

*Banco do  
Nordeste*

---



# FINANCIAL STATEMENTS

## **Banco do Nordeste and FNE**

**POSITION: 06.30.2010**



**Financial Statements**

# Banco do Nordeste

**POSITION: 06.30.2010**

**BANCO DO NORDESTE DO BRASIL S.A. Head office: Av. Pedro Ramalho,  
5,700 Fortaleza – Ceará – Publicly-held Company – License 3465**

**CNPJ (National Register of Legal Entities) no. 07.237.373/0001-20**

### **MANAGEMENT REPORT – First half of 2010**

In the first half, the country's economy showed signs of widespread recovery from the international crisis begun in 2008 and continued in 2009. Although elements of instability and uncertainty still linger, affecting the global economy and Europe in particular, emerging countries, including Brazil, have been responsible for maintaining the growing pace of production activities to keep up with the high growth of the respective (Gross Domestic Product) GDPs. Market projections for Brazil indicate a 7.2% upturn this year, accompanied by increase in investments, especially in infrastructure.

The Northeast has been keeping up with the federal government's social and economic policies including public and private investments that have been made in the Region. The regional economy is integrated into the country's economy and, between 1995 and 2008, the region's per capita GDP growth slightly outpaced that of the country as a whole. The region has been receiving, in average, half of the federal funds from the Bolsa Família program; FNE disbursements have been on the rise; and demand for investments in infrastructure, logistics, oil and gas, pulp and paper, naval industry, tourism, urban infrastructure, commerce, and service has been increased.

Banco do Nordeste do Brasil S.A. (BNB) is integrated with the country's economic policy and has been fulfilling its role as a regional development bank, especially as a support to public policies whose social and economic results have stood out both in the region and in the country.

BNB's loan portfolio, including FNE funds, has a balance of R\$38.1 billion in June 2010 and was ranked the eighth largest bank in the country. The farming loan portfolio had a balance of R\$17.3 billion, corresponding to the country's largest farming portfolio after Banco do Brasil, with operations in the Northeast, which has 62% of its area located in the semi-arid region. BNB's overall lending in the first half of 2010 totaled R\$8.5 billion, divided into almost 1.2 million transactions.

## OPERATING PERFORMANCE

### Overall Lending

BNB's overall lending in the first half of 2010 totaled R\$8.5 billion divided into almost 1.2 million transactions. Through the Constitutional Fund to Finance the Northeast (FNE) - the main fund source used by BNB for its long-term transactions, characteristic of development banks – BNB contracted 183,5 thousand financings in the total amount of R\$4.1 billion in the first half of 2010, 4.4% up on the same period of 2009. FNE accounted for 94.4% of long-term lending.

OVERALL LENDING (R\$ million)

|                               | 1 <sup>st</sup> Half 2009 |                | 1 <sup>st</sup> Half 2010 |                | Variation (amount) |
|-------------------------------|---------------------------|----------------|---------------------------|----------------|--------------------|
|                               | Number                    | Amount         | Number                    | Amount         |                    |
| Lending operations            | 957,018                   | 8,367.6        | 1,179,575                 | 8,189.4        | -2.1%              |
| • Long-term transactions (1)  | 176,919                   | 5,141.3        | 185,189                   | 4,346.6        | -15.5%             |
| • Short-term transactions (2) | 780,099                   | 3,226.3        | 994,386                   | 3,842.8        | 19.1%              |
| Capital market transactions   | 6                         | 1,056.0        | 4                         | 265.0          | -74.9%             |
| <b>Total</b>                  | <b>957,024</b>            | <b>9,423.6</b> | <b>1,179,579</b>          | <b>8,454.4</b> | <b>-10.3%</b>      |

(1) Rural, manufacturing, agribusiness, infrastructure and trade/service financing;

(2) Microcredit loans (Crediamigo), direct consumer credit (CDC), working capital loans, factoring, foreign exchange and secured accounts.

The 10.3% decrease in overall lending in the first half of 2010 was influenced by a 15.5% decline in the volume of long-term transactions, more precisely with internal funds and funds from the National Bank for Economic and Social Development (BNDES) and capital market transactions, down by 74.9%.

The decrease in long-term operations with internal funds was due to the decline in the acquisition of receivables from other financial institutes, basically due to two reasons: the liquidity of mid-sized Brazilian banks increased substantially in the first half of 2010 over the same period of 2009, significantly reducing the rates paid by these transactions versus the previous year; the second reason was the need to allocate the Bank's internal funds to sustain the growth of the own short-term loan portfolio. In the first half of 2009, there was strong demand for BNDES for

syndicated loans – performed by a pool of banks, in which each bank assumes part of the project risk - which was not the case in this six-month period. However, approved, but not yet completed, financing proposals with BNDES funds totaled R\$312.8 million at the end of the first half of 2010. These proposals plus those in the portfolio to be contracted in the second year half with BNDES funds should offset the decrease recorded in this semester.

The decrease in market capital transactions was due to BNB's improved strategy in this segment, the Bank began focusing on offering the securities it structures rather than including these securities in its portfolio.

The analysis of the last twelve months - from July 2009 to the end of June 2010 - shows the 15.7% increase in the pace of overall lending compared to the previous last twelve-month period. Total lending operations moved up by 16.9%. The increase in lending in the twelve-month period translates into the improved performance in the second year half compared with the first year half. Therefore, with the agreements to be entered into in the second half of 2010 – the Bank already has proposals in its portfolio and Letters of Inquiry for long-term financing totaling R\$9 billion, 2010 is expected to outperform 2009, especially in long-term lending, which was lower in the first half of 2010 than in the same period the year before.

LAST TWELVE MONTHS OVERALL LENDING (R\$ million)

| Source                        | June/08 to June 2009 | July/09 to June/10 | Variation    |
|-------------------------------|----------------------|--------------------|--------------|
| Lending operations            | 15,705.6             | 18,361.4           | 16.9%        |
| • Long-term transactions (1)  | 9,828.7              | 10,557.8           | 7.4%         |
| • Short-term transactions (2) | 5,876.9              | 7,803.6            | 32.8%        |
| Capital market transactions   | 1,469.8              | 1,511.0            | 2.8%         |
| <b>Total</b>                  | <b>17,175.3</b>      | <b>19,872.4</b>    | <b>15.7%</b> |

(1) Rural, manufacturing, agribusiness, infrastructure and trade/service financing;

(2) Microcredit loans (Crediamigo), direct consumer credit (CDC), working capital loans, factoring, foreign exchange and secured accounts

Since 2009, BNB has placed greater emphasis on business segments, changing organizational structures, loan management and control systems, staff training and marketing actions, with positive effects on the deals of the first half of 2010, especially with mini, micro and small urban and rural entrepreneurs, thus reinforcing BNB's role as a regional development agency in the support to this client segment.

PERFORMANCE OF CERTAIN PROGRAMS AND SEGMENTS (R\$ million)

|                                   |         |         |       |
|-----------------------------------|---------|---------|-------|
| Micro and small businesses (MPE)  | 765.4   | 951.1   | 24.3% |
| Family agriculture (PRONAF)       | 373.1   | 469.8   | 25.9% |
| Farming microcredit (Agroamigo)   | 172.4   | 269.2   | 56.2% |
| Urban microcredit (Crediamigo)    | 663.8   | 907.7   | 36.7% |
| Sales and foreign exchange credit | 2,562.5 | 2,935.1 | 14.5% |

Overall lending in the farming and manufacturing segments totaled R\$4.1 billion, representing 50% of the total. The nature and complexity of infrastructure projects, demanding higher structuring time, reduced contracted volume by 33.9% in the six-month period. With R\$950 million infrastructure financing proposals approved for contracting and a R\$2.4 billion portfolio, the volume to be contracted in the second half of the year should offset the decrease recorded in the first half of the year.

OVERALL LENDING BY INDUSTRY (R\$ million)

| Industry                     | 1 <sup>st</sup> Half 2009 | 1 <sup>st</sup> Half 2010 | Variation     |
|------------------------------|---------------------------|---------------------------|---------------|
| Rural                        | 1,516.4                   | 1,649.4                   | 8.8%          |
| Manufacturing                | 2,347.2                   | 2,442.0                   | 4.0%          |
| Infrastructure               | 997.1                     | 659.4                     | -33.9%        |
| Trade/Service <sup>(1)</sup> | 3,506.9                   | 3,438.6                   | -1.95%        |
| <b>Total</b>                 | <b>8,367.6</b>            | <b>8,189.4</b>            | <b>-2.1%</b>  |
| Capital market               | 1,056.0                   | 265.0                     | -74.9%        |
| <b>Total</b>                 | <b>9,423.6</b>            | <b>8,454.4</b>            | <b>-10.3%</b> |

(1) Includes urban microcredit loans (Crediamigo).

The number of loans to mini, micro and small businesses represented 93.5% of total aggregate loans for mini to large businesses. The average amount per loan to mini, micro and small businesses was R\$2.4 thousand, while the aggregate amount of mini- to large-sized businesses averaged R\$6.4 thousand.

OVERALL LANDING BY SIZE – FIRST HALF OF 2010 (R\$ million)

| Size                 | Number           | Amount         |
|----------------------|------------------|----------------|
| Mini/Micro/Small     | 1,102,388        | 2,689.2        |
| Mid-sized            | 52,324           | 1,139.9        |
| Large                | 24,858           | 3,700.9        |
| <b>Mini to Large</b> | <b>1,179,570</b> | <b>7,530.0</b> |
| Capital Market       | 4                | 265.0          |
| Infrastructure       | 5                | 659.4          |
| <b>Total</b>         | <b>1,179,579</b> | <b>8,454.4</b> |

The Bank has short-term loans to complement long-term financing. Firstly catering for customers with loans granted to investments, short-term loans are designed to maintain the businesses capitalized to meet their credit needs.

The effects of the international crisis at the end of 2009 led to an extension in the average turnover of foreign exchange portfolios, with a decline in business renewals, reducing foreign transaction agreements by 10.6%.

SHORT-TERM LOANS CONTRACTED BY PRODUCT (R\$ million)

| Product  | 1 <sup>st</sup> Half 2009 | 1 <sup>st</sup> Half 2010 | Variation    |
|--|---------------------------|---------------------------|--------------|
| Commercial Credit  | 2,196.8                   | 2,608.1                   | 18.7%        |
| <ul style="list-style-type: none"> <li>Direct consumer credit (CDC) and working capital loans</li> </ul> | 1,370.2                   | 1,503.5                   | 9.7%         |
| <ul style="list-style-type: none"> <li>Factoring</li> </ul>  | 328.3                     | 433.6                     | 32.1%        |
| <ul style="list-style-type: none"> <li>Secured accounts</li> </ul>                                       | 498.3                     | 671.0                     | 34.7%        |
| Foreign exchange <sup>(1)</sup>  | 365.7                     | 326.9                     | -10.6%       |
| Crediamigo   | 663.8                     | 907.7                     | 36.7%        |
| <b>Total</b>   | <b>3,226.3</b>            | <b>3,842.8</b>            | <b>19.1%</b> |

(1) Amounts converted into Brazilian reais at the foreign exchange rates prevailing on contract dates.

The Bank continues holding a substantial share of long-term credit balances of the Financial System in the area where it operates – in the Northeast and in northern Minas Gerais and Espírito Santo - with a 66% share of the total. In the short-term balance, BNB's share is 7%.

### **Northeast Financing Constitutional Fund (FNE)**

In the first half of 2010, FNE financing totaled R\$4.1 billion, a 4.4% variation over the same period of 2009. Rural – which varied by 28.7% in the period – received R\$1.4 billion, corresponding to 34.8% of total financing distributed into 174.2 thousand transactions (95% of the overall number of transactions).

The financial crisis begun in the second half of 2008 led to a significant decrease in export financing, with strong demand for the funds of the Nordeste Exportação (NExport) program, whose source is FNE, in the first half of 2009, mainly for agribusiness businesses, increasing lending to agribusinesses in that period. The normalization of the availability of external lines in the financial market pressured the demand for NExport by agribusinesses, leading to a 35.9% decline in this industry's lending in the first half of 2010.



FNE - LENDING BY INDUSTRY (R\$ million)

| Industry       | 1 <sup>st</sup> Half 2009 | 1 <sup>st</sup> Half 2010 | Change      |
|----------------|---------------------------|---------------------------|-------------|
| Rural          | 1,107.5                   | 1,425.3                   | 28.7%       |
| Agribusiness   | 200.3                     | 128.2                     | -35.9%      |
| Manufacturing  | 796.3                     | 998.2                     | 25.4%       |
| Infrastructure | 997.1                     | 659.4                     | -33.9%      |
| Trade/Services | 827.4                     | 890.1                     | 7.6%        |
| <b>Total</b>   | <b>3,928.6</b>            | <b>4,101.3</b>            | <b>4.4%</b> |

Mini, micro and small farmers (those with annual gross revenue from agribusiness of up to R\$300 thousand) and businesses from other sectors (with annual gross operating revenue of up to R\$2.4 million) concentrate 98.7% of the total number of transactions financed by the Fund and were responsible for approximately R\$1.2 billion. The average amount by transaction with mini, micro, small farmers was R\$6.4 thousand, versus an average R\$18.7 thousand from mini to large farmers.

FNE – LENDING BY SIZE – FIRST HALF OF 2010 (R\$ million)

| Segment                         | Number         | Amount         |
|---------------------------------|----------------|----------------|
| Mini/Micro/Small <sup>(1)</sup> | 181,120        | 1,163.9        |
| Mid-sized <sup>(1)</sup>        | 1,822          | 689.2          |
| Large <sup>(1)</sup>            | 595            | 1,588.8        |
| <b>Mini to Large</b>            | <b>183,537</b> | <b>3,441.9</b> |
| Infrastructure                  | 5              | 659.4          |
| <b>Total</b>                    | <b>183,542</b> | <b>4,101.3</b> |

<sup>(1)</sup> FNE – Classification of beneficiaries (farming industry) by size according to the annual gross revenue from agribusiness: mini – up to R\$150 thousand; small – between R\$150 thousand and R\$300 thousand; mid-sized – between R\$300 thousand and R\$1.9 million; large – above R\$1.9 million. Classification of beneficiaries (other industries) by size, according to FNE guidelines and according to annual gross operating revenue: mini – up to R\$240 thousand; small – between R\$240 thousand and R\$2.4 million; mid-sized – between R\$2.4 million and R\$35 million; large – above R\$35 million.

## **BUSINESS SEGMENTS**

With the business segmentation implemented by the Bank and the consolidation of changes for management oriented to the several business classifications, a series of programs and segments have been monitored to increase productivity and, consequently, increase BNB's share in these segments.

### **Urban Microfinancing**

Oriented Productive Microcredit Program - Crediamigo is BNB's Production Microcredit Program that facilitates access to credit by thousands of entrepreneurs who engage in production, sale and service provision activities. In the first half of 2010, total loans disbursed by Crediamigo stood at R\$907.7 million, 36.7% up on the R\$663.8 million disbursed in 2009. The number of loans granted also grew by a substantial 27.5%. In the six-month period, 729,922 transactions were conducted over 572,238 transactions in the same period in 2009. The number of active clients grew by 15.9% from 528.8 thousand to 607.9 thousand. The active portfolio grew by 13.6%, closing June 2010 at R\$570.1 million.

### **Family Farming**

The National Family Farming Strengthening Program (PRONAF) is the federal government's program to support family farming, which, in the Northeast, represents 89.1% of the rural establishments in the region, totaling 2.2 million family establishments. This segment employs 6.4 million people in the Northeast. BNB is PRONAF's main financial agent in the Northeast, with an active portfolio of R\$4.8 billion, corresponding to 1.4 million transactions. In the first half of 2010, the Bank entered into 168,479 transactions, with an aggregate financing volume of R\$469.8 million.

### **Rural Microfinancing**

The general purpose of Banco do Nordeste's Rural Microcredit Program (Agroamigo) is to improve service to PRONAF's Group B family farmers (farmers with annual gross revenue of up to R\$6,000.00) by granting oriented production microcredit. In the first half of 2010, 150,876 Agroamigo transactions were entered into, totaling R\$269.2 million. Between the implementation of Agroamigo, in 2005, and June 30, 2010, 969,176 transactions were entered into, totaling R\$1.4 billion.

## **Businesses with Mini and Small Farmers**

In the first half of 2010 the financings granted to mini and small farmers, except for those qualified for PRONAF, totaled R\$173.5 million, divided into 4.290 transactions. Total assets in this segment closed the first half at R\$4.6 billion, representing 27% of the total amount invested by BNB in rural credit.

## **Transactions with Micro and Small Enterprises (MSEs)**

In the first half of 2010, the Bank made available R\$1.3 billion in credit facilities to support micro and small enterprises. In the first half, 45,545 transactions were made with 14,666 micro and small businesses, totaling R\$951.1 million, 24.3% up on the same period of 2009. Among the actions that contributed to the income obtained in the first half of 2010, it is worth noting: the consolidation of the business prospecting strategy with specific activity segments; business expansion through franchises, with the registration of another 41 franchisers in the first half of the year, increasing to 55 the number of brands qualified to perform transactions with BNB in the scope of Nordeste Franquias – business strategy implemented in 2009 to cater for franchising companies; advertisements focused on MSEs; actual participation in the Thematic Committees of the Micro and Small Enterprises Permanent Forum, organized by the Ministry of Development, Industry and Foreign Trade (MDIC); and continuity of the Business Manager Training Program, in partnership with the Brazilian Service of Support for Micro and Small Enterprises (SEBRAE).

## **Transactions with Mid-sized and Large Businesses**

In the first half of the year, BNB financed mid-sized businesses in the amount of R\$1,197.1 million. Large businesses borrowed R\$4,303.1 million. Clients with revenues in excess of R\$200 million – qualified as large – are segmented and monitored in the Bank as Corporate clients, with a specific administrative unit.

## **Support to the Growth Acceleration Program (PAC)**

An important highlight regarding the financial support provided by BNB to the constant projects of the Federal Government's Growth Acceleration Program, whose borrowing of FNE funds totaled R\$638.6 million in 2010, allowing total investments of R\$1,403.7 million. On the other hand, at the end of the first half of 2010, there were 24 projects engaged in that program involving FNE funds of

R\$2,717.6 million and total investments of R\$12,370.9 million, thirteen of which are wind power projects with borrowings of R\$825.8 million.

### **Transactions with the Government**

In the first half of 2010, lending and funding transactions with the government stood at R\$1.2 billion and R\$1.4 billion, respectively totaling R\$2.6 billion.

### **Commercial Credit**

Commercial credit products—Direct Consumer Credit (CDC), Working Capital loans, Discounted Notes and Overdraft accounts—were responsible for R\$2.6 billion in lending this six-month period, representing growth of 18.7% as compared to the same period the prior year.

### **Foreign Trade and Foreign Exchange**

In the first half of 2010, R\$546 million was allocated by the several sources of funding to foreign trade operated by the Bank, including the Nordeste Exportação line with FNE funds. This line is intended to foster manufacturing and agribusiness production and sale and service provision by the companies based in the Bank's area of operation. The aggregate of all foreign exchange turnover during the first half of 2010, including loans, spot foreign exchange services, interbank transactions and currency arbitrage services rose by 26% from R\$1.9 billion in the first half of 2009 to R\$2.4 billion in the first half of 2010.

### **Transactions with Individuals**

Including the thirteen individual portfolios in the state capitals of the Northeast region and Montes Claros, commercial businesses rose by 19.5% over January 2010.

### **Capital Market**

Consolidating its position in the capital market, in the first half of 2010, BNB participated in the structuring of operations in this market segment, whose total issuance reached R\$815 million. BNB was ranked 6<sup>th</sup> in Origination – Short-term of the Brazilian Financial and Capital Markets Association (ANBIMA) ranking released in May 2010.

## **Financial Transactions**

In order to strengthen working capital credit, BNB increased term deposits funding by over R\$775 million in the first half of 2010. In line with its development policy, the Bank also intensified the Interfinancial Deposits Linked to Microfinancing Operations – with a balance of R\$448 million as of June 30, 2010, up by 58.3% on December 31, 2009 - generating funds for microcredit investments

## **Credit Recovery Actions**

In the first half of 2010, 58,053 delinquent transactions and/or transactions accounted for as losses as of the renegotiation dates, were regularized, totaling R\$216.3 million. Of the amount involved, 33.8% or R\$73 million corresponds to receipts in cash. Regularized past-due receivables from FNE funds totaled R\$162.9 million or 75.32% of total.

## **Investment Funds**

The Bank closed the first half of 2010 managing 20 investment funds, twelve of which for retail clients, two exclusively for the public sector, and six for exclusive investors. The funds' net equity was R\$2,884.1 million, an increase of 4.1% compared to the end of 2009.

## **FINANCIAL PERFORMANCE**

### **Total assets**

At the end of the first half of 2010, BNB's total assets increased by 3.7% as compared to the end of 2009. BNB assets also include FNE available funds (R\$809 million) and the funds committed to that Fund's credit operations, i.e., related to the contracted transactions that await release (R\$2.5 billion). The increase in BNB's asset balance (R\$700 million) between December 2009 and June 2010 is mainly represented by the increase in cash and cash equivalents, interbank investments and securities. This growth was possible thanks to increase in the volume of time deposits and savings accounts in the first half of 2010.

The balance of BNB's own portfolio lending operations, less allowance for loan losses, grew by 0.8% in the six-month period, especially due to R\$ 69 million increase in Crediamigo program transactions (R\$596 million as of June 30, 2010,

versus R\$527.0 million as of December 31, 2009); the R\$161 million decrease in payroll loans with co-obligation with the granting bank (R\$907 million as of June 30, 2010 and R\$1,068 million as of December 31, 2009); the R\$418 million increase in infrastructure financing (R\$1,114 million as of June 30, 2010, versus R\$696 million as of December 31, 2009); and the R\$ 235 million decrease in import financing (R\$39 million as of June 30, 2010, versus R\$274 million as of December 31, 2009).

Total FNE assets grew by 6.7% in the first half of 2010, primarily as a result of the inflow of funds from the National Treasury. In the first half of 2010, FNE's net assets increased by R\$2,034 million, versus R\$1,844 million in the first half of 2009. The reimbursements of FNE's lending in the first half of 2010 stood at R\$2,548, down from R\$2,963 million in the same period of 2009. By comparing the positions as of June 30, 2010 and December 31, 2009, there is an increase of 6.7% in the balance of investments in FNE lending operations (before allowances for loan losses), while the allowance for loan losses remained flat.

As for FNE funds, cash and cash equivalents increased by R\$535 million and the committed Fund's credit operations decreased by R\$745 million between December 31, 2009 and June 30, 2010. In the first half of 2010, a total volume of R\$63.4 million in Fund assets were recovered, referring to receivables previously written off as losses, including R\$32.5 million recovered through renegotiations under the Law 11322 and Law 11775.

TOTAL ASSETS (R\$ million)

| Description  | BNB      |          |          | FNE      |          |          |
|--|----------|----------|----------|----------|----------|----------|
|  | 06/30/09 | 12/31/09 | 06/30/10 | 06/30/09 | 12/31/09 | 06/30/10 |
| Cash and cash equivalents, <sup>(*)</sup> interbank Investments and securities | 7,323.4  | 8,560.2  | 9,092.4  | 1,299.3  | 274.3    | 809.1    |
| Funding committed to loans and financing                                       | -        | -        | -        | 2,716.5  | 3,276.5  | 2,532.2  |
| Interbank accounts   | 231.6    | 217.0    | 282.4    | 224.1    | 851.1    | 1,275.3  |

|   |                 |                 |                 |                 |                 |                 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Lending operations – Adjusted for allowances for loss | 7,271.4         | 8,888.6         | 8,963.8         | 23,404.0        | 25,048.9        | 26,809.2        |
| Other receivables – Adjusted for allowances for loss  | 967.6           | 1,284.4         | 1,315.6         | 2.5             | 2.5             | 2.6             |
| Other assets  | 7.9             | 7.9             | 8.9             | 1.6             | 1.7             | 1.5             |
| Permanent assets                                      | 201.3           | 196.4           | 191.1           | -               | -               | -               |
| <b>Total</b>  | <b>16,003.1</b> | <b>19,154.5</b> | <b>19,854.2</b> | <b>27,648.0</b> | <b>29,454.9</b> | <b>31,429.9</b> |

(\*) BNB's cash and cash equivalents include available funds and amounts committed to FNE loans and financing.

## Securities

As of June 30, 2010, the securities portfolio corresponded to R\$5,356 million, an R\$118 million (2.3%) increase compared to December 31, 2009, when it totaled R\$5,238 million. In compliance with Brazilian Central Bank Circular 3068, of November 8, 2002, BNB prepared projected cash flows to classify its securities portfolio. These cash flows shows that there are sufficient funds available to fulfill all obligations and comply with credit granting policies without the need to sell securities classified as held-to-maturity securities. Accordingly, BNB's management hereby declares that the Bank has the intent and financial capacity to hold these securities to maturity.

## Overall Lending Operations

Lending operations plus other applications with credit characteristics, such as advances against foreign exchange contracts and amounts granted to debtors to purchase values and assets, totaled R\$38,086 million, with no deduction of provisions, as of June 30, 2010.

BALANCES BY SOURCE/PROGRAM APPLICATIONS (R\$ million)

| Description | 06/30/2009 | 12/31/2009 | 06/30/2010 |
|-------------|------------|------------|------------|
|-------------|------------|------------|------------|

| Description   | 06/30/2009    | 12/31/2009    | 06/30/2010    |
|---|---------------|---------------|---------------|
| Constitutional Fund to Finance the Northeast (FNE)            | 24,668        | 26,349        | 28,109        |
| Own funds (except Crediamigo and BNB savings accounts)        | 4,410         | 5,685         | 5,945         |
| Foreign deposits (foreign exchange)                           | 358           | 759           | 483           |
| BNB savings accounts  | 384           | 744           | 443           |
| Inter-American Development Bank (IDB)                         | 686           | 639           | 670           |
| National Bank for Economic and Social Development (BNDES)     | 482           | 545           | 676           |
| Crediamigo (uses funds from IBRD, FAT, DIM, and own funds)    | 421           | 527           | 596           |
| Land Fund/Agrarian Reform                                     | 492           | 518           | 551           |
| Workers' Assistance Fund (FAT)                                | 604           | 266           | 264           |
| National Treasury (STN)                                       | 82            | 82            | 80            |
| Agrarian Reform Agency (INCRA) – Land Account                 | 67            | 68            | 70            |
| Merchant Marine Fund (FMM)                                    | 52            | 54            | 55            |
| FNE – Onlendings - Law 7827 Art. 9, "a"<br>(Subordinate Debt) | -             | 29            | 127           |
| Revolving Land Fund (FRT)                                     | 11            | 11            | 12            |
| Other   | 9             | 9             | 6             |
| <b>TOTAL</b>  | <b>32,726</b> | <b>36,287</b> | <b>38,086</b> |

The table below shows BNB's lending by industry. Note the 60% growth in the credit portfolio allocated to infrastructure and development, which represented 11.7% of BNB's lending. Manufacturing, trade and services represent 60% of BNB's balance of lending operations, while farming and agribusiness account for 22.3%



LENDING OPERATIONS BY INDUSTRY (R\$ million)

| Description  | BNB            |                |                | FNE             |                 |                 |
|--|----------------|----------------|----------------|-----------------|-----------------|-----------------|
|  | 06/30/09       | 12/31/09       | 06/30/10       | 06/30/09        | 12/31/09        | 06/30/10        |
| <b>Lending operations</b>                          | <b>7,271.4</b> | <b>8,888.6</b> | <b>8,963.8</b> | <b>23,404.0</b> | <b>25,048.9</b> | <b>26,809.2</b> |
| • Lending operations                               | 7,701.4        | 9,443.8        | 9,512.3        | 24,667.8        | 26,349.2        | 28,109.0        |
| ○ Manufacturing, trade and services                | 4,578.2        | 5,635.0        | 5,707.9        | 7,128.7         | 7,877.4         | 8,780.6         |
| ○ Farming and agribusiness                         | 1,832.7        | 2,321.3        | 2,124.5        | 14,047.6        | 14,372.0        | 15,149.9        |
| ○ Infrastructure and development                   | 744.8          | 696.0          | 1,114.1        | 2,932.8         | 3,575.5         | 3,805.0         |
| ○ Refinancing                                      | 534.5          | 517.1          | 526.8          | -               | -               | -               |
| ○ Export financing                                 | -              | -              | -              | 558.7           | 524.3           | 373.4           |
| ○ Other  | 11.2           | 274.4          | 39.0           | -               | -               | -               |
| • Allowance for loan losses                        | (430.0)        | (555.2)        | (548.5)        | (1,263.8)       | (1,300.3)       | (1,299.8)       |
| <b>Other receivables with loan characteristics</b> | <b>315.2</b>   | <b>433.2</b>   | <b>432.5</b>   | <b>-</b>        | <b>-</b>        | <b>-</b>        |
| • Other receivables                                | 356.6          | 493.9          | 464.3          | -               | -               | -               |
| ○ Import and export                                | 347.2          | 484.4          | 444.5          | -               | -               | -               |
| ○ Other  | 9.3            | 9.4            | 19.8           | -               | -               | -               |
| • Allowance for loan losses                        | (41.3)         | (60.7)         | (31.8)         | -               | -               | -               |
| <b>Total</b>                                       | <b>7,586.6</b> | <b>9,321.8</b> | <b>9,396.3</b> | <b>23,404.0</b> | <b>25,048.9</b> | <b>26,809.2</b> |

## Sources of Funds

From December 2009 to June 2010, the Bank's obligations to third parties increased by 4.2%, as shown in the table below.

SOURCE OF FUNDS (R\$ Million)

| Description                           | 06/30/2009 | 12/31/2009 | 06/30/2010 |
|---------------------------------------|------------|------------|------------|
| Demand deposits                       | 138        | 175        | 177        |
| Savings deposits                      | 871        | 1,382      | 1,086      |
| Time deposits                         | 2,929      | 4,384      | 5,073      |
| • FAT                                 | 406        | 395        | 355        |
| • FINOR (Northeast Investment Fund)   | 132        | 124        | 145        |
| • Reinvestments – Law 8167            | 391        | 397        | 328        |
| • Other (CDBs)                        | 2,001      | 3,468      | 4,244      |
| Interbank deposits and other          | 187        | 392        | 532        |
| FNE funds (cash and cash equivalents) | 4,018      | 3,553      | 3,344      |
| Onlendings - local currency           | 1,329      | 1,434      | 1,468      |
| • BNDES and FINAME                    | 671        | 773        | 813        |
| • Other institutions                  | 658        | 660        | 655        |
| Onlendings - foreign currency         | 797        | 722        | 757        |
| Borrowings                            | 374        | 701        | 479        |
| Money market funding                  | 471        | 446        | 456        |
| Taxes and social security             | 325        | 465        | 376        |
| Contingent liabilities                | 1,184      | 1,203      | 1,355      |
| • FNE                                 | 905        | 956        | 1,103      |
| • Civil and other lawsuits            | 94         | 96         | 100        |
| • Labor lawsuits                      | 186        | 151        | 153        |

| Description  | 06/30/2009    | 12/31/2009    | 06/30/2010    |
|--|---------------|---------------|---------------|
| Social and statutory provision                               | 43            | 238           | 68            |
| Payables   | 1,141         | 1,124         | 1,194         |
| • CVM Resolution 371 (post-employment benefits)              | 959           | 1,023         | 1,077         |
| • Other  | 182           | 101           | 117           |
| FNE - Subordinated debt eligible for capital                 | 0             | 622           | 1,050         |
| Other liabilities  | 285           | 242           | 379           |
| <b>Total obligations to third parties</b>                    | <b>14,094</b> | <b>17,082</b> | <b>17,793</b> |
| Deferred income  | 0             | 0             | 0             |
| Shareholders' equity   | 1,909         | 2,073         | 2,061         |
| <b>TOTAL LIABILITIES AND BNB SHAREHOLDERS' EQUITY EQUITY</b> | <b>16,003</b> | <b>19,155</b> | <b>19,854</b> |
| FNE funds (other)  | 23,360        | 25,280        | 27,036        |
| <b>TOTAL</b>   | <b>39,633</b> | <b>44,435</b> | <b>46,890</b> |

### Shareholders' equity

As of June 30, 2010, BNB's shareholders' equity was R\$2,060.8 million (R\$1,909.2 million as of June 30, 2009). As of June 30, 2010, BNB's capital was R\$1,850.0 million (R\$1,652.0 million as of June 30, 2009), represented by 87,001,901 paid-up shares without par value.

### Net Income (Loss)

BNB's net income totaled R\$110 million in the first half of 2010. Net earnings per share fell from R\$1.54 as of June 30, 2009 to R\$1.26 as of June 30, 2010. As of June 30, 2010, return on average equity was 10.87% p.a., versus 23.78% p.a. as of December 31, 2009 and 15.04% p.a. as of June 30, 2009.

## **Capital Adequacy Ratio**

Starting July 1, 2008, the National Monetary Council established, through Resolution 3490 and supplementary regulations, additional requirements for the allocation of capital. Directives in effect maintained the minimum capital adequacy ratio—which is the ratio of a financial institution’s regulatory capital to total risks assumed in asset transactions, including guarantees provided, and market and operational risks—for June 30, 2010 at 11%. As of June 30, 2010, BNB’s capital adequacy ratio (Basel Ratio) was 13.78% (11.32% as of June 30, 2009), while regulatory capital was R\$3,067.8 million (R\$1,906.3 million as of June 30, 2009). The Required Regulatory Capital (PRE), which represents the consolidation of all exposures to risk, with a capital allocation ratio of 11%, was R\$2,432.6 million as of June 30, 2010 (R\$1,798.7 million as of June 30, 2009). In July 2009 and June 2010, BNB entered into subordinated debt agreements with FNE and was authorized by the Central Bank of Brazil to consider the amounts under these agreements as Level II Capital, with a positive impact on the Bank’s Basel Ratio.

## **ACTIONS FOR DEVELOPMENT**

In the first half of 2010, BNB, through the Northeast Territorial Strategy – designed to contribute to increase the competitiveness of prioritized production chains, promoting social and economic inclusion while supporting innovation and social and environmental responsibility – lent R\$1,014.1 million through 9 thousand transactions. In relation to the environment, FNE Verde’s lending operations exceeded R\$314 million, 11% up on the same period the year before. Regarding the integration of public policies, the Bank expanded its participation in government programs, such as the Social Housing Subvention Program (PSH), the Xingó Project, the Petrobras Biofuel Program, the National Program for the Financing of the Expansion and Upgrading of the National Fishing Fleet (Profrota Pesqueira) and Citizenship Territories.

## **TECHNICAL OFFICE OF ECONOMIC STUDIES FOR THE NORTHEAST (ETENE)**

### **Evaluation of Policies and Programs**

In the first half of 2010, BNB continued evaluating FNE's programs and subprograms to assess financing outcomes and impacts. The assessment of dairy and beef cattle raising and soybean cultivation activities, financed by FNE-Rural, is in the conclusion state, performed through field and document research. Cotton and grape cultivation is also being currently assessed through the use of secondary data. The assessment of FNE-Proatur's outcomes and impacts with the main tourist entrepreneurs has been concluded. The assessment of FNE-Proinfra's outcomes and impacts has been concluded for the 2004-2008 period.

### **Scientific, Technology and Development Funds**

The Bank manages three research support funds: the Science and Technology Development Fund (FUNDECI), the Northeast Socioeconomic Activities Support Fund (FASE), and the Regional Development Fund (FDR). In the first half of 2010, the Bank invested R\$15.3 million in the three funds, totaling 273 supported projects.

## **PEOPLE MANAGEMENT**

As of June 30, 2010, the Bank had 5,858 employees. A public examination was performed in the period to create a reserve list to meet the demands for vacancies that arise in BNB during the examination's validity period. The Corporate Education Program created 13,372 training opportunities, including 7,855 (58%) in class training courses and 5,517 (42%) distance learning courses.

## **GOVERNANCE AND RISK MANAGEMENT**

Our organizational structure is designed based on corporate governance principles intended to ensure the organization's soundness through appropriate management of the risks involved and profitability. The Bank has a specific Department to handle Control and Risks, in compliance with National Monetary Council Resolutions 3380, 3464 and 3721, which establish that financial institutions must implement an operational, market and credit risk management structure. The Internal Control, Security and Risk Management Area, which reports to the Officer

in charge of Control and Risks, is responsible for overseeing three Departments: Internal Control, Corporate Security and Risk Management.

#### STRUCTURE OF THE CONTROL AND RISKS BOARD

The main duties of the Internal Control, Security and Risk Management Area include: developing strategies to identify, evaluate, monitor, control, manage, and mitigate credit, market, liquidity and operating risks and defining minimum levels for capital allocation to bear these risks; defining and managing corporate security actions, including physical and electronic information, bank, property, communication, and personal security; and implementing internal controls segregated from other areas for activities developed in all units of the Bank, including operating and management processes and information systems, as well as insuring compliance with applicable laws and regulations. The Internal Control Department is responsible for establishing mechanisms and procedures for control focused on mitigating risks of the Bank; executing, separately from other areas, activities related to management of the Internal Control System; monitoring the compliance of other areas with laws and regulations applicable to the organization; and checking conformity of operations processes, products, and services. Functions of the Corporate Security Department include: defining, managing, and participating in the implementation of corporate security procedures, including physical and electronic information, bank, property, communications and personal security; and disseminating policies and actions focused on prevention and combat of money laundering. The Risk Management is responsible for ensuring the maintenance of risk levels appropriate to the Bank's strategies and capital structure, through the management of credit, market, liquidity and operational risk models and methodologies.

A complete description of the management structure for operating, credit, market, and liquidity risks will be presented in the 2010 Annual Report that will be prepared in 2011. This publication is made available on the Internet at the portal [www.bnb.gov.br](http://www.bnb.gov.br) and is distributed to the public that has a relationship with the Bank.

#### **Audit Committee, Internal Audit, and Institutional Ombudsman**

BNB has an Audit Committee, which is a Board of Directors' advisory committee, responsible for monitoring the efficiency and effectiveness of internal controls, internal audit, independent audit and accounting area. As part of its institutional role, the Committee participates in Board of Directors meetings and remains in constant contact with the senior management and Bank departments in order to

establish the quality of the institution's accounting and financial information, improvement internal controls and compliance with laws and internal regulations, and approve the Ombudsman's report every six months.

The Internal Audit's main responsibility is to assist senior management and statutory boards (Supervisory Board, Board of Directors and Audit Committee) by providing information regarding the effectiveness of the institution's risk management and process controls, adopting an independent, systematic and disciplined approach for the assessment and improvement of these processes and, consequently, improvement of the Bank's corporate governance.

BNB's Ombudsman's main responsibility is to defend the citizens' rights in their relationships with the Bank, based on compliance with consumer rights, to mediate conflicts and to seek to improve internal processes based on the analysis of customer demands. The Ombudsman has monitored, jointly with the Risk and Control Board, the necessary planning to adjust BNB to the Banking Self-Regulating System, coordinated by Brazilian Banks Federation - FEBRABAN.

## **CULTURAL SUPPORT**

BNB's actions in the cultural area are aligned with the cultural guidelines and public policies of the Federal Government. The three Banco do Nordeste Cultural Centers (CCBNBs) – Fortaleza (CE), Cariri (CE) and Sousa (PB) – received 129.9 thousand visitors in 1,853 events in the first half of 2010. BNB and the National Bank for Economic and Social Development (BNDES) entered into an agreement to implement BNB's Cultural Program. This Program is part of the direct support to the production and dissemination of culture in BNB's area of operations, through the public selection of projects, with the release of R\$4.1 million to fund 165 cultural projects in the first half of 2010. In line with the business, the Espaço Nordeste Project – which comprises the social, cultural and business aspects, whose purpose is to promote the decentralization of access to culture, social inclusion and bank service growth in the municipalities where there is a lack of bank branches - was implemented in Pedro II (PI) and in Guaribas (PI)

## **STATEMENTS OF VALUE ADDED**

In the first half of 2010, the wealth created amounted to R\$852.6 million. This amount is 10.1% higher than the wealth created in the first half of 2009.

## **CVM INSTRUCTION**

With reference to Brazilian Securities and Exchange Commission (CVM) Instruction 381/03, dated January 14, 2003, BNB informs that Deloitte Touche Tohmatsu Auditores Independentes, engaged as independent auditors, have not provided any non-audit services to the Bank in the first half of 2010.

Fortaleza, July 26, 2010



**BANCO DO NORDESTE DO BRASIL S.A.**

BALANCE SHEETS AS OF JUNE 30, 2010 AND 2009

(In thousands of Brazilian reais - R\$)

| <u>ASSETS</u>  | <u>06/30/2010</u> | <u>06/30/2009</u> |
|--|-------------------|-------------------|
| CURRENT ASSETS                                       | 10,692,450        | 10,563,488        |
| CASH AND CASH EQUIVALENTS (note 4)                   | 80,485            | 75,929            |
| INTERBANK INVESTMENTS (note 5)                       | 3,655,329         | 2,188,358         |
| Money market investments                             | 3,364,510         | 1,690,294         |
| Interbank deposits                                   | 290,819           | 498,064           |
| SECURITIES AND DERIVATIVES (note 6)                  | 1,533,358         | 4,281,119         |
| Own portfolio  | 1,330,267         | 3,817,437         |
| Held under repurchase commitments                    | -                 | 353,034           |
| Derivatives  | 148               | 3,789             |
| Linked to guarantees                                 | 202,943           | 106,859           |
| INTERBANK ACCOUNTS                                   | 248,099           | 192,894           |
| Payments and receipts pending settlement             | 61,653            | 47,944            |
| Restricted deposits:                                 |                   |                   |
| Deposits - Central Bank of Brazil (note 7.a)         | 183,110           | 139,117           |
| National Treasury - Rural loan (note 7.a)            | 1,626             | 3,221             |
| Interbank onlendings                                 | 869               | 944               |
| Correspondents                                       | 841               | 1,668             |
| LENDING OPERATIONS                                   | 3,926,697         | 2,915,832         |
| Lending operations (note 8.a)                        | 4,267,489         | 3,055,189         |
| Public sector  | 58,129            | 124,033           |
| Private sector                                       | 4,209,360         | 2,931,156         |
| (Allowance for loan losses) (note 8.a)               | (340,792)         | (139,357)         |
| OTHER RECEIVABLES                                    | 1,239,563         | 901,429           |
| Receivables for guarantees honored (note 9)          | -                 | 5                 |
| Foreign exchange portfolio (note 10.a)               | 487,405           | 328,665           |
| Income receivable (note 9)                           | 21,578            | 19,735            |
| Trading account (note 9)                             | -                 | 11                |
| Other receivables (note 9)                           | 748,154           | 555,949           |
| (Allowance for losses on other receivables) (note 9) | (17,574)          | (2,936)           |
| OTHER ASSETS   | 8,919             | 7,927             |
| Other  | 6,528             | 6,671             |
| (Allowance for devaluation)                          | (1,394)           | (1,665)           |
| Prepaid expenses                                     | 3,785             | 2,921             |
| LONG-TERM ASSETS                                     | 8,970,663         | 5,238,373         |
| SECURITIES AND DERIVATIVES (note 6)                  | 3,823,237         | 778,018           |
| Own portfolio  | 3,435,803         | 699,609           |
| Held under repurchase commitments                    | 379,421           | -                 |
| Derivatives  | 149               | 10                |
| Linked to guarantees                                 | 7,864             | 78,399            |
| INTERBANK ACCOUNTS                                   | 34,288            | 38,674            |
| Restricted deposits:                                 |                   |                   |
| National Treasury - Rural loan (note 7.a)            | 85                | 141               |
| Financial Housing System (SFH) (note 7.a)            | 29,047            | 31,923            |
| Interbank onlendings                                 | 5,156             | 6,610             |
| LENDING OPERATIONS                                   | 5,037,056         | 4,355,560         |
| Lending operations (note 8.a)                        | 5,244,797         | 4,646,173         |
| Public sector  | 1,138,260         | 1,169,369         |
| Private sector                                       | 4,106,537         | 3,476,804         |
| (Allowance for loan losses) (note 8.a)               | (207,741)         | (290,613)         |
| OTHER RECEIVABLES (note 9)                           | 76,082            | 66,121            |
| Receivables for guarantees honored                   | -                 | 11                |
| Other receivables                                    | 122,233           | 134,582           |
| (Allowance for losses on other receivables)          | (46,151)          | (68,472)          |
| PERMANENT ASSETS (note 11)                           | 191,085           | 201,268           |
| INVESTMENTS  | 1,398             | 1,342             |
| Other investments                                    | 6,701             | 6,245             |
| (Allowance for losses)                               | (5,303)           | (4,903)           |
| PROPERTY AND EQUIPMENT IN USE                        | 186,637           | 195,679           |
| Real estate  | 130,430           | 121,887           |
| Real estate revaluation                              | 111,628           | 111,628           |
| Other  | 143,115           | 145,381           |
| (Accumulated depreciation)                           | (198,536)         | (183,217)         |
| DEFERRED CHARGES                                     | 3,050             | 4,247             |
| Organization and expansion costs                     | 7,538             | 10,537            |
| (Accumulated amortization)                           | (4,488)           | (6,290)           |
| <b>TOTAL ASSETS</b>                                  | <b>19,854,198</b> | <b>16,003,129</b> |

BANCO DO NORDESTE DO BRASIL S.A.

BALANCE SHEETS AS OF JUNE 30, 2010 AND 2009

(In thousands of Brazilian reais - R\$)

| <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>               | <u>6/30/2010</u> | <u>06/30/2009</u> |
|---|------------------|-------------------|
| CURRENT LIABILITIES                                       | 7,335,945        | 7,145,258         |
| DEPOSITS (note 12)  | 2,706,019        | 2,287,955         |
| Demand deposits   | 146,759          | 98,022            |
| Savings deposits  | 1,086,119        | 870,709           |
| Interbank deposits  | 502,244          | 177,503           |
| Time deposits   | 960,916          | 1,132,160         |
| Other deposits  | 9,981            | 9,561             |
| OPEN MARKET FUNDING (note 12.b)                           | 455,539          | 470,868           |
| Own portfolio   | 377,851          | 352,925           |
| Third parties portfolio                                   | 77,688           | 117,943           |
| INTERBANK ACCOUNTS  | 39,655           | 32,551            |
| Receipts and payments pending settlement                  | 39,655           | 32,551            |
| INTERDEPARTMENTAL ACCOUNTS                                | 13,697           | 12,389            |
| Third-parties funds in transit                            | 12,921           | 11,010            |
| Internal transfers of funds                               | 776              | 1,379             |
| BORROWINGS (note 13.f)                                    | 420,170          | 306,232           |
| Domestic borrowings - official institutions               | 14,602           | 13,465            |
| Foreign borrowings  | 405,568          | 292,767           |
| DOMESTIC ONLENDINGS - OFFICIAL INSTITUTIONS (note 13.g)   | 317,714          | 310,553           |
| National Treasury   | 186              | 182               |
| BNDES (National Bank for Economic and Social Development) | 184,048          | 185,795           |
| CEF (Federal Savings and Loan Bank)                       | -                | 26                |
| FINAME (National Equipment Financing Authority)           | 9,473            | 15,208            |
| Other institutions  | 124,007          | 109,342           |
| DERIVATIVES   | 13,813           | 22,116            |
| Derivatives   | 13,813           | 22,116            |
| FOREIGN ONLENDINGS (note 13.h)                            | 66,845           | 67,073            |
| Foreign onlendings  | 66,845           | 67,073            |
| OTHER LIABILITIES   | 3,302,493        | 3,635,521         |
| Collected taxes and other (note 14)                       | 32,221           | 25,803            |
| Foreign exchange portfolio (note 10)                      | 51,448           | 820               |
| Social and statutory (note 14)                            | 68,256           | 43,068            |
| Tax and social security (note 14)                         | 375,965          | 325,321           |
| Financial and development funds (note 14)                 | 1,147,669        | 1,710,924         |
| Other (note 14)   | 1,626,934        | 1,529,585         |
| LONG-TERM LIABILITIES                                     | 10,457,480       | 6,948,659         |
| DEPOSITS (note 12)  | 4,162,584        | 1,837,488         |
| Demand deposits   | 30,508           | 40,394            |
| Interbank deposits  | 20,167           | -                 |
| Time deposits   | 4,111,909        | 1,797,094         |
| BORROWINGS (note 13.f)                                    | 58,408           | 67,323            |
| Domestic borrowings - official institutions               | 58,408           | 67,323            |
| DOMESTIC ONLENDINGS - OFFICIAL INSTITUTIONS (note 13.g)   | 1,150,621        | 1,018,815         |
| National Treasury   | 928              | 1,053             |
| BNDES (National Bank for Economic and Social Development) | 601,368          | 449,172           |
| FINAME (National Equipment Financing Authority)           | 18,379           | 20,713            |
| Other institutions  | 529,946          | 547,877           |
| DERIVATIVES   | 22,346           | 15,945            |
| Derivatives   | 22,346           | 15,945            |
| FOREIGN ONLENDINGS (note 13.h)                            | 690,027          | 730,061           |
| Foreign onlendings  | 690,027          | 730,061           |
| OTHER LIABILITIES (note 14)                               | 4,373,494        | 3,279,027         |
| Financial and development funds                           | 2,294,666        | 2,381,195         |
| Subordinated debt eligible for capital                    | 1,049,574        | -                 |
| Other   | 1,029,254        | 897,832           |
| DEFERRED INCOME   | 20               | 18                |
| Deferred income   | 20               | 18                |
| SHAREHOLDERS' EQUITY (note 15)                            | 2,060,753        | 1,909,194         |
| CAPITAL   | 1,850,000        | 1,652,000         |
| Brazilian residents                                       | 1,850,000        | 1,652,000         |
| CAPITAL RESERVE   | 502              | 502               |
| REVALUATION RESERVE                                       | 29,283           | 31,719            |
| REVENUE RESERVES  | 127,183          | 151,648           |
| VALUATION ADJUSTMENTS TO SHAREHOLDERS' EQUITY             | 54,169           | 73,709            |
| TREASURY SHARES   | (384)            | (384)             |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY                | 19,854,198       | 16,003,129        |

STATEMENTS OF INCOME  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009  
(In thousands of Brazilian reais - R\$)

|  | <u>1st half 2010</u> | <u>1st half 2009</u> |
|--|----------------------|----------------------|
| INCOME FROM FINANCIAL INTERMEDIATION             | <u>1,132,797</u>     | <u>992,154</u>       |
| Lending operations (note 8.a.2)                  | 695,274              | 540,769              |
| Securities transactions (note 6.b)               | 378,036              | 426,545              |
| Derivatives (note 6.d)                           | (5,652)              | (31,745)             |
| Foreign exchange transactions (note 10.b)        | 54,864               | 55,732               |
| Compulsory investments (note 7.b)                | 10,275               | 853                  |
| EXPENSES FROM FINANCIAL INTERMEDIATION           | <u>(668,056)</u>     | <u>(642,432)</u>     |
| Funding operations (note 12.c)                   | (251,994)            | (189,882)            |
| Borrowings and onlendings (note 13.i)            | (237,777)            | (266,353)            |
| Allowance for loan losses (note 8.e)             | (178,285)            | (186,197)            |
| GROSS INCOME FROM FINANCIAL INTERMEDIATION       | <u>464,741</u>       | <u>349,722</u>       |
| OTHER OPERATING INCOME (EXPENSES) (note 16)      | <u>(204,996)</u>     | <u>(112,058)</u>     |
| Income from services provided                    | 594,415              | 543,318              |
| Income from bank fees                            | 6,139                | 5,312                |
| Personnel expenses                               | (458,976)            | (421,507)            |
| Other administrative expenses                    | (304,543)            | (253,132)            |
| Tax expenses                                     | (80,512)             | (68,434)             |
| Other operating income                           | 400,009              | 595,237              |
| Other operating expenses                         | (361,528)            | (512,852)            |
| INCOME FROM OPERATIONS                           | <u>259,745</u>       | <u>237,664</u>       |
| NONOPERATING INCOME (EXPENSES)                   | <u>1,468</u>         | <u>1,947</u>         |
| INCOME BEFORE TAXES ON INCOME AND PROFIT SHARING | <u>261,213</u>       | <u>239,611</u>       |
| INCOME AND SOCIAL CONTRIBUTION TAXES (note 17)   | <u>(141,088)</u>     | <u>(97,206)</u>      |
| Provision for income tax                         | (111,335)            | (79,794)             |
| Provision for social contribution tax            | (67,809)             | (48,388)             |
| Deferred income taxes                            | 38,056               | 30,976               |
| PROFIT SHARING                                   | <u>(10,070)</u>      | <u>(8,590)</u>       |
| NET INCOME FOR THE PERIOD                        | <u>110,055</u>       | <u>133,815</u>       |
| INTEREST ON OWN CAPITAL (note 15. e)             | <u>(58,066)</u>      | <u>(34,359)</u>      |
| Number of shares (in thousands)                  | <u>87,002</u>        | <u>87,002</u>        |
| Net income per share - R\$                       | <u>1.26</u>          | <u>1.54</u>          |

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009  
(In thousands of Brazilian reais - R\$)

|   | PAID-UP CAPITAL |                  | CAPITAL RESERVE        | REVALUATION RESERVE | REVENUE RESERVES |           | VALUATION ADJUSTMENT TO SHAREHOLDERS' EQUITY | RETAINED EARNINGS  | TREASURY SHARES | TOTAL     |
|---|-----------------|------------------|------------------------|---------------------|------------------|-----------|--|--------------------|-----------------|-----------|
|   | CAPITAL         | CAPITAL INCREASE | OTHER CAPITAL RESERVES | OWN ASSETS          | LEGAL            | STATUTORY |  | (ACCUMULATED LOSS) |                 |           |
| BALANCES AS OF DECEMBER 31, 2008              | 1,299,000       | -                | 380                    | 32,938              | 50,266           | 353,707   | 61,228                                       | -                  | -               | 1,797,519 |
| VALUATION ADJUSTMENTS TO SHAREHOLDERS' EQUITY | -               | -                | -                      | -                   | -                | -         | 12,481                                       | -                  | -               | 12,481    |
| CAPITAL INCREASE                              |                 |                  |                        |                     |                  |           |  |                    |                 |           |
| From Reserve:                                 |                 |                  |                        |                     |                  |           |  |                    |                 |           |
| - Transfer for capital increase               | -               | 353,000          | -                      | -                   | -                | (353,000) | -  | -                  | -               | -         |
| - Capital contribution                        | 353,000         | (353,000)        | -                      | -                   | -                | -         | -  | -                  | -               | -         |
| OTHER EVENTS:                                 |                 |                  |                        |                     |                  |           |  |                    |                 |           |
| - Updating of stock exchange memberships      | -               | -                | 122                    | -                   | -                | -         | -  | -                  | -               | 122       |
| - Acquisition of treasury shares              | -               | -                | -                      | -                   | -                | -         | -  | -                  | (384)           | (384)     |
| - Revaluation of assets:                      |                 |                  |                        |                     |                  |           |  |                    |                 |           |
| - Realization of reserves:                    |                 |                  |                        |                     |                  |           |  |                    |                 |           |
| - Gross amount                                | -               | -                | -                      | (2,031)             | -                | -         | -  | 2,031              | -               | -         |
| - Tax charges                                 | -               | -                | -                      | 812                 | -                | -         | -  | (812)              | -               | -         |
| NET INCOME FOR THE PERIOD                     | -               | -                | -                      | -                   | -                | -         | -  | 133,815            | -               | 133,815   |
| - Allocations:                                |                 |                  |                        |                     |                  |           |  |                    |                 |           |
| - Reserves                                    | -               | -                | -                      | -                   | 6,691            | 93,984    | -  | (100,675)          | -               | -         |
| - Interest on own Capital                     | -               | -                | -                      | -                   | -                | -         | -  | (34,359)           | -               | (34,359)  |
| BALANCES AS OF JUNE 30, 2009                  | 1,652,000       | -                | 502                    | 31,719              | 56,957           | 94,691    | 73,709                                       | -                  | (384)           | 1,909,194 |
| CHANGES OF THE PERIOD                         | 353,000         | -                | 122                    | (1,219)             | 6,691            | (259,016) | 12,481                                       | -                  | (384)           | 111,675   |
| BALANCES AS OF DECEMBER 31, 2009              | 1,652,000       | -                | 502                    | 30,501              | 73,216           | 198,760   | 118,130                                      | -                  | (384)           | 2,072,725 |
| VALUATION ADJUSTMENTS TO SHAREHOLDERS' EQUITY | -               | -                | -                      | -                   | -                | -         | (63,961)                                     | -                  | -               | (63,961)  |
| CAPITAL INCREASE                              |                 |                  |                        |                     |                  |           |  |                    |                 |           |
| From Reserve:                                 |                 |                  |                        |                     |                  |           |  |                    |                 |           |
| - Transfer for capital increase               | -               | 198,000          | -                      | -                   | -                | (198,000) | -  | -                  | -               | -         |
| - Capital contribution                        | 198,000         | (198,000)        | -                      | -                   | -                | -         | -  | -                  | -               | -         |
| OTHER EVENTS:                                 |                 |                  |                        |                     |                  |           |  |                    |                 |           |
| - Revaluation of assets:                      |                 |                  |                        |                     |                  |           |  |                    |                 |           |
| - Realization of reserves:                    |                 |                  |                        |                     |                  |           |  |                    |                 |           |
| - Gross amount                                | -               | -                | -                      | (2,030)             | -                | -         | -  | 2,030              | -               | -         |
| - Tax charges                                 | -               | -                | -                      | 812                 | -                | -         | -  | (812)              | -               | -         |
| NET INCOME FOR THE PERIOD                     | -               | -                | -                      | -                   | -                | -         | -  | 110,055            | -               | 110,055   |
| - Allocations:                                |                 |                  |                        |                     |                  |           |  |                    |                 |           |
| - Reserves                                    | -               | -                | -                      | -                   | 5,503            | 47,704    | -  | (53,207)           | -               | -         |
| - Interest on own Capital                     | -               | -                | -                      | -                   | -                | -         | -  | (58,066)           | -               | (58,066)  |
| BALANCES AS OF JUNE 30, 2010                  | 1,850,000       | -                | 502                    | 29,283              | 78,719           | 48,464    | 54,169                                       | -                  | (384)           | 2,060,753 |
| CHANGES OF THE PERIOD                         | 198,000         | -                | -                      | (1,218)             | 5,503            | (150,296) | (63,961)                                     | -                  | -               | (11,972)  |

STATEMENTS OF CASH FLOWS  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009  
(In thousands of Brazilian reais - R\$)

|   | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                 |                   |                   |
| Net income for the period                                   | <u>110,055</u>    | <u>133,815</u>    |
| Items not affecting cash and cash equivalents:              |                   |                   |
| - Depreciation and amortization                             | 12,716            | 12,600            |
| - Allowance for losses on other assets                      | 7                 | 15                |
| - Allowance for loan losses                                 | <u>178,285</u>    | <u>186,197</u>    |
| Adjusted net income   | <u>301,063</u>    | <u>332,627</u>    |
| Securities  | (786,043)         | 87,509            |
| Other assets  | (778)             | 3,190             |
| Interbank investments                                       | 9,145             | 1,047,407         |
| Interbank and interdepartmental accounts                    | (25,166)          | 7,552             |
| Lending operations  | (252,495)         | (1,368,081)       |
| Other receivables   | (32,173)          | 78,317            |
| Change in deferred income                                   | 6                 | (28)              |
| Valuation adjustments to shareholders' equity               | (63,961)          | 12,481            |
| Updating of stock exchange memberships                      | -                 | 122               |
| <b>NET CASH GENERATED BY (USED IN) OPERATING ACTIVITIES</b> | <u>(850,402)</u>  | <u>201,096</u>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                 |                   |                   |
| Additions to assets not in use                              | (318)             | 134               |
| Additions to property and equipment in use                  | (6,618)           | (28,001)          |
| Additions to investments                                    | (19)              | (596)             |
| Disposal of assets not in use                               | 64                | 703               |
| Disposal of property and equipment in use                   | (2)               | (50)              |
| Disposal of investments                                     | -                 | 374               |
| Deferred charges  | <u>(758)</u>      | <u>(706)</u>      |
| <b>NET CASH GENERATED BY (USED IN) INVESTING ACTIVITIES</b> | <u>(7,651)</u>    | <u>(28,142)</u>   |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                 |                   |                   |
| Deposits  | 535,876           | (11,217)          |
| Borrowings and onlendings                                   | (152,812)         | (20,987)          |
| Open market funding (repurchase agreements)                 | 9,862             | 170,302           |
| Derivatives   | (412)             | 20,082            |
| Other liabilities   | 278,960           | (482,611)         |
| Proposed interest on own capital                            | (58,066)          | (34,359)          |
| Treasury shares   | -                 | (384)             |
| <b>NET CASH GENERATED BY (USED IN) FINANCING ACTIVITIES</b> | <u>613,408</u>    | <u>(359,174)</u>  |
| <b>DECREASE IN CASH AND CASH EQUIVALENTS</b>                | <u>(244,645)</u>  | <u>(186,220)</u>  |
| <b>REPRESENTED BY CASH AND CASH EQUIVALENTS:</b>            |                   |                   |
| At beginning of period                                      | 3,877,919         | 2,074,986         |
| At end of period  | <u>3,633,274</u>  | <u>1,888,766</u>  |
| Decrease in cash and cash equivalents                       | <u>(244,645)</u>  | <u>(186,220)</u>  |

STATEMENTS OF VALUE ADDED  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009  
(In thousands of Brazilian reais - R\$)

|  | <u>06/30/2010</u> | <u>%</u>    | <u>06/30/2009</u> | <u>%</u>    |
|--|-------------------|-------------|-------------------|-------------|
| REVENUES   | <u>1,633,072</u>  |             | <u>1,469,895</u>  |             |
| Financial intermediation                             | 1,132,797         |             | 992,154           |             |
| Services provided                                    | 600,554           |             | 548,630           |             |
| Allowance for loan losses                            | (178,285)         |             | (186,197)         |             |
| Other revenues/expenses                              | 78,006            |             | 115,308           |             |
| EXPENSES ON FINANCIAL INTERMEDIATION                 | <u>(489,771)</u>  |             | <u>(456,235)</u>  |             |
| INPUTS PURCHASED FROM THIRD PARTIES                  | <u>(277,962)</u>  |             | <u>(940,244)</u>  |             |
| Materials, electric power and other                  | (128,293)         |             | (104,888)         |             |
| Outside services                                     | (149,669)         |             | (121,614)         |             |
| GROSS VALUE ADDED                                    | <u>865,339</u>    |             | <u>787,158</u>    |             |
| RETENTIONS   | <u>(12,716)</u>   |             | <u>(12,600)</u>   |             |
| Depreciation, amortization and depletion             | (12,716)          |             | (12,600)          |             |
| WEALTH GENERATED BY THE BANK                         | <u>852,623</u>    |             | <u>774,558</u>    |             |
| WEALTH FOR DISTRIBUTION                              | <u>852,623</u>    |             | <u>774,558</u>    |             |
| WEALTH DISTRIBUTED                                   | <u>852,623</u>    |             | <u>774,558</u>    |             |
| PERSONNEL  | <u>418,860</u>    | <u>49.1</u> | <u>386,269</u>    | <u>49.9</u> |
| COMPENSATION   | <u>247,072</u>    | <u>29.0</u> | <u>223,927</u>    | <u>28.9</u> |
| Employees  | 235,767           |             | 214,122           |             |
| Officers   | 1,235             |             | 1,215             |             |
| Employee and officers profit sharing                 | 10,070            |             | 8,590             |             |
| BENEFITS   | <u>153,872</u>    | <u>18.0</u> | <u>146,774</u>    | <u>18.9</u> |
| Pension plan (Capef and PGBL)                        | 289               |             | 883               |             |
| Accruals (post-employment benefits - CVM Resolution) | 101,592           |             | 97,003            |             |
| Benefits other                                       | 51,991            |             | 48,888            |             |
| Severance Pay Fund (FGTS)                            | 17,916            | 2.1         | 15,568            | 2.0         |
| TAXES  | <u>309,843</u>    | <u>36.3</u> | <u>240,444</u>    | <u>31.0</u> |
| Federal  | 302,794           |             | 234,623           |             |
| State  | 11                |             | 20                |             |
| Municipal  | 7,038             |             | 5,801             |             |
| PAYMENTS TO THIRD PARTIES                            | <u>13,865</u>     | <u>1.6</u>  | <u>14,030</u>     | <u>1.8</u>  |
| Rent   | 13,865            |             | 14,030            |             |
| PAYMENTS TO SHAREHOLDERS                             | <u>58,066</u>     | <u>6.8</u>  | <u>34,359</u>     | <u>4.4</u>  |
| INTEREST ON OWN CAPITAL                              | <u>58,066</u>     | <u>6.8</u>  | <u>34,359</u>     | <u>4.4</u>  |
| Federal Government                                   | 54,655            |             | 32,340            |             |
| Other  | 3,411             |             | 2,019             |             |
| RETAINED EARNINGS                                    | <u>51,989</u>     | <u>6.1</u>  | <u>99,456</u>     | <u>12.8</u> |

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009  
(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

---

**Contents of Notes to the Financial Statements**

|  |   |
|--|---|
| Note 1 - The Bank and its Characteristics                              | Note 14 - Other Liabilities                             |
| Note 2 - Basis of Preparation and Presentation of Financial Statements | Note 15 - Shareholders' Equity                          |
| Note 3 - Summary of Significant Accounting Practices                   | Note 16 - Other Operating Income (Expenses)             |
| Note 4 - Cash and Cash Equivalents                                     | Note 17 - Income and Social Contribution Taxes          |
| Note 5 - Interbank Investments   | Note 18 - Provisions and Contingent Liabilities         |
| Note 6 - Securities and Derivatives                                    | Note 19 - Employees' and Officers' Compensation         |
| Note 7 - Interbank Accounts - Restricted deposits                      | Note 20 - Profit Sharing                                |
| Note 8 - Loan Portfolio and Allowance for Loan Losses                  | Note 21 - Employee Benefits                             |
| Note 9 - Other Receivables   | Note 22 - Northeast Constitutional Financing Fund (FNE) |
| Note 10 - Foreign exchange portfolio                                   | Note 23 - Risk Management and Basel Ratio               |
| Note 11 - Permanent Assets   | Note 24 - Related-Parties Transactions                  |
| Note 12 - Deposits and Open Market Funding                             | Note 25 - Other Information                             |
| Note 13 - Borrowings and Domestic Onlendings                           |   |

---

**1. THE BANK AND ITS CHARACTERISTICS**

Banco do Nordeste do Brasil S.A. (the "Bank") is a private legal entity operating regionally as a public financial institution established by Federal Law 1649 of July 19, 1952. The Bank was structured as a mixed economy, publicly-traded corporation and its mission is to operate, in the capacity of a public financial institution, as a catalytic agent in promoting the sustainable development of the Northeast, integrating it to the domestic economic dynamics. Banco do Nordeste is authorized to operate all the portfolios permitted for multiple service banks, except the mortgage loan portfolio. As an institution devoted to regional development, the Bank acts as the executive agent of public policies and is responsible for managing the Northeast Constitutional Financing Fund (FNE), - the main source of funds utilized by the Bank for long-term financing - and the operation of the National Family Farming Strengthening Program (PRONAF) in its jurisdiction. It is also the operator of the Northeast Investment Fund (FINOR) and the Northeast Development Fund (FDNE), the latter created in 2001 and altered in 2007 by Supplementary Law 125, which recreated the Northeast Development Authority (SUDENE). In 1998, the Bank created its Oriented Productive Microcredit Program (Crediamigo), a Production Microcredit Program that facilitates access to credit by thousands of small entrepreneurs who engage in production-related, product sale, and service activities. In addition to federal funds, the Bank has access to other sources of financing in the domestic and foreign markets through partnerships and alliances with domestic and foreign institutions, including multilateral institutions such as the World Bank and the Inter-American Development Bank (IDB).

**2. BASIS OF PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS**

The financial statements have been prepared in accordance with Brazilian Corporate Law, as amended by Laws 11638 and 11941, of December 28, 2007 and May 27, 2009, respectively, and regulations of the National Monetary Council (CMN), the Central Bank of Brazil (BACEN), and the Brazilian Securities and Exchange Commission (CVM), and are presented in accordance with the Standard Chart of Accounts for National Financial Institutions (COSIF).

The Bank's financial statements are in conformity with the pronouncements issued by the Accounting Pronouncements Committee (CPC) in the process of convergence between the

Brazilian accounting standards and the international financial reporting standards (IFRS), as approved by the National Monetary Council, as follows:

- CPC 01 - Impairment of Assets (National Monetary Council (CMN) Resolution 3566, of May 29, 2008);
- CPC 03 - Statements of Cash Flows (CMN Resolution 3604, of August 29, 2008);
- CPC 05 - Related Party Disclosures (CMN Resolution 3750, of June 30, 2009); and
- CPC 25 - Provisions, Contingent Liabilities and Contingent Assets (CMN Resolution 3823, of December 16, 2009);

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

#### a) Results of Operations

Revenue 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 daily pro rata basis;
- a.2) Provisions, including accrued vacation, license award and 13th salary, are recorded monthly on an accrual basis;
- a.3) Assets are marked to market or adjusted to realizable value, if applicable.

#### b) Current and long-term assets

Assets and receivables are stated at realizable values, plus income earned and currency adjustments and foreign exchange fluctuation, 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 2682, 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 acquisition 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.

#### 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, plant 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%;
- c.4) Deferred charges include amortization calculated under the straight-line method at the annual rate of 20%;
- c.5) Beginning 2008, material non-financial assets are reviewed for impairment at least annually.
- c.6) CMN Resolution 3617, of September 30, 2008, determines that any balances of property, plant and equipment and deferred charges existing before the Resolution came into effect that have been recorded based on prior standards should be maintained until such balances are actually written off.
- 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 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% |
| Income tax surtax   | 10.00% |
| Social contribution | 15.00% |
| PASEP               | 0.65%  |
| COFINS              | 4.00%  |

#### **4. CASH AND CASH EQUIVALENTS**

| <u>Specification</u>            | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---------------------------------|-------------------|-------------------|
| Cash in local currency          | 77,349            | 68,515            |
| Cash in foreign currency        | <u>3,136</u>      | <u>7,414</u>      |
| Total cash                      | <u>80,485</u>     | <u>75,929</u>     |
| Investments in securities (1)   | 12,760            | -                 |
| Interbank investments (1)       | <u>3,540,029</u>  | <u>1,812,837</u>  |
| Total cash and cash equivalents | <u>3,633,274</u>  | <u>1,888,766</u>  |

- (1) Refers to transactions whose maturity on the investment date is equal to or lower than 90 days.

## 5. INTERBANK INVESTMENTS

| a) Breakdown   |                   |                   |
|--|-------------------|-------------------|
| <u>Specification</u>   | <u>06/30/2010</u> | <u>06/30/2009</u> |
| a) Money market investments                                  | <u>3,364,510</u>  | <u>1,690,294</u>  |
| Resale agreements pending settlement - own portfolio         | 3,286,822         | 1,572,351         |
| Resale agreements pending settlement - third-party portfolio | 77,688            | 117,943           |
| b) Interbank deposits  | <u>290,819</u>    | <u>498,064</u>    |
| Investments in foreign currency                              | 22,231            | 9,598             |
| Interbank deposits   | <u>268,588</u>    | <u>488,466</u>    |
| TOTAL  | <u>3,655,329</u>  | <u>2,188,358</u>  |
| CURRENT  | 3,655,329         | 2,188,358         |

| b) Income (loss) from interbank investments |                   |                   |
|---|-------------------|-------------------|
| <u>Specification</u>                        | <u>06/30/2010</u> | <u>06/30/2009</u> |
| a) Income from money market investments     | <u>133,125</u>    | <u>82,405</u>     |
| Own portfolio                               | 129,598           | 77,879            |
| Third-party portfolio                       | 3,527             | 4,526             |
| b) Income from interbank deposits           | <u>11,521</u>     | <u>61,484</u>     |
| TOTAL (Note 6.b)                            | <u>144,646</u>    | <u>143,889</u>    |

## 6. SECURITIES AND DERIVATIVES

### a) Securities

The inflation adjusted cost (plus income earned) and the fair value of securities as of June 30, 2010 are as follows:

#### a.1) SECURITIES PORTFOLIO

| <u>Specification</u>          | <u>06/30/2010</u> | <u>06/30/2009</u> |
|-------------------------------|-------------------|-------------------|
| Available-for-sale securities | 5,325,612         | 5,027,104         |
| Held-to-maturity securities   | 30,686            | 28,234            |
| Swap differential receivable  | <u>297</u>        | <u>3,799</u>      |
| TOTAL                         | <u>5,356,595</u>  | <u>5,059,137</u>  |
| CURRENT                       | 1,533,358         | 4,281,119         |
| LONG-TERM                     | 3,823,237         | 778,018           |

#### a.2) AVAILABLE-FOR-SALE SECURITIES

| <u>SPECIFICATION</u>                      | <u>06/30/2010</u> |                   |                       |                      |
|---|-------------------|-------------------|-----------------------|----------------------|
|   | <u>COST</u>       | <u>FAIR VALUE</u> | <u>MARK-TO-MARKET</u> | <u>MATURITY YEAR</u> |
| FIXED-INCOME SECURITIES                   | <u>4,864,882</u>  | <u>4,839,814</u>  | <u>(25,068)</u>       |                      |
| Treasury bills                            | 3,687,675         | 3,687,695         | 20                    | 2010 to 2015         |
| Debentures                                | 403,443           | 402,472           | (971)                 | 2012 to 2018         |
| Bank credit notes (CCB)                   | 42,533            | 42,533            | -                     | 2011 to 2013         |
| Promissory notes                          | 701,637           | 701,637           | -                     | 2010                 |
| Federal government securities (FCVS)      | 7,925             | 5,455             | (2,470)               | 2027                 |
| Federal government securities - Other (1) | 21,638            | -                 | (21,638)              | 1993                 |
| Agricultural debt securities              | 31                | 22                | (9)                   | 2010 to 2015         |
| INVESTMENT FUND SHARES                    | <u>14,948</u>     | <u>13,727</u>     | <u>(1,221)</u>        |                      |
| Social development fund (FDS)             | 1,221             | -                 | (1,221)               | Without maturity     |
| Receivables Investment Fund (FIDC) shares | 13,727            | 13,727            | -                     | 2012                 |
| VARIABLE-INCOME SECURITIES                | <u>144,159</u>    | <u>261,264</u>    | <u>117,105</u>        |                      |
| Other tax incentives (FINOR)              | 4,211             | 521               | (3,690)               | Without maturity     |
| Shares of publicly-traded companies       | 139,948           | 260,743           | 120,795               | Without maturity     |

|   |                  |                  |               |              |
|---|------------------|------------------|---------------|--------------|
| LINKED TO GUARANTEES                      | <u>211,341</u>   | <u>210,807</u>   | <u>(534)</u>  |              |
| Treasury bills                            | 207,117          | 207,131          | 14            | 2011 to 2015 |
| Federal government securities - Other (1) | 548              | -                | (548)         | 1993         |
| Debentures                                | <u>3,676</u>     | <u>3,676</u>     | <u>-</u>      | 2018         |
| TOTAL                                     | <u>5,235,330</u> | <u>5,325,612</u> | <u>90,282</u> |              |
| Tax credit                                | -                | -                | 12,219        |              |
| Provision for deferred taxes              | -                | -                | (48,332)      |              |
| TOTAL MARK-TO-MARKET                      | -                | -                | <u>54,169</u> |              |

| SPECIFICATION                             | 06/30/2009       |                   |                       |                      |
|---|------------------|-------------------|-----------------------|----------------------|
|   | <u>COST</u>      | <u>FAIR VALUE</u> | <u>MARK-TO-MARKET</u> | <u>MATURITY YEAR</u> |
| FIXED-INCOME SECURITIES                   | <u>4,493,560</u> | <u>4,470,815</u>  | <u>(22,745)</u>       |                      |
| Treasury bills                            | 3,647,080        | 3,647,234         | 154                   | 2009 to 2014         |
| Debentures                                | 106,344          | 104,720           | (1,624)               | 2012 to 2018         |
| Bank credit notes (CCB)                   | 60,829           | 60,829            | -                     | 2011 to 2013         |
| Promissory notes                          | 656,802          | 656,802           | -                     | 2009 to 2010         |
| Federal government securities (FCVS)      | 1,720            | 1,190             | (530)                 | 2027                 |
| Federal government securities - Other (1) | 20,729           | -                 | (20,729)              | 1993                 |
| Agricultural debt securities              | 56               | 40                | (16)                  | 2009 to 2015         |
| INVESTMENT FUND SHARES                    | <u>80,768</u>    | <u>79,581</u>     | <u>(1,187)</u>        |                      |
| Social development fund (FDS)             | 1,187            | -                 | (1,187)               | Without maturity     |
| Receivables Investment Fund (FIDC) shares | 79,581           | 79,581            | -                     | 2012 to 2020         |
| VARIABLE-INCOME SECURITIES                | <u>144,159</u>   | <u>291,450</u>    | <u>147,291</u>        |                      |
| Shares of publicly-traded companies       | 139,948          | 290,843           | 150,895               | Without maturity     |
| Other tax incentives (FINOR)              | 4,211            | 607               | (3,604)               | Without maturity     |
| LINKED TO GUARANTEES                      | <u>185,769</u>   | <u>185,258</u>    | <u>(511)</u>          |                      |
| Treasury bills                            | 185,244          | 185,258           | 14                    | 2010 to 2011         |
| Federal government securities - Other (1) | 525              | -                 | (525)                 | 1993                 |
| TOTAL                                     | <u>4,904,256</u> | <u>5,027,104</u>  | <u>122,848</u>        |                      |
| Tax credit                                | -                | -                 | 11,286                |                      |
| Provision for deferred taxes              | -                | -                 | (60,426)              |                      |
| TOTAL MARK-TO-MARKET                      | -                | -                 | <u>73,709</u>         |                      |

In view of the classification of assets in the category above, the amount of R\$90,282 (R\$122,848 as of June 30, 2009) was recorded in the Bank's shareholders' equity, under "Market-to-market". This adjustment, net of taxes, corresponds to R\$54,169 (R\$73,709 as of June 30, 2009).

- (1) 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.

#### a.3) HELD-TO-MATURITY SECURITIES:

| SPECIFICATION                                   | 06/30/2010    |                   |                      | 06/30/2009    |                   |                      |
|---|---------------|-------------------|----------------------|---------------|-------------------|----------------------|
|   | <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>30,686</u> | <u>30,686</u>     |                      | <u>28,234</u> | <u>28,234</u>     |                      |
| Investment Fund Shares - Northeast Entrepreneur | 1,612         | 1,612             | 2011                 | 2,036         | 2,036             | 2011                 |
| National Treasury Notes (NTN) - P               | 407           | 407               | 2012 to 2014         | 382           | 382               | 2012 to 2014         |
| Investment Fund Shares - CRIATEC                | 4,179         | 4,179             | 2017                 | 2,063         | 2,063             | 2017                 |
| Investment Fund Shares - Northeast Energy       | 23,473        | 23,473            | 2023                 | 23,753        | 23,753            | 2023                 |
| FIP Brasil Agronegócios                         | <u>1,015</u>  | <u>1,015</u>      | 2018                 | -             | -                 |                      |
| TOTAL   | <u>30,686</u> | <u>30,686</u>     |                      | <u>28,234</u> | <u>28,234</u>     |                      |

- a.4) In the first half of 2010, there were no reclassifications of securities between the categories above and no held-to-maturity securities were 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 ANBIMA (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 S.A. (Clearinghouse for the Custody and Financial Settlement of Securities).
- Variable-income securities: average quotation on the São Paulo Mercantile and Stock Exchange (BM&F BOVESPA).

b) Income (loss) from Securities transactions

| Specification                    | 06/30/2010     | 06/30/2009     |
|----------------------------------|----------------|----------------|
| Interbank Investments (Note 5.b) | 144,646        | 143,889        |
| Fixed-Income Securities          | 230,827        | 282,532        |
| Variable-Income Securities       | <u>2,563</u>   | <u>124</u>     |
| TOTAL                            | <u>378,036</u> | <u>426,545</u> |

c) 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.

The Bank has swap transactions registered with CETIP S.A. (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:

| SWAP CONTRACTS            | NOTIONAL<br>AMOUNT | 06/30/2010<br>FAIR VALUE |               | CURVE      |               | MARK-TO-MARKET |               |
|---------------------------|--------------------|--------------------------|---------------|------------|---------------|----------------|---------------|
|                           |                    | RECEIVABLE               | PAYABLE       | RECEIVABLE | PAYABLE       | POSITIVE       | NEGATIVE      |
|                           |                    | RECEIVABLE               | PAYABLE       | RECEIVABLE | PAYABLE       | POSITIVE       | NEGATIVE      |
| ASSET POSITION            |                    |                          |               |            |               |                |               |
| Foreign currency - dollar | -                  | -                        | -             | -          | -             | -              | -             |
| LIABILITY POSITION        |                    |                          |               |            |               |                |               |
| Interbank market (CDI)    | -                  | -                        | -             | -          | -             | -              | -             |
| Fixed rate                | 686,218            | 297                      | 36,159        | -          | 21,693        | 297            | 14,465        |
| Foreign currency - dollar | <u>-</u>           | <u>-</u>                 | <u>-</u>      | <u>-</u>   | <u>-</u>      | <u>-</u>       | <u>-</u>      |
| TOTAL                     | <u>686,218</u>     | <u>297</u>               | <u>36,159</u> | <u>-</u>   | <u>21,693</u> | <u>297</u>     | <u>14,465</u> |

| 06/30/2009                |                 |              |               |              |              |                |               |
|---------------------------|-----------------|--------------|---------------|--------------|--------------|----------------|---------------|
| SWAP CONTRACTS            | NOTIONAL AMOUNT | FAIR VALUE   |               | CURVE        |              | MARK-TO-MARKET |               |
|                           |                 | RECEIVABLE   | PAYABLE       | RECEIVABLE   | PAYABLE      | POSITIVE       | NEGATIVE      |
| ASSET POSITION            |                 |              |               |              |              |                |               |
| Foreign currency – dollar | 20,000          | 3,789        | -             | 2,617        | -            | 1,172          | -             |
| LIABILITY POSITION        |                 |              |               |              |              |                |               |
| Interbank market (CDI)    | 35,880          | -            | 558           | -            | 68           | -              | 489           |
| Fixed rate                | <u>741,593</u>  | <u>10</u>    | <u>37,503</u> | <u>3</u>     | <u>6,814</u> | <u>12</u>      | <u>30,695</u> |
| TOTAL                     | <u>797,473</u>  | <u>3,799</u> | <u>38,061</u> | <u>2,620</u> | <u>6,882</u> | <u>1,184</u>   | <u>31,184</u> |

Swap transactions amounts in risk

|                                 | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---------------------------------|-------------------|-------------------|
|                                 | <u>Amount</u>     | <u>Amount</u>     |
| MARKET RISK HEDGE - ASSETS      | -                 | <u>26,357</u>     |
| HEDGED ITEMS - LIABILITIES      | -                 | <u>83,952</u>     |
| MARKET RISK HEDGE - LIABILITIES | <u>810,117</u>    | <u>874,987</u>    |
| HEDGED ITEMS - ASSETS           | <u>772,618</u>    | <u>791,041</u>    |

06/30/2010

| <u>Swap contracts mature as follows:</u> | <u>Difference receivable</u> | <u>Difference payable</u> |
|--|------------------------------|---------------------------|
| Up to 3 months                           | 1                            | 6,102                     |
| 3 to 12 months                           | 147                          | 7,711                     |
| 1 to 3 years                             | 149                          | 17,642                    |
| 3 to 5 years                             | -                            | 4,485                     |
| 5 to 15 years                            | <u>-</u>                     | <u>219</u>                |
| TOTAL                                    | <u>297</u>                   | <u>36,159</u>             |

06/30/2009

| <u>Swap contracts mature as follows:</u> | <u>Difference receivable</u> | <u>Difference payable</u> |
|--|------------------------------|---------------------------|
| Up to 3 months                           | -                            | 10,559                    |
| 3 to 12 months                           | 3,789                        | 11,557                    |
| 1 to 3 years                             | 4                            | 14,112                    |
| 3 to 5 years                             | 6                            | 1,673                     |
| 5 to 15 years                            | <u>-</u>                     | <u>160</u>                |
| TOTAL                                    | <u>3,799</u>                 | <u>38,061</u>             |

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

d) Income (loss) from derivative transactions

| <u>Specification</u> | <u>06/30/2010</u> | <u>06/30/2009</u> |
|----------------------|-------------------|-------------------|
| Swap                 | <u>(5,652)</u>    | <u>(31,745)</u>   |
| TOTAL                | <u>(5,652)</u>    | <u>(31,745)</u>   |

## 7. INTERBANK ACCOUNTS - RESTRICTED DEPOSITS

### a) Restricted Deposits

| <u>Specification</u>             | <u>06/30/2010</u> | <u>06/30/2009</u> |
|----------------------------------|-------------------|-------------------|
| Mandatory payments - Savings     | 151,290           | 128,037           |
| Compulsory reserves - Cash funds | 31,820            | 11,080            |
| National Housing System (SFH)    | 29,047            | 31,923            |
| National treasury - Rural credit | <u>1,711</u>      | <u>3,362</u>      |
| TOTAL                            | <u>213,868</u>    | <u>174,402</u>    |

### b) Income (loss) from Compulsory investments

| <u>Specification</u>                                     | <u>06/30/2010</u> | <u>06/30/2009</u> |
|--|-------------------|-------------------|
| Income from restricted deposits - Central Bank of Brazil | 5,255             | 4,319             |
| Income from restricted deposits - SFH                    | 9,114             | 1,555             |
| Income from restricted deposits - Rural credit           | 29                | 170               |
| Devaluation of restricted deposits                       | <u>(4,123)</u>    | <u>(5,191)</u>    |
| TOTAL  | <u>10,275</u>     | <u>853</u>        |

## 8. LOAN PORTFOLIO AND ALLOWANCE FOR LOAN LOSSES

### a) Loan portfolio and allowance for loan losses

| <u>Specification</u>                  | <u>06/30/2010</u>   |                  | <u>06/30/2009</u>   |                  |
|---------------------------------------|---------------------|------------------|---------------------|------------------|
|                                       | <u>Gross amount</u> | <u>Allowance</u> | <u>Gross amount</u> | <u>Allowance</u> |
| <u>Loans</u>                          | <u>9,512,286</u>    | <u>(548,533)</u> | <u>7,701,362</u>    | <u>(429,970)</u> |
| Current                               | 4,267,489           | (340,792)        | 3,055,189           | (139,357)        |
| Long-term                             | 5,244,797           | (207,741)        | 4,646,173           | (290,613)        |
| <u>Other lines with loan features</u> | <u>464,331</u>      | <u>(31,830)</u>  | <u>356,579</u>      | <u>(41,349)</u>  |
| Current                               | 462,516             | (14,335)         | 352,998             | (2,936)          |
| Long-term                             | <u>1,815</u>        | <u>(17,495)</u>  | <u>3,581</u>        | <u>(38,413)</u>  |
| TOTAL                                 | <u>9,976,617</u>    | <u>(580,363)</u> | <u>8,057,941</u>    | <u>(471,319)</u> |

#### a.1) Loan portfolio

| <u>Specification</u>                           | <u>06/30/2010</u> | <u>06/30/2009</u> |
|--|-------------------|-------------------|
| Advances to depositors                         | 1,152             | 2,140             |
| Loans  | 4,257,416         | 3,391,560         |
| Discounted notes                               | 161,314           | 122,831           |
| Financing                                      | 1,287,775         | 1,061,448         |
| Financing in foreign currencies                | 38,974            | 11,156            |
| Refinancing with federal government (note 24a) | 526,826           | 534,549           |
| Rural and agro-industrial financing            | 2,124,503         | 1,832,663         |
| Real estate financing (1)                      | 243               | 229               |
| Infrastructure and development financing       | <u>1,114,083</u>  | <u>744,786</u>    |
| Subtotal of lending operations                 | <u>9,512,286</u>  | <u>7,701,362</u>  |
| Guarantees honored                             | -                 | 16                |
| Income receivable from advances                | 11,404            | 10,989            |
| Debtors for purchase of assets                 | 2,927             | 5,731             |
| Notes and credits receivables                  | 16,919            | 3,583             |
| Advances on foreign exchange contracts (2)     | <u>433,081</u>    | <u>336,260</u>    |
| Subtotal of other items with loan features     | <u>464,331</u>    | <u>356,579</u>    |
| TOTAL LOAN PORTFOLIO                           | <u>9,976,617</u>  | <u>8,057,941</u>  |

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

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

## a.2) Income from lending operations

| <u>Specification</u>                        | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---|-------------------|-------------------|
| Loans and discounted notes                  | 357,723           | 258,431           |
| Financing                                   | 146,440           | 114,575           |
| Rural and agro-industrial financing         | 147,838           | 82,398            |
| Recovery of receivables written off as loss | 43,864            | 88,191            |
| Other                                       | <u>(591)</u>      | <u>(2,826)</u>    |
| TOTAL                                       | <u>695,274</u>    | <u>540,769</u>    |

## 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 as of 06/30/2010</u> | <u>Total as of 06/30/2009</u> |
|------------------------|--------------------------|----------------------------|-----------------------------|----------------------|-------------------------------|-------------------------------|
| Rural                  | 222,408                  | 82,207                     | 113,705                     | 1,604,738            | 2,023,058                     | 1,797,787                     |
| Manufacturing          | 530,815                  | 327,705                    | 499,335                     | 718,302              | 2,076,157                     | 1,091,664                     |
| Government             | 18,479                   | 10,586                     | 29,064                      | 1,138,260            | 1,196,389                     | 1,220,506                     |
| Other services         | 245,359                  | 487,804                    | 565,507                     | 1,048,203            | 2,346,873                     | 1,884,468                     |
| Trading                | 457,545                  | 277,481                    | 300,528                     | 355,502              | 1,391,056                     | 1,044,130                     |
| Financial institutions | 62,519                   | 59,620                     | 106,590                     | 292,224              | 520,953                       | 717,687                       |
| Housing                | 243                      | -                          | -                           | -                    | 243                           | 229                           |
| Individuals            | <u>12,901</u>            | <u>11,633</u>              | <u>9,384</u>                | <u>16,951</u>        | <u>50,869</u>                 | <u>44,231</u>                 |
| TOTAL                  | <u>1,550,269</u>         | <u>1,257,036</u>           | <u>1,624,113</u>            | <u>5,174,180</u>     | <u>9,605,598</u>              | <u>7,800,702</u>              |

### 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 as of 06/30/2010</u> | <u>Total as of 06/30/2009</u> |
|------------------------|--------------------------|----------------------------|-----------------------------|----------------------|-------------------------------|-------------------------------|
| Rural                  | 1,582                    | 1,533                      | 1,588                       | 9,568                | 14,271                        | 41,948                        |
| Manufacturing          | 11,881                   | 8,394                      | 14,341                      | 17,598               | 52,214                        | 67,624                        |
| Other services         | 7,336                    | 5,068                      | 8,699                       | 17,043               | 38,146                        | 20,962                        |
| Trading                | 13,481                   | 8,753                      | 16,132                      | 26,651               | 65,017                        | 39,323                        |
| Financial institutions | 5                        | 4                          | 6                           | 10                   | 25                            | 3                             |
| Individuals            | <u>863</u>               | <u>568</u>                 | <u>781</u>                  | <u>1,561</u>         | <u>3,773</u>                  | <u>3,245</u>                  |
| TOTAL                  | <u>35,148</u>            | <u>24,320</u>              | <u>41,547</u>               | <u>72,431</u>        | <u>173,446</u>                | <u>173,105</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 as of 06/30/2010</u> | <u>Total as of 06/30/2009</u> |
|------------------------|--------------------------|----------------------------|-----------------------------|----------------------|-------------------------------|-------------------------------|
| Rural                  | 26,175                   | 7,964                      | 16,191                      | 50,320               | 100,650                       | 10,301                        |
| Manufacturing          | 12,061                   | 7,763                      | 9,749                       | 664                  | 30,237                        | 19,613                        |
| Other services         | 6,855                    | 16,540                     | 6,022                       | 1,568                | 30,985                        | 11,863                        |
| Trading                | 11,718                   | 9,378                      | 10,445                      | 781                  | 32,322                        | 37,253                        |
| Financial institutions | 3                        | -                          | -                           | -                    | 3                             | 2                             |
| Individuals            | <u>1,127</u>             | <u>720</u>                 | <u>1,396</u>                | <u>133</u>           | <u>3,376</u>                  | <u>5,102</u>                  |
| TOTAL                  | <u>57,939</u>            | <u>42,365</u>              | <u>43,803</u>               | <u>53,466</u>        | <u>197,573</u>                | <u>84,134</u>                 |

(1) Include past-due receivables up to 14 days.

c) Specification by risk level

| Risk rating | 06/30/2010       |                |                  |                | 06/30/2009       |                |                  |                |
|-------------|------------------|----------------|------------------|----------------|------------------|----------------|------------------|----------------|
|             | Current (1)      | Past-due       | Total portfolio  | Allowance      | Current (1)      | Past-due       | Total portfolio  | Allowance      |
| AA          | 3,165,802        | -              | 3,165,802        | -              | 3,023,950        | -              | 3,023,950        | -              |
| A           | 3,485,588        | -              | 3,485,588        | 17,428         | 2,455,111        | -              | 2,455,111        | 12,276         |
| B           | 2,277,222        | 21,022         | 2,298,244        | 22,982         | 1,809,905        | 47,791         | 1,857,696        | 18,577         |
| C           | 119,242          | 37,632         | 156,874          | 4,706          | 60,004           | 21,736         | 81,740           | 2,452          |
| D           | 171,670          | 39,252         | 210,922          | 21,092         | 104,724          | 18,699         | 123,423          | 12,342         |
| E           | 65,001           | 16,792         | 81,793           | 24,538         | 35,921           | 16,200         | 52,121           | 15,637         |
| F           | 62,304           | 25,338         | 87,642           | 43,821         | 55,114           | 13,825         | 68,939           | 34,470         |
| G           | 111,438          | 35,087         | 146,525          | 102,569        | 26,426           | 38,227         | 64,653           | 45,257         |
| H           | 147,331          | 195,896        | 343,227          | 343,227        | 229,547          | 100,761        | 330,308          | 330,308        |
| TOTAL       | <u>9,605,598</u> | <u>371,019</u> | <u>9,976,617</u> | <u>580,363</u> | <u>7,800,702</u> | <u>257,239</u> | <u>8,057,941</u> | <u>471,319</u> |

(1) Include past-due receivables up to 14 days.

d) Change in allowance for the period

| Specification   | 06/30/2010       | 06/30/2009      |
|---|------------------|-----------------|
| Opening balance   | 615,845          | 345,790         |
| (+) Net allowance recognized in the period                                    | 170,554          | 181,746         |
| (-) Receivables written off as a loss in the period                           | <u>(206,036)</u> | <u>(56,217)</u> |
| (=) Allowance for loan losses   | <u>580,363</u>   | <u>471,319</u>  |
| (+) Allowance for losses on other receivables without loan features (note 9e) | <u>31,895</u>    | <u>30,059</u>   |
| (=) Allowance for loan losses balance   | <u>612,258</u>   | <u>501,378</u>  |

e) Breakdown of allowance expense balance

| Specification  | 06/30/2010     | 06/30/2009     |
|--|----------------|----------------|
| (+) Expenses on allowance for loan losses  | 177,378        | 161,998        |
| (+) Expenses on allowance for losses on other receivables                        | 678            | 19,747         |
| (-) Reversals of operating allowances  | <u>(7,502)</u> | <u>-</u>       |
| (=) Expense balance on allowance with loan features                              | <u>170,554</u> | <u>181,745</u> |
| (+) Expense on allowance for losses on other receivables without loan features   | 8,218          | 4,547          |
| (-) Reversals of allowance for losses on other receivables without loan features | <u>(487)</u>   | <u>(95)</u>    |
| (=) Expense balance on allowance for loan losses                                 | <u>178,285</u> | <u>186,197</u> |

f) In the six-month period, receivables that had been written off as loss were recovered in the amount of R\$43,864 (R\$88,191 as of June 30, 2009).

g) Recovery of receivables with legal base

In conformity with Law 11322, of July 13, 2006 and Law 11775, 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 referred operations, a positive effect on the Bank's income, referring to June 30, 2010, was recognized in the amount of R\$26,481 (R\$48,347 as of June 30, 2009). Pursuant to the mentioned laws, part of these transactions was acquired by the Northeast Constitutional Financing Fund (FNE):

| Specification                                  | 06/30/2010    | 06/30/2009    |
|--|---------------|---------------|
| Income earned                                  | 15,419        | 33,044        |
| Recovery of operations written off from assets | 5,307         | 18,340        |
| Expenses on discounts                          | (2,444)       | (3,353)       |
| Net effect of allowances                       | <u>8,199</u>  | <u>316</u>    |
| TOTAL  | <u>26,481</u> | <u>48,347</u> |



## 9. OTHER RECEIVABLES

| <u>Specification</u>  | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---|-------------------|-------------------|
| a) Receivables for guarantees honored                               | -                 | <u>16</u>         |
| b) Income receivable  | <u>21,578</u>     | <u>19,735</u>     |
| c) Trading account  | -                 | <u>11</u>         |
| d) Other  | <u>870,387</u>    | <u>690,531</u>    |
| Tax credits - temporary differences (note 17.b)                     | 250,515           | 178,618           |
| Tax credits - securities and derivatives (notes 6.a.2 and 17.b)     | 12,219            | 11,286            |
| Debtors from guarantee deposits                                     | 369,455           | 247,564           |
| Recoverable taxes and contributions                                 | 82,948            | 69,951            |
| From prepayments - SRF Regulation 90/92                             | 75,189            | 62,512            |
| Other amounts   | 7,759             | 7,439             |
| Tax incentive options   | 26,748            | 26,748            |
| Receivables   | 16,919            | 3,583             |
| Salary advances   | 14,568            | 13,088            |
| Payments to be refunded   | 8,619             | 7,411             |
| Recalculation, discounts, waivers and bonuses in BNDES transactions | 2,451             | 3,083             |
| Recalculation, discounts, waivers and bonuses in FAT transactions   | 53,935            | 68,515            |
| Other amounts   | 32,010            | 60,684            |
| e) Allowance for losses on other receivables                        | <u>(63,725)</u>   | <u>(71,408)</u>   |
| Receivables with loan features                                      | (31,830)          | (41,349)          |
| Receivables without loan characteristics (note 8.d)                 | <u>(31,895)</u>   | <u>(30,059)</u>   |
| TOTAL   | <u>828,240</u>    | <u>638,885</u>    |
| CURRENT   | 752,158           | 572,764           |
| LONG-TERM   | 76,082            | 66,121            |

## 10. FOREIGN EXCHANGE PORTFOLIO

| <u>Specification</u>                          | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---|-------------------|-------------------|
| a) Breakdown                                  |                   |                   |
| Assets - Other Receivables                    | <u>487,405</u>    | <u>328,665</u>    |
| Foreign exchange purchased pending settlement | 458,460           | 317,147           |
| Receivables for foreign exchange sold         | 26,700            | 533               |
| Advances received in local currency           | (9,159)           | (4)               |
| Income receivable from advances               | 11,404            | 10,989            |
| Current Assets                                | <u>487,405</u>    | <u>328,665</u>    |
| Liabilities - Other Liabilities               | <u>51,448</u>     | <u>820</u>        |
| Foreign exchange purchased                    | 457,768           | 336,496           |
| Foreign exchange sold pending settlement      | 26,712            | 531               |
| (Advances on foreign exchange contracts)      | (433,081)         | (336,260)         |
| Other   | <u>49</u>         | <u>53</u>         |
| Current Liabilities                           | <u>51,448</u>     | <u>820</u>        |

| <u>Specification</u>                    | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---|-------------------|-------------------|
| b) Income (loss) from foreign portfolio |                   |                   |
| Exchange income                         | 55,584            | 57,899            |
| Exchange losses                         | <u>(720)</u>      | <u>(2,167)</u>    |
| TOTAL                                   | <u>54,864</u>     | <u>55,732</u>     |

## 11. PERMANENT ASSETS

| <u>Specification</u>                  | <u>06/30/2010</u>     | <u>06/30/2009</u>     |
|---------------------------------------|-----------------------|-----------------------|
| a) Investments                        | <u>1,398</u>          | <u>1,342</u>          |
| a.1) Other investments                | <u>6,701</u>          | <u>6,245</u>          |
| Tax incentive investments             | 5,010                 | 4,610                 |
| Shares                                | 944                   | 944                   |
| Artworks and valuables                | 747                   | 691                   |
| a.2) Allowance for losses             | <u>(5,303)</u>        | <u>(4,903)</u>        |
| Tax incentive investments             | (5,010)               | (4,610)               |
| Shares                                | (293)                 | (293)                 |
| b) Property and equipment             | <u>186,637</u>        | <u>195,679</u>        |
| b.1) Real estate                      | <u>130,430</u>        | <u>121,887</u>        |
| Land                                  | 6,267                 | 6,267                 |
| Buildings                             | 124,163               | 115,620               |
| 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 property and equipment     | <u>143,115</u>        | <u>145,381</u>        |
| Facilities, furniture and equipment   | 61,505                | 59,676                |
| Data processing system                | 49,976                | 53,746                |
| Security system                       | 9,567                 | 10,040                |
| Transportation system                 | 16,298                | -                     |
| Other                                 | 5,769                 | 21,919                |
| b.4) Accumulated depreciation         | <u>(198,536)</u>      | <u>(183,217)</u>      |
| Real estate                           | (149,463)             | (138,350)             |
| Other property and equipment          | (49,073)              | (44,867)              |
| c) Deferred charges                   | <u>3,050</u>          | <u>4,247</u>          |
| c.1) Organization and expansion costs | <u>7,538</u>          | <u>10,537</u>         |
| Leasehold improvements                | 7,490                 | 10,285                |
| Software purchase and development     | 48                    | 252                   |
| c.2) Accumulated amortization         | <u>(4,488)</u>        | <u>(6,290)</u>        |
| Leasehold improvements                | (4,460)               | (6,176)               |
| Software purchase and development     | (28)                  | (114)                 |
| <b>TOTAL</b>                          | <u><b>191,085</b></u> | <u><b>201,268</b></u> |

## 12. DEPOSITS AND OPEN MARKET FUNDING

| <u>Specification</u>  | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---|-------------------|-------------------|
| a) Deposits   |                   |                   |
| a.1) Demand deposits  | <u>177,267</u>    | <u>138,416</u>    |
| Foreign currency deposits                                     | 37,408            | 48,285            |
| Government deposits   | 40,744            | 21,877            |
| Restricted deposits   | 46,715            | 19,519            |
| Legal entities  | 41,875            | 40,596            |
| Individuals   | 9,144             | 7,260             |
| Other amounts   | 1,381             | 879               |
| a.2) Savings deposits   | <u>1,086,119</u>  | <u>870,709</u>    |
| Free savings deposits - individuals                           | 657,238           | 557,147           |
| Free savings deposits - legal entities                        | 428,207           | 313,398           |
| From related parties and institutions of the Financial System | 674               | 164               |
| a.3) Interbank deposits                                       | <u>522,411</u>    | <u>177,503</u>    |
| a.4) Time deposits  | <u>5,072,825</u>  | <u>2,929,254</u>  |
| Time deposits   | 4,159,167         | 1,947,166         |
| Interest-bearing escrow deposits                              | <u>79,080</u>     | <u>53,155</u>     |
| Interest-bearing special deposits /FAT - available funds      | <u>19,895</u>     | <u>12,354</u>     |
| Proger Urbano   | 1,473             | 135               |
| Proger Rural  | 4                 | 1,847             |
| Pronaf  | 125               | 101               |

|  |                  |                  |
|--|------------------|------------------|
| Protrabalho  | 10,814           | 3,353            |
| Infrastructure   | 7,096            | 6,374            |
| Drought  | 383              | 544              |
| Interest-bearing special deposits /FAT - invested funds    | <u>335,499</u>   | <u>393,527</u>   |
| Proger Urbano  | 62,881           | 58,034           |
| Proger Rural   | -                | 4,156            |
| Pronaf   | 1,242            | 1,706            |
| Protrabalho  | 204,236          | 255,775          |
| Infrastructure   | 54,442           | 58,656           |
| Drought  | 12,698           | 15,200           |
| FINOR/cash and cash equivalents and reinvestments Law 8167 | 473,510          | 522,798          |
| Other amounts  | 5,674            | 254              |
| a.5) Other deposits - Investment deposits                  | <u>9,981</u>     | <u>9,561</u>     |
| TOTAL  | <u>6,868,603</u> | <u>4,125,443</u> |
| CURRENT  | 2,706,019        | 2,287,955        |
| LONG-TERM  | 4,162,584        | 1,837,488        |

b) Open Market Funding

| <u>Specification</u>    | <u>06/30/2010</u> | <u>06/30/2009</u> |
|-------------------------|-------------------|-------------------|
| Own portfolio           | <u>377,851</u>    | <u>352,925</u>    |
| Treasury bills          | 377,851           | 352,925           |
| Third-party portfólio   | <u>77,688</u>     | <u>117,943</u>    |
| Treasury bills          | 27,740            | 27,720            |
| National treasury bills | 49,948            | -                 |
| National treasury notes | -                 | 90,223            |
| TOTAL                   | <u>455,539</u>    | <u>470,868</u>    |
| CURRENT                 | 455,539           | 470,868           |

c) Expenses of Funding Operations

| <u>Specification</u>                        | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---|-------------------|-------------------|
| Expenses on raising deposits                | <u>(231,624)</u>  | <u>(167,725)</u>  |
| Time deposits                               | (163,155)         | (103,185)         |
| Savings deposits                            | (23,373)          | (20,682)          |
| Escrow deposits                             | (1,838)           | (1,742)           |
| Interbank deposits                          | (6,544)           | (4,581)           |
| Special deposits - FAT                      | (33,319)          | (35,447)          |
| Other                                       | (3,395)           | (2,088)           |
| Expenses on money market funding operations | <u>(20,370)</u>   | <u>(22,157)</u>   |
| Third-party portfólio                       | (3,527)           | (4,526)           |
| Own portfólio                               | <u>(16,843)</u>   | <u>(17,631)</u>   |
| TOTAL                                       | <u>(251,994)</u>  | <u>(189,882)</u>  |

Funds derived from the Fund for Workers' Assistance (FAT), recorded under 'Interest-bearing special deposits', totaling R\$355,394 (R\$405,881 as of June 30, 2009) are subject to SELIC (Central Bank overnight rate) while they are not used in lending operations, and to TJLP after they are released to final borrowers. Available funds bearing interest at SELIC total R\$19,895 (R\$12,354 as of June 30, 2009).

Pursuant to CODEFAT (Board of the Worker's Assistance Fund) Resolution 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 for the reimbursements of the final borrowers, not reused in new financings.

- After 3 months, relating to the new deposits made by FAT, when funds are not released to the final borrowers.

### 13. BORROWINGS AND DOMESTIC ONLENDINGS

- With respect to domestic borrowings and onlendings, interest rates vary from 0 to 10.0 percent per annum and maturities vary from 4 to 20 years with an average of 6 years term. In accordance with legal and contractual requirements, inflation adjustment, when applicable, is calculated using the official indices disclosed by the Central Bank of Brazil.
- Financing from the BNDES (National Bank for Economic and Social Development) totaling R\$813,268 (R\$670,888 as of June 30, 2009), subject to TJLP (long-term interest rate) or inflation indices (IGP-M and IPCA) plus average spread of 1.5% per annum and average maturity of 6 years.
- Regarding foreign financing, interest rates range from 0.87 to 6.00 percent per annum, average maturity is 10 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.
- 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 other.

#### e) Borrowings and Onlendings by Maturity:

| <u>Specification</u> | <u>1 to 3<br/>years</u> | <u>3 to 5<br/>years</u> | <u>5 to 15<br/>years</u> | <u>Over 15<br/>years</u> | <u>Total as of<br/>06/30/2010</u> | <u>Total as of<br/>06/30/2009</u> |
|----------------------|-------------------------|-------------------------|--------------------------|--------------------------|-----------------------------------|-----------------------------------|
| Domestic borrowings  | 23,363                  | 23,363                  | 11,682                   | -                        | 58,408                            | 67,323                            |
| Domestic onlendings  | 212,457                 | 272,585                 | 368,949                  | 296,630                  | 1,150,621                         | 1,018,815                         |
| Foreign onlendings   | <u>139,534</u>          | <u>165,944</u>          | <u>315,944</u>           | <u>68,605</u>            | <u>690,027</u>                    | <u>730,061</u>                    |
| TOTAL                | <u>375,354</u>          | <u>461,892</u>          | <u>696,575</u>           | <u>365,235</u>           | <u>1,899,056</u>                  | <u>1,816,199</u>                  |

#### f) Borrowings

| <u>Specification</u>                                       | <u>06/30/2010</u> | <u>06/30/2009</u> |
|--|-------------------|-------------------|
| a) Domestic borrowings - official institutions/Refinancing | 73,010            | 80,788            |
| b) Foreign borrowings/Borrowings in foreign currency       | <u>405,568</u>    | <u>292,767</u>    |
| TOTAL  | <u>478,578</u>    | <u>373,555</u>    |
| CURRENT  | 420,170           | 306,232           |
| LONG-TERM  | 58,408            | 67,323            |

#### g) Domestic Onlendings - Official Institutions

| <u>Specification</u>   | <u>06/30/2010</u> | <u>06/30/2009</u> |
|--|-------------------|-------------------|
| National Treasury  | <u>1,114</u>      | <u>1,235</u>      |
| BNDES  | <u>785,416</u>    | <u>634,967</u>    |
| POC (credit facility granted by the BNDES agents to shareholders of medium-sized and small companies to buy shares in capital increases) | 459,109           | 306,505           |
| Credit Facility for investment in agriculture  | 326,307           | 328,462           |
| CEF (Federal Savings and Loan Bank)  | -                 | 26                |
| FINAME (National Equipment Financing Authority)  | <u>27,852</u>     | <u>35,921</u>     |
| “Programa Automático” (program that intended purchase of new machinery   |                   |                   |

|   |                  |                  |
|---|------------------|------------------|
| and equipment by companies based in Brazil)                       | 12,903           | 22,437           |
| Farm Program  | 14,041           | 13,476           |
| Import  | 908              | 8                |
| Other institutions  | <u>653,953</u>   | <u>657,219</u>   |
| Pilot Support Project of Agrarian Reform                          | 84,473           | 80,166           |
| “MEPF-Banco da Terra” - Land Fund and Agrarian Reform - Land Bank | 127,988          | 139,219          |
| “Banco da Terra”- Land Bank - Fight against rural poverty         | <u>441,492</u>   | <u>437,834</u>   |
| TOTAL   | <u>1,468,335</u> | <u>1,329,368</u> |
| CURRENT   | 317,714          | 310,553          |
| LONG-TERM   | 1,150,621        | 1,018,815        |

#### h) Foreign Onlendings

| <u>Specification</u>  | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---|-------------------|-------------------|
| IDB-Prodetur (Tourism Development Program with funds provided by the IDB) | 749,044           | 787,809           |
| IDB-Other programs  | 7,186             | -                 |
| Other programs  | <u>642</u>        | <u>9,325</u>      |
| TOTAL   | <u>756,872</u>    | <u>797,134</u>    |
| CURRENT   | 66,845            | 67,073            |
| LONG-TERM   | 690,027           | 730,061           |

#### i) Expenses on Borrowings and Onlendings

| <u>Specification</u>                        | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---|-------------------|-------------------|
| Borrowings                                  | <u>(2,852)</u>    | <u>(3,182)</u>    |
| Domestic borrowings                         | <u>(2,852)</u>    | <u>(3,182)</u>    |
| Onlendings                                  | <u>(70,697)</u>   | <u>(34,200)</u>   |
| Domestic Onlendings - Official Institutions | <u>(33,419)</u>   | <u>(18,461)</u>   |
| National Treasury                           | (54)              | (30)              |
| BNDES                                       | (29,277)          | (10,792)          |
| FINAME                                      | (1,637)           | (1,642)           |
| CEF   | -                 | (2)               |
| Other institutions                          | (2,451)           | (5,995)           |
| Foreign onlendings                          | <u>(37,278)</u>   | <u>(15,739)</u>   |
| Foreign banks                               | <u>(19,609)</u>   | <u>(5,275)</u>    |
| Financial and development funds             | <u>(144,619)</u>  | <u>(223,696)</u>  |
| TOTAL                                       | <u>(237,777)</u>  | <u>(266,353)</u>  |

### 14. OTHER LIABILITIES

| <u>Specification</u>   | <u>06/30/2010</u> | <u>06/30/2009</u> |
|--|-------------------|-------------------|
| a) Collected taxes and other   | <u>32,221</u>     | <u>25,803</u>     |
| Funds from Proagro (program established to guarantee farmers to pay their costs of farming and cattle raising) | 335               | 4,000             |
| Receipt of federal taxes   | 26,209            | 18,170            |
| IOF (tax on financial transactions payable)  | 4,291             | 2,255             |
| Other taxes  | 1,386             | 1,378             |
| b) Social and statutory  | <u>68,256</u>     | <u>43,068</u>     |
| Dividends and bonuses payable  | 58,186            | 34,479            |
| Profit sharing   | 10,070            | 8,589             |
| c) Tax and social security   | <u>375,965</u>    | <u>325,321</u>    |
| Provision for tax contingencies (note 18)  | <u>96,563</u>     | <u>89,824</u>     |
| Taxes payable  | 72,067            | 68,919            |
| Tax lawsuits   | 24,496            | 20,905            |
| Provision for deferred income and social contribution taxes  | <u>60,567</u>     | <u>74,285</u>     |
| Securities and derivatives (note 6.a.2)  | 48,332            | 60,426            |
| Revaluation of buildings and land (note 15.b)  | 12,235            | 13,859            |
| Provision for income and social contribution taxes (note 17.a)   | <u>179,957</u>    | <u>128,995</u>    |
| Income tax   | 111,843           | 80,302            |

|   |                         |                         |
|---|-------------------------|-------------------------|
| Social contribution                               | 68,114                  | 48,693                  |
| Taxes payable                                     | <u>38,878</u>           | <u>32,217</u>           |
| d) Financial and development funds                | <u>3,442,335</u>        | <u>4,092,119</u>        |
| Northeast Constitutional Financing Fund (FNE)     | 3,343,850               | 4,018,297               |
| Other   | 98,485                  | 73,822                  |
| e) Subordinated debt eligible for capital (1)     | <u>1,049,574</u>        | -                       |
| f) Other  | <u>2,656,188</u>        | <u>2,427,417</u>        |
| Provision for contingent liabilities (note 18)    | <u>1,359,198</u>        | <u>1,184,390</u>        |
| Labor lawsuits                                    | 153,109                 | 185,677                 |
| Civil lawsuits                                    | 99,111                  | 93,443                  |
| Other lawsuits                                    | 532                     | 522                     |
| FNE (note 22.c)                                   | 1,102,620               | 904,730                 |
| FDNE  | 146                     | 18                      |
| PROAGRO   | 3,680                   | -                       |
| Accrued liabilities allowances                    | <u>1,193,519</u>        | <u>1,141,317</u>        |
| Employee benefits - CVM Resolution 371            | 1,076,944               | 958,955                 |
| Pension plan - CVM Resolution 371 (note 21.e)     | 803,581                 | 728,849                 |
| Health care plan - CVM Resolution 371 (note 21.e) | 273,363                 | 230,106                 |
| Personnel expenses                                | 91,473                  | 67,920                  |
| Other   | 25,102                  | 114,442                 |
| Other   | <u>103,471</u>          | <u>101,710</u>          |
| <b>TOTAL</b>                                      | <u><b>7,624,539</b></u> | <u><b>6,913,728</b></u> |
| <b>CURRENT</b>                                    | <u><b>3,251,045</b></u> | <u><b>3,634,701</b></u> |
| <b>LONG-TERM</b>                                  | <u><b>4,373,494</b></u> | <u><b>3,279,027</b></u> |

- (1) The Central Bank of Brazil approved the qualification of onlending transactions by FNE, in the amount of R\$600,000 (Official Letter DEORF/Cofil - 2009/07394 of July 20, 2009) and R\$400,000 (Official Letter DEORF/Cofil - 2010/05338 of June 16, 2010), as Tier II Capital in the Regulatory Shareholders' Equity (PR) of Banco do Nordeste do Brasil S/A, under the category "subordinated debt eligible for capital", as required by CMN Resolution 3444, of February 28, 2007.

Subordinate debt agreements have indeterminate term and establish that the funds not yet invested will yield the extramarket rate disclosed by the Central Bank of Brazil, and, when invested upon release to the borrowers under the financings contracted by Banco do Nordeste, they will be adjusted at the charges agreed upon in the respective credit instruments, pursuant to the legislation governing FNE.

## 15. SHAREHOLDERS' EQUITY

### a) Capital

The Extraordinary Shareholders' Meeting held on March 30, 2010 approved a capital increase of R\$198,000 by using bylaws reserves, without issuance of new shares. Capital increased from R\$1,652,000 to R\$1,850,000, represented by 87,001,901 registered, fully paid shares with no par value, distributed as follows:

Composition as of June 30, 2010

| <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                        | 20,200                   | 399,595                  | 419,795                  | 0.04                    | 0.48                   |
| Other (9,606 shareholders)      | <u>395,592</u>           | <u>371,077</u>           | <u>766,669</u>           | <u>0.82</u>             | <u>0.89</u>            |
| <b>TOTAL</b>                    | <u><b>48,484,775</b></u> | <u><b>38,517,126</b></u> | <u><b>87,001,901</b></u> | <u><b>100.00</b></u>    | <u><b>100.00</b></u>   |

Composition as of June 30, 2009

| <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 (9,312 shareholders)      | <u>393,007</u>           | <u>367,177</u>           | <u>760,184</u>           | <u>0.81</u>             | <u>0.88</u>            |
| <b>TOTAL</b>                    | <u><b>48,484,775</b></u> | <u><b>38,517,126</b></u> | <u><b>87,001,901</b></u> | <u><b>100.00</b></u>    | <u><b>100.00</b></u>   |

b) Revaluation reserve

The amount of R\$29,283 (R\$31,719 as of June 30, 2009) refers to the revaluation of property, plant and equipment in use, recognized on February 26, 1993. Said reserve will be maintained through its actual realization date either as a result of depreciation, write-off or sale, pursuant to CMN Resolution 3565, of May 29, 2008. The realization occurred in the six-month period totaled R\$1,218 (R\$1,219 as of June 30, 2009) and was included in the income allocation basis.

c) Treasury shares

The Bank holds 10,232 own shares, of which 8,088 are registered common shares (ON) and 2,144 are registered preferred shares (PN), bought back on February 17, 2009. These shares, whose market values on June 30, 2010 represent, respectively, R\$40.00 and R\$40.00 per share, are held in treasury to be later disposed of or cancelled.

d) Net Income - Allocations

|   |                |
|---|----------------|
| 1. Net income   | <u>110,055</u> |
| 2. Revaluation reserves transferred to retained earnings (accumulated losses) | 1,218          |
| 3. Adjusted net income  | <u>111,273</u> |
| Legal reserve (item 1 x 5%)   | 5,503          |
| Interest on own capital (note 15.e)   | 58,066         |
| Statutory reserve (item 3 - Legal reserve - interest on own capital)          | 47,704         |

e) 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, as an advance of the dividends for the year.

The Executive Board proposed and the Board of Directors approved, subject to the approval of the Shareholders' Meeting, the early payment of interest on capital attributed to dividends equivalent to 50.1993% of the adjusted net income in the six-month period. Interest on capital for the first half of 2010 was calculated as follows:

| <u>Specification</u>  | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---|-------------------|-------------------|
| 1. Net income for the six-month period  | <u>110,055</u>    | <u>133,815</u>    |
| 2. Recorded legal reserve   | (5,503)           | (6,691)           |
| 3. Revaluation reserves transferred to retained earnings (accumulated losses)   | 1,218             | 1,219             |
| 4. Profit sharing   | 10,070            | 8,590             |
| 5. Calculation basis of interest on own capital   | <u>115,840</u>    | <u>136,933</u>    |
| 6. Interest own on capital in the six-month period  | 58,066            | 34,359            |
| 7. Withholding income tax on interest on own capital  | (122)             | (72)              |
| 8. Interest on own capital attributed to dividends (items 6 and 7)  | 57,944            | 34,287            |
| 9. Total attributed to shareholders (item 6)  | <u>58,066</u>     | <u>34,359</u>     |
| - Interest on own capital of R\$0.639196881379 per common share (as of 06/30/2009: interest on own capital of R\$0.378217919471 per common share)       | 30,986            | 18,335            |
| - Interest on own capital of R\$0.703116569807 per preferred share (as of 06/30/2009: interest on own capital of R\$0.416039711508 per preferred share) | 27,080            | 16,024            |

The Bank calculated for preferred shares dividends/interest on own capital 10% higher than dividends/interest on own capital attributed to common shares, pursuant to Article 17, "I", of Law 6404, of December 15, 1976, as reworded by Law 10303, of October 31, 2001 and the provision of Article 6, paragraph 2, of the Bank's bylaws.

Interest on capital was accounted for in expenses, but, for purposes of disclosure of financial statements, has been reclassified to “Retained earnings (accumulated losses)”.

The employee profit sharing was added to the interest on capital calculation basis, as established by Article 2 of Resolution 10, of May 30, 1995, of the CCE (Council for Coordination and Control of State-Owned Companies).

## 16. OTHER OPERATING INCOME (EXPENSES)

| <u>Specification</u>   | <u>06/30/2010</u> | <u>06/30/2009</u> |
|--|-------------------|-------------------|
| a) Income from services provided                                   | <u>594,415</u>    | <u>543,318</u>    |
| Investment funds management  | 5,767             | 4,158             |
| Funds and programs management                                      | 455,005           | 418,195           |
| Services provided  | 133,643           | 120,965           |
| b) Income from bank fees   | <u>6,139</u>      | <u>5,312</u>      |
| c) Personnel expenses  | <u>(458,976)</u>  | <u>(421,507)</u>  |
| Salaries   | (234,053)         | (212,584)         |
| Payroll charges  | (83,593)          | (69,727)          |
| Contribution expenses - CAPEF (note 21. g)                         | -                 | (1,181)           |
| Contribution expenses - CAMED (note 21. g)                         | -                 | (4,488)           |
| Pension plan - CVM Resolution 371 (note 21.g)                      | (63,726)          | (63,664)          |
| Health care plan - CVM Resolution 371 (note 21.g)                  | (37,866)          | (33,339)          |
| Benefits, training, fees and compensation of interns               | (39,738)          | (36,524)          |
| d) Other administrative expenses                                   | <u>(304,543)</u>  | <u>(253,132)</u>  |
| Data processing  | (64,256)          | (53,226)          |
| Advertising and publicity  | (19,757)          | (18,364)          |
| Outside services   | (73,726)          | (56,905)          |
| Rentals, material and public utilities                             | (21,550)          | (21,768)          |
| Travel expenses  | (6,914)           | (7,570)           |
| Communications   | (14,761)          | (16,553)          |
| Depreciation and amortization                                      | (12,716)          | (12,600)          |
| Asset maintenance and upkeep                                       | (14,583)          | (11,309)          |
| Surveillance, security and transportation                          | (12,498)          | (11,457)          |
| Promotions, public relations and publications                      | (9,739)           | (6,964)           |
| Financial system services  | (8,098)           | (6,814)           |
| Specialized technical services                                     | (10,460)          | (9,052)           |
| FUNDECI (science and technology development fund)                  | (8,100)           | -                 |
| Other  | (27,385)          | (20,550)          |
| e) Tax expenses  | <u>(80,512)</u>   | <u>(68,434)</u>   |
| Cofins and PIS/PASEP (taxes on revenue)                            | (73,398)          | (62,376)          |
| ISS (service tax) and IPTU (municipal real estate tax)/Improvement | (6,763)           | (5,597)           |
| Other  | (351)             | (461)             |
| f) Other operating income  | <u>400,009</u>    | <u>595,237</u>    |
| Financial commission on investment funds management                | 325,201           | 261,938           |
| Negative exchange variation of loans obtained                      | 12,646            | 240,586           |
| Recovery of charges and expenses                                   | 6,651             | 6,291             |
| Reversal of provisions for social contribution and income tax      | 131               | 14,716            |
| Reversal of operating accruals                                     | 3,788             | 16,917            |
| Interest and commissions   | 1,270             | 3,779             |
| Monetary adjustment  | 2,858             | 2,285             |
| Monetary adjustment of taxes                                       | 83                | 11,931            |
| FNE - Recovery of amounts settled by the Bank                      | 16,816            | 22,652            |
| Other  | 30,565            | 14,142            |
| g) Other operating expenses  | <u>(361,528)</u>  | <u>(512,852)</u>  |
| Exchange variation from exchange area                              | -                 | (166)             |
| Negative exchange variations on granted loans                      | (30,912)          | (255,874)         |
| Negative adjustments on lending operations                         | (3)               | (9,388)           |



|                                     |                         |                         |
|-------------------------------------|-------------------------|-------------------------|
| Discounts granted in renegotiations | (21,959)                | (2,292)                 |
| Interest on lending operations      | (9,538)                 | (3,923)                 |
| Tax risks                           | (1,396)                 | (9,047)                 |
| FNE's operations risks              | (236,415)               | (163,510)               |
| Labor lawsuits                      | (6,545)                 | (12,781)                |
| Civil lawsuits                      | (12,882)                | (20,335)                |
| Other lawsuits                      | (10)                    | (11)                    |
| Other operating provisions          | (109)                   | (3,134)                 |
| Other                               | <u>(41,759)</u>         | <u>(32,391)</u>         |
| <b>TOTAL</b>                        | <b><u>(204,996)</u></b> | <b><u>(112,058)</u></b> |

## 17. INCOME AND SOCIAL CONTRIBUTION TAXES

### a) Income tax and social contribution

The Bank is subject to taxation on deemed income and pays income and social contribution taxes monthly on an estimated basis. Income tax expenses from January to June 2010 was R\$87,546 and the social contribution tax expense was R\$53,542, reconciled as shown below:

|  | Income tax     |                | Social contribution |                |
|--|----------------|----------------|---------------------|----------------|
|  | 06/30/2010     | 06/30/2009     | 06/30/2010          | 06/30/2009     |
| a.1) Specification of the provision for income tax and social contribution expense |                |                |                     |                |
| Income before taxes on income, interest on own capital and profit sharing          | 193,076        | 196,662        | 193,076             | 196,662        |
| Permanent additions/deductions   | 6,566          | 24,452         | 6,578               | 24,465         |
| Temporary additions/deductions   | 274,793        | 242,612        | 274,793             | 242,612        |
| Taxable income before utilization of tax loss carryforwards                        | 474,435        | 463,726        | 474,447             | 463,739        |
| Offset of tax loss carryforwards   | (19,350)       | (139,118)      | (20,354)            | (139,122)      |
| Taxable income after utilization of tax loss carryforwards                         | <u>455,085</u> | <u>324,608</u> | <u>454,093</u>      | <u>324,617</u> |
| Provision for income tax and social contribution                                   | (113,251)      | (80,632)       | (67,809)            | (48,388)       |
| Deductions (tax incentives)  | 1,916          | 838            | -                   | -              |
| Expense on provision for income tax and social contribution                        | (111,335)      | (79,794)       | (67,809)            | (48,388)       |
| Deferred tax assets  | 23,789         | 19,364         | 14,267              | 11,612         |
| Total current expenses   | (87,546)       | (60,430)       | (53,542)            | (36,776)       |
| % of current expenses in relation to income before taxation                        | 45.34%         | 30.73%         | 27.73%              | 18.70%         |

|  | Income tax |            | Social contribution |            |
|--|------------|------------|---------------------|------------|
|  | 06/30/2010 | 06/30/2009 | 06/30/2010          | 06/30/2009 |
| a.2) Specification of provision for income tax and social contribution |            |            |                     |            |
| Provision for income tax and social contribution expense               | 111,335    | 79,794     | 67,809              | 48,388     |
| Provision for taxes on the realization of revaluation reserve          | 508        | 508        | 305                 | 305        |
| Provision for income tax and social contribution                       | 111,843    | 80,302     | 68,114              | 48,693     |
| Taxes for offset due to tax prepayments, including withholding taxes   | (52,203)   | (45,058)   | (23,772)            | (19,557)   |
| Adjustment for the period  | 59,640     | 35,244     | 44,342              | 29,136     |

### b) Tax credits on temporary differences

Income tax and social contributions on temporary differences of allowances for doubtful accounts are recorded in conformity with the provisions of the following main standards: CMN Resolution 3059, of December 20, 2002 (amended by CMN Resolution 3355, of March 31, 2006), and Central Bank of Brazil Circular 3171, of December 30, 2002; and are based on technical studies performed on a six-monthly basis.

In accordance with Central Bank of Brazil Circular Letter 3023, of June 11, 2002, the Bank recognized 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>Specification</u>                | <u>INCOME TAX</u>            |                   | <u>SOCIAL CONTRIBUTION</u>   |                   | <u>TOTAL</u>                 |                   |
|-------------------------------------|------------------------------|-------------------|------------------------------|-------------------|------------------------------|-------------------|
|                                     | <u>Temporary differences</u> | <u>Securities</u> | <u>Temporary differences</u> | <u>Securities</u> | <u>Temporary differences</u> | <u>Securities</u> |
| Opening balance as of 12/31/2009    | 132,778                      | 7,038             | 79,681                       | 4,223             | 212,459                      | 11,261            |
| (+) Credit recognition              | 60,875                       | 45,278            | 36,533                       | 27,166            | 97,408                       | 72,444            |
| (-) Credit realization              | <u>(37,086)</u>              | <u>(44,679)</u>   | <u>(22,266)</u>              | <u>(26,807)</u>   | <u>(59,352)</u>              | <u>(71,486)</u>   |
| (=) Ending balance as of 06/30/2010 | <u>156,567</u>               | <u>7,637</u>      | <u>93,948</u>                | <u>4,582</u>      | <u>250,515</u>               | <u>12,219</u>     |

The balance of the income and social contribution tax assets, recognized in 'OTHER RECEIVABLES - other', is composed as follows:

| <u>Specification</u>   | <u>Income tax</u> |                   | <u>Social contribution</u> |                   |
|--|-------------------|-------------------|----------------------------|-------------------|
|  | <u>06/30/2010</u> | <u>06/30/2009</u> | <u>06/30/2010</u>          | <u>06/30/2009</u> |
| 1. Total temporary differences                                 | 3,010,009         | 2,679,220         | 3,010,009                  | 2,679,220         |
| 2. Tax loss carryforwards                                      | -                 | 128,642           | -                          | 129,649           |
| 3. Total tax base ("1" + "2")                                  | 3,010,009         | 2,807,862         | 3,010,009                  | 2,808,869         |
| 4. Tax credits on temporary differences+tax loss carryforwards | 752,502           | 701,965           | 451,501                    | 421,331           |
| 5. Tax credits from mark-to-market of securities               | 7,637             | 7,054             | 4,582                      | 4,232             |
| 6. Total tax credits   | 760,139           | 709,019           | 456,083                    | 425,563           |
| 7. Tax credits recognized in assets                            | 164,204           | 118,686           | 98,530                     | 71,219            |
| 8. Tax credits not recognized in assets ("6" - "7")            | 595,935           | 590,333           | 357,553                    | 354,344           |

The estimated realization of tax credits as of June 30, 2010 is as follows:

| <u>Period</u> | <u>Realization of income tax credit</u> |                      | <u>Realization of social contribution tax</u> |                      | <u>Total</u>      |                      |
|---------------|---|----------------------|---|----------------------|-------------------|----------------------|
|               | <u>Book value</u>                       | <u>Present value</u> | <u>Book value</u>                             | <u>Present value</u> | <u>Book value</u> | <u>Present value</u> |
| 2010          | 35,469                                  | 33,508               | 21,282  | 20,105               | 56,751            | 53,613               |
| 2011          | 38,892                                  | 32,870               | 23,336  | 19,722               | 62,228            | 52,592               |
| 2012          | 18,112                                  | 13,828               | 10,867  | 8,296                | 28,979            | 22,124               |
| 2013          | 16,475                                  | 11,426               | 9,885   | 6,856                | 26,360            | 18,282               |
| 2014          | 31,187                                  | 19,706               | 18,712  | 11,823               | 49,899            | 31,529               |
| 2015          | <u>16,432</u>                           | <u>9,459</u>         | <u>9,866</u>                                  | <u>5,680</u>         | <u>26,298</u>     | <u>15,139</u>        |
| TOTAL         | <u>156,567</u>                          | <u>120,797</u>       | <u>93,948</u>                                 | <u>72,482</u>        | <u>250,515</u>    | <u>193,279</u>       |

The tax credits arising on the mark-to-market of securities determined at the present realizable value, pursuant to Central Bank of Brazil Circular 3068, of November 08, 2001, will be realized according to the maturities of the securities, as shown below:

| <u>Period</u> | <u>Realization of income tax credit</u> |                      | <u>Realization of social contribution tax credit</u> |                      | <u>Total</u>      |                      |
|---------------|---|----------------------|--|----------------------|-------------------|----------------------|
|               | <u>Book value</u>                       | <u>Present value</u> | <u>Book value</u>                                    | <u>Present value</u> | <u>Book value</u> | <u>Present value</u> |
| 2010          | 6,774                                   | 6,774                | 4,064  | 4,064                | 10,838            | 10,838               |
| 2011          | 2                                       | 2                    | 1  | 1                    | 3                 | 3                    |
| 2012          | 72                                      | 72                   | 43   | 43                   | 115               | 115                  |
| 2014          | 171                                     | 171                  | 103  | 103                  | 274               | 274                  |
| 2027 to 2029  | <u>618</u>                              | <u>618</u>           | <u>371</u>   | <u>371</u>           | <u>989</u>        | <u>989</u>           |
| TOTAL         | <u>7,637</u>                            | <u>7,637</u>         | <u>4,582</u>   | <u>4,582</u>         | <u>12,219</u>     | <u>12,219</u>        |

## 18. PROVISIONS AND CONTINGENT LIABILITIES

- Banco do Nordeste is a party to several administrative and judicial proceedings involving civil, tax, labor and other matters.
- The assessment of the contingent liability, risk level of new lawsuits, and the reassessment of already existing lawsuits are made by the Legal Department, on case

by case, and are classified according to the risk of loss, as probable, possible and remote. Such classification is based on the analysis of the following factors: i) reasonableness of the factual and legal arguments of the other party; ii) arguments and legal basis developed by Banco do Nordeste; iii) previous losses incurred by Banco do Nordeste final outcome in similar cases; iv) previous decisions of higher courts' and supervisory authorities on the matters in litigation; v) decisions already made on each proceeding (decision, sentence, injunction, interim relief, writ of payment, writ of attachment, etc); and vi) existence of procedural errors in the administrative and judicial proceedings.

c) Contingencies classified as probable losses 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 June 30, 2010, the Bank recognized a provision for the total estimated loss on lawsuits classified as probable losses, and provision are not applicable to lawsuits classified as possible and remote losses, as shown below:

| <u>Specification</u>                             | <u>Base value</u> | <u>Provision</u> |
|--|-------------------|------------------|
| PROVISION FOR TAX CONTINGENCIES (note 14.c)      |                   |                  |
| Taxes  | <u>72,067</u>     | <u>72,067</u>    |
| Probable   | 72,067            | 72,067           |
| Tax lawsuits                                     | <u>433,852</u>    | <u>24,496</u>    |
| Probable   | 24,496            | 24,496           |
| Possible   | 252,318           | -                |
| Remote   | 157,038           | -                |
| PROVISION FOR CONTINGENT LIABILITIES (note 14.f) |                   |                  |
| Labor lawsuits                                   | <u>207,638</u>    | <u>153,109</u>   |
| Probable   | 153,109           | 153,109          |
| Possible   | 20,297            | -                |
| Remote   | 34,232            | -                |
| Civil lawsuits                                   | <u>995,592</u>    | <u>99,111</u>    |
| Probable   | 99,111            | 99,111           |
| Possible   | 264,397           | -                |
| Remote   | 632,084           | -                |
| Other lawsuits                                   | <u>3,910</u>      | <u>532</u>       |
| Probable   | 532               | 532              |
| Possible   | 1,216             | -                |
| Remote   | 2,162             | -                |

e) Changes in the provision for contingent liabilities are as follows:

| <u>Specification</u>                        | <u>06/30/2010</u> |
|---|-------------------|
| a) Taxes (Other liabilities - other)        |                   |
| Opening balance as of 12/31/2009            | 71,343            |
| Recognition                                 | 2,677             |
| Reversal/utilization/write-off              | <u>(1,953)</u>    |
| Closing balance as of 06/30/2010            | <u>72,067</u>     |
| b) Tax lawsuits (Other liabilities - other) |                   |
| Opening balance as of 12/31/2009            | 23,824            |
| Recognition                                 | 972               |
| Reversal/utilization/write-off              | <u>(300)</u>      |

|   |                  |
|---|------------------|
| Closing balance as of 06/30/2010              | <u>24,496</u>    |
| c) Labor lawsuits (Other liabilities - other) |                  |
| Opening balance as of 12/31/2009              | 150,741          |
| Recognition                                   | 9,057            |
| Reversal/utilization/write-off                | <u>(6,689)</u>   |
| Closing balance as of 06/30/2010              | <u>153,109</u>   |
| d) Civil lawsuits (Other liabilities - other) |                  |
| Opening balance as of 12/31/2009              | 95,337           |
| Recognition                                   | 17,760           |
| Reversal/utilization/write-off                | <u>(13,986)</u>  |
| Closing balance as of 06/30/2010              | <u>99,111</u>    |
| e) Other lawsuits (Other liabilities - other) |                  |
| Opening balance as of 12/31/2009              | 567              |
| Recognition                                   | 9                |
| Reversal/utilization/write-off                | <u>(44)</u>      |
| Closing balance as of 06/30/2010              | <u>532</u>       |
| f) Vacation                                   |                  |
| Opening balance as of 12/31/2009              | 37,100           |
| Recognition                                   | 52,273           |
| Reversal/utilization/write-off                | <u>(48,465)</u>  |
| Closing balance as of 06/30/2010              | <u>40,908</u>    |
| g) FNE  |                  |
| Opening balance as of 12/31/2009              | 956,261          |
| Recognition                                   | 240,111          |
| Reversal/utilization/write-off                | <u>(93,752)</u>  |
| Closing balance as of 06/30/2010              | <u>1,102,620</u> |
| h) FDNE                                       |                  |
| Opening balance as of 12/31/2009              | 37               |
| Recognition                                   | 109              |
| Reversal/utilization/write-off                | <u>-</u>         |
| Closing balance as of 06/30/2010              | <u>146</u>       |

f) The Bank has lawsuits handled by outside attorneys, most of which relates to loan collection actions, whose provision is recorded in accordance with Resolution 2682, of December 21, 1999. When these lawsuits generate contingencies for the Bank, they are assessed by the Legal Department as mentioned in item b above.

g) Escrow deposits are recorded in an asset account, without deduction of the provision for contingent liabilities, in accordance with Central Bank of Brazil standards.

h) The risk assumed by the Bank on FNE transactions entered into beginning December 1, 1998 is calculated in the same manner as set forth in Resolution 2682, of December 21, 1999 (note 22.c).

## 19. EMPLOYEES' AND OFFICERS' COMPENSATION

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

| <u>Gross compensation</u> | <u>Employees (1)</u> | <u>Officers (2)</u> |
|---------------------------|----------------------|---------------------|
| Maximum                   | 19,127.51            | 26,734.89           |
| Minimum                   | 762.71               | 23,520.81           |
| Average                   | 5,347.26             | -                   |

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

(2) Amounts approved by the 57<sup>th</sup> Annual Shareholders' Meeting and the 84<sup>th</sup> Extraordinary Shareholders' Meeting of Banco do Nordeste, both of which held on March 30, 2010.

As of June 30, 2010, the Bank had 5,858 employees (5,895 as of December 31, 2009), an decrease of 0.63% in the Bank's headcount in the period.

## 20. **PROFIT SHARING**

In the first half of the year, the Bank accrued R\$10,070 for profit sharing of the Bank's employees and officers, being R\$9,902 relating to employees profit sharing, equivalent to 17.05% of interest on own capital and 9.00% of net income for the six-month period, pursuant to Resolution 10, of May 30, 1995 of CCE - Coordination and Control Council of Public Entities.

## 21. **EMPLOYEE BENEFITS**

Pursuant to CVM Resolution 371, of December 13, 2000, we present below information on the employee benefit policy and the accounting procedures adopted by Banco do Nordeste for recognizing its obligations:

- a) The Bank does not have:
  - Severance pay benefits;
  - Long-term benefits;
  - Stock-based compensation.
  
- b) Accounting policy adopted by the Bank to recognize actuarial gains and losses  
The policy adopted for the recognition of actuarial gains and losses is based on items 52 to 55 of the Appendix to CVM Resolution 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 defined benefit actuarial 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 closed private pension entity that provides, through its current pension plan, its associate employees and dependents with benefits that supplement government benefits. Relevant information related to the mentioned pension plan is as follows:
  - c.1) Benefit Plan  
The plan BD, which is closed to new participants since November 26, 1999, offers retirement benefits for length of contribution, age and disability to the plan participants and pension benefits to their dependents.  
The CV I plan, which started operations on March 25, 2010, offers retirement benefits for length of contribution, age and disability to the plan participants and pension benefits to their dependents.
  - c.2) Actuarial Method  
Classified as defined benefit, the BD plan adopts the financial system of capitalization in the actuarial calculation of mathematical provisions related to all benefits offered to its participants and dependents.  
Classified as variable contribution, the CV I plan adopts the financial system of capitalization in the actuarial calculation of mathematical reserves related to planned benefits and the coverage capital regime for the other benefits offered to its participants and dependents.
  - c.3) Past-due Obligations  
None.

c.4) Contributions Due

None.

c.5) Actuarial Position

In June 2010, the BD plan reported an actuarial surplus of R\$35,451 (versus a surplus of R\$10,324 on June 30, 2009), as a result of the positive impact of the investments, which exceeded the actuarial target by 13.58% (National Consumer Price Index - INPC + 6% p.a.).

The CV I plan's actuarial position in June 2010 is balanced, since all the existing actuarial liabilities, totaling R\$531, have defined contribution.

c.6) Contribution Ratio (Participants/Sponsor)

The ratio of participant contributions to Bank contributions meets the parity set by Constitutional Amendment 20, of December 15, 1998, with a contribution ratio of 1:1 as of June 30, 2010 (1:1, as of June 30, 2009).

d) Characteristics of the Health Care Plan

Banco do Nordeste 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 made by the associates, contributions related to the enrolment of natural dependents, financial protection and emergency service fees, financial co-participation paid by each associate for services utilized and matched contributions from sponsors.

e) Reconciliation of assets and liabilities recognized in 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 371:

| <u>Specification</u>   | <u>CAPEF</u>      |                   | <u>CAMED</u>      |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | <u>06/30/2010</u> | <u>06/30/2009</u> | <u>06/30/2010</u> | <u>06/30/2009</u> |
| 1. Present value of actuarial obligations totally or partially funded    | 2,927,357         | 2,764,527         | 483,381           | 456,835           |
| 2. Fair value of plan assets   | 2,158,514         | 1,933,654         | 8,452             | 12,200            |
| 3. Present value of unfunded actuarial obligations (item 1 - item 2)     | 768,843           | 830,873           | 474,929           | 444,635           |
| a. Present value of recognized unfunded actuarial obligations (note 14g) | 803,581           | 728,849           | 273,363           | 230,106           |
| a. Present value of unfunded actuarial obligations not recognized        | (34,738)          | 102,024           | 201,566           | 214,529           |
| i. Net actuarial losses/gains  | (47,986)          | 62,281            | 201,566           | 214,529           |
| ii. Cost of past service   | 13,248            | 39,743            | -                 | -                 |

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

| <u>Specification</u>  | <u>CAPEF</u>      |                   | <u>CAMED</u>      |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | <u>06/30/2010</u> | <u>06/30/2009</u> | <u>06/30/2010</u> | <u>06/30/2009</u> |
| 1. Net actuarial liability, at end of prior year                      | 785,977           | 783,081           | 483,202           | 427,408           |
| 2. Change in unfunded actuarial liability in current six-month period | (17,134)          | 47,792            | (8,273)           | 17,227            |
| a. Current expenses   | 50,479            | 50,417            | 32,923            | 28,062            |
| b. Net actuarial losses (gains)                                       | (41,525)          | 23,204            | (19,443)          | (2,659)           |
| c. Cost of past service   | (26,088)          | (25,829)          | (21,753)          | (8,176)           |
| 3. Net actuarial liability, at the end of the six-month period        | 768,843           | 830,873           | 474,929           | 444,635           |

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

| <u>Specification</u>   | <u>CAPEF</u>      |                   | <u>CAMED</u>      |                   |
|--|-------------------|-------------------|-------------------|-------------------|
|  | <u>06/30/2010</u> | <u>06/30/2009</u> | <u>06/30/2010</u> | <u>06/30/2009</u> |
| 1. a. Current expenses   | 50,479            | 51,598            | 32,923            | 32,550            |
| a. Cost of current service, less employees' contributions        | 7,251             | 8,529             | 6,347             | 9,043             |
| b. Cost of interest  | 157,455           | 146,935           | 27,198            | 24,222            |
| c. Expected return on plan assets                                | (114,227)         | (103,866)         | (622)             | (715)             |
| 2. Actuarial losses and gains recognized in the six-month period | -                 | -                 | 4,943             | 5,277             |
| 3. Cost of past service  | 13,247            | 13,247            | -                 | -                 |
| 4. Expense recognized in the Statement of Income                 | <u>63,726</u>     | <u>64,845</u>     | <u>37,866</u>     | <u>37,827</u>     |
| a. Provision for contingent liabilities expenses                 | 63,726            | 63,664            | 37,866            | 33,339            |
| b. Contribution expenses   | -                 | 1,181             | -                 | 4,488             |

h) Additional comments.

- h.1) Current expenses - obligations for the six-month period, derived from the increase in the length of service provided by employees;
- h.2) Net actuarial (gains)/losses - obligations for the six-month period, 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 Appendix to CVM Resolution 371.

i) Assumptions used

- i.1) Biometric Assumptions: General Mortality Table for Active Employees - AT2000 Man; Disability Mortality Table - IAPC Experience (Social Security Institute) - Weak; Disability Table - CAPEF Experience - Weak 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 - 3.2% 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.

## 22. NORTHEAST CONSTITUTIONAL FINANCING FUND (FNE)

- a) The net assets of FNE, totaling R\$31,429,925 (R\$27,648,036 as of June 30, 2009) are recorded in the Bank's memorandum accounts (Net assets of managed public funds).
- b) The Fund's cash and cash equivalents, totaling R\$3,341,269 (R\$4,015,839 as of June 30, 2009), recorded in 'Other liabilities/Financial and development funds' bears interest at non-market rate. The expense of interest on cash and cash equivalents totaled R\$142,741 (R\$222,055 as of June 30, 2009).
- c) The allowance to cover the risk on FNE transactions is recognized pursuant to the following criteria:
  - c.1) The Bank is free from operational risk in transactions contracted until November 30, 1998;
  - c.2) For operations contracted beginning December 1, 1998, excluding Land Program financing lines granted under the PRONAF (groups A, B, A/C, Forest, Semiarid and Emergency), is 50 percent of the amount calculated pursuant to CMN Resolution 2682, of December 21, 1999.
  - c.3) The Bank assumes all the risks on credit renegotiated and reclassified FNE loan transactions, as set forth by Law 11775, of September 17, 2008, and transactions recognized in the Fund's 'Interbank accounts', as prescribed by Ministry of Integration Administrative Rule 616, of May 26, 2003.

The balances of financing and allowances accounted for in the Bank's Contingent liabilities are as follows:

| <u>Risk rating</u> | <u>Balances</u>   | <u>Allowance as of<br/>06/30/2010</u> | <u>Allowance as of<br/>06/30/2009</u> |
|--------------------|-------------------|---------------------------------------|---------------------------------------|
| AA                 | 2,897,118         | -                                     | -                                     |
| A                  | 9,211,473         | 23,130                                | 16,877                                |
| B                  | 6,373,436         | 32,299                                | 27,367                                |
| C                  | 479,902           | 7,097                                 | 6,988                                 |
| D                  | 943,004           | 46,790                                | 42,384                                |
| E                  | 223,210           | 34,065                                | 37,458                                |
| F                  | 269,463           | 67,212                                | 48,804                                |
| G                  | 188,516           | 78,195                                | 53,792                                |
| H                  | <u>1,607,357</u>  | <u>813,832</u>                        | <u>671,060</u>                        |
| TOTAL              | <u>22,193,479</u> | <u>1,102,620</u>                      | <u>904,730</u>                        |

- d) The Bank's financial commission on transactions entered agreement by November 30, 1998 is zero. The Bank's financial commission on transactions entered as agreement after November 30, 1998 is 3 percent per year, when the risk is 50 percent, and 6 percent when the Bank is a direct party to the transaction. Income from financial commissions totaled R\$324,323 (R\$261,883 as of June 30, 2009).
- e) The management fee of 3 percent per year is calculated on the Fund's net equity, less the amounts linked to the onlending agreement entered into with the Bank and the balances of PRONAF investments (Groups B, A/C, Forest and Semiarid), and is limited to 20 percent of the transfers made by the National Treasury each fiscal year. The management fee totaled R\$406,741 (R\$388,813 as of June 30, 2009).

## 23. RISK MANAGEMENT AND BASEL RATIO

- 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 the Basel II Accord, 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.

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 2682, of December 21, 1999. In addition, credit risk management involves the constant flow of information, which, after collected and analyzed, allows the identification, measurement, control and risk mitigation to ensure that Banco do Nordeste maintains its exposure to credit risks within reasonable parameters. Accordingly, several instruments are used, including: credit policies, management reports, risk rating system, performance indicators by macro sectors and management of the allowance for doubtful accounts.

Market and liquidity risks are monitored based on the volatility in interest rates, currencies and share indices, and the prices for the Bank's loan and investment portfolios. The Bank uses its in-house developed proprietary treasury risk management software, which comprises the calculation of the Value at Risk (VaR), the Duration global (assets and liabilities) by portfolio, security and index, estimated cash flows, with identification of any maturity mismatching between assets and liabilities, and global balances of assets and liabilities, by portfolio and by security, indicating possible mismatches by currency.

b) Sensitivity analysis

Banco do Nordeste do Brasil, acting as a government agency responsible for fostering the development of the Northeast region, follows best financial market practices to identify, measure and control market risks inherent to the positions assumed by the Institution.

Monitoring of market risk management of Banco do Nordeste is guided by the Risk Management Corporate Policy, which defines guidelines for the negotiation of the Bank's assets and establishes operating limits for the assumption of positions entailing several risk factors.

In accordance with BACEN Circular Letters 3354 of June 27, 2007 and 3365 of September 12, 2007, for management purposes, transactions exposed to market risk are separated into the following portfolios:

Trading Portfolio: includes purchase transactions with resale agreement, sale transactions with repurchase agreement and trading securities, in accordance with BACEN Circular Letter 3068 of November 8, 2001.

Non-trading Portfolio: includes transactions subject to market risk and not included in the Trading Portfolio.

In order to monitor and control Trading Portfolio risks, the parametric VaR, which measures the maximum possible loss of a portfolio within a period of time, is used, taking into consideration a certain confidence level. Banco do Nordeste considers information from 60 business days and confidence level of 99 percent. The Value at Risk (VaR) of fixed rate transactions of the BNB Trading Portfolio, as of June 30, 2010, was R\$357, compared to the portfolio's net balance (assets less liabilities) of R\$2,900,000.

As of June 30, 2010, the VaR ratio was just 0.0123% of the net amount of the Trading Portfolio, well below the one-percent cap set by the Bank's Risk Management Corporate Policy. The low exposure to the market risk of this portfolio arises from the fact that fixed-rate transactions have a one-day maturity and are backed by Federal Government securities. In compliance with Article 3, Par. 1, V, of CVM Instruction 475, of December 17, 2008, we present the disregarded the Trading Portfolio balances in the sensitivity analysis due to its immaterial risk.

The Non-trading Portfolio is comprised of loan, financing, and foreign exchange transactions, hedging derivatives, deposits, short-term investments, onlendings, and Bank products and services.

For sensitivity analysis purposes, Non-trading Portfolio balances, except for hedging derivatives, were not considered because the included transactions—basically loan transactions, fund raising and securities—remain in the portfolio until their corresponding maturities, at contractual interest rates. Therefore, changes in interest rates due to market volatility do not have a material financial and accounting impact on the estimated results of the Non-trading Portfolio.

In compliance with Article 4 of CVM Instruction 475 of December 17, 2008, we present below the Sensitivity Analysis Schedule with swap transactions and their corresponding hedged items.

| Nature of transaction | Risk type                 | Financial instrument | Scenario 1      | Scenario 2      | Scenario 3      |
|-----------------------|---------------------------|----------------------|-----------------|-----------------|-----------------|
|                       |                           | Fixed rate swap      | (810,807)       | (785,007)       | (761,228)       |
| Hedge                 | Increase in interest rate | Fixed rate assets    | <u>800,662</u>  | <u>732,460</u>  | <u>672,340</u>  |
|                       |                           | Net exposure         | <u>(10,145)</u> | <u>(52,547)</u> | <u>(88,888)</u> |

As of June 30, 2010, the risk that may result in losses was the increase in future interest rates of assignment of receivables contracts. The method used to prepare the sensitivity analysis was to survey the balances of asset and liability transactions exposed to this type of risk, and determine the net exposure. The stresses related to scenarios 1, 2 and 3 were applied to this result, as detailed below:

Scenario 1 - refers to the current situation of risk exposure factors based on market information (ANBIMA), for example the future interest rate curve. The risk identified in this case was the increase in interest rates.

Scenario 2 - Increase in interest rates, using a positive stress of 25 percent, based on the positions as of June 30, 2010, applied on Scenario 1.

Scenario 3 - Increase in interest rates, using a positive stress of 50 percent, based on the positions as of June 30, 2010, applied on Scenario 1.

c) Exposure to currency risk

As of June 30, 2010, the net balance of sold foreign exchange exposure arising on transactions containing a clause for foreign currency adjustment totaled R\$44,887 (R\$85,218 as of June 30, 2009 - short position), as shown below:

|                                    | <u>06/30/2010</u> | <u>06/30/2009</u> |
|------------------------------------|-------------------|-------------------|
| <u>Assets</u>                      |                   |                   |
| Cash and cash equivalents          | 3,136             | 7,414             |
| Interbank investments              | 22,231            | 9,598             |
| Lending operations                 | 665,743           | 704,666           |
| Other receivables                  | 520,241           | 317,147           |
| Unhedged assets (swaps)            | 1,211,351         | 1,038,825         |
| Hedged assets (swaps)              | -                 | <u>25,185</u>     |
| Total                              | <u>1,211,351</u>  | <u>1,064,010</u>  |
|                                    | <u>06/30/2010</u> | <u>06/30/2009</u> |
| <u>Liabilities</u>                 |                   |                   |
| Deposits                           | 37,408            | 48,285            |
| Interbranch accounts               | 12,922            | 11,010            |
| Domestic borrowings and onlendings | -                 | 343               |
| Foreign borrowings and onlendings  | 756,872           | 1,089,006         |
| Other payables                     | <u>449,036</u>    | <u>584</u>        |
| Total                              | <u>1,256,238</u>  | <u>1,149,228</u>  |

The Bank manages its currency risk by limiting its exposure to residual values, strictly observing the percentage set by the Central Bank of Brazil. The mismatch recorded as of June 30, 2010 represents 1.65 percent of the Regulatory Capital, which confirms the Bank's conservative policy for this type of risk.

The net balance of foreign exchange exposure is calculated on a daily basis. In order to reduce mismatches, the Bank opts to perform purchase and sale transactions in the financial market of Federal Government securities indexed to foreign exchange fluctuation and foreign exchange swap transactions.

d) Operational Limits - Basel Accord

The guidelines in effect (CMN Resolutions 3444 and 3490, of February 28, 2007 and August 29, 2007, respectively) maintained at 11% the minimum capital adequacy ratio—which is the ratio of a financial institution's regulatory capital to total risks assumed in asset transactions, including guarantees provided, and market and operational risks—for June 30, 2010.

As of June 30, 2010 the Bank's asset-to-equity ratio (Basel ratio) was 13.87% (11.66% as of June 30, 2009), whereas the regulatory capital was R\$3,067,846 (R\$1,906,270 as of June 30, 2009). Required Regulatory Capital, which refers to the consolidation of all exposures to risk, with a capital allocation ratio of 11%, was R\$2,432,575 as of June 30, 2010 (R\$1,798,661 as of June 30, 2009).

In July 2009 and June 2010, BNB entered into subordinated debt agreements with FNE and was authorized by the Central Bank of Brazil to consider the amounts under these agreements as Level II Capital, with a positive impact on the Bank's Basel Ratio.

The table below shows the Basel ratio calculation:

| <u>Specification</u>                 | <u>06/30/2010</u> | <u>06/30/2009</u> |
|--------------------------------------|-------------------|-------------------|
| a) Regulatory Capital (PR)           | 3,067,846         | 1,906,270         |
| b) Required Regulatory Capital (PRE) | 2,432,575         | 1,798,661         |
| . PEPR (1)                           | 2,089,197         | 1,642,806         |
| . PJUR                               | 1,195             | 637               |
| . PCOM                               | 19,855            | 20,210            |
| . POPR                               | 322,328           | 135,009           |
| c) RBAN amount                       | 16,927            | 52,987            |

|  |         |        |
|--|---------|--------|
| Margin (a-b-c)                                     | 618,344 | 54,622 |
| Basel Ratio (Central Circular 3477, of 12/24/2009) | 13.87%  | 11.66% |
| Basel Ratio (including RBAN amount)                | 13.78%  | 11.32% |

(1) 11% of Risk-weighted Exposures risk, pursuant to Articles 11-16 of Central Circular 3360, of 9/12/2007.

## 24. RELATED PARTIES TRANSACTIONS

### a) Related parties transactions

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

| <u>Specification</u>  | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---|-------------------|-------------------|
| Assets  |                   |                   |
| Lending operations - Refinancing with Federal Government (note 8.a.1) | <u>526.826</u>    | <u>534.549</u>    |
| Total   | <u>526.826</u>    | <u>534.549</u>    |

| <u>Specification</u>                                     | <u>06/30/2010</u> | <u>06/30/2009</u> |
|--|-------------------|-------------------|
| Liabilities  |                   |                   |
| Time deposit - FAT (note 12.a.4)                         | <u>355.394</u>    | <u>405.881</u>    |
| Domestic onlendings - Official Institutions (note 13.g)  | <u>1.468.335</u>  | <u>1.329.368</u>  |
| National Treasury  | 1,114             | 1,235             |
| BNDES  | 785,416           | 634,967           |
| CEF  | -                 | 26                |
| FINAME   | 27,852            | 35,921            |
| Other institutions                                       | 653,953           | 657,219           |
| Other liabilities  | <u>4.393.424</u>  | <u>4.018.297</u>  |
| Northeast Constitutional Financing Fund -FNE (note 14.d) | 3,343,850         | 4,018,297         |
| Subordinated debt eligible for capital (note 14.e)       | <u>1.049.574</u>  | -                 |
| Total  | <u>6.217.153</u>  | <u>5.753.546</u>  |

a.2) The main transactions with entities related to the employees of Caixa de Previdência (CAPEF) and Caixa de Assistência Médica (CAMED) are composed as follows:

| <u>Specification</u>                      | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---|-------------------|-------------------|
| Liabilities                               |                   |                   |
| Other liabilities - (notes 14.f and 21.e) | <u>1.076.944</u>  | <u>958.955</u>    |
| CAPEF                                     | 803,581           | 728,849           |
| CAMED                                     | <u>273.363</u>    | <u>230.106</u>    |
| Total                                     | <u>1.076.944</u>  | <u>958.955</u>    |

### b) Management compensation

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

| <u>Specification</u>                        | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---|-------------------|-------------------|
| Fixed compensation for the six-month period | 1,278             | 1,158             |
| Variable compensation (Profit Sharing)      | <u>168</u>        | <u>105</u>        |
| TOTAL                                       | <u>1.446</u>      | <u>1.263</u>      |

The Bank does not have variable stock-based compensation and other long-term benefits and does not grant loans to its Executive Officers, members of the Board of Directors and the Supervisory Board, since this practice is forbidden to financial institutions governed by the Central Bank of Brazil.

## 25. OTHER INFORMATION

### a) Guarantees provided

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

| <u>Specification</u>                          | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---|-------------------|-------------------|
| Import financing                              | 22,215            | 35,092            |
| Guarantee beneficiaries:                      | 11,391,577        | 9,461,310         |
| - Individuals or non-financial legal entities | 110,318           | 101,632           |
| - FNE   | 11,259,728        | 9,357,481         |
| - Other entities                              | 21,531            | 2,197             |
| Receivables assignment co-obligations         | 33,469            | 118,848           |

### b) Insurance

The Bank's chattels and properties and third parties' properties are covered by an adequate insurance in the amount of R\$ 386,780 (R\$ 390,540 as of June 30, 2009), as follows:

| <u>Specification</u>       | <u>06/30/2010</u> | <u>06/30/2009</u> |
|----------------------------|-------------------|-------------------|
| Chattels                   | 123,795           | 133,369           |
| Properties                 | 261,828           | 251,386           |
| Third parties' properties  | -                 | 2,628             |
| Civil liability (aircraft) | <u>1,157</u>      | <u>3,157</u>      |
| TOTAL                      | <u>386,780</u>    | <u>390,540</u>    |

### c) Law 11945 of June 4, 2009

The Bill of Conversion Law 4 of 2009 (resulting from Provisory Act 451 of 2008) was converted into Law 11945 of June 4, 2009, published in the Federal Official Gazette of June 5, 2009. Article 28 thereof amends Article 15 of Law 7827, of September 27, 1989, supporting debt settlements carried out by federal financial institutions managing Constitutional Funds which were performed in compliance with the banking practices and regulations of the respective institutions and which were subject to legal challenges and collected at the financial equivalent of assets liable to attachment of direct debtors and their respective guarantors, in relation to transactions granted with funds from Financing Constitutional Funds, also permitting the reopening of renegotiations for the settlement of debts by the financial equivalent of the current value of assets liable to attachment. The operating procedures for the new settlements based on Law 11945, of June 4, 2009, were regulated by Resolution 30 of the Board of the Agency for the Development of the Northeast Region (SUDENE), issued on April 29, 2010. The Bank's internal regulations will be subject to the Board of Directors' approval for subsequent disclosure and implementation.

Fortaleza, July 26, 2010

The Board of Director

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

---

## 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 June 30, 2010 and 2009, and the related statements of income, changes in shareholders' equity, cash flows and value added for the six-month periods 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 were 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 June 30, 2010 and 2009, and the results of its operations, the changes in its shareholders' equity, its cash flows, and the values added in operations for the six-month periods then ended, in conformity with Brazilian accounting practices applicable to financial institutions authorized to operate by the Central Bank of Brazil.
4. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Fortaleza, August 6, 2010

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes  
CRC 2SP 011.609/O-8 "F" CE

Claudio Lino Lippi  
Engagement Partner  
CRC-SP N° 97.866 –TPE S/CE

## **SUPERVISORY BOARD'S REPORT**

In the discharge of its legal and corporate statutory duties and after having examined the Management Report, the Balance Sheets, and the Statements of Income, Changes in Shareholders' Equity, Cash Flows, and Valued Added of Banco do Nordeste do Brasil S.A. for the six-month period ended June 30, 2010, and based on the opinion of the Independent Auditor – Deloitte Touche Tohmatsu – dated August 6, 2010, the Supervisory Board of Banco do Nordeste do Brasil S.A. is of the opinion that the Management Report and Financial Statements present fairly the activities developed, the financial position, and results of operations of Banco do Nordeste do Brasil S.A. in the first half of 2010.

Fortaleza (CE), August 6, 2010

**SUPERVISORY BOARD**

## **SUMMARY OF THE AUDIT COMMITTEE REPORT**

### **First half of 2010**

The Audit Committee of Banco do Nordeste do Brasil S.A., created as set forth in National Monetary Council (CMN) Resolution 3198/2004, is an advisory body to the Board of Directors, whose duties and responsibilities are set out in the Bank's Bylaws.

#### **Committee Activities**

Consistent with its institutional mission, in the first half of 2010, the Audit Committee focused on monitoring and assessing the activities carried out by the Internal Audit, Independent Auditor, Internal Controls, Security and Risk Management and on reviewing and assessing the quality of the financial statements and the performance of the Bank's ombudsman.

As part of the advisory duties of the Board of Directors, the Audit Committee has also monitored compliance with requirements of supervisory and external control agencies, including those originating from the Board of Directors itself.

In the six-month period, the Audit Committee held 21 meetings, 12 of which ordinary and 9 extraordinary, to discuss matters related to the areas above. In addition to these events, the Audit Committee contacted and held meetings with several Bank officers and the Supervisory Board, and also attended 11 of the 15 Board of Directors' meetings.

During this period, the Audit Committee conducted analyses of the reports and information made available on a monthly basis by the finance area. At the end of the six-month period, it also reviewed, together with representatives of the accounting area and the independent auditor, the financial statements for the six-month period ended June 30, 2010, taken as a whole. Together with the members of the Supervisory Board, it attended the Board of Directors' meeting which approved referred financial statements.

The main achievements in the six-month period include:

- Follow-up of the implementation of the credit, operating and market risk management structure, based on the timetables established by the Central Bank of Brazil, in compliance with the Basel II Capital Accord;
- Follow-up of the accounting convergence with international financial reporting standards (IFRS), so that the Bank may present its consolidated financial statements in conformity with such international accounting standards, from the year ended 2010;



- Provide advisory services related to the automation of management procedures to monitor the implementation of the recommendations of the internal audit, independent auditor and external control agencies.

### **Internal Control**

The Bank has been structuring its internal control system to achieve the integration of guidelines focused on strengthening internal control, security, and risk management. This structure is periodically reviewed and updated to ensure it is capable of mitigating the risks inherent to the Bank's activities.

In this respect, the Bank has been undertaking actions to complete the implementation of structures to manage operational, credit, and market risks. The purpose is to implement the recommendations made in the Basel II Capital Accord and meet the schedule set out in Central Bank regulations.

The completion of the aforementioned actions will enhance the mitigation of the risks to which the Bank is exposed in the normal course of operations, with a positive impact on the achievement of its business and corporate goals.

### **Internal Audit**

The Internal Audit function has been developing its activities at a satisfactory level of quality, which is consistent with the size and complexity of the Bank's operations.

Its activities are conducted according to the Annual Internal Audit Plan, which is prepared pursuant to instructions from federal supervisory bodies and submitted to the Federal Controller General after being approved by the Bank's Board of Directors.

### **Independent Auditor**

In examining the opinions and reports issued by DELOITTE TOUCHE TOHMATSU AUDITORES INDEPENDENTES during the six-month period, no material facts have been identified that could compromise its independence, the results and the quality of its work.

### **Financial Statements**

The Audit Committee has analyzed the Financial Statements, Notes to the Financial Statements, Financial Reports, and the Management Report dated June 30, 2010. It also analyzed the opinions issued by the Independent Auditor on Banco do Nordeste do Brasil S.A. and Fundo Constitucional de Financiamento do Nordeste – FNE.

After examining and discussing the practices used to prepare the financial statements, it was established that these are consistent with applicable corporate laws, and regulations of the National Monetary Council, the Central Bank of Brazil, and the Brazilian Securities and Exchange Commission.

With respect to the changes in accounting practices introduced by Law 11638/2007 and 11941/2009, the Bank has been taking actions to converge its accounting practices with the International Financial Reporting Standards (IFRS) within the regulatory deadline.

Fortaleza (CE), August 06, 2010

**Audit Committee**



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

## **Financial Statements**

# **F N E**

**POSITION: 06.30.2010**

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

BALANCE SHEETS AS OF JUNE 30, 2010 AND 2009

(In thousands of Brazilian reais - R\$)

| <u>ASSETS</u>  | <u>06/30/2010</u>        | <u>06/30/2009</u>        | <u>LIABILITIES AND NET EQUITY</u>       | <u>06/30/2010</u>        | <u>06/30/2009</u>        |
|--|--------------------------|--------------------------|---|--------------------------|--------------------------|
| CURRENT ASSETS   | 10,225,402               | 8,812,612                | NET EQUITY (note 4.c)                   | 31,429,925               | 27,648,036               |
| CASH AND CASH EQUIVALENTS (note 4.b.1)                                     | 809,060                  | 1,299,332                | TRANSFERS FROM FEDERAL GOVERNMENT:      |                          |                          |
| RESTRICTED CASH - LENDING OPERATIONS                                       | 2,532,209                | 2,716,507                | In the period                           | 2,033,706                | 1,945,034                |
| INTERBANK ACCOUNTS   | 1,120,437                | 57,952                   | In prior years                          | 28,854,696               | 25,065,660               |
| Rural Loan - Proagro Receivable  | 2,546                    | 3,390                    | INCOME FROM PRIOR YEARS                 | 574,441                  | 753,444                  |
| Interbank Onlendings - Banco do Nordeste - Law 7827 - Article 9A (note 13) | 1,049,574                | -                        | LOSS FOR THE PERIOD                     | (32,918)                 | (116,102)                |
| Funds Available  | 922,109                  | -                        |   |                          |                          |
| Funds Used   | 127,465                  | -                        |   |                          |                          |
| Interbank onlendings - Other Institutions                                  | 68,317                   | 54,562                   |   |                          |                          |
| LENDING OPERATIONS (note 4.b.2 and note 8)                                 | 5,760,883                | 4,736,105                |   |                          |                          |
| Financing  | 1,869,467                | 1,494,864                |   |                          |                          |
| Export Financing   | 372,750                  | 429,083                  |   |                          |                          |
| Infrastructure and Development Financing                                   | 365,919                  | 241,729                  |   |                          |                          |
| Agribusiness Financing   | 200,539                  | 165,852                  |   |                          |                          |
| Rural Financing  | 4,251,961                | 3,668,346                |   |                          |                          |
| (Allowance for loan losses)  | (1,299,753)              | (1,263,769)              |   |                          |                          |
| OTHER RECEIVABLES (note 4.b.5)   | 2,582                    | 2,457                    |   |                          |                          |
| Assets received as payment   | 2,582                    | 2,457                    |   |                          |                          |
| OTHER ASSETS (note 4.b.6)  | 231                      | 259                      |   |                          |                          |
| Agricultural debt securities (TDA)   | 343                      | 346                      |   |                          |                          |
| (Allowance for devaluation)  | (112)                    | (87)                     |   |                          |                          |
| LONG-TERM ASSETS   | 21,204,523               | 18,835,424               |   |                          |                          |
| INTERBANK ACCOUNTS   | 154,892                  | 166,134                  |   |                          |                          |
| Rural Loan - Proagro Receivable  | 2,634                    | 1,527                    |   |                          |                          |
| Interbank Onlendings - Other institutions                                  | 152,258                  | 164,607                  |   |                          |                          |
| LENDING OPERATIONS (note 4.b.2 and Note 8)                                 | 21,048,325               | 18,667,914               |   |                          |                          |
| Financing  | 6,911,119                | 5,633,936                |   |                          |                          |
| Export Financing   | 690                      | 129,648                  |   |                          |                          |
| Infrastructure and Development Financing                                   | 3,439,067                | 2,691,047                |   |                          |                          |
| Agribusiness Financing   | 801,206                  | 645,518                  |   |                          |                          |
| Rural Financing  | 9,896,243                | 9,567,765                |   |                          |                          |
| OTHER ASSETS (note 4.b.6)  | 1,306                    | 1,376                    |   |                          |                          |
| Agricultural debt securities (TDA)   | 1,914                    | 2,154                    |   |                          |                          |
| (Allowance for devaluation)  | (608)                    | (778)                    |   |                          |                          |
| <b>TOTAL ASSETS</b>  | <b><u>31,429,925</u></b> | <b><u>27,648,036</u></b> | <b>TOTAL LIABILITIES AND NET EQUITY</b> | <b><u>31,429,925</u></b> | <b><u>27,648,036</u></b> |

STATEMENTS OF INCOME  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009  
(In thousands of Brazilian reais - R\$)

---

|  | <u>06.30.2010</u>      | <u>06.30.2009</u>       |
|--|------------------------|-------------------------|
| INCOME   |                        |                         |
| From lending operations (note 8.g)                           | 525,937                | 476,661                 |
| From cash and cash equivalents (note 4.b.1)                  | 142,741                | 222,055                 |
| EXPENSES (note 4.a.8)  |                        |                         |
| Management fee   | (406,741)              | (388,813)               |
| PRONAF-Payment of financial charges to BNB/Performance Bonus | (34,151)               | (27,110)                |
| Operating provisions   | (260,664)              | (398,850)               |
| Audit expenses   | (40)                   | (45)                    |
| LOSS FOR THE PERIOD  | <u><u>(32,918)</u></u> | <u><u>(116,102)</u></u> |

---

STATEMENTS OF CHANGES IN NET EQUITY  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009  
(In thousands of Brazilian reais - R\$)

| <u>EVENTS</u>                                   | <u>TRANSFERS FROM<br/>FEDERAL GOVERNMENT</u> | <u>RETAINED<br/>EARNINGS</u> | <u>TOTAL</u>      |
|---|--|------------------------------|-------------------|
| BALANCES AS OF DECEMBER 31, 2008                | 25,065,660                                   | 755,310                      | 25,820,970        |
| Transfers from Federal Government in the period | 1,945,034                                    | -                            | 1,945,034         |
| Prior year adjustments (note 10)                | -  | (1,866)                      | (1,866)           |
| Loss for the period                             | -  | (116,102)                    | (116,102)         |
| BALANCES AS OF JUNE 30, 2009                    | <u>27,010,694</u>                            | <u>637,342</u>               | <u>27,648,036</u> |
| CHANGES FOR THE PERIOD                          | <u>1,945,034</u>                             | <u>(117,968)</u>             | <u>1,827,066</u>  |
| BALANCES AS OF DECEMBER 31, 2009                | 28,854,696                                   | 600,232                      | 29,454,928        |
| Transfers from Federal Government in the period | 2,033,706                                    | -                            | 2,033,706         |
| Prior year adjustments (note 10)                | -  | (25,791)                     | (25,791)          |
| Loss for the period                             | -  | (32,918)                     | (32,918)          |
| BALANCES AS OF JUNE 30, 2010                    | <u>30,888,402</u>                            | <u>541,523</u>               | <u>31,429,925</u> |
| CHANGES FOR THE PERIOD                          | <u>2,033,706</u>                             | <u>(58,709)</u>              | <u>1,974,997</u>  |

STATEMENTS OF CASH FLOWS  
 FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2010 AND 2009  
 (In thousands of Brazilian reais - R\$)

|   | <u>06.30.2010</u>  | <u>06.30.2009</u>  |
|---|--------------------|--------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>             |                    |                    |
| Loss for the period                                     | <u>(32,918)</u>    | <u>(116,102)</u>   |
| Items not affecting cash and cash equivalents           |                    |                    |
| - Allowance for loan losses and devaluation             | 260,664            | 398,850            |
| Adjusted loss   | <u>227,746</u>     | <u>282,748</u>     |
| Interbank Accounts                                      | (424,255)          | (7,709)            |
| Lending Operations                                      | (2,021,152)        | (2,789,403)        |
| Other Receivables                                       | (83)               | (186)              |
| Other Assets  | 270                | (164)              |
| Prior Year Adjustments                                  | (25,791)           | (1,866)            |
| <b>CASH GENERATED BY (USED IN) OPERATING ACTIVITIES</b> | <u>(2,471,011)</u> | <u>(2,799,328)</u> |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>             |                    |                    |
| Transfers from Federal Government                       | <u>2,033,706</u>   | <u>1,945,034</u>   |
| <b>CASH GENERATED BY (USED IN) FINANCING ACTIVITIES</b> | <u>2,033,706</u>   | <u>1,945,034</u>   |
| Decrease in Cash and Cash Equivalents                   | <u>(209,559)</u>   | <u>(571,546)</u>   |
| <b>REPRESENTED BY CASH AND CASH EQUIVALENTS:</b>        |                    |                    |
| At beginning of period                                  | 3,550,828          | 4,587,385          |
| At end of period  | <u>3,341,269</u>   | <u>4,015,839</u>   |
| Decrease in Cash and Cash Equivalents                   | <u>(209,559)</u>   | <u>(571,546)</u>   |

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2010 AND 2009  
(Amounts in thousands of Brazilian reais - R\$)

**Contents of Notes to the Financial Statements**

---

|  |   |
|--|---|
| Note 1 - History   | Note 8- Risk of Financing Operations and Onlending and Allowance for Loan Losses                |
| Note 2 - Basis of preparation and Presentation of Financial Statements | Note 9 - Recognition of Losses and Return of BNB's Share of Risk                                |
| Nota 3 - Management  | Note 10 - Prior Year Adjustments  |
| Note 4 - Accounting Practices  | Note 11 - Registration in the Federal Government Integrated Financial Management System (SIAFI) |
| Note 5 - Oversight   | Note 12 - Renegotiation and Reclassification of Lending Operations                              |
| Note 6 - Independent Audit   | Note 13 - Onlendings to BNB under Article 9A of Law 7827, of September 27, 1989                 |
| Note 7 - Tax Exemption   | Note 14 - Other Information   |

---

**1. HISTORY**

Fundo Constitucional de Financiamento do Nordeste - FNE (Northeast Constitutional Financing Fund, "FNE" or the "Fund") was established by the Federal Constitution of 1988 (Article 159, item I, subitem "c"), and is regulated by Law 7827, of September 27, 1989, amended by Supplementary Law 125, of January 3, 2007, Laws 9126, of November 10, 1995, 9808, of July 20, 1999, and 10177, of January 12, 2001, Provisory Act 2196-14, of June 28, 2001, and its amendments, and Article 13 of Provisory Act 2199-14, 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, including the changes introduced by Laws 11638/07 and 11941/09, of December 28, 2007 and May 27, 2009, respectively, and the regulation specifically for constitutional funds established by the Federal Government.

**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 credit, 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, reporting on the results achieved, performing other activities related to the use of funds and recovery of credits, including negotiating and settling debts, pursuant to Articles 15-B, 15-C, and 15-D of Law 7827 of September 27, 1989.



#### 4. 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) Income and expense recognition

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 annum, 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 percent.

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 percent will be granted for borrowers that develop their activities in the northeast semiarid region, and 15 percent for borrowers from other regions, provided that the debt is paid by the due date.

Financing transactions under the National Family Farming Strengthening Program (PRONAF) 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.

a.3) Provisory Act 2196-1, of June 28, 2001, and subsequent reeditions, which created the Strengthening Program for Federal Financial Institutions, sets out the following as regards the BNB's financial commission on financing with funds from FNE:

- For transactions contracted until November 30, 1998, BNB's financial commission was reduced to zero, and the charges agreed to with borrowers remained unchanged;
- For transactions contracted with a risk of 50 percent for Banco do Nordeste, BNB's financial commission will be 3 percent per year;
- For transactions resulting from onlendings to Banco do Nordeste for in its name and at its own risk, to conduct lending transactions, the financial commission will be 6 percent per year.

a.4) Decree 5818, of June 26, 2006, combined with National Monetary Council (CMN) Resolution 3293, of June 28, 2005, established that, for PROFROTA transactions with large companies, with shared risk, BNB's financial commission is 2.5 percent per year.

- a.5) Administrative Rule 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, Forest and Emergency PRONAF), BNB is not entitled to any commission, according to the legislation and regulation of the Program.
- a.7) For lending transactions reclassified under Article 31 of Law 11775 of September 17, 2008, Interministerial Rule 245 of October 14, 2008 sets BNB's financial commission at 3 percent per annum in the cases defined in Article 1, items I to IV, and sets a financial commission of 6 percent per year in the cases defined in Article 1, Sole Paragraph.
- a.8) FNE's expenses refer to management fee payable to Banco do Nordeste as the Fund manager, to financial charges payable to BNB on financing under PRONAF (Groups A, B, A/C, Forest, Semiarid, and PRONAF-Emergency), to performance premium on PRONAF A/C, Semiarid and Forest programs reimbursements, to allowance for loan losses recognized pursuant to Interministerial Rule 11, of December 28, 2005, of the Ministry of Finance and Ministry of National Integration, and to independent audit services, in addition to bonuses and discounts established by legislation.

The management fee of 3 percent per year, paid to Banco do Nordeste by FNE, is recorded on a monthly basis of 0,25% on the Fund's net equity, less onlendings to BNB, onlendings to other institutions under Administrative Rule 616 of May 26, 2003 of the Ministry of National Integration, and application balances on PRONAF - Groups B, A/C, Forest, Semiarid and Emergency, limited each year to 20 percent of the transfers made by the National Treasury, pursuant to Decree 5641, of December 26, 2005.

The financial charges paid to BNB on transactions under PRONAF - Groups A, B, A/C, Forest, Semiarid and PRONAF - Emergency, and the performance premium on PRONAF A/C, Semiarid and Forest reimbursements, 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 adjustments earned.

- b.1) Cash and cash equivalents consist of cash assets, which represent funds available for use in lending operations, and Funds Committed for Loans, which represent restricted cash in connection with yet-unpaid installments of contracted operations corresponding to the amounts outstanding by the balance sheet date, plus the payments expected during the 90 subsequent days and any mismatches between the amounts to be released after such 90 days and the estimated inflow to the Fund during such period. The Fund's cash held by Banco do Nordeste are paid based on extra-market rate, released by the Central Bank of Brazil.
- 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).
- b.3) Law 11322, of July 13, 2006, provides for the renegotiation of debts arising from rural credit transactions contracted in the area under the jurisdiction of the Superintendency for the Development of the Northeast (SUDENE), and grants decrease on debit balance, bonuses for timely payment, decreased interest rates and extension of payment periods.

- b.4) Law 11775 of September 17, 2008, provides for the settlement, regularization, renegotiation or reclassification of debts arising from lending operations classified, among others, under Laws 9138 of November 29, 1995, 10437 of April 25, 2002 and 11322 of July 13, 2006, Provisory Act 2196-3 of August 24, 2001, CMN Resolution 2471 of February 26, 1998, National Family Farming Strengthening Program (PRONAF), Japanese and Brazilian Cooperation Program for the Development of the Cerrado Region (PRODECER) - Stage III, and contracted with FAT funds by financial agents, and grants discounts on debt balances and bonuses for timely payment, waivers, and maintenance or rescheduling of payment periods.
- b.5) The caption "Other receivables" includes FNE's rights on chattels and properties received by BNB as payment of debts. After assets are sold, the sale proceeds are apportioned between the Fund and BNB, proportionally to the risk assumed, pursuant to Article 7 of Interministerial Rule 11, of December 28, 2005.
- b.6) Securities recorded under line account "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 originated as follows:

- Transfers from the Federal Government in the proportion of 1.8 percent of the collection of taxes on income of any nature and Industrialized Products Tax (IPI);
- Returns and results of transactions;
- Interest paid by Banco do Nordeste on FNE's temporarily not invested cash.

5. **OVERSIGHT**

Banco do Nordeste keeps at the disposal of the oversight agencies 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.

6. **INDEPENDENT AUDIT**

FNE contracts an independent auditor 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.

7. **TAX EXEMPTION**

FNE is tax-exempt and its earnings, income and financing operations are not subject to any tax or other charges, pursuant to Law 7827, of September 27, 1989, and subsequent amendments.

8. **RISK OF FINANCING OPERATIONS AND ONLENDING AND ALLOWANCE FOR LOAN LOSSES**

- a) Pursuant to the legislation that regulates Constitutional Financing Funds, National Family Farming Strengthening Program (PRONAF) and Special Credit Program for Agrarian Reform (PROCERA/Programa da Terra), the risk of transactions with FNE's funds is as follows:
- a.1) Transactions contracted until November 30, 1998:
- In transactions related to *Programa da Terra*, the risk lies totally with PROCERA;
  - In other transactions, the risk is assumed by FNE.
- a.2) Transactions contracted beginning December 1, 1998:
- In financing under *Programa da Terra*, the risk lies with PROCERA;
  - In transactions under PRONAF (Groups A, B, A/C, Forest, Semiarid and Emergency), the risk lies totally with FNE;
  - In onlendings to Banco do Nordeste whose funds are used in BNB's own lending operations, the risk is fully assumed by Banco do Nordeste;
  - In onlendings to other institutions authorized to operate by the Central Bank of Brazil, contracted until November 30, 1998, the risk is fully assumed by FNE. Under a specific clause of the onlending agreements, the risk on financing granted to final borrowers is fully assumed by the lender;
  - In onlendings to other institutions authorized to operate by the Central Bank of Brazil, contracted after Administrative Rule 616, of May 26, 2003, becomes effective, the risk lies totally with BNB. Under referred Administrative Rule and under a specific clause of the onlending agreements, the risk on financing granted to final borrowers is fully assumed by the lender;
  - In the transactions addressed by Article 31 of Law 11775 of September 17, 2008, the risk lies 100% with Banco do Nordeste, if the risk of the original transaction is fully attributed to the Bank, or shared, when the renegotiated transaction involves this type of risk;
  - In other transactions, the risk is 50 percent for FNE and 50 percent for BNB.
- b) Pursuant to sole paragraph of Article 3 of Interministerial Rule 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.

| <u>Specification</u>  | <u>06/30/2010</u> | <u>06/30/2009</u> |
|---|-------------------|-------------------|
| Allowance for loan losses at the beginning of the period      | <u>1,300,349</u>  | <u>1,182,289</u>  |
| . Full FNE risk   | 1,029,846         | 965,749           |
| . Shared risk   | 270,503           | 216,540           |
| (+) Net allowance recognized in the period                    | <u>262,132</u>    | <u>402,246</u>    |
| Net provision for discounts - Acquired Transactions Law 11322 | <u>(426)</u>      | <u>740</u>        |
| . Full FNE risk   | (426)             | 740               |
| Allowance for loan losses                                     | <u>262,558</u>    | <u>401,506</u>    |
| . Full FNE risk   | 163,725           | 294,585           |
| . Shared risk   | 98,833            | 106,921           |
| (-) Receivables written off as a loss in the period           | <u>262,728</u>    | <u>320,766</u>    |
| . Full FNE risk   | 169,831           | 245,822           |
| . Shared risk   | 92,897            | 74,944            |
| (=) Ending balance of allowance for loan losses               | <u>1,299,753</u>  | <u>1,263,769</u>  |
| . Full FNE risk   | 1,023,314         | 1,015,252         |
| . Shared risk   | 276,439           | 248,517           |

c) Considering that PROCERA is responsible for the risk of financing transactions under *Programa da Terra* with FNE's funds, no allowance for loan losses is recognized.

d) Under Interministerial Rule 46, of March 7, 2007, an allowance for loan losses is recorded for transactions renegotiated under Law 11332, of July 13, 2006, as described below:

d.1) for transactions with other sources of funds acquired by FNE: in an amount equal to the negative goodwill determined on acquisition by the Fund, recorded as a contra entry to loan transactions. The amounts for the year are described in subaccount "Net provision for discounts - Acquired Transactions Law 11322" in the table in item b, above;

d.2) 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 a loss, recorded as a contra entry to "Expenses on allowance for loan losses". In the first half of the year, the allowance decreased by R\$ 9,658, R\$ 8,606 of which referred to full FNE risk transactions and R\$ 1,052 referred to shared risk transactions. In the same period of 2009, an allowance was recorded in the amount of R\$ 8,398, of which R\$ 2,436 referred to transactions whose full risk lies with the Fund and R\$ 5,962 referred to shared-risk transactions. These amounts are included in subaccount "Allowance for loan losses" in the table in item b, above.

e) Interministerial Rule 244, of October 14, 2008, establishes that an allowance for loan losses is recorded for transactions renegotiated under Law 11775, 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 a loss, recorded as a contra entry to "Expenses on operating provisions";

e.2) for renegotiated FNE transactions an allowance of R\$ 17,657 was recognized, of which R\$ 9,502 refers to transactions whose full risk lies with the Fund and R\$ 8,155 refers to shared-risk transactions. In the same period of 2009, an

allowance was recorded in the amount of R\$ 112,946, of which R\$ 80,295 referred to transactions whose full risk lies with the Fund and R\$ 32,651 referred to shared-risk transactions. These amounts are included in subaccount “Allowance for loan losses” in the table in item b, above.

- f) The renegotiations, documented in the six-month period based on Law 11775, of September 17, 2008, Law 9138, of November 29, 1995, Law 10437, of April 25, 2002 and Law 11322, of July 13, 2006 and Provisional Act 2196-3, of August 24, 2001, reduced the Fund’s income by R\$ 11,675 (R\$ 75,207 as of June 30, 2009). This effect includes costs on renegotiation of transactions contracted between the Fund and other funding sources, mixed funding sources, acquired or reclassified to the Fund, as authorized by referred Laws, as shown below:

| <u>Specification</u>                           | <u>06/30/2010</u> | <u>06/30/2009</u> |
|--|-------------------|-------------------|
| Recovery of operations written off from assets | 11,474            | 109,439           |
| Expenses - bonuses and waivers                 | (23,643)          | (63,302)          |
| Net effect on allowances                       | <u>494</u>        | <u>(121,344)</u>  |
| Total net effect                               | <u>(11,675)</u>   | <u>(75,207)</u>   |

- g) In the Statement of Income, “Income from lending operations” is recorded at the net amount as follows:

| <u>Specification</u>   | <u>06/30/2010</u> | <u>06/30/2009</u> |
|--|-------------------|-------------------|
| Income from lending operations   | 1,089,226         | 960,578           |
| Expenses on BNB’s financial commission   | (324,323)         | (261,883)         |
| Expenses on financial commission of other institutions   | (1,955)           | (1,928)           |
| Expenses on negative monetary adjustment   | (1,366)           | (12,226)          |
| Expenses on discounts granted in renegotiations  | (2,131)           | (6,192)           |
| Expenses on discounts to Cocoa Plantations Recovery Program transactions - Law 11775 of 09.17.2008 | (501)             | -                 |
| Expenses on rebates/bonuses for timely payment - Transactions contracted by Banco do Nordeste      | (232,210)         | (200,234)         |
| Expenses on Rebates/bonuses for timely payment - Onlendings Law 7827 - Article 9 A                 | (327)             | -                 |
| Expenses on rebates/ bonuses for timely payment - Onlendings to other institutions                 | (41)              | (50)              |
| Expenses on principal rebates - Receivables from FAT - BNDES - Law 10193 of 02.14.2001             | (238)             | (281)             |
| Expenses on transactions - Other sources - Acquisitions Law 11322 of 07.13.2006                    | <u>(197)</u>      | <u>(1,114)</u>    |
| T O T A L  | <u>525,937</u>    | <u>476,661</u>    |

## **9. RECOGNITION OF LOSSES AND RETURN OF BNB'S SHARE OF RISK**

- a) As permitted by the sole paragraph of Article 3, Interministerial Rule 11, losses are recognized by FNE in accordance with the criteria set forth in item II of Article 3 of referred 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 11.
- c) In the first half of year, BNB returned to FNE the amount of R\$ 93,753 (R\$ 75,765 as of June 30, 2009) related to BNB's share of risk in transactions that were written off as loss.

## **10. PRIOR YEAR ADJUSTMENTS**

The net negative adjustment of R\$ 25,791 as of June 30, 2010, (R\$ 1,866 as of June 30, 2009) refers to recalculations of charges on lending transactions.

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

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

## **12. RENEGOTIATION AND RECLASSIFICATION OF LENDING OPERATIONS**

Law 11775, of September 17, 2008, established measures to encourage the settlement or renegotiation of debts from rural credit transactions and land mortgage loan, with the following impacts on FNE:

- a) renegotiation of financing contracted with FNE's funds;
- b) contracting of new transactions 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 FNE of transactions entered into under the PRONAF at the risk of the Federal Government;
- e) reclassification for the Fund of transactions carried out with funds from FAT;
- f) reclassification to the FNE of transactions entered into with funds from the FNE and other sources.

The same statute authorizes the replacement of financial charges on outstanding rural and non-rural transactions, contracted until January 14, 2001, subject to post fixed rates, by pre fixed rates set by legislation applicable to transactions with FNE's funds.

In the first half of year, credits were reclassified to FNE or new operations were contracted to settle financings with funds from other sources, with full risk for the Fund, totaling R\$ 9,815 under referred law, as follows:

| <u>Specification</u>  | <u>Amount</u> |
|---|---------------|
| Article 7 (Cocoa Farming Operations in Bahia)                                   | 8,133         |
| Article 19 (Operations whose Risk lies with the Federal Government - FAT Funds) | 1,075         |
| Article 31 (PRODECER transactions - Stage III/Res 2471 transactions)            | <u>607</u>    |
| TOTAL   | <u>9,815</u>  |

Still under Law 11775, of September 17, 2008, credits were reclassified to FNE or new operations were contracted to settle financings with funds from other sources, with full risk for Banco do Nordeste, in the amount of R\$ 17,934, as follows:

| <u>Specification</u>                                   | <u>Amount</u> |
|--|---------------|
| Article 31 (Funds from Other Sources/FNE transactions) | 5,341         |
| Article 31 (PRODECER transactions - Stage III)         | 7,572         |
| Article 31 (FAT transactions)                          | <u>5,021</u>  |
| TOTAL  | <u>17,934</u> |

A survey conducted by Banco do Nordeste indicates that the following amounts are eligible for transfer to FNE based on Articles 7 and 31 of Law 11775, of September 17, 2008, as of June 30, 2010:

| <u>Specification</u>                            | <u>Amount</u>  |
|---|----------------|
| Article 7 (Cocoa Farming Operations in Bahia)   | 301,713        |
| Article 31 (Transactions with mixed FNE funds ) | 510,259        |
| Article 31 (Transactions with FAT funds)        | <u>133,252</u> |
| TOTAL   | <u>945,224</u> |

**13. ONLENDINGS TO BNB UNDER ARTICLE 9A OF LAW 7827, OF SEPTEMBER 27, 1989**

On June 16, 2010, the Central Bank of Brazil issued Official Letter DEORF/Cofil - 2010/05338, which approved the qualification of the onlending transaction by FNE, in the amount of R\$ 400,000, as Level II Capital in the Reference Shareholders' Equity (PR) of Banco do Nordeste do Brasil S/A, in the subordinated debt class, in accordance with CMN Resolution 3444, of February 28, 2007.

The outstanding balance of onlendings made to Banco do Nordeste, including the R\$ 600,000 operation, contracted in 2009, were as follows at June 30, 2010:

| <u>Specification</u> | <u>Amount</u>    |
|----------------------|------------------|
| Available funds      | 922,109          |
| Funds invested       | <u>127,465</u>   |
| TOTAL                | <u>1,049,574</u> |

The line account "Available funds" records amounts temporarily not invested in BNB loan transactions, and yield a non-market interest rate disclosed by the Central Bank of Brazil.



The line account “Funds invested” corresponds to the amounts released by Banco do Nordeste to the borrowers of the financing agreements, adjusted based on contractual indices, as set forth by legislation and the Subordinated Debt Instruments entered into.

14. **OTHER INFORMATION**

The Bill of Conversion Law 4 of 2009 (resulting from Provisory Act 451 of 2008) was converted into Law 11945, of June 4, 2009, published in the Federal Official Gazette of June 5, 2009. Article 28 thereof amends Article 15 of Law 7827, of September 27, 1989, supporting debt settlements carried out by federal financial institutions managing Constitutional Funds which were performed in compliance with the banking practices and regulations of the respective institutions and which were subject to legal challenges and collected at the financial equivalent of assets liable to attachment of direct debtors and their respective guarantors, in relation to transactions granted with funds from Financing Constitutional Funds, also permitting the reopening of renegotiations for the settlement of debts by the financial equivalent of the current value of assets liable to attachment. The operating procedures for the new settlements based on Law 11945, of June 4, 2009, were regulated by Resolution 30 of the Board of the Agency for the Development of the Northeast Region (SUDENE), issued on April 29, 2010. The Bank’s internal regulations will be subject to the Board of Directors' approval for subsequent disclosure and implementation.

Fortaleza, July 26, 2010

The Board of Director

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

---

## 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 sheets of Fundo Constitucional de Financiamento do Nordeste - FNE (Northeast Constitutional Financing Fund) managed by Banco do Nordeste do Brasil S.A., as of June 30, 2010 and 2009, and the related statements of income, changes in net equity, and cash flows for the six-month periods then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.
2. Our audit were 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 the Fund's 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 June 30, 2010 and 2009 and the results of its operations, the changes in its net equity, and its cash flows for the six-month periods then ended, in conformity with Brazilian accounting practices and the specific regulations for constitutional funds established by the federal government, described in note 4.
4. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Fortaleza, August 6, 2010

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes  
CRC 2SP 011.609/O-8 "F" CE

Claudio Lino Lippi  
Engagement Partner  
CRC-SP N° 97.866 –TPE S/CE

---

**MANAGEMENT COUNCIL:** Antônio Henrique Pinheiro Silveira (President) – Roberto Smith (Vice-President) Augusto Akira Chiba – Álvaro Larrabure Costa Corrêa – Ana Teresa Holanda de Albuquerque – Zilana Melo Ribeiro

**BOARD OF DIRECTOR:** Roberto Smith (President) – Luiz Carlos Everton de Farias (Director of Control and Risk) – Osvaldo Serrano de Oliveira (Director of Finance and Market of Capitals) – Paulo Sérgio Rebouças Ferraro (Director of Business) – José Sydrião de Alencar Junior (Director of Development Management) – Stélio Gama Lyra Junior (Director of Management and Information Tecnology)

**SUPERVISORY BOARD:** Rodrigo Silveira Veiga Cabral (President) – Cláudio Xavier Seefelder Filho – Gideval Marques de Santana – Demetrius Ferreira e Cruz – Marco Antônio Fiori

**AUDIT'S COMMITTEE:** João Alves de Melo (President) – Antonio Carlos Correia – Luciano Silva Reis

**SUPERINTENDENT:** João Francisco Freitas Peixoto (Financial Control)

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

---