

***Banco do
Nordeste***



ACCOUNTING STATEMENTS

Banco do Nordeste and FNE

POSITION: 12.31.2008

**Banco do
Nordeste**



Accounting Statements

Banco do Nordeste

POSITION: 12.31.2008

(Convenience Translation into English from the Original Previously Issued in Portuguese)
BANCO DO NORDESTE DO BRASIL S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007
(In thousands of Brazilian reais - R\$)

<u>ASSETS</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
CURRENT ASSETS	10,225,718	6,639,439
CASH AND CASH EQUIVALENTS	73,148	59,369
INTERBANK INVESTMENTS (note 4)	2,750,285	3,622,628
Money market investments	1,396,472	3,289,202
Interbank deposits	1,353,813	333,426
SECURITIES AND DERIVATIVES (note 5)	4,080,744	635,137
Own portfolio	3,653,749	614,770
Held under repurchase commitments	236,956	-
Linked to guarantees	175,715	20,367
Derivatives	14,324	-
INTERBANK ACCOUNTS	158,776	224,023
Payments and receipts pending settlement	1,907	1,050
Restricted deposits:		
Deposits - Central Bank of Brazil	146,170	215,791
National Treasury - Rural loan	7,566	3,967
Interbank onlendings:	1,139	870
Correspondents	1,994	2,345
LENDING OPERATIONS (note 6)	2,157,764	1,177,306
Public sector	137,654	44,629
Private sector	2,166,153	1,270,205
(Allowance for loan losses)	(146,043)	(137,528)
OTHER RECEIVABLES (note 7)	993,033	902,727
Receivables for guarantees honored	26	11
Foreign exchange portfolio	420,462	220,152
Income receivable	22,857	25,222
Specific receivables	-	291
Other receivables	566,387	675,604
(Allowance for losses on other receivables)	(16,699)	(18,553)
OTHER ASSETS	11,968	18,249
Other	7,971	13,042
(Allowance for devaluation)	(2,115)	(5,696)
Prepaid expenses	6,112	10,903
LONG-TERM ASSETS	5,766,627	7,309,864
SECURITIES AND DERIVATIVES (note 5)	1,740,383	4,493,484
Own portfolio	1,740,383	4,426,943
Linked to guarantees	-	66,160
Derivatives	-	381
INTERBANK ACCOUNTS	41,666	39,771
Restricted deposits:		
National Treasury - Rural loan	153	3,898
National Housing System (SFH)	32,974	28,479
Interbank onlendings:	8,539	7,394
LENDING OPERATIONS (note 6)	3,907,545	2,738,934
Public sector	1,358,301	1,048,613
Private sector	2,727,337	1,829,798
(Allowance for loan losses)	(178,093)	(139,477)
OTHER RECEIVABLES (note 7)	77,033	37,675
Receivables for guarantees honored	14	17
Other receivables	108,765	66,861
(Allowance for losses on other receivables)	(31,746)	(29,203)
PERMANENT ASSETS (note 8)	184,890	193,762
INVESTMENTS	1,120	943
Other investments	6,023	5,782
(Allowance for losses)	(4,903)	(4,839)
PROPERTY AND EQUIPMENT IN USE	179,161	187,452
Real estate	118,492	115,454
Real estate revaluation	111,628	111,628
Other	119,373	114,670
(Accumulated depreciation)	(170,332)	(154,300)
DEFERRED CHARGES	4,609	5,367
Organization and expansion costs	10,436	10,829
(Accumulated amortization)	(5,827)	(5,462)
TOTAL ASSETS	16,177,235	14,143,065

The accompanying notes are an integral part of these financial statements

(Convenience Translation into English from the Original Previously Issued in Portuguese)
BANCO DO NORDESTE DO BRASIL S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007

(In thousands of Brazilian reais - R\$)

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
CURRENT LIABILITIES	6,910,295	4,875,429
DEPOSITS (note 9)	2,339,354	1,735,189
Demand deposits	118,009	96,725
Savings deposits	879,323	728,395
Interbank deposits	349,550	162,096
Time deposits	981,797	737,156
Other deposits	10,675	10,817
OPEN MARKET FUNDING	300,567	200,966
Own portfolio	236,925	-
Third parties portfolio	63,642	200,966
INTERBRANCH ACCOUNTS	6,262	5,690
Third-parties funds in transit	6,262	5,687
Internal transfers of funds	-	3
BORROWINGS (note 11)	263,122	250,918
Domestic borrowings - official institution:	12,933	11,866
Foreign borrowings	250,189	239,052
DOMESTIC ONLENDINGS - OFFICIAL INSTITUTIONS (note 12)	293,776	321,441
National Treasury	183	175
BNDES (National Bank for Economic and Social Development)	174,867	220,845
CEF (Federal Savings and Loan Bank)	98	205
FINAME (National Equipment Financing Authority)	16,720	19,371
Other institutions	101,908	80,845
DERIVATIVES	8,981	23,045
Derivatives	8,981	23,045
FOREIGN ONLENDINGS (note 13)	82,487	53,844
Foreign onlendings	82,487	53,844
OTHER PAYABLES (note 14)	3,615,746	2,284,336
Collected taxes and other	6,641	4,618
Foreign exchange portfolio	24,411	68
Social and statutory	127,488	84,914
Tax and social security	370,441	560,246
Financial and development funds	1,710,095	581,795
Other	1,376,670	1,052,695
LONG-TERM LIABILITIES	7,469,375	7,665,059
DEPOSITS (note 9)	1,797,306	1,381,950
Demand deposits	52,768	46,378
Time deposits	1,744,538	1,335,572
BORROWINGS (note 11)	64,673	71,570
Domestic borrowings - official institution:	64,673	71,570
DOMESTIC ONLENDINGS - OFFICIAL INSTITUTIONS (note 12)	939,312	866,449
National Treasury	1,129	1,212
BNDES (National Bank for Economic and Social Development)	358,213	376,178
CEF (Federal Savings and Loan Bank)	-	96
FINAME (National Equipment Financing Authority)	27,873	43,124
Other institutions	552,097	445,839
DERIVATIVES	8,997	-
Derivatives	8,997	-
FOREIGN ONLENDINGS (note 13)	877,675	599,036
Foreign onlendings	877,675	599,036
OTHER PAYABLES (note 14)	3,781,412	4,746,054
Financial and development funds	2,957,093	3,936,488
Other	824,319	809,566
DEFERRED INCOME	46	78
Deferred income	46	78
SHAREHOLDERS' EQUITY (note 15)	1,797,519	1,602,499
CAPITAL	1,299,000	1,299,000
Brazilian residents	1,299,000	1,298,984
Foreign residents	-	16
CAPITAL RESERVE	380	291
REVALUATION RESERVE	32,938	37,819
PROFIT RESERVES	403,973	200,934
VALUATION ADJUSTMENTS TO SHAREHOLDERS' EQUITY	61,228	64,455
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	16,177,235	14,143,065

The accompanying notes are an integral part of these financial statements

(Convenience Translation into English from the Original Previously Issued in Portuguese)
BANCO DO NORDESTE DO BRASIL S.A.

STATEMENTS OF INCOME

FOR THE SIX-MONTH PERIOD AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(In thousands of Brazilian reais - R\$)

	2nd half 2008	12/31/2008	12/31/2007
INCOME FROM FINANCIAL INTERMEDIATION (note 16)	<u>1,571,365</u>	<u>2,416,531</u>	<u>1,543,178</u>
Lending operations	842,439	1,218,859	648,444
Securities transactions	571,797	1,040,237	887,715
Derivatives	18,884	(2,130)	(40,651)
Foreign exchange transactions	127,736	136,939	21,499
Compulsory investments	10,509	22,626	26,171
EXPENSES FROM FINANCIAL INTERMEDIATION (note 17)	<u>(1,092,695)</u>	<u>(1,646,413)</u>	<u>(948,054)</u>
Funding operations	(209,201)	(348,005)	(247,397)
Borrowings and onlending	(805,272)	(1,109,975)	(565,310)
Allowance for loan losses (note 6.c)	(78,222)	(188,433)	(135,347)
GROSS PROFIT FROM FINANCIAL INTERMEDIATION	<u>478,670</u>	<u>770,118</u>	<u>595,124</u>
OTHER OPERATING INCOME (EXPENSES) (note 18)	<u>(134,126)</u>	<u>(156,368)</u>	<u>(335,306)</u>
Income from services provided	511,473	969,570	742,949
Income from bank fees	5,324	9,014	9,177
Personnel expenses	(418,120)	(770,067)	(676,408)
Other administrative expense	(241,955)	(446,574)	(384,445)
Tax expense	(65,428)	(119,969)	(96,007)
Other operating income	333,112	737,419	573,814
Other operating expenses	(258,532)	(535,761)	(504,386)
INCOME FROM OPERATIONS	<u>344,544</u>	<u>613,750</u>	<u>259,818</u>
NONOPERATING INCOME	<u>361</u>	<u>2,867</u>	<u>1,239</u>
INCOME BEFORE TAXES ON INCOME AND PROFIT SHARING	<u>344,905</u>	<u>616,617</u>	<u>261,057</u>
INCOME AND SOCIAL CONTRIBUTION TAXES (note 19)	<u>(109,527)</u>	<u>(157,684)</u>	<u>(21,536)</u>
Provision for income tax	(88,070)	(119,457)	(61,999)
Provision for social contribution tax	(54,153)	(67,190)	(23,152)
Deferred income taxes	32,696	28,963	63,615
PROFIT SHARING	<u>(19,440)</u>	<u>(37,904)</u>	<u>(19,777)</u>
NET INCOME	<u>215,938</u>	<u>421,029</u>	<u>219,744</u>
INTEREST ON OWN CAPITAL (note 15. d)	<u>(51,311)</u>	<u>(100,211)</u>	<u>(94,000)</u>
Number of shares (in thousands)	<u>87,002</u>	<u>87,002</u>	<u>870,019,022</u>
Net income per shares - R\$	<u>2.48</u>	<u>4.84</u>	<u>0.00025</u>

The accompanying notes are an integral part of these financial statements

(Convenience Translation into English from the Original Previously Issued in Portuguese)

BANCO DO NORDESTE DO BRASIL S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX-MONTH PERIOD AND FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(In thousands of Brazilian reais - R\$)

	PAID-UP CAPITAL		CAPITAL RESERVE	REVALUATION RESERVE	PROFIT RESERVES		ADJUSTMENT TO FAIR VALUE	RETAINED EARNINGS (ACCUMULATED LOSS)	TOTAL
	CAPITAL	CAPITAL INCREASE	OTHER CAPITAL RESERVES	OWN ASSETS	LEGAL	STATUTORY			
BALANCES AS OF DECEMBER 31, 2006	1,299,000	-	-	40,499	18,227	76,052	68,571	-	1,502,349
VALUATION ADJUSTMENTS TO SHAREHOLDERS' EQUITY	-	-	-	-	-	-	(4,116)	-	(4,116)
OTHER EVENTS:									
- Updating of stock exchange membership	-	-	291	-	-	-	-	-	291
- Revaluation of assets:									
- Realization of reserves:									
Gross amount	-	-	-	(4,060)	-	-	-	4,060	-
Tax charge	-	-	-	1,380	-	-	-	(1,380)	-
NET INCOME FOR THE YEAR	-	-	-	-	-	-	-	219,744	219,744
- Allocations: (notes 15c and d)									
- Reserves	-	-	-	-	10,987	95,668	-	(106,655)	-
- Dividends	-	-	-	-	-	-	-	(21,769)	(21,769)
- Interest on own Capital	-	-	-	-	-	-	-	(94,000)	(94,000)
BALANCES AS OF DECEMBER 31, 2007	1,299,000	-	291	37,819	29,214	171,720	64,455	-	1,602,499
CHANGES OF THE YEAR	-	-	291	(2,680)	10,987	95,668	(4,116)	-	100,150
BALANCES AS OF DECEMBER 31, 2007	1,299,000	-	291	37,819	29,214	171,720	64,455	-	1,602,499
VALUATION ADJUSTMENTS TO SHAREHOLDERS' EQUITY	-	-	-	-	-	-	(3,227)	-	(3,227)
OTHER EVENTS:									
- Updating of stock exchange memberships	-	-	89	-	-	-	-	-	89
- Revaluation of assets:									
- Realization of reserves:									
Gross amount	-	-	-	(4,060)	-	-	-	4,060	-
Tax charges	-	-	-	(821)	-	-	-	(1,543)	(2,364)
NET INCOME FOR THE YEAR	-	-	-	-	-	-	-	421,029	421,029
- Allocations:									
- Reserves	-	-	-	-	21,052	181,987	-	(203,039)	-
- Dividends	-	-	-	-	-	-	-	(120,296)	(120,296)
- Interest on own Capital	-	-	-	-	-	-	-	(100,211)	(100,211)
BALANCES AS OF DECEMBER 31, 2008	1,299,000	-	380	32,938	50,266	353,707	61,228	-	1,797,519
CHANGES OF THE YEAR	-	-	89	(4,881)	21,052	181,987	(3,227)	-	195,020
BALANCES AS OF JUNE 30, 2008	1,299,000	-	380	34,156	39,469	260,432	92,367	-	1,725,804
VALUATION ADJUSTMENTS TO SHAREHOLDERS' EQUITY	-	-	-	-	-	-	(31,139)	-	(31,139)
OTHER EVENTS:									
- Updating of stock exchange memberships	-	-	-	-	-	-	-	-	-
- Revaluation of assets:									
- Realization of reserves:									
Gross amount	-	-	-	(2,030)	-	-	-	2,030	-
Tax charges	-	-	-	812	-	-	-	(812)	-
NET INCOME FOR THE SIX-MONTH PERIOD	-	-	-	-	-	-	-	215,938	215,938
- Allocations:									
- Reserves	-	-	-	-	10,797	93,275	-	(104,072)	-
- Dividends	-	-	-	-	-	-	-	(61,773)	(61,773)
- Interest on own Capital	-	-	-	-	-	-	-	(51,311)	(51,311)
BALANCES AS OF DECEMBER 31, 2008	1,299,000	-	380	32,938	50,266	353,707	61,228	-	1,797,519
CHANGES OF THE YEAR	-	-	-	(1,218)	10,797	93,275	(31,139)	-	71,715

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(Convenience Translation into English from the Original Previously Issued in Portuguese)
BANCO DO NORDESTE DO BRASIL S.A.

STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
 (In thousands of Brazilian reais - R\$)

	<u>12/31/2008</u>	<u>12/31/2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	421,029	219,744
Items not affecting cash and cash equivalents:		
- Depreciation and amortization	23,235	21,852
- Allowance for investments losses	64	135
- Allowance for losses on other assets	714	815
- Allowance for loan losses	47,131	(19,594)
- Allowance for losses on other receivable	689	14,446
Adjusted net income	<u>492,862</u>	<u>237,398</u>
Securities	(29,647)	(210,368)
Other assets	4,623	(6,910)
Interbank investments	(870,570)	1,512,941
Interbank and interbranch accounts	63,923	(64,578)
Lending operations	(2,196,200)	(318,649)
Other receivables	(130,353)	(125,167)
Change in deferred income	(32)	1
Valuation adjustments to shareholders' equity	(3,227)	(4,116)
Revaluation reserve	(2,364)	-
Updating of stock exchange membership	89	291
NET CASH GENERATED BY (USED IN) OPERATING ACTIVITIES	<u>(2,670,896)</u>	<u>1,020,843</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits	1,019,522	469,065
Borrowings and onlending:	357,787	(130,631)
Open market funding	99,601	(23,039)
Derivatives	(5,067)	18,839
Other payables	366,769	1,228,606
Proposed dividends and bonuses	(120,296)	(21,769)
Proposed interest on own capital	<u>(100,211)</u>	<u>(94,000)</u>
TOTAL INFLOW OF FUNDS	<u>1,618,105</u>	<u>1,447,071</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to assets not in use	(1,108)	(2,258)
Additions to property and equipment in use	(12,959)	(29,927)
Additions to investment:	(252)	(462)
Disposal of assets not in use	2,052	928
Disposal of property and equipment in use	166	130
Disposal of investment:	11	(10)
Deferred charges	(1,394)	(1,734)
TOTAL FUNDS	<u>(13,484)</u>	<u>(33,333)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>(1,066,275)</u>	<u>2,434,581</u>
REPRESENTED BY CASH AND CASH EQUIVALENTS:		
At beginning of year	3,141,261	706,680
At end of year	<u>2,074,986</u>	<u>3,141,261</u>
Increase/Decrease in cash and cash equivalent	<u>(1,066,275)</u>	<u>2,434,581</u>

The accompanying notes are an integral part of these financial statements

(Convenience Translation into English from the Original Previously Issued in Portuguese)
BANCO DO NORDESTE DO BRASIL S.A

STATEMENTS OF VALUE ADDED
 FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
 (In thousands of Brazilian reais - R\$)

	12/31/2008	%	12/31/2007	%
REVENUES	3.971.871		2.807.629	
Financial intermediation	3.178.853		2.189.611	
Services provided	978.584		752.126	
Allowance for doubtful accounts	(188.433)		(135.347)	
Other revenues	2.867		1.239	
EXPENSES ON FINANCIAL INTERMEDIATION	(1.457.981)		(812.707)	
INPUTS PURCHASED FROM THIRD PARTIES	(943.975)		(932.240)	
Materials, electric power and other	(738.996)		(754.054)	
Outside services	(204.979)		(178.186)	
GROSS VALUE ADDED	1.569.915		1.062.682	
RETENTIONS	(23.235)		(21.852)	
Depreciation, amortization and depletion	(23.235)		(21.852)	
WEALTH GENERATED BY THE BANK	1.546.680		1.040.830	
TRANSFERRED VALUE ADDED	7.793		5.678	
Dividends received	7.793		5.678	
WEALTH FOR DISTRIBUTION	1.554.473		1.046.508	
WEALTH DISTRIBUTED	1.554.473		1.046.508	
PERSONNEL	728.658	46,9	562.535	53,8
COMPENSATION	433.099	27,9	349.244	33,4
Employees	392.615	25,3	327.132	31,3
Officers	2.580	0,2	2.335	0,2
Employee profit sharing	37.904	2,4	19.777	1,9
BENEFITS	267.275	17,2	189.955	18,2
Pension plan (Capef and PGBL)	5.688	0,4	5.831	0,6
Accruals (post-employment benefits - CVM Resolution 371)	159.077	10,2	97.800	9,3
Benefits other	102.510	6,6	86.324	8,2
Severance Pay Fund (FGTS)	28.284	1,8	23.336	2,2
TAXES	385.930	24,8	247.002	23,6
Federal	376.592	24,2	240.547	23,0
State	47	0,0	70	0,0
Municipal	9.291	0,6	6.385	0,6
PAYMENTS TO THIRD PARTIES	18.856	1,2	17.227	1,6
Rent	18.856	1,2	17.227	1,6
PAYMENTS TO SHAREHOLDERS	220.507	14,2	115.769	11,1
INTEREST ON OWN CAPITAL	100.211	6,4	94.000	9,0
Federal Government	94.313	6,1	88.467	8,5
Other	5.898	0,4	5.533	0,5
DIVIDENDS	120.296	7,7	21.769	2,1
Federal Government	113.215	7,3	20.488	2,0
Other	7.081	0,5	1.281	0,1
RETAINED EARNINGS	200.522	12,9	103.975	9,9

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

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BANCO DO NORDESTE DO BRASIL S.A.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2008 AND 2007
(Amounts in thousands of Brazilian reais - R\$)

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1. THE BANK AND ITS CHARACTERISTICS

Banco do Nordeste do Brasil S.A. (the "Bank") is a private legal entity operating as a public financial institution established by Federal Law N. 1,649 of July 19, 1952. The Bank was structured as a mixed economy, publicly-traded corporation and its mission as a public financial institution is to promote sustainable development of the Northeast region by integrating its economy into the domestic economy.

Banco do Nordeste is authorized to operate all the portfolios permitted for multiple service banks, except the mortgage loan portfolio.

As a regional development agency, Banco do Nordeste implements public policies, manages FNE (Northeast Constitutional Financing Fund) - its main source of funds - and operates programs such as PRONAF (National Family Farming Strengthening Program) and FINOR (Northeast Investment Fund). In addition to the funds received from the federal government, the Bank has access to other sources of funds in the domestic and foreign markets through partnerships and associations with local and foreign institutions, including multilateral institutions such as the World Bank and the Inter-American Development Bank (IDB).

BANCO DO NORDESTE DO BRASIL S.A.

2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with Brazilian Corporate Law and standards of the Central Bank of Brazil (BACEN) and the Brazilian Securities and Exchange Commission (CVM), and are presented in the format required by the Standard Chart of Accounts for National Financial Institutions (COSIF).

On December 28, 2007, Law N. 11,638 was enacted, altering, revoking and adding new provisions to the Brazilian Corporate Law (Law N. 6,404, of December 15, 1976), especially with respect to chapter XV, Fiscal Year and Financial Statements.

Although the Central Bank of Brazil has not yet addressed all the changes introduced by this Law, until total convergence of the COSIF standards, Management has decided to adopt for the first time Law N. 11,638/07 and Provisional Act N. 449/08, electing January 1, 2008 as the transition date, based on article 186, paragraph 1, of Law N. 6,404/76 and the standards issued by the Brazilian Securities and Exchange Commission (CVM) that are not contrary to BACEN's standards. The changes introduced by this Law affecting the Bank's financial statements as of December 31, 2008 are as follows:

- Replacement of the statement of changes in financial position by the statement of cash flows - CVM Instruction N. 547/2008;
- Inclusion of the Statement of Value Added in basic financial statements - CVM Instruction N. 557/2008;
- Maintenance of the revaluation reserve until the date of its effective realization through depreciation, write-off or disposal, under National Monetary Council (CMN) Resolution N. 3,565, of May 29, 2008.

The Bank has no other material adjustments arising from the application of Law N. 11,638/07 and subsequent amendments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

a) Results of Operations

Income and expenses are recorded on the accrual basis, as detailed below:

- a.1) Interest, charges and monetary or exchange variations on assets and liabilities are recorded on a pro rata daily basis;
- a.2) Provisions, including accrued vacation and 13th salary, are recorded monthly on an accrual basis;
- a.3) Assets are adjusted to market or realizable value, if applicable.

BANCO DO NORDESTE DO BRASIL S.A.

b) Current and long-term assets

Assets and receivables are stated at realizable values, plus income earned and monetary and exchange variations, less unearned income or allowance, if applicable, considering the following:

- b.1) Lending operations are subject to usual market rates;
- b.2) The allowance for loan losses is recorded in accordance with National Monetary Council Resolution N. 2,682, of December 21, 1999;
- b.3) Securities are recorded at cost, plus brokerage and other fees, and are classified and accounted for as described below:
 - Trading securities - securities bought and held principally for the purpose of selling them in the short term and reported at fair value, with unrealized gains and losses included in income for the year;
 - Available-for-sale securities - securities not classified as either trading securities or held-to-maturity securities and reported at fair value, net of taxes, with unrealized gains and losses reported in a separate component of shareholders' equity;
 - Held-to-maturity securities - securities that the enterprise has the positive intent and ability to hold to maturity and stated at cost, plus income earned, included in income for the year;
 - The classification of Available-for-sale securities and Held-to-maturity securities in current and long-term assets was determined according to their maturities, which does not mean the unavailability of the securities, which are of the highest quality and highly liquid. Trading securities are recorded in current assets, regardless of their maturities.

c) Permanent assets

Stated at acquisition cost, considering the following:

- c.1) Investments are net of allowance for losses;
- c.2) Real estate includes revaluation value;
- c.3) Property and equipment includes depreciation calculated under 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%;

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c.4) Deferred charges include amortization calculated under the straight-line method at the annual rate of 20%.

d) Current and long-term liabilities

d.1) Liabilities are stated at original amounts plus, if applicable, accrued interest and monetary and exchange variations, less deferred expenses. Available funds from FNE (Northeast Constitutional Financing Fund) are classified in current and long-term liabilities according to the expected outflow of funds.

d.2) Provisions for post-employment benefits are recorded in accordance with CVM Resolution N. 371 of December 13, 2000.

e) Income and Social Contribution Taxes, PASEP and COFINS (taxes on revenue)

Provisions are calculated at the tax rates below in accordance with prevailing legislation:

Income tax	15.00%
Surtax (income tax)	10.00%
Social contribution tax (up to April 2008)	9.00%
Social contribution tax (starting May 2008)	15.00%
PASEP	0.65%
COFINS	4.00%

4. INTERBANK INVESTMENTS

<u>Specification</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
a) Open market investments	<u>1,396,472</u>	<u>3,289,202</u>
Resale agreements pending settlement		
- own portfolio	1,332,830	3,088,236
Resale agreements pending settlement		
- third-party portfolio	63,642	200,966
b) Interbank deposits	<u>1,353,813</u>	<u>333,426</u>
TOTAL	<u>2,750,285</u>	<u>3,622,628</u>
CURRENT	2,750,285	3,622,628
LONG-TERM	-	-

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5. SECURITIES AND DERIVATIVES

a) Securities

The monetarily adjusted cost (plus income earned) and the fair value of securities as of December 31, 2008 are as follows:

a.1) TRADING SECURITIES

TYPE	12/31/2008			12/31/2007		
	<u>COST</u>	<u>FAIR VALUE</u>	<u>MATURITY YEAR</u>	<u>COST</u>	<u>FAIR VALUE</u>	<u>MATURITY YEAR</u>
FIXED-INCOME SECURITIES	=	=	=	<u>718</u>	<u>717</u>	
Treasury bills	=	=	=	<u>718</u>	<u>717</u>	2008
TOTAL	=	=	=	<u>718</u>	<u>717</u>	

a.2) AVAILABLE-FOR-SALE SECURITIES

TYPE	12/31/2008			
	<u>COST</u>	<u>FAIR VALUE</u>	<u>ADJUSTMENT TO FAIR VALUE</u>	<u>MATURITY YEAR</u>
FIXED-INCOME SECURITIES	<u>5,336,993</u>	<u>5,315,483</u>	<u>(21,510)</u>	
Treasury bills	4,841,822	4,842,123	301	2009 to 2011
Debentures	106,900	106,887	(13)	2012 to 2018
CCBs (Bank Credit Notes)	62,129	62,129	-	2011 to 2013
Promissory notes	303,353	303,102	(251)	2009
Government securities – FCVS	1,759	1,201	(558)	2027
Government securities – Other	20,974	-	(20,974)	1993
Agricultural debt securities	56	41	(15)	2009 to 2015
INVESTMENT FUND SHARES	<u>16,028</u>	<u>14,868</u>	<u>(1,160)</u>	
Social development fund (FDS)	1,160	-	(1,160)	Without maturity
Receivables Investment Fund (FIDC) shares	14,868	14,868	-	2012
VARIABLE-INCOME SECURITIES	<u>144,159</u>	<u>269,386</u>	<u>125,227</u>	
Shares of publicly-traded companies	139,948	268,803	128,855	Without maturity
Other tax incentives - (FINOR)	4,211	583	(3,628)	Without maturity
LINKED TO GUARANTEES	<u>176,225</u>	<u>175,715</u>	<u>(510)</u>	
Treasury bills	175,694	175,715	21	2009
Government securities – Other	<u>531</u>	<u>-</u>	<u>(531)</u>	1993
TOTAL	<u>5,673,405</u>	<u>5,775,452</u>	<u>102,047</u>	
Tax credit	-	-	10,852	
Provision for deferred income and social contribution taxes	-	-	(51,671)	
TOTAL ADJUSTMENT TO FAIR VALUE	<u>-</u>	<u>-</u>	<u>61,228</u>	

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TYPE	12/31/2007			MATURITY YEAR
	<u>COST</u>	<u>FAIR VALUE</u>	<u>ADJUSTMENT TO FAIR VALUE</u>	
FIXED-INCOME SECURITIES	<u>4.769.809</u>	<u>4.753.294</u>	<u>(16.515)</u>	
Treasury bills	4.749.136	4.752.028	2.892	2008 to 2011
Government securities – FCVS	1.731	1.204	(527)	2027
Government securities – Other	18.862	-	(18.862)	1993
Agricultural debt securities	80	62	(18)	2008 to 2015
INVESTMENT FUND SHARES	<u>1.084</u>	<u>-</u>	<u>(1.084)</u>	
Social development fund (FDS)	1.084	-	(1.084)	Without maturity
VARIABLE-INCOME SECURITIES	<u>144.159</u>	<u>259.718</u>	<u>115.559</u>	
Shares of publicly-traded companies	139.948	259.259	119.311	Without maturity
Other tax incentives - (FINOR)	4.211	459	(3.752)	Without maturity
LINKED TO GUARANTEES	<u>86.827</u>	<u>86.526</u>	<u>(301)</u>	
Treasury bills	86.350	86.526	176	2008 to 2009
Government securities – Other	<u>477</u>	<u>-</u>	<u>(477)</u>	1993
TOTAL	<u>5.001.879</u>	<u>5.099.538</u>	<u>97.659</u>	
Tax credit	-	-	209.281	
Provision for deferred income and social contribution taxes	-	-	(242.485)	
TOTAL ADJUSTMENT TO FAIR VALUE	<u>-</u>	<u>-</u>	<u>64.455</u>	

In view of the classification of assets in the category above, the amount of R\$ 102,047 was recorded in the Bank's shareholders' equity, under "Valuation adjustments to shareholders' equity". This adjustment, net of taxes, corresponds to R\$ 61,228.

The caption "Government Securities - Other" records cash investments in government securities called by the National Treasury as NUCL910801 with a maturity on August 31, 1993, not yet redeemed.

Up to April 30, 2008, the tax effects on adjustments to fair value of securities classified as "available-for-sale securities" were recorded considering the (positive or negative) variation of the adjustment for the period. The balances of tax credit and provision for deferred income and social contribution taxes were always shown on an accumulated basis for the same security.

Starting May 31, 2008, the tax effects are recorded on the net adjustment and not on total variation, and prior records were reversed. Accordingly, for a given security, there will be a provision for deferred income and social contribution taxes with tax credit, upon appreciation or devaluation, respectively, as a result of mark-to-market.

This change in criterion resulted in an adjustment to the balance of the provision for deferred income and social contribution taxes and tax credits, in the amount of R\$ 192,185 and R\$ 213,032, respectively, with a contra entry to shareholders' equity as of May 31, 2008.

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a.3) HELD-TO-MATURITY SECURITIES

TYPE	12/31/2008			12/31/2007		
	COST	FAIR VALUE	MATURITY YEAR	COST	FAIR VALUE	MATURITY YEAR
FIXED-INCOME SECURITIES	<u>31,351</u>	<u>31,351</u>		<u>27,984</u>	<u>27,981</u>	
Treasury bills	-	-		19,373	19,370	2008
Investment fund shares - Nordeste Empreendedor	5,164	5,164	2011	8,269	8,269	2011
National Treasury notes (NTN-P)	369	369	2012 to 2014	342	342	2012 to 2014
Investment fund shares - CRIATEC	1,968	1,968	2017	-	-	
FIP Nordeste Energia	<u>23,850</u>	<u>23,850</u>	2023	-	-	
TOTAL	<u>35,351</u>	<u>31,351</u>		<u>27,984</u>	<u>27,981</u>	

a.4) In the year of 2008, securities of the above categories were not reclassified and securities classified in the Held-to-maturity category were not sold.

a.5) The following criteria were adopted to determine the fair value of securities:

- Fixed-income securities: average goodwill/negative goodwill in the secondary market, as disclosed by ANDIMA (National Association of Financial Market Institutions);
- Agricultural debt securities (TDA), Debentures, CCB and Promissory Notes: average goodwill/negative goodwill in the last trading registered with CETIP (Clearinghouse for the Custody and Financial Settlement of Securities).
- Variable-income securities: average quotation on the São Paulo Stock Exchange (BOVESPA).

b) Derivatives

Banco do Nordeste operates under a conservative investment policy focused on investing strictly under the conditions and rates established by the sources of the funds in order to avoid any mismatching among assets and liabilities in terms of maturities, interest rates and indices.

Banco do Nordeste employs a conservative portfolio management policy and limits its operations in the derivative market to swap transactions intended solely for hedging its asset and liability positions, when necessary.

Swap transactions are recorded in balance sheet and memorandum accounts, according to their nature, in accordance with prevailing law and accounting standards.

As of December 31, 2008, the Bank has swap transactions registered with CETIP (Clearinghouse for the Custody and Financial Settlement of Securities) and the notional value of these transactions is recorded in memorandum accounts (aggregate value) and the related book value is recorded under the captions "Differential Payable" and "Differential Receivable", as shown below:

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<u>Asset position</u>	<u>Aggregate value</u>	<u>Differential receivable</u>
Foreign currency (dollar)	45,000	13,402
Interbank market (CDI - interbank certificate of deposit)	499,159	922
<u>Liability position</u>	<u>Aggregate value</u>	<u>Differential payable</u>
Interbank market (CDI - interbank certificate of deposit)	95,772	171
Fixed rate	402,760	15,741
Foreign currency (dollar)	45,627	2,066
<u>Swap transaction risks</u>	<u>Amount</u>	
Positive fair value of swap	<u>1.795</u>	
Negative fair value of swap	<u>15.430</u>	
Credit risk of swap	<u>34.813</u>	
MARKET RISK HEDGE - ASSETS	<u>14.885</u>	
HEDGED ITEMS - LIABILITIES	-	
MARKET RISK HEDGE - LIABILITIES	<u>451.655</u>	
HEDGED ITEMS - ASSETS	<u>489.950</u>	
Swap agreements mature as follows:	<u>Differential receivable</u>	<u>Differential payable</u>
Up to 3 months	-	1,088
3 to 12 months	14,324	7,893
1 to 3 years	-	7,912
3 to 5 years	-	988
5 to 15 years	-	97
TOTAL	<u>14,324</u>	<u>17,978</u>

The fair value of swap transactions is calculated using the rates disclosed by ANDIMA. The credit risk is determined using the correlation ratios and risk factors disclosed by the Central Bank of Brazil.

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6. LOAN PORTFOLIO AND ALLOWANCE FOR LOAN LOSSES

a) Loan Portfolio

<u>Specification</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
Advances to depositors	729	717
Loans	2,151,214	641,583
Discounted notes	102,566	58,790
Financing	902,641	536,330
Export financing	114	-
Financing in foreign currency	27,146	22,410
Refinancing with federal government	555,165	525,293
Rural financing and agribusiness loans	1,754,354	1.808.863
Real estate financing (1)	217	195
Infrastructure and development financing	895,299	599,064
Subtotal	<u>6,389,445</u>	<u>4,193,245</u>
Guarantees honored	40	28
Income receivable from advances	11,457	4,022
Debtors for purchase of assets	4,707	4,968
Notes and credits receivable	23,192	13,221
Advances on foreign exchange contracts (2)	310,606	228,221
Subtotal of other captions with loan characteristics	<u>350,002</u>	<u>250,460</u>
TOTAL LOAN PORTFOLIO	<u>6,739,447</u>	<u>4,443,705</u>

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

(2) Accounts classified as OTHER PAYABLES/Foreign Exchange Portfolio.

b) Breakdown by maturity

b.1) Normal (1)

<u>Business sector</u>	<u>From 0 to 90 days</u>	<u>From 91 to 180 days</u>	<u>From 181 to 360 days</u>	<u>Over 360 days</u>	<u>Total 12/31/2008</u>	<u>Total 12/31/2007</u>
Rural	39,600	36,288	62,338	1,536,576	1,674,802	1,693,598
Industrial	266,763	132,152	210,042	188,722	797,679	457,215
Government	20,007	13,854	33,836	1,323,322	1,391,019	1,093,241
Other services	196,838	156,065	208,378	368,996	930,277	336,706
Commercial	371,749	199,948	219,144	167,953	958,794	567,761
Financial	56,630	52,429	109,892	465,954	684,905	37
Housing	50	50	100	17	217	195
Individuals	<u>11,278</u>	<u>10,690</u>	<u>6,892</u>	<u>11,423</u>	<u>40,283</u>	<u>42,233</u>
T O T A L	<u>962,915</u>	<u>601,476</u>	<u>850,622</u>	<u>4,062,963</u>	<u>6,477,976</u>	<u>4,190,986</u>

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b.2) Past-due

Current						
<u>Business sector</u>	<u>From 0 to 90 days</u>	<u>From 91 to 180 days</u>	<u>From 181 to 360 days</u>	<u>Over 360 days</u>	<u>Total 12/31/2008</u>	<u>Total 12/31/2007</u>
Rural	123	2,384	2,400	90	4,997	44,277
Industrial	8,597	8,229	11,059	13,921	41,806	8,565
Other services	3,518	2,119	2,577	5,515	13,729	21,121
Commercial	8,460	5,615	6,196	5,364	25,635	15,276
Financial	2	1	3	3	9	22
Individuals	<u>1,107</u>	<u>540</u>	<u>716</u>	<u>1,021</u>	<u>3,384</u>	<u>2,335</u>
T O T A L	<u>21,807</u>	<u>18,888</u>	<u>22,951</u>	<u>25,914</u>	<u>89,560</u>	<u>91,596</u>

Past-due						
<u>Business sector</u>	<u>From 0 to 90 days</u>	<u>From 91 to 180 days</u>	<u>From 181 to 360 days</u>	<u>Over 360 days</u>	<u>Total 12/31/2008</u>	<u>Total 12/31/2007</u>
Rural	9,633	31,547	5,690	42,998	89,868	77,886
Industrial	9,472	4,088	2,765	261	16,586	15,067
Other services	8,898	22,655	1,393	177	33,123	37,151
Commercial	12,074	7,628	7,723	751	28,176	26,871
Financial	1	1	-	-	2	40
Individuals	<u>1,005</u>	<u>1,028</u>	<u>1,807</u>	<u>316</u>	<u>4,156</u>	<u>4,108</u>
T O T A L	<u>41,083</u>	<u>66,947</u>	<u>19,378</u>	<u>44,503</u>	<u>171,911</u>	<u>161,123</u>

c) Breakdown by risk level

12/31/2008					12/31/2007			
<u>Risk level</u>	<u>Normal (1)</u>	<u>Past-due</u>	<u>Total portfolio</u>	<u>Allowance</u>	<u>Normal (1)</u>	<u>Past-due</u>	<u>Total portfolio</u>	<u>Allowance</u>
AA	3,075,607	-	3,075,607	-	2,549,031	-	2,549,031	-
A	1,917,631	-	1,917,631	9,588	850,138	-	850,138	4,251
B	1,086,359	17,258	1,103,617	11,036	439,712	9,293	449,005	4,490
C	114,025	14,762	128,787	3,864	73,202	15,206	88,408	2,652
D	111,835	18,801	130,636	13,064	122,601	40,527	163,128	16,313
E	17,393	43,068	60,461	18,138	40,480	36,175	76,655	22,997
F	22,018	31,473	53,491	26,746	13,229	20,094	33,323	16,661
G	4,478	15,062	19,540	13,678	4,729	13,876	18,605	13,023
H	<u>128,630</u>	<u>121,047</u>	<u>249,677</u>	<u>249,676</u>	<u>97,864</u>	<u>117,548</u>	<u>215,412</u>	<u>215,412</u>
TOTAL	<u>6,477,976</u>	<u>261,471</u>	<u>6,739,447</u>	<u>345,790</u>	<u>4,190,986</u>	<u>252,719</u>	<u>4,443,705</u>	<u>295,799</u>

(1) Past-due up to 14 days.

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d) Change in allowance for the period

<u>Specification</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
Beginning balance	295,799	304,340
(+) Net allowance recognized in the period	190,605	131,955
(-) Write-off as loss in the period	(140,614)	(140,496)
(=) Allowance for loan losses	<u>345,790</u>	<u>295,799</u>
(+) Allowance for losses on other receivables without loan characteristics	<u>26,791</u>	<u>28,962</u>
(=) Allowance for loan losses balance	<u>372,581</u>	<u>324,761</u>

e) Allowance expense balance

<u>Specification</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
(+) Expenses on allowance for loan losses	180,537	117,614
(+) Expenses on allowance for losses on other receivables	36,103	15,757
(-) Reversals of operating allowances	(26,035)	(1,416)
(=) Expense balance on allowance with loan characteristics	<u>190,605</u>	<u>131,955</u>
(+) Expense on allowance for losses on other receivables without loan characteristics	164	5,206
(-) Reversals of allowance for losses on other receivables without loan characteristics	(2,336)	(1,814)
(=) Expense balance on allowance for loan losses	<u>188,433</u>	<u>135,347</u>

- f) In the year of 2008, recoveries of receivables written off as loss were R\$ 221,484 (R\$ 255,889 as of December 31, 2007) and renegotiations of operations amounted to R\$ 267,230 (R\$ 284,859 as of December 31, 2007).

g) Credits recovery with legal base

In conformity with Law N. 11,322, of July 13, 2006 and Law N. 11,775, of September 17, 2008, concerning rescheduling of debts arising from rural credit operations, that provides for rebates in the debit balance, discounts for prompt payment of installments, reduction of interest rate, and extension of payment terms of said operations, a positive effect on the Bank's income was recognized in the amount of R\$ 156,635, as shown below. Law N. 11,775/08 produced effects solely in 2008. Pursuant to the mentioned laws, part of these transactions was acquired by the Northeast Constitutional Financing Fund (FNE):

<u>Specification</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
Income earned	71,401	26,270
Recovery of operations written off from assets	111,815	194,742
Expenses on negative goodwill	(32,990)	(69,787)
Net effect of allowances	<u>6,409</u>	<u>113,448</u>
Total	<u>156,635</u>	<u>264,673</u>

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7. OTHER RECEIVABLES

<u>Specification</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
a) Receivables for Guarantees Honored	<u>40</u>	<u>28</u>
b) Foreign Exchange Portfolio	<u>420,462</u>	<u>220,152</u>
Foreign exchange purchased pending settlement	386,697	216,130
Rights to foreign exchange sold	22,528	20
Advances received in local currency	(220)	(20)
Income receivable from advances	11,457	4,022
c) Income Receivable	<u>22,857</u>	<u>25,222</u>
d) Specific Receivables/National Treasury - Extension of Payment of Rural Loans /Resolution N. 2,238	<u>-</u>	<u>291</u>
e) Other	<u>675,152</u>	<u>742,465</u>
Tax credits - temporary differences	147,642	118,678
Tax credits - securities and derivatives (note 5.a.2)	10,852	209,281
Escrow deposits	234,648	197,332
Recoverable taxes and contributions	<u>107,273</u>	<u>74,166</u>
Arising from prepayments – IN SRF 90/92 (note 19.a)	101,363	69,184
Other amounts	5,910	4,982
Tax incentive options	26,748	26,748
Bonus receivable from FAT	73,007	56,702
Other	74,982	59,558
f) Allowance for Losses on Other Receivables	<u>(48,445)</u>	<u>(47,756)</u>
With loan characteristics	(21,654)	(18,794)
Without loan characteristics	<u>(26,791)</u>	<u>(28,962)</u>
TOTAL	<u>1,070,066</u>	<u>940,402</u>
CURRENT	993,033	902,727
LONG-TERM	77,033	37,675

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8. PERMANENT ASSETS

<u>Specification</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
a) Investments	<u>1,120</u>	<u>943</u>
a.1) Other investments	<u>6,023</u>	<u>5,782</u>
Tax incentive investments	4,611	4,547
Shares	443	443
Works of art	969	792
a.2) Allowance for losses	<u>(4,903)</u>	<u>(4,839)</u>
Tax incentive investments	(4,610)	(4,546)
Shares	(293)	(293)
b) Property and equipment	<u>179,161</u>	<u>187,452</u>
b.1) Real estate	<u>118,492</u>	<u>115,454</u>
Land	6,051	6,051
Buildings	112,441	109,403
b.2) Real estate revaluations	<u>111,628</u>	<u>111,628</u>
Land - Revaluations	10,930	10,930
Buildings - Revaluations	100,698	100,698
b.3) Other	<u>119,373</u>	<u>114,670</u>
Installations, furniture and equipment in use	54,489	52,005
Data processing system	47,464	46,229
Security system	9,870	9,894
Other	7,550	6,542
b.4) Accumulated depreciation	<u>(170,332)</u>	<u>(154,300)</u>
Real estate	(130,363)	(119,716)
Other property and equipment in use	(39,969)	(34,584)
c) Deferred charges	<u>4,609</u>	<u>5,367</u>
c.1) Organization and expansion costs	<u>10,436</u>	<u>10,829</u>
Leasehold improvements	10,121	10,325
Software acquisition and development	315	504
c.2) Accumulated amortization	<u>(5,827)</u>	<u>(5,462)</u>
Leasehold improvements	(5,598)	(5,089)
Software acquisition and development	(229)	(373)
TOTAL	<u>184,890</u>	<u>193,762</u>

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9. DEPOSITS

<u>Specification</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
a) Demand deposits	<u>170,777</u>	<u>143,103</u>
Deposits in foreign currency	62,440	54,573
Government deposits	19,167	24,468
Restricted deposits	57,214	13,903
Legal entities	23,487	43,525
Individuals	6,908	5,033
Other	1,561	1,601
b) Savings deposits	<u>879,323</u>	<u>728,395</u>
Free savings deposits - individuals	502,654	447,722
Free savings deposits - legal entities	376,569	280,242
From affiliates and institutions of the Financial System	100	431
c) Interbank deposits	<u>349,550</u>	<u>162,096</u>
d) Time deposits	<u>2,726,335</u>	<u>2,072,728</u>
Time deposits	1,866,611	1,090,251
Escrow deposits subject to monetary adjustment	50,877	36,508
Special deposits subject to monetary adjustment/FAT - Available funds (note 10.c)	<u>18,544</u>	<u>51,069</u>
Proger Urbano (credit facilities for urban investment purposes)	2,139	598
Proger Rural (credit facilities for rural investment purposes)	5,955	1,963
Pronaf (National Family Farming Strengthening Program)	41	737
Protrabalho (Employment and Life Qualify Improvement Program for Workers in the Northeast Region)	3,969	8,557
Infrastructure	6,080	39,120
Estiagem (federal government program to provide benefits to farmers affected by drought in Northeastern Brazil)	360	94
Special deposits subject to monetary adjustment/FAT - Invested funds (note 10.c)	<u>425,883</u>	<u>499,148</u>
Proger Urbano	61,591	73,449
Proger Rural	6,116	13,296
Pronaf	1,942	28,360
Protrabalho	279,974	332,248
Infrastructure	59,368	31,195
Estiagem	16,892	20,600
FINOR/Cash and Reinvestments Law N. 8,167	364,330	395,608
Other	90	144
e) Other deposits - Investment deposits	<u>10,675</u>	<u>10,817</u>
TOTAL	<u>4,136,660</u>	<u>3,117,139</u>
CURRENT	2,339,354	1,735,189
LONG-TERM	1,797,306	1,381,950

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10. LONG-TERM LIABILITIES

- a) With respect to domestic borrowings and onlendings, interest rates vary from 0 to 10.25% per year and maturities vary from 4 to 20 years with an average of 6 years. In accordance with legal and contractual requirements, monetary adjustment, when applicable, is calculated using the official indices disclosed by the Central Bank of Brazil.
- b) Financing from the BNDES (National Bank for Economic and Social Development) is on the order of R\$ 577,673 (R\$ 659,518 as of December 31, 2007), subject to TJLP (long-term interest rate) plus average spread of 1.0% per year and average maturity of 4 years.
- c) Funds derived from the Fund for Workers' Assistance (FAT), recorded under "Special deposits subject to monetary adjustment", on the order of R\$ 444,427 (R\$ 550,217 as of December 31, 2007) are subject to SELIC (Central Bank overnight rate) while they are not used in lending operations, and to TJLP after they are released to the borrowers. Available funds bearing interest at SELIC are R\$ 18,544 (R\$ 51,069 as of December 31, 2007).

Pursuant to CODEFAT (Board of the Worker's Assistance Fund) Resolution N. 439, of June 2, 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 TADE (FAT Special Deposit Allocation Statement), plus cash that meets 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.
 - After 3 months, relating to the new deposits made by FAT, when funds are not released to the final borrowers.
- d) Regarding foreign financing, interest rates range from 3.52% to 6.00% per year, average maturity is 9 years and final maturity to the IDB is 2027. Pursuant to contractual requirements, exchange variation, if applicable, is calculated using the official rates disclosed by the Central Bank of Brazil.
 - e) Onlending loans are made at least under the same conditions as for borrowings, in respect of interest charges and maturities, and are secured by collaterals, guarantees and sureties.
 - f) Borrowings and Onlendings by Maturity:

<u>Specification</u>	<u>0 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 3 years</u>	<u>3 to 5 years</u>	<u>5 to 15 Years</u>	<u>Over 15 years</u>	<u>Total 12/31/2008</u>	<u>Total 12/31/2007</u>
Domestic borrowings	-	12,933	24,869	22,869	16,935	-	77,606	83,436
Foreign borrowings	170,147	80,042	-	-	-	-	250,189	239,052
Domestic onlendings	150,530	143,246	212,129	212,871	275,710	238,602	1,233,088	1,187,890
Foreign onlendings	<u>9,902</u>	<u>72,585</u>	<u>165,440</u>	<u>185,350</u>	<u>428,145</u>	<u>98,740</u>	<u>960,162</u>	<u>652,880</u>
TOTAL	<u>330,579</u>	<u>308,806</u>	<u>402,438</u>	<u>421,090</u>	<u>720,790</u>	<u>337,342</u>	<u>2,521,045</u>	<u>2,163,258</u>

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11. BORROWINGS

<u>Specification</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
a) Domestic borrowings - official institutions/Refinancing	77,606	83,436
b) Foreign borrowings/ Borrowings in foreign currency	<u>250,189</u>	<u>239,052</u>
TOTAL	<u>327,795</u>	<u>322,488</u>
CURRENT	263,122	250,918
LONG-TERM	64,673	71,570

12. DOMESTIC ONLENDINGS - OFFICIAL INSTITUTIONS

<u>Specification</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
a) National Treasury	<u>1,312</u>	<u>1,387</u>
b) BNDES (note 10.b)	<u>533,080</u>	<u>597,023</u>
POC (credit facility granted by the BNDES agents to shareholders of medium-sized and small companies to buy shares in capital increases)	200,879	269,991
Credit Facility for investment in agriculture	332,201	327,032
c) CEF (Federal Savings and Loan Bank)	<u>98</u>	<u>301</u>
d) FINAME (National Equipment Financing Authority) (note 10.b)	<u>44,593</u>	<u>62,495</u>
"Programa Automático" (program intended to fund the purchase of new machinery and equipment by companies based in Brazil)	30,252	49,219
Farm Program	14,309	13,199
Import	32	77
e) Other institutions	<u>654,005</u>	<u>526,684</u>
Pilot Support Project of Agrarian Reform	78,565	74,304
MEPF- Fundo de Terras e da Reforma Agrária-Banco da Terra	140,449	139,939
Banco da Terra-Fight against rural poverty	434,991	310,912
Other programs	-	1,529
TOTAL	<u>1,233,088</u>	<u>1,187,890</u>
CURRENT	293,776	321,441
LONG-TERM	939,312	866,449

13. FOREIGN ONLENDINGS

<u>Specification</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
a) IDB-Prodetur (Tourism Development Program with funds provided by the IDB) (note 10.d)	942,188	638,163
b) Other programs	<u>17,974</u>	<u>14,717</u>
TOTAL	<u>960,162</u>	<u>652,880</u>
CURRENT	82,487	53,844
LONG-TERM	877,675	599,036

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14. OTHER PAYABLES

<u>Specification</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
a) Collected taxes and other	<u>6,641</u>	<u>4,618</u>
Funds from Proagro (program established to guarantee supplemental funds for farmers to pay their costs of farming and cattle raising)	3,892	4,018
IOF (tax on financial transactions) payable	2,610	273
Other taxes	139	327
b) Foreign exchange portfolio	<u>24,411</u>	<u>68</u>
Foreign exchange purchased	310,708	228,221
Foreign exchange sold pending settlement	24,246	20
(Advances on foreign exchange contracts)	(310,606)	(228,221)
Other	63	48
c) Social and statutory	<u>127,488</u>	<u>84,914</u>
Dividends and bonuses payable	108,048	72,020
Profit sharing	19,440	12,894
d) Tax and social security	<u>370,441</u>	<u>560,246</u>
Reserve for tax contingencies (note 20.d)	<u>80,777</u>	<u>184,463</u>
Taxes payable	65,217	182,826
Tax lawsuits	15,560	1,637
Provision for deferred income and social contribution taxes	<u>66,343</u>	<u>256,337</u>
Securities and derivatives (note 5.a.2)	51,671	242,485
Revaluation of buildings and land (note 15.b)	14,672	13,852
Provision for income and social contribution taxes (note 19.a)	<u>188,190</u>	<u>86,532</u>
Income tax	120,473	63,014
Social contribution	67,717	23,518
Taxes payable	<u>35,131</u>	<u>32,914</u>
e) Financial and development funds	<u>4,667,188</u>	<u>4,518,283</u>
FNE (Northeast Constitutional Financing Fund)	4,589,656	4,453,618
Other	77,532	64,665
f) Other	<u>2,200,989</u>	<u>1,862,261</u>
Reserve for contingencies (note 20)	<u>1,072,049</u>	<u>837,421</u>
Labor	176,657	117,273
Civil	77,859	71,742
Other	530	447
FNE (note 25.c.2)	817,003	647,959
Accrued liabilities allowance	<u>1,046,986</u>	<u>952,127</u>
Employee benefits - CVM Resolution N. 371 (note 23.e)	<u>895,958</u>	<u>809,566</u>
Pension plan - CVM Resolution N. 371	691,014	646,142
Health care plan - CVM Resolution N. 371	204,944	163,424
Personnel expenses	48,779	37,719
Other	102,249	104,842
Other	<u>81,954</u>	<u>72,713</u>
TOTAL	<u>7,397,158</u>	<u>7,030,390</u>
CURRENT	3,615,746	2,284,336
LONG-TERM	3,781,412	4,746,054

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15. SHAREHOLDERS' EQUITY

a) Capital

The amount of Capital is R\$ 1,299,000, represented by 87,001,901 (870,019,022,574 as of December 31, 2007) paid-up shares without par value, and distributed as follows:

	12/31/2008				
<u>Shareholders</u>	<u>Common shares</u>	<u>Preferred shares</u>	<u>Total shares</u>	<u>% Voting capital</u>	<u>% Total capital</u>
Federal government	46,595,279	35,373,190	81,968,469	96.10	94.21
FND (National Development Fund)	1,473,704	2,373,264	3,846,968	3.04	4.42
BNDESPAR	22,785	403,495	426,280	0.05	0.49
Other (9,295 shareholders)	<u>393,007</u>	<u>367,177</u>	<u>760,184</u>	<u>0.81</u>	<u>0.88</u>
TOTAL	<u>48,484,775</u>	<u>38,517,126</u>	<u>87,001,901</u>	<u>100.00</u>	<u>100.00</u>

	12/31/2007				
<u>Shareholders</u>	<u>Common Shares</u>	<u>Preferred shares</u>	<u>Total shares</u>	<u>% Voting capital</u>	<u>% Total capital</u>
Federal government	465,952,800,540	353,731,907,693	819,684,708,233	96.10	94.21
FND (National Development Fund)	14,737,043,790	23,732,649,036	38,469,692,826	3.04	4.42
BNDESPAR	258,853,432	4,397,554,822	4,656,408,254	0.05	0.54
Other (35,248 shareholders)	<u>3,899,057,582</u>	<u>3,309,155,679</u>	<u>7,208,213,261</u>	<u>0.81</u>	<u>0.83</u>
TOTAL	<u>484,847,755,344</u>	<u>385,171,267,230</u>	<u>870,019,022,574</u>	<u>100.00</u>	<u>100.00</u>

The Annual and Extraordinary Shareholders' Meeting held on March 17, 2008, approved a 1-for-10,000 reverse stock split. Starting July 14, 2008, the Bank's shares will be traded in units on the São Paulo Stock Exchange (BOVESPA).

b) Revaluation Reserve

The amount of R\$ 32,938 (R\$ 37,819 as of December 31, 2007) refers to the revaluation of property and equipment in use, recognized on February 26, 1993. This reserve will be maintained until its effective realization through depreciation, write-off or sale. The amount of R\$ 2,517 (R\$ 2,680 as of December 31, 2007), realized in the year, was included in the income allocation basis.

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c) Net Income - Allocations

1. Net income	<u>421,029</u>
2. Revaluation reserves transferred to “retained earnings (accumulated loss)”	2,517
3. Adjusted net income	<u>423,546</u>
Legal reserve (item 1 X 5%)	21,052
Dividends (note 15.d)	120,296
Interest on own capital (note 15.d)	100,211
Statutory reserve (item 3 - Legal reserve - dividends - interest on own capital)	181,987

d) Dividends/Interest on own Capital

Under the Bank’s bylaws, shareholders are entitled to minimum dividends of 25% of net income of the year, adjusted as defined by regulation.

The Board of Directors proposed to the Shareholders’ Meeting the payment of dividends and interest on capital attributed to dividends equivalent to 50.0234% of adjusted net income. Dividends/interest on capital for 2008 and 2007 were calculated as follows:

<u>Specification</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
1. Net income	421,029	219,744
2. Recorded legal reserve	(21,052)	(10,987)
3. Revaluation reserves transferred to Retained earnings (accumulated loss)	2,517	2,680
4. Profit sharing	37,904	19,777
5. Calculation basis of dividends/interest on capital	<u>440,398</u>	<u>231,214</u>
6. Interest on capital	100,211	94,000
7. Withholding income tax (IRRF) on interest on capital	(205)	(153)
8. Interest on capital attributed to dividends (items 6 and 7)	100,006	93,847
9. Interim interest on capital adjusted by the SELIC rate	(51,247)	(43,776)
10. Additional interest on capital (items 6 and 9)	48,964	50,224
11. Proposed dividends	120,296	21,769
12. Interim dividends adjusted by the SELIC rate	(61,332)	-
13. Additional dividends (items 11 and 12)	58,964	21,769
14. Additional dividends and interest on capital (items 10 and 13)	107,928	71,993
- Interest on capital of R\$0.538930682467 per common share (as of 12.31.2007: interest on capital of R\$0.055279763668 per thousand common shares)	26,130	26,803
- Interest on capital of R\$0.592823750921 per preferred share (as of 12.31.2007: interest on capital of R\$0.060807740070 per thousand preferred shares)	22,834	23,422
- Dividends of R\$0.649004295059 per common share (as of 12.31.2007: dividends of R\$0.023960576184 per thousand common shares)	31,467	11,617
- Dividends of R\$0.713904724874 per preferred share (as of 12.31.2007: dividends of R\$0.026356633824 per thousand preferred shares)	27,497	10,151
15. Total to shareholders (items 6 and 11)	220,507	115,769

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For preferred shares, calculated dividends/interest on own capital were 10% higher than those paid on common shares, as provided for in item I, article 17 of Law N. 6,404/76, reworded by Law N. 10,303/01, and in paragraph 2, article 6 of the Bank's Bylaws.

Dividends and interest on capital will be paid, plus financial charges based on the SELIC rate from the balance sheet date to the date earnings are available to shareholders, pursuant to Decree N. 2,673, of July 16, 1998, a reworded by Decree N. 3,381, of March 13, 2000.

The employee profit sharing was added to the calculation basis of dividends/interest on capital, as established by article 2 of Resolution N. 10/1995 of the CCE (Council for Coordination and Control of State-Owned Companies).

16. INCOME FROM FINANCIAL INTERMEDIATION

<u>Specification</u>	<u>2nd half 2008</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
a) Lending operations	<u>842,439</u>	<u>1,218,859</u>	<u>648,444</u>
Interest and commissions	379,245	610,539	310,613
Monetary restatement	34,682	93,083	66,520
Exchange variation	293,627	293,753	15,422
Recovery of receivables written off as loss	134,885	221,484	255,889
b) Securities transactions	<u>571,797</u>	<u>1,040,237</u>	<u>887,715</u>
Fixed-income securities	340,263	606,281	665,231
Other	233,177	437,841	219,849
Income, loss and adjustment	(1,643)	(3,885)	2,635
c) Derivatives	<u>18,884</u>	<u>(2,130)</u>	<u>(40,651)</u>
d) Foreign exchange transactions	<u>127,736</u>	<u>136,939</u>	<u>21,499</u>
Foreign exchange transactions	17,597	26,271	13,776
Foreign currency	12,347	12,452	85
Rate variations and differences	97,792	98,216	7,638
e) Compulsory investments	<u>10,509</u>	<u>22,626</u>	<u>26,171</u>
Interest and commissions	10,144	22,081	25,547
Monetary restatement	365	545	624
TOTAL	<u>1,571,365</u>	<u>2,416,531</u>	<u>1,543,178</u>

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17. EXPENSES ON FINANCIAL INTERMEDIATION

<u>Specification</u>	<u>2nd half 2008</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
a) Funding operations	<u>(209,201)</u>	<u>(348,005)</u>	<u>(247,397)</u>
Interest and commissions	(82,174)	(155,598)	(132,130)
Monetary restatement	(106,621)	(172,001)	(114,446)
Exchange variation	(20,406)	(20,406)	(821)
b) Borrowings and onlendings	<u>(805,272)</u>	<u>(1,109,975)</u>	<u>(565,310)</u>
Interest and commissions	(49,628)	(91,277)	(85,700)
Monetary restatement	(12,929)	(28,704)	(16,155)
Monetary restatement of funds from the FNE	(306,752)	(554,031)	(443,033)
Exchange variation	(435,963)	(435,963)	(20,422)
c) Allowance for loan losses (note 6.e)	<u>(78,222)</u>	<u>(188,433)</u>	<u>(135,347)</u>
Lending operations	(78,657)	(190,605)	(131,955)
Operations without loan characteristics	<u>435</u>	<u>2,172</u>	<u>(3,392)</u>
TOTAL	<u>(1,092,695)</u>	<u>(1,646,413)</u>	<u>(948,054)</u>

18. OTHER OPERATING INCOME (EXPENSES)

<u>Specification</u>	<u>2nd half 2008</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
a) Income from services provided	<u>511,473</u>	<u>969,570</u>	<u>742,949</u>
Investment funds management	3,986	7,672	6,578
Funds and programs management	396,166	764,339	611,624
Services provided	111,321	197,559	124,747
b) Income from bank fees	<u>5,324</u>	<u>9,014</u>	<u>9,177</u>
c) Personnel expenses	<u>(418,120)</u>	<u>(770,067)</u>	<u>(676,408)</u>
Salaries	(216,062)	(389,585)	(324,382)
Payroll charges	(70,257)	(128,836)	(104,070)
Contribution expenses - CAPEF (note 23. g)	(2,818)	(5,426)	(5,884)
Contribution expenses - CAMED (note 23. g)	(6,731)	(12,494)	(10,471)
Pension plan - CVM Resolution N. 371 (note 23.g)	(53,982)	(106,890)	(118,496)
Health care plan - CVM Resolution N. 371 (note 23.g)	(27,770)	(52,187)	(47,106)
Benefits, training, fees and compensation of intern	(40,500)	(74,649)	(65,999)
d) Other administrative expenses	<u>(241,955)</u>	<u>(446,574)</u>	<u>(384,445)</u>
Data processing	(40,708)	(80,702)	(71,541)
Advertising and publicity	(18,440)	(29,428)	(22,949)
Outside services	(56,789)	(97,558)	(70,801)
Rentals, material and public utilities	(19,164)	(37,488)	(36,602)
Travels	(9,840)	(18,446)	(14,941)
Communications	(13,446)	(26,479)	(26,034)
Depreciation and amortization	(11,706)	(23,236)	(21,851)
Asset maintenance	(11,471)	(21,326)	(18,308)
Surveillance, security and transportation	(10,573)	(20,705)	(18,354)
Promotions, public relations and publications	(6,785)	(14,366)	(12,873)
Financial System services	(6,760)	(12,598)	(11,755)
Specialized technical services	(11,328)	(19,432)	(13,677)
Insurance	(1,205)	(1,205)	(907)

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Other	(23,740)	(43,605)	(43,852)
e) Tax expenses	<u>(65,428)</u>	<u>(119,969)</u>	<u>(96,007)</u>
Cofins and PIS/PASEP (taxes on revenue)	(60,008)	(109,909)	(85,106)
ISS (service tax) and IPTU (municipal real estate tax)/Improvement	(4,790)	(8,989)	(6,149)
Other	(630)	(1,071)	(4,752)
f) Other operating income	<u>333,112</u>	<u>737,419</u>	<u>573,814</u>
Financial commission on investment funds management	223,581	409,389	299,546
Negative exchange variation on loans obtained	11,754	101,340	177,922
Recovery of charges and expenses	5,901	8,949	8,667
Reversal of operating provisions	55,291	160,909	28,943
Interest and commissions	2,025	5,762	8,759
FNE-Recovery of amounts settled by the Bank	25,738	38,812	40,459
Other	8,822	12,258	9,518
g) Other operating expenses	<u>(258,532)</u>	<u>(535,761)</u>	<u>(504,386)</u>
Negative exchange variation on granted loans	(9,997)	(76,832)	(129,217)
Discounts granted in renegotiations	(6,655)	(6,655)	(300)
Charges on loans	(11,931)	(11,931)	(441)
Tax contingencies	(13,040)	(40,809)	(14,729)
Risks of FNE operations	(127,462)	(295,489)	(214,873)
Labor lawsuits	(63,615)	(65,628)	(41,287)
Civil lawsuits	(7,771)	(9,100)	(26,450)
Other lawsuits	(32)	(83)	(403)
Other operating provisions	(5,055)	(5,055)	(58,671)
Other	<u>(12,974)</u>	<u>(24,179)</u>	<u>(18,015)</u>
TOTAL	<u>(134,126)</u>	<u>(156,368)</u>	<u>(335,306)</u>

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19. TAXES PAYABLE

a) Income and social contribution taxes

The Bank is subject to taxation on deemed income and pays income and social contribution taxes monthly on an estimated basis. Income tax expense in the year of 2008 was R\$ 114,448 and social contribution tax expense was R\$ 43,236, which are reconciled as shown below:

a.1) Breakdown of the provision for income tax and social contribution expense	<u>Income tax</u>		<u>Social contribution</u>	
	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
Income before taxes	478,501	147,281	478,501	147,281
Permanent additions/deductions	53,385	16,887	53,412	16,911
Temporary additions/deductions	176,182	209,100	176,182	209,100
Taxable income before utilization of tax loss carryforwards	708,068	373,268	708,095	373,292
Offset of tax loss carryforwards	(212,420)	(111,980)	(212,428)	(111,987)
Taxable income after utilization of tax loss carryforwards	495,648	261,288	495,667	261,305
Taxes payable - current amounts	(122,872)	(64,283)	(67,190)	(23,152)
Deductions (tax incentives)	3,415	2,284	-	-
Provision for income tax and social contribution	(119,457)	(61,999)	(67,190)	(23,152)
Ratio of the provision for income tax and social contribution to income before taxes	24,96%	42,10%	14,04%	15,72%

a.2) Breakdown of the provision for income tax and social contribution expense	<u>Income tax</u>		<u>Social contribution</u>	
	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
Provision for income tax and social contribution expense	119,457	61,999	67,190	23,152
Provision for taxes on the realization of revaluation reserve	1,016	1,015	527	366
Provision for income tax and social contribution	120,473	63,014	67,717	23,518
Taxes for offset due to tax prepayments, including withholding taxes	(73,466)	(53,015)	(28,678)	(16,901)
Annual adjustment	47,007	9,999	39,039	6,617

b) Tax credits on temporary differences

Article 9 of Law N. 9,430 specifies the rules of deductibility of allowance for loan losses expenses from the income and social contribution tax calculation, which differ from the rules of National Monetary Council N. 2,682 of December 21, 1999. The portion of the provision recorded under the rules of the National Monetary Council that exceeds the limit determined in accordance with tax legislation is temporarily added to the income and social contribution tax basis. The temporarily nondeductible provisions will decrease or confirm taxable income for the next years, when it falls into the concept of loss for tax purposes or when reversed, respectively.

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In view of the temporary addition of the allowance for loan losses and according to Central Bank of Brazil Circular N. 3,171, of December 30, 2002, CVM Resolution N. 273, of August 20, 1998, and article 8 of Executive Act N. 2,158-35, of August 24, 2001, since 1996 the Bank has recorded an income and social contribution tax credit arising from said temporary differences, with reviews based on technical studies carried out at every semiannual balance sheet.

As of December 31, 2008, tax credits amount to R\$ 147,642, of which R\$ 92,267 refers to income tax and R\$55,375 to social contribution. The balance increase, as compared to 2007, arise mainly from the increase in the rate from 9% to 15%, by means of Provisional Act 413/08 (made into Law N. 11,727/08), beginning May 2008.

In accordance with Central Bank of Brazil Circular N. 3,023, of June 11, 2002, the Bank recorded tax credits on adjustments to fair value of securities classified into the category “available-for-sale securities”. Changes in tax credits are shown below:

	<u>INCOME TAX</u>		<u>SOCIAL CONTRIBUTION TAX</u>	
	<u>Temporary differences</u>	<u>Securities</u>	<u>Temporary differences</u>	<u>Securities</u>
Beginning balance as of December 31, 2007	87,257	153,883	31,421	55,397
(+) Credit recognition	47,140	93,887	28,299	46,883
(-) Credit realization	(42,130)	(240,987)	(4,345)	(98,211)
Ending balance as of December 31, 2008	<u>92,267</u>	<u>6,783</u>	<u>55,375</u>	<u>4,069</u>

The balance of the provision for income and social contribution taxes, recorded under “Other Receivables - other”, is composed of the following:

	<u>Income tax</u>		<u>Social contribution tax</u>	
	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
1. Total temporary differences	2,436,607	2,260,426	2,436,607	2,260,426
2. Tax loss carryforwards	436,905	649,326	438,583	651,011
3. Calculation basis - “1” + “2”	2,873,512	2,909,752	2,875,190	2,911,437
4. Tax credits on tax loss carryforwards and temporary differences	718,378	727,438	431,278	262,029
5. Tax credit from adjustment to fair value of Securities	6,783	153,883	4,069	55,398
6. Total tax credits	725,161	881,321	435,347	317,427
7. Recorded tax credit assets (note 7.f)	99,050	241,140	59,444	86,819
8. Unrecorded tax credits - “6” - “7”	626,111	640,181	375,903	230,608

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Deferred income and social contribution taxes will be realized as temporary differences from which they arise are reversed or become tax deductible. The estimate of realization shown below is duly supported by a technical study indicating expected future taxable income with consequent taxes payable, in accordance with article 6, sole paragraph, of Law N. 9,249/95.

The estimated realization of tax credits as of December 31, 2008 is as follows:

Period	Realization income tax credit		Realization of social contribution tax credit		Total	
	Book value	Present value	Book Value	Present Value	Book value	Present value
2009	26,310	23,582	15,790	14,153	42,100	37,735
2010	15,702	12,664	9,424	7,600	25,126	20,264
2011	10,836	7,902	6,504	4,742	17,340	12,644
2012	15,941	10,532	9,567	6,321	25,508	16,853
2013	<u>23,478</u>	<u>14,079</u>	<u>14,090</u>	<u>8,450</u>	<u>37,568</u>	<u>22,529</u>
TOTAL	<u>92,267</u>	<u>68,759</u>	<u>55,375</u>	<u>41,266</u>	<u>147,642</u>	<u>110,025</u>

The tax credits from adjustments to fair value of securities determined at the present realizable value, pursuant to Central Bank of Brazil Circular N. 3,068/01, will be realized according to the maturities of the securities, as shown below:

Period	Realization income tax credit		Realization of social contribution tax credit		Total	
	Book value	Present value	Book Value	Present Value	Book value	Present value
2009	6,637	6,637	3,982	3,982	10,619	10,619
2010	-	-	-	-	-	-
2011	2	2	1	1	3	3
2012	3	3	2	2	5	5
2013	-	-	-	-	-	-
2014 to 2016	1	1	-	-	1	1
2026 to 2028	<u>140</u>	<u>140</u>	<u>84</u>	<u>84</u>	<u>224</u>	<u>224</u>
TOTAL	<u>6,783</u>	<u>6,783</u>	<u>4,069</u>	<u>4,069</u>	<u>10,852</u>	<u>10,852</u>

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20. RESERVE FOR CONTINGENCIES

- a) Banco do Nordeste is a party to several administrative and judicial proceedings involving civil, tax, labor and other matters.
- b) The assessment of the contingency, degree of risk of new lawsuits and reassessment of already existing lawsuits are made by the Legal Department, case by case, and are classified according to the risk of loss as probable, possible or remote. Such classification is based on the analysis of the following factors: i) argumentation and statement of facts and cause of action by the adverse part; ii) argumentation and statement of facts and cause of action developed by the Bank; iii) final outcome of similar cases; iv) higher courts' previous decisions on cases under discussion; iv) Higher Courts' and regulatory agencies' opinions on the matter in dispute; v) decisions on the proceeding (decision, sentence, injunction, interim relief, writ of payment, writ of attachment, etc); e vi) existence of procedural errors in the administrative and judicial proceedings.
- c) Contingencies classified as probable are accounted for and represented by Civil Lawsuits (claiming compensation for pain and suffering and property damage, such as protest of notes, return of checks, and provision of information to credit reporting agencies, among others), Labor Lawsuits (claiming labor rights, in light of specific professional category legislation, such as overtime, salary equalization, job reinstatement, premium for transfer, termination pay, retirement supplementation and others), Tax and Social Security Lawsuits (represented by judicial and administrative proceedings involving federal and municipal taxes) and Other Lawsuits (such as infringement notices issued by Regional Councils that regulate the exercise of professions and Regional Labor Offices).
- d) As of December 31, 2008, the Bank recorded a reserve for the total estimated loss on lawsuits classified as probable losses, and reserves are not applicable to those assessed as possible and remote loss, as shown below:

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<u>Specification</u>	<u>Base</u>	<u>Reserve</u>
RESERVE FOR TAX CONTINGENCIES (Note 14.d)		
Taxes	<u>65,217</u>	<u>65,217</u>
Probable	65,217	65,217
Tax lawsuits	<u>385,204</u>	<u>15,560</u>
Probable	15,560	15,560
Possible	220,017	-
Remote	149,627	-
RESERVE FOR CONTINGENCIES (Note 14.f)		
Labor lawsuits	<u>216,663</u>	<u>176,657</u>
Probable	176,657	176,657
Possible	16,918	-
Remote	23,088	-
Civil lawsuits	<u>664,289</u>	<u>77,859</u>
Probable	77,859	77,859
Possible	205,709	-
Remote	380,721	-
Other lawsuits	<u>13,820</u>	<u>530</u>
Probable	530	530
Possible	7,694	-
Remote	5,596	-

e) The following reserves are composed of:

<u>Specification</u>	<u>12/31/2008</u>
a) Taxes (Other payables - other)	
Beginning balance	182,826
Recognition	28,684
Reversal/Utilization/Write-off	(146,293)
Ending balance	65,217
b) Tax lawsuits (Other payables - other)	
Beginning balance	1,637
Recognition	14,266
Reversal/Utilization/Write-off	(343)
Ending balance	15,560
c) Labor lawsuits (Other payables - other)	
Beginning balance	117,273
Recognition	62,244
Reversal/Utilization/Write-off	(2,860)
Ending balance	176,657
d) Civil lawsuits (Other payables - other)	
Beginning balance	71,742
Recognition	19,801
Reversal/Utilization/Write-off	(13,684)
Ending balance	77,859
e) Other lawsuits (Other payables - other)	
Beginning balance	447
Recognition	101
Reversal/Utilization/Write-off	(18)
Ending balance	530
f) Vacation	
Beginning balance	26,332
Recognition	43,414
Reversal/Utilization/Write-off	(36,154)
Ending balance	33,592
g) FNE	
Beginning balance	647,959
Recognition	295,495
Reversal/Utilization/Write-off	(126,451)
Ending balance	817,003

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- f) As of December 31, 2007, the Bank conservatively maintained a reserve for contingencies, which was recognized in prior years and classified by the legal department as remote loss, related to income and social contribution taxes for tax year 1998 offset against credits from the understated inflation effects (“Plano Verão”, Brazilian economic plan). In accordance with CVM Resolution N. 489/05, in June 2008 Management decided to reverse this reserve, in the amount of R\$ 87,370, from the caption Reserve for tax contingencies (Other Payables - Other) to the caption Other operating income/Reversal of operating provisions (note 18.f).
- g) The Bank has lawsuits handled by outside attorneys, most of which relates to loan collection actions, whose allowance is recorded in accordance with Resolution N. 2,682/99. When these lawsuits generate contingencies for the Bank, they are assessed by the Legal Department as mentioned in item b above.
- h) Escrow deposits are recorded in assets and are not offset against reserves for contingencies, in accordance with standards established by the Central Bank of Brazil.
- i) The risk assumed by the Bank on FNE operations made beginning December 1, 1998 is calculated in the same manner as set forth in Resolution N. 2,682/99 (note 25.c).

21. EMPLOYEES’ AND DIRECTORS’ COMPENSATION

The monthly compensation paid by the Bank to its employees and directors are as follows (in R\$1.00):

<u>Gross compensation</u>	<u>Employees (1)</u>	<u>Directors (2)</u>
Maximum	18,026.60	21,814.80
Minimum	704.65	19,633.32
Average	4,396.61	-

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

(2) Amounts approved at the 81st Shareholders’ Meeting held on March 17, 2008.

As of December 31, 2008, the Bank had 5,978 employees (5,726 as of December 31 2007), an increase of 4.4% in the Bank’s headcount in the period.

22. PROFIT SHARING

In the year of 2008, R\$ 37,904 related to profit sharing for employees and directors was accrued, equivalent to 17.19% of dividends and 9% of net income for the year, according to CCE Resolution N. 10/1995.

23. EMPLOYEE BENEFITS

Pursuant to CVM Resolution N. 371, of December 13, 2000, following is information on the employee benefit policy and the accounting procedures adopted by the Bank for recording its obligations:

a) The Bank does not have:

- Severance pay benefits;
- Long-term benefits;
- Stock-based compensation.

b) Accounting Policy Adopted by the Bank for Recognition of Actuarial Gains and Losses

The policy adopted for recognition of actuarial gains and losses is based on items 52 to 55 of the attachment to CVM Resolution N. 371, i.e., the Bank recognizes a portion of actuarial gains and losses in excess of the higher of: 10% of the present value of the actuarial defined benefit obligation and 10% of the fair value of the plan's assets.

c) Characteristics of the Pension Plan of Banco do Nordeste's Employees

The Bank sponsors Caixa de Previdência dos Funcionários do Banco do Nordeste do Brasil (CAPEF), a pension entity that provides its associate employees and dependents with benefits that supplement government retirement benefits. Following is significant information on CAPEF:

c.1) Actuarial Method

CAPEF adopts the capitalization method in the actuarial calculation of reserves for retirement and pension benefits.

c.2) Benefits Plan

The plan adopted is the defined benefit pension plan that assures retirement benefits for length of contribution, age and disability to the plan participants and pension benefits to their dependents.

c.3) Past-due Obligations

None.

c.4) Contributions Due

None.

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c.5) Actuarial Position

In December 2008, CAPEF reported an actuarial surplus of R\$ 21,909 (surplus of R\$ 348,033 as of December 31, 2007). According to the Technical Note and Actuarial Report, the surplus decrease arises mainly from the R\$ 336,696 increase in the actuarial liabilities, in view of the review of benefit plans costing fee that resulted in a decrease in participants' maximum contribution rate to 25% starting January 1, 2009. The fact that the Fund for Actuarial Losses was recorded with the initial amount of R\$ 11,024 and the failure to meet the actuarial target by the investment program, whose return was 6.17 % p.a., against a target of 12.87% p.a. (National Consumer Price Index [INPC] + 6% p.a.) also contributed to this reduction.

c.6) Contribution Ratio (Participants/Sponsor)

The ratio of participants' contributions to the Bank's contributions meets the parity set by Constitutional Amendment N. 20/98, with a contribution ratio of 1:1 as of December 31, 2008 (1:1 as of December 31, 2007).

d) Characteristics of the Health Care Plan

The Bank contributes to the health care plan managed by Caixa de Assistência dos Funcionários do Banco do Nordeste do Brasil - CAMED, whose primary purpose is to provide health care to its associates and dependents participating in the Natural Plan, through granting of subsidies to cover or reimburse health promotion, protection and recovery expenses.

d.1) Past-due Obligations

None.

d.2) Contributions

The Natural Plan is funded primarily by contributions from associates, contributions related to natural dependents, financial protection, urgency and emergency service fees, financial co-participation paid by the associate for services utilized and matched contributions from sponsors.

e) Reconciliation of Assets and Liabilities Recognized in the Balance Sheet

The reconciliation of assets and liabilities is shown below, according to actuarial valuations conducted by PROBUS Suporte Empresarial S/C Ltda., based on information provided by CAPEF, CAMED and the Bank, pursuant to item 49 of the attachment to CVM Resolution N. 371:

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<u>Specification</u>	<u>CAPEF</u>		<u>CAMED</u>	
	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
1. Present value of totally or partially funded actuarial obligations	2,671,550	2,495,576	440,402	351,221
2. Fair value of plan assets	1,888,469	1,878,756	12,994	16,677
3. Present value of unfunded actuarial obligations (item 1 less item 2)	783,081	618,820	427,408	334,544
a. Present value of recognized unfunded actuarial obligations	691,014	646,142	204,944	163,424
i. Current expenses	328,523	248,128	127,534	85,604
ii. Net actuarial losses	11,579	11,579	56,695	46,439
iii. Cost of past service	117,280	152,803	(10,666)	-
iv. Portion of actuarial liability as of 12/31/2001	233,632	233,632	31,381	31,381
b. Present value of unfunded actuarial obligations not recognized	92,067	(29,322)	222,464	171,120
i. Net actuarial losses/gains	39,076	(108,809)	222,464	171,120
ii. Cost of past service	52,991	79,487	-	-

f) The change in net actuarial liability in the period is as follows:

<u>Specification</u>	<u>CAPEF</u>		<u>CAMED</u>	
	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
1. Net actuarial liability, at end of prior year	616,820	737,056	334,544	309,244
2. Change in unfunded actuarial liability in current year	166,261	(120,236)	92,864	25,300
a. Current expenses	80,395	34,812	41,930	27,318
b. Net actuarial losses (gains)	147,885	(155,048)	61,600	(2,018)
c. Cost of past service	(62,019)	-	(10,666)	-
3. Net actuarial liability, at end of period	783,081	616,820	427,408	334,544

g) The expense recognized in the Statement of Income is composed as follows:

<u>Specification</u>	<u>CAPEF</u>		<u>CAMED</u>	
	<u>12/31/2008</u>	<u>12/31/2007</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
1. Current expenses	85,820	97,884	54,424	48,404
a. Cost of current service, less employees' contributions	17,530	19,476	15,081	12,276
b. Cost of interest	279,815	267,154	40,335	37,451
c. Expected return on plan assets	(211,525)	(188,746)	(992)	(1,323)
2. Actuarial losses and gains recognized in the year	-	-	10,257	9,173
3. Cost of past service	26,495	26,496	-	-
4. Expense recognized in the Statement of Income	112,315	124,380	64,681	57,577
a. Provision expenses	106,890	61,308	52,187	36,491
b. Contribution expenses	5,425	63,072	12,494	21,086

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h) Additional comments

- h.1) Current expenses - obligations for the year, derived from the increase in the length of service provided by employees;
- h.2) Net actuarial (gains)/losses - obligations for the year, derived from changes in actuarial assumptions adopted or divergences between assumptions used and actual results. These obligations are recognized according to the rules for recognition of actuarial gains and losses - item b of this note;
- h.3) Cost of past service - obligations derived from the increase in post-employment benefits related to services provided by employees in past periods. The recognition of expenses related to cost of past service is based on items 38, 56 and 57 of the attachment to CVM Resolution N. 371.
- h.4) Passivo Atuarial Apurado em 31.12.2001 - valor presente das obrigações atuariais a descoberto, apuradas em 31.12.2001, conforme o disposto no item 49 do Anexo da Deliberação CVM Nº 371.

i) Assumptions used

- i.1) Biometric Assumptions: General Mortality Table for Active Employees - AT 2000 Man; Disability Mortality Table - IAPC Weak (Social Security Institute); Disability Table - CAPEF Experience and Turnover Table - None.
- i.2) Economic Assumptions: Expected return on plan assets - 6% p.a.; Future inflation rate - 5% p.a.; Estimated salary increase rate - 1% p.a.; Benefit growth rate - 0% p.a.; Actuarial obligation discount rate - 6% p.a.; INSS (social security) benefits growth rate - 0% p.a., and Benefit costs growth rate - 4% p.a.;
- i.3) Future inflation rate is used in the calculation of the Present Value of Actuarial Obligation to measure fluctuations in inflation rates due to the freezing, by annual cycles, of future contributions and benefits, this calculation also assumes the occurrence of the same inflation level for all salary, benefit, pension and economic variables of the plan.

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24. ASSETS AND LIABILITIES LINKED TO FOREIGN CURRENCIES

As of December 31, 2008, operations subject to foreign exchange variation had a net balance of purchased foreign currency exposure of R\$ 20,435 (R\$ 17,693 on 12/31/2007), as shown below:

	<u>12/31/2008</u>	<u>12/31/2007</u>		<u>12/31/2008</u>	<u>12/31/2007</u>
Cash and cash equivalents	4,266	1,381	Deposits	62,440	54,573
Interbank investments	15,956	3,435	Interbranch accounts	6,262	5,687
Lending operations	862,975	609,747	Domestic borrowing and onlendings	1,528	2,363
Other receivables	<u>386,697</u>	<u>220,152</u>	Foreign borrowings and onlendings	1,210,351	891,932
Total assets in foreign currencies	1,269,894	834,715	Other payables	24,310	68
Swap transactions	<u>64,529</u>	<u>137,601</u>	Swap transactions	<u>49,967</u>	-
Total foreign currency exposure	<u>1,334,423</u>	<u>972,316</u>	Total liabilities in foreign currencies	<u>1,354,858</u>	<u>954,623</u>

The Bank manages the exchange risk by limiting its exposure to residual values, strictly observing the percentage set by the Central Bank of Brazil. The above mismatching in the year ended December 31, 2008 represents 1.53% of the amount of the operations indexed to foreign currencies, which confirms the Bank's conservative policy regarding this kind of risk.

The net foreign exchange exposure is determined daily. To reduce mismatching, the Bank opts to conduct transactions in the financial market involving the sale and purchase of federal securities subject to foreign exchange variation and foreign exchange swap transactions. In this year, the Bank decided to enter into foreign exchange swap transactions for hedge purposes.

25. NORTHEAST CONSTITUTIONAL FINANCING FUND (FNE)

- a) The net assets of FNE, in the amount of R\$ 25,820,970 (R\$ 22,292,718 as of December 31, 2007) are recorded in the Bank's memorandum accounts (net assets of managed public funds).
- b) The Fund's cash in the amount of R\$ 4,587,385 (R\$ 4,452,552 as of December 31, 2007) is recorded under the caption "Other payables/financial and development funds" and is subject to the Central Bank of Brazil rate. The expense on monetary adjustment of cash was R\$ 554,031 (R\$ 443,033 as of December 31, 2007).
- c) The allowance to cover the credit risk on FNE operations is recorded under the following criteria:
 - c.1) For operations contracted until November 30, 1998, the Bank is free from operational risk;

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- c.2) For operations contracted beginning December 1, 1998, excluding financing of Programa da Terra and PRONAF operations (groups A, B, A/C, Forest and Semiarid), the Bank's credit risk is 50% of the amount calculated pursuant to Resolution N. 2,682/99. The financing and allowances recorded in contingencies are as follows:

<u>Risk level</u>	<u>Balances (A)</u>	<u>% of risk (B)</u>	<u>Risk value C = (A x B)</u>	<u>Allowance as of 12/31/2008 D = (C x 50%)</u>	<u>Allowance as of 12/31/2007</u>
AA	2,748,082	0%	-	-	-
A	4,732,604	0,50%	23,663	11,832	7,626
B	5,449,352	1,00%	54,494	27,247	19,368
C	576,954	3,00%	17,309	8,654	5,920
D	872,270	10,00%	87,227	43,614	41,386
E	237,856	30,00%	71,357	35,678	51,277
F	207,586	50,00%	103,793	51,896	41,176
G	100,768	70,00%	70,537	35,269	47,552
H	<u>1,205,627</u>	100,00%	<u>1,205,627</u>	<u>602,813</u>	<u>433,654</u>
TOTAL	<u>16,131,099</u>		<u>1,634,007</u>	<u>817,003</u>	<u>647,959</u>

- d) For operations contracted until November 30, 1998, the financial commission was reduced to zero. For operations conducted after that date, the financial commission is 3% per year, when the credit risk is 50% and 6% when contracted in the name of the Bank. The revenue from financial commission was R\$ 409,389 (R\$ 299,546 as of December 31, 2007).
- e) The management fee of 3% per year is calculated on the Fund's net equity, less amounts of onlending agreements with the Bank and investments under PRONAF (groups B, A/C, Forest and Semiarid), limited in each year to 20% of the transfers made by the National Treasury. The management fee amounted to R\$ 703,161 (R\$ 541,869 as of December 31, 2007).

26. OPERATING LIMITS - BASEL ACCORD

On July 1, 2008, the National Monetary Council established, through Resolution 3490 and supplementary regulations, additional requirements for the allocation of capital and including new components exposed to risks, as follows: Credit Commitment not Unconditionally or Unilaterally Cancelable, by the Bank; exposure to share risk (PACS); exposure to assets indexed to commodities prices risk (PCOM); exposure to foreign currency-denominated assets risk (PCAM); exposure to operational risk (POPR); and market risk of transactions not classified in the trading portfolio (RBAN).

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The guidelines in effect maintained for December 31, 2008 the minimum capital allocation indicator at 11%, which is the ratio of the financial institution's regulatory capital to total risks assumed in its asset operations, including guarantees provided, and market and operational risks. As of December 31, 2008 the Bank's asset-to-equity ratio (Basel ratio) was 12.52% (16.28% as of December 31, 2007), whereas the regulatory capital was R\$ 1,797,227 (R\$ 1,602,266 as of December 31, 2007). Required Regulatory Capital, which refers to the consolidation of all exposures to risk, with a capital allocation ratio of 11%, was R\$ 1,578,662 as of December 31, 2008 (R\$ 1,082,706 as of December 31, 2007).

<u>Specification</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
(A) Carrying amount of assets	26,572,466	18,679,439
(B) Risk-weighted assets	12,293,024	9,816,560
(C) Value of commitments	2,424,195	-
(D) Risk-weighted value of commitments	823,688	-
(E) PEPR - Risk-weighted exposure = $([B + D] * 11\%)$	1,442,838	1,079,822
(F) Required SWAP	-	1,768
(G) PJUR1 to PJUR4 ⁽¹⁾ (exposure in interest rates)	528	1,116
(H) PACS (exposure in shares)	-	-
(I) PCOM (exposure through commodities)	17,160	-
(J) PCAM (exposure in foreign exchange)	-	-
(K) POPR (operational risk)	50,368	-
(L) RBAN (market risk of banking book transactions)	67,768	-
Required Regulatory Capital (PRE) = $(E+F+G+H+I+J+K+L)$	1,578,662	1,082,706
Regulatory Capital (PR)	1,797,227	1,602,266
Capital margin or deficiency = $(PR - PRE)$	218,565	519,560
Margin for new risk-weighted assets $100\% = ([PR - PRE] / 0.11)$	1,986,955	4,723,273
Capital allocation ratio = $([PR/PRE] * 11\%)$	12.52%	16.28%

- (1) PJUR = portion corresponding to risk of transactions subject to interest rate changes classified in the trading portfolio, pursuant to Resolution 3464, of June 26, 2007.

27. OTHER INFORMATION

a) Risk Management

The Bank's corporate governance tools include an internal control structure periodically reviewed to maintain an adequate monitoring of operational, credit, market and liquidity risks. The Bank's operational risk management methodology follows the guidelines of the Basel Committee and the requirements of Basel II, prioritizing the identification of possible risks existing in the different processes of the Bank, the implementation and monitoring of key indicators and mechanisms to mitigate identified risks. Potential losses arising from the operational risk are stored in the Bank's accounting information retrieval system database, with necessary qualifications for follow-up of occurrences identified, allowing the development and use of control tools.

BANCO DO NORDESTE DO BRASIL S.A.

The credit risk is managed through the monitoring of customer master file, review and development of risk assessment models, and credit granting limits based on the risk rating of customers and their operations, in accordance with the parameters set forth in National Monetary Council Resolution N. 2,682/99. The monitoring of market and liquidity risks is conducted by the Bank's risks management department, which measures and manages the impacts of fluctuations in interest rates, currencies and share indices and prices for the Bank's loan and investment portfolios. The Bank uses its own treasury risk management system, which contemplates mechanisms such as: VaR (Value at Risk), Duration Global (assets and liabilities) by portfolio, security and index; estimated cash flows, with identification of any mismatching between assets and liabilities in terms of maturities; and global balances of assets and liabilities, by portfolio and by security, indicating any mismatching by currency.

b) Related-party transactions

- b.1) The Bank did not enter into transactions with affiliates and subsidiaries.
- b.2) The main operations with companies, programs and funds under control and management of the federal government - Bank's majority shareholder - are detailed in notes 9.d (FAT), 12 (Payables to National Treasury, Banco do Brasil, BNDES, CEF, other official institutions) and 25 (FNE).
- b.3) The Bank sponsors CAPEF and CAMED and the related transactions are described in notes 14.f and 23.

c) Guarantees

Co-obligations and risks related to guarantees provided by the Bank are composed of:

<u>Specification</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
Import financing	2,074	8,579
Guarantee beneficiaries:		
- Individuals or non-financial legal entities	48,298	3,285
- FNE	8,076,023	6,128,022
- Other entities	371	-
Receivables assignment co-obligations	113,148	402,494

BANCO DO NORDESTE DO BRASIL S.A.

d) Insurance

The Bank's chattels and properties and third parties' properties are covered by an adequate insurance in the amount of R\$ 362,739 (R\$ 354,295 as of December 31, 2007), as follows:

	<u>12/31/2008</u>	<u>12/31/2007</u>
Chattels	112,807	112,310
Properties	245,114	238,571
Third parties' properties	2,628	2,224
Civil liability (aircraft)	<u>2,190</u>	<u>1,190</u>
TOTAL	<u>362,739</u>	<u>354,295</u>

e) Amendment to Brazilian Corporate Law

On December 28, 2007, Law N. 11,638/07 was enacted, altering, revoking and adding new provisions to the Brazilian Corporate Law (Law N. 6,404, of December 15, 1976), especially with respect to chapter XV, Fiscal Year and Financial Statements. On December 3, 2008, Provisional Act N. 449/08 was enacted, introducing changes in Law N. 6,404/76, through articles 36 and 37. Changes are designed to update and enable the convergence of Brazilian accounting practices with the international accounting standard, and allow the Accounting Pronouncements Committee (CPC) to issue technical pronouncements for this purpose.

For 2008, the National Monetary Council (CMN) approved the following pronouncements issued by the CPC:

CPC-01 - Impairment of Assets (CMN Resolution N. 3,566/08)

CPC 03 - Statements of Cash Flows (CMN Resolution N. 3,604/08)

The standards approved by the financial industry regulatory agency of financial institutions did not impact Banco do Nordeste in the year in view of the following:

CPC 01 is designed to ensure that assets are recorded at amounts that can be recovered through use or sale. As of December 31, 2008, the Bank assessed its most significant buildings and concluded that their fair value is not lower than their carrying amounts;

CPC 03 addresses the Statement of Cash Flows, which Banco do Nordeste has been presenting in the notes to the financial statements since 2003. CMN Resolution N. 3,604/08 establishes that the preparation and disclosure of the Statement of Cash Flows for the year ended December 31, 2008 is mandatory, and excludes the Statement of Changes in Financial Position.

BANCO DO NORDESTE DO BRASIL S.A.

Of the main changes introduced by Law N. 11,638/07 and Provisional Act N. 449/08, the Bank has already been disclosing in the notes to the financial statements the Statement of Value Added, and using the fair value criteria to classify and evaluate financial instruments, pursuant to Central Bank of Brazil regulations. Beginning 2008, the Statement of Value Added will be present comparatively to 2007, in accordance with the guidelines provided for by Federal Accounting Council (CFC) Resolution N. 1,138, of November 21, 2008.

f) Interministerial Rule N. 334/2007

On January 14, 2008, Interministerial Rule N. 334/2007 was published in the Federal Official Gazette, creating an interministerial work group to analyze out-of-court negotiations with the reduction of charges conducted by Banco do Nordeste do Brasil S.A., as operator of the Northeast Constitutional Financing Fund (FNE) and, if necessary, propose a regulation related to the recovery of Constitutional Financing Funds receivables. The work was concluded on June 13, 2008 and the group's final report was submitted to the Ministry of Finance on June 18, 2008 for analyses and taking the necessary steps to formalize conclusions, together with the Ministry of National Integration, which is currently the Coordinator of the Board of the Agency for the Development of the Northeast Region (SUDENE) and Manager of the FNE.

Considering that no rule related to the recovery of Constitutional Financing Funds receivables was not enacted, out-of-court negotiations with reduction of usual charges are suspended. The final report of the interministerial work group, subject matter of Interministerial Rule N. 334/2007, prepared to analyze these negotiations, was submitted to internal (Federal Government) and external (Federal Audit Court) control bodies.

Banco do Nordeste awaits the authorities' opinion on the regulation of actions presented in the final report and other requirements for implementation.

Fortaleza, January 28, 2009

The Board of Director

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)
INDEPENDENT AUDITORS' REPORT

To the
Board of Directors, Shareholders and Management of
Banco do Nordeste do Brasil S.A.
Fortaleza, CE

1. We have audited the accompanying balance sheet of Banco do Nordeste do Brasil S.A. (the "Bank") as of December 31, 2008, and the related statements of income, changes in shareholders' equity, cash flows and value added for the year then ended, all expressed in Brazilian reais and prepared under the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements.
2. Our audit was conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Bank; (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed; and (c) evaluating the significant accounting practices and estimates adopted by Management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Banco do Nordeste do Brasil S.A. as of December 31, 2008, and the results of its operations, the changes in its shareholders' equity, its cash flows, and the values added in operations for the year then ended, in conformity with Brazilian accounting practices.

4. On May 27, 2008, the Federal Government enacted Provisional Act N. 432, made into Law N. 11,775 of September 17, 2008, establishing measures to encourage the settlement, regularization or renegotiation of debts arising from rural credit and land mortgage loans, which were renegotiated based on article 5 of Law N. 9,138, of November 29, 1995, whether or not renegotiated pursuant to Law N. 10,437, of April 25, 2002 or article 4 of Law N. 11,322, of July 13, 2006. These measures are extended to the Program for Revitalization of Agricultural Cooperatives (RECOOP), Program for Recovery of Cocoa Plantations in the State of Bahia, National Family Farming Strengthening Program (PRONAF) and Special Credit Program for Agrarian Reform (PROCERA). This Act also establishes, for the Northeast Constitutional Financing Fund (FNE), the reclassification of nonperforming loans rated in the “A” and “A\C” Groups of PRONAF, with risks assumed by the Federal Government, backed by funds from the Fund for Workers’ Assistance (FAT), and permits the reclassification, exclusively in the context of FNE, of rural credits contracted with a mix of funds from the FNE and other sources. The Bank is complying with this Law, however, the effects on its financial statements will only be fully known when debt settlement, regularization or renegotiation processes are completed.
5. We had previously audited the financial statements of Banco do Nordeste do Brasil S.A., for the year ended December 31, 2007, comprising the balance sheet, the statements of income, changes in shareholders' equity and changes in financial position, and supplemental information comprising the statements of cash flows and value added, on which we issued an unqualified opinion, dated January 30, 2008. As mentioned in note 2, changes in Brazilian accounting practices have been introduced effective January 1, 2008. The financial statements for the year ended December 31, 2007, presented with the 2008 financial statements, have been prepared in accordance with Brazilian accounting practices in effect until December 31, 2007 and, as permitted by Technical Pronouncement CPC 13, First-Time Adoption of Law N. 11,638/07 and Provisional Act N. 449/08, are not being restated with adjustments for purposes of comparability between years.
6. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Fortaleza, February 9, 2009

Deloitte TOUCHE TOHMATSU
Auditores Independentes

Claudio Lino Lippi
Engagement Partner

Supervisory Board's Report

In the discharge of its legal and corporate statutory duties and after review of the management report, the balance sheet, statement of income, statement of changes in shareholders' equity, statement of cashflows, and statement of valued added of Banco do Nordeste do Brasil S.A. for the year ended as of December 31, 2008 as well as based on the opinion of the independent auditors - Deloitte Touche Tohmatsu - dated February 9, 2009 and the opinion that the management report and financial statements fairly reflect the activities developed, the financial and equity positions, and results of operations of the Banco do Nordeste do Brasil S.A. in 2008, the Supervisory Board of the Banco do Nordeste do Brasil S.A., is also of the opinion that as stated in paragraph four of the independent auditors' opinion and note to the financial statements 6.g, the possible effects of Law 11775, dated September 17, 2008, will only be completely known when the liquidation, regularization, or renegotiation processes for debts that come under this law have been finalized.

Fortaleza, February 9, 2009

SUPERVISORY BOARD

SUMMARY OF THE AUDIT COMMITTEE'S REPORT

Second half of 2008

The Audit Committee of Banco do Nordeste do Brasil S.A. is an advisory board to its board of directors established as required by National Monetary Council Resolution 3198/2004 and for which functional responsibilities and requirements have been included in the Bank's corporate bylaws.

Committee's Activities

During the second half of 2008 it acted within its institutional mission focused on monitoring and evaluating activities developed by internal auditing, independent auditors, internal controls, and risk management, review and evaluation of the quality of accounting statements, and the performance of the Bank's ombudsman. The Audit Committee is responsible for approving the bi-annual report issued by the ombudsman before the respective document is sent to the Brazilian Central Bank.

As part of the principle of providing advisory services to the board of directors, the audit committee also monitors requirements from regulatory bodies and external control, including those originating with the respective board of directors.

For this purpose, the audit committee held twelve ordinary and three extraordinary meetings, agendas for which related to areas cited. In the process of obtaining, analyzing, and evaluating correlated information and services, the audit committee made contacts and held meetings with Bank management and also took part in board of director's meetings convened in the period.

With respect to the financial statements as of December 31, 2008 taken as a whole, the audit committee carried out analyses during the six-month period using monthly reports issued and information about the Bank's financial performance made available by the finance area, senior management, the supervisory board, and the board of directors. At the end of the half, it convened meetings with those responsible for preparing the financial statements and representatives of the independent auditors. Together with members of the tax committee, it took part in the board meeting that approved these financial statements.

Internal Controls

The Bank has been structuring its system of internal controls seeking to integrate guidelines focused on strengthening internal controls, security, and risk management. This structure is reviewed and updated periodically for the purpose of keeping it capable of minimizing risks that affect the Bank's activities.

In this respect, it has been developing actions to conclude implementation of structures to manage operating, credit, and market risks. The same are intended to comply with recommendations made in the Basel II Agreement for Capital and the schedule set forth in BACEN Communication 16.137, dated September 27, 2007.

Conclusion of the actions cited will allow the Bank to minimize its exposure to risks inherent to the same and will have a positive impact on the achievement of its business objectives.

Internal Audit

BNB's internal audit activities are guided by its Annual Plan for Internal Audit Activities (PAINT), which is prepared following instructions from federal regulatory bodies for control and which is sent to the Union's General Controllershship (CGU) after it has been approved by the board of directors.

The review carried out by the committee in relation to documents, reports and other information produced demonstrates that internal auditing has by following its plan for work been developing its activities at a satisfactory level of quality and which is compatible with the size and complexity of the Bank's operations.

Independent Audit

No material facts that could compromise the independence, results, or quality of work carried out by DELOITTE TOUCHE TOHMATSU AUDITORES INDEPENDENTES were identified during the review of work presented during the half and analysis of opinions and reports issued by the same.

Financial Statements

The audit committee has analyzed as a whole the financial statements, notes to the same, financial reports, and the management report dated as of December 31, 2008 and obtained when necessary additional information and clarification from those responsible for preparing these documents. It also analyzed opinions issued by the independent auditors on the Banco do Nordeste do Brasil S.A. and the Constitutional Fund to Finance the Northeast (FNE).

After examining the documents and discussing practices used to prepare the financial statements as of December 31, 2008, it was established that the same conform to applicable corporate laws and regulations of the National Monetary Council, the Brazilian Central Bank, the Brazilian Securities Commission, and related entities.

With respect to accounting issues introduced by Law 11638/2007, the Bank has inserted financial-statement notes covering these matters as permitted for banks by the Brazilian Central Bank.

Fortaleza, February 9, 2009

Audit Committee

**Banco do
Nordeste**



CONSTITUTIONAL FUND OF FINANCE OF THE NORTHEAST - FNE
Managed by Banco do Nordeste do Brasil S.A.

Accounting Statements

F N E

POSITION: 12.31.2008

(Convenience Translation into English from the Original Previously Issued in Portuguese)
FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

BALANCE SHEETS AS OF DECEMBER 31, 2008 AND 2007
(In thousands of Brazilian reais - R\$)

ASSETS	2008	2007	LIABILITIES AND NET EQUITY	2008	2007
CURRENT ASSETS	8,755,939	7,691,978	NET EQUITY (note 7c)	25,820,970	22,292,718
CASH AND CASH EQUIVALENTS (note 7b.1)	1,220,180	2,367,399	TRANSFERS FROM FEDERAL GOVERNMENT		
RESTRICTED CASH - LENDING OPERATIONS	3,367,205	2,085,153	Year	3,931,336	3,215,577
INTERBANK ACCOUNTS	45,300	52,779	Prior years	21,134,324	17,918,747
Rural loan - Proagro	2,453	3,947	INCOME FROM PRIOR YEARS	1,154,925	1,466,268
Interbank onlendings	42,847	48,832	LOSS FOR THE YEAR	(399,615)	(307,874)
LENDING OPERATIONS (notes 7b.2 and 8)	4,120,806	3,184,053			
Financing	1,291,419	892,225			
Export financing	117,190	-			
Infrastructure and development financing	225,473	145,565			
Agribusiness financing	151,136	99,201			
Rural financing	3,517,877	2,960,292			
Allowance for loan losses	(1,182,289)	(913,230)			
OTHER RECEIVABLES (note 7b.3)	2,271	1,066			
Assets received as payment	2,271	1,066			
OTHER ASSETS (note 7b.4)	177	1,528			
Agricultural debt securities	279	2,312			
(Allowance for devaluation)	(102)	(784)			
LONG-TERM ASSETS	17,065,031	14,600,740			
INTERBANK ACCOUNTS	171,076	142,715			
Rural loan - Proagro	3,990	7,269			
Interbank onlendings	167,086	135,446			
LENDING OPERATIONS (notes 7b.2 and 8)	16,892,661	14,457,967			
Financing	4,944,630	3,745,883			
Export financing	116,019	-			
Infrastructure and development financing	2,061,029	1,570,016			
Agribusiness loans	601,992	433,193			
Rural financing	9,168,991	8,708,875			
OTHER ASSETS (note 7b.4)	1,294	58			
Agricultural debt securities	2,058	79			
(Allowance for devaluation)	(764)	(21)			
TOTAL ASSETS	25,820,970	22,292,718	TOTAL LIABILITIES AND NET EQUITY	25,820,970	22,292,718

The accompanying notes are an integral part of these financial statements

(Convenience Translation into English from the Original Previously Issued in Portuguese)
FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

STATEMENTS OF INCOME
FOR YEARS ENDED DECEMBER 31, 2008 AND 2007
(In thousands of Brazilian reais - R\$)

	<u>2008</u>	<u>2007</u>
INCOME		
From lending operations (note 7a.7)	738,397	936,071
From cash and cash equivalents (note 7b.1)	554,031	443,034
EXPENSES (note 7a.8)		
Management fee	(703,161)	(541,869)
PRONAF- Payment of Banco do Nordeste/Performance bonus	(56,371)	(65,774)
Operating provisions	(932,466)	(1,079,285)
Audit expenses	(45)	(51)
LOSS FOR THE YEAR	<u>(399,615)</u>	<u>(307,874)</u>

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)
FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

STATEMENTS OF CHANGES IN NET EQUITY
 FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
 (In thousands of Brazilian reais - R\$)

<u>EVENTS</u>	<u>TRANSFERS FROM FEDERAL GOVERNMENT</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL</u>
BALANCES AS OF DECEMBER 31, 2006	17.918.747	1.491.743	19.410.490
Transfers from the Federal Government in the year	3.215.577	-	3.215.577
Prior years adjustments	-	(25.475)	(25.475)
Loss for the year	-	(307.874)	(307.874)
BALANCES AS OF DECEMBER 31, 2007	<u>21.134.324</u>	<u>1.158.394</u>	<u>22.292.718</u>
CHANGES FOR THE YEAR	<u>3.215.577</u>	<u>(333.349)</u>	<u>2.882.228</u>
BALANCES AS OF DECEMBER 31, 2007	21.134.324	1.158.394	22.292.718
Transfers from the Federal Government in the year	3.931.336	-	3.931.336
Prior years adjustments (Note 10)	-	(3.469)	(3.469)
Loss for the year	-	(399.615)	(399.615)
BALANCES AS OF DECEMBER 31, 2007	<u>25.065.660</u>	<u>755.310</u>	<u>25.820.970</u>
CHANGES FOR THE YEAR	<u>3.931.336</u>	<u>(403.084)</u>	<u>3.528.252</u>

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)
FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

STATEMENTS OF CASH FLOWS
 FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	<u>(399,615)</u>	<u>(307,874)</u>
Expenses (Income) not affecting cash and cash equivalents:		
- Allowance for loan losses	269,059	593,161
- Allowance for devaluation	61	(102)
Adjusted net income (loss)	<u>(130,495)</u>	<u>285,185</u>
Increase in interbank accounts	(20,882)	(20,863)
Increase in lending operations	3,640,506	(2,679,874)
Increase in other receivables	(1,205)	(380)
Decrease in other assets	54	156
Prior year adjustments	(3,469)	(25,475)
NET CASH USED IN OPERATING ACTIVITIES	<u>3,666,008</u>	<u>(2,726,436)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Transfers from Federal Government	<u>3,931,336</u>	<u>3,215,577</u>
NET CASH PROVIDED BY FINANCING ACTIVITIES	3,931,336	3,215,577
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>134,833</u>	<u>774,326</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		
At beginning of year	4,452,552	3,678,226
At end of year	<u>4,587,385</u>	<u>4,452,552</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	<u>134,833</u>	<u>774,326</u>

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)
FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE-FNE

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007
(Amounts in thousands of Brazilian reais - R\$)

-

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Note 2 - Basis of Preparation and Presentation of Financial Statements	Note 9- Recognition of Losses and Return of BNB's Share of Risk
Note 3- Management	Note 10- Prior Year Adjustments
Note 4- Oversight	Note 11- Registration in the Federal Government Integrated Financial Management System (SIAFI)
Note 5- Independent Audit	Note 12- Renegotiation of Lending Operations
Note 6- Tax Exemption	Note 13- Other Information
Note 7- Accounting Practices	

1. HISTORY

Fundo Constitucional de Financiamento do Nordeste ("FNE" or the "Fund") was established by the Federal Constitution of 1988 (Article 159, item I, subitem "c"), and is regulated by Law N. 7,827, of September 27, 1989, amended by Supplementary Law N. 125, of January 3, 2007, Laws N. 9,126, of November 10, 1995, N. 9,808, of July 20, 1999, and N. 10,177, of January 12, 2001, Executive Act N. 2,196-1, of June 28, 2001 and its amendments, as well as Article 13 of Executive Act N. 2,199-14, of August 24, 2001.

The purpose of FNE is to foster the economic and social development of the Northeast region, through Banco do Nordeste do Brasil S.A. ("BNB"), 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 have been prepared in accordance with Brazilian Corporate Law and supplemental provisions, and accounting practices described in note 7.

On December 28, 2007, Law N. 11,638, amended by Provisional Act N. 499 of December 3, 2008, was enacted, altering, revoking and adding new provisions to the Brazilian Corporate Law, especially with respect to chapter XV, Fiscal Year and Financial Statements. This Law is effective for fiscal years beginning on or after January 1, 2008. This law was designed primarily to update the Brazilian Corporate Law, so as to enable the convergence of Brazilian accounting practices with international accounting standards (IFRS) and allow the Brazilian Securities and Exchange Commission (CVM) to issue new accounting standards and procedures, in conformity with such international accounting standards.

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE-FNE

The change introduced by this Law that affected the Fund's financial statements as of December 31, 2008 is as follows:

- Replacement of the statement of changes in financial position by the statement of cash flows - CVM Instruction N. 547/2008.
- FNE has no other material adjustments arising from the application of Law N. 11,638/07 and subsequent amendments.

3. MANAGEMENT

Banco do Nordeste 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 credits; formalizing agreements for onlendings to other institutions authorized to operate by the Central Bank of Brazil, observing the guidelines established by the Ministry of National Integration; providing information on results achieved; performing other activities related to the use of funds and recovery of credits.

4. OVERSIGHT

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

5. INDEPENDENT AUDIT

FNE contracts an independent audit at its own cost to certify that constitutional and legal requirements have been met, to issue an opinion on its financial statements, audit the accounts and perform other usual auditing procedures.

6. TAX EXEMPTION

FNE is tax-exempt and its earnings, income and financing operations are not subject to any tax or other charges.

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE-FNE

7. ACCOUNTING PRACTICES

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

For determination of the results of operations, FNE's fiscal year coincides with the calendar year.

Significant accounting practices are as follows:

a) Results of operations

- a.1) Income and expenses are recorded on the accrual basis. FNE's income consists of financial charges on lending operations and the interest paid by Banco do Nordeste on FNE's cash.
- a.2) Beginning January 1, 2008, financial charges on financing granted with funds from FNE range between 5% and 10% per year (5% to 11.5% per year in 2007), according to the activity and size of the borrowers, including BNB's financial commission. Pursuant to legislation, the agreements signed with borrowers establish that the financial charges will be reviewed annually and whenever the accumulated variation of the TJLP (long-term interest rate), up or down, exceeds 30%.

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

On the financial charges established by law, a discount of 25% will be granted for borrowers that develop their activities in the northeast semiarid region, and 15% for borrowers from other regions, provided that the debt is paid by the due date.

Financing operations under PRONAF (National Family Farming Strengthening Program) are subject to financial charges established by the National Monetary Council, pursuant to the legislation and regulation of the Program set forth in Chapter 10 of the Rural Loan Manual of the Central Bank of Brazil.

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE-FNE

- a.3) With respect to BNB's financial commission on financing with funds from FNE, Executive Act N. 2,196-1, of June 28, 2001, and its amendments, which established the Strengthening Program for Federal Financial Institutions, determines the following:
- For operations contracted until November 30, 1998, BNB's financial commission was reduced to zero, and the charges agreed to with borrowers remained unchanged;
 - For operations contracted with a credit risk of 50% for Banco do Nordeste, BNB's financial commission will be 3% per year;
 - For operations resulting from onlendings to BNB for it, in its name and at its own risk, to conduct lending operations, the financial commission will be 6% per year.
- a.4) Decree N. 5,818, of June 26, 2006, combined with National Monetary Council (CMN) Resolution N. 3,293, of June 28, 2005, established that, for PROFROTA transactions with large companies, BNB's financial commission is 2.5% per year.
- a.5) Administrative Rule N. 616, of May 16, 2003, of the Ministry of National Integration establishes that, for onlendings to institutions authorized to operate by the Central Bank of Brazil, BNB is entitled to the financial commission agreed to with the institutions, observing the limit established by legislation.
- a.6) For financing under PRONAF (Groups A, B, A/C, Semiarid and Forest), BNB is not entitled to any commission, according to the legislation and regulation of the Program.
- a.7) In the Statement of Income, "Income from Lending Operations" is recorded at the net amount as follows:

Description	12/31/2008	12/31/2007
Income from lending operations	1,687,006	1,695,902
Expenses on BNB's financial commission	(409,389)	(299,546)
Expenses on financial commission of other institutions	(3,592)	(3,285)
Expenses on negative monetary adjustment	(10,275)	(5,115)
Expenses on discounts granted on renegotiations - Laws N. 10,696/11,322	(16,177)	(34,256)
Expenses on rebates/discounts - Operations contracted by BNB	(491,069)	(371,048)
Expenses on rebates/discounts - Onlendings to other institutions	(464)	(118)
Expenses on rebates - Receivables from FAT - BNDES (National Bank for Economic and Social Development) - Law N. 10,193/2001	(364)	(576)
Expenses on Operations - Other sources - Acquisitions Law N. 11,322/06	(17,262)	(45,887)
Write-off of carrying amounts exceeding assets receipt	(17)	-
T O T A L	<u>738,397</u>	<u>936,071</u>

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- a.8) FNE's expenses refer to management fee payable to BNB as the Fund manager, financial charges payable to BNB on financing under PRONAF (Groups A, B, A/C, Forest and Semiarid), allowance for loan losses recognized pursuant to Interministerial Rule N. 11, of December 28, 2005, of the Ministry of Finance and Ministry of National Integration, and independent audit services, in addition to the bonuses and discounts established by legislation.

The management fee of 3% per year, paid to BNB by FNE, is recorded on a monthly basis and is calculated on the Fund's net equity, less onlendings to BNB and financing under PRONAF (Groups B, A/C, Forest and Semiarid), limited each year to 20% of the transfers made by the National Treasury.

Pursuant to Decree N. 5,641, of December 26, 2005, the management fee, beginning 2005, shall be calculated at 0.25% of the Fund's net equity for each month, observing deductions established by legislation and the limit of 20% of the transfers made by the National Treasury in the year.

The financial charges paid to BNB on operations under PRONAF (Groups A, B, A/C, Forest and Semiarid), established by the National Monetary Council, follow the percentages and criteria established by the legislation and regulation of the Program.

- b) Current and long-term assets

Stated at realizable value, plus income and monetary variation earned.

- b.1) Cash and cash equivalents consist of cash, which represent funds available for use in lending operations, and restricted cash, which represents undisbursed amounts of contracted operations. The Fund's cash held by Banco do Nordeste is subject to the Central Bank of Brazil rate.

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- b.2) Total Lending Operations are stated at the amount of principal plus financial charges, less unearned income and allowance for loan losses (note 8). Law N. 11,322, of July 13, 2006, provides for the renegotiation of debts arising from rural credit transactions contracted in the area under the jurisdiction of the Northeast Development Agency (ADENE), and grants decrease on debit balance, bonuses for timely payment, decreased interest rates and extension of payment periods. Law N. 11,775/08, of September 17, 2008, provides for the settlement, regularization, renegotiation or reclassification of debts arising from lending operations classified, among others, under Laws N. 9,138/95, N. 10,437/02 and N. 11,322/06, Provisional Act N. 2,196-3/01, CMN Resolution N. 2,471/98 and National Family Farming Strengthening Program (PRONAF), and grants discounts on debt balances and bonuses for timely payment, waivers, and maintenance or rescheduling of payment periods. Renegotiations formalized in 2008 based on these laws reduced the Fund's income by R\$ 194,421, as shown below. This effect includes costs on renegotiation of transactions contracted between the Fund and other funding sources, mixed funding sources or reclassified to the Fund, as authorized by said Laws:

<u>Description</u>	<u>12/31/2008</u>	<u>12/31/2007</u>
Recovery of operations written off from assets	210.060	335.524
Expenses on discount and waiver of debt	(176.243)	(136.119)
Net effect of allowances	<u>(228.238)</u>	<u>(455.268)</u>
Total	<u>(194.421)</u>	<u>(255.863)</u>

- b.3) The caption "Other receivables" include 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 Interministerial Rule N. 11.
- b.4) Securities recorded under the caption "Other Assets" are stated at their face value, plus expected yield on each security, including, when applicable, the effects of adjustments of assets to market or realizable values.

c) Net equity

The net equity of FNE is composed of:

- Transfers from the Federal Government in the proportion of 1.8% of the collection of taxes on income of any nature and IPI (federal VAT);
- Returns and results of operations;
- Interest paid by BNB on FNE's cash.

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8. CREDIT RISK AND ALLOWANCE FOR LOAN LOSSES

a) Pursuant to the legislation that regulates Constitutional Financing Funds, PRONAF (National Family Farming Strengthening Program) and PROCERA/Programa da Terra (Special Credit Program for Agrarian Reform), the risk of operations with FNE's funds is as follows:

a.1) Operations contracted through November 30, 1998:

- In operations related to *Programa da Terra*, the risk lies totally with PROCERA;
- In other operations, the risk is the responsibility of FNE.

a.2) Operations contracted beginning December 1, 1998:

- In financing under *Programa da Terra*, the risk lies with PROCERA;
- In operations under PRONAF (Groups A, B, A/C, Forest and Semiarid), the credit risk lies totally with FNE.
- In onlendings to BNB for it to conduct, in its name, lending operations, the risk is totally assumed by BNB;
- In onlendings to other institutions authorized to operate by the Central Bank of Brazil, contracted through November 30, 1998, the credit risk lies totally with the other institution;
- In onlendings to other institutions authorized to operate by the Central Bank of Brazil, contracted after Administrative Rule N. 616, of May 26, 2003, becomes effective, the risk lies totally with BNB;
- In other operations, the risk is 50% for FNE and 50% for BNB.

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- b) As permitted by the sole paragraph of Article 3 of Interministerial Rule N. 11, of December 28, 2005, the allowance for loan losses is recorded by FNE in accordance with the criteria set forth in item I, subitems “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. Changes in the allowance for loan losses for the period are as follows:

Description	12/31/2008	12/31/2007
Beginning balance	<u>913.230</u>	<u>320.069</u>
. FNE’s full risk	773.182	276.355
. Shared risk	140.048	43.714
(+) Net allowance recognized in the year	<u>970.475</u>	<u>1.168.842</u>
. FNE’s full risk	768.397	992.721
. Shared risk	202.078	176.121
(-) Write-off as loss in the year	<u>701.416</u>	<u>575.681</u>
. FNE’s full risk	575.830	495.894
. Shared risk	125.586	79.787
(=) Allowance for loan losses	<u>1.182.289</u>	<u>913.230</u>
. FNE’s full risk	965.749	773.182
. Shared risk	216.540	140.048

- c) Considering that PROCERA is responsible for the risk of financing operations under *Programa da Terra* with FNE’s funds, no allowance for loan losses is recognized.
- d) According to Interministerial Rule N. 46, of March 7, 2007, an allowance for loan losses is recorded for operations renegotiated pursuant to Law N. 11,322, of July 13, 2006, as described below:
- d.1) for operations contracted with other sources of funds acquired by FNE: in the same amount of the negative goodwill recorded upon acquisition by the Fund;
- d.2) for FNE’s renegotiated operations: the amount of the allowance already existing in the month immediately prior to the renegotiation plus amounts written off from assets as loss; and
- d.3) for operations acquired by the Fund, an allowance was recorded in the amount of R\$ 31,490, with a contra entry to lending operations. For FNE’s renegotiated operations, an allowance of R\$ 130,124 was recorded, with a contra entry to expenses on operating provisions. Of that amount, R\$ 102,882 refers to operations whose full risk lies with the Fund and R\$ 27,242 refers to shared-risk operations. These amounts are included in “Net allowance recognized in the period” as shown in item “b” above.

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- e) Interministerial Rule N. 244, of October 14, 2008, establishes that an allowance for loan losses is recorded for transactions renegotiated under Law N. 11,775, of September 17, 2008, as described below:
 - e.1) for renegotiated FNE transactions: the amount of the allowance already existing in the month immediately prior to the renegotiation plus amounts written off from assets as loss;
 - e.2) for renegotiated FNE transaction, as a contra entry to Operating Provisions Expenses, an allowance of R\$ 98,114 was recorded, of which R\$ 68,617 refers to transactions whose full risk lies with the Fund and R\$ 29,497 refers to shared-risk transactions. These amounts are included in “Net allowance recognized in the period” as shown in item “b” above.

9. RECOGNITION OF LOSSES AND RETURN OF BNB’S SHARE OF RISK

- a) As permitted by the sole paragraph of Article 3, Interministerial Rule N. 11, losses are recognized by FNE in accordance with the criteria set forth in item II of Article 3 of said rule, that is, at the amounts of principal and charges past-due for more than 360 days, according to the risk percentage assumed by the Fund.
- b) 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 criteria set forth in item II, subitem “a”, Article 5 of Interministerial Rule N. 11.
- c) In the period, BNB returned to FNE the amount of R\$ 126,440 related to BNB’s share of risk in operations that were written off as loss.

10. PRIOR YEAR ADJUSTMENTS

The net negative adjustment of R\$ 3,469 in 2008 (R\$ 25,475 as of December 31, 2007) refers to recalculations of charges on lending operations.

11. REGISTRATION IN THE FEDERAL GOVERNMENT INTEGRATED FINANCIAL MANAGEMENT SYSTEM (SIAFI)

In compliance with Interministerial Rule N. 11, of December 28, 2005, the accounting information related to FNE is available on SIAFI, considering the Fund’s specific characteristics.

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE-FNE

12. RENEGOTIATION OF LENDING OPERATIONS

Law N. 11,775, of September 17, 2008, established actions to encourage the settlement or renegotiation of debts from rural credit operations and land mortgage loan, with the following impacts on FNE:

- a) renegotiation of financing contracted with FNE's funds;
- b) contracting of new operations with FNE's funds to settle debts related to the Program for the Recovery of Cocoa Farming in Bahia, entered into with risks partially or fully assumed by the National Treasury, the State of Bahia and FNE;
- c) contracting of new transactions with FNE funds to settle debts related to the Japanese and Brazilian Cooperation Program for the Development of the Cerrado Region - PRODECER - Stage III;
- d) reclassification to the FNE of operations entered into under the PRONAF at the risk of the Federal Government;
- e) reclassification to the FNE of operations entered into with funds from the FNE and other sources.

The same Act authorized the replacement of financial charges on outstanding rural and non-rural operations, contracted until January 14, 2001, subject to floating rates, by fixed rates set by legislation applicable to operations with FNE's funds.

In 2008, credits were reclassified to FNE or new transactions were contracted to settle financings with funds from other sources, whose full risk lies with the Fund, in the amount of R\$ 63,407, under said Law, as follows:

<u>Law N. 11,775/08</u>	<u>Amount</u>
Article 7 (Operations with the Cocoa Farming in Bahia)	2,148
Article 19 (Operations whose Risk lies with the Federal Government - FAT Funds)	<u>61,259</u>
TOTAL	<u>63,407</u>

Also under Law N. 11,775, credits were reclassified to FNE or new transactions were contracted to settle financings with funds from other sources, whose full risk lies with Banco do Nordeste, in the amount of R\$ 59,782, as follows:

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE-FNE

<u>Law N. 11,775/08</u>	<u>Amount</u>
Article 31 (Mixed Funds from Other Sources/FNE operations)	29,120
Article 31 (PRODECER operations - Stage III)	<u>30,662</u>
TOTAL	<u>59,782</u>

Preliminary estimates indicate that amounts eligible for transfer to FNE, based on articles 7 and 31 of Law N. 11,775/08, are as follows:

<u>Law N. 11,775/08</u>	<u>Amount</u>
Article 7 (Cocoa Farming Operations in Bahia)	303,000
Article 31 (Operations with mix FNE funds)	<u>436,364</u>
TOTAL	<u>739,364</u>

13. OTHER INFORMATION

On January 14, 2008, Interministerial Rule N. 334/07 was published in the Federal Official Gazette, creating an interministerial work group to analyze out-of-court negotiations with the reduction of charges conducted by Banco do Nordeste do Brasil S/A, as operator of the FNE and, if necessary, propose regulation related to the recovery of Constitutional Financing Funds receivables. The work was concluded by the group on June 13, 2008 and the group's final report was submitted to the Ministry of Finance on June 18, 2008 for analyses and taking the necessary steps to formalize of conclusions, together with the Ministry of National Integration, which is currently the Coordinator of the Board of the Agency for the Development of the Northeast Region (SUDENE) and Manager of the FNE.

Considering that no rule related to the recovery of Constitutional Financing Funds receivables was enacted, out-of-court negotiations with reduced fees are suspended. The final report of the interministerial work group, subject matter of Interministerial Rule N. 334/07, prepared to analyze these negotiations, was submitted to internal (Federal Government) and external (Federal Audit Court) control bodies.

Banco do Nordeste awaits the authorities' opinion on the regulation of actions presented in the final report and other requirements for the implementation.

Fortaleza, January 28,2009

The Board of Director

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)
INDEPENDENT AUDITORS' REPORT

To the Management of
Fundo Constitucional de Financiamento do Nordeste - FNE
(Managed by Banco do Nordeste do Brasil S.A.)
Fortaleza - CE

1. We have audited the accompanying balance sheet of Fundo Constitucional de Financiamento do Nordeste - FNE (Northeast Constitutional Financing Fund) managed by Banco do Nordeste do Brasil S.A. as of December 31, 2008, and the related statements of income, changes in net equity, and cash flows for the year then ended, all expressed in Brazilian reais and prepared under the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements.
2. Our audit was conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Fund, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by Management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Fundo Constitucional de Financiamento do Nordeste - FNE as of December 31, 2008, and the results of its operations, the changes in net equity, and cash flows for the year then ended, in conformity with Brazilian accounting practices.
4. On May 27, 2008, the Federal Government enacted Executive Act N. 432, made into Law N. 11,775 of September 17, 2008, that established actions to encourage the settlement, rescheduling or renegotiation of debts from rural credit operations and land mortgage loan, renegotiated based on article 5 of Law N. 9,138, of November 29, 1995, and rescheduled or not under Law N. 10,437, of April 25, 2002, or article 4 of Law N. 11,322, of July 13, 2006. These actions are extended to the operations of RECOOP (Agricultural Cooperatives Revitalization Program), the Program for the Recovery of Cocoa farming in Bahia, PRONAF (National Family Farming Strengthening Program), and PROCERA (Special Credit Program for Agrarian Reform). This Act also established the reclassification to the FNE of transactions of borrowers classified under Groups "A" and "A\C" of PRONAF, contracted at the Federal Government's risk, backed by FAT (Worker's Assistance Fund), and in default; it also permits the reclassification to the FNE of rural credit operations contracted with funds from the FNE and other sources. According to note 12, the Fund is complying with the provisions of said Executive Act; however, the impacts on its financial statements will only be known upon the completion on the debt settlements or renegotiations.

5. We had previously audited the financial statements of Fundo Constitucional de Financiamento do Nordeste - FNE (managed by Banco do Nordeste do Brasil S.A.), for the year ended December 31, 2007, comprising the balance sheet, statements of operations, changes in net equity and changes in financial position for that year, on which we issued an unqualified report, dated January 30, 2008.
6. The statement of cash flows for the year ended December 31, 2007, prepared in connection with the financial statements for the year ended December 31, 2008, has been subjected to the same audit procedures described in paragraph 2 and, in our opinion, this statement is presented fairly, in all material respects, in relation to the financial statements mentioned in paragraph 5, taken as a whole.
7. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Fortaleza, February 9, 2009

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Claudio Lino Lippi
Engagement Partner

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SUPERINTENDENT: João Francisco Freitas Peixoto (Financial Control)

ACCOUNTANT: Aíla Maria Ribeiro de Almeida – CRC-CE 016318/O-7
