

*Banco do  
Nordeste*

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# ACCOUNTING STATEMENTS

## Banco do Nordeste and FNE

POSITION: 12.31.2006

**Banco do  
Nordeste**



**Accounting Statements**

**Banco do Nordeste**

**POSITION: 12.31.2006**

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

BANCO DO NORDESTE DO BRASIL S.A.					
HEADQUARTERS: AV. PARANAJANA, 5700 - FORTALEZA - CEARÁ					
PUBLICLY HELD COMPANY - BANKING LICENSE NO 3465 - Registered with the General Registry of Corporate Taxpayers (CNPJ) under no 07.237.373/0001-20					
<b>BALANCE SHEET</b>					
<b>DECEMBER 31, 2006 AND 2005</b>					
Headquarters and Branches in Brazil					
( in Thousands of R\$)					
<b>A S S E T S</b>			<b>L I A B I L I T I E S</b>		
	12.31.2006	12.31.2005	12.31.2006	12.31.2005	
<b>CURRENT ASSETS</b>	<b>4,876,844</b>	<b>7,034,847</b>	<b>CURRENT LIABILITIES</b>	<b>4,047,293</b>	<b>5,880,309</b>
CASH AND CASH EQUIVALENTS	48,147	37,523	DEPOSITS (Note 9)	1,376,212	1,245,006
LIQUIDITY INTERFINANCE APPLICATIONS (NOTE 4)	977,037	659,173	Sight Deposits	68,091	64,302
Open Market Applications	859,166	645,910	Savings Account Deposits	545,906	447,289
Applications in Interfinance Deposits	117,871	13,263	Interfinance Deposits	199,659	91,560
MARKETABLE SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS (Note 5)	1,918,753	5,055,110	Long-Term Deposits	553,843	634,953
Own Portfolio	1,901,469	5,047,148	Other Deposits	8,713	6,902
Attached to Guarantees	17,284	7,962	FUNDINGS OBTAINED IN THE OPEN MARKET	224,005	366,503
INTERFINANCE OPERATIONS	167,664	104,576	Third Parties' Portfolio	224,005	366,503
Payments and Compensations to settle	579	408	INTERFINANCE OPERATIONS	11	30
Attached Credits:			Payments and Compensations to settle	11	30
Deposits with the Brazilian Central Bank	159,090	92,807	INTERBRANCH RELATIONS	3,030	9,540
Brazilian National Treasury Department - Funds from Rural Credit	5,475	10,568	Funds in Transit from Third Parties	2,993	9,539
Interfinance Onlendings	518	0	Internal Transfers of Funds	37	1
Correspondents	2,002	793	LIABILITIES FOR LOANS (Note 11)	247,701	235,707
CREDIT OPERATIONS (Note 6)	1,154,980	690,883	Loans within the Country - Official Institutions	10,691	10,579
Public Sector	15,647	16,356	Loans from Abroad	237,010	225,128
Private Sector	1,267,610	818,975	COUNTRY ONLENDING LIABILITIES - OFFICIAL INSTITUTIONS (Note 12)	521,507	438,785
(Allowance for Doubtful Debts)	(128,277)	(144,448)	Brazilian National Treasury Department	200	205
OTHER CREDITS (Note 7)	599,438	482,171	Brazilian Bank	3	3
Receivables on Collateral and Guarantees paid	7	54	BNDES <sup>1</sup>	242,722	261,577
Foreign Exchange Portfolio	209,506	183,947	CEF <sup>2</sup>	289	320
Income Receivable	20,822	6,640	FINAME <sup>3</sup>	24,337	31,019
Special Credits	291	291	Other Institutions	253,956	145,661
Sundry	375,091	304,908	LIABILITIES FOR ONLENDINGS FROM ABROAD (Note 13)	57,228	65,206
(Allowance for Other Doubtful Debts)	(6,279)	(13,669)	Foreign Onlendings	57,228	65,206
OTHER ASSETS	10,825	5,411	OTHER LIABILITIES (Note 14)	1,617,559	3,519,532
Other Assets	12,199	10,729	Changing and Collection of Taxes and Comparable	5,315	5,373
(Allowances for Devaluations)	(5,430)	(5,385)	Foreign Exchange Portfolio	2,513	8,997
Advanced Expenses	4,056	67	Social and Bylaws	95,184	36,813
			Taxes and Social Security	127,276	131,599
<b>LONG TERM RECEIVABLES</b>	<b>7,416,836</b>	<b>5,386,185</b>	Financial and Development Funds	1,137,344	3,011,874
MARKETABLE SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS (Note 5)	4,734,673	2,324,719	Sundry	249,965	324,876
Own Portfolio	4,675,552	2,273,522			
Attached to Guarantees	59,121	51,197	<b>LONG-TERM LIABILITIES</b>	<b>6,927,706</b>	<b>5,328,083</b>
INTERFINANCE OPERATIONS	28,903	36,876	DEPOSITS (Note 9)	1,271,862	1,268,245
Attached Credits:			Sight Deposits	64,366	63,137
Brazilian National Treasury Department - Funds from Rural Credits	565	1,151	Long-Term Deposits	1,207,496	1,205,108
SFH - National Housing System	17,833	23,779	LIABILITIES FOR LOANS (Note 11)	77,287	79,639
Interfinance Onlendings	10,505	11,946	Loans within the Country - Official Institutions	77,287	79,639
CREDIT OPERATIONS (Note 6)	2,423,017	2,777,188	COUNTRY ONLENDING LIABILITIES - OFFICIAL INSTITUTIONS (Note 12)	706,955	945,052
Public Sector	1,107,938	1,173,832	Brazilian National Treasury Department	1,309	1,428
Private Sector	1,483,401	1,788,313	BNDES <sup>1</sup>	475,149	611,350
(Allowance for Doubtful Debts)	(168,322)	(184,957)	CEF <sup>2</sup>	297	572
OTHER CREDITS (Note 7)	230,243	247,402	FINAME <sup>3</sup>	59,786	81,878
Receivables on Collateral and Guarantees paid	15	9	Other Institutions	170,414	249,824
Sundry	257,259	266,441	DERIVATIVE FINANCIAL INSTRUMENTS	4,206	0
(Allowance for Other Doubtful Debts)	(27,031)	(19,048)	Derivative Financial Instruments	4,206	0
			LIABILITIES FOR ONLENDING FROM ABROAD (Note 13)	683,211	768,287
<b>PERMANENT ASSETS (Note 8)</b>	<b>183,744</b>	<b>170,050</b>	Foreign Onlendings	683,211	768,287
INVESTMENTS	605	553	OTHER LIABILITIES (Note 14)	4,184,185	2,266,860
Other Investments	8,744	8,692	Taxes and Social Security	393,417	346,447
(Allowance for Losses)	(8,139)	(8,139)	Financial and Development Funds	2,566,129	836,531
PROPERTY, PLANT AND EQUIPMENT FOR USE	177,376	163,621	Sundry	1,224,639	1,083,882
Real Estate for Use	106,852	92,247			
Reevaluation of Real Estate for Use	111,629	111,879	<b>RESULTS FROM FUTURE YEARS</b>	<b>77</b>	<b>1,895</b>
Other Property, Plant and Equipment for Use	97,770	84,606	RESULTS FROM FUTURE YEARS	77	1,895
(Accumulated Depreciations)	(138,875)	(125,111)			
DEFERRED ASSETS	5,763	5,876	<b>NET EQUITY (Note 15)</b>	<b>1,502,348</b>	<b>1,380,795</b>
Organization and Expansion Expenditures	10,259	9,736	CAPITAL	1,299,000	1,277,000
(Accumulated Amortization)	(4,496)	(3,860)	From shareholders domiciled in Brazil	1,298,947	1,277,000
			From shareholders domiciled abroad	53	0
			REVALUATION RESERVES	40,499	43,282
			PROFIT RESERVES	94,278	30,142
			ADJUSTMENT TO MARKET VALUE - SECURITIES AND DERIVATIVE INSTRUMENTS	68,571	30,371
<b>TOTAL ASSETS</b>	<b>12,477,424</b>	<b>12,591,082</b>	<b>TOTAL LIABILITIES</b>	<b>12,477,424</b>	<b>12,591,082</b>

<sup>1</sup>Brazilian National Bank for Economic and Social Development ("BNDES")

<sup>2</sup>Federal Savings and Loan Bank ("CEF")

<sup>3</sup>Brazilian Government Agency for Machinery and Equipment Financing ("FINAME")

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

<b>BANCO DO NORDESTE DO BRASIL S.A.</b> HEADQUARTERS: AV. PARANJANA, 5700 - FORTALEZA - CEARÁ PUBLICLY HELD COMPANY - BANKING LICENSE NO 3465 - Registered with the General Registry of Corporate Taxpayers (CNPJ) under no 07.237.373/0001-20			
<b>INCOME STATEMENT</b> <b>DECEMBER 31, 2006 AND 2005</b> Headquarters and Branches in Brazil (In Thousands of R\$)			
	2nd semester/ 2006	Year/ 2006	Year/ 2005
<b>REVENUES FROM FINANCIAL INTERMEDIATION (Note 16)</b>	<b>777,152</b>	<b>1,655,717</b>	<b>2,189,775</b>
Credit Operations	276,224	571,991	765,945
Income from Operations with Bonds and Securities	497,176	1,065,939	1,380,145
Income from Derivative Instruments	(6,152)	(5,305)	0
Income from Foreign Exchange Operations	8,022	18,367	25,242
Income from Compulsory Applications	1,882	4,725	18,443
<b>EXPENSES FROM FINANCIAL INTERMEDIATION (Note 17)</b>	<b>(480,470)</b>	<b>(1,066,821)</b>	<b>(1,524,499)</b>
Funding obtained in the Market	(124,302)	(269,692)	(355,590)
Loans and Onlendings Operations	(305,257)	(690,704)	(870,693)
Allowance for Doubtful Debts	(50,911)	(106,425)	(298,216)
<b>GROSS INCOME FROM FINANCIAL INTERMEDIATION</b>	<b>296,682</b>	<b>588,896</b>	<b>665,276</b>
<b>OTHER OPERATIONAL REVENUES/ EXPENSES (Note 18)</b>	<b>(96,885)</b>	<b>(259,815)</b>	<b>(300,601)</b>
Revenues from Services Provided	389,774	722,911	653,044
Personnel Expenses	(313,660)	(602,055)	(559,757)
Other Administrative Expenses	(201,139)	(394,262)	(365,766)
Tax Expenses	(45,954)	(88,787)	(85,285)
Other Operational Revenues	207,835	472,350	728,324
Other Operational Expenses	(133,741)	(369,972)	(671,161)
<b>OPERATIONAL INCOME</b>	<b>199,797</b>	<b>329,081</b>	<b>364,675</b>
<b>NON-OPERATIONAL INCOME</b>	<b>(123)</b>	<b>4,008</b>	<b>5,586</b>
<b>INCOME BEFORE TAXES ON PROFIT AND PARTICIPATIONS</b>	<b>199,674</b>	<b>333,089</b>	<b>370,261</b>
<b>INCOME TAX AND SOCIAL CONTRIBUTION (Note 19)</b>	<b>(58,520)</b>	<b>(112,119)</b>	<b>(205,524)</b>
Allowance for Income Tax	(28,238)	(48,424)	(54,346)
Allowance for Social Contribution	(10,666)	(18,067)	(19,763)
Deferred Tax Asset	(19,616)	(45,628)	(131,415)
<b>BYLAWS PARTICIPATIONS ON PROFIT</b>	<b>(14,851)</b>	<b>(18,236)</b>	<b>(7,351)</b>
<b>NET PROFIT</b>	<b>126,303</b>	<b>202,734</b>	<b>157,386</b>
<b>INTEREST ON EQUITY CAPITAL (Note 15d)</b>	<b>(80,346)</b>	<b>(80,346)</b>	<b>0</b>
Nr. of Shares (in millions)	870,019	870,019	870,019
Net Profit per Batch of Thousand Shares (in R\$)	0.15	0.23	0.18

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 PUBLICLY HELD COMPANY - BANKING LICENSE NO 3465 - Registered with the General Registry of Corporate Taxpayers (CNPJ) under no 07.237.373/0001-20

**STATEMENT OF CHANGES IN NET EQUITY**  
**DECEMBER 31, 2006 AND 2005**  
 Headquarters and Branches in Brazil  
 ( in Thousands of R\$)

EVENTS	REALIZED CAPITAL		REVALUATION RESERVES	PROFIT RESERVES		ADJUSTMENT TO MARKET VALUE - SECURITIES AND DERIVATIVES	ACCRUED PROFITS/ LOSSES	TOTAL
	CAPITAL	CAPITAL INCREASE	OWN ASSETS	LEGAL	STATUTORY			
<b>BALANCES ON 12.31.2004</b>	<b>1,228,000</b>	<b>0</b>	<b>42,240</b>	<b>8,306</b>	<b>40,915</b>	<b>20,925</b>	<b>0</b>	<b>1,340,386</b>
ADJUSTMENT FROM PREVIOUS PERIODS							(100,748)	(100,748)
ADJUSTMENT TO MARKET VALUE - SECURITIES AND DERIVATIVES						9,446		9,446
CAPITAL INCREASE:								
From Reserves:								
- Transfer to Capital Increase		49,000		(8,085)	(40,915)			0
- Incorporation to Capital	49,000	(49,000)						0
OTHER EVENTS:								
- Assets Revaluation :								
- Realization of Reserve:								
Gross Value			(4,070)				4,070	0
Tax Charges			5,112				(1,384)	3,728
NET PROFIT OF THE YEAR							157,386	157,386
Destinations:								
Reserves				7,869	22,052		(29,921)	0
Dividends							(29,403)	(29,403)
<b>BALANCES ON 12.31.2005</b>	<b>1,277,000</b>	<b>0</b>	<b>43,282</b>	<b>8,090</b>	<b>22,052</b>	<b>30,371</b>	<b>0</b>	<b>1,380,795</b>
<b>CHANGES OF THE YEAR</b>	<b>49,000</b>	<b>0</b>	<b>1,042</b>	<b>(216)</b>	<b>(18,863)</b>	<b>9,446</b>	<b>0</b>	<b>40,409</b>
<b>BALANCES ON 12.31.2005</b>	<b>1,277,000</b>	<b>0</b>	<b>43,282</b>	<b>8,090</b>	<b>22,052</b>	<b>30,371</b>	<b>0</b>	<b>1,380,795</b>
ADJUSTMENTS FROM PREVIOUS PERIODS (Note 15e)							(24,799)	(24,799)
ADJUSTMENT TO MARKET VALUE - SECURITIES AND DERIVATIVES						38,200		38,200
CAPITAL INCREASE:								
From Reserves:								
- Transfer to Capital Increase		22,000			(22,000)			0
- Incorporation to Capital	22,000	(22,000)						0
OTHER EVENTS:								
Assets Revaluation:								
- Realization of Reserve (Note 15b):								
Gross Value			(4,199)				4,064	(135)
Tax Charges			1,416				(1,342)	74
NET PROFIT OF THE YEAR							202,734	202,734
Destinations (Note 15c and 15d):								
Reserves				10,137	75,999		(86,136)	0
Dividends							(14,175)	(14,175)
Interest on equity capital							(80,346)	(80,346)
<b>BALANCES ON 12.31.2006</b>	<b>1,299,000</b>	<b>0</b>	<b>40,499</b>	<b>18,227</b>	<b>76,051</b>	<b>68,571</b>	<b>0</b>	<b>1,502,348</b>
<b>CHANGES OF THE YEAR</b>	<b>22,000</b>	<b>0</b>	<b>(2,783)</b>	<b>10,137</b>	<b>53,999</b>	<b>38,200</b>	<b>0</b>	<b>121,553</b>
<b>BALANCES ON 06.30.2006</b>	<b>1,299,000</b>	<b>0</b>	<b>41,800</b>	<b>11,912</b>	<b>52</b>	<b>57,934</b>	<b>37,138</b>	<b>1,447,836</b>
ADJUSTMENTS FROM PREVIOUS PERIODS							(1,487)	(1,487)
ADJUSTMENT TO MARKET VALUE - SECURITIES AND DERIVATIVES						10,637		10,637
OTHER EVENTS:								
Assets Revaluation:								
- Realization of Reserve:								
Gross Value			(2,030)				2,030	0
Tax Charges			729				(690)	39
NET PROFIT OF THE SEMESTER							126,303	126,303
Destinations:								
Reserves				6,315	75,999		(82,314)	0
Dividends							(634)	(634)
Interest on equity capital							(80,346)	(80,346)
<b>BALANCES ON 12.31.2006</b>	<b>1,299,000</b>	<b>0</b>	<b>40,499</b>	<b>18,227</b>	<b>76,051</b>	<b>68,571</b>	<b>0</b>	<b>1,502,348</b>
<b>CHANGES OF THE SEMESTER</b>	<b>0</b>	<b>0</b>	<b>(1,301)</b>	<b>6,315</b>	<b>75,999</b>	<b>10,637</b>	<b>(37,138)</b>	<b>54,512</b>

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PUBLICLY HELD COMPANY - BANKING LICENSE NO 3465 - Registered with the General Registry of Corporate Taxpayers (CNPJ) under no 07.237.373/0001-20			
<b>STATEMENT OF CHANGES IN FINANCIAL POSITION</b>			
<b>DECEMBER 31, 2006 AND 2005</b>			
Headquarters and Branches in Brazil			
( in Thousands of R\$)			
	2nd semester/ 2006	Year/ 2006	Year/ 2005
<b>SOURCE OF FUNDS</b>	<b>732,158</b>	<b>1,116,126</b>	<b>1,202,997</b>
<b>NET PROFIT</b>	<b>126,303</b>	<b>202,734</b>	<b>157,386</b>
<b>ADJUSTS TO NET PROFIT:</b>	<b>10,293</b>	<b>19,664</b>	<b>17,413</b>
Depreciations and Amortizations	9,943	19,426	16,900
Allowance to investments losses	0	0	211
Allowance to Other Values and Assets Devaluation	350	238	302
<b>VARIATION IN RESULTS OF FUTURE YEARS</b>	<b>(1,431)</b>	<b>(1,818)</b>	<b>616</b>
<b>ADJUSTMENT TO MARKET VALUE - SECURITIES AND DERIVATIVES</b>	<b>10,637</b>	<b>38,200</b>	<b>9,446</b>
<b>ADJUSTMENT FROM PREVIOUS PERIODS</b>	<b>(1,487)</b>	<b>(24,799)</b>	<b>(100,748)</b>
<b>REVALUATION RESERVE</b>	<b>39</b>	<b>(61)</b>	<b>3,728</b>
<b>THIRD PARTIES' FUNDS FROM:</b>			
<b>INCREASE OF LIABILITIES' SUBGROUPS:</b>	<b>324,784</b>	<b>154,421</b>	<b>167,656</b>
Deposits	243,995	134,823	0
Fundings Obtained in the Open Market (Committed Operations)	64,544	0	163,516
Interfinance and Interbranch Relationships	0	0	4,140
Liabilities for loans and onlendings	12,039	0	0
Derivative Financial Instruments	4,206	4,206	0
Other Liabilities	0	15,392	0
<b>DECREASE OF ASSETS' SUBGROUPS:</b>	<b>262,512</b>	<b>726,403</b>	<b>947,943</b>
Liquidity Interfinance Applications	139,158	0	0
Marketable Securities	122,251	726,403	884,148
Credit Operations	0	0	63,795
Other Assets	1,103	0	0
<b>DISPOSAL OF ASSETS AND INVESTMENTS:</b>	<b>508</b>	<b>1,382</b>	<b>(443)</b>
Assets Not For Own Use	426	1,017	(164)
Property, Plant and Equipment for Use	79	363	(272)
Investments	3	2	(7)
<b>APPLICATION OF FUNDS</b>	<b>726,068</b>	<b>1,105,502</b>	<b>1,197,061</b>
<b>DIVIDENDS AND BONUS PROPOSED</b>	<b>634</b>	<b>14,175</b>	<b>29,403</b>
<b>PROPOSED INTEREST ON EQUITY CAPITAL</b>	<b>80,346</b>	<b>80,346</b>	<b>0</b>
<b>INVESTMENTS IN:</b>	<b>14,725</b>	<b>34,447</b>	<b>31,668</b>
Assets Not For Own Use	2,318	2,886	532
Property, Plant and Equipment for Use	12,373	31,507	31,131
Investments	34	54	5
<b>APPLICATIONS IN DEFERRED ASSETS</b>	<b>348</b>	<b>1,924</b>	<b>2,683</b>
<b>INCREASE OF ASSETS' SUBGROUPS:</b>	<b>397,950</b>	<b>586,796</b>	<b>348,295</b>
Liquidity Interfinance Applications	0	317,864	288,495
Interfinance and Interbranch Relationships	28,342	55,115	33,300
Credit Operations	195,947	109,926	0
Other Credits	173,661	100,108	26,336
Other Assets	0	3,783	164
<b>DECREASE OF LIABILITIES' SUBGROUPS:</b>	<b>232,065</b>	<b>387,814</b>	<b>785,012</b>
Deposits	0	0	198,378
Fundings Obtained in the Open Market (Committed Operations)	0	142,498	0
Funds from the Acceptance and Issuance of Securities	0	0	32,066
Interfinance and Interbranch Relationships	36,848	6,529	0
Borrowings and Onlendings Liabilities	0	238,787	267,324
Other Liabilities	195,217	0	287,244
<b>INCREASE OF AVAILABLE FUNDS</b>	<b>6,090</b>	<b>10,624</b>	<b>5,936</b>
<b>CHANGES IN FINANCIAL POSITION: Increase of available funds</b>	<b>6,090</b>	<b>10,624</b>	<b>5,936</b>
Beginning of the Period	42,057	37,523	31,587
End of the Period	48,147	48,147	37,523

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

## NOTES TO FINANCIAL STATEMENTS

### Years ended as of December 31, 2006 and 2005

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#### NOTE 1 - The Bank and its Features

Banco do Nordeste do Brasil S.A. (The Bank) is a private entity, governed by private law and a government-controlled regional financial institution, created by the Federal Law Number 1,649, of July 19, 1952. Its mission is promoting the sustainable development of Brazilian Northeastern Region, by providing financial resources and technical qualification support for businesses in the Region.

In order to carry out its mission, apart from extending credits for businesses implementation, Banco do Nordeste prioritizes, in a partnership with its clients, the continuity and success of businesses realized through the technical and managerial visitation process, contributing with additional funds, when so required.

Banco do Nordeste, once classified as a multiple bank, is authorized to operate with all portfolios allowed to the financial institutions so classified, except for the real estate credit portfolio.

As a development entity, Banco do Nordeste operates, among other furtherance programs, Fundo de Investimentos do Nordeste [The Brazilian Northeastern Region Investment Fund] ("FINOR") and Fundo Constitucional de Financiamento do Nordeste [The Brazilian Northeastern Region Constitutional Financing Fund] ("FNE").

#### NOTE 2 - Financial Statements Presentation

The financial statements have been prepared in compliance with the Brazilian corporation law, and in accordance with the accounting practices established by Banco Central do Brasil [The Brazilian Central Bank] ("BACEN") and Comissão de Valores Mobiliários [The Brazilian entity corresponding to United States Securities' Commission] ("CVM").

#### NOTE 3 - Main Accounting Policies

##### a) Income Determination Criteria

The revenues and expenses are recorded on an accrual basis, standing out the following procedures:

- a.1) Yields, charges, and monetary or foreign exchange variations charged on assets and liabilities are appropriated on a "pro rata diem" basis;
- a.2) Provisions, including charges on vacations and Christmas' bonus, are recognized on a monthly basis, pursuant to the period incurred;
- a.3) Effects of assets' adjustments to market value or realization, when applicable, are considered.

##### b) Current and Long-Term Assets

The assets are provided by the realization values, including, when applicable, the revenues and monetary and foreign exchange variations earned, rectified by yields to be appropriated or provision, when required, with the following to be pointed out:

- b.1) The credit operations are covenanted at regular market rates;
- b.2) The provision for credit operations is set aside in accordance with the Resolution Number 2,682, of 12.21.1999, of Conselho Monetário Nacional [The Brazilian National Monetary Council];

**b.3)** Bonds and securities were recorded by the value actually paid, including brokerage and other fees, being classified and evaluated as follows:

- Marketable securities – are those acquired with the purpose of being actively and frequently negotiated, adjusted by the market value in consideration of year result;
- Securities available for sale – are those that are neither suitable for negotiation nor can be maintained until maturity, and are evaluated by the market value, free of tax effects, in consideration of the rubric detached from the net equity;
- Securities maintained until maturity – are those for which there is intention and financial capacity for its maintenance in the portfolio until maturity, recorded by the acquisition cost, plus yields earned in consideration of year result;
- The classification as Current and Long Term for Securities Available for Sale and Securities Maintained until Maturity was determined in accordance with its expiration terms, not featuring, however, the non-availability of papers, which maintain their quality and high liquidity feature. Bonds for negotiation are presented on Cash and Cash Equivalents apart from the term expiration.

**c) Permanent Assets**

They are stated by the acquisition cost, monetarily corrected until 12.31.1995, provided that the following is complied with:

- c.1)** The Investments are rectified by the Allowance for Losses;
- c.2)** The Real Estates for Use include the revaluation value;
- c.3)** The Property, Plant, and Equipment is rectified by the depreciation calculated by the straight-line method, at the following annual rates: buildings - 4%; data processing systems and vehicles - 20%; Tractor and Motorcycle – 25%; and other items - 10%;
- c.4)** The Deferred assets are rectified by amortizations calculated by the straight-line method, upon the use of a 20% fixed annual rate.

**d) Current and Long-Term Liabilities**

**d.1)** The liabilities are set out by their original values, plus, when applicable, the monetary and foreign exchange charges and variations incurred, rectified by expenses to be appropriated, and it should be emphasized that the available funds from Fundo Constitucional de Financiamento do Nordeste [The Brazilian Northeastern Region Constitutional Financing Fund] (“FNE”) are classified as Current and Long-Term Liabilities, provided that the disbursement flows forecast are complied with.

**d.2)** Allowances for the grant of after-employment benefits are recognized pursuant to the directions of “CVM” Resolution Number 371, of 12.13.2000.

**e) Income Tax, Social Contribution, Public Service Employee Savings Program (“PASEP”), and Social Contribution on Billings (“COFINS”)**

Provisions are constituted at the rates set out below, and take into account, for each tax, the tax basis provided for in the current laws:

Income Tax	15.00%
Income Tax Additional	10.00%
Social Contribution	9.00%
PASEP	0.65%
COFINS	4.00%

**NOTE 4 - Interfinance Liquidity Applications in R\$ Thousands**

Specification	12.31.2006	12.31.2005
<b>a) Open Market Applications</b>	<b>859,166</b>	<b>645,910</b>
Resale to Square – Banked Position	635,172	279,426
Resale to Square – Financed Position	223,994	366,484
<b>b) Interfinancial Deposits Applications</b>	<b>117,871</b>	<b>13,263</b>
<b>TOTAL</b>	<b>977,037</b>	<b>659,173</b>
SHORT TERM BALANCE	977,037	659,173
LONG TERM BALANCE	-	-

## NOTE 5 - Marketable Securities and Derivative Instruments

### a) Marketable Securities

The updated costs (plus gained earns), and the market value of marketable securities on 12.31.2006 are disposed as follows:

#### a.1) TRADING SECURITIES in R\$ Thousands

TYPE	12.31.2006			12.31.2005		
	COST VALUE	MARKET VALUE	MATURITY RANGE	COST VALUE	MARKET VALUE	MATURITY RANGE
<b>FIXED INCOME SECURITIES</b>	<b>641</b>	<b>640</b>		<b>70,731</b>	<b>74,780</b>	
Financial Treasury Bills	641	640	2008	557	554	2008
Central Bank Notes	-	-		56,737	60,140	2006
National Treasury Notes	-	-		13,437	14,086	2006
<b>CATEGORY TOTAL</b>	<b>641</b>	<b>640</b>		<b>70,731</b>	<b>74,780</b>	

In the year of 2006, for securities classified in the category above, a negative adjustment in the amount of R\$ 4,050 thousand was registered (R\$ 7,203 thousand on 12.31.05).

#### a.2) AVAILABLE-FOR-SALE SECURITIES in R\$ Thousands

TYPE	12.31.2006			
	COST VALUE	MARKET VALUE	MARKET ADJUSTMENT	MATURITY RANGE
<b>FIXED-INCOME SECURITIES</b>	<b>6,244,732</b>	<b>6,231,904</b>	<b>(12,828)</b>	
Financial Treasury Bills	6,225,228	6,230,724	5,496	2007 to 2011
Fixed-Income Securities – Others	1,707	1,052	(655)	2027
Federal Government Bonds – Others	17,694	-	(17,694)	1993
Agricultural Debt Securities	103	128	25	2007 to 2015
<b>QUOTAS FROM INVESTMENT FUNDS</b>	<b>1,003</b>	<b>-</b>	<b>(1,003)</b>	
Social Development Funds	1,003	-	(1,003)	
<b>VARIABLE-INCOME SECURITIES</b>	<b>144,159</b>	<b>262,170</b>	<b>118,011</b>	
Listed Companies Stocks	4,211	490	(3,721)	With no maturity
Other tax Incentives (FINOR <sup>1</sup> )	139,948	261,680	121,732	With no maturity
<b>GUARANTEE BONDS</b>	<b>76,691</b>	<b>76,406</b>	<b>(285)</b>	
Financial Treasury Bills	76,243	76,406	163	2007 to 2009
Federal Government Bonds – Others	448	-	(448)	1993
<b>CATEGORY TOTAL</b>	<b>6,466,585</b>	<b>6,570,480</b>	<b>103,895</b>	
Tributary Credit	-	-	180,736	
Provision for Differed Taxes and Contributions	-	-	(216,060)	
<b>TOTAL OF THE MARKET ADJUSTMENT</b>	<b>-</b>	<b>-</b>	<b>68,571</b>	

TYPE	12.31.2005			
	COST VALUE	MARKET VALUE	MARKET ADJUSTMENT	MATURITY RANGE
<b>FIXED-INCOME SECURITIES</b>	<b>3,542,693</b>	<b>3,535,744</b>	<b>(6,949)</b>	
Financial Treasury Bills	3,394,760	3,399,909	5,149	2006 to 2009
Central Bank Notes	86,267	91,174	4,907	2006
National Treasury Notes	38,068	39,905	1,837	2006
Fixed-Income Securities – Others	7,746	4,713	(3,033)	2006 to 2027
Federal Government Bonds – Others	15,786	-	(15,786)	1993
Agricultural Debt Securities	66	43	(23)	2006 to 2015
<b>QUOTAS FROM INVESTMENT FUNDS</b>	<b>898</b>	<b>-</b>	<b>(898)</b>	
Social Development Funds	898	-	(898)	With no maturity
<b>VARIABLE-INCOME SECURITIES</b>	<b>144,159</b>	<b>199,727</b>	<b>55,568</b>	
Listed Companies Stocks	139,948	199,260	59,312	With no maturity
Other Tax Incentives (FINOR <sup>1</sup> )	4,211	467	(3,744)	With no maturity
<b>GUARANTEE BONDS</b>	<b>52,900</b>	<b>51,197</b>	<b>(1,703)</b>	
Financial Treasury Bills	51,172	51,197	25	2009
Federal Government Bonds	1,728	-	(1,728)	1993
<b>CATEGORY TOTAL</b>	<b>3,740,650</b>	<b>3,786,668</b>	<b>46,018</b>	

Tributary Credit	-	-	161,398
Provision for Differed Taxes and Contributions	-	-	(177,044)
<b>TOTAL OF THE MARKET ADJUSTMENT</b>	-	-	<b>30,372</b>

<sup>1</sup> The Brazilian Northeastern Region Investment Fund ("FINOR")

The caption Federal Government Bonds - Others corresponds to the asset NUCL 910801, maturing on August 31, 1993 and not yet redeemed by the National Treasury.

**a.3) HELD-TO-MATURITY SECURITIES in R\$ Thousands**

TYPE	12.31.2006			12.31.2005		
	COST VALUE	MARKET VALUE	MATURITY RANGE	COST VALUE	MARKET VALUE	MATURITY RANGE
<b>FIXED-INCOME SECURITIES</b>	<b>82,306</b>	<b>82,275</b>		<b>3,518,381</b>	<b>3,525,918</b>	
Financial Treasury Bills	76,184	76,153	2007 to 2008	3,515,247	3,522,784	2006 to 2008
Quotas from the Investment Fund-Venturer Northeast	5,804	5,804	2011	2,840	2,840	2006 to 2008
National Treasury Note ("NTNP")	318	318	2012 to 2014	294	294	2012 to 2014
<b>CATEGORY TOTAL</b>	<b>82,306</b>	<b>82,275</b>		<b>3,518,381</b>	<b>3,525,918</b>	

**a.4)** Marketable Securities reclassifications were not fulfilled between the above categories along the year, neither transfers of ownerships to securities classified in the "Held – to – Maturity Securities" category occurred .

**a.5)** For obtaining the market value, the following criteria were adopted:

- Fixed-Income Securities: average level of discount negotiated at secondary market, pursuant to Associação Nacional das Instituições do Mercado Aberto [The Brazilian National Association of Open Market Institutions] ("ANDIMA") disclosure;
- Variable-Income Securities: assets' average rating at Bolsa de Valores de São Paulo [The São Paulo Stock Exchange] ("BOVESPA").

**b) Derivative Instruments**

Banco do Nordeste adopts a conservative policy, investing funds strictly within the terms and according to the rates established by their respective sources, so that assets and liabilities always have compatible terms, interest rates and indexes, thus reducing mismatches of any nature.

Considering the Bank's conservative portfolio management policies, its derivative transactions are restricted to swap agreements entered into to hedge its assets and liabilities, when necessary.

Swaps are recorded in balance sheet and memorandum accounts according to their nature and pursuant to legal provisions and prevailing accounting standards.

As of 12.31.2006, the Bank has swap agreements registered with the Clearinghouse for the Custody and Financial Settlement of Securities (CETIP). The acquisition cost of these swap agreements are recorded in offset accounts (global value) and the corresponding book value under the caption "Difference payable" and "Difference receivable", as presented in the table below in R\$ thousands:

<b>Assets</b>	<b>Global Value</b>	<b>Difference receivable</b>
Foreign currency (US dollar)	184,000	-
<b>Liabilities</b>	<b>Global Value</b>	<b>Difference payable</b>
Interbank market (CDI – certificate of interbank deposit)	184,000	4,206

<b>Swap agreement risk values</b>	<b>Value</b>
Swap market value - gain	-
Swap market value - loss	1,336
Swap credit risk	14,090

HEDGE AGAINST MARKET RISK –ASSETS	182,768
HEDGED ITEMS – LIABILITIES	170,966

<b>Swap agreements mature as follows:</b>	<b>Difference receivable</b>	<b>Difference payable</b>
3 to 12 months	-	3,016
1 to 3 years	-	1,190
<b>TOTAL</b>	<b>-</b>	<b>4,206</b>

In order to calculate swap agreement market values, the Bank uses the rates disclosed by the Brazilian National Association of Open Market Institutions (ANDIMA). In order to determine credit risk, the Bank uses the correlation indexes and risk factors disclosed by the Brazilian Central Bank.

**NOTE 6 - Credit Portfolio and Allowance for Losses**

**a) Details by type in RS Thousands**

Specification	12.31.2006	12.31.2005
Depositors Advances	549	318
Loans	493,115	417,749
Discounted Drafts	48,117	27,150
Financing	500,805	494,953
Foreign Currency Financing	17,099	43,802
Government Refinancings	502,821	495,748
Rural and Agroindustrial Financing	1,689,651	1,616,336
Real Estate Financing <sup>(1)</sup>	175	278
Infrastructure and Development Financing	622,264	701,142
<b>Subtotal of Credit Operations</b>	<b>3,874,596</b>	<b>3,797,476</b>
Guarantees Honored	22	63
Income Receivables on Advances	4,902	2,576
Debtors for Purchasing of Goods and Values	3,154	3,101
Securities and Receivables	2,552	11,856
Advances on Foreign Exchange Contracts <sup>(2)</sup>	206,295	168,279
<b>Subtotal of Other Rubrics with Credit Features</b>	<b>216,925</b>	<b>185,875</b>
<b>TOTAL OF CREDIT PORTFOLIO</b>	<b>4,091,521</b>	<b>3,983,351</b>

<sup>(1)</sup> Refers to the operation contracted before the conclusion of the activities with Real Estate Financing

<sup>(2)</sup> Rubrics classified as OTHER LIABILITIES /Foreign Currency Portfolio.

**b) Details by Maturity in RS Thousands**

**b.1) Ordinary Course Credits (1)**

Type Client/ Business	0 to 90 days	91 to 180 days	181 to 360 days	Over 360 days	Total in December/ 2006	Total in December/ 2005
Rural	195,129	55,760	103,577	1,258,390	1,612,856	1,518,879
Industry	254,004	7,371	5,099	186,224	452,698	464,840
Government	23,697	7,752	115,943	976,147	1,123,539	1,189,836
Other Services	170,931	18,152	2,258	113,708	305,049	321,444
Commerce	268,865	60,440	6,581	33,964	369,850	241,294
Financial Intermediaries	33	6	4	-	43	46
Housing System	29	9	30	107	175	278
Consumer Credits	29,790	7,655	321	5,706	43,472	41,530
<b>T O T A L</b>	<b>942,478</b>	<b>157,145</b>	<b>233,813</b>	<b>2,574,246</b>	<b>3,907,682</b>	<b>3,778,147</b>

**b.2) Past-due Credits**

Type Client/ Business	Current Installments				Total in December 2006	Total in December 2005
	0 to 90 days	91 to 180 days	181 to 360 days	Over 360 days		
Rural	110	138	1,596	12,328	14,172	37,182
Industry	2,602	473	438	4,176	7,689	20,890
Government	-	-	-	-	-	144
Other Services	1,860	273	44	1,450	3,627	17,734
Commerce	2,427	408	19	1,339	4,193	9,432
Financial Intermediaries	1	-	-	2	3	5
Consumer Credits	511	150	109	181	951	1,475
<b>T O T A L</b>	<b>7,511</b>	<b>1,442</b>	<b>2,206</b>	<b>19,476</b>	<b>30,635</b>	<b>86,862</b>

Type Client/ Business	Past due Installments				Total in December 2006	Total in December 2005
	0 to 90 days	91 to 180 days	181 to 360 days	Over 360 days		
Rural	3,525	5,565	4,313	57,465	70,868	50,657
Industry	4,310	3,072	13,234	17,839	38,455	28,460
Government	-	-	-	-	-	197
Other Services	6,471	421	1,138	10,115	18,145	24,161
Commerce	3,832	2,992	2,977	11,162	20,963	12,850
Financial Intermediaries	12	4	-	-	16	7
Consumer Credits	3,592	361	723	81	4,757	2,010
<b>T O T A L</b>	<b>21,742</b>	<b>12,415</b>	<b>22,385</b>	<b>96,662</b>	<b>153,204</b>	<b>118,342</b>

**c) Details by credit risk rating in RS Thousands**

Risk Level	12.31.2006				12.31.2005			
	Ordinary Credit (1)	Credit in Arrears	Total Portfolio	Provision Value	Ordinary Credit (1)	Credit in Arrears	Total Portfolio	Provision Value
AA	2,518,243	-	2,518,243	-	2,456,100	-	2,456,100	-
A	650,580	-	650,580	3,253	512,770	-	512,770	2,564
B	350,976	8,111	359,087	3,591	325,512	10,432	335,944	3,359
C	77,314	11,539	88,853	2,665	102,577	6,313	108,890	3,267
D	133,558	13,040	146,598	14,660	174,134	11,341	185,475	18,548
E	30,492	14,698	45,190	13,557	45,765	15,940	61,705	18,511
F	9,745	8,223	17,968	8,984	22,470	9,128	31,598	15,799
G	11,493	13,080	24,573	17,201	12,714	15,688	28,402	19,882
H	125,281	115,148	240,429	240,429	126,105	136,362	262,467	262,467
<b>TOTAL</b>	<b>3,907,682</b>	<b>183,839</b>	<b>4,091,521</b>	<b>304,340</b>	<b>3,778,147</b>	<b>205,204</b>	<b>3,983,351</b>	<b>344,397</b>

(1) Include 14 days past-due credits.

**d) Allowance movement for the period in R\$ Thousands**

<b>Specification</b>	<b>12.31.2006</b>	<b>12.31.2005</b>
Opening Balance	344,397	368,059
(+) Net Allowance for the period	98,581	299,398
(-) Credits classified as Losses for the period	(138,638)	(323,060)
<b>(=) Allowance for losses of the Credit Portfolio</b>	<b>304,340</b>	<b>344,397</b>
(+) Allowance for Other Credits having not a Credit Granting Nature	25,569	17,725
<b>(=) Balance of Allowance for Credits of Doubtful Accounts</b>	<b>329,909</b>	<b>362,122</b>

**e) Details by allowance expenses in R\$ Thousands**

<b>Specification</b>	<b>12.31.2006</b>	<b>12.31.2005</b>
(+) Doubtful credits allowance expenses	93,342	296,762
(+) Other doubtful credits allowance expenses	5,989	2,636
(-) Reversions of Operational Allowance	(750)	-
<b>(=) Balance of Expense with allowance having a Credit Granting Nature</b>	<b>98,581</b>	<b>299,398</b>
(+) Expense with the Allowance for Other Credits having not a Credit Granting Nature	10,282	1,367
(-) Reversions of Allowances for Other Credits having not a credit Granting Nature	(2,438)	(2,549)
<b>(=) Balance of Expense with Allowance for Doubtful Credits</b>	<b>106,425</b>	<b>298,216</b>

f) In the year, Credits Written-off as Losses have been recovered in the amount of R\$ 119,102 thousand (R\$ 293,189 thousand on 12.31.2005), and its operation renegotiations amounted R\$ 264,260 thousand (R\$ 384,761 thousand on 12.31.2005), of which R\$ 21,561 thousand refers to debt rescheduling based on Law No. 11.322, of July 13, 2006.

**NOTE 7 – Other Credits in R\$ Thousands**

<b>Specification</b>	<b>12.31.2006</b>	<b>12.31.2005</b>
<b>a) Receivables for Guarantees Honored</b>	<b>22</b>	<b>63</b>
<b>b) Foreign Currency Portfolio</b>	<b>209,506</b>	<b>183,947</b>
Unsettled Currency Purchases	203,714	177,932
Rights on Foreign Currency Sales	1,613	4,670
Prepayments in Collected National Currency	(723)	(1,231)
Income Receivables of Granted Advances	4,902	2,576
<b>c) Income Receivable</b>	<b>20,822</b>	<b>6,640</b>
<b>d) Moneys Negotiation and Dealing</b>	<b>-</b>	<b>-</b>
<b>e) Specific Credits/ National Treasury - Rural Credit Lengthening/ Resolution Nr. 2238</b>	<b>291</b>	<b>291</b>
<b>f) Sundry</b>	<b>632,350</b>	<b>571,349</b>
Tax Credits - Temporary Differences	55,063	100,691
Tax Credits – Marketable Securities and Derivative Instruments (Note 5.a.2)	180,736	161,398
Debtors for Guarantee Deposits	218,415	128,337
Tax and Payable Contributions	67,296	58,057
Tax Incentive Options	26,748	26,749
Security and Credits Receivable	2,552	11,856
Prepayments and Salary Anticipations	1,494	1,195
Payments to Reimburse	7,422	20,836
Recalculation, discounts, exemption and bonus in BNDES operations	3,195	2,123
Recalculation, discounts, exemption and bonus in FAT operations	41,324	33,061
Other Values	28,105	27,046
<b>g) Allowance for Other Doubtful Debts</b>	<b>(33,310)</b>	<b>(32,717)</b>
Having a Credit Granting Nature	(7,741)	(14,991)
Having not a Credit Granting Nature	(25,569)	(17,726)
<b>TOTAL</b>	<b>829,681</b>	<b>729,573</b>
SHORT TERM BALANCE	599,438	482,171
LONG TERM BALANCE	230,243	247,402

**NOTE 8 – Permanent Assets in R\$ Thousands**

<b>Specification</b>	<b>12.31.2006</b>	<b>12.31.2005</b>
<b>a) Investments</b>	<b>605</b>	<b>553</b>

<b>a.1) Other Investments</b>	<b>8,744</b>	<b>8,692</b>
Investments for Tax Incentive	4,411	4,411
Stocks and Quotas	3,878	3,878
Artistic and Valuable Goods	455	403
<b>a.2) Allowance for Losses</b>	<b>(8,139)</b>	<b>(8,139)</b>
Investments for Tax Incentive	(4,411)	(4,411)
Stocks and Quotas	(3,728)	(3,728)
<b>b) Property, plant and equipment</b>	<b>177,376</b>	<b>163,621</b>
<b>b.1) Real Estate for Use</b>	<b>106,852</b>	<b>92,247</b>
Lands	5,996	5,916
Buildings	100,856	86,331
<b>b.2) Revaluation of Real Estate for use</b>	<b>111,629</b>	<b>111,879</b>
Lands – Revaluations	10,931	10,964
Buildings – Revaluations	100,698	100,915
<b>b.3) Other Plant, Property, and Equipment for Use</b>	<b>97,770</b>	<b>84,606</b>
Installations and equipament for use	45,449	38,257
Data Processing System	39,129	36,865
Others	13,192	9,484
<b>b.4) Accumulated Depreciations</b>	<b>(138,875)</b>	<b>(125,111)</b>
Real Estate for Use	(109,087)	(98,622)
Other Plant, Property, and Equipment for Use	(29,788)	(26,489)
<b>c) Deferred</b>	<b>5,763</b>	<b>5,876</b>
<b>c.1) Expenditures for Organization and Expansion</b>	<b>10,259</b>	<b>9,736</b>
Expenditures in Third Parties' Real Estate	9,773	8,386
Logistic Acquisition and Development	486	826
Room installations and adaptations	-	524
<b>c.2) Accumulated Amortization</b>	<b>(4,496)</b>	<b>(3,860)</b>
Expenditures in Third Parties' Real Estate	(4,221)	(2,891)
Logistic Acquisition and Development	(275)	(478)
Room installations and adaptations	-	(491)
<b>TOTAL</b>	<b>183,744</b>	<b>170,050</b>

#### NOTE 9 –Deposits in R\$ Thousands

<b>Specification</b>	<b><u>12.31.2006</u></b>	<b><u>12.31.2005</u></b>
<b>a) Sight Deposits</b>	<b>132,457</b>	<b>127,439</b>
Foreign Currency Deposits in the Country	73,996	71,291
Government Deposits	19,688	23,929
Attached Deposits	13,317	9,892
Legal Entity	18,038	13,282
Individuals	6,144	8,189
Other Values	1,274	856
<b>b) Saving Account Deposits</b>	<b>545,906</b>	<b>447,289</b>
Free Saving Account Deposits - Individuals	379,986	320,398
Free Saving Account Deposits - Corporate	165,823	126,872
Linked and of Financial System Institutions	97	19
<b>c) Interbanks Deposits</b>	<b>199,659</b>	<b>91,560</b>
<b>d) Time Deposits</b>	<b>1,761,339</b>	<b>1,840,061</b>
Time Deposits	908,773	703,125
Interest-bearing Judicial Deposits	23,823	18,669
<b>Interest-bearing Special Deposits/ "FAT" - Available Funds</b>	<b>108,141</b>	<b>45,564</b>
Urban <i>Proger</i>	1,768	8,756
Rural <i>Proger</i>	315	1,357
<i>Pronaf</i>	355	406
<i>Protrabalho</i>	7,243	34,965
Infrastructure	97,095	-

Draught Period	1,365	80
<b>Interest-bearing Special Deposits/ "FAT" – Invested Funds</b>	<b>564,409</b>	<b>891,247</b>
Urban <i>Proger</i>	100,146	190,033
Rural <i>Proger</i>	4,777	42,141
<i>Pronaf</i>	34,499	92,390
<i>Protrabalho</i>	401,533	531,682
Draught Period	23,454	35,001
FINOR/ Availabilities and Reinvestments/ Law Nr 8,167	156,193	181,456
<b>e) Others Deposits – Deposits for investments</b>	<b>8,713</b>	<b>6,902</b>
<b>TOTAL</b>	<b>2,648,074</b>	<b>2,513,251</b>
SHORT TERM BALANCE	1,376,212	1,245,006
LONG TERM BALANCE	1,271,862	1,268,245

#### NOTE 10 – Long-Term Liabilities

- a) As per loan and onlending liabilities contracted in the Country, interest rates vary from 0 to 10.5% per year, with terms varying from 4 to 20 years, with a 6-year average term. Monetary updating, when applicable in accordance with provisions under the law and agreement, is calculated based on official indexes disclosed by the Brazilian Central Bank.
- b) The liabilities incurred with the BNDES [The Brazilian National Bank for Economic and Social Development] system, to the order of R\$ 801,994 thousand ( R\$ 985,824 thousand on 12.31.2005) have burdens based on the TJLP [Long Term Interest Rate], plus a 1.0%-year average spread, and a 6-year average term.
- c) Liabilities incurred with Fundo de Amparo ao Trabalhador [Fund for Workers' Support] ("FAT"), recognized in Interest-bearing Special Deposits, to the order of R\$ 672,550 thousand (R\$ 936,811 thousand on 12.31.2005), have a financial funding cost based on SELIC [Special System for Settlement and Custody] rate, so long as they are not applied in credit operations, and based on the TJLP, upon release to borrowers. Such liabilities average term is 5 years, with final maturity in 2023. Free funds, updated based on the SELIC rate, total R\$ 108,141 thousand (R\$ 45,564 thousand on 12.31.2005).
- d) As to the external liabilities, interest rates vary from 4.16% to 6.00% per year, the average term is 11 years, and the final maturity with the Interamerican Development Bank ("IDB") shall be in 2027. The foreign exchange correction, when applicable in accordance with the contractual provisions , is calculated based on official indexes disclosed by Brazilian Central Bank.
- e) Assets onlendings are made, at least, in the same condition of liability onlendings as to charges and terms, and are supported by security interests, guarantees and bails, further to other collaterals.
- f) Distribution of the Liabilities for Loans and Onlendings For Maturity Range in R\$ Thousands:

Specification	0 to 3 months	3 to 12 months	1 to 3 years	3 to 5 years	5 to 15 years	Over 15 years	Total in December 06	Total in December 05
Domestic Loans	4,432	6,259	15,439	15,439	46,409	-	87,978	90,218
Foreign Loans	95,788	141,222	-	-	-	-	237,010	225,128
Domestic Onlending	276,394	245,113	211,697	176,569	153,852	164,837	1,228,462	1,383,837
Foreign Onlending	2,350	54,878	111,045	111,734	450,149	10,283	740,439	833,493
<b>TOTAL</b>	<b>378,964</b>	<b>447,472</b>	<b>338,181</b>	<b>303,742</b>	<b>650,410</b>	<b>175,120</b>	<b>2,293,889</b>	<b>2,532,676</b>

#### NOTE 11 –Liabilities for Loans in R\$ Thousands

Specification	12.31.2006	12.31.2005
a) Domestic Loans/ Official Institutions/ Refinancing	87,978	90,218
b) Foreign Loans/ Foreign Currency Liabilities	237,010	225,128
<b>TOTAL</b>	<b>324,988</b>	<b>315,346</b>
SHORT TERM BALANCE	247,701	235,707
LONG TERM BALANCE	77,287	79,639

#### NOTE 12 – Domestic Onlending Liabilities – Official Institutions in R\$ Thousands

Specification	12.31.2006	12.31.2005
a) Brazilian National Treasury	1,509	1,633
b) Brazilian Bank	3	3
c) BNDES'	717,871	872,927

Poc - Joint Operation Program	378,594	518,102
Facility for Investment in the Agricultural Sector	339,277	354,825
<b>d) CEF<sup>2</sup></b>	<b>586</b>	<b>892</b>
<b>e) FINAME<sup>3</sup></b>	<b>84,123</b>	<b>112,897</b>
Special Program	-	1,382
Regular Program	70,821	95,541
Agricultural Program	13,053	15,278
Import	249	696
<b>f) Other Institutions</b>	<b>424,370</b>	<b>395,485</b>
Pilot Project for Support to Agrarian Reform	69,857	66,310
MEPF - Fund for Lands and Agrarian Reform – Land Bank	169,229	167,658
EMBRATUR <sup>4</sup> /FUNGETUR <sup>5</sup>	473	2,228
Land Bank – Rural Poverty Combat	181,887	156,115
Other Programs	2,924	3,174
<b>TOTAL</b>	<b>1,228,462</b>	<b>1,383,837</b>
SHORT TERM BALANCE	521,507	438,785
LONG TERM BALANCE	706,955	945,052

<sup>1</sup> The Brazilian National Bank for Economic and Social Development (“BNDES”)

<sup>2</sup> Federal Savings and Loans Bank (“CEF”)

<sup>3</sup> The Brazilian Government Agency for Machinery and Equipment Financing (“FINAME”)

<sup>4</sup> Brazilian Tourism Company (“EMBRATUR”)

<sup>5</sup> The General Tourism Fund (“FUNGETUR”)

#### NOTE 13 – Foreign Onlending Liabilities in R\$ Thousands

Specification	12.31.2006	12.31.2005
a) IDB - Prodetur <sup>*</sup>	721,593	812,587
b) IDB - Other Programs	17,322	18,999
c) Other Programs	1,524	1,907
<b>TOTAL</b>	<b>740,439</b>	<b>833,493</b>
SHORT TERM BALANCE	57,228	65,206
LONG TERM BALANCE	683,211	768,287

<sup>\*</sup> Tourism Development Program (“PRODETUR”)

#### NOTE 14 – Other Liabilities in R\$ Thousands

Specification	12.31.2006	12.31.2005
<b>a) Collected Taxes and Others</b>	<b>5,317</b>	<b>5,373</b>
Proagro Funds	4,131	4,152
Taxes and Others	1,186	1,221
<b>b) Foreign Exchange Portfolio</b>	<b>2,513</b>	<b>8,997</b>
Foreign Exchange Purchase Liabilities	207,139	172,553
Foreign Exchange sold pending settlement	1,611	4,660
(Advances on Foreign Exchange Contracts)	(206,295)	(168,279)
Other Values	58	63
<b>c) Social and Statutory</b>	<b>95,184</b>	<b>36,813</b>
Dividends and Bonus to pay	80,329	29,462
Profit Participations	14,855	7,351
<b>d) Tax and Social Security</b>	<b>520,693</b>	<b>478,046</b>
Provision for Tax Risks (Note 20)	199,707	187,411
Tax and Contributions	171,888	162,518
Tax Cases	27,819	24,893
Provision for Taxes and Contributions, Deferred	231,292	193,693
Security and Derivative Instruments (Note 5.a.2)	216,060	177,044
Revaluation on Buildings and Lands	15,232	16,649
Provision for Tax and Contribution on Profit	60,878	75,493
Tax and Contributions to Collect/ Pay	28,816	21,449
<b>e) Financial and Development Funds</b>	<b>3,703,473</b>	<b>3,848,405</b>
The Brazilian Northeastern Region Constitutional Financing Fund – FNE	3,678,912	3,817,550
Other Values	24,561	30,855

<b>f) Sundry</b>	<b>1,474,604</b>	<b>1,408,758</b>
<b>Provision for Contingent Liabilities (Note 20)</b>	<b>660,370</b>	<b>686,072</b>
Labor Disputes	94,348	107,599
Civil Actions	53,103	44,407
Other Actions	47	3,488
FNE (Note 25.c.2)	512,872	530,578
<b>Provision for Payments Falling Due</b>	<b>780,683</b>	<b>692,200</b>
Benefits to Employees – CVM Resolution 371 (Note 23.e)	711,768	616,027
Retirement and Pension Plan	584,835	533,399
Medical Care Plan	126,933	82,628
Personnel Expenses	30,504	40,921
Other Values	38,411	35,252
<b>Other Values</b>	<b>33,551</b>	<b>30,486</b>
<b>TOTAL</b>	<b>5,801,784</b>	<b>5,786,392</b>
SHORT TERM BALANCE	1,617,599	3,519,532
LONG TERM BALANCE	4,184,185	2,266,860

## NOTE 15 - Net Equity

### a) Capital Stock

The amount of the Capital Stock is R\$ 1,299,000 thousand (R\$ 1,227,000 thousand on 12.31.2005), represented by 870,019,022,574 book entry shares, with no par value, only paid-up, distributed as follows:

Stockholders	Common Shares	Preferred Shares	Voting Capital %	Total Capital %
The Federal Government	465,952,800,540	353,731,907,693	96.10	94.22
The Brazilian National Development Fund – FND	14,737,043,790	23,732,649,036	3.04	4.42
BNDESPAR <sup>1</sup>	490,153,432	4,899,854,822	0.10	0.62
Others (35,291 shareholders)	3,667,757,582	2,806,855,679	0.76	0.74
<b>TOTAL</b>	<b>484,847,755,344</b>	<b>385,171,267,230</b>	<b>100.00</b>	<b>100.00</b>

<sup>1</sup> BNDES Participações

### b) Revaluation Reserve

It refers to the revaluation of assets for own use, constituted on 02.26.1993. The realization occurred in this year, in the amount of R\$ 2,722 thousand (R\$ 2,686 thousand as of 12.31.2005), was transferred for “Accumulated Profits or Losses - LPA”.

### c) Net Profit – Destinations in R\$ Thousands

<b>1. Net Profit</b>	<b>202,734</b>
2. Adjustments from Precedent Years	(24,799)
3. Revaluation Reserves transferred for LPA	2,722
<b>4. Adjusted Net Profit</b>	<b>180,657</b>
Legal Reserve (item 1 times 5%)	10,137
Dividends (Note 15.d)	14,175
Interest on equity capital (Note 15.d)	80,346
Statutory reserve (item 4 – Legal Reserve – Dividends – interest on equity capital)	75,999

### d) Dividends/ Interest on equity capital

Banco do Nordeste’s By-Laws assures to stockholders no less than 25% on the Net Profit result ascertained in each year, adjusted as set forth by Law.

The Administration Council proposes to the Annual General Meeting the payment of dividends and interest on equity capital attributed to dividends of 50.0212% on adjusted net income. There follows the statement of calculations of dividends / interest on equity capital for 2006 in R\$ thousands:

<b>1. Net Profit of the Year</b>	<b>202,734</b>
2. Legal Reserve Constituted	(10,137)
3. Revaluation Reserves transferred for LPA	2,722
4. Adjustments from Precedent Years (Note 15.e)	(24,799)
5. Participations in Profit and Results	18,236
<b>6. Dividend Calculation Basis/ Interest on equity capital</b>	<b>188,756</b>
7. Prepaid dividends incurring SELIC (Central Bank overnight rate)	14,175
8. Interest on equity capital attributed to dividends	80,243
9. Withholding income tax on interest on equity capital	103
10. Interest on equity capital for shareholders (item 8 + item 9)	80,346
- Interest on equity capital of R\$ 0.08843462689 per batch of 1,000 Common Shares	42,877
- Interest on equity capital of R\$ 0.09727808956 per batch of 1,000 Preferred Shares	37,469
11. Total for shareholders (item 7 + item 10)	94,521

For preferred shares, dividends/interest on equity capital 10% greater than those given to common shares were calculated, as provided for in subsection "I", Article 17, of Law Number 6,404/76, with the new wording given by Law Number 10,303/01, subject to paragraph 2, Article 6, of the Bank By-Laws.

Interest on equity capital will be paid in addition to finance charges incurring SELIC rate from the balance sheet date to the date earnings become available to shareholders, pursuant to Decree No. 2.673 of July 16, 1998, with wording provided by Decree No. 3.381 of March 13, 2000.

Employees' profit sharing was added to the tax basis for dividends/ interest on equity capital, as set forth by Article 2, Resolution Nr. 10/1995, of Conselho de Coordenação e Controle das Empresas Estatais [The Council for Coordination and Control of State-Owned Companies] ("CCE").

**e) Adjustments from Precedent Years in R\$ Thousands**

The LPA adjustments refer to rectification of errors in prior years. The tributary effects had been duly searched into as disposed on article N° 273 of the Income Tax Regulation (Decree Nr 3,000/99).

Specification	Value
Adjustment deriving from error in the credit operation filing and in the coverage requirement of PROAGRO generating improper revenue since 2002	(5,496)
Difference in the value of administration fee and "Del credere" on FNE operations for the non-acknowledgement of the allowance credit risk in FNE in 2005	(26,256)
Tributary effect of Income Tax and CSLL <sup>1</sup> on adjustments of previous years	6,953
<b>TOTAL</b>	<b>(24,799)</b>

<sup>1</sup> Social Contribution on Net Income ("CSLL")

**NOTE 16 – Revenues of Financial Intermediation in R\$ Thousands**

Specification	2 <sup>nd</sup> Semester/ 2006	12.31.2006	12.31.2005
<b>a) Credit Operations</b>	<b>276,224</b>	<b>571,991</b>	<b>765,944</b>
Interest and Commissions	191,460	373,004	362,088
Monetary Restatement	27,055	45,970	62,803
Exchange Rate Variation	4,849	33,915	47,864
Recovery of Credits Written-off as Losses	52,860	119,102	293,189
<b>b) Result of Operations with Bonds and Securities</b>	<b>497,176</b>	<b>1,065,939</b>	<b>1,380,146</b>
Fixed-Income Securities	450,319	947,578	1,345,789
Other Applications	48,998	138,846	58,983
Profit, Loss and Adjustment	(2,141)	(20,485)	(24,626)
<b>c) Result with Derivative and Financial Instruments</b>	<b>(6,152)</b>	<b>(5,305)</b>	<b>-</b>
<b>d) Result from Foreign Exchange Operations</b>	<b>8,022</b>	<b>18,367</b>	<b>25,242</b>
Foreign Exchange Operations	6,625	12,529	8,822
Cash and Cash Equivalents in foreign currencies	8	325	188
Taxes Variations and Differences	1,389	5,513	16,232
<b>e) Result from Compulsory Applications</b>	<b>1,882</b>	<b>4,725</b>	<b>18,443</b>
Interest and Commissions	1,533	4,061	17,596
Monetary Restatement	349	664	847
<b>TOTAL</b>	<b>777,152</b>	<b>1,655,717</b>	<b>2,189,775</b>

**NOTE 17 – Expenditures of Financial Intermediation in R\$ Thousands**

Specification	2 <sup>nd</sup> Semester/ 2006	12.31.2006	12.31.2005
<b>a) Funding Operations at the Market</b>	<b>(124,302)</b>	<b>(269,692)</b>	<b>(355,590)</b>
Interest and Commissions	(66,153)	(152,456)	(240,274)
Monetary Restatement	(58,149)	(114,555)	(110,981)
Exchange Rate Variation	-	(2,681)	(4,335)
<b>b) Borrowing and Onlending Operations</b>	<b>(305,257)</b>	<b>(690,704)</b>	<b>(870,693)</b>
Interest and Commissions	(42,482)	(100,728)	(122,410)
Monetary Restatement	(10,762)	(21,133)	(691,616)
Monetary Restatement of FNE available	(245,777)	(527,221)	-
Exchange Rate Variation	(6,236)	(41,622)	(56,667)
<b>c) Allowance for Doubtful Credits (Note 6.e)</b>	<b>(50,911)</b>	<b>(106,425)</b>	<b>(298,216)</b>
Credit Operations	(50,818)	(98,581)	(299,399)
Operations having not a Credit Granting Nature	(93)	(7,844)	1,183
<b>TOTAL</b>	<b>(480,470)</b>	<b>(1,066,821)</b>	<b>(1,524,499)</b>

**NOTE 18 – Other Operational Revenues/ Expenditures in RS Thousands**

<b>Specification</b>	<b>2<sup>nd</sup> Semester/ 2006</b>	<b>12.31.2006</b>	<b>12.31.2005</b>
<b>a) Services Provided Revenues</b>	<b>389,774</b>	<b>722,911</b>	<b>653,044</b>
Administration of Investment Funds	2,872	5,482	4,424
Administration of Funds and Programs	309,164	590,956	557,773
Services Provided	77,738	126,473	90,847
<b>b) Personnel Expenses</b>	<b>(313,660)</b>	<b>(602,055)</b>	<b>(559,757)</b>
Salaries	(152,972)	(279,956)	(242,720)
Social Charges	(58,927)	(108,984)	(102,960)
Retirement and Pension Plan – CVM Resolution 371 (Note 23.g)	(54,569)	(117,129)	(130,379)
Medical Care Plan – CVM Resolution 371 (Note 23.g)	(20,017)	(44,305)	(41,761)
Benefits, trainings, wages and Remuneration of Trainee	(27,175)	(51,681)	(41,937)
<b>c) Other Administrative Expenses</b>	<b>(201,139)</b>	<b>(394,262)</b>	<b>(365,766)</b>
Data Processing	(35,771)	(74,223)	(73,313)
Advertising and Publicity	(9,638)	(20,587)	(19,755)
Third Parties' Services	(27,270)	(48,944)	(32,543)
Rents, Material, Water, Electric Power and Gas	(17,679)	(35,821)	(34,700)
Travels	(7,007)	(14,245)	(13,814)
Communications	(11,534)	(22,895)	(21,463)
Depreciation and Amortization	(9,943)	(19,426)	(16,899)
Property Maintenance and Conservation	(8,934)	(17,178)	(14,084)
Surveillance, Security and Transportation	(8,869)	(17,516)	(15,701)
Promotions, Public Relations and Publications	(5,905)	(11,068)	(8,434)
Financial System Services	(5,560)	(10,578)	(8,941)
Technical Expert Services	(6,471)	(12,633)	(12,448)
Insurance	(794)	(1,574)	(1,705)
Capef and Camed employers' share - Pensioners	(31,474)	(57,855)	(53,040)
Legal fees, notary's office and advocative fees	(5,213)	(13,288)	(17,392)
Contribution to Employers' Union and Associative Entity	(292)	(653)	(684)
Condominium, Pantry, Kitchen and provisions	(1,205)	(2,373)	(2,159)
Other Values	(7,580)	(13,405)	(18,691)
<b>d) Tax Expenses</b>	<b>(45,954)</b>	<b>(88,787)</b>	<b>(85,285)</b>
Cofins and PIS/ PASEP <sup>2</sup> Contributions	(40,259)	(76,944)	(75,755)
CPMF	(1,470)	(2,947)	(3,965)
ISS and IPTU/ Improvement Contribution	(3,632)	(7,202)	(4,608)
Other Values	(593)	(1,694)	(957)
<b>e) Other Operational Revenues</b>	<b>207,835</b>	<b>472,350</b>	<b>728,324</b>
<i>Del credere</i> from Managed Funds	136,614	251,655	174,156
Negative Exchange Rate Variation from Loans	16,732	138,364	273,183
Reversion from Operational Allowances/ Risks with FNE Operations	-	-	143,919
Recovery of Charges and Expenses	3,943	7,014	6,015
Reversion from Social Contribution and Income Tax Allowances	862	2,373	7,712
Reversion from Operational Allowances	30,449	44,208	93,415
Interest and Comissions	5,860	14,106	17,414
Monetary Restatement	1,368	1,421	3,653
Tax Monetary update	366	579	1,282
Other Values	11,641	12,630	7,575
<b>f) Other Operational Expenses</b>	<b>(133,741)</b>	<b>(369,972)</b>	<b>(671,161)</b>
Exchange Rate Variation of the Foreign Exchange Area	-	(1,848)	(872)
Negative Foreign Exchange Rate Variation from Loans	(13,785)	(108,312)	(203,813)
Negative Monetary Update of Credit Operations	(24)	(4,169)	(18,714)
Discounts Granted in Renegotiation	(702)	(1,382)	(2,969)
Charges of Credit Operations	(1,373)	(2,997)	(44,094)
Tax Risks	(11,606)	(30,818)	(101,572)
FNE Operations risk	(80,546)	(169,865)	(120,971)
Labor Disputes	(7,310)	(11,961)	(78,011)
Civil Actions	(16,212)	(21,591)	(14,072)
Other Actions	(19)	(19)	(3,483)
Other Operational Allowances	-	(10,887)	(43,702)
Other Values	(2,164)	(6,123)	(38,888)
<b>TOTAL</b>	<b>(96,885)</b>	<b>(259,815)</b>	<b>(300,601)</b>

<sup>1</sup> Employees' Profit Participation Program ("PIS")

<sup>2</sup> Public Service Employee Savings Program ("PASEP")

## NOTE 19 - Taxes and Contributions

### a) Income Tax and Social Contribution

Banco do Nordeste is subject to the Real Profit tax system, and pays Estimate Income Tax and Social Contribution on a monthly basis. The Income Tax expense registered in the year of 2006 was R\$ 81,974 thousand and Social Contribution was R\$ 30,144 thousand, with its conciliation being set out below in R\$ Thousands:

Specification	Income Tax		Social Contribution	
	12.31.2006	12.31.2005	12.31.2006	12.31.2005
Income Before Taxes	234,505	303,934	234,505	358,483
Permanent Additions/ Exclusions	(15,394)	384,783	(15,370)	330,258
Period-related Additions/ Exclusions	44,051	(369,226)	44,051	(369,226)
Taxable Income Before Offsets	263,162	319,491	263,186	319,515
Tax Loss and Negative Basis Offset	(78,949)	(95,847)	(78,956)	(95,855)
Taxable Income after Offsets	184,213	223,644	184,230	223,660
Taxes Due	50,156	54,870	18,067	19,763
Deductions (Tax incentives)	(1,732)	(524)	-	-
Tax Credit on Timing Differences	33,550	96,629	12,078	34,786
Amounts recorded as expenses	81,974	150,975	30,145	54,549
Expense % in relation to income before taxes	34.96%	49.67%	12.85%	15.22%

### b) Tax Credits on Timing Differences

Article 9 of Law Number 9,430, sets deductibility rules applied in the registration of allowance for doubtful debtors in the tax basis for the Income Tax and Social Contribution, which differ from the provisions of the National Monetary Council Resolution Number 2,682, of 12.21.1999. The portion of the allowance constituted by the rules of the National Monetary Council exceeding the limit ascertained in accordance with the tax laws is temporarily added in the tax basis for the aforementioned taxes. The provisioning, temporarily non-deductible, shall reduce the tax results from subsequent periods, when it shall be included in concepts of loss for taxable purposes, or upon the reversion thereof.

Because of the temporary nature of the addition of allowances for doubtful debtors, and pursuant to provision of the Circular Letter BACEN Nr. 3,171, of 12.30.2002, CVM Resolution Nr. 273, of 08.20.1998, and Article 8 of Provisional Measure Nr. 2,158-35, of 08.24.2001, the Bank registers, since 1996, the tax credit corresponding to the Income Tax and Social Contribution on said temporary differences. However, since January 2005, the Bank has not constituted new credits and has been realizing the balance registered on 12.31.2004.

In accordance with the Circular Letter BACEN Nr. 3,023, of 06.11.2002, tax credits have been constituted on adjustments to the market value of Bonds and Securities, as regards the securities available for sale. Credits' movement is shown below, in R\$ Thousands:

Specification	INCOME TAX		SOCIAL CONTRIBUTION	
	Temporary Differences	TVM	Temporary Differences	TVM
Opening Balance as of 12.31.2005	74,031	118,675	26,660	42,723
(+) Credit Constitution	-	24,036	-	8,653
(-) Credit Realization	(33,550)	(9,817)	(12,078)	(3,534)
(=) Final Balance as of 12.31.2006	40,481	132,894	14,582	47,842

The balance for the Income Tax and Social Contribution active provision, registered in "OTHER CREDITS-Sundry", has the following composition, in R\$ Thousands:

Specification	Income Tax		Social Contribution	
	12.31.2006	12.31.2005	12.31.2006	12.31.2005
1. Total Timing Differences	2,051,325	2,184,223	2,051,325	2,184,223
2. Tax Loss and Negative Basis	759,401	840,072	761,094	840,065
3. Total calculation basis "1" + "2"	2,810,726	3,024,295	2,812,419	3,024,288
4. Tax Credits on Temporary Differences + Tax Loss and Negative Basis	702,682	756,025	253,118	272,186
5. Tax credits arising from Securities market marking	132,894	118,675	47,842	42,723
6. Total Tax Credits	835,576	874,700	300,960	314,909
7. Tax Credits Activated	173,375	192,706	62,424	69,383
8. Tax Credits Non-Activated "6" - "7"	662,201	681,994	238,536	245,526

The deferred Income Tax and Social Contribution shall be realized so long as the timing differences on which they are calculated are reverted, or they are included in tax deductibility parameters, the realization time schedule of which is provided below, duly grounded on technical study in which there is an expectation towards the generation of future positive results, with the consequent generation of liabilities for taxes and contributions, already considering the provisions in Article 6, sole paragraph, of Law Number 9,249/95.

For a comparison effect, they are demonstrated below, in R\$ thousands, the foreseen values of tributary credits achievements in the position of 12.31.2006:

In 12.31.2006:

Period	Income Tax Credit Realization		CSLL Credit Realization		Total	
	Book Value	Present Value	Book Value	Present Value	Book Value	Present Value
2007	33,545	29,892	12,083	10,767	45,628	40,659
2008	6,937	5,856	2,499	2,110	9,435	7,966
<b>TOTAL</b>	<b>40,482</b>	<b>35,748</b>	<b>14,582</b>	<b>12,877</b>	<b>55,063</b>	<b>48,625</b>

Tax Credits on market value adjustments for Marketable Securities ascertained by the present value for realization, in accordance with Circular Letter BACEN Nr. 3,068/01, shall be realized in accordance with Securities' maturity, as shown below, in R\$ Thousands:

Period	Income Tax Credit Realization		CSLL Credit Realization		Total	
	Book Value	Present Value	Book Value	Present Value	Book Value	Present Value
2007	128,299	128,299	46,188	46,188	174,487	174,487
2008	1,035	1,035	373	373	1,408	1,408
2009	2,302	2,302	829	829	3,131	3,131
2010	-	-	-	-	-	-
2011	4	4	1	1	5	5
2012 to 2014	1	1	-	-	1	1
2015 to 2017	-	-	-	-	-	-
2027 to 2029	1,253	1,253	451	451	1,704	1,704
<b>TOTAL</b>	<b>132,894</b>	<b>132,894</b>	<b>47,842</b>	<b>47,842</b>	<b>180,736</b>	<b>180,736</b>

#### NOTE 20 –Provisions and Liability Contingencies

- Banco do Nordeste participates in several lawsuits involving mainly civil, fiscal and labor actions, that are in progress in the administrative and legal spheres.
- The evaluation of the liability contingency, risk degree of new actions and the revaluation of the already existing ones are accomplished by the Legal Area, case by case, being classified in accordance with the loss likelihood of probable, possible and remote. This classification is carried through on the basis of the analysis of the following factors: i) legal and factual basis from the opposite party's request; ii) obtained results by the Bank in similar demands; iii) jurisprudencial trend of the Superior Courts to the demand's subjects.
- The Bank has started to constitute integral allowance on the estimated value of loss in demands classified as probable, not containing provision for those classified as possible and remote, as it is shown below, in R\$ Thousands:

Specification	Bases Value	Provisions
<b>PROVISION FOR TAX RISKS (Note 14.d)</b>	<b>425,678</b>	<b>199,707</b>
<b>Tax and Contributions (Probable)</b>	<b>171,888</b>	<b>171,888</b>
<b>Tax Actions</b>	<b>253,790</b>	<b>27,819</b>
Probable	27,819	27,819
Possible	78,901	-
Remote	147,070	-
<b>PROVISION FOR CONTINGENT LIABILITIES (Note 14.f)</b>		
<b>Labor Disputes</b>	<b>133,278</b>	<b>94,348</b>
Probable	94,348	94,348
Possible	23,055	-
Remote	15,875	-
<b>Civil Actions</b>	<b>474,108</b>	<b>53,103</b>
Probable	53,103	53,103
Possible	109,216	-
Remote	311,789	-
<b>Other Actions</b>	<b>4,929</b>	<b>47</b>
Probable	47	47
Possible	2,808	-
Remote	2,074	-

- The Provision for Tax and Contributions Fiscal Risks contemplates the total of the compensated values from Income Tax and Social Contribution, paid in result of the inflationary expurgation ("Summer Plan").
- The following provisions are shown as follows in R\$ Thousands:

<b>Specification</b>	<b>12.31.2006</b>
<b>a) Tax and Contributions (Other Liabilities – Sundry)</b>	
Opening Balance	162,518
Constitution	9,370
Reversion/ Use/ Classified	-
Final Balance	171,888
<b>b) Tax Actions (Other Liabilities – Sundry)</b>	
Opening Balance	24,893
Constitution	15,259
Reversion/ Use/ Classified	(12,333)
Final Balance	27,819
<b>c) Labor Disputes (Other Liabilities - Sundry)</b>	
Opening balance	107,599
Constitution	13,340
Reversion/ Use/ Classified	(26,591)
Final Balance	94,348
<b>d) Civil Actions (Other Liabilities - Sundry)</b>	
Opening Balance	44,406
Constitution	32,181
Reversion/ Use/ Classified	(23,484)
Final Balance	53,103
<b>e) Other Actions (Other Liabilities - Sundry)</b>	
Opening balance	3,488
Constitution	523
Reversion/ Use/ Classified	(3,964)
Final Balance	47
<b>f) Vacations</b>	
Opening balance	18,162
Constitution	25,472
Reversion/ Use/ Classified	(22,422)
Final Balance	21,212

- f) The Bank has lawsuits sponsored by outsourced lawyers mostly referring to execution of lending operations for which a provision is set up pursuant to Resolution No. 2.682/99. From the moment these demands generate the possibility of contingencies for the Bank, the assessment will be made by the Legal Department according to item “b”, mentioned above.
- g) The risk assumed by the Bank in FNE operations, contracted from 12.01.1998, is calculated in a comparable way to that foreseen in Resolution Nr. 2,682/99 (Note 25.c).

#### **NOTE 21 – Compensation Paid to Employees and Officers**

The maximum, average, and minimum monthly compensation values paid by the Bank to its employees and officers are as follows, in R\$ 1.00:

<b>Gross Compensation</b>	<b>Employees (1)</b>	<b>Officers (2)</b>
Maximum	13,501.33	16,176.64
Minimum	578.93	-
Average	3,551.11	-

1) It includes payment for overtime (including night job extra payment), when actually provided.

2) It includes R\$ 2,604.93 for the 20% additional compensation for exercising a head position, fixed by the Brazilian Ministry of Finance.

On 12.31.2006, Banco do Nordeste employees number totaled 5,161 ( 4,407 as of 12.31.2005), with a 17.11% increase, within the period, in Bank personnel.

#### **NOTE 22 – Profits and Results Participation**

In the year of 2006, the amount of R\$ 18,236 thousand was set aside for employees’ and officers’ profit sharing, corresponding to 25% of dividends, pursuant to Resolution Nr. 10/1995, of the Conselho de Coordenação e Controle das Empresas Estatais [The Council for Coordination and Control of State-Owned Companies] (“CCE”).

## NOTE 23 - Benefits to Employees

As stipulated by CVM Instruction Nr. 371, of 12.13.2000, the informations on benefits to the employees policy are provided below, as well as the accounting procedures adopted by Banco do Nordeste in order to recognize such obligations:

**a) Banco do Nordeste does not provide:**

- Dismissal benefits;
- Long term benefits;
- Compensation through shares and securities corresponding to equity participation.

**b) Accounting Policy Adopted by the Bank in the Recognition of Actuarial Earnings and Losses**

The policy adopted in the recognition of actuarial earnings and losses complies with the provisions in items 52 to 55 of the attachment to CVM Resolution Nr. 371, recognizing the actuarial earnings or losses portion exceeding the higher of: 10% of the current actuarial liability value for the benefit determined and 10% of the fair value of the plan assets.

**c) Features of the Pension Plan for Employees of Banco do Nordeste do Brasil**

The Bank is the sponsor of Caixa de Previdência dos Funcionários do Banco do Nordeste do Brasil [Private Pension Association for Employees of Banco do Nordeste do Brasil] (“CAPEF”), a supplementary pension closed entity intended to supplement the government retirement pension plan for affiliated employees, further to the granting of a pension allowance for their dependents. Below are outstanding information concerning CAPEF operation:

**c.1) Actuarial Method**

CAPEF adopts the capitalization financial method in the actuarial calculation of reserves in connection with the benefits for retirement supplementation, pension supplementation, and ordinary annuity.

**c.2) Benefits Plan**

The adopted type plan is that of determined benefit, assuring the supplementation of the retirement for service time, aging, and incapability of participants, as well as the supplementation of the ordinary pension and annuity for participants’ dependents.

**c.3) Liabilities Overdue**

None.

**c.4) Debt from Contributions**

On 12.30.2003, Banco do Nordeste made a contract with CAPEF, in connection with the amount it would contribute as a sponsor, to extinguish judicial demands, in the amount of R\$ 183,695 thousand (contracted deficit). The agreement also included the recognition of unpaid contributions to CAPEF in the period of July/1993 to February/1994, in the amount of R\$ 54,975 thousand, totaling a debt of R\$ 238,670 thousand. The Bank’s contractual debt was settled on December 29, 2006.

**c.5) Evolution of the Actuarial Situation**

CAPEF actuarial result, as of December/2006, was a surplus one, in the amount of R\$ 184,453 thousand (surplus of R\$ 146,220 thousand on 12.31.2005), pursuant to Actuarial Assessment made by PROBUS Suporte Empresarial S/C Ltda.

**c.6) Contribution List (Participants/ Sponsor)**

The contribution ratio between participants and Banco do Nordeste meets the parity rule established in the Constitutional Amendment Nr. 20/98, registering, on 12.31.2006, the contributory ratio 1:1 (On 12.31.2005 1:1).

**d) Features of the Medical Care Plan**

Banco do Nordeste contributes with the Health Plan managed by Caixa de Assistência dos Funcionários do Banco do Nordeste do Brasil [Association for the Aid to Employees of Banco do Nordeste do Brasil] (“CAMED”), the main purpose of which is to provide medical care to its associates and dependents enrolled with the Natural Plan, through the grant of aids destined for covering or recovering expenses made for health furtherance, protection and recuperation.

**d.1) Liabilities due**

None.

**d.2) Contributions**

The Natural Plan is basically financed by the social contribution paid by the associates, by the contribution related to the registration of natural dependents, by the financial protection fee, by the co-participation paid by the associates according to the medical procedures individually undergone by them and by the parity contribution which sponsors are liable for.

**e) Conciliation of Assets and Liabilities Recognized in the Balance Sheet**

Assets' and liabilities' conciliation is shown below, in R\$ thousands, pursuant to actuarial assessments made by PROBUS Suporte Empresarial S/C Ltda., based on information provided by Caixa de Previdência dos Funcionários do Banco do Nordeste do Brasil ("CAPEF"), by Caixa de Assistência dos Funcionários do Banco do Nordeste do Brasil ("CAMED"), and by Banco do Nordeste do Brasil S.A., in compliance with the provision in item 49 of the Attachment of CVM Instruction Nr. 371:

Specification	CAPEF	CAMED
1. Present Value of Actuarial Liabilities Fully or Partially Covered	2,400,309	322,212
2. Fair Value of Plan Assets	1,663,253	12,968
3. Present Value of unfunded Actuarial Liabilities (item 1 minus item 2)	737,056	309,244
a. Present Value of recognized unfunded Actuarial Liabilities	584,835	126,933
i. Current Expenses	213,316	58,286
ii. Net Value of Actuarial Losses	11,579	37,266
iii. Cost of Services Formerly Provided	126,308	-
iv. Portion of Actuarial Liabilities Ascertained as of 12.31.2001	233,632	31,381
b. Present Value of non-recognized unfunded Actuarial Liabilities	152,221	182,311
i. Net Value of Actuarial Losses	46,239	182,311
ii. Cost of Services Formerly Provided	105,982	-
iii. Portion of Actuarial Liabilities Ascertained as of 12.31.2001	-	-

**f) The Net Actuarial Liabilities Turnover within the Period is Set Out Below, in R\$ Thousands:**

Specification	CAPEF	CAMED
1. Net Actuarial Liabilities, in the End of the Previous Year	793,226	273,758
2. Turnover Result in unfunded Actuarial Liabilities in the Current Year	(56,170)	35,486
a. Current Expenses	43,907	26,827
b. Net Value of Actuarial Losses (earnings)	(34,384)	8,659
c. Cost of Services Formerly Provided	(65,693)	-
3. Net Actuarial Liabilities, in the End of the Period	737,056	309,244

**g) The Expense Recognized in the Income Statement is Set Out Below, in R\$ Thousands:**

Specification	CAPEF	CAMED
1. Current Expenses	103,603	45,693
a. Cost of Current Service, Deducted from Employees' Contributions	12,624	11,529
b. Cost of Interest	274,987	35,419
c. Expected Income on Plan Assets	(184,008)	(1,255)
2. Actuarial Earnings and Losses Recognized in the Year	-	11,202
3. Cost of Services Formerly Provided	26,496	-
4. Actuarial Liability ascertained on 12.31.2001 Recognized in the Year	46,726	6,276
<b>5. Expense Recognized in the Income Statement</b>	<b>176,825</b>	<b>63,171</b>
a. Provision Expense	117,129	44,305
b. Contribution Expense	59,696	18,866

**h) Additional comments**

**h.1) Current Expenses** – liabilities ascertained in the year, arising out of increase in time of service provided by employees;

**h.2) Net Actuarial (Gains)/Losses** – liabilities ascertained in the year, arising out of actuarial assumptions adopted changes or divergence between used assumptions and what has actually occurred. Such liabilities' recognition follows the rules application for recognizing actuarial gains and losses – item b of this note.

**h.3) Cost of Services Formerly Provided** - liabilities ascertained upon the increase of after-employment benefits, as regards services provided by employees in former time periods. The expenses recognition for the cost of services formerly provided complies with the provision in items 38, 56, and 57 of the Attachment to CVM Resolution Nr. 371. In the year of 2006, an amortization of the cost of services formerly provided was made, in the amount of R\$ 65,693 thousand, as regards the private pension plan – CAPEF;

**h.4) Actuarial Liability Ascertained as of 12.31.2001** – the current value for non-covered actuarial liabilities, in amounts of R\$ 233,632 thousand (CAPEF) and R\$ 31,382 thousand (CAMED), ascertained as of 12.31.2001, as provided for in item 49 of the Attachment to CVM Resolution Nr. 371. The expenses recognition for actuarial liabilities on 12.31.2001 is being conducted for a five-year period, from 2002 (item 84 of the aforementioned provision) and was completed in 2006.

**i) Assumptions used**

- i.1)** Biometric Assumptions: Table for General Mortality of Capable People – AT 2000 Men; Mortality Table of disabled People – IAPC Experiences; Table for People Becoming disabled – CAPEF Experience and Turnover Table – None.
- i.2)** Economic Assumptions: Expected Actual Yield Rate from Plan Assets – 6% per annum; Future Inflation Rate – 5% per annum; Estimated Real Salary Increase Index – 1% per annum; Actual Growing Rate of Benefits – 0% per annum; Actual Rate of Actuarial Liability Discount – 6% per annum; Actual Growing Rate for Benefits of Social Previdence – 0% per annum and Actual Growing Rate of Welfare Expenditures – 3.7% per annum.
- i.3)** The future inflation rate is used to calculate the Actuarial Liability Present Value, aiming to measure the inflationary floating arising out of freezing, per annual cycles, of future contributions and benefits, by admitting in such calculation the occurrence of an inflationary process of equal intensity for all salary, welfare, social security, and economic variables of the plan.

#### NOTE 24 - Equity Balances Attached to Foreign Currencies

The operations contracted with foreign exchange restatement clause, on 12.31.2006, net balance of the purchased foreign exchange exposure, amounting R\$ 8,828 thousand recorded, as it is shown below, in R\$ Thousands:

Current	1,457	Deposits	73,996
Liquidity Interfinance Applications	16,863	Interbranch Relationships	2,994
Marketable Securities	-	Liabilities For Loans and Onlendings within the Country	4,174
Credit Operations	662,333	Liabilities For Loans and Onlendings From Abroad	977,449
Other Credits	209,506	Other Liabilities	2,513
<b>Total of Assets in Foreign Currencies</b>	<b>890,159</b>		
Swap transactions	179,794		
<b>Total currency exposures in assets</b>	<b>1,069,953</b>	<b>Total of Liabilities in Foreign Currencies</b>	<b>1,061,126</b>

The Bank manages the foreign exchange risk keeping its exposition limited to residual values, obeying closely the percentage established by the Central Bank regime. The dissolution above represents 0.83% of the value from the indexed foreign currencies operations, which reaffirms the Bank's conservative policy in relation to this type of risk.

The net balance of the foreign exchange exposition is daily adjusted. In view of reducing those dissolutions, operations in the financial market are carried out for purchase and sale of federal bonds indexed to the foreign exchange variation and operations of foreign exchange swap. In this period, the securities that matured in the second semester of 2006 were not renovated, and instead the Bank decided to adopt as hedge policy to enter into currency swap contracts.

#### NOTE 25 - The Brazilian Northeastern Region Constitutional Financing Fund ("FNE")

- a)** The FNE equity in the amount of R\$ 19,410,490 thousand (R\$ 16,592,506 thousand on 12.31.2005) is registered in offset accounts of the Bank (Equity from Public Managed Funds).
- b)** Fund availabilities, in amount of R\$ 3,678,226 thousand (R\$ 3,817,550 thousand on 12.31.2005), registered under the heading Other Liabilities/ Financial and Development Funds, is invested at the extra-market rate. The expenditure with the available funds remuneration was R\$ 527,221 thousand (R\$ 660,235 thousand on 12.31.2005).
- c)** The allowance to meet the credit risk in operations contracted under FNE is set up complying with the following criteria:
- c.1)** In the operations contracted up to 11.30.1998, the Bank is free from operational risk;
- c.2)** For operations contracted from 12.01.1998, abstaining the financings of the Program of the Land and the operations in the scope of the PRONAF (groups A, B, A/C, Forest and Semi-arid), the Bank credit risk is limited to 50% of the amount calculated under Resolution Nr. 2,682/99. The balance composition for financings and allowances accounted as Contingent Liabilities of the Bank is as follows, in R\$ Thousands:

Risk Level	Balances (A)	% Risk (B)	Risk Value C = (A x B)	Allowance in Dec/06 D = (C x 50%)	Allowance in Dec/05
AA	1,978,330	0 %	-	-	-
A	2,285,200	0.50 %	11,426	5,713	3,451
B	3,040,058	1.00 %	30,400	15,200	10,146
C	494,528	3.00 %	14,836	7,418	2,866
D	938,087	10.0 %	93,809	46,904	49,209
E	137,077	30.0 %	41,123	20,562	15,452
F	69,720	50.0 %	34,860	17,430	15,235
G	95,923	70.0 %	67,146	33,573	27,988
H	732,144	100 %	732,144	366,072	406,231
<b>TOTAL</b>	<b>9,771,067</b>		<b>1,025,744</b>	<b>512,872</b>	<b>530,578</b>

- d) For the operations contracted up to 11.30.1998, the Bank *del credere* was reduced to zero. For agreements entered into upon that date, the *del credere* is 3% per annum, when the credit risk is 50%, and 6%, when contracted in the name of the very Bank. The revenues of “del credere” were R\$ 250,203 thousand (R\$ 173,134 thousand on 12.31.2005).
- e) The 3% year management fee is calculated on Fund Net Equity, deducted from the values subject matter of the onlending agreement entered into with the Bank and the balances of the applications in the scope of the PRONAF (Groups B, A/C, Forest and Semi-arid), it being limited, for each year, to 20% of the amount of transfers made by the Brazilian National Treasury. The management fee was R\$ 520,465 thousand (R\$ 498,901 thousand on 12.31.2005).

#### NOTE 26 - Operational Limits - Basel Pact

On 12.31.2005, the capital adequacy rate (Basel Index) of Banco do Nordeste was 18.97% (on 12.31.2005, 18.63%), whilst the Reference Equity (PR) was R\$ 1,501,615 thousand (R\$ 1,380,306 thousand, on 12.31.2005). Resolution Nr. 2,099/94, of the National Monetary Council, and supplementary rules issued by the Brazilian Central Bank determine that, as for 12.31.2006, the capital adequacy rate should be at least 11%, and, in the case of the Bank, a minimum PR of R\$ 870,554 thousand (R\$ 814,883 thousand, on 12.31.2005).

The assets capable of being weighted by the risk show the following composition (R\$ thousands):

Specification	12.31.2006		12.31.2005	
	Assets Value	Assets weighted by the risk	Assets Value	Assets weighted by the risk
Assets at 0% risk	8,021,068	-	8,502,666	-
Assets at a 20% risk	62,871	12,574	57,529	11,506
Assets at a 50% risk	644,876	322,438	427,007	213,503
Assets at a 100% risk	6,842,354	6,842,354	6,379,716	6,379,716
Ativos at a 300% risk	235,065	705,196	261,600	784,800
<b>TOTAL</b>	<b>15,806,234</b>	<b>7,882,562</b>	<b>15,628,518</b>	<b>7,389,525</b>

Find below the Net Equity calculation required, and that for capital adequacy coefficient (R\$ thousands):

FACTOR OF RISK WEIGHTING	12.31.2006	12.31.2005
A) Assets subject to risk weighting	15,806,234	15,628,518
B) Risk weighted assets (APR)	7,882,562	7,389,525
C) Swap credit risk	14,090	-
D) Net Equity Requirement on APR (11% of "B")	867,082	812,848
E) Net Equity Requirement on Swap (20% of "C")	2,818	-
F) Net Equity Requirement on interest rate exposure	654	2,035
<b>G) Net Equity Required (PLE): "D" + "E" + "F"</b>	<b>870,554</b>	<b>814,883</b>
H) Reference equity (PR):	1,501,615	1,380,306
Level I	1,461,116	1,337,024
Level II (Revaluation Reserves)	40,499	43,282
<b>I) Ratio between the reference equity and the Net Equity required ("G / H"):</b>	<b>0.58</b>	<b>0.59</b>
J) Excess/ (deficiency) of Net Equity: PR - PLE ("H" - "G")	631,061	565,423
L) Excess/ (deficiency) of leverage: ("J" x 100)/11	5,736,918	5,140,209
<b>M) Net Equity Adequacy Coefficient</b>		
BASEL INDEX = $\frac{H}{B + 9.09 \times (E+F)}$	<b>18.97</b>	<b>18.63</b>

#### NOTE 27 – Cash Flow

Specification	12.31.2006	12.31.2005
<b>Cash Flow From Operations</b>		
Net Profit of the Year	202,734	157,386
Expenses (Revenues) not affecting the Cash:		
- Depreciation and Amortization Expenses	19,426	16,900
- Allowance for losses in investments	-	211
- Allowance for Other Assets Devaluation	238	302
- Allowance for Doubtful Debts	(32,806)	(26,523)
- Allowance for Other Doubtful Debts	593	1,020
<b>Adjusted Net Profit (Loss)</b>	<b>190,185</b>	<b>149,296</b>
Marketable Securities	726,403	884,148
Other values and assets	(3,783)	(164)
Liquidity Interfinance Applications	(317,864)	(288,495)

Interfinance relationships	(6,529)	-
Interfinance and interbranch relationships	(55,115)	(29,160)
Credit Operations	(77,120)	90,318
Other Credits	(100,701)	(27,356)
Variation in Future Year Results	(1,818)	616
Previous Years Adjustments	(24,799)	(100,748)
Adjustment to Market Value - Securities and Derivative Instruments	38,200	9,446
Revaluation Reserve	(61)	3,728
<b>Cash Generated/ (Used) by Operations</b>	<b>366,998</b>	<b>691,629</b>
<b>Cash Flow From Financing Activities</b>		
Deposits	134,823	(198,378)
Borrowings and Onlendings	(238,787)	(267,324)
Funding obtained in the open market	(142,498)	163,516
Derivative Instruments	4,206	-
Other Liabilities	15,392	(287,244)
Funds from the acceptance and issuance of securities	-	(32,066)
Dividends and bonuses proposed	(14,175)	(29,403)
Interest on equity capital	(80,346)	-
<b>Total Fund Inflow (outflow)</b>	<b>(321,385)</b>	<b>(650,899)</b>
<b>Cash Flow From Investment Activities</b>		
Inversions in assets not destined for own use	(2,886)	(532)
Inversions in property, plant and equipment for use	(31,507)	(31,131)
Inversions in investments	(54)	(5)
Disposal of assets not destined for own use	1,017	(164)
Disposal of property, plant and equipment for use	363	(272)
Disposal of Investments	2	(7)
Applications in deferred assets	(1,924)	(2,683)
<b>Total Funds Raised</b>	<b>(34,989)</b>	<b>(34,794)</b>
<b>Net Cash Variation</b>	<b>10,624</b>	<b>5,936</b>
<b>STATEMENT OF CASH VARIATION:</b>		
In the beginning of the period	37,523	31,587
In the end of the period	48,147	37,523
<b>Increase in cash</b>	<b>10,624</b>	<b>5,936</b>

## NOTE 28 - Other Information

### a) Risk Management

The instruments of Corporate Governance of the Bank include structure of internal controls periodically revised aiming at the maintenance of an adjusted followup for operational, credit, market and liquidity risks. The methodology of management for operational risks in the Bank observes the guidance of the Committee of Basel and requirements of the Agreement of Basel Pact II, prioritizing the identification of the existing fragilities in the diverse processes of the Institution, the implementation of indicating keys of risk and mechanisms of mitigation of the identified risks. The losses resulting from operational risk are stored in the system's database for recovery of accounting information of the Bank, with the necessary qualifications for the effective followup of the verified occurrences, allowing the development and use of adequate control instruments. The credit risk is managed through the followup of customers' file, revision and development of models of risk evaluation and concession of suitable limits adapted to the risk classification of customers and their operations, obeying the parameters established in the Resolution N° 2,682/99, of the National Monetary Council. The followup of the liquidity and market risks is carried through by the controlling unit of the Institution, that measures and manages impacts of oscillations in interest taxes, currencies and stocks and prices indexes in the credit and investment portfolios of the Bank. In this management, the Bank uses a proper management system of treasure-house risk, contemplating mechanisms as: VaR (Value at Risk); Global Duration (assets and liabilities) by portfolio, bond and index; foreseen cash flows, with the identification of occasional dissolutions between asset and liabilities regarding stated periods; and global balances of asset and liabilities, for portfolio and bond, highlighting occasional dissolutions for currencies.

### b) Transactions with related parties

**b.1)** Banco do Nordeste did not enter into transactions with affiliated and controlled companies.

**b.2)** Operations with companies, programs and funds controlled by the Federal Government – the Bank’s major shareholder - are described in explanatory notes 9.d (FAT), 12 (Liabilities with the National Treasury, Brazilian Bank, BNDES system, CEF, other Official Institutions) and 24 (FNE).

**b.3)** The bank sponsors CAPEF and CAMED and due to this occurred the transactins described in explanatory note 14.f and 23.

**c) Guarantees Granted**

Co-obligations and risks in guarantees provided by the Bank had the following composition, in R\$ Thousands:

<b>Specification</b>	<b>12.31.2006</b>	<b>12.31.2005</b>
Open Credits for Import	7,199	18,369
Beneficiary of Guarantees Provided:		
- Individuals or non- financial entities	3,236	3,236
- FNE	4,885,534	3,505,105
- Other Entities	3,563	11,114
Co-obligations in Credit Assignments	329,498	234,243

**d) Insurance**

The Bank and third parties’ chattels and real estates are sufficiently insured in the amount of R\$ 325,403 thousand (R\$ 237,675 thousand on 12.31.2005), being distributed as such:

<b>Specification</b>	<b>12.31.2006</b>	<b>12.31.2005</b>
Chattels	95,874	59,535
Real Estates	226,839	175,450
Third Parties’ Real Estates	1,500	1,500
Civil Responsibility (Aircraft)	1,190	1,190
<b>TOTAL</b>	<b>325,403</b>	<b>237,675</b>

**Fortaleza, January 30, 2007.**

**THE BOARD OF DIRECTORS**

**OBS.: The Explanatory Notes are integral part of the Financial Statements.**



**BDO Trevisan**

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

## **INDEPENDENT AUDITORS' OPINION**

To Stockholders and Managers  
Banco do Nordeste do Brasil S.A.

1. We have conducted the Banco do Nordeste do Brasil S.A. balance sheet review, as of December 31, 2006, and the respective income statements, net equity changes, and changes in the financial position statements for the semester ended on that date, prepared under their administration responsibility. Our responsibility is expressing an opinion on such financial statements.
2. Our review was conducted in accordance with the Brazilian applicable audit rules, and it comprehended: (a) the planning of works, considering the balance importance, the transactions volume and the Bank accounting and internal control systems; (b) the ascertainment, based on tests, of evidences and records supporting values and accounting information disclosed; and (c) the most representative accounting practices and estimates evaluation adopted by the Bank management, as well as the submission of financial statements taken as a whole.
3. In our opinion, the financial statements referred to in Paragraph 1, properly provide, in all outstanding aspects, the equity and financial position of Banco do Nordeste do Brasil S.A. as of December 31, 2006, its operations result, the net equity changes and the financial position changes for the semester and period ended on that date, according to accounting practices adopted in Brazil.
4. According to explanatory note nr. 20 (f), the Banco do Nordeste do Brasil S.A. has lawsuits sponsored by outsourced lawyers mostly referring to execution of lending operations. The legal department of Banco do Nordeste do Brasil S.A. has been going through a restructuring process to implement process routines and control improvements with the purpose of matching the information in the Bank's database and that of its outside legal counsel. An implementation schedule has been agreed with Brazilian Central Bank. The final outcome of this restructuring will only be known when the implementation schedule is completed. The deadline was extended to July 31, 2007.



BDO Trevisan

## INDEPENDENT AUDITORS' OPINION

To Managers and Stockholders  
Banco do Nordeste do Brasil S.A.

5. Law nr. 11,322, as of July 13, 2006, provides about the renegotiation of debts derived from rural credit operations in the operating area of the Agência de Desenvolvimento do Nordeste [The Development Agency for the Northeast] ("ADENE") and modifies Law nr. 7,827, as of September 27, 1989. The referred Law establishes a new deadline for the debts amortization to be renegotiated including grace period and the grant of discounts on the debt balance, besides changing the systematics and the bonus percentage of contract completion for operations renegotiated under its support. According to explanatory note nr. 6 (f) the Bank has been making the renegotiations set forth in referred Law. However, the total possible effects on the future financial statements of Banco do Nordeste do Brasil S.A. will only be known when debt renegotiations and rescheduling are completed. The deadline for formalization is July 31, 2007, in accordance with National Monetary Council Resolution No. 3.407 of September 27, 2006.
6. The financial statements for the period ended on December 31, 2005, provided for comparison ends, were audited by us and our opinion, dated from January 30, 2006, except for the matter mentioned in paragraph 4 of that report dated February 14, 2006, was issued without qualifications, with an emphasis-of-a-matter paragraph on the same matter described in paragraph 5.
7. The supplementary information concerning the statement of cash flow for the period ended on December 31, 2006, provided as explanatory note number 27 to the financial statements, is provided with the purpose of allowing additional analysis, being not an integral part of financial statements required by the Brazilian corporate legislation . We reviewed such information in accordance with the audit procedures mentioned in paragraph 2, and, in our opinion, they are properly provided, in all outstanding ways, as regards the financial statements taken as a whole.

Recife, February 12, 2007.

Mateus de Lima Soares  
Accountant-partner  
CRC 1RJ079.681/O-0 "S" CE  
BDO Trevisan Auditores Independentes  
CRC\* 2SP013.349/O-5 "S" PE

\* The Regional Accounting Council ("CRC") - State of Ceará Section

## **FISCAL COUNCIL REPORT**

The Fiscal Council of Banco do Nordeste do Brasil S.A., in the use of the authority vested in it by the law and the Bank's articles of incorporation, after examining the Management Report, balance sheet, statements of income, changes in net equity, and changes in financial position and notes to the financial statements of Banco do Nordeste do Brasil S.A. for the year ended December 31, 2006, and based on the Independent Auditors' Report issued by BDO Trevisan Auditores Independentes on February 12, 2007, considers that the management report and financial statements present fairly the activities and the financial situation of Banco do Nordeste do Brasil S.A. in 2006. The Fiscal Council also considers that, pursuant to paragraph 4 of the Independent Auditors' Report and note 20 f, the final outcome of the restructuring of the legal department of Banco do Nordeste do Brasil S.A will only be known when the implementation schedule is completed. The deadline was extended to July 31, 2007. Finally, the Fiscal Council considers that pursuant to paragraph 5 of the Independent Auditors' Report and note 6, f, the total possible effects of Law No. 11.322 of July 13, 2006 on future financial statements of Banco do Nordeste do Brasil S.A. will only be known when debt renegotiations and rescheduling are completed. The deadline for formalization is July 31, 2007 according to National Monetary Council Resolution No. 3.407 of September 27, 2006.

Fortaleza (State of Ceara), February 12, 2007

**Fiscal Council**

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

### **2nd Semester of 2006**

The Audit Committee of Banco do Nordeste do Brasil S.A. (BNB), is an advisory body of its Board of Directors set up by Resolution No. 3.198/2004 of the National Monetary Council. Its attributions and other operating requirements are described in the Bank's Social Statute.

#### **Committee's Activities**

Performing its institutional role on the basis of its planning for the period, during the second semester of 2006 the Audit Committee focused its activities on monitoring the efficiency and effectiveness of the following areas: Internal Audit, Independent Audit, Internal Controls and Risks, Accountancy and Basel II Project.

On this footing, the Audit Committee had work meetings and contacts with members of BNB's Board of Directors and the areas and managers responsible for the Bank's financial and accounting data. It also analyzed the institutions' performance report and participated in all meetings held by the Administration Council.

At the end of the semester, with the purpose of analyzing, reviewing and assessing the quality of the financial statements for the period ended December 31, 2006, the Audit Committee held meetings with the people responsible for their preparation and with independent auditors. It participated with the members of the Fiscal Council in the meeting of the Administration Council that approved those financial statements.

#### **Internal Controls.**

The Bank's Internal Control System, meeting legal and regulatory standards, has been undergoing improvement to mitigate risks and ensure the efficiency of operations and financial and managerial reporting systems by identifying, assessing and improving control points. The Committee has been following up on the procedures adopted by the Bank to implement the Operating Risk Management Structure by December 2007 to allow the institution to meet the requirements of the New Capital Accord – Basel II.

#### **Internal Audit**

Supported by the Annual Planning approved by the Administration Council and examinations conducted in this segment, the Audit Committee has found that the Internal Audit work was performed effectively and in line with the institution's needs.

#### **Independent Audit**

Our examination of the planning of the work presented for the semester and our analysis of the reports issued by BDO Trevisan Auditores Independentes has not found any evidence that would jeopardize the independence and result of the audit conducted by them in the second semester of 2006.

## **Financial Statements**

The Audit Committee analyzed the financial statements, the notes to the financial statements, the financial reports and the Management Report of December 31, 2006, and when necessary obtained additional information and explanations from the people responsible for preparing these documents. It received and analyzed with the independent auditor the reports the latter issued on Banco do Nordeste do Brasil S.A. and on The Brazilian Northeast Region Constitutional Financing Fund (Fundo Constitucional de Financiamento do Nordeste – FNE).

Examining the documents above and discussing the accounting practices used for the preparation of the financial statements as of December 31, 2006, we have found that, except for the emphasis-of-a-matter paragraphs – item 4 – included in the Independent Auditors' Reports on The Brazilian Northeast Region Constitutional Financing Fund– FNE and Banco do Nordeste do Brasil S/A, the financial statements are in accordance with generally accepted accounting principles, applicable corporate legislation and standards established by the Brazilian National Monetary Council, the Brazilian Central Bank and the CVM (Brazilian Securities and Exchange Commission).

Fortaleza (State of Ceara), February 12, 2007.

Audit Committee

**Banco do  
Nordeste**



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

## **Accounting Statements**

**F N E**

**POSITION: 12.31.2006**

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

**THE BRAZILIAN NORTHEASTERN REGION CONSTITUTIONAL FINANCING FUND- FNE**  
 (Law Number 7,827 of September 27, 1989)  
**BALANCE SHEET**  
**DECEMBER 31, 2006 AND 2005**  
 (In thousands of R\$)

ASSETS			LIABILITIES		
	12.31.2006	12.31.2005	12.31.2006	12.31.2005	
<b>CURRENT ASSETS</b>	<b>6,902,525</b>	<b>6,191,346</b>	<b>NET EQUITY</b>	<b>19,410,490</b>	<b>16,592,506</b>
CASH AND CASH EQUIVALENTS	3,678,226	3,817,550	TRANSFERS FROM THE BRAZILIAN FEDERAL GOVERNMENT:		
Funds to be allocated	1,789,447	1,620,884	During the year	2,775,685	2,508,033
Allocated funds	1,888,779	2,196,666	In previous years	15,143,062	12,635,029
INTERFINANCE OPERATIONS	75,801	93,791	INCOME FROM PREVIOUS YEARS	1,458,184	5,796,912
Rural Credit – Proagro Receivable	4,626	4,884	YEAR INCOME	33,559	(4,347,468)
Onlending Debtors	71,175	88,907			
CREDIT OPERATIONS	3,147,812	2,279,857			
Financings	682,364	2,503,992			
Infrastructure and Development Financings	33,724	6,433			
Agroindustrial Financings	72,346	579,643			
Rural Financings	2,679,447	4,828,583			
Allowance for Doubtful Debts	(320,069)	(5,638,794)			
OTHER CREDITS	686	0			
Receivables on Assets from Credit Operations	686	0			
OTHER ASSETS	0	148			
Agrarian Debt Bonds	0	172			
(Allowance for Bond Devaluation)	0	(24)			
<b>LONG TERM RECEIVABLES</b>	<b>12,507,965</b>	<b>10,401,160</b>			
INTERFINANCE OPERATIONS	98,830	55,035			
Rural Credit – Proagro Receivable	3,453	3,866			
Onlending Debtors	95,377	51,169			
CREDIT OPERATIONS	12,407,495	10,344,633			
Financings	3,063,441	2,348,162			
Infrastructure and Development Financings	1,200,117	707,026			
Agroindustrial Financings	310,260	202,783			
Rural financings	7,833,677	7,086,662			
OTHER ASSETS	1,640	1,492			
Agrarian Debt Bonds	2,547	2,508			
(Allowance for Bond Devaluation)	(907)	(1,016)			
<b>TOTAL ASSETS</b>	<b>19,410,490</b>	<b>16,592,506</b>	<b>TOTAL LIABILITIES</b>	<b>19,410,490</b>	<b>16,592,506</b>

**THE BRAZILIAN NORTHEASTERN REGION CONSTITUTIONAL FINANCING FUND- FNE**  
 (Law Number 7,827 of September 27, 1989)  
**INCOME STATEMENT**  
**DECEMBER 31, 2006 AND 2005**  
 (In thousands of R\$)

	Year/2006	Year/2005
<b>REVENUES</b>		
From Credit Operations (Note 6a.6)	816,430	1,154,749
From Yield on Cash	527,221	660,235
<b>EXPENSES</b>		
From Administration	(520,465)	(498,901)
PRONAF - Compensation of the Finance Agent/Performance bonus	(55,143)	(25,097)
From Operational Allowances	(734,468)	(5,638,438)
From Audit	(16)	(16)
<b>PROFIT/ LOSS OF THE YEAR</b>	<b>33,559</b>	<b>(4,347,468)</b>

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

**THE BRAZILIAN NORTHEASTERN REGION CONSTITUTIONAL FINANCING FUND - FNE**  
 (Law Number 7,827 of September 27, 1989)  
**STATEMENT OF CHANGES IN NET EQUITY**  
**DECEMBER 31, 2006 AND 2005**  
 (In thousands of R\$)

EVENTS	TRANSFERS FROM BRAZILIAN FEDERAL GOVERNMENT	ACCRUED PROFITS	TOTAL
<b>BALANCES ON 12.31.2004</b>	<b>12,635,029</b>	<b>5,887,503</b>	<b>18,522,532</b>
Transfers from Brazilian Federal Government in the year	2,508,033	0	2,508,033
Adjustments from previous years	0	(90,591)	(90,591)
Net Loss of the year	0	(4,347,468)	(4,347,468)
<b>BALANCES ON 12.31.2005</b>	<b>15,143,062</b>	<b>1,449,444</b>	<b>16,592,506</b>
<b>CHANGES IN THE YEAR</b>	<b>2,508,033</b>	<b>(4,438,059)</b>	<b>(1,930,026)</b>
<b>BALANCES ON 12.31.2005</b>	<b>15,143,062</b>	<b>1,449,444</b>	<b>16,592,506</b>
Transfers from Brazilian federal government in the year	2,775,685	0	2,775,685
Adjustments from previous years	0	8,740	8,740
Net Profit of the year	0	33,559	33,559
<b>BALANCES ON 12.31.2006</b>	<b>17,918,747</b>	<b>1,491,743</b>	<b>19,410,490</b>
<b>CHANGES IN THE YEAR</b>	<b>2,775,685</b>	<b>42,299</b>	<b>2,817,984</b>

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

<b>THE BRAZILIAN NORTHEASTERN REGION CONSTITUTIONAL FINANCING FUND - FNE</b> (Law Number 7,827 of September 27, 1989) <b>STATEMENT OF CHANGES IN FINANCIAL POSITION</b> <b>DECEMBER 31, 2006 AND 2005</b> (In thousands of R\$)		
	Year/ 2006	Year/ 2005
<b>SOURCES OF FUNDS</b>	<b>2,817,984</b>	<b>4,334,216</b>
INCREASE OF LIABILITIES' SUBGROUPS:		
Transfers from Brazilian Federal Government in the Year		
Free funds	2,775,685	2,508,033
Adjustments from Previous Years	8,740	0
Net Profit of the Year	33,559	0
DECREASE OF ASSETS' SUBGROUPS:		
Credit Operations	0	1,824,799
Other Assets	0	1,384
<b>APPLICATION OF FUNDS</b>	<b>2,957,308</b>	<b>4,483,802</b>
INCREASE OF ASSETS' SUBGROUPS:		
Interfinance Operations	25,805	45,743
Credit Operations	2,930,817	0
Other Credits	686	0
DECREASE OF LIABILITIES' SUBGROUPS:		
Adjustments from Previous Years	0	90,591
Net Loss/ Profit of the Year	0	4,347,468
<b>DECREASE OF CASH AND CASH EQUIVALENTS</b>	<b>(139,324)</b>	<b>(149,586)</b>
<b>CHANGES IN FINANCIAL POSITION</b>	<b>(139,324)</b>	<b>(149,586)</b>
Beginning of the Year	3,817,550	3,967,136
End of the Year	3,678,226	3,817,550

(Free Translation Into English from the Original Previously Issued in Portuguese)

## NOTES TO FINANCIAL STATEMENTS

### Years ended as of December 31, 2006 and 2005

#### Explanatory Notes Index

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Note 1 – History	Note 6 – Main Accounting Guidelines
Note 2 – Administration	Note 7 – Credit Risk and Allowance for Losses
Note 3 – Inspection	Note 8 – Recognition of Losses and Return of BNB's Risk Parcel
Note 4 – Independent Audit	Note 9 – Adjustments from Precedent Years
Note 5 – Tax Exemption	

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#### NOTE 1 – History

Fundo Constitucional de Financiamento do Nordeste [The Brazilian Northeast Region Constitutional Financing Fund] (“FNE”) was created under the provision included in Brazilian Federal Constitution of 1988 (Article 159 I “c”), and it was regulated by Law Number 7,827, of 09.27.1989, amended by Laws Numbers 9,126, of 11.10.1995, and 10,177, of 01.12.2001, by the Provisional Measure Number 2,196-1, of 06.28.2001, and its reissues, as well as by Article 13, Provisional Measure Number 2,199-14, of 08.24.2001. Its purpose is to further Brazilian Northeastern Region economic and social development, through the Banco do Nordeste do Brasil S.A. – BNB, by creating programs for financing productive segments, in compliance with the respective regional development plans, with a preferential attention to business related to mini and small rural producers, those developed by micro and small companies, and those producing basic foods, further to irrigation projects, with the lost fund application to be prohibited herein.

#### NOTE 2 – Administration

Banco do Nordeste shall: apply funds and implementing credit grant policy; define rules, procedures, and operational conditions; adequate financing proposals within burden ranges and defer credits; execute onlending agreements of funds to other institutions authorized to operate by Brazilian Central Bank, following the guidelines established by the Ministry of National Integration; account for results achieved; exercise other business inherent to the application of funds and credits recovery.

#### NOTE 3 – Inspection

Banco do Nordeste, on a continued basis, keeps statements of funds, applications and income of the Fund available to relevant inspection bodies, as of the end of the month. In compliance with the Brazilian law, FNE's balances, properly audited, are published at the end of each semester and forwarded to the National Congress for the purpose of being examined and controlled.

#### NOTE 4 - Independent Audit

FNE maintains an independent audit revue, contracted at its expenses, for certifying the compliance with the constitutional and legal provisions set forth, further to the revue of accounts and other usual audit procedures.

#### NOTE 5 – Tax Exemption

FNE is tax exempted, and its results, income and financing operations are free from any taxes, contributions or other duties.

#### NOTE 6 – Main Accounting Guidelines

FNE holds an own accounting, availing of Banco do Nordeste's accounting system for registering its acts and facts in special headings, with the ascertainment of results being conducted separately.

FNE's financial year corresponds to the calendar year for the purpose of results examination.

The main headlights for accounting procedures are as follows:

##### a) Appropriation of Revenues and Expenses

a.1) Revenues and expenses are recognized on an accrual basis. The revenues are the financing charges incurred on credit operations and the remuneration paid by Banco do Nordeste on Fund moneys that are not applied by that time.

a.2) From January 14, 2000, the financial charges on financings granted with FNE funds started to vary from 6 to 14% per year, pursuant to the business area and service takers size, including the *del credere* of Banco do Nordeste. In compliance with the Brazilian law, financing agreements shall contain a clause setting forth that the financial charges shall be reviewed on a yearly basis, and whenever the TJLP [Long Term Interest Rate] has an accumulated variance, up or down, exceeding 30% (thirty percent).

The ordinary financial charges due to the law are accounted in the Fund's proper result accounts. On due and unpaid values incur breach of contract duties, agreed by contract, these duties parcel that surmounts the rates foreseen in the law is registered as the Fund's revenues to be taken.

A compliance bonus of 25% (twenty-five percent) shall be granted for borrowers developing their business in the Northeastern semi-arid region, and 15% (fifteen percent) for the other regions borrowers, on financial charges, provided that the debt installment is paid up to the respective maturity date.

The Financial charges applied on financing operations, under the Programa Nacional de Fortalecimento da Agricultura Familiar [The National Program for Family Agriculture Stengthening] (“PRONAF”) sphere, are established by the National Monetary Council in accordance with law and the Program’s regulation included in the Manual for Rural Credit, Chapter 10 from the Brazilian Central Bank.

a.3) The Provisional Measure Number 2,196-1, of 06.28.2001, and its reissues, which established the Programa de Fortalecimento das Instituições Financeiras Federais [Program for the Strengthening of Federal Institutions], defines, as to FNE funds, that:

- In operations contracted up to 11.30.1998, Banco do Nordeste’s *del credere* was reduced to zero, keeping charges covenanted with borrowers unaltered;
- For operations contracted with a 50% credit risk to the Bank, the Fund shall pay to Banco do Nordeste a 3% per year *del credere*;
- Fund moneys may be transferred to the Bank for it, in its own behalf and at its sole risk, to make credit operations on which it shall be entitled to a 6% per year *del credere*.

a.4) Regulation Nr. 616 from 05.16.2003 of the Ministry for National Integration, establishes that, in the onlending operations to institutions authorized to operate by the Brazilian Central Bank, BNB is entitled to *del credere* negotiated with the operating institutions, respecting the limit established in law.

a.5) There is no *del credere* to Banco do Nordeste in the financings framed on PRONAF, groups A, B, A/C, semi-arid and Forest, as per foreseen in the law and Program’s regulation.

a.6) In the Income Statement, the “Revenues from Credit Operations” are registered by their net value, with the following composition in R\$ Thousands:

DESCRIPTION	12.31.2006	12.31.2005
Credit Operation Revenues	1,405,273	1,529,264
<i>Del credere</i> expenses from Banco do Nordeste	(250,203)	(173,134)
<i>Del credere</i> expenses from Other Institutions	(3,083)	(2,377)
Negative Monetary Restatement Expenses	(15,023)	(29,939)
Expenses from Discounts Granted in Renegotiations	(5,258)	(12,375)
Rebate Expenses/ Bonus for Compliance - Operations Contracted by the Bank	(313,424)	(156,051)
Rebate Expenses/ Bonus for Compliance - Onlendings to Other Institutions	(560)	(63)
Principal Rebate Expenses - Operations with funds of FAT – BNDES - Law 10,193/ 2001	(1,216)	(576)
Expenses on operations – other sources - acquisitions Law No. 11.322/2006	(76)	(0)
<b>T O T A L</b>	<b>816,430</b>	<b>1,154,749</b>

a.7) The values related to administration fee to which Banco do Nordeste is entitled as the Fund’s manager, BNB’s remuneration on the financing under PRONAF, Groups A, B, A/C, Forest and Semi-arid, formation of allowance for doubtful debts of which is dealt with on the Interministerial Regulation Nr. 11 from 12.28.2005, of the Ministries of Finance and National Integration and external audit hiring, consist of FNE’s expenses.

The administration fee of 3% per year, paid to Banco do Nordeste by FNE, is monthly appropriated and it is calculated on the Fund’s net equity deduced from the values onlended to the Bank and from the applications balances in the sphere of PRONAF, Groups B, A/C, Forest and Semi-arid, remaining limited, every year, to 20% of the value to the transfers made by the National Treasure.

In compliance with the Decree Nr. 5,641, from 12.26.2005, the administration fee paid to Banco do Nordeste, since the year 2005, started to be calculated on the base of 0.25% of the Fund’s net equity in each month, observed the deductions foreseen in law and the limit of 20% of transfer value made by the National Treasure each year.

The Bank remuneration over the operations in the sphere of PRONAF Groups A, B, A/C, Forest and Semi-arid, fixed by the National Monetary Council, follows the percentages and criteria defined in the law and Program Regulation.

#### b) Current Assets and Long-Term Receivables

They are shown by realization values, including the revenues and monetary variations earned.

b.1) The cash and cash equivalents is formed by Funds to be Allocated, which represents the money available free for investment on credit operations, and by the Allocated Funds which represent the compromised money available, concerning the parcels not released yet from the contracted operations. The Fund’s money available in hands of Banco do Nordeste is paid on basis of the extra-market rate, announced by the Brazilian Central Bank.

b.2) The sum for Credit Operations is presented by the value of principal added by financial charges, rectified by revenues to appropriate and by the allowance for doubtful debts (Note 7). Pursuant to Law No. 11.322 of July 13, 2006, operations in the amount of R\$ 149,687 thousand were renegotiated.

b.3) Headings registered under the rubric “Other Assets” are recognized by their face value, plus remuneration foreseen for each paper, and the assets adjustment effects to the market value or realization, when applicable, shall be considered.

b.4) FNE's rights on chattels and real estate received by BNB for amortization or debt clean-up are registered in rubric "Other Credits". After the transfer of ownership of assets, the values obtained in the sale are allotted between the Fund and the Bank, in the proportion of assumed risk, in compliance with article 7 of Interministerial Regulation Nr.11.

c) **Net Equity**

FNE's net equity is originated from:

- Union transfers, in the proportion of 1.8%, extracted from the tax on income and compensation of any nature and the tax on industrialized products;
- Operational results and returns;
- Results of the remuneration from the Fund's resources momentarily available, paid by Banco do Nordeste.

d) **Registrations in the Sistema Integrado de Administração Financeira do Governo Federal [The Integrated System of the Federal Government Financial Administration] ("SIAFI")**

Aiming the compliance with the Interministerial Regulation Nr. 11 from 12.28.2005, the accounting data related to FNE are available at SIAFI, considering the Fund's peculiar features. This way, and according to the Ministry for National Integration guidance, the registrations at SIAFI are made by following two steps:

- until the deadline foreseen in the System for the monthly positions conclusion, the values of the events from the referred month available until this date are registered in a temporary way;
- after the conclusion of every monthly balance sheet and balance according to the defined period by the Brazilian Central Bank to the financial institutions, the complementary registrations necessary for the report conclusion at SIAFI are accomplished.

**NOTE 7 – Credit Risk and Allowance for Losses**

a) The risk on operations with FNE's resources is distributed as follows, according to the law that rules the Constitutional Funds for Financing, the Programa Nacional de Fortalecimento da Agricultura Familiar [The National Program for Family Agriculture Stengthening] ("PRONAF") and the Programa Especial de Crédito para a Reforma Agrária [The Special Credit Program for Agrarian Reform] ("PROCERA")/ Land Program:

a.1) Operations contracted until 11.30.1998:

- For operations framed in the Land Program, the risk belongs integrally to PROCERA;
- For other operations, the risk is in charge of FNE.

a.2) Operations contracted from 12.01.1998:

- For the financings framed in the Land Program, the risk belongs to PROCERA;
- For the operations in the sphere of PRONAF, groups A, B, A/C, Forest and Semi-arid, the credit risk is of 100% for FNE;
- For onlendings to Banco do Nordeste, so that it, in its own behalf, accomplishes credit operations, the risk of operations is integrally assumed by BNB;
- For onlendings to other institutions authorized to operate by the Brazilian Central Bank, contracted until 11.30.1998, the operated institution detains 100% of risk;
- For onlendings to other institutions authorized to operate by the Brazilian Central Bank, contracted from valid regulation Nr. 616, from 05.26.2003, BNB detains 100% of risk;
- For the other operations, the risk is of 50% for FNE, falling to the same percentage for Banco do Nordeste.

b) In compliance with the Interministerial Regulation NR. 11, paragraph three, from 12.28.2005, the constitution of allowance for doubtful debts, in FNE's accounting, follows the criteria defined in clause I, paragraph "b" and "c", of the same article. The turnover of the allowance balance in the year is shown as follows in R\$ thousands:

Description	12.31.2006	12.31.2005
<b>Opening Balance</b>	<b>5,638,794</b>	<b>0</b>
. FNE's Integral Risk	5,491,075	0
. Shared Risk	147,719	0
<b>(+) Constitution of Net Provision in the year</b>	<b>734,602</b>	<b>5,638,794</b>
. FNE's Integral Risk	651,035	5,491,075
. Shared Risk	83,567	147,719
<b>(-) Credits classified as Loss in the Period</b>	<b>6,053,327</b>	<b>0</b>
. FNE's Integral Risk	5,865,755	0
. Shared Risk	187,572	0
<b>(=) Balance of Allowance for Doubtful Debts</b>	<b>320,069</b>	<b>5,638,794</b>
. FNE's Integral Risk	276,355	5,491,075
. Shared Risk	43,714	147,719

c) Considering it is PROCERA responsibility the risk of operations framed in the Land Program contracted with FNE's resources, an allowance for doubtful debts related to these financings was not constituted.

**NOTE 8 – Recognition of Losses and Return of BNB's Risk Parcel**

a) In compliance with the single Paragraph of Article 3 of Interministerial Regulation Nr.11, the recognition of losses, in FNE's accounting, it's followed the criteria established by clause II, of Article 3, of the same Regulation, which is, by parcels of capital and due charges for more than 360 days, according to the risk percentage assumed by the Bank.

- b) The return to FNE of the resources concerning BNB's risk parcel is accomplished on the second working day after the recognition of losses in the Fund's accounting, following the criterion foreseen in clause II, paragraph "a", of Article 5 from Interministerial Regulation Nr. 11.
- c) The balance of FNE's loss accounts presented the following turnover in the year of 2006, in R\$ thousands:

SPECIFICATION	12.31.2006	12.31.2005
Opening Balance	0	-
(+) Credits discharged as Loss in the year	6,053,327	-
(+) Adjustments/ Restatement of Discharged Values	(72,751)	-
(-) Recovery of Discharged Credits	(75,850)	-
(-) Discharge of Compensation Accounts <sup>(1)</sup>	(0)	-
Final Balance	5,904,726	-

<sup>(1)</sup> – Parcels of credits object of legal charge not recovered, with legal final decision

In the period , BNB returned to FNE resources amounting R\$ 188,131 thousand, concerning the Bank's risk parcel in operations with values discharged to loss, in addition to R\$ 1,009 thousand referring to the adjustment, according to SELIC rate, of the amounts returned by BNB in noncompliance with the deadline established by legislation, as set forth in the single paragraph of article 5 of Interministerial Rule No. 11.

#### **NOTE 9 - Adjustments from Precedent Years**

The positive net adjustment of R\$ 8,740 thousand, on 12.31.2006, refers to recalculations of charges on credit operations and the return of the administration fee (R\$ 25,452 thousand) and *del credere* (R\$ 804 thousand) paid to BNB in 2005, whose values were recalculated considering the allowance for doubtful debts as of march of that year, when the Interministerial Regulation Nr. 1-C, from 01.15.2005, became valid.

Fortaleza, January 30, 2007

**The Board of Directors**

**OBS.: The Explanatory Notes are an integral part of the Financial Statements.**



BDO Trevisan

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

## **INDEPENDENT AUDITORS' OPINION**

To Managers

Fundo Constitucional de Financiamento do Nordeste

[The Brazilian Northeastern Region Constitutional Financing Fund] ("FNE")

(Administered by Banco do Nordeste do Brasil S.A.)

1. We have conducted the Fundo Constitucional de Financiamento do Nordeste [The Brazilian Northeastern Region Constitutional Financing Fund] ("FNE") (administered by Banco do Nordeste do Brasil S.A.) balance sheet review, as of December 31, 2006, and the respective income statement, net equity changes, and changes in financial position statements for the year ended on that date, prepared under their administration responsibility. Our responsibility is expressing an opinion on such financial statements.
2. Our review was conducted in accordance with the Brazilian applicable audit rules, and it comprehended: (a) the planning of works, considering the balances importance, the transactions volume and the Fund accounting and internal control systems; (b) the ascertainment, based on tests, of evidences and records supporting accounting values and information disclosed; and (c) the most representative accounting practices and estimates evaluation adopted by the Fund management, as well as the financial statements submission taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1, properly provide, in all outstanding aspects, the equity and financial position of Fundo Constitucional de Financiamento do Nordeste [The Brazilian Northeastern Region Constitutional Financing Fund] ("FNE") (administered by Banco do Nordeste do Brasil S.A.), as of December 31, 2006, the result of its operations, the net equity changes, and the financial position changes for the year ended on that date, according to accounting practices adopted in Brazil.
4. According to explanatory note nr. 7 (b), as of December 31, 2006, the Fund provided the classification of credit operations to loss amounting R\$ 6,053,327 thousand (as of June 30, 2006 – R\$ 5,413,470 thousand), in compliance with Inter-ministerial Regulation nr. 11 as of December 28, 2005, however, our calculations show the amount of R\$ 6,136,318 thousand (as of June 30, 2006 – R\$ 5,825,156 thousand) to be classified. Although the equity effects had already been considered in the Fund's accounting statements, on December 31, 2006, and June, 30, 2006, the balances of the rubrics credit operations and allowance for credit for doubtful debts are provided greater in the amount of R\$ 82,991 thousand, (as of June 30, 2006 – R\$ 411,686 thousand), referring to the parcels in arrears for more than 360 days not classified to loss.



BDO Trevisan

## INDEPENDENT AUDITORS' OPINION

To Managers

Fundo Constitucional de Financiamento do Nordeste  
[The Brazilian Northeastern Region Constitutional Financing Fund] ("FNE")  
(Administered by Banco do Nordeste do Brasil S.A.)

5. Law nr. 11,322, as of July 13, 2006, provides about the renegotiation of debts derived from rural credit operations in the operating area of the Agência de Desenvolvimento do Nordeste [The Development Agency for the Northeast] ("ADENE") and modifies Law nr. 7,827, as of September 27, 1989. The referred Law establishes a new deadline for the debts amortization to be renegotiated including grace period and the grant of discounts on the debt balance, besides changing the systematics and the bonus percentage of contract completion for operations renegotiated under its support. According to note 6 b.2, the Fund has been performing the renegotiations established by that Law. However, the total possible effects that will result in the future financial statements of Fundo Constitucional de Financiamento do Nordeste [The Brazilian Northeastern Region Constitutional Financing Fund] (FNE) (administered by Banco do Nordeste do Brasil S.A.), will only be recognized when debt renegotiations and rescheduling are completed. The deadline for formalization is July 31, 2007, according to National Monetary Council Resolution No. 3.407 of September 27, 2006.
6. The financial statements for the year ended on December 31, 2005, provided for comparison ends, were audited by us and our opinion, dated from January 30, 2006, except for the matter mentioned in paragraph 4 of that report dated February 14, 2006, was issued without qualifications and with an emphasis-of-a-matter paragraph on the same matter described in paragraph 5.

Recife, February 12, 2007

Mateus de Lima Soares  
Accountant-partner  
CRC 1RJ079.681/O-0 "S" CE  
BDO Trevisan Auditores Independentes  
CRC\* 2SP013.349/O-5 "S" PE

\* The Regional Accounting Council ("CRC") - State of Ceará Section