



# FINANCIAL STATEMENTS

**Banco do Nordeste and FNE**

**POSITION: 12.31.2010**



## Financial Statements

# BANCO DO NORDESTE

POSITION: 12.31.2010

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Fortaleza, Ceará - Publicly-held company - License 3465**

**CNPJ nº 07.237.373/0001-20**

## **MANAGEMENT REPORT - 2010**

In the last years, employment and income have grown considerably in Brazil, especially in the Northeastern region, thus benefiting millions of people. A new middle class is rising in the social and economic stratification outlook, with a great number of families crossing over the poverty line and enjoying more dignifying living conditions and citizenship. The Northeast region has been enjoying, in a positive way, all the results of the social and economic policy of the Federal Government. At average, it receives half of the funds from the “Bolsa Família”, further expands the funds allocated to the Northeast Financing Constitutional Fund (FNE), and presents an expressive demand for investments in infrastructure, logistics, oil & gas, paper & pulp, maritime industry, tourism, urban infrastructure, trade & services and other business segments.

In 2010, Banco do Nordeste do Brasil S.A (BNB) played, as in the last years, the role of regional development bank, perfectly integrated to Brazil's economic policy, acting as an instrument of the Federal Government in the region to implement public policies, such as: productive microcredit, support to family farming and micro and small businesses, and infrastructure financing involving projects of the Growth Acceleration Program (PAC).

During 2010, BNB transacted 2.6 million operations in all sectors of the economy, in the total amount of R\$ 21.4 billion. Among all sources of funds used by BNB, the Northeast Financing Constitutional Fund (FNE), which covers all 1989 municipalities of the Bank's operating area, was responsible for R\$ 10.8 billion of financing granted - emphasizing the importance of this source of funds to the development of the Northeast region.

In the microcredit area, BNB invested R\$ 2.7 billion in the year (37.1% more than in 2009), of which R\$ 2.1 billion in urban microcredit through Crediamigo and R\$ 595.8 million through Agroamigo - its rural microcredit program. Micro and small businesses borrowed R\$ 2.3 billion, a growth by 26.7%. In the family farming segment, BNB has invested through the National Family Farming Strengthening Program (PRONAF), R\$ 1.1 billion, a growth by 24.2%. The infrastructure segment, critical to the sustainable growth, received financing of around R\$ 2.5 billion, an increase of 31.4% in relation to the previous year, especially the energy sector. Of that amount, R\$ 1.3 billion refer to financing of projects included in the Growth Acceleration Program (PAC).

## OPERATING PERFORMANCE

### Global Operations

During 2010, BNB transacted 2.6 million operations amounting to R\$ 21.4 billion involving short and long-term loans, capital market and FDNE disbursements, whose risks were assumed by the Bank. Contracted loans total R\$ 20.3 billion, a growth by 9.8% in relation to the prior year, divided between long-term financing directed to investments, with R\$ 11.8 billion and growth by 3.5%, and short-term loans complementary to the investments, in the amount of R\$ 8.6 billion with expressive growth of 19.6%.

#### OVERALL LENDING (R\$ million)

Type	2009		2010		Variation (amount)
	Number	Value	Number	Value	
Lending operations	2,114,953	18,539.7	2,587,760	20,349.0	9.8%
• Long-term transactions <sup>(1)</sup>	394,388	11,352.5	402,943	11,750.3	3.5%
• Short-term transactions <sup>(2)</sup>	1,720,565	7,187.2	2,184,817	8,598.7	19.6%
Capital market transactions	16	2,302.0	10	1,010.0	-56.1%
Disbursements FDNE <sup>(3)</sup> - BNB risk	5	5.6	8	33.4	496.4%
<b>Total</b>	<b>2,114,974</b>	<b>20,847.3</b>	<b>2,587,778</b>	<b>21,392.4</b>	<b>2.6%</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;

(3) FDNE: Northeast Development Fund (FDNE)

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

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 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.

In 2010, the Bank's support to micro and small businesses grew 27.5% with investments of R\$ 2.3 billion. In family farming, contracting reached R\$1.1 billion with a growth by 24.2%. BNB's microcredit operation grew 37.1% in the year, with investments of R\$ 2.7 billion, of which R\$ 2.1 billion in urban microcredit and R\$ 595.8 million in the rural sector. Sales and foreign exchange credit grew 14.8% in 2010 as loans amounting to R\$6.5 billion were contracted.

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

Program / Segment	2009	2010	Variation
Micro and small businesses (MPE)	1,785.7	2,276.3	27.5%
Family farming (PRONAF)	890.1	1,105.1	24.2%
Microcredit	1,942.3	2,662.1	37.1%
• Urban (Crediamigo program)	1,499.2	2,066.3	37.8%
• Rural (Agroamigo program)	443.1	595.8	34.5%
Sales and foreign exchange credit	5,687.9	6,532.4	14.8%

Overall contracting per economic sector indicated growth in all sectors, with emphasis to the infrastructure sector, which grew 31.4%, and the manufacturing sector which rose 16.7%. The infrastructure segment, key to the sustainable growth, received financing of around R\$ 2.5 billion, with emphasis on the energy sector. Of that amount, R\$ 1.3 billion refer to financing of projects included in the Growth Acceleration Program (PAC) of the Federal Government.

CONTRACTED LENDING BY INDUSTRY (R\$ million)

Industry	2009	2010	Variation
Rural	3,988.4	4,125.3	3.4%
Manufacturing	5,163.9	6,027.6	16.7%
Infrastructure	1,918.8	2,521.1	31.4%
Trade/Services <sup>(1)</sup>	7,468.6	7,675.0	2.8%
<b>Total</b>	<b>18,539.7</b>	<b>20,349.0</b>	<b>9.8%</b>

(1) Includes urban microcredit (Crediamigo).

In 2010, total contracted operations with mini, micro and small farmers and businesses presented the highest growth, with 28.3% above the previous year. This segment accounts for 35.8% of contracting, R\$ 6.4 billion in the year, from mini to large entities, representing an expressive increase of 19.7% in comparison with 29.9% share of this sector in 2009.

The operations with mid-sized customers increased 24.6% while large customers reduced investments by 8.3%. These results reflect the Bank's effort to serve mini, micro and small customers on a priority basis.

CONTRACTED LENDING BY SIZE (R\$ million)

Size	2009	2010	Variation
Mini/Micro/Small	4,971.3	6,378.0	28.3%
Medium	2,328.7	2,900.6	24.6%
Large	9,320.9	8,549.3	-8.3%
<b>Mini to Large</b>	<b>16,620.9</b>	<b>17,827.9</b>	<b>7.3%</b>
Infrastructure	1,918.8	2,521.1	31.4%
<b>Total</b>	<b>18,539.7</b>	<b>20,349.0</b>	<b>9.8%</b>

The Bank has short-term loans to complement long-term financing. Mainly targeted at investment financing customers, short-term loans are designed to meet their operational capital requirements, such as Working Capital loans, Factoring, Overdraft Accounts and Foreign Exchange. BNB has contracted R\$ 8.6 billion in 2010 in short-term loans - a growth by 19.6% compared to the previous year - where all products posted a growth, as shown in the table below.

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

Product	2009	2010	Variation
Commercial Credit	4,859.3	5,653.8	16.4%
• Direct Consumer Credit (CDC) and Working Capital	2,990.6	3,142.5	5.1%
• Factoring	718.6	892.4	24.2%
• Overdraft Accounts	1,150.1	1,618.9	40.8%
Foreign Exchange <sup>(1)</sup>	828.7	878.6	6.0%
Crediamigo	1,499.2	2,066.3	37.8%
<b>Total</b>	<b>7,187.2</b>	<b>8,598.7</b>	<b>19.6%</b>

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

The Bank continues to hold 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 65.5% share of the total. In the short-term balance, BNB's share is 6.3%; in the farm credit segment, BNB's share is 72.3%.

### Northeast Financing Constitutional Fund (FNE)

Financing in 2010 by using funds from the Northeast Financing Constitutional Fund (FNE) totaled R\$ 10.8 billion, a growth by 17.7% compared to 2009. Among the sectors, the highest growth in the year of 411.6% was achieved in the tourism segment investing R\$ 447.2 million, including the financing of the World Cup 2014-oriented projects. The farming segment, with a variation of 27.5% in 2010, received R\$ 3.7 billion, i.e. 34.0% of the total amount contracted. The manufacturing sector was another one that sustained a substantial growth with contracting amount of R\$ 2.4 billion, a growth by 37.9% compared to the prior year. The infrastructure sector received financing in the total amount of de R\$ 2.0 billion, a growth by 5.3%. Of this amount, R\$ 1.3 billion was invested in the Growth Acceleration Program (PAC). The performance of these sectors can be explained the recovery of economy and, consequently, the raise in the domestic demand for goods and services in general, thus impacting the companies' demand for financing.

FNE – LENDING BY INDUSTRY (R\$ million)

Industry	2009	2010	Variation
Rural	2,867.9	3,657.3	27.5%
Agribusiness	366.9	220.6	-39.9%
Manufacturing	1,754.8	2,419.2	37.9%
Infrastructure	1,918.8	2,020.5	5.3%
Tourism	87.4	447.2	411.6%
Trade/Services	2,138.3	1,990.4	-6.9%
<b>Total</b>	<b>9,134.1</b>	<b>10,755.2</b>	<b>17.7%</b>

The stabilization in 2010 of the availability of external credit lines in the after-crisis financial market caused a decrease in the demand for the Northeast Export Program (NExport) by agribusinesses, leading to a 39.9% decline in this industry's lending in 2010 through FNE funds. Despite a slight drop of 6.9% in the Trade/Services industry's lending through long-term transactions using the FNE, the Bank has expanded its total investments in this industry by 2.8% owing to the expansion of short-term loans using other sources of funds.

Financing oriented to mini and small farmers (annual gross revenue from agribusiness of up to R\$ 300 thousand) and micro and small companies (annual gross revenue from operations of up to R\$ 2.4 million) totaled R\$2.8 billion, a 23.3% growth in 2010 compared to the prior year.

FNE – LENDING BY SIZE IN 2010 (R\$ million)

Size	2009	2010	Variation
Mini/Micro/Small <sup>(1)</sup>	2,253.3	2,778.6	23.3%
Mid-sized <sup>(1)</sup>	1,343.8	1,579.0	17.5%
Large <sup>(1)</sup>	3,618.2	4,377.1	21.0%
<b>Mini to Large</b>	<b>7,215.3</b>	<b>8,734.7</b>	<b>21.1%</b>
Infrastructure	1,918.8	2,020.5	5.3%
<b>Total</b>	<b>9,134.1</b>	<b>10,755.2</b>	<b>17.7%</b>



(1) FNE - Classification of beneficiaries (farming industry) by size, based on FNE guidelines and according to 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, based on FNE guidelines and according to annual gross revenue from operations: 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.

## CREDIT BUSINESS SEGMENTS

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

### Microcredit

Backed by two microcredit programs: Crediamigo and Agroamigo targeted at the urban and rural areas, respectively, BNB has been spreading out its reach in this important segment emerging in Brazil. In 2010 the 1,961,587 microcredit transactions totaled R\$ 2.7 billion, a growth by 37.1% compared to 2009.

MICROCREDIT IN BNB (R\$ million)

Microcredit	2009		2010		Variation (Amount)
	Number	Value	Number	Value	
Urban (Crediamigo program)	1,259,594	1,499.2	1,632,482	2,066.3	37.8%
Rural (Agroamigo program)	286,175	443.1	329,105	595.8	34.5%
<b>Total</b>	<b>1,545,769</b>	<b>1,942.3</b>	<b>1,961,587</b>	<b>2,662.1</b>	<b>37.1%</b>

The programs offer small loans to micro farmers and businessmen to boost activities. They are synchronized with the Brazilian Government's strategy to eradicate poverty and promote social inclusion. About 30% of BNB's microcredit customers are beneficiaries of the "Bolsa Família" Program.

### **Urban Microfinancing**

Crediamigo is BNB's Production Microcredit Program that facilitates access to credit by thousands of urban entrepreneurs, mostly non-formalized businesses, who engage in the production and sale of goods and provision of services. In 2010, the total amount of loans granted through Crediamigo was R\$ 2,1 billion, accounting for a growth by 37.8% compared to 2009. The volume of loans granted also indicates a substantial growth by 29.6%. In the year, 1,632,482 deals were closed compared to 1,259,594 deals in the same period in 2009. The loan portfolio grew by 48% in 2010, reaching a balance of R\$ 742.6 million at the end of the year. The number of outstanding clients grew by 39,5%, from 528,7 thousand to 737,8 thousand.

### **Family Farming**

The National Family Farming Strengthening Program (PRONAF) is the federal government's program that sponsors family farming. This segment employs 6.4 million people in the Northeast region. BNB is PRONAF's main financial agent in the Northeast region. In 2010, the Bank entered into 367,151 transactions, with an aggregate financing volume of R\$ 1.1 billion, a growth by 24% compared to the prior year. The Program has a financing volume of R\$ 4.8 billion at the end of the year, representing 1.4 million transactions.

### **Rural Microfinancing**

The general purpose of Banco do Nordeste 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 production-oriented microcredit. It is a differentiated methodology adopted to expand quick and non-bureaucratic service by granting rural microcredit to low-income families in the rural area. In 2010 329,105 transactions were entered into in the Bank's entire operational area, totaling R\$ 595.8 million, a growth by 34.5% and average ticket of R\$ 1,810.35/transaction. Almost half of Agroamigo's transactions (48%) was entered into with female clients.

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

BNB transacts business with mini and small farmers to strengthen regional economy and eradicate poverty in the rural area. In 2010 the Bank entered into 9,760 transactions totaling R\$ 434.8 million in this segment, except for the Pronaf's beneficiaries. The financing volume totaled R\$ 4.4 billion at the end of the year, representing 266.4 thousand transactions.

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

In 2010 BNB set aside long-term credit lines in the total amount of R\$ 2.9 billion to micro and small enterprises. In the same period the Bank entered into transactions totaling R\$ 2.3 billion, a growth by 27.5% compared to 2009. This amount was offered to 23,774 micro and small businesses, accounting for 98,550 lending operations in 2010. Among the actions that contributed to the results obtained in the year, it is worth noting: business expansion with franchises; advertising of Banco do Nordeste brand in the market, by introducing products and their conditions by means of the launching of the 2010 advertising campaign aimed at micro and small businesses; existing partnerships between the Bank and key entities operating in strategic sectors; superior efficiency in the granting of credit to MSEs; and Business Managers training and qualification programs.

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

The corporate segment covers mid-sized and large clients. The segment is comprised of farmers with annual revenue in excess of R\$ 300 thousand and companies with annual revenues between R\$ 2.4 million and R\$ 200 million. The corporate area manages and structures the businesses of clients with annual revenues in excess of R\$ 200.0 million. BNB offers own space and a qualified team to give differentiated treatment in the existing Corporate platforms in each State where BNB operates. The corporate segment entered into credit transactions totaling R\$ 4.7 billion in 2010.

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

Over the last years, BNB has been working in line with the Brazilian government's guidelines, in particular in the financial support provided to the Growth Acceleration Program (PAC), allowing total investments of about R\$ 13.8 billion in 25 projects in the energy and transportation sectors from 2005 to 2010, including by lending funds from the FNE, whose lending volume is approximately R\$ 3.4 billion, of which R\$ 1.3 billion in 2010 only.

### **Businesses with the Government**

BNB has been expanding businesses with the Government. The transaction volume stood at R\$ 2.8 billion, with lending and funding transactions totaling R\$ 1.3 billion and R\$ 1.5 billion, respectively.

## **Commercial Credit**

Investment-funding commercial credit comprise Direct Consumer Credit (CDC), Working capital loans, Factoring, and Overdraft accounts and totaled R\$ 5.7 billion in 2010, posting a growth by 16.4% compared to the prior year.

## **Foreign Trade and Foreign Exchange**

Through foreign trade and foreign exchange transactions, BNB facilitates access to international markets by companies in the Northeast region. In 2010, over R\$ 1.3 billion was allocated by the several sources of funding to foreign trade operated by the Bank. The credit products offered to fulfill funding and collateral requirements are: Advances on foreign exchange contracts (ACC/ACE), Import Financing (FINIMP) and international collaterals. In order to finance export, besides the traditional foreign trade transactions, such as ACC and ACE, the Bank offers to exporters in the Northeast region the Northeastern Export credit line. This line is intended to promote 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 2010, including loans, spot foreign exchange services, interbank transactions and currency arbitrage services reached R\$ 5.3 billion.

## **Capital Markets**

BNB participated in 2010 in the structuring of fixed-income transactions in the amount of R\$1.0 billion. The Bank was ranked 10<sup>th</sup> in both the Origination of fixed-income transaction domestic ranking of the Brazilian Financial and the Capital Markets Association (ANBIMA).

## Funding

In 2010, BNB strengthened funding transactions to meet the rising demand for credit in the Northeast region through two new funding sources: issue of Eurobonds and direct funding by the National Treasury in the form of hybrid equity and debt instrument. The access to the international market, through the issue of Eurobonds in the nominal amount of US\$ 300 million, generated additional funding for working capital transactions. Bids from over 200 investors, including fund managers, banks, hedge funds and insurers, were received in the bookbuilding procedure, resulting in a demand above US\$ 2.0 billion, equivalent to 6.7 times the issue amount. BNB has entered into with the Brazilian government the contracting of a Hybrid Equity and Debt Instrument (IHCD) in the amount of R\$1 billion, which will allow the Bank, after approved by the Central Bank of Brazil, to raise the Bank's total Regulatory Capital from R\$ 3.3 billion to R\$ 4.3 billion and Basel Ratio from 13.2% to 17.8%, in line with the increasing demand for credit in the region.

## FINANCIAL/ECONOMIC INDICATORS

### Total assets

At the end of 2010, BNB's total assets rose by 24.2% compared to the end of 2009 (see the Total Assets table). BNB assets also include FNE available funds (R\$ 1,896 million) and the funds committed to that Fund's credit operations, i.e., related to contracted transactions pending disbursement (R\$ 1,756 million). The boost in BNB's asset balance (R\$ 4,629 million) between December 2009 and December 2010 is mainly represented by the increase in the balance of BNB's lending portfolio (R\$ 1,246 million) and the rise in the balance of cash and cash equivalents, interbank investments and securities (R\$ 3,161 million). This growth was possible on account of the R\$ 1,787 million increase in the volume of time deposits, the payment by the Brazilian government of Hybrid Equity and Debt Instruments in the amount of R\$ 1 billion, and the issue of securities abroad in the amount of R\$ 485 million in 2010.

The balance of BNB's lending portfolio, less allowance for loan losses, grew by 14% in 2010, especially due to the increase by: R\$ 753 million in FNE's onlendings (R\$ 782 million as of December 31, 2010 versus R\$ 29 million as of December 31, 2009); R\$ 563 million in short-term loans with own funds (R\$ 6,248 million as of December 31, 2010 versus R\$ 5,685 million as of December 31, 2009); R\$ 243 million in Crediamigo program transactions (R\$ 770 million as of December 31, 2010 versus R\$ 527 million as of December 31, 2009); and R\$ 443 million in long-term financing with BNDES funds (R\$ 988 million as of December 31, 2010 versus R\$ 545 million as of December 31, 2009).

In 2010 total FNE assets grew by 13.1% (see the table Global Assets), primarily owing to the inflow of funds from the National Treasury. In 2010, FNE's net assets increased by R\$ 4,083 million, versus R\$ 3,789 million in 2009. By comparing the positions as of December 31, 2010 and December 31, 2009, there is an increase of 13.1% in the balance of investments in FNE lending operations (before allowances for loan losses) and 2.8% in cash and cash equivalents.

TOTAL ASSETS (R\$ million)

Description	BNB		FNE	
	12.31.2009	12.31.2010	12.31.2009	12.31.2010
Cash and cash equivalents, <sup>(*)</sup> interbank Investments and securities	8,560.2	11,721.3	274.3	1,896.5
Funding committed to lending operations	-	-	3,276.5	1,756.6
Interbank accounts	217.0	271.0	851.0	1,331.4
Lending - net of allowance	8,888.6	10,134.9	25,048.9	28,337.4
Other receivables - balance net of allowance	1,284.4	1,450.8	2.5	3.1
Other assets	7.9	13.7	1.7	1.5
Permanent assets	196.4	192.1	-	-
<b>Total</b>	<b>19,154.5</b>	<b>23,783.7</b>	<b>29,454.9</b>	<b>33,326.6</b>

<sup>(\*)</sup> BNB's cash and cash equivalents include available funds and amounts committed to FNE lending operations.

## Securities

As of December 31, 2010, the securities portfolio amounted to R\$ 7,766 million, a R\$ 2,528 million (48%) increase compared to December 31, 2009, when it amounted to R\$ 5,238 million. Such variation was mainly due to the increase in Treasury Bills and National Treasury Notes, which was mostly attributable to the inflow of funds from the hybrid equity and debt instrument contract, whereby the Brazilian government transferred R\$ 1,0 billion to BNB, to the R\$ 1,787 million rise in time deposits and to the funds raised abroad totaling USD300 million. In compliance with Brazilian Central Bank Circular 3068, of November 8, 2002, BNB prepared projected cash flows to classify the securities portfolio. These cash flows show 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 affirms that the Bank has the intent and financial capacity to hold these securities to maturity.

## Overall Lending

Lending plus other investments recorded in accounts with credit characteristics, such as advances against foreign exchange contracts and credits granted to borrowers to purchase securities and assets, before allowances for loan losses, totaled R\$ 40,844 million as of December 31, 2010, a growth by about 12.5%.

### INVESTMENTS BY SOURCE/PROGRAM (R\$ million)

Description	12.31.2009	12.31.2010
Northeast Financing Constitutional Fund (FNE)	26,349	29,556
Own funds (except Crediamigo and BNB savings accounts)	5,685	6,248
Foreign funding (foreign exchange)	759	553
BNB savings accounts	744	238
Inter-American Development Bank (IDB)	639	654
National Bank for Economic and Social Development (BNDES)	545	988
Crediamigo (uses funds from IBRD, FAT, DIM, and own funds)	527	770
Land Fund/Agrarian Reform	518	571
Workers' Assistance Fund (FAT)	266	254
National Treasury (STN)	82	81
Agrarian Reform Agency (INCRA) - Land Account	68	71
Merchant Marine Fund (FMM)	54	59
FNE - Onlendings - Law 7827 Art. 9, "a" (Subordinate Debt)	29	782
Revolving Land Fund (FRT)	11	13
Other	9	5
<b>Total</b>	<b>36,287</b>	<b>40,844</b>

The table below shows BNB's lending by industry. Note the 104.9% growth in the credit portfolio allocated to infrastructure and development, which accounted for 13.3% of BNB's lending. As to FNE's lending by industry, it is worth mentioning the 22.8% growth in the credit portfolio allocated to infrastructure and development, accounting for 14.9% of FNE's lending, and the 19.6% growth in the manufacturing, trade and services portfolio, accounting for 31.9% of FNE's total lending balance.

LENDING BY INDUSTRY (R\$ million)

Description	BNB		FNE	
	12.31.2009	12.31.2010	12.31.2009	12.31.2010
<b>Lending operations - net of allowance</b>	<b>8,888.6</b>	<b>10,134.9</b>	<b>25,048.9</b>	<b>28,337.4</b>
• Lending operations	9,443.8	10,715.8	26,349.2	29,556.0
⊖ Manufacturing, trade and services	5,635.0	6,771.2	7,877.4	9,420.5
⊖ Farming and agribusiness	2,321.3	1,961.0	14,372.0	15,419.8
⊖ Infrastructure and development	696.0	1,426.1	3,575.5	4,392.3
⊖ Refinancing	517.1	533.2	-	-
⊖ Export and import financing	274.4	24.3	524.3	323.4
• Allowance for loan losses	(555.2)	(580.9)	(1,300.3)	(1,218.6)
<b>Other receivables - with loan characteristics, net of allowance</b>	<b>433.2</b>	<b>499.9</b>	-	-
• Other receivables	493.9	571.9	-	-
⊖ Import and export	484.4	529.1	-	-
⊖ Other	9.4	42.8	-	-
• Allowance for loan losses	(60.7)	(72.0)	-	-
<b>Total</b>	<b>9,321.8</b>	<b>10,634.8</b>	<b>25,048.9</b>	<b>28,337.4</b>



## Sources of Funds

From December 31, 2009 to December 31, 2010, the Bank's obligations to third parties increased by 26.4%, as shown in the table below.

### SOURCE OF FUNDS (R\$ million)

Description	12.31.2009	12.31.2010
Demand deposits	175	134
Savings deposits	1,382	1,289
Time deposits	4,384	6,387
o FAT	395	687
o Finor – Cash and cash equivalents	124	95
o Reinvestments – Law 8167	397	353
o Bank certificates of deposit (CDBs)	3,468	5,251
Interbank deposits and other	392	701
FNE funds	3,553	3,656
Onlendings - local currency	1,434	1,687
o BNDES and FINAME	773	986
o Other institutions	660	700
Onlendings - foreign currency	722	729
Borrowings	701	507
Money market funding	446	524
Issue of securities abroad	0	485
Taxes and social security	465	493
Contingent liabilities	1,203	1,347
o FNE	956	1,092
o Civil and other lawsuits	96	93
o Labor lawsuits	151	162

Description	12.31.2009	12.31.2010
Corporate and bylaws provisions	238	131
Payables	1,124	1,054
⊖ CVM Resolution 371 (post-employment benefits)	1,023	925
⊖ Other	101	129
Subordinated debt eligible for capital	622	1,102
Hybrid equity/debt instrument	0	1,004
Other payables	242	375
<b>Total obligations to third parties</b>	<b>17,082</b>	<b>21,606</b>
Deferred income	0	0
Shareholders' equity	2,073	2,177
<b>Total liabilities and shareholders' equity - BNB</b>	<b>19,155</b>	<b>23,784</b>
FNE funds	25,280	28,569
<b>Total</b>	<b>44,435</b>	<b>52,352</b>

### Shareholders' equity

As of December 31, 2010, BNB's shareholders' equity was R\$ 2,177.3 million (R\$ 2,072.7 million as of December 31, 2009). As of December 31, 2010, BNB's capital was R\$ 1,851 million (R\$ 1,652 million as of December 31, 2009), represented by 87,001,901 book-entry and paid-up shares without par value.

### Net Income (Loss)

BNB's net income totaled R\$ 313.6 million in 2010 (R\$ 3.60 per share). Return on equity calculated on the balance as of December 31, 2010 was 14.40% p.a. When calculated on average equity by the end of 2010, return on equity was 14.87% p.a.

## **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, including new risk-exposed components. 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—for December 31, 2010 at 11%. As of December 31, 2010, BNB’s capital adequacy ratio (Basel Ratio) was 13.22% (12.80% as of December 31, 2009), while regulatory capital was R\$ 3,248.3 million. The Required Regulatory Capital (PRE), which represents the consolidation of all risk exposures, with a capital allocation ratio of 11%, was R\$ 2,627.4 as of December 31, 2010. 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. On December 22, 2010, pursuant to Law 12249, of June 11, 2010, as amended by Provisional Act 513, of November 26, 2010, BNB and the Brazilian government entered into a Loan Agreement, classified as Hybrid Equity and Debt Instrument (IHCD), in the amount of R\$ 1 billion, which was fully paid up. This agreement has no maturity date and, after approved by the Central Bank of Brazil, it will allow BNB to raise the Bank’s total Regulatory Capital. As of December 31, 2010, Regulatory Capital would amount to R\$ 4,252.4 million and the Basel Ratio would be 17.80%, considering approval.

## **International and Domestic Risk Assessment - Rating**

In 2010, Moody's has for the first time ever assigned BNB an investment grade. The risk rating agency has assigned the Bank’s long and short-term foreign currency deposits Baa3 and Prime-3 ratings, respectively. In the domestic market, it has assigned the Aaa.br rating for long-term deposits and BR-1 for short-term deposits. Fitch has also assigned for the first time ever a worldwide investment grade to BNB. The Bank’s long-term Issuer Default Rating (IDR) in foreign currency remained equal to the sovereign rating of the Federative Republic of Brazil (BBB-/Positive). Standard & Poor’s kept BNB’s rating at the same level of the sovereign rating of the Federative Republic of Brazil (BBB-/Stable/A-3 at international credit rating scale and brAAA/Stable/-- at domestic credit rating scale).

## **Accounting Convergence with International Standards**

Pursuant to the instructions issued by the Central Bank of Brazil and the Brazilian Securities and Exchange Commission (CVM), based on the pronouncement issued by the International Accounting Standards Board (IASB), BNB will release in its website the financial statements prepared in accordance with international financial reporting standards (IFRS), as from those for the year ended December 31, 2010 compared with those of the immediately prior year, in order to disclose more information to stakeholders.

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

Through its Technical Office of Economic Studies for the Northeast (ETENE), in 2010 BNB continued evaluating financing programs and subprograms. It published the Evaluation Methodology of the Northeast Financing Constitutional Fund (FNE), a reviewed version of the one published in 2005, by including improvements identified throughout the process. The assessment of FNE-Proatur's results and impacts with the entrepreneurs in the main tourism activities was also published. The Assessment of the Results and Impacts of the Additional Northeast Infrastructure Financing Program (FNE-Proinfra) from 2004 to 2009 was also concluded. The assessment of FNE-Rural is in the final phase. The ETENE has also published the Assessment of Pronaf B in BNB.

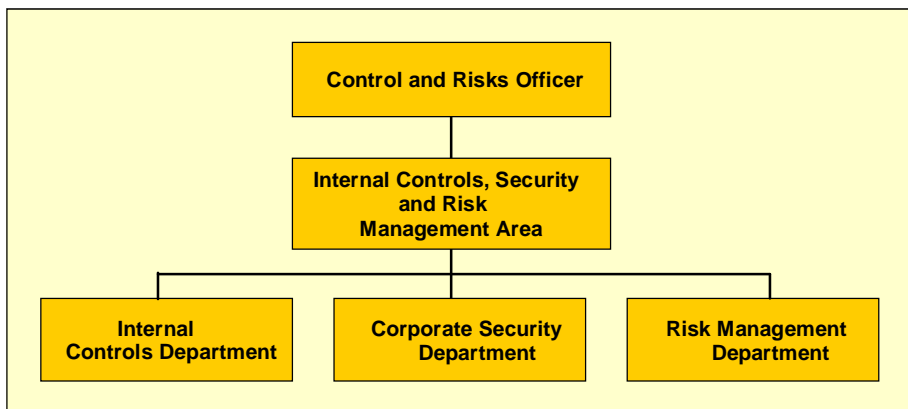
## **Scientific, Technology and Development Funds**

The Bank has invested R\$ 43.0 million in 2010 in 781 projects in the three research sponsored funds it manages: Science and Technology Development Fund (FUNDECI), the Northeast Socioeconomic Activities Support Fund (FASE), and the Regional Development Fund (FDR).

## 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 generation of profits. The Bank has a specific Department to handle Control and Risks, in compliance with National Monetary Council (CMN) 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



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, along with other Bank's areas, 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 in its activities and financial, operating, and management information systems; executes, separately from other areas of the Bank, activities related to management of the internal control system in order to ensure the efficiency of existing controls for each process; monitors compliance of other areas of the Bank with laws and regulations applicable to the institution; and verifies the compliance 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, and monitoring the efficiency of the procedures adopted. The Risk Management Department 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. This website, through the Investor Relations link, may also include information on risk management, focusing on issued relating to the Regulatory Capital (PR) and Required Regulatory Capital (PRE), as prescribed by Circular 3477 issued by the Central Bank of Brazil.

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

The Audit Committee of BNB, 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. The body's activities are reported twice a year through the Audit Committee Activity Report. A summary of such Report is published along with the Bank's financial statements. Consistent with its institutional mission, in 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. It also advised the Bank's management on the improvement of controls and compliance with legal provisions and internal regulations.

The Internal Audit implemented institutional development and qualification actions to strengthen its activities, in order to play its role in advising the senior management and statutory bodies (Supervisory Board, Board of Directors and Audit Committee) and providing information on the efficiency of the Bank's risk and process control management.

The Institutional Ombudsman, as a body used to defend citizen's right in connection with the relationships with the Bank, seeks to strengthen the relationship with customers by analyzing the complaints registered for appeal with the Bank's other customer service channels and mediating conflicts.

BNB's Ethics Commission is the body designed to promote educational, preventive and corrective actions relating to the employee's professional ethics in dealing with people and managing government funds, whose operation is governed by Federal Decrees 1171, of June 22, 1994, and 6029, of February 01, 2007. The Ethics Commission's activities are annually reported to the Public Ethics Commission (CEP) through a specific report.

### **Investor and Financial Market Relations**

In order to expand the offer of products and services to the market, the principle of disclosure and good corporate governance practices, BNB has launched a specific organizational Investor and Financial Market Relationship Department. The unit is designed to provide services to the Bank's shareholders and investors, place securities in the market and coordinate syndicated transactions.

### **CVM INSTRUCTION**

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

Fortaleza, January 25, 2011

BANCO DO NORDESTE DO BRASIL S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2010 AND 2009

(In thousands of Brazilian reais - R\$)

<u>ASSETS</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
CURRENT ASSETS	10.838.392	11.095.395
CASH AND CASH EQUIVALENTS (Note 4)	82.391	72.983
INTERBANK INVESTMENTS (Note 5.a)	3.872.110	3.248.634
Money market investments	3.451.521	2.937.128
Interbank deposits	420.589	311.506
SECURITIES AND DERIVATIVES (Note 6)	1.026.946	2.227.338
Own portfolio	809.265	1.765.055
Held under repurchase commitments	-	350.792
Derivative financial instruments	210	-
Linked to guarantees	217.471	111.491
INTERBANK ACCOUNTS	238.268	178.392
Unsettled payments and receipts	2.320	2.328
Restricted deposits:		
Deposits with the Central Bank of Brazil (Note 7.a)	230.048	172.818
National Treasury - Rural Credit Funds (Note 7.a)	3.971	1.363
Interbank onlendings	805	777
Correspondents	1.124	1.106
INTERDEPARTMENTAL ACCOUNTS	285	1
Internal transfer of funds	285	1
LENDING OPERATIONS	4.224.164	4.177.810
Lending operations (Note 8.a)	4.470.238	4.517.643
Public sector	58.378	92.410
Private sector	4.411.860	4.425.233
(Allowance for loan losses) (Note 8.a)	(246.074)	(339.833)
OTHER RECEIVABLES	1.380.525	1.182.343
Receivables for guarantees honored (Note 9)	8	30
Foreign exchange portfolio (Note 10.a)	521.843	453.777
Income receivable (note 9)	25.570	21.134
Other receivables (Note 9)	851.425	745.672
(Allowance for losses on other receivables) (Note 9)	(18.321)	(38.270)
OTHER ASSETS	13.703	7.894
Other assets	6.702	6.390
(Allowance for devaluation)	(1.302)	(1.476)
Prepaid expenses	8.303	2.980
LONG-TERM ASSETS	12.753.269	7.862.666
SECURITIES AND DERIVATIVES (Note 6)	6.739.820	3.011.201
Own portfolio	6.293.647	2.925.119
Held under repurchase commitments	437.948	-
Derivative financial instruments	95	268
Linked to guarantees	8.130	85.814
INTERBANK ACCOUNTS	32.474	38.603
Restricted deposits:		
National Treasury - Rural loan (Note 7.a)	329	333
Financial Housing System (SFH) (Note 7.a)	27.718	32.808
Interbank onlendings	4.427	5.462
LENDING OPERATIONS	5.910.740	4.710.825
Lending operations (Note 8.a)	6.245.600	4.926.147
Public sector	1.209.193	1.101.962
Private sector	5.036.407	3.824.185
(Allowance for loan losses) (Note 8.a)	(334.860)	(215.322)
OTHER RECEIVABLES (Note 9)	70.235	102.037
Receivables for guarantees honored	12	35
Other receivables	155.592	156.888
(Allowance for loan losses on other receivables) (Note 9)	(85.369)	(54.886)
PERMANENT ASSETS (Note 11)	192.055	196.405
INVESTMENTS	1.429	1.379
Other investments	6.732	6.682
(Allowance for losses)	(5.303)	(5.303)
PROPERTY, PLANT AND EQUIPMENT IN USE	188.219	191.962
Real estate	132.615	127.000
Real estate revaluation	111.628	111.628
Other property, plant and equipment in use	151.302	142.320
(Accumulated depreciation)	(207.326)	(188.986)
DEFERRED CHARGES	2.407	3.064
Organization and expansion costs	6.096	8.059
(Accumulated amortization)	(3.689)	(4.995)
<b>TOTAL ASSETS</b>	<b>23.783.716</b>	<b>19.154.466</b>

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



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

BALANCE SHEETS AS OF DECEMBER 31, 2010 AND 2009

(In thousands of Brazilian reais - R\$)

<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
<b>CURRENT LIABILITIES</b>	<b>8.474.793</b>	<b>8.110.117</b>
DEPOSITS (Note 12.a)	3.772.031	3.197.499
Demand deposits	109.037	142.577
Savings deposits	1.288.569	1.381.500
Interbank deposits	670.627	364.753
Time deposits	1.688.256	1.301.556
Other deposits	15.542	7.113
OPEN MARKET FUNDING (Note 12.b)	460.893	445.678
Own portfolio	372.897	350.670
Third parties portfolio	87.996	95.008
FUNDS FROM ACCEPTANCE AND ISSUANCE OF SECURITIES (Note 14)	2.991	-
Payables for securities issued abroad	2.991	-
INTERBANK ACCOUNTS	22	-
Receipts and payments pending settlement	22	-
INTERDEPARTMENTAL ACCOUNTS	30.330	13.128
Third-parties funds in transit	30.330	13.115
Internal transfer of funds	-	13
BORROWINGS (Note 13.b)	461.822	644.553
Domestic borrowings - Official institutions	15.219	14.031
Foreign borrowings	446.603	630.522
DOMESTIC ONLENDINGS - OFFICIAL INSTITUTIONS (Note 13.c)	289.427	313.523
National Treasury	192	182
BNDES (National Bank for Economic and Social Development)	166.206	182.186
FINAME (National Equipment Financing Authority)	3.921	14.940
Other institutions	119.108	116.215
DERIVATIVE FINANCIAL INSTRUMENTS (Note 6.c)	12.118	15.979
Derivative financial instruments	12.118	15.979
FOREIGN ONLENDINGS (Note 13.d)	66.808	63.653
Foreign onlendings	66.808	63.653
OTHER LIABILITIES	3.378.351	3.416.104
Collected taxes and other (Note 15.a)	5.604	3.269
Foreign exchange portfolio (Note 10.a)	16.601	7.523
Social and statutory (Note 15.b)	130.687	238.115
Tax and social security (Note 15.c)	493.132	464.557
Trading account (Note 15.d)	7	-
Financial and development funds (Note 15.e)	1.011.809	1.237.069
Hybrid debt/ equity instruments (Note 16)	1.647	-
Other (Note 15.h)	1.718.864	1.465.571
<b>LONG-TERM LIABILITIES</b>	<b>13.131.569</b>	<b>8.971.610</b>
DEPOSITS (Note 12.a)	4.737.550	3.135.228
Demand deposits	25.082	32.763
Interbank deposits	13.501	20.018
Time deposits	4.698.967	3.082.447
OPEN MARKET FUNDING (Note 12.b)	63.396	-
Own portfolio	63.396	-
FUNDS FROM ACCEPTANCE AND ISSUANCE OF SECURITIES (Note 14)	482.496	-
Payables for securities issued abroad	482.496	-
BORROWINGS (Note 13.b)	45.656	56.126
Domestic borrowings - Official institutions	45.656	56.126
DOMESTIC ONLENDINGS - OFFICIAL INSTITUTIONS (Note 13.c)	1.397.349	1.120.001
National Treasury	894	982
BNDES (National Bank for Economic and Social Development)	767.054	561.610
FINAME (National Equipment Financing Authority)	48.938	14.390
Other institutions	580.463	543.019
DERIVATIVE FINANCIAL INSTRUMENTS (Note 6.c)	46.020	20.592
Derivative financial instruments	46.020	20.592
FOREIGN ONLENDINGS (Note 13.d)	662.357	658.740
Foreign onlendings	662.357	658.740
OTHER LIABILITIES	5.696.745	3.980.923
Financial and development funds (Note 15.e)	2.734.366	2.402.693
Hybrid debt/ equity instruments (Note 16)	1.002.519	-
Subordinated debt eligible for capital (Note 17)	1.101.848	622.064
Other (Note 15.h)	858.012	956.166
DEFERRED INCOME	16	14
Deferred income	16	14
<b>SHAREHOLDERS' EQUITY (Note 18)</b>	<b>2.177.338</b>	<b>2.072.725</b>
CAPITAL	1.851.000	1.652.000
Brazilian residents	1.851.000	1.652.000
CAPITAL RESERVE	-	502
REVALUATION RESERVE	28.064	30.501
EARNINGS RESERVES	248.528	271.976
VALUATION ADJUSTMENTS TO EQUITY	50.130	118.130
(TREASURY SHARES)	(384)	(384)
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>23.783.716</b>	<b>19.154.466</b>

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

STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 AND THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2010  
(In thousands of Brazilian reais - R\$, except earnings per share)

	<u>2nd half 2010</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
INCOME FROM FINANCIAL INTERMEDIATION	1.298.470	2.431.267	2.005.203
Lending operations (Note 8.a.2)	794.535	1.489.809	1.214.532
Securities transactions (Note 6.b)	510.734	888.770	739.243
Derivative financial instruments (Note 6.d)	(30.488)	(36.140)	(38.146)
Gains (losses) on foreign exchange transactions (Note 10.b)	18.297	73.161	86.778
Gains (losses) on compulsory investments (Note 7.b)	5.392	15.667	2.796
EXPENSES FROM FINANCIAL INTERMEDIATION	(796.823)	(1.464.879)	(1.219.439)
Funding operations (Note 12.c)	(339.148)	(591.142)	(381.160)
Borrowings and onlendings (Note 13.e)	(235.950)	(473.727)	(461.687)
Allowance for loan losses (Note 8.e)	(221.725)	(400.010)	(376.592)
GROSS INCOME FROM FINANCIAL INTERMEDIATION	501.647	966.388	785.764
OTHER OPERATING INCOME (EXPENSES) (Note 19)	(231.123)	(436.119)	(126.657)
Income from services provided	639.577	1.233.992	1.106.886
Income from bank fees	6.629	12.768	12.205
Personnel expenses	(560.764)	(1.019.740)	(890.476)
Other administrative expenses	(355.089)	(659.632)	(551.813)
Tax expenses	(92.670)	(173.182)	(144.214)
Other operating income	527.562	927.571	1.159.159
Other operating expenses	(396.368)	(757.896)	(818.404)
INCOME FROM OPERATIONS	270.524	530.269	659.107
NONOPERATING INCOME (EXPENSES)	177	1.645	2.078
INCOME BEFORE TAXES ON INCOME AND PROFIT SHARING	270.701	531.914	661.185
INCOME TAX AND SOCIAL CONTRIBUTION (note 20)	(32.998)	(174.086)	(160.487)
Provision for Income Tax	(34.046)	(145.381)	(138.924)
Provision for Social Contribution	(25.789)	(93.598)	(86.380)
Deferred income tax	26.837	64.893	64.817
PROFIT SHARING	(34.168)	(44.238)	(41.686)
NET INCOME	203.535	313.590	459.012
INTEREST ON OWN CAPITAL (Note 18.f)	(62.934)	(121.000)	(110.000)
Number of shares (in thousands)	87.002	87.002	87.002
Earnings per share - R\$	2,34	3,60	5,28

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

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 AND THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2010  
(In thousands of Brazilian reais - R\$)

	PAID-IN CAPITAL		CAPITAL RESERVE	REVALUATION RESERVE	EARNINGS RESERVES		VALUATION ADJUSTMENTS TO EQUITY	RETAINED EARNINGS (ACCUMULATED LOSSES)	TREASURY SHARES	TOTAL
	CAPITAL	CAPITAL INCREASE	OTHER CAPITAL RESERVES	OWN ASSETS	LEGAL	STATUTORY				
BALANCES AS OF DECEMBER 31, 2008	1.299.000	-	380	32.938	50.266	353.707	61.228	-	-	1.797.519
VALUATION ADJUSTMENTS TO EQUITY	-	-	-	-	-	-	56.902	-	-	56.902
CAPITAL INCREASE										
From Reserve:										
Transfer for capital increase	-	353.000	-	-	-	(353.000)	-	-	-	-
Addition to Capital	353.000	(353.000)	-	-	-	-	-	-	-	-
OTHER EVENTS										
Updating of membership certificates	-	-	122	-	-	-	-	-	-	122
Acquisition of treasury shares	-	-	-	-	-	-	-	-	(384)	(384)
Revaluation of assets:										
Reserve realization:										
Gross value	-	-	-	(4.061)	-	-	-	4.061	-	-
Taxes	-	-	-	1.624	-	-	-	(1.624)	-	-
NET INCOME	-	-	-	-	-	-	-	459.012	-	459.012
Allocation:										
Reserves	-	-	-	-	22.950	198.053	-	(221.003)	-	-
Dividends	-	-	-	-	-	-	-	(130.446)	-	(130.446)
Interest on capital	-	-	-	-	-	-	-	(110.000)	-	(110.000)
BALANCES AS OF DECEMBER 31, 2009	1.652.000	-	502	30.501	73.216	198.760	118.130	-	(384)	2.072.725
CHANGES FOR THE YEAR	353.000	-	122	(2.437)	22.950	(154.947)	56.902	-	(384)	275.206
BALANCES AS OF DECEMBER 31, 2009	1.652.000	-	502	30.501	73.216	198.760	118.130	-	(384)	2.072.725
PRIOR-YEAR ADJUSTMENTS										
CVM Resolution 600/2009	-	-	-	-	-	-	-	65.534	-	65.534
VALUATION ADJUSTMENTS TO EQUITY	-	-	-	-	-	-	(68.000)	-	-	(68.000)
CAPITAL INCREASE										
From Reserve:										
Transfer for capital increase	-	199.000	(502)	-	-	(198.498)	-	-	-	-
Capital increase	198.000	(198.000)	-	-	-	-	-	-	-	-
OTHER EVENTS										
Revaluation of assets:										
Reserve realization:										
Gross value	-	-	-	(4.061)	-	-	-	4.061	-	-
Taxes	-	-	-	1.624	-	-	-	(1.624)	-	-
NET INCOME	-	-	-	-	-	-	-	313.590	-	313.590
Allocation:										
Reserves	-	-	-	-	15.680	159.370	-	(175.050)	-	-
Dividends	-	-	-	-	-	-	-	(85.511)	-	(85.511)
Interest on capital	-	-	-	-	-	-	-	(121.000)	-	(121.000)
BALANCES AS OF DECEMBER 31, 2010	1.850.000	1.000	-	28.064	88.896	159.632	50.130	-	(384)	2.177.338
CHANGES FOR THE YEAR	198.000	1.000	(502)	(2.437)	15.680	(39.128)	(68.000)	-	-	104.613
BALANCES AS OF JUNE 30, 2010	1.850.000	-	502	29.283	78.719	48.464	54.169	-	(384)	2.060.753
PRIOR-YEAR ADJUSTMENTS										
CVM Resolution 600/2009	-	-	-	-	-	-	-	65.534	-	65.534
VALUATION ADJUSTMENTS TO EQUITY	-	-	-	-	-	-	(4.039)	-	-	(4.039)
CAPITAL INCREASE										
From Reserve:										
Transfer for capital increase	-	1.000	(502)	-	-	(498)	-	-	-	-
Capital increase	-	-	-	-	-	-	-	-	-	-
OTHER EVENTS										
Revaluation of assets:										
Reserve realization:										
Gross value	-	-	-	(2.031)	-	-	-	2.031	-	-
Taxes	-	-	-	812	-	-	-	(812)	-	-
NET INCOME FOR THE PERIOD	-	-	-	-	-	-	-	203.535	-	203.535
Allocation:										
Reserves	-	-	-	-	10.177	111.666	-	(121.843)	-	-
Dividends	-	-	-	-	-	-	-	(85.511)	-	(85.511)
Interest on capital	-	-	-	-	-	-	-	(62.934)	-	(62.934)
BALANCES AS OF DECEMBER 31, 2010	1.850.000	1.000	-	28.064	88.896	159.632	50.130	-	(384)	2.177.338
CHANGES FOR THE PERIOD	-	1.000	(502)	(1.219)	10.177	111.168	(4.039)	-	-	116.585

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

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 AND THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2010  
(In thousands of Brazilian reais - R\$)

	<u>2nd half 2010</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income for the year/period	203.535	313.590	459.012
Adjustments to net income:			
Depreciation and amortization	12.835	25.551	25.511
Allowance for losses in investments	-	-	400
Allowance for losses on other assets	58	65	60
Allowance for loan losses	221.725	400.010	376.592
Provision for contingent liabilities	(49.890)	83.233	(72.363)
Deferred charges	(84)	(842)	(405)
Deferred income	(4)	2	(32)
Adjusted net income	<u>388.175</u>	<u>821.609</u>	<u>788.775</u>
Interbank investments	(58.035)	(48.890)	1.298.483
Interbank and interdepartmental accounts	(11.641)	(36.807)	(9.688)
Lending operations	(1.336.447)	(1.588.942)	(3.153.792)
Other receivables	(96.380)	(196.015)	(219.152)
Other assets	(4.437)	(5.215)	3.051
Deposits	1.640.977	2.176.853	2.196.067
Open market funding (repurchase commitments)	68.751	78.613	145.111
Funds from acceptance and issuance of securities	485.487	485.487	-
Borrowings and onlendings	219.634	66.822	335.553
Derivative financial instruments	21.980	21.568	18.591
Other liabilities	1.421.869	1.291.732	(646.039)
Valuation adjustments to equity	(4.039)	(68.000)	56.902
Updating of membership certificates	-	-	122
Income tax and Social contribution	<u>(95.164)</u>	<u>(27.702)</u>	<u>(41.288)</u>
<b>NET CASH PROVIDED BY/(USED IN) OPERATING ACTIVITIES</b>	<u>2.640.730</u>	<u>2.971.113</u>	<u>772.696</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Available-for-sale securities	(3.338.764)	(4.124.807)	588.855
Additions to investments	(31)	(50)	(1.035)
Addition to property, plant and equipment in use	(13.962)	(20.580)	(36.616)
Addition to assets not in use	(690)	(1.008)	(234)
Disposal of investments	-	-	376
Disposal of property, plant and equipment in use	272	270	252
Disposal of assets not in use	<u>287</u>	<u>351</u>	<u>1.198</u>
<b>NET CASH PROVIDED BY/(USED IN) INVESTING ACTIVITIES</b>	<u>(3.352.888)</u>	<u>(4.145.824)</u>	<u>552.796</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends and interest on own capital paid	(108.056)	(317.658)	(144.239)
Treasury shares	-	-	(384)
Subordinated debt eligible for capital	52.273	479.783	622.064
Hybrid debt/equity instruments	<u>1.004.166</u>	<u>1.004.166</u>	<u>-</u>
<b>NET CASH PROVIDED BY/ (USED IN) FINANCING ACTIVITIES</b>	<u>948.383</u>	<u>1.166.291</u>	<u>477.441</u>
Increase/(Decrease) in Cash and Cash equivalents	<u>236.225</u>	<u>(8.420)</u>	<u>1.802.933</u>
<b>REPRESENTED BY CASH AND CASH EQUIVALENTS</b>			
At beginning of period	3.633.274	3.877.919	2.074.986
At end of period	<u>3.869.499</u>	<u>3.869.499</u>	<u>3.877.919</u>
Increase/(Decrease) in Cash and Cash equivalents	<u>236.225</u>	<u>(8.420)</u>	<u>1.802.933</u>

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

STATEMENTS OF VALUE ADDED  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009  
AND THE SIX-MONTH PERIOD ENDED DECEMBER 31, 2010  
(In thousands of Brazilian reais - R\$)

	<u>2nd half 2010</u>	<u>%</u>	<u>12.31.2010</u>	<u>%</u>	<u>12.31.2009</u>	<u>%</u>
REVENUES	<u>1.881.160</u>		<u>3.514.232</u>		<u>3.155.352</u>	
Financial intermediation	1.298.470		2.431.267		2.005.203	
Service provided and bank fees	646.206		1.246.760		1.119.091	
Allowance for loan losses	(221.725)		(400.010)		(376.592)	
Other income/expenses	158.209		236.215		407.650	
EXPENSES ON FINANCIAL INTERMEDIATION	<u>(575.098)</u>		<u>(1.064.869)</u>		<u>(842.847)</u>	
INPUTS PURCHASED FROM THIRD PARTIES	<u>(326.935)</u>		<u>(604.897)</u>		<u>(496.313)</u>	
Materials, electric power and other	(124.152)		(252.445)		(231.945)	
Outside services	(202.783)		(352.452)		(264.368)	
GROSS VALUE ADDED	<u>979.127</u>		<u>1.844.466</u>		<u>1.816.192</u>	
RETENTIONS	<u>(12.835)</u>		<u>(25.551)</u>		<u>(25.511)</u>	
Depreciation, amortization and depletion	(12.835)		(25.551)		(25.511)	
WEALTH CREATED BY THE ENTITY	<u>966.292</u>		<u>1.818.915</u>		<u>1.790.681</u>	
WEALTH FOR DISTRIBUTION	<u>966.292</u>		<u>1.818.915</u>		<u>1.790.681</u>	
DISTRIBUTION OF WEALTH	<u>966.292</u>		<u>1.818.915</u>		<u>1.790.681</u>	
PERSONNEL	<u>532.042</u>	<u>55,1%</u>	<u>950.902</u>	<u>52,3%</u>	<u>838.855</u>	<u>46,8%</u>
COMPENSATION	<u>335.891</u>	<u>34,8%</u>	<u>582.963</u>	<u>32,1%</u>	<u>498.944</u>	<u>27,9%</u>
Employees	301.723		538.725		457.258	
Profit sharing	34.168		44.238		41.686	
BENEFITS	<u>173.587</u>	<u>18,0%</u>	<u>327.459</u>	<u>18,0%</u>	<u>306.688</u>	<u>17,1%</u>
Pension plan (Capef and PGBL)	8.697		8.986		899	
Provisions (Post-employment benefits - CVM Resolution 600)	99.696		201.288		205.993	
Benefits - Other	65.194		117.185		99.796	
Severance Pay Fund (FGTS)	<u>22.564</u>	<u>2,3%</u>	<u>40.480</u>	<u>2,2%</u>	<u>33.223</u>	<u>1,9%</u>
TAXES AND CONTRIBUTIONS	<u>215.396</u>		<u>525.239</u>		<u>462.824</u>	
Federal	206.615		509.409		449.490	
State	38		49		33	
Municipal	8.743		15.781		13.301	
PAYMENTS TO THIRD PARTIES	<u>15.319</u>	<u>1,6%</u>	<u>29.184</u>	<u>1,6%</u>	<u>29.990</u>	<u>1,7%</u>
Rents	15.319		29.184		29.990	
SHAREHOLDERS' PAYMENTS	<u>148.445</u>	<u>15,4%</u>	<u>206.511</u>	<u>11,4%</u>	<u>240.446</u>	<u>13,4%</u>
INTEREST ON OWN CAPITAL	<u>62.934</u>	<u>6,5%</u>	<u>121.000</u>	<u>6,7%</u>	<u>110.000</u>	<u>6,1%</u>
Federal government	59.236		113.891		102.564	
Other	3.698		7.109		7.436	
DIVIDENDS	<u>85.511</u>	<u>8,8%</u>	<u>85.511</u>	<u>4,7%</u>	<u>130.446</u>	<u>7,3%</u>
Federal government	80.487		80.487		122.782	
Other	5.024		5.024		7.664	
RETAINED EARNINGS	<u>55.090</u>	<u>5,7%</u>	<u>107.079</u>	<u>5,9%</u>	<u>218.566</u>	<u>12,2%</u>

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

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(Amounts in thousands of Brazilian reais - R\$, unless otherwise stated)

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1. THE BANK AND ITS CHARACTERISTICS

Banco do Nordeste do Brasil S.A. (the "Bank") is a private legal entity operating regionally as a public financial institution established by Federal Law 1649 of 07/19/1952. 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 12/28/2007 and 05/27/2009, 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 (CMN), and the Brazilian Securities and Exchange Commission (CVM) standards that are in line with CMN rules, as follows:

- CPC 01 - Impairment of Assets (National Monetary Council (CMN) Resolution 3566, of 05/29/2008);
- CPC 03 - Statements of Cash Flows (CMN Resolution 3604, of 08/29/2008);
- CPC 05 - Related-Party Disclosures (CMN Resolution 3750, of 06/30/2009); and
- CPC 25 - Provisions, Contingent Liabilities and Contingent Assets (CMN Resolution 3823, of 12/16/2009);
- CPC 33 - Employee Benefits (CVM Resolution 600, of 10/07/2009).

## 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; and
- a.3) assets are marked to market or adjusted to realizable value, if applicable.

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

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. 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.

Receivables and payables are recorded in Current and Long-term Assets and Liabilities, respectively, according to maturity dates. Securities classified as

Trading Securities, regardless of their maturity, are fully classified in current assets, in conformity with BACEN Circular 3068, of 11/08/2001.

c) Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents correspond to the balances of cash and interbank investments immediately convertible into cash or with original maturity equal to or less than ninety days.

d) Interbank investments

Interbank investments are recorded at acquisition cost, plus income earned and adjusted for the provision for losses, when applicable.

e) Securities

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.

f) Derivative financial instruments

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

Swap transactions are stated at fair value on monthly trial balances and balances and gains and losses are recorded in revenue or expense accounts.

The fair value of swap transactions is calculated using the rates disclosed by the Brazilian Financial and Capital Markets Association (ANBIMA).

g) Lending operations, advances on foreign exchange contracts, other receivables with loan characteristics and allowances for loan losses.



Lending operations, advances on foreign exchange contracts, and other receivables with loan characteristics are classified in accordance with Management's judgment on risk level, taking into consideration the economic scenario, past experience and specific risks related to the operation, creditors and guarantors, considering the standards established by CMN Resolution 2682 of 12/21/1999, which require the periodic analysis of the portfolio and its rating into nine risk levels, where AA is the minimum risk and H is the maximum risk, as well as the classification of operations in arrears for more than 15 days as past due operations.

Income from lending operations over 59 days past due, regardless of the risk level, is only recognized when realized.

H-rated operations remain under this rating for six months, when they are then written off against the existing allowance and controlled for five years, no longer being included in the balance sheet.

Renegotiated operations remain at least at the same risk level in which they were classified.

Renegotiated loans that have been written off against the allowance are rated as H, and possible recoveries are recognized as income when received.

h) Prepaid expenses

Refer to funds used in advanced payments, whose benefits or service rendering will occur in coming years.

i) Permanent assets

Investments are stated at cost, net of allowance for losses;

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%. Real estate includes the revaluation amount.

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

CMN Resolution 3617, of 09/30/2008, 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.

j) Income Tax, Social Contribution, PASEP and COFINS (taxes on revenue)

IRPJ (corporate income tax) is calculated at the rate of 15% plus additional 10%, and Social Contribution (CSLL) is calculated at the rate of 15%, after the adjustments defined in tax law. Tax credits and deferred liabilities are

calculated, basically, on temporary differences between accounting and tax income, on allowances for loans and doubtful accounts and on securities and derivatives fair value adjustments.

In accordance with current regulation, the expected realization of tax credits is based on the projection of future earnings and on technical studies carried out every six months.

k) Employee Benefits

The policy adopted for the recognition of actuarial gains and losses beginning December 2010 is consistent with the provisions of item 93 of the Appendix to CVM Resolution 600, that is, actuarial gains and losses are immediately recognized as revenue or expense. The policy adopted for the recognition of actuarial gains and losses was based on items 52 to 55 of the Appendix to CVM Resolution 371, i.e., the Bank recognized a portion of actuarial gains and losses in excess of the higher of: 10% of the defined benefit total actuarial obligation present value, and 10% of plan assets fair value. The effects of the first-time adoption of CVM Resolution 600, beginning 01/01/2009, have been fully recognized in the statements as of 12/31/2010, as detailed in item “h” of Note 24.

l) Impairment assessment

Non-financial assets are reviewed for impairment at least annually.

m) Contingent assets and contingent liabilities and legal obligations

Contingent assets, contingent liabilities and legal obligations are recognized, measured and disclosed according to the criteria defined in CMN Resolution 3823, of 12/18/2009.

Contingent assets are recognized in the financial statements only when their realization can be reliably measured from evidences, which may be the final and unappealable decision on a lawsuit or the confirmation of its recoverability, either through the receipt or offset against another liability.

Contingent liabilities are recognized in the financial statements when, based on the opinion of legal counsel and Management, the risk of loss on a judicial or administrative proceeding is considered probable, with probable outflow of funds to settle the obligations, the amounts involved can be reliably measured upon court reference/notification.

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

n) Use of estimates

The preparation of the financial statements includes estimates and assumptions, such as the measurement of allowances for loan losses, estimates of certain

financial instruments fair values, reserve for contingencies, impairment losses, other provisions, and the calculation of technical provisions for health care plan and pension plans. Actual results could differ from such estimates and assumptions.

#### 4. CASH AND CASH EQUIVALENTS

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Cash in local currency	80,923	70,284
Cash in foreign currency	<u>1,468</u>	<u>2,699</u>
Total cash	<u>82,391</u>	<u>72,983</u>
Investments in securities (1)	88,333	680,747
Interbank investments (1)	<u>3,698,775</u>	<u>3,124,189</u>
Total cash and cash equivalents	<u>3,869,499</u>	<u>3,877,919</u>

(1) Refers to transactions whose maturity on the investment date is equal to or lower than 90 days and that are subject to an insignificant risk of change in fair value.

#### 5. INTERBANK INVESTMENTS

##### a) Breakdown

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
a) Money market investments	<u>3,451,521</u>	<u>2,937,128</u>
Resale agreements pending settlement - own portfolio	3,363,525	2,842,120
Resale agreements pending settlement - third-party portfolio	87,996	95,008
b) Interbank deposits	<u>420,589</u>	<u>311,506</u>
Investments in foreign currency	13,475	22,434
Interbank deposits	<u>407,114</u>	<u>289,072</u>
TOTAL	<u>3,872,110</u>	<u>3,248,634</u>
CURRENT	3,872,110	3,248,634

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

<u>Specification</u>	<u>2nd half of 2010</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
a) Income from money market investments	<u>191,809</u>	<u>324,934</u>	<u>155,948</u>
Own portfolio	187,016	316,614	146,051
Third-party portfolio	4,793	8,320	9,897
b) Income from interbank deposits	<u>11,194</u>	<u>22,715</u>	<u>76,723</u>
TOTAL (Note 6.b)	<u>203,003</u>	<u>347,649</u>	<u>232,671</u>

#### 6. SECURITIES AND DERIVATIVES

##### a) Securities

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

##### a.1) SECURITIES PORTFOLIO

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Available-for-sale securities	7,758,083	5,208,854
Held-to-maturity securities	8,378	29,417
Swap differential receivable	305	268
<b>TOTAL</b>	<u><b>7,766,766</b></u>	<u><b>5,238,539</b></u>
<b>CURRENT</b>	<b>1,026,946</b>	<b>2,227,338</b>
<b>LONG TERM</b>	<b>6,739,820</b>	<b>3,011,201</b>

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

<u>12/31/2010</u>				
<u>SPECIFICATION</u>	<u>COST</u>	<u>FAIR VALUE</u>	<u>MARK-TO-MARKET</u>	<u>MATURITY YEAR</u>
<b>FIXED-INCOME SECURITIES</b>	<u><b>7,288,386</b></u>	<u><b>7,259,257</b></u>	<u><b>(29,129)</b></u>	
Treasury bills	5,648,455	5,646,915	(1,540)	2011 to 2017
National Treasury Notes (NTN)	844,817	844,253	(564)	2015
Financial bills	30,313	30,313	-	2016
Debentures	520,905	520,204	(701)	2012 to 2018
Bank credit notes (CCB)	30,811	30,811	-	2011 to 2013
Promissory notes	182,165	182,165	-	2011
Federal government securities (FCVS)	7,721	4,583	(3,138)	2027
Federal government securities - Other (1)	23,181	-	(23,181)	1993
Agricultural debt securities	18	13	(5)	2011 to 2015
<b>INVESTMENT FUND SHARES</b>	<u><b>15,799</b></u>	<u><b>14,552</b></u>	<u><b>(1,247)</b></u>	
Social development fund (FDS)	1,247	-	(1,247)	Without maturity
Receivables Investment Fund (FIDC) shares	14,552	14,552	-	2012
<b>VARIABLE-INCOME SECURITIES</b>	<u><b>144,159</b></u>	<u><b>258,673</b></u>	<u><b>114,514</b></u>	
Other tax incentives (FINOR)	4,211	506	(3,705)	Without maturity
Shares of publicly-traded companies	139,948	258,167	118,219	Without maturity
<b>LINKED TO GUARANTEES</b>	<u><b>226,188</b></u>	<u><b>225,601</b></u>	<u><b>(587)</b></u>	
Treasury bills	221,920	221,920	-	2011 to 2015
Federal government securities - Other (1)	587	-	(587)	1993
Debentures	3,681	3,681	-	2018
<b>TOTAL</b>	<u><b>7,674,532</b></u>	<u><b>7,758,083</b></u>	<u><b>83,551</b></u>	
Tax credit	-	-	13,873	
Provision for deferred taxes (note 15.c)	-	-	(47,294)	
<b>TOTAL MARK-TO-MARKET</b>	-	-	<u><b>50,130</b></u>	

<u>12/31/2009</u>				
<u>SPECIFICATION</u>	<u>COST</u>	<u>FAIR VALUE</u>	<u>MARK-TO-MARKET</u>	<u>MATURITY YEAR</u>
<b>FIXED-INCOME SECURITIES</b>	<u><b>4,601,272</b></u>	<u><b>4,578,504</b></u>	<u><b>(22,768)</b></u>	
Treasury bills	3,399,248	3,399,303	55	2010 to 2015
Debentures	406,915	405,555	(1,360)	2012 to 2018
Bank credit notes (CCB)	54,248	54,248	-	2011 to 2013
Promissory notes	718,550	718,550	-	2010
Federal government securities (FCVS)	1,674	828	(846)	2027
Federal government securities - Other (1)	20,606	-	(20,606)	1993
Agricultural debt securities	31	20	(11)	2010 to 2015
<b>INVESTMENT FUND SHARES</b>	<u><b>68,722</b></u>	<u><b>67,518</b></u>	<u><b>(1,204)</b></u>	
Social development fund (FDS)	1,204	-	(1,204)	Without maturity
Receivables Investment Fund (FIDC) shares	67,518	67,518	-	2012 to 2020
<b>VARIABLE-INCOME SECURITIES</b>	<u><b>144,159</b></u>	<u><b>365,527</b></u>	<u><b>221,368</b></u>	
Shares of publicly-traded companies	139,948	364,920	224,972	Without maturity
Other tax incentives (FINOR)	4,211	607	(3,604)	Without maturity

LINKED TO GUARANTEES	<u>197,817</u>	<u>197,305</u>	<u>(512)</u>	
Treasury bills	197,296	197,305	9	2010 to 2015
Federal government securities - Other (1)	521	-	(521)	1993
TOTAL	<u>5,011,970</u>	<u>5,208,854</u>	<u>196,884</u>	
Tax credit	-	-	11,261	
Provision for deferred taxes (note 15.c)	-	-	<u>(90,015)</u>	
TOTAL MARK-TO-MARKET	-	-	<u>118,130</u>	

In view of the classification of assets in the category above, the amount of R\$ 83,551 (R\$ 196,884 as of 12/31/2009) was recorded in the Bank's shareholders' equity, under "Market-to-market". This adjustment, net of taxes, corresponds to R\$ 50,130 (R\$ 118,130 as of 12/31/2009).

(1) The caption "Government Securities - Other" records cash investments in government securities called by the National Treasury as NUCL910801 with a maturity on 08/31/1993, not yet redeemed.

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

SPECIFICATION	12/31/2010			12/31/2009		
	COST	FAIR VALUE	MATURITY YEAR	COST	FAIR VALUE	MATURITY YEAR
FIXED-INCOME SECURITIES	<u>8,378</u>	<u>8,378</u>		<u>29,417</u>	<u>29,417</u>	
Investment Fund Shares - Northeast Entrepreneur	1,608	1,608	2011(*)	2,000	2,000	2011(*)
National Treasury Notes (NTN) - P	421	421	2012 to 2014	394	394	2012 to 2014
Investment Fund Shares - CRIATEC	5,200	5,200	2017(*)	3,401	3,401	2017(*)
FGO (Fund for Collateral of Transactions)	231	231	Without maturity	-	-	
Investment Fund Shares - Northeast Energy	-	-		23,622	23,622	2023
FIP Brasil Agronegócios	<u>918</u>	<u>918</u>	2018(*)	-	-	
TOTAL	<u>8,378</u>	<u>8,378</u>		<u>29,417</u>	<u>29,417</u>	

(\*) Estimated maturity

a.4) In October 2010, due to a specific, unusual, nonrecurring and unexpected event occurred after the classification date, the Bank reclassified Investment Fund shares of Nordeste Energia from "Securities held to maturity" to "Securities available for sale". On said shares acquired in 2008 and sold on 10/15/2010 the Bank recorded gains amounting to R\$ 7,500.

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			
<u>Specification</u>	<u>2nd half of 2010</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Interbank Investments (Note 5.b )	191,809	324,934	155,948
Interbank deposits (note 5.b)	11,194	22,715	76,723
Fixed-Income Securities	306,601	537,428	505,120
Variable-Income Securities	<u>1,130</u>	<u>3,693</u>	<u>1,452</u>
TOTAL	<u>510,734</u>	<u>888,770</u>	<u>739,243</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 (notional amount) and the related book value is recorded under the captions 'Differential Payable' and 'Differential Receivable', as shown below:

12/31/2010							
SWAP CONTRACTS	NOTIONAL AMOUNT	FAIR VALUE		CURVE		MARK-TO-MARKET	
		RECEIVABLE	PAYABLE	RECEIVABLE	PAYABLE	POSITIVE	NEGATIVE
ASSET POSITION							
Foreign currency - dollar	(509,020)	-	(28,855)	-	(11,174)	-	(17,681)
LIABILITY POSITION							
Interbank market (CDI)	-	-	-	-	-	-	-
Fixed rate	544,399	305	29,283	148	17,459	157	11,824
Foreign currency - dollar	-	-	-	-	-	-	-
TOTAL	<u>1,053,419</u>	<u>305</u>	<u>58,138</u>	<u>148</u>	<u>28,633</u>	<u>157</u>	<u>29,505</u>
12/31/2009							
SWAP CONTRACTS	NOTIONAL AMOUNT	FAIR VALUE		CURVE		MARK-TO-MARKET	
		RECEIVABLE	PAYABLE	RECEIVABLE	PAYABLE	POSITIVE	NEGATIVE
ASSET POSITION							
Foreign currency - dollar	-	-	-	-	-	-	-
LIABILITY POSITION							
Interbank market (CDI)	7,891	-	184	-	75	-	109
Fixed rate	<u>805,706</u>	<u>268</u>	<u>36,386</u>	-	<u>15,799</u>	<u>553</u>	<u>20,892</u>
Foreign currency - dollar	-	-	-	-	-	-	-
TOTAL	<u>813,597</u>	<u>268</u>	<u>36,570</u>	-	<u>15,854</u>	<u>553</u>	<u>21,001</u>

<u>Swap transactions amounts in risk</u>	<u>12/31/2010</u> <u>Amount</u>	<u>12/31/2009</u> <u>Amount</u>
MARKET RISK HEDGE – ASSETS	<u>488,587</u>	<u>—</u>
HEDGED ITEMS - LIABILITIES	<u>485,113</u>	<u>—</u>
MARKET RISK HEDGE - LIABILITIES	<u>667,566</u>	<u>920,919</u>
HEDGED ITEMS – ASSETS	<u>655,709</u>	<u>901,049</u>

12/31/2010

<u>Swap contracts mature as follows:</u>	<u>Difference receivable</u>	<u>Difference payable</u>
Up to 3 months	53	2,490
3 to 12 months	157	9,628
1 to 3 years	95	13,000
3 to 5 years	<u>—</u>	<u>33,020</u>
TOTAL	<u>305</u>	<u>58,138</u>

12/31/2009

<u>Swap contracts mature as follows:</u>	<u>Difference receivable</u>	<u>Difference payable</u>
Up to 3 months	-	2,424
3 to 12 months	-	13,555
1 to 3 years	181	16,375
3 to 5 years	87	3,935
5 to 15 years	<u>—</u>	<u>281</u>
TOTAL	<u>268</u>	<u>36,570</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>2nd half of 2010</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Swap	<u>(30,488)</u>	<u>(36,140)</u>	<u>(38,146)</u>
TOTAL	<u>(30,488)</u>	<u>(36,140)</u>	<u>(38,146)</u>

7. INTERBANK ACCOUNTS - RESTRICTED DEPOSITS

a) Restricted Deposits

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Mandatory payments - Savings	196,368	148,935
Compulsory reserves - Cash funds	33,680	23,883
National Housing System (SFH)	27,718	32,806
National Treasury - Rural credit	<u>4,300</u>	<u>1,696</u>
TOTAL	<u>262,066</u>	<u>207,320</u>

b) Income (loss) from compulsory investments

<u>Specification</u>	<u>2nd half of 2010</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
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Income from restricted deposits - Central Bank of

Brazil	6,524	11,779	8,653
Income from restricted deposits - SFH	1,596	10,710	220
Income from restricted deposits - Rural credit	84	113	2,974
Devaluation of restricted deposits	<u>(2,812)</u>	<u>(6,935)</u>	<u>(9,051)</u>
TOTAL	<u>5,392</u>	<u>15,667</u>	<u>2,796</u>

## 8. LOAN PORTFOLIO AND ALLOWANCE FOR LOAN LOSSES

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

<u>Specification</u>	<u>12/31/2010</u>		<u>12/31/2009</u>	
	<u>Gross amount</u>	<u>Allowance</u>	<u>Gross amount</u>	<u>Allowance</u>
<u>Loans</u>	<u>10,715,838</u>	<u>(580,934)</u>	<u>9,443,790</u>	<u>(555,155)</u>
Current	4,470,238	(246,074)	4,517,643	(339,833)
Long-term	6,245,600	(334,860)	4,926,147	(215,322)
<u>Other lines with loan features</u>	<u>571,930</u>	<u>(71,984)</u>	<u>493,862</u>	<u>(60,690)</u>
Current	547,862	(18,321)	490,609	(34,460)
Long-term	24,068	(53,663)	3,253	(26,230)
TOTAL	<u>11,287,768</u>	<u>(652,918)</u>	<u>9,937,652</u>	<u>(615,845)</u>

#### a.1) Loan portfolio

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Advances to depositors	1,417	661
Loans	4,882,670	4,324,143
Discounted notes	170,113	157,759
Financing	1,716,722	1,152,148
Financing in foreign currencies	24,311	274,438
Refinancing with Federal Government (note 28.a.1)	533,239	517,064
Rural and agro-industrial financing	1,961,023	2,321,319
Real estate financing (1)	243	241
Infrastructure and development financing	<u>1,426,050</u>	<u>696,017</u>
Subtotal of lending operations	<u>10,715,838</u>	<u>9,443,790</u>
Guarantees honored	20	65
Income receivable from advances	9,896	15,682
Debtors for purchase of assets	2,298	5,929
Notes and credits receivables	40,526	3,430
Advances on foreign exchange contracts (2)	<u>519,190</u>	<u>468,756</u>
Subtotal of other items with loan features	<u>571,930</u>	<u>493,862</u>
TOTAL LOAN PORTFOLIO	<u>11,287,768</u>	<u>9,937,652</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>2nd half of 2010</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Loans and discounted notes	401,746	759,469	597,459
Financing	201,368	403,112	285,422
Rural and agro-industrial financing	78,944	171,478	153,991
Recovery of receivables written off as loss	113,100	156,964	181,602
Guarantees honored	1	1	1
Other	<u>(624)</u>	<u>(1,215)</u>	<u>(3,943)</u>
TOTAL	<u>794,535</u>	<u>1,489,809</u>	<u>1,214,532</u>



## b) Breakdown by maturity

### b.1) Normal (1)

<u>Business sector</u>	<u>From 01 to 30 days</u>	<u>From 31 to 60 days</u>	<u>From 61 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 12/31/2010</u>	<u>Total as of 12/31/2009</u>
Rural	73,685	27,067	6,715	57,326	134,784	1,582,473	1,882,050	2,187,155
Manufacturing	141,969	268,159	103,491	406,098	462,434	1,123,522	2,505,673	1,747,319
Government	3,414	3,511	12,021	10,243	29,189	1,199,282	1,257,660	1,156,521
Other services	118,794	83,232	71,263	335,122	602,217	1,504,797	2,715,425	2,555,085
Trading	198,069	163,586	149,323	492,674	401,517	373,570	1,778,739	1,194,460
Financial institutions	28,205	32,696	29,767	82,370	138,419	383,885	695,342	600,014
Housing	243	-	-	-	-	-	243	241
Individuals	<u>4,380</u>	<u>4,310</u>	<u>3,565</u>	<u>11,652</u>	<u>8,782</u>	<u>16,094</u>	<u>48,783</u>	<u>46,336</u>
<b>T O T A L</b>	<u><b>568,759</b></u>	<u><b>582,561</b></u>	<u><b>376,145</b></u>	<u><b>1,395,485</b></u>	<u><b>1,777,342</b></u>	<u><b>6,183,623</b></u>	<u><b>10,883,915</b></u>	<u><b>9,487,131</b></u>

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

### b.2) Past-due

Current									
<u>Business sector</u>	<u>From 01 to 30 days</u>	<u>From 31 to 60 days</u>	<u>From 61 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 12/31/2010</u>	<u>Total as of 12/31/2009</u>	
Rural	151	113	195	2,737	5,347	23,641	32,184	74,906	
Manufacturing	6,628	1,859	1,278	3,449	4,189	14,810	32,213	73,729	
Other services	1,634	1,640	3,221	19,927	6,006	13,136	45,564	30,894	
Trading	4,787	5,983	6,222	11,135	16,579	32,981	77,687	42,209	
Financial institutions	1	1	1	3	7	3	16	-	
Individuals	<u>363</u>	<u>275</u>	<u>184</u>	<u>898</u>	<u>845</u>	<u>1,473</u>	<u>4,038</u>	<u>3,490</u>	
<b>T O T A L</b>	<u><b>13,564</b></u>	<u><b>9,871</b></u>	<u><b>11,101</b></u>	<u><b>38,149</b></u>	<u><b>32,973</b></u>	<u><b>86,044</b></u>	<u><b>191,702</b></u>	<u><b>225,228</b></u>	

Past-due									
<u>Business sector</u>	<u>From 01 to 14 days</u>	<u>From 15 to 30 days</u>	<u>From 31 to 60 days</u>	<u>From 61 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 12/31/2010</u>	<u>Total as of 12/31/2009</u>
Rural	179	2,080	939	1,576	15,112	21,742	18,642	60,270	73,390
Manufacturing	804	1,789	12,963	26,724	19,280	6,043	245	67,848	71,476
Other services	662	2,236	2,665	2,249	23,253	7,178	346	38,589	31,768
Trading	1,402	4,979	5,647	4,441	10,442	14,134	757	41,802	44,156
Financial institutions	1	-	1	-	-	-	-	2	-
Individuals	<u>46</u>	<u>423</u>	<u>444</u>	<u>211</u>	<u>708</u>	<u>1,642</u>	<u>166</u>	<u>3,640</u>	<u>4,503</u>
<b>T O T A L</b>	<u><b>3,094</b></u>	<u><b>11,507</b></u>	<u><b>22,659</b></u>	<u><b>35,201</b></u>	<u><b>68,795</b></u>	<u><b>50,739</b></u>	<u><b>20,156</b></u>	<u><b>212,151</b></u>	<u><b>225,293</b></u>

## c) Specification by risk level

<u>Risk rating</u>	<u>12/31/2010</u>				<u>12/31/2009</u>			
	<u>Current (1)</u>	<u>Past-due</u>	<u>Total portfolio</u>	<u>Allowance</u>	<u>Current (1)</u>	<u>Past-due</u>	<u>Total portfolio</u>	<u>Allowance</u>
AA	3,640,505	-	3,640,505	-	3,346,521	-	3,346,521	-
A	3,847,921	-	3,847,921	19,239	3,224,154	-	3,224,154	16,121
B	2,635,606	38,743	2,674,349	26,743	2,232,913	20,996	2,253,909	22,539
C	262,461	23,563	286,024	8,581	329,704	16,746	346,450	10,394
D	111,266	18,644	129,910	12,991	99,756	61,476	161,232	16,123
E	56,686	36,090	92,776	27,833	26,867	17,079	43,946	13,184
F	34,525	46,511	81,036	40,518	9,584	23,653	33,237	16,618
G	17,621	43,157	60,778	42,544	7,526	16,929	24,455	17,118

H	<u>277,324</u>	<u>197,145</u>	<u>474,469</u>	<u>474,469</u>	<u>210,106</u>	<u>293,642</u>	<u>503,748</u>	<u>503,748</u>
TOTAL	<u>10,883,915</u>	<u>403,853</u>	<u>11,287,768</u>	<u>652,918</u>	<u>9,487,131</u>	<u>450,521</u>	<u>9,937,652</u>	<u>615,845</u>

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

d) Change in allowance for the period

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Opening balance	615,845	345,790
(+) Net allowance recognized in the period	392,528	372,182
(-) Receivables written off as a loss in the period	(355,455)	(102,127)
(=) Allowance for loan losses	<u>652,918</u>	<u>615,845</u>
(+) Allowance for losses on other receivables without loan features (note 9e)	<u>31,706</u>	<u>32,466</u>
(=) Allowance for loan losses balance	<u>684,624</u>	<u>648,311</u>

e) Breakdown of allowance expense balance

<u>Specification</u>	<u>2nd half of 2010</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
(+) Expenses on allowance for loan losses	178,946	356,324	330,466
(+) Expenses on allowance for losses on other receivables	56,679	57,357	41,716
(-) Reversals of operating allowances	<u>(13,651)</u>	<u>(21,153)</u>	<u>-</u>
(=) Expense balance on allowance with loan features	<u>221,974</u>	<u>392,528</u>	<u>372,182</u>
(+) Expense on allowance for losses on other receivables without loan features	412	8,630	4,834
(-) Reversals of allowance for losses on other receivables without loan features	<u>(661)</u>	<u>(1,148)</u>	<u>(424)</u>
(=) Expense balance on allowance for loan losses	<u>221,725</u>	<u>400,010</u>	<u>376,592</u>

f) In the year, receivables that had been written off as loss were recovered in the amount of R\$ 156,964 (R\$ 181,602 as of 12/31/2009) and renegotiations of operations amounted to R\$ 787,810 (R\$ 514,613 as of 12/31/2009).

g) Recovery of receivables with legal base

In conformity with Law 11322, of 07/13/2006, Law 11775, of 09/17/2008, and Law 12249, of 06/11/2010, 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 12/31/2010, was recognized in the amount of R\$ 89,582 (R\$ 98,103 as of 12/31/2009). Pursuant to the mentioned laws, part of these transactions was acquired by the Northeast Constitutional Financing Fund (FNE):

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Income earned	54,611	83,010
Recovery of operations written off from assets	28,998	45,371
Expenses on discounts	(11,767)	(9,448)
Net effect of allowances	<u>17,740</u>	<u>(20,830)</u>
TOTAL	<u>89,582</u>	<u>98,103</u>

9. OTHER RECEIVABLES

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
a) Receivables for guarantees honored	<u>20</u>	<u>65</u>
b) Income receivable	<u>25,570</u>	<u>21,134</u>
c) Other	<u>1,007,017</u>	<u>902,560</u>

Tax credits - temporary differences (note 20.b)	277,353	212,459
Tax credits - securities and derivatives (notes 6.a.2 and 20.b)	13,873	11,261
Debtors from guarantee deposits	367,471	353,840
Recoverable taxes and contributions	177,148	150,830
From prepayments - SRF Regulation 90/92	170,353	142,652
Other amounts	6,795	8,178
Tax incentive options	26,748	26,748
Receivables	40,526	3,430
Salary advances	2,111	1,954
Payments to be refunded	8,110	8,375
Recalculation, discounts, waivers and bonuses in BNDES transactions	8,320	1,361
Recalculation, discounts, waivers and bonuses in FAT transactions	27,142	70,913
Other amounts	58,215	61,389
e) Allowance for losses on other receivables	<u>(103,690)</u>	<u>(93,156)</u>
Receivables with loan features	(71,984)	(60,690)
Receivables without loan characteristics (note 8.d)	<u>(31,706)</u>	<u>(32,466)</u>
TOTAL	<u>928,917</u>	<u>830,603</u>
CURRENT	858,682	728,566
LONG-TERM	70,235	102,037

## 10. FOREIGN EXCHANGE PORTFOLIO

### a) Breakdown

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Assets - Other Receivables		
Foreign exchange purchased pending settlement	511,266	435,819
Receivables for foreign exchange sold	2,883	3,930
Advances received in local currency	(2,202)	(1,654)
Income receivable from advances	<u>9,896</u>	<u>15,682</u>
Current Assets	<u>521,843</u>	<u>453,777</u>
Liabilities - Other Payables		
Foreign exchange purchased	532,891	472,306
Foreign exchange sold pending settlement	2,855	3,926
(Advances on foreign exchange contracts)	(519,190)	(468,756)
Other	<u>45</u>	<u>47</u>
Current Liabilities	<u>16,601</u>	<u>7,523</u>

### b) Income (loss) from foreign portfolio

<u>Specification</u>	<u>2nd half of 2010</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Exchange gains	18,544	74,128	89,236
Exchange losses	<u>(247)</u>	<u>(967)</u>	<u>(2,458)</u>
TOTAL	<u>18,297</u>	<u>73,161</u>	<u>86,778</u>

## 11. PERMANENT ASSETS

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
a) Investments	<u>1,429</u>	<u>1,379</u>

a.1) Other investments	<u>6,732</u>	<u>6,682</u>
Tax incentive investments	5,011	5,011
Shares	944	943
Artworks and valuables	777	728
a.2) Allowance for losses	<u>(5,303)</u>	<u>(5,303)</u>
Tax incentive investments	(5,010)	(5,010)
Shares	(293)	(293)
b) Property and equipment	<u>188,219</u>	<u>191,962</u>
b.1) Real estate	<u>132,615</u>	<u>127,000</u>
Land	6,567	6,267
Buildings	126,048	120,733
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>151,302</u>	<u>142,320</u>
Facilities, furniture and equipment	63,401	59,280
Data processing system	56,177	50,969
Security system	9,549	9,679
Transportation system	16,135	16,482
Other	6,040	5,910
b.4) Accumulated depreciation	<u>(207,326)</u>	<u>(188,986)</u>
Real estate	(155,715)	(142,882)
Other property and equipment	(51,611)	(46,104)
c) Deferred charges	<u>2,407</u>	<u>3,064</u>
c.1) Organization and expansion costs	<u>6,096</u>	<u>8,059</u>
Leasehold improvements	6,055	8,010
Software purchase and development	41	49
c.2) Accumulated amortization	<u>(3,689)</u>	<u>(4,995)</u>
Leasehold improvements	(3,664)	(4,971)
Software purchase and development	(25)	(24)
<b>TOTAL</b>	<u><b>192,055</b></u>	<u><b>196,405</b></u>

## 12. DEPOSITS AND OPEN MARKET FUNDING

### a) Deposits

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
a.1) Demand deposits	<u>134,119</u>	<u>175,340</u>
Foreign currency deposits	31,487	39,503
Government deposits	20,446	38,044
Restricted deposits	39,117	53,483
Legal entities	30,369	34,584
Individuals	9,363	7,400
Other amounts	3,337	2,326
a.2) Savings deposits	<u>1,288,569</u>	<u>1,381,500</u>
Free savings deposits - individuals	740,681	606,679
Free savings deposits - legal entities	546,832	774,539
From related parties and institutions of the Financial System	1,056	282
a.3) Interbank deposits	<u>684,128</u>	<u>384,771</u>
a.4) Time deposits	<u>6,387,223</u>	<u>4,384,003</u>
Time deposits	5,048,516	3,411,764
Interest-bearing escrow deposits	202,751	56,327
Interest-bearing special deposits /FAT - available funds	<u>370,420</u>	<u>48,479</u>
Proger Urbano	18,200	19,129
Proger Rural	-	3,651
Pronaf	273	182
Protrabalho	3,535	17,973
Infrastructure	328,476	6,972

Drought	155	572
PNMPO - National Program for Guided Productive Microcredit	19,781	-
Interest-bearing special deposits /FAT - invested funds	<u>316,372</u>	<u>346,775</u>
Proger Urbano	60,448	56,857
Proger Rural	-	58
Pronaf	964	1,371
Protrabalho	192,453	218,297
Infrastructure	50,731	56,413
Drought	11,776	13,779
FINOR/cash and cash equivalents and reinvestments Law 8167	447,569	520,404
Other amounts	1,595	254
a.5) Other deposits - Investment deposits	<u>15,542</u>	<u>7,113</u>
TOTAL	<u>8,509,581</u>	<u>6,332,727</u>
CURRENT	3,772,031	3,197,499
LONG-TERM	4,737,550	3,135,228

#### b) Open Market Funding

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Own portfolio	<u>436,293</u>	<u>350,670</u>
Treasury bills	436,293	350,670
Third-party portfolio	<u>87,996</u>	<u>95,008</u>
Treasury bills	87,996	25,871
National treasury notes	-	69,137
TOTAL	<u>524,289</u>	<u>445,678</u>
CURRENT	460,893	445,678
LONG-TERM	63,396	-

#### c) Expenses of funding operations

<u>Specification</u>	<u>2nd half of 2010</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Expenses on raising deposits	<u>(311,422)</u>	<u>(543,046)</u>	<u>(336,945)</u>
Time deposits	(230,741)	(393,896)	(209,521)
Savings deposits	(28,803)	(52,176)	(41,105)
Escrow deposits	(3,608)	(5,446)	(3,365)
Interbank deposits	(9,162)	(15,706)	(10,476)
Special deposits - FAT	(34,987)	(68,306)	(68,020)
Other	(4,121)	(7,516)	(4,458)
Expenses on money market funding operations	<u>(27,726)</u>	<u>(48,096)</u>	<u>(44,215)</u>
Third-party portfolio	(4,770)	(8,297)	(9,902)
Own portfolio	<u>(22,956)</u>	<u>(39,799)</u>	<u>(34,313)</u>
TOTAL	<u>(339,148)</u>	<u>(591,142)</u>	<u>(381,160)</u>

### 13. BORROWINGS AND DOMESTIC ONLENDINGS

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

<u>Specification</u>	<u>0 to 3 months</u>	<u>3 to 12 months</u>	<u>1 to 3 Years</u>	<u>3 to 5 Years</u>	<u>5 to 15 years</u>	<u>Over 15 years</u>	<u>Total as of 12/31/2010</u>	<u>Total as of 12/31/2010</u>
Domestic borrowings	-	15,219	22,828	22,828	-	-	60,875	70,157
Foreign borrowings	103,487	343,116	-	-	-	-	446,603	630,522
Domestic onlendings	169,517	119,909	214,091	352,691	494,571	335,997	1,686,776	1,433,524
Foreign onlendings	<u>10,245</u>	<u>56,563</u>	<u>138,732</u>	<u>142,399</u>	<u>308,394</u>	<u>72,832</u>	<u>729,165</u>	<u>722,393</u>
TOTAL	<u>283,249</u>	<u>534,807</u>	<u>375,651</u>	<u>517,918</u>	<u>802,965</u>	<u>408,829</u>	<u>2,923,419</u>	<u>2,856,596</u>

## b) Borrowings

<u>Specification</u>	<u>Financial charges</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Domestic borrowings - official institutions/Refinancing	TJLP+ 3 or 7.75 p.a.	60,875	70,157
Foreign borrowings/Borrowings in foreign currency	USD	<u>446,603</u>	<u>630,522</u>
TOTAL		<u>507,478</u>	<u>700,679</u>
CURRENT		461,822	644,553
LONG-TERM		45,656	56,126

## c) Domestic Onlendings - Official Institutions

<u>Specification</u>	<u>Financial charges (p.a.)</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
National Treasury	IGP-DI+ 2.0 or 6.75	<u>1,086</u>	<u>1,164</u>
BNDES		<u>933,260</u>	<u>743,796</u>
POC (credit facility granted by the BNDES agents to shareholders of medium-sized and small companies to buy shares in capital increases)	TJLP/IGPM/IPCA+1.5	712,269	428,032
Credit Facility for investment in agriculture	TJLP/IGPM/IPCA+1.5	220,991	315,764
FINAME (National Equipment Financing Authority)		<u>52,859</u>	<u>29,330</u>
“Programa Automático” (program that intended purchase of new machinery and equipment by companies based in Brazil)	TJLP/IGPM/IPCA+1.5	38,276	15,960
Farm Program	TJLP/IGPM/IPCA+1.5	14,583	13,370
Other institutions		<u>699,571</u>	<u>659,234</u>
Pilot Support Project of Agrarian Reform	SELIC/TJLP / 6.0	81,699	82,259
“MEPF-Banco da Terra” - Land Fund and Agrarian Reform - Land Bank	SELIC/4 to 18.0	126,302	137,604
“Banco da Terra”- Land Bank - Fight against rural poverty	Extra Mkt rate./ 2 to 10.0	<u>491,570</u>	<u>439,371</u>
TOTAL		<u>1,686,776</u>	<u>1,433,524</u>
CURRENT		289,427	313,523
LONG-TERM		1,397,349	1,120,001

## d) Foreign Onlendings

<u>Specification</u>	<u>Financial charges</u> <u>(p.a.)</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
IDB-Prodetur (Tourism Development Program with funds provided by the IDB)	USD + 1.27 or UCBID + 3.19	722,200	714,419
IDB-Other programs	USD + 1.27	6,456	7,974
Other programs	USD + 6.0	<u>509</u>	<u>-</u>
TOTAL		<u>729,165</u>	<u>722,393</u>
CURRENT		66,808	63,653
LONG-TERM		662,357	658,740

## e) Expenses on Borrowings and Onlendings

<u>Specification</u>	<u>2nd half of 2010</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Borrowings	<u>(2,632)</u>	<u>(5,484)</u>	<u>(6,109)</u>
Domestic borrowings	<u>(2,632)</u>	<u>(5,484)</u>	<u>(6,109)</u>
Onlendings	<u>(50,908)</u>	<u>(121,605)</u>	<u>(71,115)</u>
Domestic Onlendings - Official Institutions	<u>(41,492)</u>	<u>(74,911)</u>	<u>(43,165)</u>
National Treasury	(54)	(108)	(59)
BNDES	(37,377)	(66,654)	(30,626)
FINAME	(1,631)	(3,268)	(3,019)
CEF	-	-	(2)
Other institutions	(2,430)	(4,881)	(9,459)

Foreign onlendings	<u>(9,416)</u>	<u>(46,694)</u>	<u>(27,950)</u>
Foreign banks	<u>(3,522)</u>	<u>(23,131)</u>	<u>(10,355)</u>
Financial and development funds	<u>(178,888)</u>	<u>(323,507)</u>	<u>(374,108)</u>
TOTAL	<u>(235,950)</u>	<u>(473,727)</u>	<u>(461,687)</u>

#### 14. FUNDS FROM ACCEPTANCE AND ISSUANCE OF SECURITIES

In November 2010, the Bank issued Senior Unsecured Notes amounting to US\$ 300,000 in the international financial market, maturing in 5 years. The issuance was carried out at a coupon rate of 3.625% p.a., subject to semi-annual interest. The notes are not payable in installments; the principal is settled in R\$/US\$ thousand in a lump sum on the maturity date, as shown below:

<u>Specification</u>	<u>Amount issued</u> <u>US\$ thousand</u>	<u>Nominal</u> <u>compensation</u>	<u>Funding</u> <u>date</u>	<u>Maturity</u>	<u>12/31/2010</u> <u>R\$ thousand</u>	<u>12/31/2009</u> <u>R\$ thousand</u>
Eurobond - Senior Unsecured Notes	300,000	3.625% a.a	11/09/2010	11/09/2015	485,487	-

Swap transactions contracted to hedge US dollar liabilities from securities raised abroad against market fluctuations have been classified as hedge operations and are, therefore, adjusted to fair value, as shown below:

<u>Specification</u>	<u>Funding</u> <u>date</u>	<u>Maturity</u>	<u>Contract</u> <u>value</u>	<u>Adjusted to</u> <u>market</u>	<u>Provision for</u> <u>income tax</u>	<u>Market value on</u> <u>12/31/2010</u>	<u>Market value</u> <u>on 12/31/2009</u>
Eurobond - Senior Unsecured Notes	11/09/2010	11/09/2015	502,477	(17,364)	374	<u>485,487</u>	-

#### 15. OTHER LIABILITIES

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
a) Collected taxes and other	<u>5,604</u>	<u>3,269</u>
Funds from Proagro (program established to guarantee farmers to pay their costs of farming and cattle raising)	148	92
IOF (tax on financial transactions payable)	5,389	3,093
Other taxes	67	84
b) Social and statutory	<u>130,687</u>	<u>238,115</u>
Dividends and bonuses payable	96,519	205,091
Profit sharing	34,168	33,024
c) Tax and social security	<u>493,132</u>	<u>464,557</u>
Provision for tax contingencies (note 21)	<u>101,525</u>	<u>95,167</u>
Taxes payable	74,847	71,343
Tax lawsuits	26,678	23,824
Provision for deferred income and social contribution taxes	<u>58,716</u>	<u>103,062</u>
Securities and derivatives (note 6.a.2)	47,294	90,015
Revaluation of buildings and land (note 18.b)	11,422	13,047
Provision for income and social contribution taxes (note 20.a)	<u>284,294</u>	<u>226,928</u>
Income tax	173,703	139,939
Social contribution	110,591	86,989
Taxes payable	<u>48,597</u>	<u>39,400</u>
d) Trading account	<u>7</u>	-
e) Financial and development funds	<u>3,746,175</u>	<u>3,639,762</u>
Northeast Constitutional Financing Fund (FNE)	3,656,262	3,553,326
Other	89,913	86,436
f) Subordinated debt eligible for capital (note 17)	<u>1,101,848</u>	<u>622,064</u>
g) Hybrid debt & equity instruments (note 16)	1,004,166	-
h) Other	<u>2,576,876</u>	<u>2,421,737</u>

Provision for contingent liabilities (note 21.d)	<u>1,436,231</u>	<u>1,202,944</u>
Labor lawsuits	161,863	150,741
Civil lawsuits	92,970	95,338
Other lawsuits	65	567
FNE	1,177,757	956,261
Onlending	372	-
Full risk	84,960	-
Shared risk	1,092,425	956,261
FDNE	277	37
PROAGRO	3,299	-
Accrued liabilities allowances	<u>1,053,884</u>	<u>1,123,974</u>
Employee benefits - CVM Resolution 600	<u>925,375</u>	<u>1,023,192</u>
Pension plan - CVM Resolution 600 (note 24.g)	490,630	765,942
Health care plan - CVM Resolution 600 (note 24.g)	434,745	257,250
Personnel expenses	94,143	68,016
Other	34,366	32,766
Other	<u>86,761</u>	<u>94,819</u>
TOTAL	<u>9,058,495</u>	<u>7,389,504</u>
CURRENT	3,361,750	3,408,581
LONG-TERM	5,696,745	3,980,923

## 16. HYBRID DEBT/EQUITY INSTRUMENTS

On December 22, 2010, pursuant to Law 12249, of 06/11/2010, as amended by Provisional Act 513, of 11/26/2010, Banco do Nordeste and the Federal Government entered into a Loan Contract, classified as Hybrid Debt/Equity Instruments (IHCD), in the amount of R\$ 1,000,000, already paid in, having no maturity date. The Bank requested the Central Bank of Brazil to consider the transaction as Tier II Capital in Regulatory Capital (PR), under the terms of CMN Resolution 3444, of 02/28/2007, and is awaiting approval. Below are details on the transaction:

<u>Specifications</u>	<u>Amount issued</u>	<u>Clearance</u>	<u>Funding Date</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Hybrid debt/equity instruments	1,000,000	IPCA+6,5715% a.a.	12/22/2010	<u>1,004,166</u>	-

## 17. SUBORDINATED DEBT ELIGIBLE FOR CAPITAL

The Bank has subordinated debt contracts with the Northeast Constitutional Financing Fund (FNE), classified as Regulatory Capital Tier II, under the Subordinated Debts Eligible to Capital category, in accordance with CMN Resolution 3444, of 02/28/2007, and the Central Bank of Brazil's authorization.

The 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, will be updated at the charges agreed on in the corresponding credit instruments, pursuant to Article 9-A of Law 7827, of 09/27/1989. Breakdown is as follows:

<u>Specifications</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Constitutional Fund to Finance the Northeast (FNE)	1,101,848	622,064
Funds available (1)	319,417	593,096
Funds invested (2)	<u>782,431</u>	<u>28,968</u>
TOTAL	<u>1,101,848</u>	<u>622,064</u>



- (1) Yielding extramarket rates disclosed by the Central Bank of Brazil, pursuant to article 9-A of Law 7827, of 09/27/1989.
- (2) Yielding rates agreed upon with borrowers, less *del credere* of the financial institution, pursuant to article 9-A of Law 7827, of 09/27/1989.

## 18. SHAREHOLDERS' EQUITY

### a) Capital

The Extraordinary Shareholders' Meeting held on 03/30/2010 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. On 12/07/2010, the Extraordinary Shareholders' Meeting approved a new capital increase of R\$ 1,000, resulting from the merger of the Capital Reserve of R\$ 502 and Statutory Reserve of R\$ 498, without issuance of new shares. Therefore, capital increased from R\$ 1,850,000 to R\$ 1,851,000, represented by 87,001,901 registered, fully paid shares with no par value, distributed as follows:

Composition as of 12/31/2010					
<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	15,000	387,995	402,995	0.03	0.47
Other (9,623 shareholders)	<u>400,792</u>	<u>382,677</u>	<u>783,469</u>	<u>0.83</u>	<u>0.90</u>
TOTAL	<u>48,484,775</u>	<u>38,517,126</u>	<u>87,001,901</u>	<u>100.00</u>	<u>100.00</u>

Composition as of 12/31/2009					
<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>
TOTAL	<u>48,484,775</u>	<u>38,517,126</u>	<u>87,001,901</u>	<u>100.00</u>	<u>100.00</u>

### b) Revaluation reserve

The amount of R\$ 28,064 (R\$ 30,501 as of 12/31/2009) refers to the revaluation of property, plant and equipment in use, recognized on 02/26/1993. 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 05/29/2008. The realization occurred in the year totaled R\$ 2,437 (R\$ 2,437 as of 12/31/2009) 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 02/17/2009. These shares, whose market values on 12/31/2010 represent,

respectively, R\$ 41.50 and R\$ 58.45 per share, are held in treasury to be later disposed of or cancelled.

#### d) Prior-year Adjustments

Adjustments to retained earnings or accumulated losses refer to the change in the accounting practice referring to employee benefits approved through CVM Resolution 600, of 10/07/2009, which revoked CVM Resolution 371, of 12/13/2000. Tax effects were duly determined pursuant to the provisions of article 273 of the Income Tax Regulation (Decree 3000, of 03/26/1999) (Note 24.h).

<u>Specification</u>	<u>CAPEF - BD Plan</u>		<u>CAMED - Natural Plan</u>		<u>TOTAL</u>
	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>12/31/2009</u>	<u>12/31/2008</u>	
Transition liability and Adjustment for the first-time adoption of CVM Resolution 600	(161,974)	471,190	(61,785)	(138,208)	109,223
Income tax and social contribution on net income	<u>64,790</u>	<u>(188,476)</u>	<u>24,714</u>	<u>55,283</u>	<u>(43,689)</u>
Adjustment of tax effects, net	<u>(97,184)</u>	<u>282,714</u>	<u>(37,071)</u>	<u>(82,925)</u>	<u>65,534</u>

#### e) Net Income - Allocations

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
1. Net income	<u>313,590</u>	<u>459,012</u>
2. Prior-year adjustment	65,534	-
3. Revaluation reserves transferred to retained earnings (accumulated losses)	2,437	2,437
4. Adjusted net income	<u>381,561</u>	<u>461,449</u>
Legal reserve (item 1 x 5%)	15,680	22,950
Dividends ( Note 18.f)	85,511	130,446
Interest on own capital (note 18.f)	121,000	110,000
Statutory reserve (item 4 - Legal reserve - dividends - interest on own capital)	159,370	198,053

#### f) Dividends and interest on own capital

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

The Board of Directors proposes to the Shareholders' Meeting the payment of dividends and interest on own capital, attributed to the amounts of dividends equivalent to 50.3539% of the adjusted net income for the year. Dividends/interest on capital for 2010 were calculated as follows:

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
1. Net income for the year	<u>313,590</u>	<u>459,012</u>
2. Prior-year adjustments	65,534	-
3. Recorded legal reserve	(15,680)	(22,950)
4. Revaluation reserves transferred to retained earnings (accumulated losses)	2,437	2,437
5. Profit sharing	44,238	41,686
6. Calculation basis of dividends/interest on own capital	<u>410,119</u>	<u>480,185</u>
7. Interest on own capital	121,000	110,000
8. Withholding income tax on interest on own capital	<u>(144)</u>	<u>(226)</u>
9. Interest on own capital attributed to dividends (item 7 plus item 8)	120,856	109,774
10. Interim interest on own capital adjusted by the SELIC rate	<u>(110,201)</u>	<u>(35,393)</u>
11. Additional interest on own capital (item 7 plus item 10)	10,799	74,607
12. Proposed dividends	<u>85,511</u>	<u>130,446</u>
13. Total attributed to shareholders (item 11 plus item 12)	<u>96,310</u>	<u>205,053</u>

- Interest on own capital of R\$ 0.1188772382 per common share (as of 12/31/2009: interest on own capital of R\$ 0.821275802532 per common share)	5,763	39,813
- Interest on own capital of R\$ 0.1307649615 per preferred share (as of 12/31/2009: interest on own capital of R\$ 0.903403382611 per preferred share)	5,036	34,794
- Dividends of R\$ 0.94130871072 per common share (as of 12/31/2009: dividends of R\$ 1.435941522571 per common share)	45,631	69,610
- Dividends of R\$ 1.0354395819 per preferred share (as of 12/31/2009: dividends of R\$ 1.579535674974 per preferred share)	<u>39,880</u>	<u>60,836</u>
14. Total attributed to shareholders in the year (item 7 plus item 12)	<u>206,511</u>	<u>240,446</u>

The Bank calculated for preferred shares dividends and 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 12/15/1976, as reworded by Law 10303, of 10/31/2001 and the provision of Article 6, paragraph 2, of the Bank's bylaws.

Interest on own capital was accounted for in expenses, but, for purposes of disclosure of financial statements, has been reclassified to "Retained earnings (accumulated losses)". Total interest on own capital in the year generated a reduction in tax expenses of R\$ 48,125.

The employee profit sharing was added to the interest on own capital calculation basis, as established by Article 2 of Resolution 10, of 05/30/1995, of the CCE (Council for Coordination and Control of State-Owned Companies).

## 19. OTHER OPERATING INCOME (EXPENSES)

<u>Specification</u>	<u>2nd half of 2010</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
a) Income from services provided	<u>639,577</u>	<u>1,233,992</u>	<u>1,106,886</u>
Investment funds management	6,863	12,630	9,726
Funds and programs management	468,074	923,079	824,874
Services provided	164,640	298,283	272,286
b) Income from bank fees	<u>6,629</u>	<u>12,768</u>	<u>12,205</u>
c) Personnel expenses	<u>(560,764)</u>	<u>(1,019,740)</u>	<u>(890,476)</u>
Salaries	(298,444)	(532,497)	(451,432)
Payroll charges	(117,555)	(201,148)	(155,843)
Pension plan - CVM Resolution 600 (note 24)	(25,898)	(89,625)	(131,985)
Health care plan - CVM Resolution 600 (note 24)	(73,798)	(111,663)	(74,008)
Benefits, training, fees and compensation of interns	(45,069)	(84,807)	(77,208)
d) Other administrative expenses	<u>(355,089)</u>	<u>(659,632)</u>	<u>(551,813)</u>
Data processing	(59,728)	(123,984)	(106,490)
Advertising and publicity	(14,167)	(33,924)	(32,470)
Outside services	(105,026)	(178,752)	(128,879)
Rentals, material and public utilities	(22,426)	(43,976)	(44,050)
Travel expenses	(7,861)	(14,775)	(14,867)
Communications	(17,083)	(31,844)	(30,531)
Depreciation and amortization	(12,835)	(25,551)	(25,511)
Asset maintenance and upkeep	(14,039)	(28,622)	(27,004)
Surveillance, security and transportation	(14,027)	(26,525)	(23,819)
Promotions, public relations and publications	(11,177)	(20,916)	(15,540)
Financial system services	(8,984)	(17,082)	(14,746)
Specialized technical services	(13,753)	(24,213)	(21,066)
Insurance	(1,949)	(3,813)	(2,983)
Court, Notary and Attorney's fees	(26,070)	(36,991)	(12,080)

Trade Association Contribution and other	(499)	(956)	(778)
Condominium fees, catering, kitchen and food	(1,742)	(3,353)	(2,840)
FUNDECI (Science and Technology Development Fund)	(8,100)	(16,200)	(17,000)
Other	(15,623)	(28,155)	(31,159)
e) Tax expenses	<u>(92,670)</u>	<u>(173,182)</u>	<u>(144,214)</u>
Cofins and PIS/PASEP (taxes on revenue)	(81,747)	(155,145)	(130,158)
ISS (service tax) and IPTU (municipal real estate tax)/Improvement	(8,653)	(15,416)	(13,020)
Other	(2,270)	(2,621)	(1,036)
f) Other operating income	<u>527,562</u>	<u>927,571</u>	<u>1,159,159</u>
Financial commission on investment funds management	366,705	691,906	554,751
Negative exchange variation of loans obtained	86,932	99,578	363,393
Reversal of Operating Provision on FNE transactions risks	847	847	-
Recovery of charges and expenses	2,052	8,703	13,001
Reversal of provisions for social contribution and income tax	-	131	14,789
Reversal of operating provisions	4,441	8,229	123,028
Interest and commissions	1,598	2,868	4,775
Monetary adjustment	1,562	4,420	3,981
Monetary adjustment of taxes	98	181	12,038
FNE - Recovery of amounts settled by the Bank	39,798	56,614	48,166
Other	23,529	54,094	21,237
g) Other operating expenses	<u>(396,368)</u>	<u>(757,896)</u>	<u>(818,404)</u>
Exchange variation from exchange area	(335)	(964)	(359)
Negative exchange variations on granted loans	(76,785)	(107,697)	(379,172)
Negative adjustments on lending operations	(157)	(160)	(15,112)
Discounts granted in renegotiations	(25,389)	(47,348)	(6,818)
Interest on lending operations	(8,637)	(18,175)	(13,027)
Tax risks	(5,439)	(6,835)	(14,537)
Risks on FNE transactions	(169,969)	(406,384)	(282,231)
Risks on FDNE transactions	(131)	(240)	-
Labor lawsuits	(33,883)	(40,428)	(16,227)
Civil lawsuits	(5,583)	(18,465)	(24,621)
Other lawsuits	-	(10)	(56)
Other operating provisions	-	-	(4,451)
Other	<u>(70,060)</u>	<u>(111,190)</u>	<u>(61,793)</u>
TOTAL	<u>(231,123)</u>	<u>(436,119)</u>	<u>(126,657)</u>

(\*) Pension Plan and Health Care expenses for the year ended 12/31/2009 comply with the provisions of CVM Resolution 371, of 12/13/2000.

## 20. INCOME TAX AND SOCIAL CONTRIBUTION

### 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 in 2010 was R\$ 104,823 and the social contribution tax expense was R\$ 69,263, reconciled as shown below:

	Income tax		Social contribution	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
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	366,676	509,499	366,676	509,499
Permanent additions/deductions	108,644	19,800	108,501	19,825
Temporary additions/deductions	280,319	299,140	280,319	299,140
Taxable income before utilization of tax loss carryforwards	755,639	828,439	755,496	828,464
Offset of tax loss carryforwards	(19,350)	(248,532)	(20,354)	(248,539)

Taxable income after utilization of tax loss carryforwards	736,289	579,907	735,142	579,925
Provision for income tax and social contribution	(156,260)	(143,938)	(93,598)	(86,380)
Deductions (tax incentives)	10,879	5,014	-	-
Expense on provision for income tax and social contribution	(145,381)	(138,924)	(93,598)	(86,380)
Deferred tax assets	40,558	40,511	24,335	24,306
Total current expenses	(104,823)	(98,413)	(69,263)	(62,074)
% of current expenses in relation to income before taxation	28.59%	19.32%	18.89%	12.18%

a.2) Specification of provision for income tax and social contribution

Provision for income tax and social contribution expense	145,381	138,924	93,598	86,380
Provision for taxes on the realization of revaluation reserve	1,015	1,015	609	609
Provision for taxes on prior year adjustments	27,307	-	16,384	-
Provision for income tax and social contribution	173,703	139,939	110,591	86,989
Taxes for offset due to tax prepayments, including withholding taxes	(117,146)	(100,069)	(54,100)	(44,986)
Adjustment for the period	56,557	39,870	56,491	42,003

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 12/20/2002 (amended by CMN Resolution 3,355, of 03/31/2006), and Central Bank of Brazil Circular 3171, of 12/30/2002; and are based on technical studies performed on a six-monthly basis.

In accordance with Central Bank of Brazil Circular Letter 3023, of 06/11/2002, 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	102,427	786,913	61,472	472,147	163,899	1,259,060
(-) Credit realization	<u>(61,869)</u>	<u>(785,280)</u>	<u>(37,136)</u>	<u>(471,168)</u>	<u>(99,005)</u>	<u>(1,256,448)</u>
(=) Ending balance as of 12/31/2010	<u>173,336</u>	<u>8,671</u>	<u>104,017</u>	<u>5,202</u>	<u>277,353</u>	<u>13,873</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>12/31/2010</u>	<u>12/31/2009</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
1. Total temporary differences	3,000,354	2,728,935	3,000,354	2,728,935
2. Tax loss carryforwards	-	188,374	-	190,044
3. Total tax base ("1" + "2")	3,000,354	2,917,309	3,000,354	2,918,979
4. Tax credits on temporary differences + tax loss carryforwards	750,089	729,327	450,053	437,847
5. Tax credits from mark-to-market of securities	8,671	7,038	5,202	4,223
6. Total tax credits ("4" + "5")	758,760	736,365	455,255	442,070
7. Tax credits recognized in assets	173,336	132,778	104,017	79,681
8. Tax credits from mark-to-market of securities	8,671	7,038	5,202	4,223
9. Total tax credits ("7" + "8")	182,007	139,816	109,219	83,904
10. Tax credits not recognized in assets ("6" - "9")	576,753	596,549	346,036	358,166

The estimated realization of tax credits as of 12/31/2010 is as follows:

Period	Realization of income tax credit		Realization of social contribution tax		Total	
	Book value	Present value	Book value	Present value	Book value	Present value
2011	54,626	48,717	32,777	29,230	87,402	77,947
2012	21,646	17,324	12,987	10,394	34,633	27,718
2013	18,198	13,176	10,919	7,906	29,117	21,082
2014	23,763	15,620	14,258	9,372	38,021	24,992
2015	<u>55,103</u>	<u>33,002</u>	<u>33,076</u>	<u>19,810</u>	<u>88,179</u>	<u>52,812</u>
TOTAL	<u>173,336</u>	<u>127,839</u>	<u>104,017</u>	<u>76,712</u>	<u>277,352</u>	<u>204,551</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 11/08/2001, will be realized according to the maturities of the securities, as shown below:

Period	Realization of income tax credit		Realization of social contribution tax credit		Total	
	Book value	Present value	Book value	Present value	Book value	Present value
2010	7,180	7,180	4,308	4,308	11,488	11,488
2011	1	1	1	1	2	2
2012	4	4	2	2	6	6
2013	-	-	-	-	-	-
2014	172	172	103	103	275	275
2015 to 2017	529	529	317	317	846	846
2027 to 2029	<u>785</u>	<u>785</u>	<u>471</u>	<u>471</u>	<u>1,256</u>	<u>1,256</u>
TOTAL	<u>8,671</u>	<u>8,671</u>	<u>5,202</u>	<u>5,202</u>	<u>13,873</u>	<u>13,873</u>

## 21. PROVISIONS AND CONTINGENT LIABILITIES

- a) Banco do Nordeste is a party to several administrative and judicial proceedings involving civil, tax, labor and other matters. To recognize a reserve and contingent liabilities, contingencies are classified in accordance with CMN Resolution 3823, of 12/16/2009 and BACEN Circular 3429, of 02/11/2010.
- b) The assessment of the reserve and 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). Taking into consideration that the procedures adopted by Banco do Nordeste are in compliance with legal and regulatory provisions, Management understands that the reserves recorded are sufficient to cover losses arising from the respective judicial and administrative proceedings.

- d) The Bank recognized a provision for the total estimated loss on lawsuits classified as probable losses, as well as for those classified as Legal Obligation pursuant to the terms of BACEN Circular 3429, of 02/11/2010, regardless of the legal counsel's assessment of loss, and provisions are not applicable to lawsuits classified as possible and remote losses, as shown in the comparative chart for 12/31/2010 and 12/31/2009:

<u>Specification</u>	<u>12/31/2010</u>			<u>12/31/2009</u>		
	<u>Base value</u>	<u>Provision</u>	<u>Number of shares</u>	<u>Base value</u>	<u>Provision</u>	<u>Number of shares</u>
1.PROVISION FOR TAX CONTINGENCIES (note 15.c)						
1.1 Taxes - Legal Obligation	<u>74,847</u>	<u>74,847</u>	<u>01</u>	<u>71,343</u>	<u>71,343</u>	<u>01</u>
1.2 Tax lawsuits	<u>554,803</u>	<u>26,678</u>	<u>179</u>	<u>425,965</u>	<u>23,824</u>	<u>160</u>
1.2.1 Legal Obligation	551	551	07	-	-	-
1.2.2 Other Obligations	<u>554,252</u>	<u>26,127</u>	<u>172</u>	<u>425,965</u>	<u>23,824</u>	<u>160</u>
Probable	26,127	26,127	-	23,824	23,824	-
Possible	363,126	-	-	239,696	-	-
Remote	164,999	-	-	162,445	-	-
2.PROVISION FOR CONTINGENT LIABILITIES (note 15.h)						
2.1 Labor lawsuits	<u>226,032</u>	<u>161,863</u>	<u>802</u>	<u>203,029</u>	<u>150,741</u>	<u>890</u>
Probable	161,863	161,863	-	150,741	150,741	-
Possible	25,716	-	-	20,670	-	-
Remote	38,453	-	-	31,618	-	-
2.2 Civil lawsuits	<u>1,834,025</u>	<u>92,970</u>	<u>4,590</u>	<u>895,909</u>	<u>95,338</u>	<u>4,271</u>
Probable	92,970	92,970	-	95,338	95,338	-
Possible	350,839	-	-	233,178	-	-
Remote (*)	1,390,216	-	-	567,393	-	-
2.3 Other lawsuits	<u>3,947</u>	<u>65</u>	<u>65</u>	<u>15,959</u>	<u>567</u>	<u>133</u>
Probable	65	65	-	567	567	-
Possible	1,770	-	-	8,319	-	-
Remote	2,112	-	-	7,073	-	-

(\*) The change in the number of civil lawsuits classified as remote risk of loss is due, mainly, to the fact that the following lawsuits were classified as contingent liabilities: a) Payment of an extra contribution referring to pension plan benefits - R\$ 488,483; b) Indemnity for pain and suffering and payment of fine - R\$ 105,504; and c) Indemnity for pain and suffering - R\$ 59,843.

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

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
a) Taxes (Legal Obligation)		
Opening balance	71,343	65,217
Recognition	4,149	6,286
Reversal/utilization/write-off	<u>(645)</u>	<u>(160)</u>
Closing balance	<u>74,847</u>	<u>71,343</u>
b) Tax lawsuits (Legal Obligation)		
Opening balance	-	-
Recognition	551	-
Reversal/utilization/write-off	<u>-</u>	<u>-</u>
Closing balance	<u>551</u>	<u>-</u>
c) Tax lawsuits (Other liabilities - other)		
Opening balance	23,824	15,560
Recognition	2,987	8,264
Reversal/utilization/write-off	<u>(684)</u>	<u>-</u>

Closing balance	<u>26,127</u>	<u>23,824</u>
d) Labor lawsuits (Other liabilities - other)		
Opening balance	150,741	176,657
Recognition	44,785	20,540
Reversal/utilization/write-off	<u>(33,663)</u>	<u>(46,456)</u>
Closing balance	<u>161,863</u>	<u>150,741</u>
e) Civil lawsuits (Other liabilities - other)		
Opening balance	95,338	77,859
Recognition	38,025	26,732
Reversal/utilization/write-off	<u>(40,393)</u>	<u>(9,253)</u>
Closing balance	<u>92,970</u>	<u>95,338</u>
f) Other lawsuits (Other liabilities - other)		
Opening balance	567	529
Recognition	12	57
Reversal/utilization/write-off	<u>(514)</u>	<u>(19)</u>
Closing balance	<u>65</u>	<u>567</u>
g) Vacation		
Opening balance	39,346	33,592
Recognition	67,870	46,984
Reversal/utilization/write-off	<u>(54,398)</u>	<u>(41,230)</u>
Closing balance	<u>52,818</u>	<u>39,346</u>
h) FNE		
Opening balance	956,261	817,003
Recognition	409,232	282,214
Reversal/utilization/write-off	<u>(187,736)</u>	<u>(142,956)</u>
Closing balance	<u>1,177,757</u>	<u>956,261</u>
i) FDNE		
Opening balance	37	-
Recognition	240	37
Reversal/utilization/write-off	<u>-</u>	<u>-</u>
Closing balance	<u>277</u>	<u>37</u>

f) The Bank has lawsuits handled by outside attorneys, most of which relates to loan collection actions, whose assessment of the contingent liabilities is performed by the Legal Area, pursuant to item “b”, mentioned above.

g) Tax lawsuits classified as Legal Obligation pursuant to the terms of BACEN Circular 3429 of 02/11/2010, whose amounts were presented in item “d”, subitems 1.1 and 1.2.1 discuss, respectively, IRPJ 1999 and ISSQN.

h) Below, a brief description of the lawsuits involving the most relevant contingent liabilities in which the BANK is a party, classified as possible risk of loss.

- Two tax lawsuits aiming at cancelling tax assessment notices referring to ISSQN levied on service provision income. Estimates of financial losses from possible risks, on base date 12/31/2010, sum, respectively, R\$ 131,730 and R\$ 85,032. As of 12/31/2009, they represented, respectively, R\$ 120,463 and R\$ 74,676, both with possible risk level.
- Civil lawsuit aiming to obtain an Indemnity for Pain and Suffering and Property Damages as, allegedly, the litigant was declared bankrupt. Possible estimated financial loss sums, on base date 12/31/2010, R\$ 69,849. As of 12/31/2009, estimated financial loss for this lawsuit was R\$ 100 with remote risk of loss.
- Civil lawsuit claiming for refund as a result of undue collection and withholding. Possible estimated financial loss sums, on base date 12/31/2010, R\$ 27,147. As of 12/31/2009, estimated financial loss for this lawsuit was R\$ 22,723 with possible risk of loss.
- Civil lawsuit claiming Indemnity for Pain and Suffering, Property Damage and Refund due to alleged noncompliance with responsibilities set forth in the Agreement. As of 12/31/2010, possible financial loss is estimated at R\$



- 18,921. As of 12/31/2009, financial loss on this lawsuit was estimated at R\$ 15,838 with possible risk of loss.
- Civil lawsuit claiming refund for alleged losses in a clothing project. As of 12/31/2010, possible financial loss is estimated at R\$ 17,612. As of 12/31/2009, financial loss on this lawsuit was estimated at R\$ 8,622 with possible risk of loss.
  - Civil lawsuit claiming Indemnity for Property Damage under the allegation that the amounts claimed were not financed. As of 12/31/2010, possible financial loss is estimated at R\$ 13,967. As of 12/31/2009, financial loss on this lawsuit was estimated at R\$ 20 with remote risk of loss.

## 22. 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	24,275.20	26,734.89
Minimum	887.65	23,520.81
Average	6,274.54	-

(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 03/30/2010.

As of 12/31/2010, the Bank had 5,993 employees (5,895 as of 12/31/2009), an decrease of 1.66% in the Bank's headcount in the period.

## 23. PROFIT SHARING

In the year, the Bank accrued R\$ 44,238 for profit sharing of the Bank's employees and officers, being R\$ 43,940 relating to employees profit sharing, equivalent to 21.28% of interest on own capital and 14.00% of net income for the year, as follows:

- 9%, pursuant to Resolution 10, of 05/30/1995, issued by the Coordination and Control Board of Public Entities (CCE), and Letter 549/2010/SE-MF, of 06/14/2010, issued by the Department of Coordination and Control of State-Owned Companies of the Executive Secretariat of the Ministry of Planning, Budget and Management.
- 2%, to be distributed to employees on a straight-line basis, with an individual cap of R\$ 2,400.00, under a collective bargaining agreement made in 2010 between CONTRAF and FENABAN;
- 3%, referring to the extra PLR installment, contingent upon the achievement of social project goals, in accordance with Letter BNB/GAPRE/1921, of 11/18/2010, forwarded to the Ministry of Finance.

## 24. EMPLOYEE BENEFITS

Pursuant to CVM Resolution 600, of 10/07/2009, which approved Technical Pronouncement CPC 33 - Employee Benefits, 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;
- Others 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, beginning December 2010, is in line with item 93 of the Appendix to CVM Resolution 600, that is, actuarial gains and losses are immediately recognized as revenue or expense. The policy previously adopted for the recognition of actuarial gains and losses was based on items 52 to 55 of the Appendix to CVM Resolution 371, i.e., the Bank recognized a portion of actuarial gains and losses in excess of the higher of: 10% of the defined benefit total actuarial obligation present value, and 10% of plan assets fair value. The effects of the first-time adoption of CVM Resolution 600, beginning as of 01/01/2009, have been fully recognized in the statements as of 12/31/2010, as detailed in item “h” of this Note.

c) General Description of Benefit Plan Characteristics

c.1) Benefit Plan

The Bank sponsors two benefit plans managed by the *Caixa de Previdência dos Funcionários do Banco do Nordeste do Brasil* (CAPEF), a private pension entity which provides the payment of social security supplementary benefits to participant employees and their beneficiaries.

The Defined Benefit (BD) plan, which is not open to new participants since 11/26/1999, and the Variable Contribution (CV I) plan, authorized to operate through Administrative Rule MPS/PREVIC/DETEC 189, of 03/25/2010, started operations on 05/09/2010, when it received the first contributions. These plans offer retirement benefits for length of contribution, age and disability to the plan participants and pension benefits to their dependents.

c.1.1) 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.

CV-I plan combines the characteristics of the defined contribution plan and the defined benefit plan, and is classified, pursuant to CVM Resolution 600, as a defined benefit plan. This 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.1.2) Past-due Obligations and Contributions Due

As of 12/31/2010, the Bank has no past due obligations or contribution debts referring to plans BD and CV I, neither informal practices that originate constructive obligations included in the measurement of the plans' defined benefit obligation.

c.1.3) Contribution Ratio (Participants/Sponsor)

The ratio of participant contributions to Bank contributions meets the parity set by Constitutional Amendment 20, of 12/15/1998, with a contribution ratio of 1:1 as of 12/31/2010 (1:1, as of 12/31/2009).

c.1.4) Actuarial Position

In December 2010, the BD plan reported an actuarial surplus of R\$ 6,311 (versus a surplus of R\$ 12,850 on 12/31/2009), as a result of the positive impact of the investments, in the amount of R\$ 375,455, and expenditures amounting to R\$ 381,994, referring to the increase in plan obligations, payment of benefits and administrative expenses, as well as changes in contingencies and social security fund. The main event was the change in the obligations of the benefit plan totaling R\$ 123,088 due to the review of the benefit plan funding that resulted in a reduction of the maximum contribution rate of the covered participants from 23% to 21.25%, beginning 01/01/2011.

The CV I plan's actuarial position as of 12/31/2010 is balanced, since all the existing actuarial liabilities, totaling R\$ 17,537, have defined contribution.

c.2) Health Care Plan

Banco do Nordeste is the sponsor of 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.

c.2.1) Past-due Obligations and Contributions Due

As of 12/31/2010, the Bank has no past due obligations or contribution debts referring to this plan, neither informal practices that originate constructive obligations included in the measurement of the plan's defined benefit obligation.

c.2.2) 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.

- d) Reconciliation of the opening and closing balances of the obligation's present value

The reconciliation of the opening and closing balances of the obligation's present value is shown below, according to actuarial valuations conducted by PROBUS Suporte Empresarial S/S Ltda., based on information provided by CAPEF, CAMED and the Bank, in compliance with the provisions of CVM Resolution 600:

Specification	BD Plan		CV I Plan		CAMED Natura Plan	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009
	1. Present value of actuarial obligations at beginning of year	2,738,730	2,240,718	-	-	469,032
2. Cost of current service	17,359	16,956	18,024	-	39,443	28,054
3. Interest cost	309,271	283,473	-	-	52,965	46,400
4. Cost of past service	-	-	-	-	-	-
5. Benefits Paid by the Plan (1)	(239,416)	(242,145)	-	-	(52,924)	(44,232)
6. Contributions from Members, Retirees, and Pensioners	52,425	54,815	-	-	10,201	7,570
7. Administrative expenses paid by the plan	(7,786)	(7,786)	(788)	-	(13,633)	(7,947)
8. Foreign exchange change and/or Business Combination	-	-	-	-	-	-
9. Reductions and/or Settlements	-	-	-	-	-	-
10. Actuarial Losses (Gains) on Actuarial Obligation (2)	238,465	392,699	(742)	-	(12,168)	72,418
11. Present value of the Actuarial obligation, at end of year	3,109,048	2,738,730	16,494	-	492,916	469,032

Notes: (1) Net of co-contributions made by members;  
(2) Break-even number.

- e) Analysis of actuarial obligation

Pursuant to CVM Resolution 600, of 12/31/2010, the present value of the actuarial obligation of the plans managed by CAPEF and CAMED, recorded as Liabilities in the Bank, is as follows:

- a) Private Pension Plan

- i. BD Plan: the actuarial obligation's present value, amounting to R\$ 3,109,048, is partially funded by plan assets in the amount of R\$ 2,618,418, resulting in a present value of uncovered actuarial obligations of R\$ 490,630;
- ii. CV I Plan: the actuarial obligation's present value, in the amount of R\$ 16,494, is fully funded by plan assets of the same amount, R\$ 16,494; therefore, there are no uncovered actuarial obligations for that plan;

- b) Healthcare plan the actuarial obligation's present value, in the amount of R\$ 492,916, is partially funded by plan assets amounting

to R\$ 58,171, resulting in uncovered actuarial obligations' present value of R\$ 434,745;

f) Reconciliation of the opening and closing of the fair value of plan assets:

Specification	CAPEF				CAMED	
	BD Plan		CV I Plan		Natural Plan	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009
1. Plan assets' fair value at beginning of year	2,255,509	1,967,903	-	-	11,789	23,617
2. Expected return on plan assets	296,148	313,290	-	-	1,535	2,489
3. Contributions received from active participants	3,477	3,437	9,049	-	20,158	10,773
4. Contributions received from the employer <sup>(1)</sup>	55,871	58,238	8,975	-	139,250	26,189
5. Benefits paid by the plan <sup>(2)</sup>	(239,416)	(242,144)	-	-	(52,924)	(44,232)
6. Contributions received from beneficiaries Pensioners	52,425	54,815	-	-	10,201	7,570
7. Administrative expenses paid by the plan	(7,786)	(7,786)	(788)	-	(13,633)	(7,947)
8. Foreign exchange changes and/or Business combination	-	-	-	-	-	-
9. Settlements	-	-	-	-	-	-
10. Actuarial gains (losses) on the Plan assets <sup>(3)</sup>	202,189	107,755	(742)	-	(58,205)	(6,670)
11. Plan assets' fair value at end of year	2,618,418	2,255,509	16,494	-	58,171	11,789

Note: (1) Contributions related to active participants, beneficiaries and co-contributions paid by the employer;  
(2) Net of co-contributions paid by the members;  
(3) Equilibrium Break-even number.

g) Reconciliation of the obligation's present value and plan assets' value to assets and liabilities recognized in the balance sheet.

Specification	CAPEF				CAMED	
	BD Plan		CV I Plan		Natural Plan	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009
1. Present value of actuarial obligation	3,109,048	2,738,730	16,494	-	492,916	469,032
2. Fair value of plan assets	(2,618,418)	(2,255,509)	(16,494)	-	(58,171)	(11,789)
3. Present value of the uncovered actuarial obligation (1) - (2)	490,630	483,221	-	-	434,745	457,243
4. Unrecognized actuarial gains (losses)	-	-	-	-	-	-
5. Unrecognized cost of past service	-	(26,495)	-	-	-	-
6. Amount not recognized as asset due to the Limit of Item 58(b)	-	-	-	-	-	-
7. Refund Right fair value recognized as asset	-	-	-	-	-	-
8. Other amounts recognized in the balance sheet	-	-	-	-	-	-
9. Liability recognized in the balance sheet	490,630	456,726	-	-	434,745	457,243

h) Transition liability and Adjustment for the first-time adoption of CVM Resolution 600, of 10/07/2009.

Considering the initial adoption, as of 01/01/2009, the CPC Pronouncement 33, approved by CVM Resolution 600, became necessary to determine the transitional liability concerning of 12/31/2008, both the DB Plan (CAPEF) and for the Natural Plan (CAMED). This transitional liability representing the value of actuarial liability based on the new accounting policy in line with the new determination of the CVM, as determined by its item 154, which is shown below:

<u>Specification</u>	12/31/2008	
	<u>CAPEF - BD</u>	<u>CAMED - Natural</u>
1. Present value of actuarial obligation	2,240,717	366,769
2. Fair value of plan assets	(1,967,903)	(23,617)
3. Present value of Uncovered Obligations (item 1 - item 2)	272,814	343,152
4. Unrecognized cost of past service	(52,991)	-
5. Unrecognized actuarial gains	-	-
6. Transition liability as of 12/31/2008 (item 3- item 4)	219,823	343,152

Also considering that actuarial obligations with both benefit plans were already recognized in the balance sheet, in compliance with the provisions of CVM Resolution 371, the recalculation of obligations required the adjustment of such liabilities, both in the amount already recognized in the balance sheet as of 12/31/2008, and the balance sheet as of 12/31/2009, as shown below:

<u>Specification</u>	<u>CAPEF - BD Plan</u>	<u>CAMED - Natural Plan</u>	<u>TOTAL</u>
1. Liability recognized as of 12/31/2008, determined in accordance with CVM Resolution 371	691,013	204,944	895,957
2. Transition Liability recognized as of 12/31/2008, determined in accordance with CVM Resolution 600	<u>219,823</u>	<u>343,152</u>	<u>562,975</u>
3. (Increase)/Decrease in liabilities as of 12/31/2008 - Adjustment referring to 2008 (item 1 - item 2)	<u>471,190</u>	<u>(138,208)</u>	<u>332,982</u>
4. Liability recognized as of 12/31/2009, determined in accordance with CVM Resolution 371	765,942	257,250	1,023,192
5. Liability recognized as of 12/31/2009, determined in accordance with CVM Resolution 600	<u>456,726</u>	<u>457,243</u>	<u>913,969</u>
6. (Increase)/Decrease in liabilities as of 12/31/2009 - Adjustment referring to 2009 (item 4 - item 5)	<u>309,216</u>	<u>(199,993)</u>	<u>109,223</u>
7. Adjustment to Years 2008 and 2009 (item 6 - item 3)	<u>(161,974)</u>	<u>(61,785)</u>	<u>(223,759)</u>

#### Regarding the adjustments for 2008:

- i. For CAPEF - BD Plan, the transition liability totaled R\$ 219,823, which when compared to the obligation already recognized through 12/31/2008, determined based on CVM Resolution 371, in the amount of R\$ 691,013, represents a reduction of R\$ 471,190 in the obligation for 2008. This variation, net of tax effects (note 18.d), was immediately recognized in the balance sheet as of 12/31/2010, in conformity with item 155 of CVM Resolution 600 and CPC Pronouncement 23, approved by CVM Resolution 592, of 09/15/2009, as a contra entry to Retained Earnings/Accumulated Losses, as it refers to a change in accounting policy.
- ii. For CAMED - Natural Plan, the transition liability totaled R\$ 343,152, which when compared to the obligation already recognized through 12/31/2008, determined based on CVM Resolution 371, in the amount of R\$ 204,944, represents an increase of R\$ 138,208 in the obligation for 2008.
- iii. This variation, net of tax effects (note 18.d), was immediately recognized in the balance sheet as of 12/31/2010, in conformity with item 155 of CVM Resolution 600 and CPC Pronouncement 23, approved by CVM Resolution 592, of 09/15/2009, as a contra entry to Retained Earnings/Accumulated Losses, as it refers to a change in accounting policy.

#### Regarding the adjustments for 2009:

- i. For CAPEF - BD Plan, the liability to be recognized as of 12/31/2009, totaled R\$ 456,726, which, when compared to the obligation already recognized through 12/31/2009, determined based on CVM Resolution 371, in the amount of R\$ 765,942, represents a reduction of R\$ 309,216 in the obligation for 2009. Considering that the reduction of the obligation for 2008 was R\$ 471,190, the change related to 2009 was an increase of R\$ 161,974 in the obligation. This variation, net of tax effects (note 18.d), was immediately recognized in the balance sheet as of 12/31/2010, in conformity with item 155 of CVM Resolution 600 and CPC Pronouncement 23, approved by CVM Resolution 592, of 09/15/2009, as a contra entry to Retained Earnings/Accumulated Losses, as it refers to a change in accounting policy.
- ii. For CAMED - Natural Plan, the liability to be recognized as of 12/31/2009 totaled R\$ 457,243, which when compared to the obligation already recognized through 12/31/ 2009, determined based on CVM Resolution 371, in the amount of R\$ 257,250, represents an increase of R\$ 199,993 in the obligation for 2009.
- iii. Considering that the increase in the obligation referring to 2008 was R\$ 138,208, the change related to 2009 was an increase of R\$ 61,785. This variation, net of tax effects (note 18.d), was immediately recognized in the balance sheet as of 12/31/2010, in conformity with item 155 of CVM Resolution 600 and CPC Pronouncement 23, approved by CVM Resolution 592, of 09/15/2009, as a contra entry to Retained Earnings/Accumulated Losses, as it refers to a change in accounting policy.

The Variable Contribution Plan (CVI) started operations on 05/19/2010 and, therefore, there is no transition liability.

i) Expense recognized in the statement of income:

Specification	CAPEF				CAMED	
	BD Plan		CV I Plan		Natural Plan	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009
1. Cost of current service	17,359	16,956	18,024	-	39,443	28,054
2. Employees Contributions <sup>(1)</sup>	(3,477)	(3,437)	(9,049)	-	(20,158)	(10,773)
3. Cost of interest	309,271	283,473	-	-	52,965	46,400
4. Expected return on plan assets	(296,148)	(313,290)	-	-	(1,535)	(2,489)
5. Recognized actuarial (gain) loss for the year	36,276	284,944	-	-	46,037	79,088
6. Recognized cost of past service for the year	26,495	26,495	-	-	-	-
7. Effect from Reductions/Settlements	-	-	-	-	-	-
8. Expense recognized in Income	89,776	295,141	8,975	-	116,752	140,280

Note: (1) Contributions received from active participants

j) Percentage of each plan assets' main category in relation to plan assets' total fair value

Specification	CAPEF			CAMED	
	BD Plan		CV I Plan	Natural Plan	
	12/31/2010	12/31/2009	12/31/2010	12/31/2010	12/31/2009
Fixed income	82.92%	84.59%	98.66%	22.67%	4.64%
Variable income	5.79%	5.48%	0.00%	45.91%	7.54%
Real Estate Investments	5.36%	5.33%	0.00%	2.19%	5.07%
Loans and Financing	0.00%	0.00%	0.00%	0.00%	10.47%
Other	5.93%	4.59%	1.34%	29.23%	72.28%

Amounts included in plan assets' fair values

Financial instruments of the Bank	1.28%	1.69%	0.00%	68.58%	4.64%
In properties/other assets used by the Bank	0.68%	0.75%	0.00%	0.00%	0.00%

k) Actual return of Plan assets

Specification	CAPEF				CAMED	
	BD Plan		CV I Plan		Natural Plan	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009
1. Expected return on plan assets	296,148	313,290	-	-	1,535	2,489
2. Actuarial Gain (loss) on plan assets	<u>202,189</u>	<u>107,755</u>	(742)	-	(58,205)	(6,670)
3. Effective return of Plan assets (item 1 + item 2)	<u>498,337</u>	<u>421,045</u>	(742)	=	(56,670)	(4,181)

l) Present value of the obligation, fair value of assets, and surplus (deficit) in current years and the last four years.

Specification	CAPEF					
	BD Plan			CV I Plan		
	CVM Resolution 600		CVM Resolution 371		Del. CVM 6000	
	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006	12/31/2010
1. Defined benefit obligation	(3,109,048)	(2,738,730)	(2,240,717)	(2,495,576)	(2,400,309)	(16,494)
2. Plan assets	2,618,418	2,255,509	1,967,903	1,878,756	1,663,253	16,494
3. Surplus (deficit)	(490,630)	(483,221)	(272,814)	(616,820)	(737,056)	-
4. Experience adjustments on plan liabilities						
a. Amount	(238,465)	(392,699)	-	31,504	13,516	742
b. Percentage	7.67%	14.34%	-	(1.26%)	(0.56%)	(4.50%)
5. Experience adjustments on plan assets						
a. Amount	202,189	107,755	-	123,545	20,867	(742)
b. Percentage	7.72%	4.78%	-	6.58%	1.26%	(4.50%)

Note: For 2006 and 2007, the reported amounts were calculated in accordance with CVM Resolution 371.

Specification	CAMED				
	Natural Plan				
	CVM Resolution 600		CVM Resolution 371		
	12/31/2010	12/31/2009	12/31/2008	12/31/2007	12/31/2006
1. Defined benefit obligation	(492,916)	(469,032)	(366,769)	(351,221)	(322,212)
2. Plan assets	58,171	11,789	23,617	16,677	12,968
3. Surplus (deficit)	(434,745)	(457,243)	(343,152)	(334,544)	(309,244)
4. Experience adjustments on plan liabilities					
a. Amount	12,168	(72,418)	-	(1,220)	(10,159)
b. Percentage	(2.47%)	15.44%	-	0.35%	3.15%
5. Experience adjustments on plan assets					
a. Amount	(58,205)	(6,670)	-	(3,239)	(1,500)
b. Percentage	(100.06%)	(56.58%)	-	(19.42%)	11.57%

Note: For 2006 and 2007, the reported amounts were calculated in accordance with CVM Resolution 371.

m) Estimated contributions

m.1) Opening Data

Specification	CAPEF		CAMED
	BD Plan	CV I Plan	Natural Plan
	2011	2011	2011



1. Nominal discount rate at beginning of year	10.67%	10.14%	10.67%
2. Nominal rate of expected return on plan assets at beginning of year	14.33%	14.16%	9.81%
3. Projected interest payroll <sup>(1)</sup>	50,353	214,867	-
3. Cost of current service	19,794	37,507	38,242
4. Expected active participants contributions <sup>(1)</sup>	3,377	19,048	19,672
5. Fair value of plan assets at beginning of year	2,618,418	16,494	58,171
6. Present value of actuarial obligation at beginning of year	3,109,048	16,494	492,916

Note: Amounts extracted from the actuarial cash flow.

## m.2) Estimated Expected Cost

<u>Specification</u>	<u>CAPEF</u>		<u>CAMED</u>
	<u>BD Plan</u>	<u>CV I Plan</u>	<u>Natural Plan</u>
	<u>2011</u>	<u>2011</u>	<u>2011</u>
1. Cost of current service	19,794	37,507	38,242
2. Employee Contributions <sup>(1)</sup>	(3,377)	(19,048)	(19,672)
3. Cost of interest	331,595	1,673	52,572
4. Expected return on plan assets	(375,219)	(2,335)	(5,707)
5. Expected return on Refund Right Recognized as Asset (item 104 A of the Appendix to CVM Resolution 600)	-	-	-
6. Recognized actuarial (gain) loss for the year	36,276	-	46,037
7. Recognized cost of past service for the year	-	-	-
8. Effect from Reduction/Settlements	-	-	-
9. Effect of the limitation of item 58 (b) of the Appendix to CVM Resolution 600	-	-	-
10. Estimated Expenses to be recognized in income/losses for the year	9,069	17,797	111,472

Note: Employee contributions relate to active participants expected for the year.

## n) Assumptions used

### n.1) Biometric Assumptions:

<u>Specification</u>	<u>BD Plans (CAPEF) and Natural Plan (CAMED)</u>	<u>CV I Plan (CAPEF)</u>
	General mortality table for active employees	AT2000 Man
Disability mortality table	IAPC experience – Weak <sup>(1)</sup>	IAPC experience - Weak <sup>(1)</sup>
Disability table	CAPEF experience – Weak <sup>(2)</sup>	-
Turnover table	None	-

Notes: (1) The disability mortality table used results from the application of factor 0.5 on mortality rates of the original IAPC table;

(2) The disability table used results from the application of factor 0.5 on disability rates of the original CAPEF experience table.

### n.2) Economic Assumptions:

<u>Specification</u>	<u>CAPEF</u>		<u>CAMED</u>
	<u>BD Plan</u>	<u>CV I Plan</u>	<u>Natural Plan</u>
Effective discount rate for actuarial obligation:	5.9% p.a.	5.4% p.a.	5.9% p.a.
Future inflation rate	4.5% p.a.	4.5% p.a.	4.5% p.a.
Expected nominal return rate on plan assets:	14.33% p.a.	14.16% p.a.	9.81% p.a.
Estimated effective salary increase rate	1.0% p.a.	1.0% p.a.	1.0% p.a.
Effective growth rate of the plan benefits	0.0% p.a.	0.0% p.a.	0.0% p.a.
Effective growth rate of INSS benefits	0.0% p.a.	0.0% p.a.	0.0% p.a.

Effective growth rate of social security expenses - - 3.3% p.a.

- n.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.
- n.4) The actuarial evaluation method used is the Projected Unit Credit Method to determine the present value of the obligation, cost of current service and, when necessary, for the calculation of past service cost.
- o) Effect of the one percentage point increase and the one percentage point decrease in the assumed medical cost trend rates.

Effect of one percentage point change in the evolution rate of medical costs	<u>One percentage point increase</u>	<u>One percentage point decrease</u>
Effect on aggregate service and interest costs	10,331	(8,427)
Effect on defined benefit obligation	70,356	(58,409)

p) Additional comments

- p.1) Current expenses - obligations for the year, derived from the increase in the length of service provided by employees;
- p.2) Net actuarial (gains)/losses - obligations for the year, derived from changes in actuarial assumptions adopted or discrepancy 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;
- p.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 96 to 101 of the Appendix to CVM Resolution 600; and
- p.4) There are no contingent liabilities related to post-employment benefit obligations in Banco do Nordeste.

25. NORTHEAST CONSTITUTIONAL FINANCING FUND (FNE)

- a) The net assets of FNE, totaling R\$ 33,326,631 (R\$ 29,454,928 as of 12/31/2009) are recorded in the Bank's memorandum accounts (Net assets of managed public funds).
- b) The Fund's cash and cash equivalents, totaling R\$ 3,653,134 (R\$ 3,550,828 as of 12/31/2009), 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\$ 315,708 (R\$ 370,855 as of 12/31/2009).
- 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 11/30/ 1998;
- c.2) For operations contracted beginning 12/01/1998, excluding Land Program financing lines granted under the PRONAF (groups A, B, A/C, Forest, Semiarid, Emergency, Flood and Drought), is 50 percent of the amount calculated pursuant to CMN Resolution 2682, of 12/21/1999; and
- c.3) The Bank assumes all the risks on credit renegotiated and reclassified FNE loan transactions, as set forth by Law 11775, of 09/17/2008, and transactions recognized in the Fund's 'Interbank accounts', as prescribed by Ministry of Integration Administrative Rule 616, of 05/26/2003.

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 12/31/2010</u>	<u>Allowance as of 12/31/2009</u>
AA	3,230,893	-	-
A	10,020,011	25,186	21,158
B	7,138,394	35,642	27,616
C	616,726	9,232	7,253
D	347,755	17,470	50,008
E	202,921	31,192	28,037
F	290,417	72,859	55,317
G	159,474	56,646	65,485
H	<u>1,810,238</u>	<u>929,530</u>	<u>701,388</u>
TOTAL	<u>23,816,829</u>	<u>1,177,757</u>	<u>956,261</u>

- d) The Bank's "del credere" on transactions entered agreement by 11/30/1998 is zero. The Bank's "del credere" on transactions entered as agreement after this date is 3% p.a., when the risk is 50%, and 6% p.a. when the Bank is a direct party to the transaction backed by onlendings based on Art 9- A of Law 7827, of 09/27/1989. In operations reclassified for FNE based on Law 11775, of 09/17/2008, "del credere" is 3% p.a. or 6% p.a., as regulated by Interministerial Rule 245, of 10/14/2008, of the Ministry of Finance and Ministry of National Integration. Income from "del credere" totaled R\$ 690,226 (R\$ 554,509 as of 12/31/2009).
- e) The management fee of 3% p.a. is calculated on the Fund's net equity, less the amounts linked to the onlending agreement entered into with the Bank, balances of onlendings to other institutions with the risk fully assumed by the Bank, and the balances of PRONAF investments (Groups B, A/C, Forest, Semiarid, Emergency, Flood and Drought), and is limited to 20% of the transfers made by the National Treasury each fiscal year. The management fee totaled R\$ 816,783 (R\$ 757,613 as of 12/31/2009).

## 26. WORKERS' ASSISTANCE FUND (FAT)

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

<u>Specification</u>	<u>TADE</u>	<u>AMOUNT</u>
Special Program to Fight Drought Effects	TADE 16/2006	3,671
PROGER-URBANO Investment	TADE 17/2006	14,305
FAT - Infrastructure	TADE 18/2006	51,452
PRONAF Investment	TADE 19/2006	2,301
PROGER-RURAL - Cost	TADE 20/2006	1,703
PRONAF - Cost	TADE 01/2007	4,889
PROGER-RURAL - Investment	TADE 02/2007	24,367
PROTRABALHO Investment	TADE 04/2007	<u>151,082</u>
TOTAL		<u>253,770</u>

Funds derived from the Fund for Workers' Assistance (FAT), recorded under 'Interest-bearing special deposits', totaling R\$ 686,792 (R\$ 395,254 as of 12/31/2009) 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\$ 370,420 (R\$ 48,479 as of 12/31/2009).

Pursuant to CODEFAT (Board of the Worker's Assistance Fund) Resolution 439, of 06/02/2005, these funds began to be reimbursed to FAT on a monthly basis, with a minimum amount equivalent to 2% calculated on the total balance of each TADE (FAT Special Deposit Allocation Statement), plus cash that meets the following conditions, considering the period they remain in the Bank's cash:

- After 2 months, with respect to the reimbursements of the final borrowers, not reused in new financing.

<u>Specification</u>	<u>TADE Resolution</u>	<u>Return of FAT resources</u>			<u>12/31/2010</u>		<u>TOTAL</u>
		<u>Form (1)</u>	<u>R.A.</u>	<u>SELIC rate</u>	<u>Available TMS (2)</u>	<u>TJLP (3) used</u>	
Special Program to Fight Drought Effects	16/2006	RA	3,169	17	155	11,776	11,931
PROGER - URBANO Investment	17/2006	RA	20,950	460	18,200	60,448	78,648
FAT - Infrastructure	18/2006	RA	8,389	627	328,476	50,731	379,207
PRONAF Investment	19/2006	RA	296	9	200	782	982
PROGER - RURAL Cost	20/2006	RA	496	7	-	-	-
PRONAF Cost	01/2007	RA	92	3	73	182	255
PROGER RURAL Investment	02/2007	RA	3,186	31	-	-	-
PROTRABALHO Investment	04/2007	RA	52,103	985	3,535	192,453	195,988
PNMPO- Programa Nacional de Microcrédito Produtivo Orientado	01/2010	RA	<u>402</u>	<u>121</u>	<u>19,781</u>	<u>-</u>	<u>19,781</u>
TOTAL			<u>89,083</u>	<u>2,260</u>	<u>370,420</u>	<u>316,372</u>	<u>686,792</u>

<u>Specification</u>	<u>TADE Resolution</u>	<u>Return of FAT resources</u>			<u>12/31/2009</u>		<u>TOTAL</u>
		<u>Form (1)</u>	<u>R.A.</u>	<u>SELIC rate</u>	<u>Available TMS (2)</u>	<u>TJLP (3) used</u>	
Special Program to Fight Drought Effects	16/2006	RA	3,812	32	572	13,780	14,352

PROGER - URBANO Investment	17/2006	RA	14,233	73	19,129	56,857	75,986
FAT - Infrastructure	18/2006	RA	5,529	601	6,973	56,413	63,386
PRONAF Investment	19/2006	RA	376	8	138	1,081	1,219
PROGER - RURAL Cost	20/2006	RA	1,411	60	488	11	499
PRONAF Cost	01/2007	RA	152	4	44	289	333
PROGER RURAL Investment	02/2007	RA	7,132	264	3,162	47	3,209
PROTRABALHO Investment	04/2007	RA	<u>62,745</u>	<u>481</u>	<u>17,973</u>	<u>218,297</u>	<u>236,270</u>
TOTAL			<u>95,390</u>	<u>1,523</u>	<u>48,479</u>	<u>346,775</u>	<u>395,254</u>

Notes:

- (1) RA - Automatic Return (Monthly, 2% on balance) and AV - Available Balance less deposits made in the last 3 months and reimbursements in the last 2 months.
- (2) Funds yielding SELIC rate.
- (3) Funds yielding Long-term Interest Rate (TJLP).
- (4) Regarding FAT - Infrastructure, RA is 1% on the balance and deductible reimbursements refer to the last 4 months.

## 27. 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 risk evaluation models, 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 12/21/1999. 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 expenses.

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 Entity.

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.

Liquidity is monitored on a daily basis, according to the limits defined for cash and cash equivalents, indicating the margin for trading and enforcement of the Treasury Policy.

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 3354 of 06/27/2007 and 3365 of 09/12/2007, 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 3068 of 11/08/2001.

**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, Banco do Nordeste uses the parametric VaR, which measures the maximum expected loss of a portfolio within a period of time, considering a confidence level of 99%, and using information from 60 useful days.

The Value at Risk (VaR) of fixed rate transactions of the BNB Trading Portfolio, as of 12/31/2010, was R\$ 381, compared to the portfolio's net balance (assets less liabilities) of R\$ 2,900.

As of 12/31/2010, the VaR ratio was just 0.013% 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.

Information related to risk management, focusing on issues such as Regulatory Capital (PR) and the Required Regulatory Capital (PRE), as provided for in BACEN Circular 3477, of 12/28/2009, is available on [www.bnb.gov.br](http://www.bnb.gov.br) under *Relação com Investidores*.

b) Sensitivity analysis

As permitted by Article 3, Paragraph 1, item V of CVM Instruction 475, of 12/17/ 2008, Trading Portfolio balances were not considered in the sensitivity analysis due to its immaterial risk.

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 12/17/2008, 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
Hedge	Increase in interest rate	Pre-SWAP x DI	(668,014)	(646,388)	(626,433)
		Fixed rate assets	<u>679,186</u>	<u>624,436</u>	<u>575,965</u>
		Net exposure	<u>11,172</u>	<u>(21,952)</u>	<u>(50,468)</u>
Hedge	Increase in foreign currency quotation (FM)	DI SWAP x Dollar	488,242	461,809	437,078
		Liabilities in FM	<u>(486,705)</u>	<u>(466,492)</u>	<u>(447,981)</u>
		Net exposure	<u>1,537</u>	<u>(4,683)</u>	<u>(10,903)</u>

As of 12/31/2010, the risks likely to cause losses were as follows: increase in the opportunity cost for fixed income transactions and increase in dollar quotation for foreign-currency transactions.

#### Pre-SWAP x DI

The method used to prepare the sensitivity analysis of pre-swap x DI transactions was to survey the balances of fixed rate asset transactions and hedge (swap) 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 (BM&FBovespa). Under this scenario, 100% of the DI swap rate x fixed rate (position as of 12/31/2010) was applied.

Scenario 2 - Under this scenario, 125% of the DI swap rate x fixed rate (position as of 12/31/2010) was applied.

Scenario 3 - Under this scenario, 150% of the DI swap rate x fixed rate (position as of December 31, 2010) was applied.

#### DI SWAP x Dollar

The method used to prepare the sensitivity analysis of DI swap x dollar transactions was to survey the balances of liability transactions indexed to the dollar and hedge (swap) 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 (BM&FBovespa). Under this scenario, 100% of the DI swap rate x dollar (position as of 12/31/2010) is applied.

Scenario 2 - Under this scenario, 125% of the DI swap rate x dollar (position as of 12/31/2010) was applied.

Scenario 3 - Under this scenario, 150% of the DI swap rate x dollar (position as of 12/31/2010) was applied.

c) Exposure to currency risk

As of 12/31/2010, the net balance of sold foreign exchange exposure arising on transactions containing a clause for foreign currency adjustment totaled R\$ 32,712 (R\$ 29,580 as of 12/31/2009 - short position), as shown below:

	<u>12/31/2010</u>	<u>12/31/2009</u>
<u>Assets</u>		
Cash and cash equivalents	1,468	2,698
Interbank investments	13,474	22,434
Lending operations	642,663	644,538
Other receivables	<u>555,369</u>	<u>710,257</u>
Unhedged assets (swaps)	1,212,974	1,379,927
Hedged assets (swaps)	<u>488,587</u>	-
Total	<u>1,701,561</u>	<u>1,379,927</u>
	<u>12/31/2010</u>	<u>12/31/2009</u>
<u>Liabilities</u>		
Deposits	31,486	39,503
Interdepartmental accounts	30,330	13,115
Domestic borrowings and onlendings	-	1
Foreign borrowings and onlendings	1,214,652	722,393
Other payables	<u>457,805</u>	<u>634,495</u>
Unhedged liabilities (swaps)	1,734,273	1,409,507
Hedged liabilities (swaps)	-	-
Total	<u>1,734,273</u>	<u>1,409,507</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 and the Bank's Corporate Policy for Risk Management.



Exchange rate mismatches, marked to market, are calculated on a daily basis and their values are shown below. This mismatch is measured in accordance with BACEN Circular 3389, of 06/25/2008, and is less than 5% of Regulatory Capital as of 12/31/2010, which is the limit established by the Bank's Management Risk Corporate Policy.

<u>Specification</u>	<u>12/31/2010</u>		<u>12/31/2009</u>	
	<u>ASSETS</u>	<u>LIABILITIES</u>	<u>ASSETS</u>	<u>LIABILITIES</u>
<u>CURRENCY</u>				
Dollar	1,262,122	1,309,416	1,640,672	1,685,182
Euro	79,607	77,107	15,843	13,008
Yen	17	-	16	-
Swiss franc	<u>60</u>	<u>31</u>	<u>-</u>	<u>-</u>
TOTAL	<u>1,341,806</u>	<u>1,386,554</u>	<u>1,656,553</u>	<u>1,698,190</u>

d) Operational Limits - Basel Accord

The guidelines in effect (CMN Resolutions 3444 and 3490, of 02/28/2007 and 08/29/2007, 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 12/31/2010.

As of 12/31/2010 the Bank's asset-to-equity ratio (Basel ratio) was 13.22% (12.99% as of 12/31/2009), whereas the regulatory capital was R\$ 3,248,273 (R\$ 2,692,406 as of 12/31/2009). Required Regulatory Capital, which refers to the consolidation of all exposures to risk, with a capital allocation ratio of 11%, was R\$ 2,627,409 as of 12/31/2010 (R\$ 2,280,220 as of 12/31/2009).

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 Tier II Capital, with a positive impact on the Bank's Basel Ratio.

The table below shows the Basel ratio calculation:

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
a) Regulatory Capital (RC)	3,248,273	2,692,406
Tier I	2,146,806	1,973,582
Tier II	1,101,467	718,824
b) Required Regulatory Capital (RRC)	2,627,409	2,280,220
. PEPR (1)	2,248,812	2,025,320
. PJUR	381	442
. PCOM	16,652	18,416
. POPR	361,564	236,042
c) RBAN amount	74,721	33,163
Margin (a-b-c)	546,143	379,023
Basel Ratio (BACEN Circular 3477, of 12/24/2009)	13.60%	12.99%
Basel Ratio (including RBAN amount)	13.22%	12.80%

(1) 11% of Risk-weighted Exposures risk, pursuant to Articles 11-16 of BACEN Circular 3360, of

9/12/2007.

On December 22, 2010, pursuant to the terms of Law 12249, of 06/11/2010, as amended by Provisional Act 513, of 11/26/2010, Banco do Nordeste and the Federal Government entered into a Loan Contract, classified as Hybrid Debt/Equity Instruments (HDEI), in the amount of R\$ 1,000,000, already paid in. This contract has no maturity date and, after the approval of the Central Bank of Brazil, which has already been requested, will allow BNB to increase its total Regulatory Capital (RC). If we consider the position as of 12/31/2010, RC would be R\$ 4,252,439 and the Basel index would be 17.80%.

## 28. 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:

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Assets		
Lending operations - Refinancing with Federal Government (note 8.a.1)	<u>533,239</u>	<u>517,064</u>
Total	<u>533,239</u>	<u>517,064</u>
<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Liabilities		
Time deposit - FAT (note 12.a.4 and note 26)	<u>686,792</u>	<u>395,254</u>
Domestic onlendings - Official Institutions (note 13.c)	<u>1,686,776</u>	<u>1,433,524</u>
National Treasury	1,086	1,164
BNDES	933,260	743,796
FINAME	52,859	29,330
Other institutions	699,571	659,234
Other liabilities	<u>5,762,276</u>	<u>4,175,390</u>
Northeast Constitutional Financing Fund -FNE (note 15.e)	3,656,262	3,553,326
Hybrid debt/equity instruments	1,004,166	-
Subordinated debt eligible for capital (note 15.f)	<u>1,101,848</u>	<u>622,064</u>
Total	<u>8,135,844</u>	<u>6,004,168</u>

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

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Liabilities		
Other liabilities - (notes 15.h and 24.g)	<u>925,375</u>	<u>1,023,192</u>
CAPEF	490,630	765,942
CAMED	<u>434,745</u>	<u>257,250</u>
Total	<u>925,375</u>	<u>1,023,192</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>12/31/2010</u>	<u>12/31/2009</u>
Short-term benefits	<u>3,001</u>	<u>2,928</u>
Fixed compensation (Fees)	2,702	2,566
Variable compensation (Profit Sharing)	<u>299</u>	<u>362</u>
TOTAL	<u>3,001</u>	<u>2,928</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.

29. OTHER INFORMATION

a) Guarantees provided

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

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Import financing	110,589	157,733
Guarantee beneficiaries:		
- Individuals or non-financial legal entities	92,919	69,618
- FNE	12,093,509	10,371,382
- Other entities	40,745	6,758
Receivables assignment co-obligations	29,549	36,651

b) Insurance

The Bank's chattels and properties and third parties' properties are covered by an adequate insurance in the amount of R\$ 392,459 (R\$ 383,570 as of 12/31/2009), as follows:

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Chattels	123,783	125,063
Properties	264,656	257,350
Third parties' properties	2,863	-
Civil liability (aircraft)	<u>1,157</u>	<u>1,157</u>
TOTAL	<u>392,459</u>	<u>383,570</u>

c) Law 11945, of 06/04/2009

The Bill of Conversion Law 4 of 2009 (resulting from Provisory Act 451 of 2008) was converted into Law 11945 of 06/04/2009, published in the Federal Official Gazette of 06/05/2009. Article 28 thereof amends Article 15 of Law 7827, of 09/27/1989, 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 contracted 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 06/04/2009, were regulated by Resolution 30 of the Board of the Agency for the Development of the Northeast Region (SUDENE), issued on 04/29/2010.

On 10/22/2010, Banco do Nordeste established in its operating manual the procedures to classify settlements through the network of Assets Restructuring Management and Branches.

d) Convergence with International Accounting Standards

CMN Resolution 3786, of 09/24/2009, and BACEN Circulares 3472, of 10/23/2009, and 3516, of 12/23/2010, established that financial institutions and other institutions authorized to operate by BACEN as a publicly-owned company or company obliged to form an Audit Committee, should, beginning as of 12/31/2010, prepare and disclose its consolidated financial statements on an annual basis, prepared in accordance with international financial reporting standards (IFRS), and the international standards issued by IASB - International Accounting Standards Board.

Accordingly, in addition to disclosing its individual financial statements in accordance with the accounting practices adopted in Brazil applicable to the institutions authorized to operate by the Central Bank of Brazil (BACEN), the Bank will disclose on its website financial statements, beginning 12/31/2010, comparable to the immediately prior year, in conformity with the international financial reporting standards (IFRS), in an effort to provide shareholders with further enhanced disclosures, ultimately contributing to achieve the Bank's objectives, including raising capital abroad. The financial statements for 2010 and 2009 under IFRS will be disclosed through 04/29/2011.

Considering that the process of convergence with IFRS has not yet been completed, the effects on the Bank's net income and shareholders' equity have not been quantified. However, adjustments may be expected mainly in relation to the following matters:

d.1) Impairment of Loans and Receivables;

d.2) Deferral of Banking Fees, Commissions and Other Financial Costs Under the Effective Interest Rate Method;

d.3) Statement of comprehensive income; and

d.4) Deferred income tax and social contribution on IFRS adjustments, when applicable.

e) Approval of the Financial Statements

The financial statements were approved by the Board of Directors at a meeting held on 02/04/2011.

Fortaleza, February 4, 2011

The Executive Board

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## INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

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

We have audited the financial statements of Banco do Nordeste do Brasil S.A. (the "Bank"), which comprise the accompanying balance sheet as of December 31, 2010 and the related statements of income, changes in shareholders' equity, and cash flows for the year then ended and six-month period ended December 31, 2010, as well as a summary of significant accounting practices and other explanatory notes.

### **Management's responsibility for the financial statements**

The Bank's management is responsible for the preparation and fair presentation of these financial statements in accordance with Brazilian accounting practices applicable to entities authorized to operate by the Central Bank of Brazil (BACEN) as well as the internal controls deemed necessary for preparing financial statements that are free from material misstatement, whether due to fraud or error.

### **Independent auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit, which was conducted in accordance with Brazilian and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing selected procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the Bank's financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Banco do Nordeste do Brasil S.A. as of December 31, 2010, its

financial performance and its cash flows for the year then ended and six-month period ended December 31, 2010, in conformity with Brazilian accounting practices applicable to entities authorized to operate by the Central Bank of Brazil (BACEN).

**Other matters**

**Statement of value added**

We have also audited the statement of value added (“DVA”) for the year ended December 31, 2010, whose presentation is required for publicly-held companies by the Brazilian corporate law. Such information has been subjected to the auditing procedures above mentioned and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Fortaleza, February 4, 2011

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Claudio Lino Lippi  
Engagement Partner

## **SUPERVISORY BOARD'S REPORT**

In the discharge of its legal and corporate statutory duties and after having examined the Management Report, the Balance Sheet, and the Statements of Income, Changes in Shareholders' Equity, Cash Flows, and Valued Added of Banco do Nordeste do Brasil S.A. for the year ended December 31, 2010, and based on the opinion of the Independent Auditor - Deloitte Touche Tohmatsu - dated February 4, 2011, 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 2010.

Fortaleza (CE), February 4, 2011

**SUPERVISORY BOARD**



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

### **Second 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 second 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 23 meetings, 12 of which ordinary and 11 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 6 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 function. At the end of the six-month period, it also reviewed, together with representatives of the accounting function, the independent auditor and Supervisory Board, the financial statements for the six-month period ended December 31, 2010, taken as a whole. Together with the members of the Supervisory Board and the independent auditor, it attended the Board of Directors' meeting which approved said financial statements.

The main achievements in the six-month period include:

- Ø 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;
- Ø Follow-up of the convergence with international financial reporting standards (IFRS), so that the Bank may present as of and for the year ended 2010 its consolidated financial statements in conformity with such international accounting standards;
- Ø Follow-up of 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, taking into consideration the need to conform to the size and complexity of the Bank's operations.

During the period under review, its activities were guided by 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 December 31, 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.

Fortaleza (CE), February 4, 2011

**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: 12.31.2010

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

BALANCE SHEETS AS OF DECEMBER 31, 2010 AND 2009  
(In thousands of Brazilian reais - R\$)

ASSETS	12/31/2010	12/31/2009	LIABILITIES AND NET EQUITY	12/31/2010	12/31/2009
CURRENT ASSETS	10,602,604	10,183,617	NET EQUITY (note 4.c)	33,326,631	29,454,928
CASH AND CASH EQUIVALENTS (note 4.b.1)	1,896,520	274,304	TRANSFERS FROM FEDERAL GOVERNMENT:		
FUNDS COMMITTED FOR LOANS	1,756,614	3,276,524	In the year	4,083,917	3,789,036
INTERBANK ACCOUNTS	75,410	690,633	In prior years	28,854,696	25,065,660
Rural Loan - Proagro Receivable	1,970	4,135	INCOME FROM PRIOR YEARS	570,513	751,901
Interbank Onlendings - Banco do Nordeste - Law 7827 - Article 9 - A (note 13)	-	622,063	LOSS FOR THE YEAR	(182,495)	(151,669)
Funds Available	-	593,095			
Funds Invested	-	28,968			
Interbank onlendings - Other Institutions	73,440	64,435			
LENDING OPERATIONS (note 4.b.2 and note 8)	6,870,930	5,939,413			
Financing	1,819,214	1,691,499			
Export Financing	316,057	523,451			
Infrastructure and Development Financing	441,491	275,429			
Agribusiness Financing	202,575	181,352			
Rural Financing	4,488,993	3,680,773			
(Allowance for loan losses)	(397,400)	(413,091)			
OTHER RECEIVABLES (note 4.b.5)	3,129	2,498			
Assets received as payment	3,129	2,498			
OTHER ASSETS (note 4.b.6)	1	245			
Proagro-backed securities	1	-			
Agricultural debt securities (TDA)	-	348			
(Allowance for devaluation)	-	(103)			
LONG-TERM ASSETS	22,724,027	19,271,311			
INTERBANK ACCOUNTS	1,256,033	160,441			
Rural Loan - Proagro Receivable	2,659	980			
Interbank Onlendings - Banco do Nordeste - Law 7827 - Article 9 - A (note 13)	1,101,847	-			
Interbank Onlendings - Other Institutions	151,527	159,461			
LENDING OPERATIONS (note 4.b.2 and note 8)	21,466,471	19,109,451			
Financing	7,601,304	6,185,898			
Export Financing	7,390	838			
Infrastructure and Development Financing	3,950,762	3,300,078			
Agribusiness Financing	815,277	773,779			
Rural Financing	9,912,929	9,736,116			
(Allowance for loan losses)	(821,191)	(887,258)			
OTHER ASSETS (note 4.b.6)	1,523	1,419			
Agricultural debt securities (TDA)	2,206	2,180			
(Allowance for devaluation)	(683)	(761)			
<b>TOTAL ASSETS</b>	<b>33,326,631</b>	<b>29,454,928</b>	<b>TOTAL LIABILITIES AND NET EQUITY</b>	<b>33,326,631</b>	<b>29,454,928</b>

STATEMENTS OF INCOME  
 FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 AND FOR THE 2ND HALF OF 2010  
 (In thousands of Brazilian reais - R\$)

	<u>2nd half of 2010</u>	<u>12.31.2010</u>	<u>12.31.2009</u>
<b>INCOME</b>			
From lending operations (note 8.g)	365,855	891,792	1,014,376
From cash and cash equivalents (note 4.b.1)	172,967	315,708	370,855
<b>EXPENSES (note 4.a.8)</b>			
Management fee	(410,042)	(816,783)	(757,613)
PRONAF-Payment of financial charges to BNB/Performance Bonus	(37,013)	(71,164)	(57,756)
Operating provisions	(241,313)	(501,977)	(721,441)
Audit expenses	(31)	(71)	(90)
<b>LOSS FOR THE PERIOD</b>	<u><u>(149,577)</u></u>	<u><u>(182,495)</u></u>	<u><u>(151,669)</u></u>

STATEMENTS OF CHANGES IN NET EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 AND FOR THE 2ND HALF OF 2010  
(In thousands of Brazilian reais - R\$)

<u>EVENTS</u>	<u>TRANSFERS FROM FEDERAL GOVERNMENT</u>	<u>RETAINED EARNINGS</u>	<u>TOTAL</u>
BALANCES AS OF DECEMBER 31, 2008	25,065,660	755,310	25,820,970
Transfers from Federal Government in the year	3,789,036	-	3,789,036
Prior year adjustments (note 10)	-	(3,409)	(3,409)
Loss for the year	-	(151,669)	(151,669)
BALANCES AS OF DECEMBER 31, 2009	<u>28,854,696</u>	<u>600,232</u>	<u>29,454,928</u>
CHANGES FOR THE YEAR	<u>3,789,036</u>	<u>(155,078)</u>	<u>3,633,958</u>
BALANCES AS OF DECEMBER 31, 2009	28,854,696	600,232	29,454,928
Transfers from Federal Government in the year	4,083,917	-	4,083,917
Prior year adjustments (note 10)	-	(29,719)	(29,719)
Loss for the year	-	(182,495)	(182,495)
BALANCES AS OF DECEMBER 31, 2010	<u>32,938,613</u>	<u>388,018</u>	<u>33,326,631</u>
CHANGES FOR THE YEAR	<u>4,083,917</u>	<u>(212,214)</u>	<u>3,871,703</u>
BALANCES AS OF JUNE 30, 2010	30,888,402	541,523	31,429,925
Transfers from Federal Government in the semester	2,050,211	-	2,050,211
Prior year adjustments (note 10)	-	(3,928)	(3,928)
Loss for the period	-	(149,577)	(149,577)
BALANCES AS OF DECEMBER 31, 2010	<u>32,938,613</u>	<u>388,018</u>	<u>33,326,631</u>
CHANGES FOR THE SEMESTER	<u>2,050,211</u>	<u>(153,505)</u>	<u>1,896,706</u>

STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009 AND FOR THE 2ND HALF OF 2010  
(In thousands of Brazilian reais - R\$)

	<u>2nd half of 2010</u>	<u>12.31.2010</u>	<u>12.31.2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss for the period	<u>(149,577)</u>	<u>(182,495)</u>	<u>(151,669)</u>
Items not affecting cash and cash equivalents			
- Allowance for loan losses and devaluation	241,313	501,977	721,441
Adjusted loss for the period	<u>91,736</u>	<u>319,482</u>	<u>569,772</u>
Interbank Accounts	(56,115)	(480,370)	(634,698)
Lending Operations	(1,769,543)	(3,790,695)	(4,756,840)
Other Receivables	(547)	(630)	(227)
Other Assets	51	321	(191)
Prior Year Adjustments	(3,928)	(29,719)	(3,409)
<b>CASH GENERATED BY (USED IN) OPERATING ACTIVITIES</b>	<u>(1,738,346)</u>	<u>(3,981,611)</u>	<u>(4,825,593)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Transfers from Federal Government	<u>2,050,211</u>	<u>4,083,917</u>	<u>3,789,036</u>
<b>CASH GENERATED BY (USED IN) FINANCING ACTIVITIES</b>	<u>2,050,211</u>	<u>4,083,917</u>	<u>3,789,036</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>311,865</u>	<u>102,306</u>	<u>(1,036,557)</u>
<b>REPRESENTED BY CASH AND CASH EQUIVALENTS:</b>			
At beginning of year/six-month period	3,341,269	3,550,828	4,587,385
At end of year/six-month period	<u>3,653,134</u>	<u>3,653,134</u>	<u>3,550,828</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>311,865</u>	<u>102,306</u>	<u>(1,036,557)</u>

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009  
(Amounts in thousands of Brazilian reais - R\$)

**Contents of Notes to the Financial Statements**

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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	Nota 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

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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 09/27/1989, amended by Supplementary Law 125, of 01/03/2007, Laws 9126, of 11/10/1995, 9808, of 07/20/1999, and 10177, of 01/12/2001, Provisory Act 2196-14, of 06/28/2001, and its amendments, and Article 13 of Provisory Act 2199-14, of 08/24/2001. 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 12/28/2007 and 05/27/2009, 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 09/27/1989.

4. ACCOUNTING PRACTICES

FNE has its own accounting records and uses the accounting system of Banco do Nordeste to record its transactions in specific subtitles, 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 06/28/2001, and its amendments, 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 11/30/1998, 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 annum;
- 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 annum.

a.4) Decree 5818, of 06/26/2006, combined with National Monetary Council (CMN) Resolution 3293, of 06/28/2005, established that, for PROFROTA transactions with

large companies, with shared risk, BNB's financial commission is 2.5 percent per annum.

- a.5) Administrative Rule 616, of 05/16/2003, 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, PRONAF-Emergency, PRONAF-Flooding and PRONAF-Drought), 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 09/17/2008, Interministerial Rule 245 of 10/14/2008 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 annum 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, PRONAF-Emergency, PRONAF-Flooding and PRONAF-Drought), to performance premium on PRONAF A/C, Semiarid and Forest programs reimbursements, to allowance for loan losses recognized pursuant to Administrative Rule 11, of 12/28/2005, 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 annum, 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 05/26/2003 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 12/26/2005.

The financial charges paid to BNB on transactions under PRONAF - Groups A, B, A/C, Forest, Semiarid, PRONAF - Emergency, PRONAF-Flooding and PRONAF-Drought 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 07/13/2006, 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 09/17/2008, provides for the settlement, regularization, renegotiation or reclassification of debts arising from lending operations classified, among others, under Laws 9138 of 11/29/1995, 10437 of 04/25/2002 and 11322 of 07/13/2006, Provisory Act 2196-3 of 08/24/2001, CMN Resolution 2471 of 02/26/1998, 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) Law 12249, of 06/11/2010, provides for, in Articles 69 and 70, the reissuance of agricultural debts renegotiated based on Article 2 of Law 11322, of 07/13/2006, or classified under said Article, as well as the granting of discounts for settlement of unreleased agricultural debts renegotiated based on Article 2 of Law 11322, backed by FNE funds or FNE funds along with other sources of funds. Articles 71 and 72 of said Law provides for the reissuance of debts relating to agricultural activities with producers classified under Group B of PRONAF, as well as the granting of discounts for unreleased debts, backed by FNE funds.
- b.6) 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 Administrative Rule 11, of 12/28/2005.
- b.7) 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 (IR) 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 09/27/1989, 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 11/30/1998:

- 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 12/01/1998:

- 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 11/30/1998, 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 05/26/2003, 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 09/17/2008, the risk lies 100% with Banco do Nordeste, if the risk of the original transaction is fully attributed to the Bank, or shared, when the 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 Administrative Rule 11, of 12/28/2005, 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>12/31/2010</u>	<u>12/31/2009</u>
Allowance for loan losses at the beginning of the period	1,300,349	1,182,289
. Full FNE risk	1,029,846	965,749
. Shared risk	270,503	216,540
(+) Net allowance recognized in the year	<u>504,243</u>	<u>726,710</u>
Net provision for discounts - Acquired Transactions Law 11322	(4,946)	336
. Full FNE risk	(4,946)	336
Allowance for loan losses	<u>509,189</u>	<u>726,374</u>
. Full FNE risk	329,387	530,349
. Shared risk	179,802	196,025
(-) Receivables written off as a loss in the year	<u>586,000</u>	<u>608,650</u>
. Full FNE risk	401,017	466,588
. Shared risk	184,983	142,062
(=) Ending balance of allowance for loan losses	<u>1,218,591</u>	<u>1,300,349</u>
. Full FNE risk	953,270	1,029,846
. Shared risk	265,321	270,503

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 Administrative Rule 46, of 03/07/2007, an allowance for loan losses is recorded for transactions renegotiated under Law 11332, of 07/13/2006, 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; and

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 year, the allowance decreased by R\$ 61,363, R\$ 44,113 of which referred to full FNE risk transactions and R\$ 17,250 referred to shared risk transactions. These decreases include R\$ 31,242 arising from discounts and releases of transactions classified under Law 12249, of 06/11/2010, of which R\$ 16,014 refers to transactions whose full risk lies with the Fund and R\$ 15,228

refers to shared-risk transactions. In the same period of 2009, an allowance was recorded in the amount of R\$ 4,501, arising from a decrease of R\$ 1,350 referring to transactions whose full risk lies with the Fund and increase of R\$ 5,851 referring to shared-risk transactions. These amounts are included in subtitle “Allowance for loan losses” in the table in item b, above.

e) Administrative Rule 244, of 10/14/2008, establishes that an allowance for loan losses is recorded for transactions renegotiated under Law 11775, of 09/17/2008, 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”; and

e.2) for renegotiated FNE transactions an allowance of R\$ 9,360 was recognized, of which R\$ 6,404 refers to transactions whose full risk lies with the Fund and R\$ 2,956 refers to shared-risk transactions. These amounts include a decrease of R\$ 13,911 arising from discounts and releases of transactions classified under Law 12249, of 06/11/2010, of which R\$ 10,562 referred to transactions whose full risk lies with the Fund and R\$ 3,349 refers to shared-risk transactions. In the same period of 2009, an allowance was recorded in the amount of R\$ 188,180, of which R\$ 141,187 refers to transactions whose full risk lies with the Fund and R\$ 46,993 referred to shared-risk transactions. These amounts are included in subtitle “Allowance for loan losses” in the table in item b, above.

f) The renegotiations documented in year based on Law 11775, of 09/17/2008, Law 9138, of 11/29/1995, Law 10437, of 04/25/2002 and Law 11322, of 07/13/2006, Provisional Act 2196-3, of 08/24/2001 and the releases and discounts granted in conformity with Law 12249, of 06/11/2010, reduced the Fund’s income by R\$ 11,675 (R\$ 96,221 as of 12/31/2009). 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>12/31/2010</u>	<u>12/31/2009</u>
Recovery of operations written off from assets	11,474	206,753
Expenses - bonuses and waivers	(23,643)	(110,292)
Net effect on allowances	<u>64,159</u>	<u>(192,682)</u>
Total net effect	<u>(11,675)</u>	<u>(96,221)</u>

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

<u>Specification</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Income from lending operations	2,303,018	2,040,122
Expenses on BNB’s financial commission	(690,226)	(554,509)
Expenses on financial commission of other institutions	(3,891)	(3,888)

Expenses on negative monetary adjustment	(9,737)	(25,796)
Expenses on discounts granted in renegotiations	(198,802)	(13,662)
Expenses on discounts to Cocoa Plantations Recovery Program transactions - Law 11775 of 09/17/2008	(538)	(1,268)
Expenses on rebates/bonuses for timely payment - Transactions contracted by Banco do Nordeste	(486,763)	(424,007)
Expenses on Rebates/bonuses for timely payment - Onlendings Law 7827 - Article 9 A	(5,141)	-
Expenses on rebates/ bonuses for timely payment - Onlendings to other institutions	(119)	(94)
Expenses on principal rebates - Receivables from FAT - BNDES - Law 10193 of 02/14/2001	(247)	(339)
Expenses on transactions - Other sources - Acquisitions Law 11322 of 07/13/2006	(315)	(2,183)
FNE's expenses honored by the Bank - Reissue Law 12249, of 06/11/2010	(13,985)	-
FNE's expenses honored by the Bank - Rebate Law 12249, of 06/11/2010	(1,439)	-
Adjustments related disposal of assets	(22)	-
Other expenses	(1)	-
T O T A L	<u>891,792</u>	<u>1,014,376</u>

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

- a) As permitted by the sole paragraph of Article 3, Administrative 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 Administrative Rule 11.
- c) In the period, BNB returned to FNE the amount of R\$ 187,738 (R\$ 142,955 as of 12/31/2009) 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\$ 29,719 as of 12/31/2010, (R\$ 3,409 as of 12/31/2009) refers to recalculations of charges on lending transactions.

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

In compliance with Administrative Rule 11, of 12/28/2005, 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 09/17/2008, 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 mixed funds from other sources.

The same statute authorizes the replacement of financial charges on outstanding rural and non-rural transactions, contracted until 01/14/2001, subject to post fixed rates and backed with resources FNE, by pre fixed rates set by legislation applicable to this kind of transactions.

In the 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\$ 14,882 under referred law, as follows:

<u>Specification</u>	<u>Amount</u>
Article 7 (Cocoa Farming Operations in Bahia)	8,391
Article 19 (Operations whose Risk lies with the Federal Government - FAT Funds)	3,328
Article 31 (PRODECER transactions - Stage III/Res 2471 transactions)	<u>3,163</u>
TOTAL	<u>14,882</u>

Still under Law 11775, of 09/17/2008, 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\$ 39,515, as follows:

<u>Specification</u>	<u>Amount</u>
Article 31 (Mixed Funds from Other Sources/FNE transactions)	19,189
Article 31 (PRODECER transactions - Stage III)	7,572
Article 31 (FAT transactions)	<u>12,754</u>
TOTAL	<u>39,515</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 09/17/2008, as of 12/31/2010:

<u>Specification</u>	<u>Amount</u>
Article 7 (Cocoa Farming Operations in Bahia)	301,455



Article 31 (Transactions with mixed FNE funds )	503,983
Article 31 (Transactions with FAT funds)	<u>125,520</u>
TOTAL	<u>930,958</u>

### 13. ONLENDINGS TO BNB UNDER ARTICLE 9-A OF LAW 7827, OF 09/27/1989

On 06/16/2010, 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 02/28/2007.

The outstanding balance of onlendings made to Banco do Nordeste, including the operation of R\$ 600,000, contracted in 2009, were as follows at 12/31/2010:

<u>Specification</u>	<u>Amount</u>
Available funds	319,417
Funds invested	<u>782,431</u>
TOTAL	<u>1,101,848</u>

The line account "Available funds" records amounts temporarily not invested by the BNB in 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 06/04/2009, published in the Federal Official Gazette of 06/05/2009. Article 28 thereof amends Article 15 of Law 7827, of 09/27/1989, 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 contracted 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 06/04/2009, were regulated by Resolution 30 of the Board of the Agency for the Development of the Northeast Region (SUDENE), issued on 04/29/2010. Banco do Nordeste regulated, on 10/22/2010, in its operating manual, the procedures for classification of settlements by the network of Branches and Asset Restructuring Managements.

Fortaleza, February 4, 2011

Management

## INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS

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

We have audited the financial statements of Fundo Constitucional de Financiamento do Nordeste - FNE (managed by Banco do Nordeste do Brasil), which comprise the accompanying balance sheet as of December 31, 2010, and the related statements of operations, changes in net equity, and cash flows for the year and six-month period then ended, as well as a summary of significant accounting practices and explanatory notes.

### **Management's responsibility for the financial statements**

The Fund's management is responsible for the preparation and fair presentation of these financial statements in accordance with Brazilian accounting practices applicable to the financial institutions authorized to operate by the Central Bank of Brazil (BACEN) and the specific regulations for constitutional funds established by the Federal Government, described in note 4, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free of material misstatement, whether due to fraud or error.

### **Independent auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit, which was conducted in accordance with Brazilian and international standards on auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting practices used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Fundo Constitucional de Financiamento do Nordeste - FNE (managed by Banco do Nordeste do Brasil S.A.) as of December 31, 2010, and its financial performance and its cash flows for the year and six-month period then ended, in conformity with Brazilian accounting

practices, applicable to the financial institutions authorized to operate by the Central Bank of Brazil (BACEN) and the specific regulations for constitutional funds established by the Federal Government, described in note 4.

The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Fortaleza, February 4, 2011

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes

Claudio Lino Lippi  
Engagement Partner

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**MANAGEMENT COUNCIL:** Demetrius Ferreira e Cruz (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) – Oswaldo 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 – Cláudia da Costa Martinelli Wehbe – Marco Antonio Fiori

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

**SUPERINTENDENT:** João Francisco Freitas Peixoto (Controle Financeiro)

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

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