

*Banco do  
Nordeste*

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# ACCOUNTING STATEMENTS

## Banco do Nordeste and FNE

POSITION: 06.30.2006

**Banco do  
Nordeste**



**Accounting Statements**

**Banco do Nordeste**

**POSITION: 06.30.2006**



























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

**BALANCE SHEET**

**JUNE 30, 2006 AND JUNE 30, 2005**

Headquarters and Branches in Brazil

(in Thousands of R\$)

A S S E T S		L I A B I L I T I E S			
	06.30.2006	06.30.2005	06.30.2006	06.30.2005	
<b>CURRENT ASSETS</b>	<b>6,919,851</b>	<b>4,420,343</b>	<b>CURRENT LIABILITIES</b>	<b>4,253,172</b>	<b>3,837,916</b>
CASH AND CASH EQUIVALENTS	42,057	38,382	DEPOSITS (Note 9)	1,314,359	1,140,201
LIQUIDITY INTERFINANCE APPLICATIONS (Note 4)	1,116,195	389,803	Sight Deposits	53,703	52,990
Open Market Applications	1,070,795	352,799	Savings Account Deposits	442,230	394,833
Applications in Interfinance Deposits	45,400	37,004	Interfinance Deposits	89,558	63,057
MARKETABLE SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS (Note 5)	4,467,952	2,760,285	Long-Term Deposits	720,808	623,182
Own Portfolio	4,459,326	2,753,011	Other Deposits	8,060	6,139
Attached to Guarantees	8,626	7,274	FUNDINGS OBTAINED IN THE OPEN MARKET	159,461	102,298
INTERFINANCE OPERATIONS	134,651	119,537	Third Parties' Portfolio	159,461	102,298
Payments and Compensations to settle	19,766	27,110	INTERFINANCE OPERATIONS	16,973	12,908
Attached Credits:			Payments and Compensations to settle	16,973	12,908
Deposits with the Brazilian Central Bank	108,869	83,093	INTERBRANCH RELATIONS	22,916	12,217
Brazilian National Treasury Department - Funds from Rural Credit	4,801	8,499	Funds in Transit from Third Parties	22,719	11,917
Interfinance Onlendings	250	0	Internal Transfers of Funds	197	300
Correspondents	965	835	LIABILITIES FOR LOANS (Note 11)	142,032	145,085
CREDIT OPERATIONS (Note 6)	710,096	677,422	Loans within the Country - Official Institutions	7,816	7,617
Public Sector	15,892	10,904	Loans from Abroad	134,216	137,468
Private Sector	835,100	849,517	COUNTRY ONLENDING LIABILITIES - OFFICIAL INSTITUTIONS (Note 12)	455,994	430,419
(Allowance for Doubtful Debts)	(140,896)	(182,999)	Brazilian National Treasury Department	198	208
OTHER CREDITS (Note 7)	438,515	429,700	Brazilian Bank	3	0
Receivables on Collateral and Guarantees paid	51	17	BNDES <sup>1</sup>	259,407	276,380
Foreign Exchange Portfolio	130,184	121,422	CEF <sup>2</sup>	320	310
Income Receivable	17,806	2,668	FINAME <sup>3</sup>	27,658	33,387
Negotiation and Intermediation of Securities	2	15	Other Institutions	168,408	120,134
Special Credits	291	291	LIABILITIES FOR ONLENDINGS FROM ABROAD (Note 13)	59,653	63,208
Sundry	291,515	317,072	Foreign Onlendings	59,653	63,208
(Allowance for Other Doubtful Debts)	(1,334)	(11,785)	OTHER LIABILITIES (Note 14)	2,081,784	1,931,580
OTHER ASSETS	10,385	5,214	Changing and Collection of Taxes and Comparable	14,653	12,916
Other Assets	10,421	11,069	Foreign Exchange Portfolio	3,708	20,340
(Allowances for Devaluations)	(5,236)	(6,089)	Social and Bylaws	17,003	240
Advanced Expenses	5,200	234	Taxes and Social Security	80,207	106,495
			Financial and Development Funds	1,650,375	1,438,940
<b>LONG TERM RECEIVABLES</b>	<b>5,230,758</b>	<b>8,341,420</b>	Sundry	315,838	352,649
MARKETABLE SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS (Note 5)	2,307,725	5,263,503	<b>LONG-TERM LIABILITIES</b>	<b>6,629,108</b>	<b>7,861,599</b>
Own Portfolio	2,252,352	5,263,503	DEPOSITS (Note 9)	1,089,720	1,615,847
Attached to Guarantees	55,373	0	Sight Deposits	65,220	64,313
INTERFINANCE OPERATIONS	33,574	22,101	Long-Term Deposits	1,024,500	1,551,534
Attached Credits:			LIABILITIES FOR LOANS (Note 11)	87,379	87,790
Brazilian National Treasury Department - Funds from Rural Credits	1,000	1,019	Loans within the Country - Official Institutions	87,379	87,790
SFH - National Housing System	21,741	21,082	COUNTRY ONLENDING LIABILITIES - OFFICIAL INSTITUTIONS (Note 12)	838,081	1,016,163
Interfinance Onlendings	10,833	0	Brazilian National Treasury Department	1,362	1,591
CREDIT OPERATIONS (Note 6)	2,671,954	2,809,823	BNDES <sup>1</sup>	539,399	698,299
Public Sector	1,107,399	1,219,438	CEF <sup>2</sup>	421	720
Private Sector	1,743,656	1,767,948	FINAME <sup>3</sup>	69,979	95,344
(Allowance for Doubtful Debts)	(179,101)	(177,563)	Other Institutions	226,920	220,209
OTHER CREDITS (Note 7)	217,505	245,993	LIABILITIES FOR ONLENDING FROM ABROAD (Note 13)	698,711	809,450
Receivables on Collateral and Guarantees paid	38	37	Foreign Onlendings	698,711	809,450
Sundry	245,263	265,006	OTHER LIABILITIES (Note 14)	3,915,217	4,332,349
(Allowance for Other Doubtful Debts)	(27,796)	(19,050)	Taxes and Social Security	383,739	680,832
			Financial and Development Funds	2,414,654	2,716,077
<b>PERMANENT ASSETS (Note 8)</b>	<b>181,015</b>	<b>158,315</b>	Sundry	1,116,824	935,440
INVESTMENTS	574	762	<b>RESULTS FROM FUTURE YEARS</b>	<b>1,508</b>	<b>1,456</b>
Other Investments	8713	8,901	RESULTS FROM FUTURE YEARS	1,508	1,456
(Allowance for Losses)	(8,139)	(8,139)	<b>NET EQUITY (Note 15)</b>	<b>1,447,836</b>	<b>1,219,107</b>
PROPERTY, PLANT AND EQUIPMENT FOR USE	174,039	152,182	CAPITAL	1,299,000	1,277,000
Real Estate for Use	100,993	82,096	From shareholders domiciled in Brazil	1,298,947	1,277,000
Reevaluation of Real Estate for Use	111,629	111,879	From shareholders domiciled abroad	53	0
Other Property, Plant and Equipment for Use	93,141	81,689	REVALUATION RESERVES	41,800	40,897
(Accumulated Depreciations)	(131,724)	(123,482)	PROFIT RESERVES	11,964	221
DEFERRED ASSETS	6,402	5,371	ADJUSTMENT TO MARKET VALUE - SECURITIES AND DERIVATIVE INSTRUMENTS	57,934	6,155
Organization and Expansion Expenditures	10,484	9,849	ACCRUED PROFITS/ LOSSES	37,138	(105,166)
(Accumulated Amortization)	(4,082)	(4,478)			
<b>TOTAL ASSETS</b>	<b>12,331,624</b>	<b>12,920,078</b>	<b>TOTAL LIABILITIES</b>	<b>12,331,624</b>	<b>12,920,078</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")

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

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

**INCOME STATEMENT****JUNE 30, 2006 AND JUNE 30, 2005**

Headquarters and Branches in Brazil

(In Thousands of R\$)

	<b>1st semester/ 2006</b>	<b>1st sem/ 2005</b>
<b>REVENUES FROM FINANCIAL INTERMEDIATION (Note 16)</b>	<b>878,565</b>	<b>1,019,501</b>
Credit Operations	295,767	318,772
Income from Operations with Bonds and Securities	568,763	684,254
Income from Derivative Instruments	847	0
Income from Foreign Exchange Operations	10,345	6,842
Income from Compulsory Applications	2,843	9,633
<b>EXPENSES FROM FINANCIAL INTERMEDIATION (Note 17)</b>	<b>(586,351)</b>	<b>(842,792)</b>
Funding obtained in the Market	(145,390)	(174,566)
Loans and Onlendings Operations	(385,447)	(412,653)
Allowance for Doubtful Debts	(55,514)	(255,573)
<b>GROSS INCOME FROM FINANCIAL INTERMEDIATION</b>	<b>292,214</b>	<b>176,709</b>
<b>OTHER OPERATIONAL REVENUES/ EXPENSES (Note 18)</b>	<b>(162,930)</b>	<b>(52,189)</b>
Revenues from Services Provided	333,137	290,400
Personnel Expenses	(288,395)	(266,063)
Other Administrative Expenses	(193,123)	(167,005)
Tax Expenses	(42,833)	(38,880)
Other Operational Revenues	264,515	501,067
Other Operational Expenses	(236,231)	(371,708)
<b>OPERATIONAL INCOME</b>	<b>129,284</b>	<b>124,520</b>
<b>NON-OPERATIONAL INCOME</b>	<b>4,131</b>	<b>2,068</b>
<b>INCOME BEFORE TAXES ON PROFIT AND PARTICIPATIONS</b>	<b>133,415</b>	<b>126,588</b>
<b>INCOME TAX AND SOCIAL CONTRIBUTION (Note 19)</b>	<b>(53,599)</b>	<b>(119,539)</b>
Allowance for Income Tax	(20,186)	(39,184)
Allowance for Social Contribution	(7,401)	(14,201)
Deferred Tax Asset	(26,012)	(66,154)
<b>BYLAWS PARTICIPATIONS ON PROFIT</b>	<b>(3,385)</b>	<b>0</b>
<b>NET PROFIT</b>	<b>76,431</b>	<b>7,049</b>
Nr. of Shares (in millions)	870,019	870,019
Net Profit per Batch of Thousand Shares (in R\$)	0.09	0.01



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**STATEMENTS OF CHANGES IN NET EQUITY**  
**JUNE 30, 2006 AND JUNE 30, 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							(113,558)	(113,558)
ADJUSTMENT TO MARKET VALUE - SECURITIES AND DERIVATIVES						(14,770)		(14,770)
CAPITAL INCREASE:								
From Reserves:								
- Transfer to Capital Increase		49,000		(8,085)	(40,915)			0
OTHER EVENTS:								
Assets Revaluation :								
Realization of Reserve:								
Gross Value			(2,035)				2,035	0
Tax Charges			692				(692)	0
NET PROFIT OF THE SEMESTER							7,049	7,049
<b>BALANCES ON 06.30.2005</b>	<b>1,228,000</b>	<b>49,000</b>	<b>40,897</b>	<b>221</b>	<b>0</b>	<b>6,155</b>	<b>(105,166)</b>	<b>1,219,107</b>
<b>CHANGES OF THE SEMESTER</b>	<b>0</b>	<b>49,000</b>	<b>(1,343)</b>	<b>(8,085)</b>	<b>(40,915)</b>	<b>(14,770)</b>	<b>(105,166)</b>	<b>(121,279)</b>
<b>BALANCES ON 12.31.2005</b>	<b>1,277,000</b>	<b>0</b>	<b>43,382</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							(23,312)	(23,312)
ADJUSTMENT TO MARKET VALUE - SECURITIES AND DERIVATIVES						27,563		27,563
CAPITAL INCREASE:								
From Reserves:								
- Transfer to Capital Increase		22,000			(22,000)			0
- Integralization of Capital	22,000	(22,000)						0
OTHER EVENTS:								
Assets Revaluation:								
- Realization of Reserve:								
Gross Value			(2,169)				2,034	(135)
Tax Charges			687				(652)	35
NET PROFIT OF THE SEMESTER							76,431	76,431
Destinations:								
Reserves				3,822	0		(3,822)	0
Dividends							(13,541)	(13,541)
<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>
<b>CHANGES OF THE SEMESTER</b>	<b>22,000</b>	<b>0</b>	<b>(1,482)</b>	<b>3,822</b>	<b>(22,000)</b>	<b>27,563</b>	<b>37,138</b>	<b>67,041</b>

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

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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 FINANCIAL POSITION****JUNE 30, 2006 AND JUNE 30, 2005**

Headquarters and Branches in Brazil

(in Thousands of R\$)

	1st semester/ 2006	1st sem/ 2005
<b>SOURCE OF FUNDS</b>	<b>1,095,094</b>	<b>453,540</b>
<b>NET PROFIT</b>	<b>76,431</b>	<b>7,049</b>
<b>ADJUSTED NET PROFIT:</b>	<b>9,371</b>	<b>8,553</b>
Depreciations and Amortizations	9,483	8,256
Allowance to Other Values and Assets Devaluation	(112)	297
<b>VARIATION IN RESULTS OF FUTURE YEARS</b>	<b>(387)</b>	<b>178</b>
<b>ADJUSTMENT TO MARKET VALUE - SECURITIES AND DERIVATIVES</b>	<b>27,563</b>	<b>(14,770)</b>
<b>ADJUSTMENT FROM PREVIOUS PERIODS</b>	<b>(23,312)</b>	<b>(113,558)</b>
<b>REVALUATION RESERVE</b>	<b>(100)</b>	<b>0</b>
<b>THIRD PARTIES' FUNDS FROM:</b>		
<b>INCREASE OF LIABILITIES' SUBGROUPS:</b>	<b>240,928</b>	<b>254,407</b>
Deposits	0	44,419
Interbranch and Interfinance Relationships	30,319	19,695
Other Liabilities	210,609	190,293
<b>DECREASE OF ASSETS' SUBGROUPS:</b>	<b>763,726</b>	<b>312,354</b>
Marketable Securities	604,152	240,189
Credit Operations	86,021	44,621
Other Credits	73,553	27,544
<b>DISPOSAL OF ASSETS AND INVESTMENTS:</b>	<b>874</b>	<b>(673)</b>
Assets Not For Own Use	591	(137)
Property, Plant and Equipment for Use	284	(527)
Investments	(1)	(9)
<b>APPLICATION OF FUNDS</b>	<b>1,090,559</b>	<b>446,745</b>
<b>DIVIDENDS AND BONUS PROPOSED</b>	<b>13,541</b>	<b>0</b>
<b>INVESTMENTS IN:</b>	<b>19,721</b>	<b>11,990</b>
Assets Not For Own Use	567	387
Property, Plant and Equipment for Use	19,134	11,603
Investments	21	0
<b>APPLICATIONS IN DEFERRED ASSETS</b>	<b>1,576</b>	<b>1,369</b>
<b>INCREASE OF ASSETS' SUBGROUPS:</b>	<b>488,681</b>	<b>52,746</b>
Liquidity Interfinance Applications	457,022	19,125
Interfinance and Interbranch Relationships	26,773	33,486
Other Assets	4,886	135
<b>DECREASE OF LIABILITIES' SUBGROUPS:</b>	<b>567,040</b>	<b>380,640</b>
Deposits	109,172	0
Fundings Obtained in the Open Market (Committed Operations)	207,042	100,689
Funds from the Acceptance and Issuance of Securities	0	32,066
Borrowings and Onlendings Liabilities	250,826	247,885
<b>INCREASE OF AVAILABLE FUNDS</b>	<b>4,534</b>	<b>6,795</b>
<b>CHANGES IN FINANCIAL POSITION: Increase of available funds</b>	<b>4,534</b>	<b>6,795</b>
Beginning of the Period	37,523	31,587
End of the Period	42,057	38,382

# NOTES TO FINANCIAL STATEMENTS

Years ended as of June 30, 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 and liabilities 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 asset is 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	06.30.2006	06.30.2005
<b>a) Open Market Applications</b>	<b>1,070,795</b>	<b>352,799</b>
Resale to Square – Banked Position	911,334	250,501
Resale to Square – Financed Position	159,461	102,298
<b>b) Interfinancial Deposits Applications</b>	<b>45,400</b>	<b>37,004</b>
<b>TOTAL</b>	<b>1,116,195</b>	<b>389,803</b>
SHORT TERM BALANCE	1,116,195	389,803
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 06.30.2006 are disposed as follows:

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

TYPE	06.30.2006			06.30.2005		
	COST VALUE	MARKET VALUE	MATURITY RANGE	COST VALUE	MARKET VALUE	MATURITY RANGE
<b>FIXED INCOME SECURITIES</b>	<b>66,745</b>	<b>66,915</b>		<b>71,781</b>	<b>77,839</b>	
Financial Treasury Bills	600	599	2006 to 2008	1,181	1,174	2005 to 2008
Central Bank Notes	53,479	53,711	2006	57,081	62,115	2006
National Treasury Bills	12,666	12,605	2006	13,519	14,550	2006
<b>CATEGORY TOTAL</b>	<b>66,745</b>	<b>66,915</b>		<b>71,781</b>	<b>77,839</b>	

In the first semester of 2006, for securities classified in the category above, a negative adjustment in the amount of R\$ 3,879 thousand was registered (R\$ 5,195 thousand on 06.30.05).

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

TYPE	06.30.2006			
	COST VALUE	MARKET VALUE	MARKET ADJUSTMENT	MATURITY RANGE
<b>FIXED-INCOME SECURITIES</b>	<b>3,350,806</b>	<b>3,339,267</b>	<b>(11,539)</b>	
Financial Treasury Bills	3,202,017	3,208,391	6,374	2006 to 2009
Central Bank Notes	93,890	94,030	140	2006
National Treasury Notes	35,882	35,711	(171)	2006
Fixed-Income Securities – Others	1,689	967	(722)	2006 to 2027
Federal Government Bonds – Others	17,196	-	(17,196)	2006
Agricultural Debt Securities	132	168	36	2006 to 2015
<b>QUOTAS FROM INVESTMENT FUNDS</b>	<b>954</b>	<b>-</b>	<b>(954)</b>	
Social Development Funds	954	-	(954)	With no Maturity
<b>VARIABLE-INCOME SECURITIES</b>	<b>144,159</b>	<b>244,608</b>	<b>100,449</b>	
Listed Companies Stocks	139,948	244,079	104,131	With no Maturity
Other tax Incentives (FINOR <sup>1</sup> )	4,211	529	(3,682)	With no Maturity
<b>GUARANTEE BONDS</b>	<b>64,176</b>	<b>63,999</b>	<b>(177)</b>	
Financial Treasury Bills	63,740	63,999	259	2006 to 2009
Federal Government Bonds – Others	436	-	(436)	2006
<b>CATEGORY TOTAL</b>	<b>3,560,095</b>	<b>3,647,874</b>	<b>87,779</b>	
Tributary Credit	-	-	181,126	
Provision for Differed Taxes and Contributions	-	-	(210,971)	
<b>TOTAL OF THE MARKET ADJUSTMENT</b>	<b>-</b>	<b>-</b>	<b>57,934</b>	

TYPE	06.30.2005			
	COST VALUE	MARKET VALUE	MARKET ADJUSTMENT	MATURITY RANGE
<b>FIXED-INCOME SECURITIES</b>	<b>3,799,341</b>	<b>3,786,000</b>	<b>(13,341)</b>	
Financial Treasury Bills	3,602,967	3,598,596	(4,371)	2005 to 2009
Central Bank Notes	92,161	99,979	7,818	2005 to 2006
National Treasury Notes	31,539	33,945	2,406	2005 to 2006
National Treasury Bills	41,972	41,970	(2)	2005
Fixed-Income Securities – Others	13,844	10,689	(3,155)	2005 to 2027
Federal Government Bonds – Others	16,740	742	(15,998)	2005
Agricultural Debt Securities	118	79	(39)	2005 to 2015
<b>QUOTAS FROM INVESTMENT FUNDS</b>	<b>833</b>	<b>-</b>	<b>(833)</b>	
Social Development Funds	833	-	(833)	With no maturity
<b>VARIABLE-INCOME SECURITIES</b>	<b>144,159</b>	<b>169,648</b>	<b>25,489</b>	
Listed Companies Stocks	139,948	168,403	28,455	With no maturity
Other Tax Incentives (FINOR <sup>1</sup> )	4,211	1,245	(2,966)	With no maturity
<b>GUARANTEE BONDS</b>	<b>1,989</b>	<b>-</b>	<b>(1,989)</b>	2005
<b>CATEGORY TOTAL</b>	<b>3,946,322</b>	<b>3,955,648</b>	<b>9,326</b>	

Tributary Credit	-	-	147,040
Provision for Differed Taxes and Contributions	-	-	(150,211)
<b>TOTAL OF THE MARKET ADJUSTMENT</b>	-	-	<b>6,155</b>

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

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

TYPE	06.30.2006			06.30.2005		
	COST VALUE	MARKET VALUE	MATURITY RANGE	COST VALUE	MARKET VALUE	MATURITY RANGE
<b>FIXED-INCOME SECURITIES</b>	<b>3,060,888</b>	<b>3,064,272</b>		<b>3,990,301</b>	<b>3,997,653</b>	
Financial Treasury Bills	3,057,029	3,060,413	2006 to 2008	3,985,818	3,993,170	2005 to 2008
Quotas from the Investment Fund-Venturer Northeast	3,554	3,554	2006 to 2008	4,202	4,202	2005 to 2008
National Treasury Note ("NTNP")	305	305	2012 to 2014	281	281	2012 to 2014
<b>CATEGORY TOTAL</b>	<b>3,060,888</b>	<b>3,064,272</b>		<b>3,990,301</b>	<b>3,997,653</b>	

a.4) Marketable Securities reclassifications were not fulfilled between the above categories along the semester, neither transfers of ownerships to securities classified in the "Held – to – Maturity Securities" category occurred. The reduction of the portfolio occurred, basically, by securities' maturity.

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

On 06.30.2006 and 2005, Banco do Nordeste had no operations with Derivatives.

## NOTE 6 - Credit Portfolio and Allowance for Losses

### a) Details by type in R\$ Thousands

Specification	<u>06.30.2006</u>	<u>06.30.2005</u>
Depositors Advances	467	525
Loans	408,075	372,157
Discounted Drafts	34,167	22,672
Financing	480,141	535,291
Foreign Currency Financing	13,624	30,631
Government Refinancings	492,540	499,629
Rural and Agroindustrial Financing	1,637,908	1,647,644
Real Estate Financing <sup>(1)</sup>	166	264
Infrastructure and Development Financing	634,959	738,994
<b>Subtotal of Credit Operations</b>	<b>3,702,047</b>	<b>3,847,807</b>
Guarantees Honored	89	54
Income Receivables on Advances	3,451	1,110
Debtors for Purchasing of Goods and Values	3,687	1,885
Securities and Receivables	1,810	11,852
Advances on Foreign Exchange Contracts <sup>(2)</sup>	128,128	107,508
<b>Subtotal of Other Rubrics with Credit Features</b>	<b>137,165</b>	<b>122,409</b>
<b>TOTAL OF CREDIT PORTFOLIO</b>	<b>3,839,212</b>	<b>3,970,216</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 R\$ 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 June 2006	Total in June 2005
Rural	36,824	21,720	55,534	1,426,299	1,540,377	1,557,050
Industry	181,465	38,330	52,322	160,465	432,582	405,035
Government	16,688	7,703	1,685	1,096,981	1,123,057	1,229,965
Other Services	93,405	31,929	69,739	87,140	282,213	306,602
Commerce	150,869	27,743	12,579	19,742	210,933	181,669
Financial Intermediaries	69	25	15	-	109	55
Housing System	16	7	20	122	165	264
Consumer Credits	18,203	7,097	5,945	12,933	44,178	39,976
<b>T O T A L</b>	<b>497,539</b>	<b>134,554</b>	<b>197,839</b>	<b>2,803,682</b>	<b>3,633,614</b>	<b>3,720,616</b>

## b.2) Past-due Credits

Type Client/ Business	Current Installments				Total in June 2006	Total in June 2005
	0 to 90 days	91 to 180 days	181 to 360 days	Over 360 days		
Rural	228	321	250	31,282	32,081	55,938
Industry	3,037	1,322	1,853	10,505	16,717	36,759
Government	2	1	2	69	74	181
Other Services	1,209	585	1,005	3,937	6,736	28,127
Commerce	2,910	1,203	1,211	3,994	9,318	8,978
Consumer Credits	685	246	217	490	1,638	1,281
<b>T O T A L</b>	<b>8,071</b>	<b>3,678</b>	<b>4,538</b>	<b>50,277</b>	<b>66,564</b>	<b>131,264</b>

Type Client/ Business	Past due Installments				Total in June 2006	Total in June 2005
	0 to 90 days	91 to 180 days	181 to 360 days	Over 360 days		
Rural	3,720	2,798	11,203	49,288	67,009	50,428
Industry	3,544	774	1,397	29,201	34,916	33,138
Government	152	-	-	-	152	164
Other Services	1,975	738	2,217	9,141	14,071	25,357
Commerce	5,581	2,498	2,742	8,642	19,463	8,094
Financial Intermediaries	2	-	-	-	2	-
Consumer Credits	1,530	764	801	326	3,421	1,155
<b>T O T A L</b>	<b>16,504</b>	<b>7,572</b>	<b>18,360</b>	<b>96,598</b>	<b>139,034</b>	<b>118,336</b>

## c) Detail by credit risk rating in R\$ Thousands

Risk Level	06.30.2006				06.30.2005			
	Ordinary Credit (1)	Credit in Arrears	Total Portfolio	Provision Value	Ordinary Credit (1)	Credit in Arrears	Total Portfolio	Provision Value
AA	2,432,392	-	2,432,392	-	1,787,834	-	1,787,834	-
A	423,937	-	423,937	2,120	1,124,831	-	1,124,831	5,624
B	327,234	9,875	337,109	3,371	302,416	6,290	308,706	3,087
C	94,124	8,216	102,340	3,070	130,047	6,571	136,618	4,098
D	161,035	19,382	180,417	18,042	182,517	15,323	197,840	19,784
E	36,533	23,198	59,731	17,920	37,729	14,233	51,962	15,589
F	16,185	19,306	35,491	17,745	19,144	31,097	50,241	25,121
G	13,751	7,622	21,373	14,961	23,735	12,365	36,100	25,270
H	128,424	117,998	246,422	246,422	112,363	163,721	276,084	276,084
<b>TOTAL</b>	<b>3,633,615</b>	<b>205,597</b>	<b>3,839,212</b>	<b>323,651</b>	<b>3,720,616</b>	<b>249,600</b>	<b>3,970,216</b>	<b>374,657</b>

(1) Include 14 days past-due credits.

## d) Allowance for the period in R\$ Thousands

Specification	06.30.2006	06.30.2005
Opening Balance	344,397	368,059
(+) Net Allowance for the period	47,763	257,740
(-) Credits classified as Losses for the period	(68,509)	(251,142)
<b>(=) Allowance for losses of the Credit Portfolio</b>	<b>323,651</b>	<b>374,657</b>
(+) Allowance for Other Credits having not a Credit Granting Nature	25,476	16,740
<b>(=) Balance of Allowance for Credits of Doubtful Accounts</b>	<b>349,127</b>	<b>391,397</b>

## e) Allowance Expenses in R\$ Thousands

Specification	06.30.2006	06.30.2005
(+) Doubtful credits allowance expenses	47,318	256,003
(+) Other doubtful credits allowance expenses	1,195	1,737
(-) Reversions of Operational Allowance	(750)	-
<b>(=) Balance of Expense with allowance having a Credit Granting Nature</b>	<b>47,763</b>	<b>257,740</b>
(+) Expense with the Allowance for Other Credits having not a Credit Granting Nature	10,095	382
(-) Reversions of Allowances for Other Credits having not a credit Granting Nature	(2,344)	(2,549)
<b>(=) Balance of Expense with Allowance for Doubtful Credits</b>	<b>55,514</b>	<b>255,573</b>

f) In the semester, Credits Written-off as Losses have been recovered in the amount of R\$ 66,242 thousand (R\$ 107,583 thousand on 06.30.2005), and its operation renegotiations amounted R\$ 104,803 thousand (R\$ 111,513 thousand on 06.30.2005).

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

<b>Specification</b>	<b>06.30.2006</b>	<b>06.30.2005</b>
<b>a) Receivables for Guarantees Honored</b>	<b>89</b>	<b>54</b>
<b>b) Foreign Currency Portfolio</b>	<b>130,184</b>	<b>121,422</b>
Unsettled Currency Purchases	126,516	100,000
Rights on Foreign Currency Sales	360	20,312
Prepayments in Collected National Currency	(143)	-
Income Receivables of Granted Advances	3,451	1,110
<b>c) Income Receivable</b>	<b>17,806</b>	<b>2,668</b>
<b>d) Moneys Negotiation and Dealing</b>	<b>2</b>	<b>15</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>536,778</b>	<b>582,078</b>
Tax Credits - Temporary Differences	74,679	165,952
Tax Credits – Marketable Securities and Derivative Instruments (Note 5.a.2)	181,126	147,040
Debtors for Guarantee Deposits	139,747	75,543
Tax and Payable Contributions	34,127	33,327
Tax Incentive Options	26,748	26,748
Security and Credits Receivable	1,810	11,852
Prepayments and Salary Anticipations	7,553	6,685
Payments to Reimburse	8,578	19,176
Recalculation, discounts, exemption and bonus in BNDES operations	2,289	11,231
Recalculation, discounts, exemption and bonus in FAT operations	33,538	56,753
Other Values	26,583	27,771
<b>g) Allowance for Other Doubtful Debts</b>	<b>(29,130)</b>	<b>(30,835)</b>
Having a Credit Granting Nature	(3,654)	(14,095)
Having not a Credit Granting Nature	(25,476)	(16,740)
<b>TOTAL</b>	<b>656,020</b>	<b>675,693</b>
SHORT TERM BALANCE	438,515	429,700
LONG TERM BALANCE	217,505	245,993

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

<b>Specification</b>	<b>06.30.2006</b>	<b>06.30.2005</b>
<b>a) Investments</b>	<b>574</b>	<b>762</b>
<b>a.1) Other Investments</b>	<b>8,713</b>	<b>8,901</b>
Investments for Tax Incentive	4,411	4,411
Stocks and Quotas	3,878	4,090
Artistic and Valuable Goods	424	400
<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>174,039</b>	<b>152,182</b>
<b>b.1) Real Estate for Use</b>	<b>100,993</b>	<b>82,096</b>
Lands	5,896	5,916
Buildings	95,097	76,180
<b>b.2) Revaluation of Real Estate for use</b>	<b>111,629</b>	<b>111,879</b>
Lands – Revaluations	10,930	10,964
Buildings – Revaluations	100,699	100,915
<b>b.3) Other Plant, Property, and Equipment for Use</b>	<b>93,141</b>	<b>81,689</b>
Installations and equipment for use	42,413	34,987
Data Processing System	38,705	38,371



Others	12,023	8,331
<b>b.4) Accumulated Depreciations</b>	<b>(131,724)</b>	<b>(123,482)</b>
Real Estate for Use	(103,706)	(94,763)
Other Plant, Property, and Equipment for Use	(28,018)	(28,719)
<b>c) Deferred</b>	<b>6,402</b>	<b>5,371</b>
<b>c.1) Expenditures for Organization and Expansion</b>	<b>10,484</b>	<b>9,849</b>
Expenditures in Third Parties' Real Estate	9,820	7,690
Logistic Acquisition and Development	661	1,421
Room installations and adaptations	3	738
<b>c.2) Accumulated Amortization</b>	<b>(4,082)</b>	<b>(4,478)</b>
Expenditures in Third Parties' Real Estate	(3,691)	(2,878)
Logistic Acquisition and Development	(389)	(969)
Room installations and adaptations	(2)	(631)
<b>TOTAL</b>	<b>181,015</b>	<b>158,315</b>

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

<b>Specification</b>	<b>06.30.2006</b>	<b>06.30.2005</b>
<b>a) Sight Deposits</b>	<b>118,923</b>	<b>117,303</b>
Foreign Currency Deposits in the Country	74,896	68,236
Government Deposits	18,530	19,356
Attached Deposits	12,500	11,727
Legal Entity	8,355	13,169
Individuals	4,401	4,039
Other Values	241	776
<b>b) Saving Account Deposits</b>	<b>442,230</b>	<b>394,833</b>
Free Saving Account Deposits - Individuals	329,786	302,489
Free Saving Account Deposits - Corporate	112,404	92,105
Linked and of Financial System Institutions	40	239
<b>c) Interbanks Deposits</b>	<b>89,558</b>	<b>63,057</b>
<b>d) Time Deposits</b>	<b>1,745,308</b>	<b>2,174,716</b>
Time Deposits	796,513	603,848
Interest-bearing Judicial Deposits	25,300	20,470
<b>Interest-bearing Special Deposits/ "FAT" - Available Funds</b>	<b>26,835</b>	<b>444,588</b>
Urban <i>Proger</i>	5,326	71,074
Rural <i>Proger</i>	222	52,304
<i>Pronaf</i>	4,017	211,485
<i>Protrabalho</i>	15,775	82,795
Draught Period	1,495	26,930
<b>Interest-bearing Special Deposits/ "FAT" – Invested Funds</b>	<b>687,347</b>	<b>935,793</b>
Urban <i>Proger</i>	117,886	196,039
Rural <i>Proger</i>	7,218	47,892
<i>Pronaf</i>	79,951	101,269
<i>Protrabalho</i>	456,058	554,810
Draught Period	26,234	35,783
FINOR/ Availabilities and Reinvestments/ Law Nr 8,167	209,313	170,017
<b>e) Others Deposits – Deposits for investments</b>	<b>8,060</b>	<b>6,139</b>
<b>TOTAL</b>	<b>2,404,079</b>	<b>2,756,048</b>
SHORT TERM BALANCE	1,314,359	1,140,201
LONG TERM BALANCE	1,089,720	1,615,847

#### NOTE 10 – Long-Term Liabilities

- a) As per loan and onlending liabilities contracted in the Country, interest rates vary from 0 to 11.5% 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\$ 896,443 thousand ( R\$ 1,103,410 thousand on 06.30.2005) have burdens based on the TJLP [Long Term Interest Rate], plus a 1.5%-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\$ 714,182 thousand (R\$ 1,380,381 thousand on 06.30.2005), 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\$ 26,835 thousand (R\$ 444,588 thousand on 06.30.2005).
- d) As to the external liabilities, interest rates vary from 4.16% to 6.00% per year, the average term is 10 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 June 06	Total in June 05
Domestic Loans	6,212	1,604	15,973	14,634	56,772	-	95,195	95,407
Foreign Loans	40,353	93,863	-	-	-	-	134,216	137,468
Domestic Onlending	259,322	196,673	328,011	242,459	120,745	146,865	1,294,075	1,446,582
Foreign Onlending	3,914	55,739	110,597	111,104	471,525	5,485	758,364	872,658
<b>TOTAL</b>	<b>309,801</b>	<b>347,879</b>	<b>454,581</b>	<b>368,197</b>	<b>649,042</b>	<b>152,350</b>	<b>2,281,850</b>	<b>2,552,115</b>

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

Specification	06.30.2006	06.30.2005
a) Domestic Loans/ Official Institutions/ Refinancing	95,195	95,407
b) Foreign Loans/ Foreign Currency Liabilities	134,216	137,468
<b>TOTAL</b>	<b>229,411</b>	<b>232,875</b>
SHORT TERM BALANCE	142,032	145,085
LONG TERM BALANCE	87,379	87,790

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

Specification	06.30.2006	06.30.2005
a) Brazilian National Treasury	1,560	1,799
b) Brazilian Bank	3	-
c) BNDES <sup>1</sup>	798,806	974,679
Poc - Joint Operation Program	444,461	593,224
Facility for Investment in the Agricultural Sector	354,345	381,455
d) CEF <sup>2</sup>	741	1,030
e) FINAME <sup>3</sup>	97,637	128,731
Special Program	-	1,358
Regular Program	82,543	108,688
Agricultural Program	14,688	17,710
Import	406	975
f) Other Institutions	395,328	340,343
Pilot Project for Support to Agrarian Reform	67,878	64,676
MEPF - Fund for Lands and Agrarian Reform – Land Bank	164,629	155,053
EMBRATUR <sup>4</sup> /FUNGETUR <sup>5</sup>	1,415	3,258
Land Bank – Rural Poverty Combat	158,718	113,590
Other Programs	2,688	3,766

<b>TOTAL</b>	<b>1,294,075</b>	<b>1,446,582</b>
SHORT TERM BALANCE	455,994	430,419
LONG TERM BALANCE	838,081	1,016,163

<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	06.30.2006	06.30.2005
a) IDB - Prodetur*	739,167	851,733
b) IDB - Other Programs	17,544	18,890
c) Other Programs	1,653	2,035
<b>TOTAL</b>	<b>758,364</b>	<b>872,658</b>
SHORT TERM BALANCE	59,653	63,208
LONG TERM BALANCE	698,711	809,450

\* Tourism Development Program (“PRODETUR”)

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

Specification	06.30.2006	06.30.2005
<b>a) Collected Taxes and Others</b>	<b>14,653</b>	<b>12,916</b>
Proagro Funds	4,250	4,408
Federal Tax Receivals	8,628	7,338
Taxes and Others	1,775	1,170
<b>b) Foreign Exchange Portfolio</b>	<b>3,708</b>	<b>20,340</b>
Foreign Exchange Purchase Liabilities	131,422	107,508
Foreign Exchange sold pending settlement	355	20,277
(Advances on Foreign Exchange Contracts)	(128,128)	(107,508)
Other Values	59	63
<b>c) Social and Statutory</b>	<b>17,003</b>	<b>240</b>
Dividends and Bonus to pay	13,618	59
Profit Participations	3,385	181
<b>d) Tax and Social Security</b>	<b>463,946</b>	<b>787,327</b>
Provision for Tax Risks (Note 20)	193,271	545,990
Tax and Contributions	166,570	521,312
Tax Cases	26,701	24,678
Provision for Taxes and Contributions, Deferred	226,933	171,279
Security and Derivative Instruments (Note 5.a.2)	210,971	150,211
Revaluation on Buildings and Lands	15,962	21,068
Provision for Tax and Contribution on Profit	21,749	54,330
Tax and Contributions to Collect/ Pay	21,993	15,728
<b>e) Financial and Development Funds</b>	<b>4,065,029</b>	<b>4,155,017</b>
The Brazilian Northeastern Region Constitutional Financing Fund – FNE	4,036,926	4,129,640
Other Values	28,103	25,377
<b>f) Sundry</b>	<b>1,432,662</b>	<b>1,288,089</b>
<b>Provision for Contingent Liabilities (Note 20)</b>	<b>632,033</b>	<b>655,298</b>
Labor Disputes	103,235	142,038
Civil Actions	49,702	42,814
Other Actions	119	34,871
FNE (Note 25.c.2)	478,977	435,575
<b>Provision for Payments Falling Due</b>	<b>768,063</b>	<b>604,535</b>
Benefits to Employees – CVM Resolution 371 (Note 23.e)	670,632	560,069
Retirement and Pension Plan	563,716	497,468
Medical Care Plan	106,916	62,601
Personnel Expenses	60,949	39,511
Other Values	36,482	4,955
<b>Other Values</b>	<b>32,566</b>	<b>28,256</b>

<b>TOTAL</b>	<b>5,997,001</b>	<b>6,263,929</b>
SHORT TERM BALANCE	2,081,784	1,931,580
LONG TERM BALANCE	3,915,217	4,332,349

## 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 06.30.2005), 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 (35,300 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 semester, in the amount of R\$ 1,482 thousand (R\$ 1,343 thousand as of 06.30.2005), was transferred for “Accumulated Profits or Losses - LPA”.

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

<b>1. Net Profit</b>	<b>76,431</b>
2. Adjustments from Precedent Years	(23,312)
3. Revaluation Reserves transferred for LPA	1,482
<b>4. Adjusted Net Profit</b>	<b>54,601</b>
Legal Reserve (item 1 times 5%)	3,822
Dividends (Note 15.d)	13,541
Accumulated Profits or Losses (item 4 – Legal Reserve – Dividends)	37,238

### d) Dividends

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

The Board of Directors proposed and the Administration Council approved, “ad referendum” of the General Stockholders’ Meeting, the anticipated dividend payment, calculated in R\$ Thousands:

<b>1. Net Profit of the Semester</b>	<b>76,431</b>
2. Legal Reserve Constituted	(3,822)
3. Revaluation Reserves transferred for LPA	1,482
4. Adjustments from Precedent Years (Note 15.e)	(23,312)
5. Participations in Profit and Results	3,385
<b>6. Dividend Calculation Basis</b>	<b>54,164</b>
7. 25% Proposed and Provisioned Dividend	13,541
- Dividend of R\$ 0.01490431631 per batch of 1,000 Common Shares	7,226
- Dividend of R\$ 0.01639474794 per batch of 1,000 Preferred Shares	6,315

For preferred shares, dividends 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 9,457/97, subject to paragraph 2, Article 6, of the Bank By-Laws.

Employees’ profit sharing was added to the tax basis for dividends, 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 March and April/2005	(24,307)
Tributary effect of Income Tax and CSLL <sup>1</sup> on adjustments of previous years	6,491
<b>TOTAL</b>	<b>(23,312)</b>

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

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

Specification	06.30.2006	06.30.2005
<b>a) Credit Operations</b>	<b>295,767</b>	<b>318,772</b>
Interest and Commissions	181,544	176,960
Monetary Restatement	18,915	33,787
Exchange Rate Variation	29,066	442
Recovery of Credits Written-off as Losses	66,242	107,583
<b>b) Result of Operations with Bonds and Securities</b>	<b>568,763</b>	<b>684,254</b>
Fixed-Income Securities	497,259	679,178
Other Applications	89,848	21,251
Profit, Loss and Adjustment	(18,344)	(16,175)
<b>c) Result with Derivative and Financial Instruments</b>	<b>847</b>	<b>-</b>
<b>d) Result from Foreign Exchange Operations</b>	<b>10,345</b>	<b>6,842</b>
Foreign Exchange Operations	5,904	4,292
Cash and Cash Equivalents in foreign currencies	317	50
Taxes Variations and Differences	4,124	2,500
<b>e) Result from Compulsory Applications</b>	<b>2,843</b>	<b>9,633</b>
Interest and Commissions	2,528	9,244
Monetary Restatement	315	389
<b>TOTAL</b>	<b>878,565</b>	<b>1,019,501</b>

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

Specification	06.30.2006	06.30.2005
<b>a) Funding Operations at the Market</b>	<b>(145,390)</b>	<b>(174,566)</b>
Interest and Commissions	(86,303)	(123,890)
Monetary Restatement	(56,406)	(50,193)
Exchange Rate Variation	(2,681)	(483)
<b>b) Borrowing and Onlending Operations</b>	<b>(385,447)</b>	<b>(412,653)</b>
Interest and Commissions	(58,246)	(63,533)
Monetary Restatement	(10,371)	(21,170)
Monetary Restatement of FNE available	(281,444)	(327,927)
Exchange Rate Variation	(35,386)	(23)
<b>c) Allowance for Doubtful Credits (Note 6.e)</b>	<b>(55,514)</b>	<b>(255,573)</b>
Credit Operations	(47,763)	(257,740)
Operations having not a Credit Granting Nature	(7,751)	2,167
<b>TOTAL</b>	<b>(586,351)</b>	<b>(842,792)</b>

**NOTE 18 – Other Operational Revenues/ Expenditures in R\$ Thousands**

Specification	06.30.2006	06.30.2005
<b>a) Services Provided Revenues</b>	<b>333,137</b>	<b>290,400</b>
Administration of Investment Funds	2,610	2,166
Administration of Funds and Programs	281,792	253,502
Services Provided	48,735	34,732
<b>b) Personnel Expenses</b>	<b>(288,395)</b>	<b>(266,063)</b>
Salaries	(126,984)	(114,129)
Social Charges	(50,057)	(43,250)
Retirement and Pension Plan – CVM Resolution 371 (Note 23.g)	(62,560)	(67,455)
Medical Care Plan – CVM Resolution 371 (Note 23.g)	(24,288)	(21,734)
Benefits, trainings, wages and Remuneration of Trainee	(24,506)	(19,495)
<b>c) Other Administrative Expenses</b>	<b>(193,123)</b>	<b>(167,005)</b>
Data Processing	(38,452)	(35,454)

Advertising and Publicity	(10,949)	(9,293)
Third Parties' Services	(21,674)	(14,628)
Rents, Material, Water, Electric Power and Gas	(18,142)	(15,965)
Travels	(7,238)	(6,344)
Communications	(11,361)	(9,994)
Depreciation and Amortization	(9,483)	(8,255)
Property Maintenance and Conservation	(8,244)	(7,029)
Surveillance, Security and Transportation	(8,647)	(7,546)
Promotions, Public Relations and Publications	(5,163)	(2,938)
Financial System Services	(5,018)	(4,146)
Technical Expert Services	(6,162)	(5,849)
Insurance	(780)	(844)
Capex and Camed employers' share - Pensioners	(26,381)	(24,733)
Legal fees, notary's office and advocative fees	(8,075)	(7,310)
Contribution to Employers' Union and Associative Entity	(361)	(481)
Condominium, Pantry, Kitchen and provisions	(1,168)	(1,020)
Other Values	(5,825)	(5,176)
<b>d) Tax Expenses</b>	<b>(42,833)</b>	<b>(38,880)</b>
Cofins and PIS <sup>1</sup> / PASEP <sup>2</sup> Contributions	(36,685)	(35,176)
CPMF	(1,477)	(1,049)
ISS and IPTU/ Improvement Contribution	(3,570)	(2,282)
Other Values	(1,101)	(373)
<b>e) Other Operational Revenues</b>	<b>264,515</b>	<b>501,067</b>
<i>Del credere</i> from Managed Funds	115,041	78,694
Negative Exchange Rate Variation from Loans	121,632	184,698
Reversion from Operational Allowances/ Risks with FNE Operations	-	143,919
Recovery of Charges and Expenses	3,071	2,352
Reversion from Social Contribution and Income Tax Allowances	1,511	7,712
Reversion from Operational Allowances	13,759	72,243
Interest and Comissions	8,246	6,632
Monetary Restatement	53	4
Tax Monetary update	213	974
Other Values	989	3,839
<b>f) Other Operational Expenses</b>	<b>(236,231)</b>	<b>(371,708)</b>
Exchange Rate Variation of the Foreign Exchange Area	(1,848)	-
Negative Foreign Exchange Rate Variation from Loans	(94,527)	(138,944)
Negative Monetary Update of Credit Operations	(4,145)	(116)
Discounts Granted in Renegotiation	(680)	(2,420)
Charges of Credit Operations	(1,624)	(33,637)
Tax Risks	(19,212)	(54,549)
FNE Operations risk	(89,319)	(25,967)
Labor Disputes	(4,651)	(61,507)
Civil Actions	(5,379)	(11,323)
Other Actions	-	(218)
Other Operational Allowances	(10,887)	(6,611)
Other Values	(3,959)	(36,416)
<b>TOTAL</b>	<b>(162,930)</b>	<b>(52,189)</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 first semester of 2006 was R\$ 39,898 thousand and Social Contribution was R\$ 14,501 thousand, with its conciliation being set out below in R\$ Thousands:

Specification	Income Tax		Social Contribution	
	06.30.2006	06.30.2005	06.30.2006	06.30.2005
Income Before Taxes	133,415	87,156	133,415	118,876
Permanent Additions/ Exclusions	(21,568)	39,444	(21,556)	7,736
Period-related Additions/ Exclusions	(15,556)	101,715	(15,556)	101,715
Taxable Income Before Offsets	96,291	228,315	96,303	228,327
Tax Loss and Negative Basis Offset	(28,887)	(68,494)	(28,891)	(68,498)
Taxable Income after Offsets	67,404	159,821	67,412	159,829
Taxes Due	21,132	39,434	7,612	14,201
Deductions (Tax incentives)	(357)	(250)	-	-
Tax Credit on Timing Differences	19,123	48,635	6,889	17,519
Amounts recorded as expenses	39,898	87,819	14,501	31,720
Expense % in relation to income before taxes	29.91%	100.76%	10.87%	26.68%

#### 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	-	17,610	-	6,339
(-) Credit Realization	(19,123)	(3,104)	(6,889)	(1,117)
<b>(=) Final Balance as of 06.30.2006</b>	<b>54,908</b>	<b>133,181</b>	<b>19,771</b>	<b>47,945</b>

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	
	06.30.2006	06.30.2005	06.30.2006	06.30.2005
1. Total Timing Differences	1,989,422	2,671,376	1,989,422	2,671,376
2. Tax Loss and Negative Basis	809,847	865,714	811,543	867,418
3. Total calculation basis (1) + (2)	2,799,269	3,537,090	2,800,965	3,538,794
4. Tax Credits on Temporary Differences + Tax Loss and Negative Basis	699,817	884,273	252,087	318,491
5. Tax credits arising from Securities market marking	133,181	108,118	47,945	38,922
6. Total Tax Credits	832,998	992,391	300,032	357,413
7. Tax Credits Activated	188,089	230,143	67,716	82,849
8. Tax Credits Non-Activated (6) - (7)	644,909	762,248	232,316	274,564

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.

Until the last published balance, allusive to the semester ended on 06.30.2005, the achievement forecast of these Tributary Credits was based on the planning included in the balance from December/2004, whose criteria consisted of the framing in losses of the credit operations to collect, basically for the delayed days.

The accomplished achievements in 2004 and 2005, 47.80% and 29.56%, respectively, resulted higher from the estimated one in the original planning present in explanatory notes of the balance from December/2003, notably, for the fact that, in 2004, the Bank, by means of its Legal Supervision, had judged a great operation number in order to collect credits and implemented improvements in the control of the registrations of these judgments. In view of demonstrating an estimate, close to reality and, taking as basis the percentages of achievements in the last two years, it is foreseen that the residual value of the tributary credits, equivalent to 22.64%, will be carried out through of the year of 2006. For a comparison effect, they are demonstrated below, in R\$ thousands, the foreseen values of tributary credits achievements in the positions of 12.31.2004, 12.31.2005 and 06.30.2006:

**In 12.31.2004:**

Period	Income Tax Credit Realization		CSLL Credit Realization		Total	
	Book Value	Present Value	Book Value	Present Value	Book Value	Present Value
2005	42,278	35,963	15,229	12,954	57,507	48,917
2006	26,170	19,337	9,421	6,961	35,591	26,298
2007	37,685	24,482	13,566	8,813	51,251	33,295
2008	44,986	25,824	16,195	9,297	61,181	35,121
2009	19,542	9,948	7,035	3,581	26,577	13,529
<b>TOTAL</b>	<b>170,661</b>	<b>115,554</b>	<b>61,446</b>	<b>41,606</b>	<b>232,107</b>	<b>157,160</b>

**In 12.31.2005:**

Period	Income Tax Credit Realization		CSLL Credit Realization		Total	
	Book Value	Present Value	Book Value	Present Value	Book Value	Present Value
2006	74,031	63,892	26,660	23,008	100,691	86,900

**In 06.30.2006:**

Period	Income Tax Credit Realization		CSLL Credit Realization		Total	
	Book Value	Present Value	Book Value	Present Value	Book Value	Present Value
2006	54,908	51,296	19,772	18,471	74,680	69,767

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
2006	125,441	125,441	45,159	45,159	170,600	170,600
2007	3,145	3,145	1,132	1,132	4,277	4,277
2008	1,039	1,039	374	374	1,413	1,413
2009	2,291	2,291	825	825	3,116	3,116
2010	-	-	-	-	-	-
2011 to 2013	5	5	2	2	7	7
2014 to 2016	1	1	-	-	1	1
2026 to 2028	1,259	1,259	453	453	1,712	1,712
<b>TOTAL</b>	<b>133,181</b>	<b>133,181</b>	<b>47,945</b>	<b>47,945</b>	<b>181,126</b>	<b>181,126</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 reevaluation 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: a) legal and factual basis from the opposite party's request; b) obtained results by the Bank in similar demands; c) 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</b> (Note 14.d)		
<b>Tax and Contributions</b> (Probable)	<b>166,570</b>	<b>166,570</b>
<b>Tax Actions</b>	<b>219,564</b>	<b>26,701</b>
Probable	26,701	26,701
Possible	13,488	-
Remote	179,375	-
<b>PROVISION FOR CONTINGENT LIABILITIES</b> (Note 14.f)		
<b>Labor Disputes</b>	<b>138,794</b>	<b>103,235</b>
Probable	103,235	103,235
Possible	21,770	-
Remote	13,789	-
<b>Civil Actions</b>	<b>250,185</b>	<b>49,702</b>
Probable	49,702	49,702
Possible	103,185	-
Remote	97,298	-
<b>Other Actions</b>	<b>4,663</b>	<b>119</b>
Probable	119	119
Possible	2,170	-
Remote	2,374	-

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:

Specification	06.30.2006
<b>a) Tax and Contributions (Other Liabilities – Sundry)</b>	
Opening Balance	162,517
Constitution	4,053
Reversion/ Use/ Classified	-
Final Balance	166,570
<b>b) Tax Actions (Other Liabilities – Sundry)</b>	
Opening Balance	24,893
Constitution	8,004
Reversion/ Use/ Classified	(6,196)
Final Balance	26,701
<b>c) Labor Disputes (Other Liabilities - Sundry)</b>	
Opening balance	107,599
Constitution	4,760
Reversion/ Use/ Classified	(9,124)
Final Balance	103,235
<b>d) Civil Actions (Other Liabilities - Sundry)</b>	
Opening Balance	44,406
Constitution	6,854
Reversion/ Use/ Classified	(1,558)
Final Balance	49,702
<b>e) Other Actions (Other Liabilities - Sundry)</b>	
Opening balance	3,488
Constitution	226
Reversion/ Use/ Classified	(3,595)
Final Balance	119
<b>f) Vacations</b>	
Opening balance	18,162
Constitution	10,777
Reversion/ Use/ Classified	(10,606)
Final Balance	18,333

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:

Gross Compensation	Employees (1)	Officers (2)
Maximum	11,900.72	14,280.86
Minimum	547.08	-
Average	3,318.16	-

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

2) It includes R\$ 2,380.14 for the 20% additional compensation for exercising a head position, fixed by the Brazilian Treasury Department.

On 06.30.2006, Banco do Nordeste employees number totaled 4,758 ( 4,385 as of 06.30.2005), with a 8.51% increase, within the period, in Bank personnel.

## NOTE 22 – Profits and Results Participation

In the first semester of 2006, the amount of R\$ 3,385 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 remaining balance of BNB contractual debt amounted, on 06.30.2006, R\$ 32,785 thousand, which shall be paid in monthly parcels, being the last due on 12.29.2006.

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

CAPEF actuarial result, as of June/2006, was a surplus one, in the amount of R\$ 197,859 thousand (surplus of R\$ 126,156 thousand on 06.30.2005), 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 06.30.2006, the contributory ratio 1:1 (On 06.30.2005 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	2,300,087	306,120
2. Fair Value of Plan Assets	(1,576,993)	(10,482)
3. Present Value of unfunded Actuarial Liabilities (item 1 minus item 2)	723,094	295,638
a. Present Value of recognized unfunded Actuarial Liabilities	563,716	106,916
i. Current Expenses	195,358	46,410
ii. Net Value of Actuarial Losses	11,579	32,263
iii. Cost of Services Formerly Provided	146,510	-
iv. Portion of Actuarial Liabilities Ascertained as of 12.31.2001	210,269	28,243
b. Present Value of non-recognized unfunded Actuarial Liabilities	159,378	188,722
i. Net Value of Actuarial Losses	16,785	185,584
ii. Cost of Services Formerly Provided	119,230	-
iii. Portion of Actuarial Liabilities Ascertained as of 12.31.2001	23,363	3,138

**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	(70,132)	21,879
a. Current Expenses	25,949	14,951
b. Net Value of Actuarial Losses (earnings)	(63,838)	6,928
c. Cost of Services Formerly Provided	(32,243)	-
3. Net Actuarial Liabilities, in the End of the Period	723,094	295,637

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

Specification	CAPEF	CAMED
1. Current Expenses	53,545	22,593
a. Cost of Current Service, Deducted from Employees’ Contributions	5,951	6,168
b. Cost of Interest	136,982	17,052
c. Expected Income on Plan Assets	(89,388)	(627)
2. Actuarial Earnings and Losses Recognized in the Year	-	6,199

3. Cost of Services Formerly Provided	13,248	-
4. Actuarial Liability ascertained on 12.31.2001 Recognized in the Year	23,363	3,138
<b>5. Expense Recognized in the Income Statement</b>	<b>90,156</b>	<b>31,930</b>
a. Provision Expense	62,560	24,288
b. Contribution Expense	27,596	7,642

#### 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 first semester of 2006, an amortization of the cost of services formerly provided was made, in the amount of R\$ 32,243 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).

#### i) Assumptions used

**i.1) Biometric Assumptions:** Table for General Mortality of Capable People – AT83; 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 – 6% 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 Prevalence – 0% per annum and Actual Growing Rate of Welfare Expenditures – 3% 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 06.30.2006, net balance of the purchased foreign exchange exposure, amounting R\$ 3,635 thousand recorded, as it is shown below, in R\$ Thousands:

Current	928	Deposits	74,896
Liquidity Interfinance Applications	15,015	Interbranch Relationships	22,719
Marketable Securities	196,058	Liabilities For Loans and Onlendings within the Country	5,550
Credit Operations	660,903	Liabilities For Loans and Onlendings From Abroad	892,580
Other Credits	130,184	Other Liabilities	3,708
<b>Total of Assets in Foreign Currencies</b>	<b>1,003,088</b>	<b>Total of Liabilities in Foreign Currencies</b>	<b>999,453</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 0.36% 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 existing 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.

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

**a)** The FNE equity in the amount of R\$ 18,049,175 thousand (R\$ 15,232,978 thousand on 06.30.2005) is registered in offset accounts of the Bank (Equity from Public Managed Funds).

b) Fund availabilities, in amount of R\$ 4,036,886 thousand (R\$ 4,129,640 thousand on 06.30.2005), 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\$ 281,444 thousand (R\$ 327,927 thousand on 06.30.2005).

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 Jun/06 D = (C x 50%)	Allowance in Jun/05
AA	1,581,865	0 %	-	-	-
A	1,726,984	0.50 %	8,635	4,317	2,761
B	2,576,106	1.00 %	25,761	12,881	6,810
C	254,498	3.00 %	7,635	3,817	5,023
D	975,105	10.0 %	97,510	48,755	42,806
E	149,917	30.0 %	44,975	22,488	13,557
F	99,267	50.0 %	49,634	24,817	12,203
G	79,250	70.0 %	55,475	27,737	13,570
H	668,330	100 %	668,330	334,165	338,845
<b>TOTAL</b>	<b>8,111,322</b>		<b>957,955</b>	<b>478,977</b>	<b>435,575</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\$ 114,390 thousand (R\$ 78,210 thousand on 06.30.2005).

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\$ 252,121 thousand (R\$ 224,913 thousand on 06.30.2005).

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

On 06.30.2005, the capital adequacy rate (Basel Index) of Banco do Nordeste was 19.03% (on 06.30.2005, 17.44%), whilst the Reference Equity (PR) was R\$ 1,447,102 thousand (R\$ 1,218,870 thousand, on 06.30.2005). Resolution Nr. 2,099/94, of the National Monetary Council, and supplementary rules issued by the Brazilian Central Bank determine that, as for 06.30.2006, the capital adequacy rate should be at least 11%, and, in the case of the Bank, a minimum PR of R\$ 836,504 thousand (R\$ 768,815 thousand, on 06.30.2005).

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

Specification	06.30.2006		06.30.2005	
	Assets Value	Assets weighted by the risk	Assets Value	Assets weighted by the risk
Assets at 0% risk	8,275,040	-	8,845,437	-
Assets at a 20% risk	78,151	15,630	105,215	21,043
Assets at a 50% risk	449,728	224,864	322,370	161,185
Assets at a 100% risk	6,592,060	6,592,060	5,847,550	5,847,550
Ativos at a 300% risk	255,072	765,216	312,503	937,509
<b>TOTAL</b>	<b>15,650,051</b>	<b>7,597,770</b>	<b>15,433,075</b>	<b>6,967,287</b>

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

FACTOR OF RISK WEIGHTING	06.30.2006	06.30.2005
A) Assets subject to risk weighting	15,650,051	15,433,075
B) Risk weighted assets (APR)	7,597,770	6,967,287
C) Swap credit risk	-	-
D) Net Equity Requirement on APR (11% of "B")	835,755	766,402
E) Net Equity Requirement on Swap (20% of "C")	-	-
F) Net Equity Requirement on interest rate exposure	749	2,413
<b>G) Net Equity Required (PLE): "D" + "E" + "F"</b>	<b>836,504</b>	<b>768,815</b>
H) Reference equity (PR):	1,447,102	1,218,870
Level I	1,405,302	1,177,973
Level II (Revaluation Reserves)	41,800	40,897
<b>I) Ratio between the reference equity and the Net Equity required ("G / H"):</b>	<b>0.58</b>	<b>0.63</b>
J) Excess/ (deficiency) of Net Equity: PR - PLE ("H" - "G")	610,598	450,055
L) Excess/ (deficiency) of leverage: ("J" x 100)/11	5,550,891	4,091,409

<b>M) Net Equity Adequacy Coefficient</b>		
BASEL INDEX = $\frac{H}{B + 9.09 \times (E+F)}$	19.03	17.44

## NOTE 27 – Cash Flow

Specification	<u>06.30.2006</u>	<u>06.30.2005</u>
<b>Cash Flow From Operations</b>		
Net Profit of the Year	76,431	7,049
Expenses (Revenues) not affecting the Cash:		
- Depreciation and Amortization Expenses	9,483	8,256
- Allowance for Other Assets Devaluation	(112)	297
- Allowance for Doubtful Debts	(9,408)	4,634
- Allowance for Other Doubtful Debts	(3,587)	(862)
<b>Adjusted Net Profit (Loss)</b>	<b>72,807</b>	<b>19,374</b>
Marketable Securities	604,152	240,189
Other values and assets	(4,886)	(135)
Liquidity Interfinance Applications	(457,022)	(19,125)
Interfinance and interbranch relationships	3,546	(13,791)
Credit Operations	95,429	39,987
Other Credits	77,140	28,406
Variation in Future Year Results	(387)	178
Previous Years Adjustments	(23,312)	(113,558)
Adjustment to Market Value - Securities and Derivative Instruments	27,563	(14,770)
Revaluation Reserve	(100)	-
<b>Cash Generated/ (Used) by Operations</b>	<b>394,930</b>	<b>166,755</b>
<b>Cash Flow From Financing Activities</b>		
Deposits	(109,172)	44,419
Borrowings and Onlendings	(250,826)	(247,885)
Funding obtained in the open market	(207,042)	(100,689)
Other Liabilities	210,609	190,293
Funds from the acceptance and issuance of securities	-	(32,066)
Dividends and bonuses proposed	(13,541)	-
<b>Total Fund Inflow (outflow)</b>	<b>(369,972)</b>	<b>(145,928)</b>
<b>Cash Flow From Investment Activities</b>		
Inversions in assets not destined for own use	(567)	(387)
Inversions in property, plant and equipment for use	(19,134)	(11,603)
Inversions in investments	(21)	-
Disposal of assets not destined for own use	591	(137)
Disposal of property, plant and equipment for use	284	(527)
Disposal of Investments	(1)	(9)
Applications in deferred assets	(1,576)	(1,369)
<b>Total Funds Raised</b>	<b>(20,424)</b>	<b>(14,032)</b>
<b>Net Cash Variation</b>	<b>4,534</b>	<b>6,795</b>
<b>STATEMENT OF CASH VARIATION:</b>		
In the beginning of the period	37,523	31,587
In the end of the period	42,057	38,382
<b>Increase in cash</b>	<b>4,534</b>	<b>6,795</b>

## NOTE 28 - Other Information

### a) Risk Management

The instruments of Corporative 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 action 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:

Specification	06.30.2006	06.30.2005
Open Credits for Import	7,077	20,430
Beneficiary of Guarantees Provided:		
- Individuals or non- financial entities	3,236	3,236
- FNE	4,055,661	2,794,611
- Other Entities	6,852	11,160
Co-obligations in Credit Assignments	281,487	197,731

### d) Insurance

The Bank and third parties' chattels and real estates are sufficiently insured in the amount of R\$ 316,047 thousand (R\$ 243,215 thousand on 06.30.2005), being distributed as such:

Specification	06.30.2006	06.30.2005
Chattels	93,929	64,090
Real Estates	219,428	176,435
Third Parties' Real Estates	1,500	1,500
Civil Responsibility (Aircraft)	1,190	1,190
TOTAL	316,047	243,215

### e) After-events

Law Nr. 11,322 from 07.13.2006 makes use of the renegotiation of debts derived from rural credit operations in the area of performance of the Agência de Desenvolvimento do Nordeste – ADENE ( The Development Agency for the Northeast) and modifies the Law Nr.7,827, from September 27, 1989. The Law establishes a new deadline for the amortization of the debts to be renegotiated including grace period and the concession of discounts on the debt balance, besides changing the sistematy and the bonus percentage of contract completion for operations renegotiated under its support. The possible effects of Law 11,322 will be reflected in the future Financial Statements of Banco do Nordeste do Brasil S.A.

Fortaleza, July 24, 2006.

THE BOARD OF DIRECTORS

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

## 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 June 30, 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 June 30, 2006, its operations result, the net equity changes and the financial position changes for the semester ended on that date, according to accounting practices adopted in Brazil.
4. According to explanatory note nr. 28 (e), the Chamber's Law Project - PLC nr. 142/2005 was converted into Law nr. 11,322, as of July 13, 2006, that 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. Under these circumstances, it was not possible to measure the possible effects that will result in the future financial statements of Banco do Nordeste do Brasil SA, by the time of the application of the referred Law properly ruled.



## **INDEPENDENT AUDITORS' OPINION**

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

5. The financial statements for the semester ended on June 30, 2005, provided for comparison ends, were audited by us and our opinion, dated from August 10, 2005, was issued without qualifications.
6. The supplementary information concerning the statement of cash flow for the semesters ended on June 30, 2006 and 2005, 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, July 28, 2006

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'S REPORT**

The Fiscal Council of Banco do Nordeste do Brasil S.A., in use of its legal and statutory duties, after reviewing the Bank's Administration Report, Balance Sheet, Income, Changes in Net Equity, Changes in Financial Position Statements and Explanatory Notes related to the semester finished on June 30, 2006, and based on Independent Auditor's Opinion – BDO Trevisan Auditores Independentes – from July 28, 2006, has the opinion that the Administration Report and Financial Statements properly reflect the financial and patrimonial position and the activities developed by Banco do Nordeste do Brasil S.A, in the first semester of 2006. Their opinion, according to clause 4 in the Independent Auditor's Opinion and Explanatory Note Nr 28.e, is that the effect of Law Nr 11,322, from July 13, 2006, cannot be measured yet on the future Financial Statements of Banco do Nordeste do Brasil S.A.

Fortaleza, July 28, 2006.

### **FISCAL COUNCIL**

**Glauben Teixeira de Carvalho**  
President

**Roberta Carvalho de Alencar**  
Council Member

**Sérgio Rosa Ferrão**  
Council Member

## **SUMMARY TO THE AUDIT'S COMMITTEE REPORT**

### **1st Semester 2006**

The Audit's Committee from Banco do Nordeste do Brasil S.A. (BNB) is a statutory organization instituted by Resolution 3,198/2004 of the National Monetary Council, and included in the Bank's organizational structure by the Administration Council on 02/17/2004. Its duties and further requests demanded for its operation were introduced in the Bank's Social Statute approved in the Ordinary General Assembly consummated on 03/26/2004.

#### **Committee's activities**

During the first semester of 2006, while accomplishing its statutory duties for advisement to the Administration Council, the Audit's Committee, within its planning, consummated several ordinary and extraordinary meetings, for analysis, discussion and leading of several subjects, highlighting the activities developed in the areas of Internal Audit, Internal Controls and Operational Risks and Accountancy.

It participated in every Meeting of the Administration Council and kept permanent contact with the Bank's Board members and with the team members of the Independent Audit's company.

Meetings for analysis and discussions with the managers responsible for the elaboration of the Bank's accounting and financial information were carried through along the semester, consolidated in the monthly reports of the institution's economical-financial performance.

By the end of the semester, the Audit's Committee forwarded some meetings – for analysis, review and quality evaluation of the financial statements set to the period ended on June 30, 2006 – with the managers responsible for its preparation, with the Independent Audit and it participated in the meeting of the Administration Council which approved the referred statements, of which the members of the Fiscal Council also took part.

#### **Internal Controls**

The Internal Control System of Banco do Nordeste, within a process of activity hierarchizing, is available to every employee of the organization. It keeps being improved to ensure the mitigation of risks and operation efficiency of generating systems to several financial and managerial reports and the accomplishment of legal rules and internal regulations, so that it can be compatible to the size and complexity of the institution's business.

The Internal Controls have been periodically evaluated in order to identify points subject to improvement, whereas new processes are mapped for the identification of risks and the establishment of appropriate controls aiming higher safety to the company's operations, fulfilling, therefore, what the New Capital Agreement – Basel II establishes.

### **Independent and Internal Audit**

Through the examination of opinions and reports issued by it, as well as consecutive meetings along the semester, nothing was verified that could compromise the independence and result of works developed by BDO Trevisan Auditores Independentes in the first semester of 2006.

The evaluation of works developed by the Internal Audit, along the first semester of 2006, shows the area fulfilled the Annual Planning, approved by the Administration Council, highlighting adequacy and effectiveness in the performance of its activities, through a comprehensive methodology and compatible to the size and complexity of BNB's operations.

### **Financial Statements**

The Committee analyzed the Financial Statements, Explanatory Notes and Financial Reports, with base date on June 30, 2006, obtaining from those in charge of the preparation of such documents, when necessary, additional information and explanations. It met with the Independent Audit and learned about opinions issued by them, referring to Banco do Nordeste do Brasil S.A. and to the Fundo Constitucional de Financiamento do Nordeste [The Brazilian Northeastern Region Constitutional Financing Fund] ("FNE").

Likewise, the accounting practices used in the preparation of these statements were examined and discussed, verifying that, except for the emphasis paragraph registered in the Independent Audit's Opinion referring to the Fundo Constitucional de Financiamento do Nordeste [The Brazilian Northeastern Region Constitutional Financing Fund] ("FNE"), they follow the accounting principles generally accepted, the applicable associate legislation, the regulation of the National Monetary Council, the Brazilian Central Bank and the Brazilian National Securities Commission.

Fortaleza (CE) July 28, 2006.

Paulo Roberto Medeiros Braun – President

José Lucinério Pimentel - Member

José Wilkie Almeida Vieira - Member

**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: 06.30.2006**

**THE BRAZILIAN NORTHEASTERN REGION CONSTITUTIONAL FINANCING FUND- FNE**  
(Law Number 7,827 of September 27, 1989)  
**BALANCE SHEET**  
**JUNE 30, 2006 AND 2005**  
(In thousands of R\$)

ASSETS			LIABILITIES		
	06.30.2006	06.30.2005		06.30.2006	06.30.2005
<b>CURRENT ASSETS</b>	<b>6,835,833</b>	<b>5,981,396</b>	<b>NET EQUITY</b>	<b>18,049,175</b>	<b>15,232,978</b>
CASH AND CASH EQUIVALENTS	4,036,886	4,129,640	TRANSFERS FROM THE BRAZILIAN FEDERAL GOVERNMENT:		
Funds to be allocated	1,718,721	2,668,642	During the semester	1,413,592	1,266,131
Allocated funds	2,318,165	1,460,998	In previous years	15,143,062	12,635,029
INTERFINANCE OPERATIONS	99,619	93,855	INCOME FROM PREVIOUS YEARS	1,460,369	5,817,176
Rural Credit – Proagro Receivable	6,004	4,262	SEMESTER INCOME	32,152	(4,485,358)
Onlending Debtors	93,615	89,593			
CREDIT OPERATIONS	2,699,214	1,757,901			
Financings	736,335	2,256,847			
Infrastructure and Development Financings	16,506	0			
Agroindustrial Financings	152,074	540,039			
Rural Financings	2,482,333	4,108,933			
Allowance for Doubtful Debts	(688,034)	(5,147,918)			
OTHER CREDITS	39	0			
Receivables on Assets from Credit Operations	39	0			
OTHER ASSETS	75	0			
Agrarian Debt Bonds	114	0			
(Allowance for Bond Devaluation)	(39)	0			
<b>LONG TERM RECEIVABLES</b>	<b>11,213,342</b>	<b>9,251,582</b>			
INTERFINANCE OPERATIONS	66,212	38,765			
Rural Credit – Proagro Receivable	2,454	5,298			
Onlending Debtors	63,758	33,467			
CREDIT OPERATIONS	11,145,670	9,210,971			
Financings	2,522,594	1,908,828			
Infrastructure and Development Financings	906,479	522,684			
Agroindustrial Financings	259,875	189,928			
Rural financings	7,456,722	6,589,531			
OTHER ASSETS	1,460	1,846			
Proagro Cover Bonds	0	668			
Agrarian Debt Bonds	2,477	2,368			
(Allowance for Bond Devaluation)	(1,017)	(1,190)			
<b>TOTAL ASSETS</b>	<b>18,049,175</b>	<b>15,232,978</b>	<b>TOTAL LIABILITIES</b>	<b>18,049,175</b>	<b>15,232,978</b>

**THE BRAZILIAN NORTHEASTERN REGION CONSTITUTIONAL FINANCING FUND- FNE**  
(Law Number 7,827 of September 27, 1989)  
**INCOME STATEMENT**  
**JUNE 30, 2006 AND 2005**  
(In thousands of R\$)

	1st Sem/2006	1st Sem/2005
<b>REVENUES</b>		
From Credit Operations (Note 6a.6)	489,873	568,204
From Yield on Cash	281,444	327,926
<b>EXPENSES</b>		
From Administration	(252,121)	(224,913)
(PRONAF - Compensation of the Finance Agent)	(24,310)	(8,855)
From Operational Allowances	(462,726)	(5,147,712)
From Audit	(8)	(8)
<b>PROFIT/ LOSS OF THE SEMESTER</b>	<b>32,152</b>	<b>(4,485,358)</b>

**THE BRAZILIAN NORTHEASTERN REGION CONSTITUTIONAL FINANCING FUND - FNE**  
(Law Number 7,827 of September 27, 1989)  
**STATEMENT OF CHANGES IN NET EQUITY**  
**JUNE 30, 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 semester	1,266,131	0	1,266,131
Adjustments from previous years	0	(70,326)	(70,326)
Net Loss of the semester	0	(4,485,358)	(4,485,358)
<b>BALANCES ON 06.30.2005</b>	<b>13,901,160</b>	<b>1,331,819</b>	<b>15,232,979</b>
<b>CHANGES IN THE SEMESTER</b>	<b>1,266,131</b>	<b>(4,555,684)</b>	<b>(3,289,553)</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 semester	1,413,592	0	1,413,592
Adjustments from previous years	0	10,925	10,925
Net Profit of the semester	0	32,152	32,152
<b>BALANCES ON 06.30.2006</b>	<b>16,556,654</b>	<b>1,492,521</b>	<b>18,049,175</b>
<b>CHANGES IN THE SEMESTER</b>	<b>1,413,592</b>	<b>43,077</b>	<b>1,456,669</b>

**THE BRAZILIAN NORTHEASTERN REGION CONSTITUTIONAL FINANCING FUND - FNE**

(Law Number 7,827 of September 27, 1989)

**STATEMENT OF CHANGES IN FINANCIAL POSITIONS**

**JUNE 30, 2006 AND 2005**

(In thousands of R\$)

	1st Sem/ 2006	1st Sem/ 2005
<b>SOURCES OF FUNDS</b>	<b>1,456,774</b>	<b>4,747,725</b>
INCREASE OF LIABILITIES' SUBGROUPS:		
Transfers from Brazilian Federal Government in the Semester	1,413,592	1,266,131
Adjustments from Previous Years	10,925	0
Net Profit of the Semester	32,152	0
DECREASE OF ASSETS' SUBGROUPS		
Credit Operations	0	3,480,417
Other Assets	105	1,177
<b>APPLICATION OF FUNDS</b>	<b>1,237,438</b>	<b>4,585,221</b>
INCREASE OF ASSETS' SUBGROUPS:		
Interfinance Operations	17,005	29,537
Credit Operations	1,220,394	0
Other Credits	39	0
DECREASE OF LIABILITIES' SUBGROUPS:		
Adjustments from Previous Years	0	70,326
Net Loss of the Semester	0	4,485,358
<b>INCREASE OF CASH AND CASH EQUIVALENTS</b>	<b>219,336</b>	<b>162,504</b>
<b>CHANGES IN FINANCIAL POSITION</b>	<b>219,336</b>	<b>162,504</b>
Beginning of the Semester	3,817,550	3,967,136
End of the Semester	4,036,886	4,129,640



# NOTES TO FINANCIAL STATEMENTS

## Years ended as of June 30, 2006 and 2005

### Explanatory Notes Index

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Note 1 – History	Note 6 – Main Accounting Policies
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	Note 10 – After-Events

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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 agreements for transfer 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 bi-annually published 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 Policies

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. They 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 financial taxes 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 income 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 transfer 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	06.30.2006	06.30.2005
Credit Operation Revenues	713,292	696,391
<i>Del credere</i> expenses from Banco do Nordeste	(114,390)	(78,210)
<i>Del credere</i> expenses from Other Institutions	(1,463)	(959)
Negative Monetary Restatement Expenses	(10,908)	(9,057)
Expenses from Discounts Granted in Renegotiations - Law 10,696/ 2003	(672)	(8,671)
Rebate Expenses/ Bonus for Compliance - Operations Contracted by the Bank	(95,651)	(30,915)
Rebate Expenses/ Bonus for Compliance - Onlendings to Other Institutions	(25)	
Principal Rebate Expenses - Operations with funds of FAT – BNDES - Law 10,193/ 2001	(310)	(375)
<b>TOTAL</b>	<b>489,873</b>	<b>568,204</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 MF/MI Nr. 11 from 12.28.2005 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 Decreet 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 variances 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).
- b.3) Headings registered under the rubric “Other Assets” are recognized by their face value, plus compensation 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 revenues of any nature and the tax on industrialized products;
- Operational results and returns;
- Results of the remuneration from the Fund's resources momentarily not invested, 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 the 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\$ thousand:

Description	06.30.2006	06.30.2005
<b>Opening Balance</b>	<b>5,638,794</b>	-
. FNE's Integral Risk	5,491,075	-
. Shared Risk	147,719	-
<b>(+) Constitution of Net Provision in the year</b>	<b>462,711</b>	<b>5,147,918</b>
. FNE's Integral Risk	412,006	5,028,900
. Shared Risk	50,705	119,018
<b>(-) Credits classified as Loss in the Period</b>	<b>5,413,470</b>	-
. FNE's Integral Risk	(5,272,550)	-
. Shared Risk	(140,920)	-
<b>(=) Balance of Allowance for Doubtful Debts</b>	<b>688,034</b>	<b>5,147,918</b>
. FNE's Integral Risk	630,531	5,028,900
. Shared Risk	57,503	119,018

c) Considering it is PROCERA responsibility the risk of operations framed in the Land Program contracted with FNE's resources, a 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, follows 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) On 05.03.2006, the classification of loss concerning the capital parcels and charges in arrears of a period higher than 360 days, registered in the months from January to April/2006, in the amount of R\$ 5,413,988 thousand, updated by the charges of operations until 04.30.2006.
- d) The balance of FNE's loss accounts presented the following turnover in the first semester of 2006, in R\$ thousand:

SPECIFICATION	06.30.2006	06.30.2005
Opening Balance	-	-
(+) Credits discharged as Loss in the year	5,413,988	-
(+) Adjustments/ Restatement of Discharged Values	(180)	-
(-) Recovery of Discharged Credits	(3,718)	-
(-) Discharge of Compensation Accounts <sup>(1)</sup>	(3,709)	-
Final Balance	5,406,381	-

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

- e) In the period , BNB returned to FNE resources amounting R\$ 141,959 thousand, concerning the Bank's risk parcel in operations with values discharged to loss, being R\$ 140,920 thousand referring to restated balances until 04.30.2006 for regular charges of financings, and R\$ 1,039 thousand resultant from restatement, by SELIC rate, of the values returned by BNB off the foreseen deadlines, until the return date, in compliance with single Paragraph, Article 5, of the Interministerial Regulation Nr.11. The values settled are shown as follows in R\$ thousand:

MONTH PJ	RETURN DATE	BALANCE IN THE MONTH OF PJ <sup>(1)</sup>		RESTATED BALANCE <sup>(2)</sup>	
		TOTAL	BNB RISK	TOTAL	BNB RISK
January	2/2/2006	255,125	127,562	264,523	132,262
February	3/2/2006	4,959	2,480	5,084	2,542
March	4/4/2006	6,099	3,049	6,164	3,082
April	5/3/2006	8,146	4,073	8,146	4,073
<b>TOTAL</b>		<b>274,329</b>	<b>137,164</b>	<b>283,917</b>	<b>141,959</b>

<sup>(1)</sup> Restated by the charges of operations until the end of the competent month.

<sup>(2)</sup> Restated by SELIC rate until 04.30.2006, as of the foreseen date to the return of resources to FNE, according to single Paragraph of Article 5 of the Interministerial Regulation Nr.11 from 12.28.2005.

#### NOTE 9 - Adjustments from Precedent Years

The positive net adjustment of R\$ 10,925 thousand, on 06.30.2006, refers to recalculations of charges on credit operations and the return of the administration fee (R\$ 23,499 thousand) and *del credere* (R\$ 808 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.

#### NOTE 10 - After-Events

- a) Law Nr. 11,322, from 07.13.2006, makes use of the renegotiation of debts derived from rural credit operations in the area of performance of the Agência de Desenvolvimento do Nordeste [The Development Agency for the Northeast] ("ADENE") and modifies the Law Nr. 7,827, from September 27, 1989. The Law establishes new deadlines for the amortization of the debts to be renegotiated including grace period and the concession of discounts on the debt balance, besides changing the systematics and the percentages of bonus of completion of contracts for operations renegotiated at the support of referred Law. The possible effects of Law Nr. 11,322 will be reflected in the future Financial Statements of the FNE.

Fortaleza, July 24, 2006  
The Board

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

## 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 June 30, 2006, and the respective income statements, net equity changes, and changes in 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 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 June 30, 2006, the result of its operations, the net equity changes, and the financial position changes for the semester ended on that date, according to accounting practices adopted in Brazil.
4. According to explanatory note nr. 7 (b), the Fund provided the classification of credit operations to loss amounting 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\$ 5,825,156 thousand to be classified. Although the equity effects had already been considered in the Fund's accounting statements, on June 30, 2006, the balance of the rubrics credit operations and allowance for credit for doubtful debts is provided greater in the amount of R\$ 411,686 thousand, referring to the parcels in arrears for more than 360 days in the months of May and June 2006, not classified to loss.

## 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. According to explanatory note nr. 10, the Chamber's Law Project - PLC nr. 142/2005 was converted into Law nr. 11,322, as of July 13, 2006, that 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. Under these circumstances, it was not possible to measure the 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.), by the time of the application of the referred Law properly ruled.
6. The financial statements for the semester ended on June 30, 2005, provided for comparison ends, were audited by us and our opinion, dated from August 10, 2005, was issued without qualifications.

Recife, July 28, 2006

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