Vested participants contributions	**76,868**	71,517	**-**	-
6. Reversal of the contribution balance from DC portion to DB portion of the plan	**-**	-	**955**	2,638
7. Administrative expenses paid by the plan	**-**	-	**-**	(97)
8. Benefits paid by the plan	**(412,521)**	(384,186)	**(447)**	(305)
9. Return on plan assets (2)	**137,837**	311,268	**8,399**	(11,454)
10. Fair value of plan assets at the end of the year	**3,750,382**	3,507,687	**44,629**	29,299

(1) Capef - DB Plan: contributions related to active and vested participants;

(2) Except interest income.

Specification	Camed Natural Plan 12/31/2017	Camed Natural Plan 12/31/2016	Life insurance 12/31/2017	Life insurance 12/31/2016
1. Fair value of plan assets at the beginning of the year	**115,822**	106,225	**-**	-
2. Interest income	**11,131**	14,116	**-**	-
3. Employer's contributions (1)	**50,644**	34,649	**4,458**	4,313
4. Return of Sponsor's contributions	**(5,178)**	(26,170)	**-**	-
5. Active participants contributions	**669**	15,073	**3,548**	2,437
6. Vested participants contributions	**18,324**	17,272	**3,089**	3,087
7. Administrative expenses paid by the plan	**(11,839)**	(10,414)	**-**	-
8. Benefits paid by the plan (2)	**(88,835)**	(65,655)	**(11,095)**	(9,837)
9. Return on plan assets (3)	**25,810**	30,726	**-**	-
10. Fair value of plan assets at the end of the year	**116,548**	115,822	**-**	**-**

(1) Camed - Natural Plan: contributions related to associate participants and retirees/pensioners;

(2) Camed - Natural Plan: net of co-participations paid by associate participants; and

(3) Except interest income.

e) Reconciliation between opening and closing balances of the fair value of plan assets

Specification	Capef VC I Plan 12/31/2017	Capef VC I Plan 12/31/2016
1. Asset ceiling effect at the beginning of the year	**(17,275)**	(21,745)
2. Interest on asset ceiling effect	**(2,042)**	(3,012)
3. Remeasurement of asset ceiling effect	**(3,504)**	7,482
4. Asset ceiling effect at the end of the year	**(22,822)**	(17,275)

f) Reconciliation of the present value of the obligation and of the plan assets value with assets and liabilities recognized in the balance sheet

Specification	Capef DB Plan 12/31/2017	Capef DB Plan 12/31/2016	Capef VC I Plan 12/31/2017	Capef VC I Plan 12/31/2016
1. Present value of actuarial obligation at the end of the year	**(4,161,598)**	(3,870,805)	**(21,807)**	(12,024)
2. Fair value of plan assets at the end of the year	**3,750,382**	3,507,687	**44,629**	29,299
3. Surplus (deficit) of the plan (item 1 - item 2)	**(411,216)**	(363,118)	**22,822**	17,275
4. Asset ceiling effect at the end of the year	**-**	-	**(22,822)**	(17,275)
5. Liability recognized in the balance sheet at the end of the year (Note 16.j)	**(411,216)**	(363,118)	**-**	-

Specification	Camed Natural Plan 12/31/2017	Camed Natural Plan 12/31/2016	Life insurance 12/31/2017	Life insurance 12/31/2016
1. Present value of actuarial obligation at the end the of year	**(1,470,786)**	(923,372)	**(134,567)**	(116,899)
2. Fair value of plan assets at the end of the year	**116,548**	115,822	**-**	-
3. Surplus (deficit) of the plan (item 1 - item 2)	**(1,354,238)**	(807,550)	**(134,567)**	(116,899)
4. Liability recognized in the balance sheet at the end of the year (Note 16.j)	**(1,354,238)**	(807,550)	**(134,567)**	(116,899)

g) Amounts recognized in P&L for the year

Specification	Capef DB Plan 2nd half/2017	DB Plan 01/01 to 12/31/2017	DB Plan 01/01 to 12/31/2016	VC I Plan 2nd half/2017	VC I Plan 01/01 to 12/31/2017	VC I Plan 01/01 to 12/31/2016
1. Current service cost, net	**(4,048)**	**(8,067)**	(7,246)	**715**	**1,368**	985
1.1. Service cost	**(4,237)**	**(8,474)**	(7,674)	**(94)**	**(188)**	(527)
1.2. Active participants' contributions	**189**	**407**	428	**809**	**1,556**	1,512
2. Net interest	**(17,291)**	**(34,583)**	(26,347)	**-**	**-**	-
2.1. Interest expense	**(198,683)**	**(397,366)**	(411,523)	**(637)**	**(1,274)**	(1,237)
2.2. Interest income	**181,392**	**362,783**	385,176	**1,658**	**3,316**	4,249
2.3. Interest on asset ceiling effect	**-**	**-**	-	**(1,021)**	**(2,042)**	(3,012)
3. Amounts recognized in P&L for the year (item 1 + item 2)	**(21,339) (1)**	**(42,650) (1)**	(33,593) (1)	**715 (2)**	**1,368 (2)**	985 (2)

(1) Including employees' contribution granted to be refunded to the Bank - DB Plan: 01/01 to 12/31/2016: R$7.

(2) This amount was recorded under "Reversal of operating provisions".

Specification	Camed Natural Plan 2nd half/2017	Natural Plan 01/01 to 12/31/2017	Natural Plan 01/01 to 12/31/2016	Life insurance 2nd half/2017	Life insurance 01/01 to 12/31/2017	Life insurance 01/01 to 12/31/2016
1. Current service cost, net	**(3,835)**	**(7,670)**	1,486	**1,187**	**2,476**	1,673
1.1. Service cost	**(4,170)**	**(8,339)**	(13,587)	**(536)**	**(1,072)**	(764)
1.2. Active participants' contributions	**335**	**669**	15,073	**1,723**	**3,548**	2,437
2. Net interest	**(42,134)**	**(84,269)**	(99,432)	**(6,099)**	**(12,198)**	(7,088)
2.1. Interest expense	**(47,699)**	**(95,400)**	(113,548)	**(6099)**	**(12,198)**	(7,088)
2.2. Interest income	**5,565**	**11,131**	14,116	**-**	**-**	-
3. Amounts recognized in P&L for the year (item 1 + item 2) (1)	**(45,969)**	**(91,939)**	(97,946)	**(4,912)**	**(9,722)**	(5,415)

(1) Including employees' contribution granted to be refunded to the Bank - Natural Plan: 2nd half/2017: R$23; 01/01 to 12/31/2017: R$46; 01/01 to 12/31/2016: R$36; and Life Insurance: 2nd half/2017: R$4; 01/01 to 12/31/2017: R$7; 01/01 to 12/31/2016: R$8.

The contributions referring to the DC portion of the VC I plan were accounted for under "Post-employment benefit expenses", as follows:

Specification	2nd half/2017	01/01 to 12/31/2017	01/01 to 12/31/2016
1. Contributions (DC portion) (1)	**(29,533)**	**(54,609)**	(50,810)

(1) Including transferred employees' contribution: 2nd half /2017 - R$136; 01/01 to 12/31/2017 - R$260; and 01/01 to 12/31/2016 - R$331.

The administrative expenses of the Defined Benefit (DB) plan are accounted for under "Post-employment benefit expenses", as stated below.

Specification	2nd half/2017	01/01 to 12/31/2017	01/01 to 12/31/2016
1. Administrative expenses	**(3,635)**	**(6,724)**	(6,672)

h) Amounts for the period recognized in equity

Net actuarial losses at 12/31/2017 are substantially due to the following assumptions: (i) financial: due to the decrease in interest rates in relation to 12.312016, from 10.71% (12/31/2016) to 9.71% (12/31/2017), in the DB and Natural plans, from 10.73% (12/31/2016) to 9.76% (12/31/2017) in the VC I plan, and from 10.75% (12/31/2016) to 9.76% (12/31/2017) in Group Life Insurance; and (ii) experience adjustments: a) Plan DB - loss due to change in the mortality table; b) VC plan I - loss arising from increase in average wages and benefits, as well as the effect of the ceiling restriction of the asset; c) Natural Plan - in addition to the loss resulting from change in the mortality table, a significant loss is due to adjustment in the methodology of calculations of co-payments, which now consider the experience of the plan. Such losses exceeded gains arising from decrease in the administrative expense rate and increase in funding sources; and d) Life Insurance - also presented loss due to changes in the mortality table, as well as increase in the value of the compensation.

	Capef			
	DB Plan		VC I Plan	
Specification	**01/01 to 12/31/2017**	**01/01 to 12/31/2016**	**01/01 to 12/31/2017**	**01/01 to 12/31/2016**
1. Return on plan assets	**137,837**	311,268	**8,399**	(11,454)
2. Actuarial gains (losses) on obligation	**(220,606)**	(477,147)	**(7,813)**	1,478
2.1. Experience adjustments	**(2,656)**	(51,570)	**(6,135)**	3,306
2.2. Changes in biometric assumptions	**(88,928)**	-	**(1,008)**	-
2.4. Changes in financial assumptions	**(129,022)**	(425,577)	**(670)**	(1,828)
3. Asset ceiling effect	**-**	-	**(3,504)**	7,482
4. Amounts recognized in equity at the end of the year(item 1 + item 2 + item 3) (1)	**(82,769)**	(165,879)	**(2,918)**	(2,494)

(1) Including estimated contribution difference in the DB Plan actuarial calculation: 01/01 to 12/31/2017 - R$8; 01/01 to 12/31/2016 - R$11, and VC I plan: 01/01 to 12/31/2017 - R$130; 01/01 to 12/31/2016 - R$87.

	Camed			
	Natural Plan		Life insurance	
Specification	**01/01 to 12/31/2017**	**01/01 to 12/31/2016**	**01/01 to 12/31/2017**	**01/01 to 12/31/2016**
1. Return on plan assets	**25,810**	30,726	**-**	-
2. Actuarial gains (losses) on obligation	**(526,025)**	24,168	**(12,404)**	(59,291)
2.1. Experience adjustments	**(194,259)**	189,333	**(1,207)**	(49,296)
2.2. Changes in biometric assumptions	**(116,336)**	-	**(2,866)**	17,788
2.3. Changes in financial assumptions	**(73,678)**	(136,854)	**(8,331)**	(27,783)
2.4. Changes in demographic assumptions	**(5,431)**	(28,311)	**-**	-
2.5. Changes from adjustment in the adm. exp. methodology	**(76,161)**	-	**-**	-
2.6. Changes from adjustment in the co-payment methodology	**(142,190)**	-	**-**	-
2.7. From increase in costing sources	**82,030**	-	**-**	-
3. Amounts recognized in equity at the end of the year (item 1 + item 2 + item 3) (1)	**(500,215)**	54,894	**(12,404)**	(59,291)

Including estimated contribution difference in the Group Life Insurance actuarial calculation: 01/01 to 12/31/2017 - R$18; 01/01 to 12/31/2016 - R$24; and Natural: 01/01 to 12/31/2017 - R$38.

i) Reconciliation of changes in net (liabilities)/assets recognized in the year

	Capef			
	DB Plan		VC I Plan	
Specification	**12/31/2017**	**12/31/2016**	**12/31/2017**	**12/31/2016**
1. (Liabilities)/assets recognized at the beginning of the year	**(363,118)**	(235,477)	**-**	-
2. Employer contributions	**77,321**	71,831	**1,550**	1,509
3. Amounts recognized in P&L	**(42,650)**	(33,593)	**1,368**	985
4. Amounts recognized in equity	**(82,769)**	(165,879)	**(2,918)**	(2,494)
5. (Liabilities)/assets recognized at the end of the year (Note 16.j)	**(411,216)**	(363,118)	**-**	**-**

Specification	Camed Natural Plan 12/31/2017	Camed Natural Plan 12/31/2016	Life insurance 12/31/2017	Life insurance 12/31/2016
1. (Liabilities)/assets recognized at the beginning of the year	**(807,550)**	(772,977)	**(116,899)**	(56,505)
2. Employer contributions	**50,644**	34,649	**4,458**	4,313
3. Devolution of Sponsor's contributions	**(5,178)**	(26,170)	**-**	-
4. Amounts recognized in P&L	**(91,939)**	(97,946)	**(9,722)**	(5,415)
5. Amounts recognized in equity	**(500,215)**	54,894	**(12,404)**	(59,291)
6. (Liabilities)/assets recognized at the end of the year (Note 16.j)	**(1,354,238)**	(807,550)	**(134,567)**	(116,898)

j) Investment policy and allocation of plan fair values

The investment policies for DB and VC I plans are annually prepared for a 5-year period, subject to approval from the Capef's Deliberative Council and are mainly intended for defining guidance procedures for management of assets compared to benefit expenses, aiming at the actuarial balancing of each plan. The DB plan goal to be reached in its investments is represented by INPC + 5.50% p.a., and VC I plan represented by IPCA +5.25% p.a.

For policy formulation, the criteria and objectives for investing the plan's funds, cost funds and benefits are analyzed, considering: a) the expected rate of return; b) capital preservation; c) diversification; d) risk tolerance; e) stability; f) liquidity; and g) benefit adjustment rule. Based on these criteria, investment mechanisms are defined as well as the best strategy to diversify portfolios: fixed income, variable income, structured investments, foreign investments, real estate and operations with participants.

For allocation of funds and limits per segment of application, the guidelines of CMN Resolution No. 3792 dated 09/24/2009 and amendments are taken into consideration, in addition to safety, liquidity, profitability and maturity criteria of the plan. The proposal of fund allocation is reviewed at any time, due to any significant event that may substantially change the macroeconomic assumptions regarded.

Deliberations on natural plan investments are approved by the Executive Board and submitted to the Deliberative Council of Camed. For investments associated with financial guarantees with the Brazilian Agency for Supplementary Health (ANS), the limits and conditions set forth by this agency are observed.

Specification	Capef DB Plan (%) 12/31/2017	Capef DB Plan (%) 12/31/2016	Capef VC I Plan (%) 12/31/2017	Capef VC I Plan (%) 12/31/2016	Camed Natural Plan (%) 12/31/2017	Camed Natural Plan (%) 12/31/2016
Fixed income	**90.10**	89.22	**93.66**	93.62	**78.84**	76.71
Variable income	**0.27**	0.19	**-**	-	**20.43**	22.54
Real estate investments	**6.96**	7.72	**-**	-	**0.73**	0.75
Structured investments	**0.26**	0.25	**1.13**	1.28	**-**	-
Loans and financing to participants	**2.39**	2.60	**5.21**	5.10	**-**	-
Other	**0.02**	0.02	**-**	-	**-**	-
Amounts included in the fair value of plan assets						
In financial instruments at the Bank	**-**	0.19	**-**	-	**-**	76.71
In properties/other assets used by the Bank	**-**	1.01	**-**	-	**-**	0.75

k) Assumption used

(k.1) Demographic assumptions

Demographic assumptions used are based on those adopted in actuarial valuations in the scope of Capef and Camed, based on statistical studies prepared by specialized advisory firms engaged by such entities. In the actuarial calculations for the DB, Natural and Life Insurance plans, the time of postponement of the retirement in relation to each active participant was estimated by the percentile 50%, in relation to the effective time of postponement of the retirement verified for all active current participants, who were already eligible for the scheduled retirement benefit on the date of the actuarial valuation.

	DB (Capef) and Natural (Camed) Plans	
Specification	**12/31/2017**	**12/31/2016**
	Mortality tables	
Assets/retirees	**RP2000 M&F Proj 2018 - downrated by 10%**	RP2000 - downrated by 15% (1)
Disabled people	**RP2000 Disable F**	Winklevoss
Disability entry table	**Álvaro Vindas**	Álvaro Vindas - (A10)

(1) Mortality table segregated by gender, being 70% for male and 30% for female.

	VC I Plan (Capef)	
Specification	**12/31/2017**	**12/31/2016**
	Mortality tables	
Assets/retirees	**RP 2000 Proj. 2018 Segregated by gender (downrated by 20%)**	RP 2000 Proj. 2014 Unissex (70%M) (D20)
Disabled people	**IAPC experience (downrated by 50%)**	IAPC experience (downrated by 50%)
Disability entry table	**Muller (downrated by 85%)**	Álvaro Vindas (downrated by 50%)

	Life insurance	
Specification	**12/31/2017**	**12/31/2016**
	Mortality tables	
Assets/Retirees	**RP 2000 Proj. 2018 Segregated by gender (Downrated by 20%)**	RP 2000 Proj. 2014 Unissex (70%M) (D20)
Disabled people	**IAPC experience (downrated by 50%)**	IAPC experience (downrated by 50%)
Disability entry table	**Muller (downrated by 85%)**	Álvaro Vindas (downrated by 50%)

(k.2) Financial assumptions

	Capef (% p.a.)			
	DB Plan		VC I Plan	
Specification	**12/31/2017**	**12/31/2016**	**12/31/2017**	**12/31/2016**
Statutory discount rate for the actuarial liability	**9.71**	10.71	**9.76**	10.73
Effective discount rate for the actuarial obligation	**5.38**	5.75	**5.43**	5.77
Average annual inflation rate	**4.11**	4.69	**4.11**	4.69
Nominal rate of salary increase	**5.15 (1)**	5.74 (1)	**4.11 (2)**	4.69 (2)
Nominal rate of benefit increases	**4.11**	4.69	**4.11**	4.69

(1) DB Plan: the actual rate of salary increase of 1% is applied until the member reaches the expected date for retirement (360 contributions).

(2) VC I Plan: the actual salary increase projection of each participant follows the rules of the Bank's positions and salary plan and in case of an increase in the additional amount due to position in a commission (AFC).

Specification	Camed (% p.a.) Natural Plan		Life insurance	
	12/31/2017	12/31/2016	12/31/2017	12/31/2016
Statutory discount rate for the actuarial liability	**9.71**	10.71	**9.76**	10.75
Effective discount rate for the actuarial obligation	**5.38**	5.75	**5.42**	5.78
Average annual inflation rate	**4.11**	4.69	**4.11**	4.69
Nominal rate of salary increase	**5.15**	5.74	**5.15 (1)**	-
Nominal rate of benefit average increases		7.50 (2)	**5.15 (1)**	-
Rate of increase in health care costs due to aging (aging factor)	**3.17**	3.08	**Not applicable**	Not applicable
Rates of increase in health costs (HCCTR)	**2.60 (3)**	2.69 (2)	**Not applicable**	Not applicable

(1) For the case of life insurance, this refers to a projection of increase in insured capital.

(2) At 12/31/2016, a health care inflation rate was calculated for the Natural plan, considering the plan experience in the last eight (8) years. The rate found was 2.687%, above the aging factor and price overall inflation of 4.69% p.a. and decreases gradually in seven (7) years from 2017, remaining at 1% p.a. from the 8th (eighth) year.

(3) At 12/31/2017, a health care inflation rate was calculated for the Natural plan, considering the plan experience in the last nine (9) years. The rate found was 2.597%, above the aging factor and price overall inflation of 4.11% p.a. and decreases gradually in six (6) years from 2018, remaining at 1% p.a. from the 7th (seventh) year.

(k.3) The future inflation rate is used in the present value calculation of the actuarial obligation, intended for measurement of the inflation floating arising from the freeze, in annual cycles, of future contributions and benefits. This calculation allows the occurrence of inflation process of equal charge for all salary, union, social security and economic variables of the plan.

(k.4) The Projected Unit Credit Method is used as the actuarial valuation method in order to determine the obligation present value, the current service cost and, when necessary, the past service cost.

(k.5) The discount rate is equivalent to the expected return of the National Treasury Notes (NTN-B), for the “duration” of the plans, in accordance with the methodology provided in item 83 of CPC 33 (R1) approved by CMN Resolution No. 4424. At 12/31/2017, the following “duration” of the plans was determined: for Capef DB and CAMED Natural Plans: 12.91 years (12.52 years at 12/31/2016); for CAPEF VC I Plan: 21.01 years (28.74 years at 12/31/2016); and for Life Insurance: 18.34 years (9.81 years at 12/31/2016).

l) Sensitivity analysis of main assumptions

The sensitivity analysis considers the increase or decrease of one (1) year in the age of the participant or vested participant, or increase or decrease by 0.25% in the interest rate, for DB, VC I, Natural and Life Insurance plans, as well as the growth rate of health costs for the Natural plan. The calculation was made based on the PUC method, estimating the present value of obligation at 12/31/2017:

Capef - DB Plan	Current parameters 12/31/2017	Biometric table Age + 1	Biometric table Age - 1	Interest rate + 0.25%	Interest rate -0.25%
Present value of actuarial obligation	**(4,161,598)**	**(4,052,397)**	**(4,268,880)**	**(4,073,139)**	**(4,253,636)**
Fair value of assets	**3,750,382**	**3,750,382**	**3,750,382**	**3,750,382**	**3,750,382**
Technical surplus (deficit)	**(411,216)**	**(302,015)**	**(518,498)**	**(322,757)**	**(503,254)**
Variations:					
Increase/decrease in actuarial obligation (%)		**(2.6)**	**2.6**	**(2.1)**	**2.2**
Increase/decrease in technical surplus (deficit) - %		**(26.6)**	**26.1**	**(21.5)**	**22.4**

Capef - VC I Plan	Current parameters 12/31/2017	Biometric table Age + 1	Biometric table Age - 1	Interest rate + 0.25%	Interest rate -0.25%
Present value of actuarial obligation	**(21,807)**	**(21,683)**	**(21,992)**	**(21,057)**	**(22,605)**
Fair value of assets	**44,629**	**44,629**	**44,629**	**44,629**	**44,629**
Technical surplus (deficit) (1)	**22,822**	**22,946**	**22,637**	**23,572**	**22,024**
Variations:					
Increase/decrease in actuarial obligation (%)		**(0.6)**	**0.8**	**(3.4)**	**3.7**
Increase/decrease in technical surplus (deficit) - %		**0.5**	**(0.8)**	**3.3**	**(3.5)**

(1) Amount not recognized in view of the asset ceiling effect.

Camed - Natural Plan	Current parameters 12/31/2017	Biometric table Age + 1	Biometric table Age - 1	HCCTR + 0.25%	HCCTR -0.25%	Interest rate + 0.25%	Interest rate -0.25%
Present value of actuarial obligation	**(1,470,786)**	**1,407,031**	**1,534,542**	**1,490,120**	**1,451,453**	**1,424,556**	**1,517,016**
Fair value of assets	**116,548**	**116,548**	**116,548**	**116,548**	**116,548**	**116,548**	**116,548**
Technical surplus (deficit)	**(1,354,238)**	**(1,290,483)**	**(1,417,994)**	**(1,373,572)**	**(1,334,905)**	**(1,308,008)**	**(1,400,468)**
Variations:							
Increase/decrease in actuarial obligation (%)		**(4.3)**	**4.3**	**1.3**	**(1.3)**	**(3.1)**	**3.1**
Increase/decrease in technical surplus (deficit) - %		**(4.7)**	**4.7**	**1.4**	**(1.4)**	**(3.4)**	**3.4**

Life insurance	Current parameters 12/31/2017	Biometric table Age + 1	Biometric table Age - 1	Interest rate + 0.25%	Interest rate -0.25%
Present value of actuarial obligation	**134,567**	**144,796**	**124,560**	**128,685**	**140,831**
Technical surplus (deficit)	**(134,567)**	**(144,796)**	**(124,560)**	**(128,685)**	**(140,831)**
Variations:					
Increase/decrease in actuarial obligation (%)		**7.6**	**(7.4)**	**(4.4)**	**4.7**
Increase/decrease in technical surplus (deficit) - %		**7.6**	**(7.4)**	**(4.4)**	**4.7**

m) Impact on future cash flows

m.1) *Expected contributions for the year of 2018*

Specification	Capef DB Plan (1)	Capef VC I Plan (2)	Camed Natural Plan	Life insurance
1. Employer contributions	85,566	1,539	68,307	3,808
2. Employees' contributions	210	1,516	-	2,560
3. Contributions from vested participants	85,356	-	27,362 (3)	3,382

(1) Except for contributions intended for administrative costing: 01/01 to 12/31/2017: Employer: R$7,440 and Employees/Vested participants: R$7,440;

(2) Except for contributions intended for part of the DC plan: 01/01 to 12/31/2017: Employer: R$54,204 and Employees: R$54,227 and administrative costing: Employer: R$2,934 and Employees/Vested participants: R$2,934;

(3) Except for co-payments.

m.2) *Expected payments of benefits*

Specification	Capef (1) DB Plan	Capef (1) VC I Plan	Camed (1) (2) Natural Plan	Life insurance (1)
Within 1 year	357,857	1,926	81,155	10,998
From 1 to 2 years	354,816	1,745	85,507	13,229
From 2 to 3 years	351,461	1,583	89,903	14,449
From 3 to 4 years	345,790	1,410	94,610	15,693
Above 4 years	5,714,848	53,643	6,739,587	1,063,496
Total	**7,124,772**	**60,307**	**7,090,762**	**1,117,865**

(1) The amounts of expected benefits were calculated without present value discount.

(2) Net of co-payment of vested participants.

n) <u>Estimated expenses for the year of 2018</u>

Specification	Capef		Camed	Life
	DB Plan	VC I Plan	Natural Plan	insurance
1. Current service cost, net	(8,352)	1,053	(18,463)	1,345
2. Net interest	(35,776)	-	(128,222)	(12,760)
3. Total to be recognized(expenses)/revenues	**(44,128)**	**1,053**	**(146,685)**	**(11,415)**

26. Fundo Constitucional de Financiamento do Nordeste (FNE)

(a) The total assets of FNE, amounting to R$74,501,501 (R$67,428,548 at 12/31/2016) are recorded in the Bank's memorandum accounts "Net assets of managed public funds".

(b) Cash and cash equivalents and funds committed to loan transactions, which represent cash and cash equivalents of FNE in the amount of R$22,590,576 (R$16,665,297 at 12/31/2016), recorded under "Other obligations/Financial and development funds" bear interest at the extra-market rate. In period, the interest expense on cash and cash equivalents totaled R$1,801,879 (R$1,732,451 at 12/31/2016).

(c) The provision to cover the risk on FNE transactions is recognized pursuant to the following criteria:

(c.1) Transactions contracted until 11/30/1998 are risk-free;

(c.2) For transactions contracted beginning 12/01/1998, excluding Land Program financing lines and transactions under PRONAF (groups A, B, A/C, Forest, Semi-arid Region, Emergency, Flood, Drought/1998, Semi-arid Region-Drought 2012 and Drought-2012-Costing), the Bank's risk is 50%; and

(c.3) The Bank assumes all the risks on renegotiated and reclassified FNE loan transactions, as set forth by Law No. 11775 of 09/17/2008, and transactions recognized in "Onlending debtors", as prescribed by Ministry of Integration Administrative Ruling No. 23 of 01/13/2017. Loans funded by FNE, under Law No. 12716 of 09/21/2012, for the purpose of settling BNB transactions with other funds, will maintain the same risk position of the transaction to be settled. The financing balances and provisions recorded under "Provision for financial guarantees provided" of the Bank are broken down as follows:

Risk level	Balances	Provision at 12/31/2017	Provision at 12/31/2016
AA	**11,313,659**	**-**	-
A	**13,388,250**	**33,618**	27,119
B	**7,512,793**	**37,992**	48,565
C	**2,238,387**	**34,021**	32,843
D	**954,229**	**47,647**	89,640
E	**750,082**	**112,860**	94,982
F	**992,628**	**248,214**	102,062
G	**391,016**	**136,894**	258,215
H	**4,831,480**	**2,432,706 (1) (2)**	2,575,882 (1)
Total	**42,372,524**	**3,083,952**	3,229,308

(1) At 12/31/2017, this balance includes provision to cover the Bank risk on loan transactions with indication of irregularities in the amount of R$35,161 (R$43,347 at 12/31/2016).

(2) Includes effects of renegotiations of loans, based on Law No. 13340, of 09/28/2016, which authorized granting of rebates and renegotiation of debts from rural credit operations contracted up to 12/31/2011, with FNE funds and mixed funds from FNE and other sources.

(d) The Bank's del credere commission on transactions entered into by 11/30/1998 is nil. For transactions entered after this date, del credere commission is 3% p.a., when the risk is 50%, and 6% p.a. when the Bank is a direct party to the transaction backed by onlending based on article 9, item A of Law No. 7827 of 09/27/1989. In transactions reclassified for FNE based on Law No. 11775 of 09/17/2008, del credere commission is 3% p.a. or 6% p.a., as regulated by Interministerial Ruling No. 245 of 10/14/2008, of the Ministry of Finance and Ministry of National Integration. Income from *del credere* commission totaled R$1,283,268 (R$1,254,708 at 12/31/2016).

(e) The administration fee of 3% p.a. is calculated on the Fund's net asset, less the amounts under the onlending agreement entered into with the Bank, balances of onlending to other institutions with the risk fully assumed by the Bank, and the balances of PRONAF investments (Groups A/Microcredit, Forest, Semi-arid region, Emergency, Flood, Drought/1998, Semi-arid Region-Drought 2012 and Drought-2012/Costing), and is limited to 20% of the transfers made by the National Treasury. In the period, the administration fee totaled R$1,391,864 (R$1,463,249 at 12/31/2016).

27. Workers' Assistance Fund (Fundo de Amparo ao Trabalhador - FAT)

The Workers' Assistance Fund (FAT) is a special financial-accounting fund under the Ministry of Labor and Employment (Ministério do Trabalho e Emprego - MTE), whose purpose is to finance the Unemployment Insurance, Salary Bonus and Economic Development Programs. The main actions financed by the Bank with FAT funds are as follows:

Specification	Tade	12/31/2017	12/31/2016
Proger-Urbano - Investment	017/2006	**1,049**	2,526
FAT - Infrastructure	018/2006	**151,507**	173,200
Protrabalho - Investment	004/2007	**113,669**	192,365
National Program for Production-Oriented Microcredit (PNMPO)	001/2010	**80,394**	96,514
Total		**346.619**	464,605

Obligations derived from FAT, recorded under 'Interest-yielding special deposits', totaling R$179,935 (R$254,980 at 12/31/2016), are subject to SELIC rate while they are not used in loans, and subject to TJLP after they are released to final borrowers. Available funds yielding interest at SELIC totaled R$37,481 (R$28,279 at 12/31/2016).

Pursuant to CODEFAT (FAT Board) Resolution No. 439 of 06/02/2005, these funds began to be reimbursed to FAT on a monthly basis, with a minimum amount equivalent to 2% calculated on the total balance of each FAT Special Deposit Allocation Statement (TADE), plus cash to meet the following conditions, considering the period they remain in the Bank's cash:

- After 2 months, with respect to the reimbursements of the final borrowers, not reused in new financing; and
- After 3 months, with respect to the new deposits made by FAT and not released to final borrowers.

Specification	Tade	Form (1)	Return of FAT funds RA	SELIC remuneration	Cash and cash equivalents TMS (2)	12/31/2017 TJLP Applied (3)	Total
Proger - Urbano - Investment	17/2006	RA	**3,774**	**137**	**948**	**10,619**	**11,567**
FAT - Infrastructure[(4)]	18/2006	RA	**44,504**	**1,945**	**15,737**	**26,847**	**42,584**
Protrabalho-Investment	04/2007	RA	**21,218**	**507**	**15,595**	**31,784**	**47,380**
PNMPO	01/2010	RA	**21,332**	**565**	**5,201**	**73,202**	**78,402**
Total (Notes 13.b and 29.a.1)			**90,828**	**3,154**	**37,481**	**142,452**	**179,933**

Specification	Tade	Form (1)	Return of FAT funds RA	SELIC remuneration	Cash and cash equivalents TMS (2)	12/31/2016 TJLP Applied (3)	Total
Proger - Urbano - Investment	17/2006	RA	7,460	304	1,709	12.717	14,426
FAT - Infrastructure[(4)]	18/2006	RA	50,250	3,035	22,297	60,055	82,352
Protrabalho-Investment	04/2007	RA	17,036	42	709	63,802	64,511
PNMPO	01/2010	RA	25,484	753	3,564	90,127	93,691
Total (Notes 13.b and 29.a.1)			100,230	4,134	28,279	226,701	254,980

(1) RA - Automatic Return (Monthly, 2% on balance);

(2) Funds yielding SELIC rate;

(3) Funds yielding SELIC rate; and

(4) Regarding FAT - Infrastructure, RA is 1% on the balance and deductible reimbursements refer to the last 4 months.

28. Risk management and Basel Index

a) Risk and capital management

The Bank's corporate governance instruments include a regularly reviewed internal control structure so that the operational, credit, market and liquidity risks may be adequately monitored. The risk management methodology observes the guidance set forth by the Basel Committee, with priority to identification of possible risks existing in the different Bank processes, and implementation and monitoring of key indicators and of mechanisms to mitigate any risks.

Risk management structure

The corporate risk management policy sets forth guidelines and standards that integrate the Bank's activities, for management of credit, liquidity, market and operational risks. The Corporate Risk Management Committee analyzes and forwards for approval by the Executive Board proposals for creation of and adjustments in strategies, policies, models and procedures for risk management. The Control and Risk Executive Board coordinates the implementation thereof and the Bank's performance, through a specific unit that manages credit, operational, market and liquidity risks at corporate level, defining management methodologies and models, as well as promoting the dissemination of the risk management culture.

Further information relating to risk management focused on matters related to Reference Assets and the amount of Risk-Weighted Assets (RWA), in accordance with BACEN Circular Letter No. 3678 of 10/31/2013, can be found at www.bnb.gov.br, clicking on the link "Sobre o Banco".

Capital management structure

The Executive Board is responsible for approving the capital management structure of the Bank, including the Capital Plan for the period from 2018 to 2020, which was also approved by the Board of Directors on 12/04/2017. The Control and Risk Executive Board is responsible for Capital Management, and a specific administrative unit has been structured for this purpose, as required by CMN Resolution No. 3988 of 06/30/2011. The Capital Management Structure information is available at www.bnb.gov.br, clicking on the link “Sobre o Banco”.

b) Credit risk

Credit risk is defined as the risk of incurring losses associated with default by the borrower or counterparty to financial obligations under the agreed to terms and conditions, impairment of a loan agreement arising from downgrading of the borrowers’ risk rating, decrease in gains or returns, advantages granted in renegotiations, and the costs of recovery.

Specification	Exposure	
	12/31/2017	**12/31/2016**
Loans, co-obligations and guarantees given	**32,250,091**	32,994,183
Public sector	**976,426**	1,437,712
Private sector	**31,273,665**	31,556,471
Trade	**3,660,424**	3,940,690
Foreign trade	**919,354**	439,266
Housing	**242**	170
Manufacturing	**7,717,032**	9,374,031
Infrastructure	**4,276,411**	2,681,649
Urban micro-financing	**2,962,117**	2,867,269
Individuals	**44,284**	125,180
Rural	**7,243,696**	7,346,517
Other services	**4,450,105**	4,781,699
Market transactions	**40,972,232**	31,830,474
Federal Government securities	**38,305,132**	28,744,042
Repurchase agreements	**14,653,399**	11,184,789
Other	**23,651,733**	17,559,253
Interbank deposits	**115,554**	150,350
Other marketable securities	**1,481,880**	1,923,756
Other transactions	**1,069,666**	1,012,326
Other assets	**5,483,392**	4,984,341
Total	**78,705,715**	69,808,998

The Bank uses the constant information flow to identify, measure, control and mitigate risks, thus ensuring that credit risk exposure is within acceptable parameters. Accordingly, the Bank uses instruments, such as: credit policies, risk assessment models and methodologies, managerial reports, and system for risk rating and for calculation of expenses related to allowance for loan losses.

Furthermore, any approval in terms of risk limits is based on the level of authority by body. In accordance with their characteristics and amount, the limits may be automatically calculated or analyzed and defined by the branches' credit assessment committees, or by the Operational Supporting Centers' risk limit approval committees, or also be decided by the customer risk limit approval committee of the General Executive Board, Executive Board or Board of Directors.

All loans are subject to risk rating, based on the customer’s risk rating and loan grade, in accordance with their value, term, nature and purpose characteristics and conditions of collaterals as to their sufficiency and liquidity.

b) Credit risk (Continued)

Collaterals for loans above R$5.000 with full risk for the Bank

The collaterals for loans are determined based on their quality, capacity to be removed and sufficiency. Balances exposed to risk of loans above R$5,000 amount to R$3,694,575 (R$4,716,104 at 12/31/2016). These transactions are backed by collaterals totaling R$4,030,391 (R$5,425,536 at 12/31/2016).

c) Liquidity risk

Liquidity risk is the possibility of mismatches between tradable assets and liabilities that could affect the Bank's ability to pay, as well as the possibility of the institution being unable to negotiate a position at market price due to its volume being greater than the volume normally traded in the market or due to any discontinuity thereof.

The Bank adopts projection models to estimate changes in cash and manage its capacity to honor future commitments, communicating the Company's liquidity position to management through daily reports.

The daily market and liquidity risk management report includes, among other, the Bank's liquidity ratio, represented by the ratio between available funds and commitments estimated for the next 90 days. Available funds comprising the liquidity ratio calculation base include banking reserves, highly liquid portion of interbank deposits, repurchase agreements and own securities portfolio.

	Specification	**12/31/2017 (%)**	**12/31/2016 (%)**
Liquidity ratio	At reporting date	**831.55**	537.33
	Average for the last 12 months	**669.88**	481.00
	Maximum for the last 12 months	**1,033.35**	573.00
	Minimum for the last 12 months	**503.67**	344.26

d) Market risk

Market risk is the possibility of impairment of assets and/or increase in liability costs arising from changes in interest rates, exchange rates, and stock and commodity prices.
In managing market risks, the Bank considers market-approved methodologies and instruments, such as:

(a) VaR (value at risk) of asset and liability transactions in trading and banking portfolios, by risk factor;

(b) Capital requirement map, for coverage of market and liquidity risks;

(c) Foreign exchange exposure report;

(d) Sensitivity analysis;

(e) Stress testing;

(f) Backtesting; and

(g) Reports on monitoring of limits established for portions exposed to market risk.

The preparation of daily, monthly, quarterly and annual managerial reports for management and supervisory and control Agencies is critical to market risk management. Such reports include, among others, detailed information on and analysis of exposure levels of trading and banking portfolios, currency exposure levels and liquidity levels.

In addition to these reports, the monitoring of market and liquidity risk exposure limits includes a warning system implemented in order to expedite the preparation of managerial information necessary for the decision-making process by the proper levels of authority, based on the following procedures:

Risk exposure limits	Control procedure
• Trading portfolio: 1% of Referential Equity • Banking portfolio: 5% of Referential Equity	If the exposure level exceeds 80% of the limit, the risk management area issues a warning to the area responsible for the financial operations.

Sensitivity analysis

As set forth in CVM Ruling No. 475 of 12/17/2008, the sensitivity analysis was conducted in order to identify significant risks capable of generating losses to the Bank, considering alternative scenarios for the behavior of various risk factors in trading and banking portfolio transactions, and its results are as follows:

		Scenario 1 (Probable)	Scenario 2 (variation of 25%)		Scenario 3 (variation of 50%)	
Portfolio/risk factor	**Type of risk**	**Balance**	**Balance**	**Loss**	**Balance**	**Loss**
		Trading portfolio				
Fixed interest rate	Increase in interest rate	11,803	11,784,018	(19,100)	11,765	(37,866)
		Banking portfolio				
Dollar coupon	Reduction in coupon	(68,579)	(70,531)	(1,952)	(72,623)	(4,044)
Euro coupon	Increase in coupon	15	15	-	14	(1)
IGP coupon	Increase in coupon	160,694	150,093	(10,601)	140,411	(20,283)
IPCA coupon	Reduction in coupon	1,360,898	1,136,261	(224,637)	968,763	(392,135)
TJLP coupon	Increase in coupon	186,906	186,191	(715)	185,488	(1,418)
TR coupon	Increase in coupon	(2,258,787)	(2,283,904)	(25,117)	(2,302,480)	(43,693)
Fixed interest rate	Increase in interest rate	2,980,865	2,900,845	(80,020)	2,839,051	(141,814)

For purposes of abovementioned calculations, scenario 1, which presents the most probable situation, considered the net balances of portfolios, at marked-to-market values - considering the rates used at B3 S.A. As regards scenarios 2 and 3, changes of 25% and 50% were applied, respectively, to the market risk factors considered, and new net balances were estimated for the portfolios. Losses correspond to the differences between the balances under scenario 1 and the balances under scenarios 2 and 3.

The sensitivity analysis was also conducted for swap transactions and their related hedged items as follows:

Nature of transaction	Type of risk	Financial instrument	Scenario 1 (Probable)	Scenario 2 (variation of 25%)	Scenario 3 (variation of 50%)
Hedging derivatives	Increase in referential	Dollar Swap x DI	1,018,511	1,027,618	1,036,892
	rate - B3 S.A. DI vs.	Liabilities in FC	(1,029,119)	(1,038,290)	(1,047,629)
	DOLLAR	Net exposure	(10,608)	(10,672)	(10,737)

Market value losses were considered in the net exposure of scenarios 2 and 3 and, as regards scenario 1, arising from a possible stressed increase in exchange coupon in foreign-currency denominated transactions.

The method used in the sensitivity analysis of hedge transactions consisted in the measurement of changes in net exposure marked to market between the dollar-indexed foreign exchange payable and the dollar-denominated foreign exchange receivable of swap transactions. The net exposure was calculated for three scenarios, allowing their comparison. Scenario 1 uses market rates, representing the current situation for risk exposure factors, based on the rates disclosed by B3. Scenarios 2 and 3 are obtained by applying shocks to the foreign exchange coupon used in Scenario 1, as described below:

- Scenario 1 - 100% of the DI x Dollar swap rate is applied.
- Scenario 2 - 125% of the DI x Dollar swap rate is applied.
- Scenario 3 - 150% of the DI x Dollar swap rate is applied.

e) Operational risk

The operational risk is the possibility of losses arising from failures, deficiencies or inadequacies of internal processes, people and systems or resulting from external events, including those related to legal issues.

Operational risk management requires continuous commitment and involvement of all managers, employees and collaborators, whose main purpose is to mitigate the possibility and impact of operating losses.

The corporate operating risk management system aims at ensuring compliance with the corporate policy in accordance with governance principles and the policies set by the National Monetary Council (CMN), based on the timetable defined by the banking supervisory agency.

The Bank’s corporate operational risk is managed through a process view and a specific organizational structure designed to support assessment activities in all supporting and business processes of the Institution, mainly based on the Resolutions issued by the Central Bank. The qualitative approach comprises process risk assessment methodologies, follow-up of mitigating measures and managerial reports. Another methodology used is the RCSA (Risk and Control Self-Assessment) that allows simulating risks inherent to activities and procedures, as well as defining their impact. RCSA further allows building a Risk Matrix and defining indicators, aiming at reaching an expanded vision of the processes and improved management.

f) Foreign exchange exposure

Transactions under agreements that provide for currency adjustment clause presented net balance of foreign exchange exposure sold, in the amount of R$73.728 (R$25,470 at 12/31/2016 - short position), as follows:

Specification	12/31/2017	12/31/2016	Specification	12/31/2017	12/31/2016
Cash and cash equivalents	**16,247**	56,911	Deposits	**-**	-
Interbank Investments	**27,953**	-	Interdepartmental accounts	**5,660**	7,170
Loans	**615,161**	734,445	Borrowings and onlending - domestic	**68,241**	76,062
Other receivables	**937,045**	672,061	Borrowings and onlending - foreign	**1,647,993**	1,760,411
			Other liabilities	**960,012**	640,391
Total assets in foreign currencies, excluding derivatives	**1,596,406**	1,463,417	**Total liabilities in foreign currencies**	**2,681,906**	2,484,034
Swap transactions	**1,011,772**	995,147			
Total long position in foreign currencies	**2,608,178**	2,458,564	**Total short position in foreign currencies**	**2,681,906**	2,484,034

Foreign exchange exposure is maintained below the limits established in the Corporate Risk Management Policy (5% of the -Referential Equity-RE).

g) Operating limits - Basel Accord

At 12/31/2017, the Bank had a wide Basel rate (including capital to cover RBAN) of 15.01% (15.00% at 12/31/2016) and Tier I rates and Principal Capital were both at 10.39% (10.80% at 12/31/2016). RE computed was R$6,300,032 (R$6,099,931 at 12/31/2016), Tier I and Principal Capital had the same amount of R$4,115,719 (R$4,109,061 at 12/31/2016), while risk weighted assets (RWA amount) totaled R$39,615,608 (R$38,048,564 at 12/31/2016).

i) *Minimum Required Capital - MRC (Basel III)*

Specification	12/31/2017	12/31/2016
Referential Equity(RE)	**6,300,032**	6,099,931
. Tier I	**4,115,719**	4,109,061
. Principal Capital	**4,115,719**	4,109,061
. Tier II	**2,184,313**	1,990,870
Risk-Weighted Assets (RWA)	**39,615,608**	38,048,564
. RWACPAD	**30,935,801**	30,634,885
. RWACAM	**182,897**	257,977
. RWAJUR	**183,265**	57,155
. RWACOM	**5,384**	5,843
. RWAOPAD	**8,308,261**	7,092,704
RBAN amount	**2,353,525**	2,624,533
Margin on RE (RC - [RWA * 9.25%])1	**2,635,589**	2,342,635
Margin on RE considering RBAN {RA - ([RWA + RBAN]* 9.25%)} (1)	**2,417,888**	2,083,462
Margin on Tier I REC (Tier I RE - RWA * 6%)	**1,738,783**	1,826,147
Margin on Required Principal Capital (Principal Capital - RWA * 4.5%)	**2,333,017**	2,396,875
Required Additional Capital (RWA * 1.25%) (2)	**495,195**	237,804
Margin on Additional Required Capital (whichever is lower of margins - additional required principal capital)	**1,243,587**	1,588,343
Basel Indexes:		
. Principal capital index (minimum requirement of 4.5%)	**10.39%**	10.80%
. Tier I index (minimum requirement of 6.0%)	**10.39%**	10.80%
. Basel index (minimum requirement of 9.25%)(1)	**15.90%**	16.03%
. Basel index including RBAN	**15.01%**	15.00%

(1) In December 2016 it was 9.875%.

(2) In December 2016 it was 0.625%.

Where:

- RWACPAD: amount related to credit risk exposures.

- RWACAM: amount related to exposure to gold, foreign currency and assets subject to foreign exchange variation.
- RWAJUR: amount related to exposures subject to change in interest rates.
- RWACOM: amount related to exposures subject to change in commodity prices.
- RWAOPAD: amount related to operational risk.
- RBAN: capital to cover risk in transactions subject to change in interest rates not classified in the trading portfolio.

ii) *Breakdown of RE (Basel III)*

Specification	12/31/2017	12/31/2016
Referential Equity	**6,300,032**	6,099,931
Tier I Referential Equity	**4,115,719**	4,109,061
Principal Capital	**4,115,719**	4,109,061
Capital	**2,844,000**	2,844,000
Income reserves	**1,685,026**	1,157,951
Capital and revaluation reserve	**11,769**	14,491
Unrealized gains or losses - equity valuation and marketable securities	**(998,758)**	(653,947)
Debt instruments eligible to Principal Capital	**1,000,000**	1,000,000
Prudential Adjustments	**(426,318)**	(253,434)
Prudential Adjustments - intangible assets	**(9,561)**	(7,144)
Prudential adjustment - Deferred assets	**-**	-
Prudential adjustment - Tax credits from temporary differences	**(403,551)**	(235,335)
Prudential adjustment - Difference to less - Adjustments of CMN Resolution No. 4277	**(13,206)**	(10,955)
Tier II Referential Equity	**2,184,313**	1,990,870
Instruments eligible to Tier II	**2,205,467**	2,012,874
Investment in other entities deducted of Tier II	**(21,154)**	(22,004)

The Subordinated Debt Instruments entered into with FNE, authorized to comprise Tier II RE before the entry into force of CMN Resolution No. 4192 of 03/01/2013, according to paragraph 2 of article 23, shall remain eligible up to their amortization.

On 12/21/2016, BACEN authorized the inclusion in the Tier I Referential Equity (RE) of the Bank, as Principal Capital, the novation and acknowledgment of debt agreement entered into with the Federal Government, named Debt instruments eligible to Principal Capital, which replaced the Hybrid Debt and Equity Instrument, which was recorded under Tier II of the RE until 12/31/2015.

iii) *Leverage Ratio (LR)*

The Leverage Ratio (LR), according to the methodology approved by BACEN Circular Letter No. 3748 of 02/27/2015, corresponds to the division of Tier I RE by Total Exposure. The Bank's Leverage Ratio is as follows:

Specification	12/31/2017	12/31/2016
Tier I RE	**4,115,719**	4,109,061
Total exposure	**77,083,190**	68,182,830
Leverage Ratio (%)	**5.34**	6.03

iv) *Fixed asset to equity ratio*

The Bank's fixed asset to equity ratio, calculated in accordance with the provisions of CMN Resolution No. 2669 of 11/25/1999, is as follows:

Specification	12/31/2017	12/31/2016
Referential Equity - fixed asset to equity limit	**6,300,032**	6,099,931
Fixed asset to equity limit (50% of adjusted RA)	**3,150,016**	3,049,965
Situation	**175,218**	207,424
Margin	**2,974,798**	2,842,541
Fixed asset to equity ratio	**2.78%**	3.40%

29. Related parties

a) Transactions with related parties

(a.1) Significant transactions with state-owned companies, autonomous government agencies, programs and funds controlled by the Federal Government are broken down as follows:

Specification	12/31/2017	12/31/2016
Assets		
Loans - refinancing with the Federal Government (Note 9.a.1)	**-**	552,221
Total	**-**	552,221

Specification	12/31/2017	12/31/2016
Liabilities		
Time deposits - FAT (Note 13.b. and Note 27)	**179,933**	254,980
Domestic onlending - Official institutions (Note 14.c.)	**1,520,571**	1,669,248
National Treasury	**450**	451
BNDES	**1,435,506**	1,552,591
Finame	**84,615**	116,206
Other obligations	**26,638,378**	20,548,732
FNE (Note 16.f)	**22,599,975**	16,674,513
FDNE	**730,837**	759,798
Merchant Marine Fund (FMM)	**102,098**	101,547
Debt instruments eligible to capital (Note 16.g and Note 17)	**1,000,000**	1,000,000
Subordinated debts eligible to capital (Note 16.h and Note 18)	**2,205,468**	2,012,874
Total	**28,338,882**	22,472,960

a) Transactions with related parties (Continued)

(a.2) Significant transactions with entities related to the Bank's employees, namely, Capef and Camed, are broken down as follows:

Specification	12/31/2017	12/31/2016
Liabilities		
Post-employment benefits - Capef DB Plan (Notes 16.i and 25.b)	**411,216**	363,118
Post-employment benefits - Camed Natural Plan (Notes 16.i and 25.b)	**1,354,238**	807,550
Post-employment benefits - Life insurance (Notes 16.i and 25.b)	**134,567**	116,899
Total	**1,900,021**	1,287,567

(a.3) Significant revenues and expenses with related parties are as follows:

Specification	2nd half/2017	12/31/2017	12/31/2016
Loans - refinancing with the Federal Government	**4,335**	**36,708**	72,775
Time deposits - FAT	**(28,557)**	**(65,894)**	(66,728)
National Treasury	**(7)**	**(7)**	(24)
BNDES	**(56,368)**	**(111,742)**	(117,659)
Finame	**(1,571)**	**(3,069)**	(4,321)
FMM	**(4,603)**	**(9,891)**	(3,714)
FNE	**6,344**	**(37,694)**	(41,094)
FDNE	**14,819**	**29,290**	21,509
Debt instruments eligible to capital	**(147,780)**	**(193,013)**	(101,903)
Hybrid debt/equity instruments	**-**	**-**	(20,213)
Subordinated debts eligible to capital	**(87,037)**	**(192,594)**	(163,758)
Post-employment benefit - Capef DB Plan	**(24,975)**	**(49,375)**	(29,777)
Post-employment benefits - VC I Plan	**(28,681)**	**(52,980)**	(32,735)
Post-employment benefit - Camed Natural Plan	**(45,946)**	**(91,892)**	(73,914)
Post-employment benefits - life insurance	**(4,909)**	**(9,715)**	(3,561)

b) Management compensation

The compensation of the Board of Directors, Statutory Executive Board and Supervisory Board is shown below:

Specification	2nd half/2017	01/01 to 12/31/2017	01/01 to 12/31/2016
Fees	**1,862**	**3,789**	4,166
Executive Board	**1,575**	**3,230**	3,580
Board of Directors	**151**	**303**	309
Supervisory Board	**136**	**256**	277
Other	**714**	**1,815**	2,258
Variable compensation (RVA) (1)	**(245)**	**494**	1,067
Total short-term benefits	**2,331**	**6,098**	7,491
Post-employment benefits	**121**	**226**	219
Total	**2,452**	**6,324**	7,710

(1) 50% of RVA corresponds to an equity-based instrument, and the parameter for provision and payment in cash is the quotation price of the Bank's shares on B3. The amounts in the table above correspond to the provision for payments in the year, as well as deferred installments to be settled in the following three years, in accordance with CMN Resolution No. 3921, of 11/25/2010.

The Bank offers to its officers, as post-employment benefits, Pension and Health CarePlans under the same conditions offered to employees.

The Bank does not grant loans to its Officers or members of its Board of Directors and Supervisory Board, since this practice is forbidden to financial institutions regulated BACEN.

30. Statement of comprehensive income

Specification	2nd half/2017	01/01 to 12/31/2017	01/01 to 12/31/2016
Net income	**383,704**	**681,745**	732,071
Other comprehensive income	**(49,699)**	**(342,089)**	(35,953)
Equity adjustment to available-for-sale securities	**37,828**	**87,432**	244,289
Tax effect on Equity adjustment to available-for-sale securities	**(14,889)**	**(33,835)**	(109,502)
Revaluation reserve realized	**1,927**	**4,882**	3,873
Tax effect on revaluation reserve realized	**(867)**	**(2,160)**	(1,743)
Actuarial gains (losses)	**(273,679)**	**(598,389)**	(172,870)
Tax effect on actuarial gains or losses	**199,981**	**199,981**	-
Comprehensive income	**334,005**	**339,656**	696,118

31. Other information

(a) On 07/03/2017, the Bank's Board of Directors approved a Voluntary Dismissal Program (PID) intended for employees who are retired or in a position to apply for retirement, in accordance with Social Security (INSS) rules.

The deadline to join the program occurred on 10/06/2017; 234 employees joined the program totaling an expense of approximately R$54.2 million.

(b) Provisional Executive Order No. 812, of 12/26/2017, included article 17-A in Law No. 7827, of September 27, 1989, changing the Bank's management fee on equity of FNE, to be calculated monthly at the following percentages:

(I) Three percent per year in 2018;

(II) Two and seven tenths percent per year in 2019;

(III) Two and four tenths percent per year in 2020;

(IV) Two and one tenths percent per year in 2021;

(V) One and eight tenths percent per year in 2022;

(VI) One and five tenths percent per year as from January 1, 2023.

(c) Statement of compliance

We confirm that all significant information of the financial statements themselves, and only such information, is being disclosed and corresponds to that used in the management of the Bank.

(d) Approval of financial statements

The financial statements were approved by the Board of Directors at the meeting held on February 5, 2018.

Fortaleza (Ceará State), February 5, 2018.
A Diretoria

The Executive Board

Note: These notes are an integral part of the Financial Statements.

Independent auditor’s report on financial statements

The Board of Directors, Shareholders and Officers of
Banco do Nordeste do Brasil S.A.

Opinion

We have audited the accompanying financial statements of Banco do Nordeste do Brasil S.A. (“Bank”), which comprise the balance sheet as at December 31, 2017, and the related statements of income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting practices and other explanatory information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco do Nordeste do Brasil S.A. as at December 31, 2017, its financial performance and its cash flows for the year then ended, in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil (BACEN).

Basis for opinion

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report. We are independent of the Bank and comply with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by Brazil’s National Association of State Boards of Accountancy (“CFC”) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, a description of how our audit addressed the matter, including any comments on the results of our procedures, is presented in the context of the overall financial statements.

We have fulfilled the responsibilities described in the "Auditor's Responsibilities for audit of the financial statements" section, including those relating to these key audit matters. Accordingly, our audit included conducting procedures designed to respond to our assessment of the risks of material misstatement in the financial statements. The results of our procedures, including those performed to address the matters below, provide the basis for our audit opinion on the Bank's financial statements.

1. **Contingencies**

As described in Note 22, the Bank is party to various administrative and legal proceedings involving matters of labor, tax and civil natures arising from the ordinary course of its business. We considered this a key audit matter due to the fact that the expected loss and the amounts attributed involve judgments by management and its legal advisors on frequently complex issues.

Audit approach

Among other procedures, we obtained confirmations regarding ongoing lawsuits directly from the Bank's legal advisors and crosschecked the likelihood of loss and amounts attributed against the Bank's operational controls and accounting records. For the most relevant lawsuits, we tested the calculation of amounts recorded and disclosed and analyzed the reasonableness of the estimates in relation to well-known case law and legal theses. We also analyzed communications received from regulators related to lawsuits and tax assessments to which the Bank is party, and the sufficiency of disclosures related to issues arising from contingencies and provisions recorded.

Based on the results of the audit procedures carried out on the contingency balance, which is consistent with management's assessment, we consider that the criteria and assumptions for assessment of the loss estimates associated with the contingencies adopted by management, as well as the respective disclosures in Note 22, are acceptable in the context of the overall financial statements.

2. **Post-employment benefits**

The Bank has significant liabilities related to post-employment benefit plans that, as described in Note 25, include retirement, health and life insurance benefits. We considered this a key audit matter due to the magnitude of amounts involved and the complexity of valuation models of actuarial liabilities, which comprise the use of long-term assumptions, such as general mortality, disability, health care costs, salary increases, household composition, and discount and inflation rates.

Audit approach

Among other procedures, we analyzed - supported by our subject matter experts - the methodology and significant assumptions used by management in assessing the actuarial obligations arising from the post-employment benefit plans, checking the mathematical accuracy of the calculation and analyzing the consistency of results against the assumptions used and prior assessments. The audit procedures also included tests of the integrity of the databases used in the actuarial projections and the sufficiency of the disclosures related to the post-employment benefit plans. As a result of these procedures, we identified an audit adjustment indicating an understated actuarial liability and overstated equity. This adjustment was corrected by the Bank and, given its insignificance in relation to the overall financial statements, there were no changes in our audit strategy.

Based on the results of the audit procedures carried out on the post-employment benefit plans, which is consistent with management's assessment, we consider that the criteria and assumptions for valuation of actuarial liabilities adopted by management, as well as the respective disclosures in Note 25, are acceptable in the context of the overall financial statements.

3. Recoverability of tax credits

The Bank records deferred tax assets on temporary differences in determining income and social contribution tax bases, mainly arising from expenses related to allowance for loan losses (credit losses), post-employment benefits, expenses related to other provisions for contingencies, and market value adjustments of marketable securities, swap and Eurobond transactions.

We considered this a key audit matter due to the expressive amount recorded and the fact that the study related to the realization of these assets involves a high degree of judgment in determining assumptions on the Bank's future performance, as described in Note 21.

Audit approach

Among other procedures, we analyzed the methodology and assumptions used by management in the study of tax credit realization, including deferred income projections, as well as compliance with the Central Bank of Brazil's requirements. We checked the mathematical accuracy in the calculation and the consistency between the data used and the accounting balances, as well as the prior assessments and the reasonableness of assumptions used. We also analyzed the sensitivity of those assumptions to evaluate the behavior of projections with their oscillations and the sufficiency of disclosures in the notes to financial statements.

Based on the results of the audit procedures carried out on tax credits, which is consistent with management's assessment, we consider that the criteria and assumptions regarding the realization study, including projection of future profits, prepared by the Bank management, as well as the respective disclosures in Note 25, are acceptable in the context of the overall financial statements.

4. Marketable securities and derivative financial instruments

As described in Note 7, the fair value calculation of private risk fixed income securities considered to be of low liquidity, classified as available-for-sale, such as the Financial Bills and Debentures currently in the portfolio, is based on the Bank's pricing model, which takes into consideration the spread of the issuer's credit risk, determined in accordance with the Bank's policies, and of the estimated cash flows. We considered the fair value determination of financial assets not quoted in the market as one of the key audit matters, due to the relevance of the amounts and the underlying subjectivity in the assessments based on the Bank's own models.

Audit approach

Our audit procedures included, among others, the assessment of the Bank's pricing methodology, the adequacy of the significant assumptions used and the mathematical accuracy in the application of models. We also reviewed the Bank's economic and financial assessment upon classifying the risk of issuers, expected cash flows, discount rates used in the pricing of securities and the sufficiency of the disclosures in the notes to the financial statements.

Based on the results of the audit procedures performed on the calculation of fair value of marketable securities and derivative financial instruments, which is consistent with management's assessment, we consider that the criteria and pricing assumptions adopted by management, as well as the related disclosures in Note 7 are acceptable in the context of the overall financial statements.

5. Allowance for loan losses

As mentioned in Note 9, the Bank classifies the risk level of loan transactions considering the economic environment, past experience, related guarantees, delays and the history of renegotiations, according to the parameters established by CMN Resolution No. 2682. We considered this a key audit matter because of the significance of amounts and due to the fact that the classification of the customer's risk level and the assessment of guarantees involve management's judgment.

Audit approach

We performed, among other tests, an analysis of the economic and financial assessment carried out by the Bank upon classifying the customer's risk level, through a sample selected for test, and recalculated the allowance for loan losses based on the parameters established by CMN Resolution No. 2682. We also analyzed the sufficiency of disclosures in the notes to financial statements.

Based on the results of the audit procedures carried out on allowance for loan losses, which is consistent with management's assessment, we consider that the criteria and assumptions associated with the allowance adopted by management, as well as the respective disclosures in Note 9, are acceptable in the context of the overall financial statements.

6. Technology Department

The Bank's transactions are extremely dependent on the proper operation of the technology structure and its systems, reason why we consider the technology department one of the key audit matters. Given the nature of the business and volume of transactions, our audit strategy is based on the efficiency of the technology department.

Audit approach

Our audit procedures included, among others, assessment of the design and operational effectiveness of IT General Controls ("ITGC"), implemented by the Bank for those systems deemed relevant to the audit process. The evaluation of ITGCs included involvement of IT specialists to assist us in performing audit procedures designed to assess access control, change management, and other technology aspects. With regard to audit of access, we analyzed, on a sample basis, the process for authorizing and granting new users access, timely removal of access to transferred or terminated employees, and review of users on a regular basis.

In addition, we evaluated password policies, security settings and access to technology resources. With regard to the change management process, we assessed whether changes to the systems were duly authorized and approved by the Bank at appropriate levels.

In the processes considered significant for the financial statements, we identified the main automated or IT-dependent controls, so that, on a sampling basis, we could perform tests focused on the design and operational effectiveness of such controls.

Our testing of the design and operation of ITGCs and automated controls considered significant to the audit procedures performed provided a basis for us to continue with the planned nature, timing and extent of our audit procedures

Other matters

Statement of value added

The Statement of Value Added (SVA) for the year ended December 31, 2017, prepared under the responsibility of the Bank Management, the presentation of which is required by the Brazilian corporation law for publicly-held companies, and as supplementary information for the purposes of accounting practices applicable to institutions authorized to operate by the Central Bank of Brazil, was submitted to the same audit procedures performed for audit of the Bank's financial statements. For the purposes of forming our opinion, we evaluated whether this statement is reconciled with the financial statements and accounting records, as applicable, and whether its form and content is in accordance with the criteria provided in Accounting Pronouncement CPC 09 - Statement of Value Added.

In our opinion, this statement of value added was prepared fairly, in all material respects, in accordance with the criteria provided in Accounting Pronouncement CPC 09 and is consistent with the overall financial statements.

Other information accompanying the financial statements and the auditor's report

Bank management is responsible for such other information that includes the Management Report.

Our opinion on the financial statements does not cover the Management Report and we do not express any form of audit conclusion thereon.

In connection with the audit of the financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or with our knowledge obtained in the auditor, otherwise, whether this report appears to be materially misstated. If based on our work we conclude that there is material misstatement in the Management Report, we are required to report this fact. We have nothing to report on this matter.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil (BACEN) and for such internal controls as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International standards on auditing will always detect material misstatements when they exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit conducted in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast substantial doubt as to the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the corresponding transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Of the matters communicated to those charged with governance, we are required to determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We are required to describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, February 5, 2018.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Eduardo Wellichen
Accountant CRC-1SP184050/O-6

REPORT OF SUPERVISORY BOARD

The Supervisory Board of Banco do Nordeste do Brasil S.A., exercising its legal and statutory prerogatives, examined the Management Report, the Balance Sheet, the Statements of Income, of Changes in Equity, of Cash Flows and of Value Added of Banco do Nordeste do Brasil S.A., for the year ended December 31, 2017, which were approved, on the date hereof, by the Board of Directors.

Based on the examination conducted, the information and clarifications received during the year, and on the unqualified Independent Auditor's Report of ERNST & YOUNG AUDITORES INDEPENDENTES S.S., issued on the date hereof, the Supervisory Board's opinion is that the Management Report and the Financial Statements are in conditions to be referred for deliberation at the General Shareholders' Meeting.

Fortaleza (Ceará State), February 5, 2018.

Supervisory Board

SUMMARY OF THE AUDIT COMMITTEE REPORT

1 - Introduction

The Audit Committee is a statutory collegiate of advisory to the Board of Directors, created under Brazilian National Monetary Council (CMN) Resolution No. 3198/2004. The statutes and electronic address of BNB's Audit Committee are made available on the internet at www.bnb.gov.br, under "Institucional - Sobre o Banco - Relação com os Acionistas".

The Audit Committee is responsible for evaluating the quality and integrity of the Financial Statements, the independence and quality of the external auditor´s work and of the Internal Audit, and the quality and effectiveness of the internal control and risk management systems.

The administrators of Banco do Nordeste do Brasil are responsible for preparing and ensuring the integrity of the Financial Statements, managing risks, maintaining effective internal control systems, and ensuring compliance of activities with legal and regulatory standards.

In accordance with applicable standards, the External Audit is responsible for assessing the quality and adequacy of the internal control system, and expressing an opinion, based on procedures and standards set forth in standards governing the exercise of the profession, on the Financial Statements.

Internal Audit is responsible for monitoring, evaluating and independently assessing the quality of the Bank's internal control and risk management system, as well as certifying compliance with applicable legal requirements.

2 - Activities

In compliance with its duties and responsibilities, the Committee held monthly meetings with the Board of Directors and the Supervisory Board, in addition to various regular meetings with the Executive Board and senior Executives and managers of the Bank's key areas. On these occasions, the main issues related to each area were addressed, and recommendations for improvement were provided, as applicable. Periodic meetings were also held with the Internal and External Auditors, when their respective planning and results of the main work carried out were evaluated.

Based on the activities carried out within the scope of its competencies, the Audit Committee concluded that:

a) The internal control system of Banco do Nordeste do Brasil is, as a general rule, able to identify adverse factors, allowing the implementation of mitigating and permanent improvement measures. The weaknesses identified in the processes and the failures in operations have not significantly impacted the Bank's financial health. Several approved and implemented measures have already taken effect in the period, while others will require additional time and ongoing monitoring to achieve the proposed results.

At the same time, the Bank has been working to implement improvements in controls and risk management, in compliance with Law No. 13303/2016, governed by Decree No. 8945/2016, and CMN Resolution No. 4557/2017, which address risk and capital management structures, and CMN Resolution No. 4595/2017, which addresses the compliance policy.

It is important that the Bank review the current model and process adopted in relation to Information Technology demands, in view of the potential impacts on the Bank's operations and results;

b) Internal Audit performs its functions with independence, objectivity, quality, and effectiveness. Performance has shown improvements, while additional measures have been implemented, such as procedures related to optimization and standardization of processes, methodologies and systems, among others, which will certainly contribute to improvement of the quality of the work and the strengthening of internal controls. Another issue requiring attention is compliance with the new legal and regulatory requirements, especially CMN Resolution No. 4588/2017, which established provisions on internal audit activities;

c) No significant fact has been detected that could impair effectiveness of the performance, objectivity and independence of Ernst & Young Auditores Independentes S/S;

d) The Financial Statements were prepared in accordance with the Corporation Law and rules set forth by National Monetary Council, Brazilian Central Bank, and Brazilian Securities and Exchange Commission (CVM).

Fortaleza (Ceará State), February 5, 2018.

Audit Committee

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE
Managed by Banco do Nordeste do Brasil S.A.

Financial Statements

F N E

In thousands of reais (R$)

Position: 12.31.2017

Fundo Constitucional de Financiamento do Nordeste - FNE
(Law No. 7827 of 09/27/1989)

Balance sheets
Years ended December 31, 2017 and 2016
(Amounts in R$ thousand)

	Notes	12/31/2017	12/31/2016
Assets			
Current assets		**34.485.070**	28.539.332
Cash and cash equivalents	(Note 4.b.1)	**16.718.997**	11.295.787
Funds committed with loans		**5.871.579**	5.369.510
Amounts receivable - CEF - equalization of bonus for timely payment - Profrota		**55**	97
Restricted credits		**349**	2.088
Rural Credit – Proagro receivable		**349**	2.088
Onlending debtors		**47.511**	54.536
Onlending Debtors - Other institutions		**47.511**	54.536
Loans	(Note 4.b.2 and Note 6)	**11.836.851**	11.807.854
Financing		**5.571.892**	4.751.483
Export financing		**92.281**	122.878
Infrastructure and development financing		**345.184**	517.983
Agribusiness financing		**197.754**	232.662
Rural Financing		**6.180.743**	6.895.751
(Allowance for loan losses)		**(551.003)**	(712.903)
Other credits	(Note 4.b.4)	**9.399**	9.216
Rights on Assets Received in Loan Transactions		**9.399**	9.216
Other assets	(Note 4.b.5)	**329**	244
Proagro securities		**4**	4
Agrarian Debt Securities (TDAs)		**325**	240
Long-term receivables		**40.016.470**	38.889.246
Restricted credits		**454**	4.548
Rural Credit - Proagro receivable		**454**	4.548
Onlending debtors		**2.346.414**	2.161.620
Onlending Debtors - Banco do Nordeste - Law No. 7827 - article 9-A	(Note 7)	**2.205.467**	2.012.874
Onlending Debtors - Other institutions		**140.947**	148.746
Loans	(Note 4.b.2 and Note 6)	**37.669.081**	36.722.436
Financing		**19.200.087**	19.283.370
Infrastructure and development financing		**3.779.094**	3.757.760
Agribusiness financing		**823.219**	803.415
Rural Financing		**13.866.681**	12.877.891
Other assets	(Note 4.b.5)	**521**	642
Agrarian Debt Securities (TDAs)		**633**	871
(Provision for devaluation of securities)		**(112)**	(229)
Total assets		**74.501.540**	67.428.578

	Notes	12/31/2017	12/31/2016
Liabilities and equity			
Current liabilities		**39**	30
Other liabilities		**39**	30
Accrued liabilities payable		**39**	30
Equity	(Note 4.c and Note 8)	**74.501.501**	67.428.548
Transfers from government			
In the year		**6.959.318**	7.316.245
In prior years		**68.524.309**	61.208.064
Income (losses) from prior years		**(1.096.070)**	(1.315.494)
Income (loss) for the year		**113.944**	219.733
Total liabilities and equity		**74.501.540**	67.428.578

Income statements
Years ended December 31, 2017 and 2016 and six-month period ended December 31, 2017
(Amounts in R$ thousand)

	2nd half/2017	Year/2017	Year/2016
Revenues			
From loans	**589.513**	**972.484**	1.255.264
From remuneration of cash and cash equivalents	**826.464**	**1.801.879**	1.732.451
From reversal of operating provisions	**-**	**229**	254
Expenses			
From management	**(640.765)**	**(1.391.864)**	(1.463.249)
From Pronaf-Remuneration of the financial agent/performance premium	**(192.044)**	**(372.322)**	(353.274)
Allowance for loan losses and devaluation of securities	**(403.687)**	**(896.332)**	(951.655)
From Audit	**(67)**	**(130)**	(58)
Income (loss) for the six-month period/year	**179.414**	**113.944**	219.733

Statements of changes in equity
Years ended December 31, 2017 and 2016 and six-month period ended December 31, 2017
(Amounts in R$ thousand)

Events	**Tranfers from federal government**	**Retained earnings (accumulated losses)**	**Total**
Balances at 12/31/2015	61.208.063	(1.314.952)	59.893.111
Transfers from Federal Government in the year	7.316.245	-	7.316.245
Prior Years' Adjustments	-	(541)	(541)
Income for the year	-	219.733	219.733
Balances at 12/31/2016	68.524.308	(1.095.760)	67.428.548
Changes in the year	7.316.245	219.192	7.535.437
Balances at 12/31/2016	68.524.308	(1.095.760)	67.428.548
Transfers from Federal Government in the year	**6.959.318**	**-**	**6.959.318**
Prior Years' Adjustments	**-**	**(309)**	**(309)**
Income for the year	**-**	**113.944**	**113.944**
Balances at 12/31/2017	**75.483.626**	**(982.125)**	**74.501.501**
Changes in the year	**6.959.318**	**113.635**	**7.072.953**
Balances at 06/30/2017	**72.279.805**	**(1.161.315)**	**71.118.490**
Transfers from Federal Government in the six-month period	**3.203.821**	**-**	**3.203.821**
Prior Years' Adjustments	**-**	**(224)**	**(224)**
Income for the six-month period	**-**	**179.414**	**179.414**
Balances at 12/31/2017	**75.483.626**	**(982.125)**	**74.501.501**
Changes in the six-month period	**3.203.821**	**179.190**	**3.383.011**

Cash flow statements
Years ended December 31, 2017 and 2016 and six-month period ended December 31, 2017
(Amounts in R$ thousand)

	2nd half/17	Year/2017	Year/2016
Cash flows from operating activities			
Income for the period	**179.414**	**113.944**	219.733
Non-cash expenses (revenues):			
Allowance for loan losses and devaluation of securities	**403.687**	**896.332**	951.655
Reversal of allowance for loan losses	**-**	**(229)**	(254)
Accrued liabilities payable	**9**	**7**	(29)
Adjusted income for the period	**583.110**	**1.010.054**	1.171.105
Restricted Credits	**197**	**5.833**	713
Onlending debtors	**(77.204)**	**(177.769)**	(225.040)
Loans	**(1.968.267)**	**(1.871.862)**	(2.921.065)
Amounts receivable - CEF - equalization of Bonuses for timely payment Profrota	**262**	**43**	(32)
Other Credits	**(536)**	**(183)**	(773)
Other assets	**(61)**	**154**	345
Prior Years' Adjustments	**(224)**	**(309)**	(541)
Cash used in operating activities	**(1.462.723)**	**(1.034.039)**	(1.975.288)
Cash flows from financing activities			
Transfers from Federal Government	**3.203.820**	**6.959.318**	7.316.245
Cash provided by financing activities	**3.203.820**	**6.959.318**	7.316.245
Increase in cash and cash equivalents	**1.741.097**	**5.925.279**	5.340.957
Statement of changes in cash and cash equivalents			
At beginning of period	**20.849.479**	**16.665.297**	11.324.340
At end of period	**22.590.576**	**22.590.576**	16.665.297
Increase in cash and cash equivalents	**1.741.097**	**5.925.279**	5.340.957

1. History

Fundo Constitucional de Financiamento do Nordeste (FNE) was established by the Federal Constitution of 1988 (Article 159, item I, letter “c”), and is regulated by Law No. 7827, of 09/27/1989, amended by Supplementary Laws No. 125 of 01/03/2007 and No. 129 of 01/08/2009, Laws No. 9126 of 11/10/1995, No. 9808 of 07/20/1999, and No. 10177 of 01/12/2001, No. 11011 of 12/20/2004, No. 11524 of 09/24/2007, No. 11945 of 06/04/2009, No. 12249 of 06/11/2010, No. 12716 of 09/21/2012, and No. 12793 of 04/02/2013, as well as by Provisional Executive Order No. 2196-1, of 6/28/2001, and its amendments as republished, and Article 13 of Provisional Executive Order No. 2199-14, of 8/24/2001. The purpose of the FNE is to foster the economic and social development of the Northeast region of Brazil, through Banco do Nordeste do Brasil S.A., by offering financing to production sectors, in conformity with regional development plans, giving priority to activities developed by small farmers, small companies and staple food producers, and to irrigation projects. Non-refundable aid is prohibited.

2. Basis of preparation and presentation of financial statements

The Financial Statements were prepared in accordance with the provisions of the Brazilian Corporation Law, if applicable, and the regulation specifically for constitutional funds established by the Federal Government.

3. Management

Banco do Nordeste do Brasil S.A. is responsible for allocating funds and implementing the credit policy, defining operational standards, procedures and conditions, applying the ranges of financial charges to financing applications and granting loan, formalizing agreements for onlending to other institutions authorized to operate by the Central Bank of Brazil (Banco Central do Brazil - BACEN), observing the guidelines established by the Ministério da Integração Nacional, reporting on the results achieved, performing other activities related to the use of funds and recovery of loans, including renegotiating and settling debts, pursuant to articles 15-B, 15-C, and 15-D of Law No. 7827 of 9/27/1989.

4. Significant accounting practices

FNE has its own accounting records and uses the accounting system of Banco do Nordeste to record its transactions in specific subtitles, and the results of operations are determined separately.

For determining the results of operations, FNE's fiscal year coincides with the calendar year. Significant accounting practices are as follows:

a) Recognition of income and expenses

(a.1) Income and expenses are recorded on an accrual basis. FNE's income consists of financial charges on loans and the interest paid by Banco do Nordeste on FNE's temporarily not applied cash.

(a.2) CMN Resolution No. 4452 of 12/17/2015 amended financial charges for transactions of non-rural sectors granted with funds from FNE in the period from January 1, 2016 to December 31, 2016, which started to range from 11.80% to 20.24% p.a. These financial charges and bonus for timely payment do not apply to borrowers based on article 8-A of Law No. 10177 of 01/12/2001.

CMN Resolution No. 4470 of 03/14/2016 amended financial charges for transactions of non-rural sectors granted with funds from FNE in the period, from March 14, 2016 to December 31, 2016, which started to range from 10.0% to 18.24% p.a. These financial charges and bonus for timely payment do not apply to borrowers based on article 8-A of Law No. 10177 of 01/12/2001.

Resolution No. 4503 of 06/30/2016 amended the financial charges on rural financing granted with funds from FNE in the period from July 1, 2016 to June 30, 2017, which started to range from 7.65% to 12.35% p.a. for rural producers and their cooperatives, according to the financing purpose and annual gross revenue of the producer or cooperative.

CMN Resolution No. 4542 of 12/21/2016 amended financial charges for non-rural operations with funds from FNE in the period from January 1 to March 31, 2017, which started to range from 8.10% to 15.90% p.a. On these financial charges, a 15% bonus for timely payment will be granted, provided the debt is paid by the due date. These financial charges and bonus for timely payment, according to the aforementioned Resolution, neither apply to borrowers based on article 8-A of Law No. 10177 of 2001 nor to rural financing addressed by CMN Resolution No. 4503 of 06/30/2016.

CMN Resolution No. 4561 of 03/31/2017 defined financial charges for non-rural operations with funds from FNE in the period from 04/01/2017 to 12/31/2017, which started to range from 7.65% to 15.23% p.a., in accordance with the purpose of the loan and the size of the borrower. On these financial charges, a 15% bonus for timely payment will be granted, provided the debt is paid by the due date. These financial charges and bonus for timely payment neither apply to borrowers based on article 8-A of Law No. 10177 of 2001 nor to rural financing addressed by CMN Resolution No. 4503 of 06/30/2016.

CMN Resolution No. 4578 of 06/07/2017 established financial charges for rural financing granted with funds from FNE in the period from 07/01/2017 to 06/30/2018 at rates ranging from 6.65% to 11.35% p.a., in accordance with the purpose of the loan and the size of the borrower. On these financial charges, a 15% bonus for timely payment will be granted, provided the debt is paid by the due date. These financial charges and bonus for timely payment neither apply to borrowers based on article 8-A of Law No. 10177 of 2001 and articles 9 and 9-A of Law No. 12844 of 07/19/2013 nor to family farmers classified under Pronaf, pursuant to the legislation and the Program regulation.

Under normal conditions, the financial charges at rates established by law are recorded in the Fund's proper income statement accounts. Past due and unpaid amounts are subject to contractually agreed default charges, and the portion of these charges that exceeds the rates established by legislation is recorded as the Fund's unearned income.

The bonus expense is recognized as the borrower pays the related charges.

Pronaf-level financing is subject to financial charges established by the CMN, pursuant to the legislation and the Program regulation of the BACEN's Rural Credit Manual, Chapter 10.

(a.3) Provisional Executive Order No. 1727 of 11/06/1998, as republished, which resulted in Law No. 10177 of 01/12/2011, established the Bank's del credere commission at 3% p.a. from December 1, 1998 on financing with FNE funds.

(a.4) Provisional Executive Order No. 2196-1 of 06/28/2001, as republished, which created the Support Program for Federal Financial Institutions, sets out the following as regards the BNB's financial (del credere) commission on financing with funds from FNE:

- For transactions contracted up to 11/30/1998, BNB's financial (*del credere*) commission was reduced to zero, and the charges agreed to with borrowers remained unchanged; and
- For transactions resulting from onlending to the Bank, in its name and at its own risk, to grant loans, the financial commission will be 6% p.a.

(a.5) Decree No. 5818 of 06/26/2006, combined with CMN Resolution No. 3293 of 06/28/2005, established that in the transactions of the Programa Nacional de Financiamento da Ampliação e Modernização da Frota Pesqueira Nacional - Profrota Pesqueira with large companies, with shared risk, BNB's financial (del credere) commission is 2.5% p.a.

(a.6) Administrative Ruling No. 616 of 05/16/2003, of the Ministério da Integração Nacional, establishes that, for onlending to institutions authorized to operate by Bacen, the Bank is entitled to the financial (del credere) commission agreed to with the institutions, observing the limit established by legislation.

(a.7) For financing under PRONAF A, A/Microcredit B, A/C, Semiarid, Forest, PRONAF-Emergency, Flooding, Drought, Semiarid-Drought-2012 and Drought-2012-Costing, the Bank is not entitled to any commission, according to the legislation and regulation of the Program.

(a.8) For loans reclassified under Article 31 of Law No. 11775 of 9/17/2008, Administrative Ruling No. 245 of 10/14/2008 sets BNB's financial (del credere) commission at 3% p.a. in the cases defined in Article 1, items I to IV, and sets a financial (*del credere*) commission of 6% p.a. in the cases defined in Article 1, Sole Paragraph.

(a.9) FNE's expenses refer to management fee payable to the Bank as the Fund manager, to financial charges payable to the Bank on financing under PRONAF A, A/Microcredit, B, A/C, Forest, Semiarid, Emergency, Flooding, Drought, Semiarid-Drought-2012 - Group B, Semiarid-Drought-2012 - Other Groups, Drought-2012-Costing - Group B, Drought-2012-Costing - Other Groups, and other PRONAFs with shared risk), to financial charges payable to the Bank on disbursement under Pronaf Groups A/Microcredit, B, Semiarid, Forest and other PRONAFs with shared risk, to performance Premium on reimbursement under PRONAF A, A/Microcredit, B, A/C, Semiarid, Forest, Semiarid-Drought-2012 - Other Groups, Drought-2012-Costing - Other Groups and other PRONAFs with shared risk, to allowance for loan losses recognized pursuant to Administrative Ruling No. 11, of 12/28/2005, of the Ministérios da Fazenda e da Integração Nacional, and to independent audit services, in addition to bonuses and discounts established by legislation.

The management fee of 3% p.a., paid to Banco do Nordeste by FNE, is recorded on a monthly basis at 0.25% on the Fund's equity, less amounts to transferred to BNB, amounts transferred to other institutions according to Ruling No. 616 of 5/26/2003 of Ministério da Integração Nacional and balances of investments in PRONAF Group A/Agroamigo, B, A/C, Forest, Semiarid, Emergency, Flooding, Drought, Semiarid-Drought-2012 - Group B, Semiarid-Drought-2012 - Other Groups, Drought-2012-Costing - Group B and Drought-2012-Costing - Other Groups, and is limited each year to 20% of the transfer amount made by the National Treasury Department in accordance with Decree No. 5641 dated 12/26/2005.

BNB's remuneration on PRONAF financing, remuneration on disbursement and performance bonus on reimbursements comply with percentages and criteria defined by legislation and by the Program Regulation.

b) Current and noncurrent assets

These are stated at cost or realizable value, including earnings and monetary variations earned.

(b.1) Cash and cash equivalents consist of cash assets, which represent funds available for use in loans, and Funds Committed for Loans, which represent restricted cash in connection with yet-unreleased installments of contracted operations corresponding to the amounts outstanding by the balance sheet date, plus the payments expected during the 90 subsequent days and any mismatches between the amounts to be released after such 90 days and the estimated inflow to the Fund during such period. The Fund's cash and cash equivalents held by Banco do Nordeste are paid based on extra-market rate, disclosed by Bacen.

Specification	12/31/2017	12/31/2016
Cash and cash equivalents	**16,718,997**	11,295,787
Funds committed to loan transactions	**5,871,579**	5,369,510
Total cash and cash equivalents	**22,590,576**	16,665,297

(b.2) Total loans are stated at the amount of principal plus financial charges, less unearned income and allowance for loan losses (Note 6).

(b.3) Law No. 13340 of 09/28/2016 authorizes the settlement and renegotiation of rural credit debts taken out until 12/31/2011 with FNE funds and mixed resources from other sources with FNE, establishing, for cases of settlement, rebates on the restated balance due, according to the criteria defined therein, authorizing FNE to assume the burden arising from the measure.

(b.4) The account "Other receivables" includes FNE's rights on chattels and properties received by BNB as payment of debts. After assets are sold, the sale proceeds are apportioned between the Fund and BNB, proportionally to the risk assumed, pursuant to Article 7 of Administrative Ruling No. 11 of 12/28/2005.

(b.5) The proceeds from Agrarian Debt Bonds for repayment of loans granted using FNE funds and those received to cover credits granted under Proagro are recorder under account "Other Assets" are stated at their face value, plus expected yield on each note, including, when applicable, the effects of adjustments of assets to market or realizable value.

c) Equity

The equity of FNE is originated as follows:

- Transfers from the Federal Government at the proportion of 1.8% of the collection of Income Tax (IR) and Federal VAT (IPI) on a 10-day period basis;
- Returns and operating results; and
- Result of the remuneration of resources of the Fund presently not invested, but paid by the Bank.

d) Tax exemption

FNE is entitled to tax exemption, and its results, income and financing operations are free of any tax, contribution or other lien, as provided for by Law No. 7827 of 09/27/1989 and subsequent amendments.

e) Functional currency

FNE's functional and reporting currency is the Brazilian real.

5. Supervisory agencies

Banco do Nordeste keeps at the disposal of the supervisory agencies the Fund's statements of changes in financial position and income as of the end of the month. Pursuant to the legislation, the FNE's audited balance sheets are published semiannually and submitted to the National Congress for inspection and control.

6. Financing transactions, onlending and allowance for loan losses

(a) Breakdown of loan portfolio

(a.1) Total portfolio

Financing	12/31/2017 Normal	12/31/2017 Past due	12/31/2017 Balance	12/31/2016 Normal	12/31/2016 Past due	12/31/2016 Balance
Financing	**24,036,066**	**735,913**	**24,771,979**	23,409,284	625,569	24,034,853
Export financing	**91,487**	**794**	**92,281**	116,836	6,042	122,878
Infrastructure and development financing	**4,124,278**	**-**	**4,124,278**	4,148,715	127,028	4,275,743
Agribusiness financing	**949,287**	**71,686**	**1,020,973**	961,046	75,031	1,036,077
Rural financing	**19,180,323**	**867,103**	**20,047,424**	18,720,121	1,053,521	19,773,642
Subtotal	**48,381,441**	**1,675,496**	**50,056,935**	47,356,002	1,887,191	49,243,193
Onlending to BNB	**2,205,467**	**-**	**2,205,467**	2,012,874	-	2,012,874
Onlending to other institutions	**188,458**	**-**	**188,458**	203,282	-	203,282
Total portfolio	**50,775,366**	**1,675,496**	**52,450,860**	49,752,158	1,887,191	51,459,349
Allowance	**(97,378)**	**(453,625)**	**(551,003)**	(214,728)	(498,175)	(712,903)
Total, net (1)	**50,677,988**	**1,221,871**	**51,899,857**	49,357,430	1,389,016	50,746,446

(a.2) Full risk portfolio for BNB

Financing	12/31/2017 Normal	12/31/2017 Past due	12/31/2017 Balance	12/31/2016 Normal	12/31/2016 Past due	12/31/2016 Balance
Financing	**5,656**	**1,975**	**7,631**	7,042	1,724	8,766
Agribusiness financing	**1,676**	**-**	**1,676**	1,713	5	1,718
Rural financing	**194,343**	**9,786**	**204,129**	293,425	17,385	310,810
Subtotal	**201,675**	**11,761**	**213,436**	302,180	19,114	321,294
Onlending to BNB	**2,205,467**	**-**	**2,205,467**	2,012,874	-	2,012,874
Onlending to other institutions	**140,422**	**-**	**140,422**	149,412	-	149,412
Total portfolio	**2,547,564**	**11,761**	**2,559,325**	2,464,466	19,114	2,483,580
Total, net (1)	**2,547,564**	**11,761**	**2,559,325**	2,464,466	19,114	2,483,580

(a.3) Shared risk portfolio

Financing	12/31/2017 Normal	12/31/2017 Past due	12/31/2017 Balance	12/31/2016 Normal	12/31/2016 Past due	12/31/2016 Balance
Financing	**23,923,208**	**725,856**	**24,649,064**	23,285,955	616,912	23,902,867
Export financing	**91,487**	**794**	**92,281**	116,836	6,042	122,878
Infrastructure and development financing	**4,124,278**	**-**	**4,124,278**	4,148,715	127,028	4,275,743
Agribusiness financing	**884,982**	**66,344**	**951,326**	894,660	68,647	963,307
Rural financing	**11,731,527**	**470,192**	**12,201,719**	11,045,083	610,346	11,655,429
Subtotal	**40,755,482**	**1,263,186**	**42,018,668**	39,491,249	1,428,975	40,920,224
Total portfolio	**40,755,482**	**1,263,186**	**42,018,668**	39,491,249	1,428,975	40,920,224
Allowance	**(38,577)**	**(294,780)**	**(333,357)**	(57,520)	(347,426)	(404,946)
Total, net (1)	**40,716,905**	**968,406**	**41,685,311**	39,433,729	1,081,549	40,515,278

(a.4) Full risk portfolio for FNE

	12/31/2017			12/31/2016		
Financing	**Normal**	**Past due**	**Balance**	**Normal**	**Past due**	**Balance**
Financing	**107,202**	**8,082**	**115,284**	116,287	6,933	123,220
Agribusiness financing	**62,629**	**5,342**	**67,971**	64,673	6,379	71,052
Rural financing	**7,254,453**	**387,125**	**7,641,576**	7,381,613	425,790	7,807,403
Subtotal	**7,424,284**	**400,549**	**7,824,831**	7,562,573	439,102	8,001,675
Onlending to other institutions	**48,036**	**-**	**48,036**	53,870	-	53,870
Total portfolio	**7,472,320**	**400,549**	**7,872,867**	7,616,443	439,102	8,055,545
Allowance	**(58,801)**	**(158,845)**	**(217,646)**	(157,208)	(150,749)	(307,957)
Total, net (1)	**7,413,519**	**241,704**	**7,655,221**	7,459,235	288,353	7,747,588

(1) The “Normal” status took into account allowances arising from renegotiations/acquisitions and extraordinary allowance set up due to irregularities identified in operations by Internal Audit. The “Past due” status took into account allowances set up exclusively due to delay.

(b) Pursuant to the legislation that regulates Constitutional Financing Funds, the Pronaf and article 8 of Law No. 13001 of 06/20/2014, the risk of transactions with FNE’s funds is as follows:

(b.1) Transactions contracted until 11/30/1998:

- The risk is fully attributed to FNE; and
- In onlending to other institutions authorized to operate by Bacen, the risk is fully assumed by FNE. Under a specific clause of the onlending agreements, the risk on financing granted to final borrowers is fully assumed by the operator institution;

(b.2) Transactions contracted beginning 12/01/1998:

- In financing under Programa da Terra, the risk lies with FNE;
- In transactions under Pronaf, A, A/Microcredit, B and A/C, and Forest, Semiarid, Emergency, Flooding, Drought, Semiarid-Drought-2012 and Drought-2012-Costing, the risk lies totally with FNE;
- In onlending to Banco do Nordeste whose funds are used in BNB’s own lending operations, the risk is fully assumed by Banco do Nordeste;
- In onlending to other institutions authorized to operate by Bacen, contracted after Administrative Ruling No. 616 of 05/26/2003 becomes effective, the risk lies totally with BNB. Under referred Administrative Ruling and under a specific clause of the onlending agreements, the risk on financing granted to final borrowers is fully assumed by the operator institution;
- In the transactions addressed by article 31 of Law No. 11775 of 09/17/2008, the risk lies 100% with Banco do Nordeste, if the risk of the original transaction is fully attributed to the Bank, or shared, when the rescheduled transaction involves this type of risk; and

- In other transactions, the risk is 50% for FNE and 50% for BNB, pursuant to CMN Resolution No. 2682 of 12/21/1999.

(c) Pursuant to sole paragraph of article 3 of Interministerial Administrative Ruling No. 11 of 12/28/2005, the allowance for loan losses is recorded by FNE in accordance with the criteria set forth in item I, letters “a” and “b” of the same article, pursuant to which an allowance must be recorded for amounts past due for more than 180 days, according to the risk assumed by the Fund. Changes in the allowance for loan losses for the six-month period are as follows:

Specification	12/31/2017	12/31/2016
Allowance for loan losses at the beginning of the year	**712,903**	689,634
. Full FNE risk	**307,956**	364,652
. Shared risk	**404,947**	324,982
(+) Net allowance recognized for the year	**896,220**	951,425
Allowance for loan losses - expenses	**896,220**	951,425
. Full FNE risk	**317,693**	338,893
. Allowance for past due payment/renegotiations	**338,313**	347,229
. Allowance adjustments due to discounts	**(20,620)**	(8,336)
. Shared risk	**578,527**	612,532
. Allowance for past due payment/renegotiations	**586,755**	622,683
. Adjustments of provision for operations indicating irregularities	**(8,228)**	(10,151)
(-) Loans written off as loss for the year	**1,058,120**	928,156
. Full FNE risk	**408,003**	395,589
. Shared risk	**650,117**	532,567
(=) Allowance for loan losses at the end of the year	**551,003**	712,903
. Full FNE risk	**217,646**	307,956
. Shared risk	**333,357**	404,947

(d) At 12/31/2017, the amount of R$31,866 (R$40,093 at 12/31/2016) is recorded as Allowance for Loan Losses, related to an extraordinary allowance to cover the Fund’s risk on loan transactions granted with evidence of irregularities, which are subject to inquiry by the Bank’s Internal Audit Area. In such case, transaction balances were considered, according to the risk attributed to FNE, by complementing those that already recorded provision for past due payments under Interministerial Administrative Ruling No. 11 of 12/28/2005.

(e) “Income from loans” is recorded in the income statement at the net amount as follows:

Specification	2nd half 2017	12/31/2017	12/31/2016
Income from loans (1)	**2,159,046**	**3,981,344**	3,514,983
Expenses on BNB's financial (*del credere*) commission	**(643,480)**	**(1,283,268)**	(1,254,708)
Expenses on BNB's financial (*del credere*) commission from other institutions	**(1,648)**	**(3,347)**	(3,394)
Expenses on negative monetary restatement	**(11,120)**	**(38,067)**	(3,899)
Expenses on renegotiations discounts granted (1)	**(289,654)**	**(539,037)**	(25,549)
Expenses on rebates/bonuses for timely payment - contracted by Banco do Nordeste	**(511,145)**	**(1,011,965)**	(959,902)
Expenses on rebates/bonuses for timely payment-onlending Law No. 7827 - article 9 A	**(3,854)**	**(8,136)**	(9,262)
Expenses on rebates/bonuses for timely payment-onlending to other institutions	**(865)**	**(1,732)**	(1,884)
Expenses on principal rebates - receivables from FAT - BNDES - Law No. 10193 of 02/14/2001	**-**	**-**	(1)
Expenses on other BNB transactions - rebate Laws No. 12249 and No. 12844 of 06/11/2010 and 07/19/2013, respectively	**(88,611)**	**(98,006)**	(47)
FNE's expenses honored by the Bank - rebate Laws No. 12249 and No. 12844, of 06/11/2010 and 07/19/2013, respectively	**-**	**-**	(1)
FNE's expenses honored by the Bank - rebate Laws No. 12249 and No. 12844, of 06/11/2010 and 07/19/2013, respectively	**(19,156)**	**(25,301)**	(1,061)
Adjustment of amounts arising from disposal of assets	**-**	**(1)**	(10)
Total	**589,513**	**972,484**	1,255,264

(1) Includes effects of renegotiations of loans, based on Law No. 13340, of 09/28/2016 (Note 4.b.3).

(f) Recognition of losses and return of BNB's share of risk

(f.1) Regardless of the provisions set forth in sole paragraph of Article 3, Administrative Ruling No. 11, based on which losses can be recorded in FNE's accounting books at the amounts of principal and charges past due for more than 360 days, according to the risk percentage assumed by the Fund, the Bank recognized losses on these transactions considering the amounts of principal and charges past due for more than 329 days.

(f.2) Funds related to BNB's share of risk are returned to FNE on the second business day after losses are recognized by the Fund, according to the criterion set forth in item II, letter "a", article 5 of Administrative Ruling No. 11 of 12/28/2005, in compliance with the provision in letter j.1 above.

(f.3) In the year, BNB returned to FNE the amount of R$664,613 (R$545,667 at 12/31/2016), related to BNB's share of risk in transactions that were written off as loss as well as in those settled under Resolution No. 30 of 04/29/2010 of the Deliberative Council of Sudene, as follows:

Specification	12/31/2017	12/31/2016
Interministerial Administrative Ruling No. 11 of 12/28/2005 - shared risk	**650,118**	532,568
Interministerial Administrative Ruling No. 11 of 12/28/2005 - Full risk Bank	**14,495**	13,109
Total	**664,613**	545,677

7. Onlending to BNB under article 9-A of Law No. 7827 of 09/27/1989

The outstanding debt balance of onlending made to Banco do Nordeste, through a Subordinated Debt Instrument, is as under:

Specification	12/31/2017	12/31/2016
Available resources	**1.734.734**	1.459.779
Applied resources	**470.733**	553.095
Total	**2.205.467**	2.012.874

The line “Available Resources” records amounts temporarily not applied by the BNB in loan transactions, and remunerated at extra-market interest rate disclosed by Bacen.

The line “Applied Resources” corresponds to the amounts released by Banco do Nordeste to the borrowers of the financing agreements, restated based on contractual indices, as set forth by legislation and the Subordinated Debt Instrument entered into.

8. Equity

(a) Transfers from the Federal Government in the year totaled R$6,959,318 (R$7,316,245 in 2016);

(b) In the year, the net negative adjustment of R$309 (R$541 at 12/31/2016) refers to recalculations of charges on loans.

9. Registration with the Federal Government Integrated Financial Management System (Siafi)

In compliance with Administrative Ruling No. 11 of 12/28/2005, the accounting information related to FNE is available on Siafi, considering the Fund’s specific characteristics.

10. Other Information

I) Provisional Executive Order No. 812 of 12/26/2017

(a) Effective 01/01/2018, Provisional Executive Order No. 812, of 12/26/2017, included Article 1-A in Law No. 10177, of 01/12/2001, changing the financial charges on non-rural loans with funds from FNE, which will be determined on a daily pro rata die, considering the following components:

(a.1) Monetary Restatement Factor (FAM), comprising the variation in the Extended Consumer Price Index (IPCA);

(a.2) The fixed portion of the Long-Term Rate (TLP), determined pursuant to article 3 of Law No. 13483, of 09/21/2017;

(a.3) The Regional Development Coefficient (CDR), defined by the ratio between the per capita household income of the region under FNE and the Country's per capita household income, limited to the maximum of one integer;

(a.4) The Program Factor (FP), calculated according to the type of operation or purpose of the project; and

(a.5) Timely payment bonus, with 0.85 factor, when the portion of the debt is paid until the date of effective maturity, and one integer in the other cases.

(b) The Constitutional Funds Interest Rate (TFC) will be proportional to the number of business days elapsed in the month in which the financial charges on non-rural financing with Fund resources are charged. These financial charges will be calculated according to the methodology defined by the CMN and the resulting rates will be disclosed by the Central Bank until the last business day of the month immediately prior to the effective date.

(c) The same Provisional Executive Order included Article 17-A in Law No. 7827, of 09/27/1989, changing the Bank's management fee on equity of FNE, which is now calculated according to the following schedule and percentages:

(I) Three per cent per year in 2018;

(II) Two and seven tenths per cent per year in 2019;

(III) Two and four tenths per cent per year in 2020;

(IV) Two and one tenths per cent per year in 2021;

(V) One and eight tenths per cent per year in 2022;

(VI) One and five tenths per cent per year as from January 1, 2023.

II) <u>Approval of financial statements</u>

The Financial Statements were approved by the Bank’s Board of Directors at a meeting held on February 5, 2018.

Fortaleza (Ceará State), February 5, 2018.

The Executive Board

Note: These notes are an integral part of the Financial Statements.

Independent auditor’s report on financial statements

The Management and Members
Fundo Constitucional de Financiamento do Nordeste - FNE
(Administered by Banco do Nordeste do Brasil S.A.)

Opinion

We have audited the accompanying financial statements of Fundo Constitucional de Financiamento do Nordeste (“Fund”), which comprise the balance sheet as at December 31, 2017, and the related statements of income, of changes in equity and of cash flows for the year then ended, and a summary of significant accounting practices and other explanatory information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fundo Constitucional de Financiamento do Nordeste - FNE as at December 31, 2017, its financial performance and its cash flows for the year then ended, in accordance with accounting practices described in Notes 2, 4 and 6.

Basis for opinion

We conducted our audit in accordance with Brazilian and international standards on auditing. Our responsibilities under those standards are further described in the “Auditor’s responsibilities for audit of the financial statements” section of our report. We are independent of the Fund and comply with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by Brazil’s National Association of State Boards of Accountancy (“CFC”) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

Basis of preparation of financial statements

Without modifying our opinion, we draw attention to Notes 2, 4, and 6, which describe the basis of preparation of these financial statements. These financial statements were prepared by the Fund’s management to comply with the standards and rules applicable to constitutional funds. Consequently, these financial statements may not be appropriate for other purposes. Our opinion is not qualified in respect of this matter.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the accompanying financial statements in accordance with accounting practices described in Notes 2, 4, and 6, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditor's responsibilities for audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International standards on auditing will always detect material misstatements when they exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of the audit conducted in accordance with Brazilian and international standards on auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess risks of material misstatements of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

  Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the corresponding transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

São Paulo, February 5, 2018.

ERNST & YOUNG
Auditores Independentes S.S.
CRC-2SP015199/O-6

Eduardo Wellichen
Accountant 1SP184050/O-6

BOARD OF DIRECTOR: Ricardo Soriano de Alencar (President) – Alan Gutierri Brasiliano de Sousa – Jeferson Luis Bittencourt – José Lucenildo Parente Pimentel – Júlio Alexandre Menezes da Silva – Romildo Carneiro Rolim
EXECUTIVE BOARD: Romildo Carneiro Rolim (President and Director Financial and Credit) – Antônio Rosendo Neto Júnior (Director of Business) – Claudio Luiz Freire Lima (Director of Management) – Nicola Moreira Miccione (Director of Control and Risk) – Perpétuo Socorro Cajazeiras (Director of Planning)
SUPERVISORY BOARD: Frederico Schettini Batista (President) – Carlos Henrique Soares Nuto – José Mário Valle – Manuel dos Anjos Marques Teixeira
AUDIT'S COMMITTEE: Manoel das Neves (President) – Carlos Donizeti Macedo Maia (Full Member) – Cleber Santiago (Full Member)
SUPERINTENDENT: José Alan Teixeira da Rocha (Financial Control)
ACCOUNTANT: Aíla Maria Ribeiro de Almeida Medeiros – CRC-CE 016318/O-7