



**Banco do  
Nordeste**

MINISTÉRIO DA  
ECONOMIA



PÁTRIA AMADA  
**BRASIL**  
GOVERNO FEDERAL

# FINANCIAL STATEMENTS

## Bank and FNE

Position: 06.30.2019

# MANAGEMENT REPORT

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## CEO'S WORD

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In the first six months of 2019, Banco do Nordeste invested R\$ 18.8 billion in the regional economy, which represents an increase of 8.2% as compared with the same period of 2018, when R\$ 17.4 billion were taken out.

This increase occurred for the purpose of rendering the Northeast Constitutional Financing Fund (FNE) increasingly significant for its area of activity – the Northeast region, north of Minas Gerais and north of Espírito Santo – therefore, for Brazil as a whole. In fact, this is the goal driving each one in our organization.

This level of institutional commitment, focused on efficiency, effectiveness and compliance, reflected on the results obtained in the first half of 2019, showing how the Company plays an essential role in promoting the welfare of families and the competitiveness of companies.

We also stress action planning, with emphasis on prospection and identification of opportunities, continuously seeking to simplify bureaucratic procedures. In summary, Banco do Nordeste aims at diversifying credit, making it agile and accessible to as many entrepreneurs as possible. This is reflected on the over 2.5 million operations taken out in the period.

Only through use of FNE funds, BNB's major source of funds, investments amounted to R\$ 13.4 billion, involving over 250 thousand loan transactions. This volume was 8.9% above the first half of 2018, when the Constitutional Fund's investments totaled R\$ 12.3 billion.

The availability of FNE funds for investments in infrastructure, at interest rates that are the lowest in the market, allowed Banco do Nordeste to be a key player in the industry's financing, with total investments of R\$ 5.7 billion. This reinforces the support given by Banco do Nordeste to the recovery of regional economic activity, by financing ventures in the energy, basic sanitation and water, port and airport segments.

FNE strategy for executing the regional development policy has been based on two major drivers: (1) mitigating the problem of private loan rationing in the region; and (2) selecting projects that would have the most positive impacts for society.

As such, we seek to prioritize projects originating from the locations and the types of establishments more susceptible to private loan rationing, in order to take the public policy to those that are most in need, providing funds to projects from underserved regions, micro and small enterprises (MPEs) and small rural producers, and selecting project portfolios that bring the largest impacts to the population in terms of welfare; at the same time adopting highly stringent selection criteria and best market practices for risk management.

This task is not a small one, but Banco do Nordeste has been advancing by means of studies and research conducted internally by its technical team, also relying on the cooperation of the best Brazilian research institutes and universities.

The Bank has systematically assessed FNE historical investments and disbursements, as well as in which municipalities, regions, sectors and establishment sizes access to credit is rendered easier or more difficult; which of these areas present larger employment and income multipliers; and which allow better return in terms of efficiency and productivity.

In practice, projects with impacts above expected by the simulated economic models (up to 18% above) have been selected and default rates have been reduced to levels below those forecasted by the statistical forecast models. Consequently, the Bank has made progress in this agenda, incorporating more data, information, methodologies and intellectual capital.

The Institution's strategic objectives include being the main financial agent for micro and small entrepreneurs in its area of activity. In this sense, Banco do Nordeste counts on an active portfolio of approximately 200 thousand MPEs, having closed the first half of 2019 with

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R\$ 1.74 billion taken out with this type of company. This figure corresponds to an increase of 51% in investments as compared with the same period of 2018. Overall, more than 20.8 thousand loan transactions were carried out with MPEs, 28.2% up as compared with the first six months of 2018.

Through the largest urban guided productive microcredit program in South America (Crediamigo), Banco do Nordeste contracted R\$ 4.77 billion, in over 2.1 million operations, a volume 11% above the same period of 2018.

In the first half of 2019, BNB achieved the historical mark of R\$ 15 billion invested in family farmers since 2005, when the guided rural microentrepreneur program (Agroamigo) was created. In the first half of 2019, over R\$ 1.1 billion was applied, distributed in over 219 thousand operations.

In this period, 89,453 debts of rural producers were regularized, totaling R\$ 7.6 billion, based on the benefits of Law No. 13340/2016 and Article 29-A of Law No. 13606/2018. These instruments enabled the customers to, respectively, settle or renegotiate the operations taken out until 2011 and operations belonging to the Japanese and Brazilian Cooperation Program for the Development of the Cerrado Region (PRODECER) - Stage III.

Faced with the challenge of profitability, the Bank increased its operating profit by 161.1% in the first half of 2019, having reached R\$ 1.16 billion. In addition to the increase in volume of loans taken out and disbursements, the decrease in provision for credit risk contributed to these results. Net profit in 1H 2019 amounted to R\$ 744.8 million, which represents an increase of 223.0% as compared with the same period of 2018.

As such, Banco do Nordeste expects to exceed the investment target of R\$ 38.7 billion in 2019, R\$ 27.7 billion of which with FNE funds and R\$ 11 billion of which intended for urban microcredit, through Crediamigo.

Nevertheless, more than any amounts, of paramount importance is the positive impact promoted by each of the loan facilities and development policies, which generate employment, income and quality of life for millions of people.

**Romildo Carneiro Rolim**  
**Chief Executive Officer**

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## 1. HIGHLIGHTS

The highlights of Banco do Nordeste performance relating to results, products launched and acknowledgements received in the first half of 2019 are presented as follows:

### Results

- ü Net profit in 1H 2019 amounted to R\$ 744.8 million, which represents an increase of 223.0% as compared with the same period of 2018;
- ü Increase of 161.1% in operating income as compared with the same period of the prior year;
- ü 2.5 million loan operations taken out, and R\$ 18.8 billion disbursed;
- ü R\$ 1.3 billion in revenues from services rendered;
- ü Regularization of R\$ 7.6 billion receivables unpaid considered bad debt and/or overdue for more than 60 days;
- ü Micro and small companies (MPE) segment contracted R\$ 1.7 billion (increase of 51%), serving 13,981 companies (increase of 27.8%).

### Products

- ü Volume of transactions funded by FNE amounted to R\$ 13.43 billion.
- ü Increase of 8.9% in volume of funds taken out by FNE as compared with the same period of 2018;
- ü R\$ 21.1 million taken out from FNE Verde Sol Program - Individuals.

### Partnerships

- ü Partnership with the Brazilian Products, Services and Tourism Trade Association (CNC), promoting loan facility actions for customers in the micro and small companies' segment.

### Awards/Recognitions

- ü 2019 Efinance Award, in category telecom infrastructure; BNB won with case "Telecom Infrastructure Management", which is based on a software-defined approach for managing a long-distance network (SDWAN technology). This new technology will support 100% of the connectivity resources of the branch network, increasing operational efficiency and adding value to business and customers;
- ü CIEE Best Internship Programs award – 10<sup>th</sup> edition – conferred by the Brazilian Human Resources Association – state of São Paulo chapter (ABRH – SP) and by Brazil's Gallup Organization upon Banco do Nordeste for its contribution to the development of Brazilian students for the professional market.
- ü First place in the quality rank of ombudsman's offices, informed by the Central Bank of Brazil; In 2Q 2019, BNB obtained a rate of 4.95, out of 5, passing ahead of 11 other institutions with over 4 million customers.

## 2. BUSINESS MODEL

Banco do Nordeste invests funds in the Region through loan and financing transactions, and offers financial products and services to economic agents, in order to produce results that will ensure society's sustainability and interests. Among other resources, FNE is the main source of funds used by the Bank.

The solution to great regional issues, the transformation of the Northeast and its more effective role in the Brazilian social and economic scenario are Banco do Nordeste's greatest

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challenge and main target of its initiatives as the Northeast Region development bank, which operates expanding opportunities, empowering productive agents, producing impacts that interest the northeastern society, creating jobs, increasing household income, promoting social and financial inclusion, and working in an area of great economic needs such as the semi-arid.

The value proposal of the business model adopted by Banco do Norte for its customers is to offer loan products and services to increase the development of the municipalities encompassed by the Bank's area of operation. Customers served are classified into three categories:

- i. Producer: this category includes Corporate, Business, Micro and Small Companies (MPE), Agribusiness - Individuals, Rural Small and Mini Producer, Family Farmers, Urban Microentrepreneur and Rural Microentrepreneur segments;
- ii. Consumer: this includes Individuals and Representative Entities segments;
- iii. Structurer: this category refers to the Government segment.

These customers are served by physical and digital service channels: bank branches, service units, electronic and digital channels. By means of these channels, customers have access to the following products and services:

- a) Loans: Working capital, Long-term Loans, Discounts of Notes, Working Capital – Inputs, Direct Credit to Consumer (CDC), Overdraft Facilities, FNE Sol, MPE – Innovation, Insurance, among others;
- b) Investments: Bank Deposit Certificates (CDB), Bank Deposit Receipts (RDB), Investment Funds and Savings Accounts;
- c) Northeast Investment Fund (Finor);
- d) Northeast Development Fund (FDNE);
- e) Reinvestment in projects to modernize or complement equipment for companies operating in the area of the Northeast Development Supervisory Office (Sudene);
- f) Foreign Exchange and Foreign Trade;
- g) Rural and Urban Guided Production Micro Credit: Crediamigo and Agroamigo.

Banco do Nordeste aims at offering its customers an agile and selective development policy, able to significantly contribute for challenges to be overcome and for a life pattern compatible with the resources, potential and opportunities in the Northeast region to be constructed.

The key activities that sustain the value proposition of the Bank's business model are actions prior and subsequent to the loan grant that have been contributing to higher effectiveness of the funds invested, either due to the capillarity provided to the Bank, allowing more proximity with the customer and knowledge of the customer's business, or for enabling the identification of partners for implementing joint initiatives such as in research, technical assistance and trade support areas.

Among the actions and instruments created by the Bank to more effectively promote the Region's development, we stress Development Agents, Roving Branches, Territory Development Policies, Crediamigo and Agroamigo.

In order to optimize the service provided to its customers, Banco do Nordeste uses key resources, by means of partnerships, among which we stress:

- a) FNE funds, which are annually programmed by Sudene Decision-making Board;

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- b) Funds from the Brazilian Development Bank (BNDES), which are transferred by Banco do Nordeste;
- c) Service network shared with Caixa Econômica Federal, thus increasing Banco do Nordeste's capacity to 5,000 ATM points in the Northeast;
- d) An ATM network contracted from bank technology companies for bank agent services;
- e) Partnership with Visa Inc. to offer electronic payment services to microentrepreneurs;
- f) Partnership with Instituto Nordeste de Cidadania (Inec) for operation of the rural microfinance and urban microcredit programs.

In 2009, the customer management methodology was adopted as the Bank's business model. This methodology contains the definition and structure of the segments, and observes grouping of characteristics, value proposals, relationship cycle and classification of groups of products.

This model renders the loan granting process more agile, diversifies and increases the scale of loans and financing, integrating the relationship in a variety of businesses to the perception of value added of the Bank's actions, besides developing products and services specifically for customers' needs.

In order to reach better geographical coverage and identify business improvement opportunities, the Bank systematically prepares market dimensioning studies. Banco do Nordeste ended the first half of 2019 with 771 physical service points, 292 of which are branches and 479 of which are microcredit units.

### 3. BUSINESS STRATEGY

#### 3.1 Business Planning

The most significant strategy matter for Banco do Nordeste is linked to the Bank's mission, operating as the development bank for the Northeast, north of Minas Gerais (including Mucuri and Jequitinhonha valleys) and north of Espírito Santo.

Strategy definitions that provide a basis for the actions carried out by Banco do Nordeste are as follows:

Mission: "To operate as the Development Bank for the Brazilian Northeast Region".

Vision: "Being the preferred Bank of the Northeast, recognized for its capacity to promote the welfare of families and the competitiveness of companies in the Region".

In order to fulfill its development mission, Banco do Nordeste builds its planning as from the analysis of scenarios and trends, reflective analysis of the results achieved in the prior year and mapping risks and strategy opportunities.

Business Planning is comprised of strategic, tactic and operational levels, through which the Bank carries out its strategic alignment, directing funds and efforts towards management and optimization of results.

All planning levels define indicators and goals, which are systematically monitored and assessed.

As key elements of its strategy, Banco do Nordeste highlights the following Strategic Guidelines: "Improving FNE more and more", "Advancing in microcredit leadership", "Being the Bank of small and medium-sized companies", "Innovating in processes, products and services", and "Valuing human capital".

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In 1H 2019, the Bank obtained successful results, in line with its strategy, to wit:

- ü Profit achieved in the six-month period exceeded 2018 profit, thus characterizing a significant result that contributes to the Bank's solidity and sustainability, and offers significant return to its shareholders as well;
- ü Increase in FNE investments, thus increasing the volume of loans taken out, with agility and compliance.
- ü Obtaining record results in Micro finance;
- ü Increase in volume of funds taken out by micro and small companies segments;
- ü Increase in corporate profitability and increase in the Bank's operational efficiency.

Recognizing and valuing human capital, Banco do Nordeste concluded, in the first half year, the Formation of the Succession Bank, aimed at qualifying professionals to take over strategic management roles. The process aimed at identifying professionals whose skill profile better meets the institution's requirements, weighting results, professional trajectory and ethics inside the organization. This initiative provided BNB with a team of professionals capable of occupying strategic roles.

Worth stressing, among the actions that leveraged the obtainment of corporate results, the implementation of assumptions for best practices in internal controls in the loan granting process and the continuous improvement in loan management process.

### **3.2 Fundo Constitucional de Financiamento do Nordeste (FNE)**

FNE is made up of public funds intended to finance production activities, and its purpose is to contribute to the social and economic development of its basic area of operation, i.e., Northeastern Brazil and North of the Minas Gerais and Espírito Santo states.

As the financial institution that manages the FNE, Banco do Nordeste consolidates its role as a development bank in the Northeast region, supporting production projects and public policies that impact the urban and rural Northeastern communities, through its credit and development activities.

The granting of loans from FNE funds is governed by specific regulations, which direct support to regional development priorities, and constitutes a public financing policy, with investment programming annually prepared by Sudene Decision-making Board (Condell), based on the programming prepared by Banco do Nordeste in a process involving the participation of productive sectors, support and government entities in the states.

Thus, the allocation of resources in terms of public, area and economic sector is linked to the achievement of the Fund objectives, the demands of the states and the expected results of BNB action as operator and administrator of this source of funds.

#### **3.2.1 FNE assets**

Regarding FNE's total assets at the end of the first half of 2019, there was a 9.4% growth as compared with the same period of the prior year, totaling R\$ 86.1 billion at the end of June/2019, as compared with R\$ 78.7 billion in June/2018. The balance of FNE's total available funds at the end of this half year reached R\$ 8.9 billion, representing a decrease of 54.3% as compared with the balance at the end of June/2018. Balances to be disbursed relating to loan transactions previously taken out amounted to R\$ 16.1 billion, which is 145.9% above the R\$ 6.5 billion at June/2018. Loan transaction amounts also grew as compared with June/18, presenting an increase of 16.3% and reaching R\$ 58.5 billion, net of provisions (R\$ 50.3 billion in June/2018). These variations were influenced by the significant increase in the volume of loan operations taken out with FNE funds (R\$ 32.7 billion in 2018 and R\$ 13.7 billion in the first half of 2019).

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### 3.2.1 FNE performance

Based on the FNE Annual Program, Banco do Nordeste took out financing in the first half of 2019 amounting to R\$ 13.43 billion, R\$ 7.66 billion of which were directed to the Rural (agriculture, farming and stock breeding), Agroindustry, Industrial, Trade and Services, Tourism sectors and Individuals (FNE Verde Sol - Individuals), and R\$ 5.77 billion of which to the infrastructure sector. In 1H 2019, 320 operations were taken out amounting to R\$ 2,943.4 thousand for the Student Financing Fund (Fies). Detailed information on financing taken out per State is presented in Table 01 below.

**Table 1 - BNB/FNE – 1H 2019: Financing**

State	FNE Infrastructure		FNE Except Infrastructure and FIES		Total amount taken out
	Amount taken out	%	Amount taken out	%	
	AL	-	-	318.72	
BA	1,456.77	25.2	1,575.76	20.6	<b>3,032.53</b>
CE	390.01	6.8	1,001.07	13.1	<b>1,391.08</b>
ES	-	-	101.9	1.3	<b>101.9</b>
MA	1,129.68	19.6	983.86	12.9	<b>2,113.54</b>
MG	314.23	5.4	355.47	4.6	<b>669.7</b>
PB	266.72	4.6	489.74	6.4	<b>756.46</b>
PE	401.62	7.0	864.72	11.3	<b>1,266.34</b>
PI	-	-	741.6	9.7	<b>741.6</b>
RN	1,795.28	31.1	828.41	10.8	<b>2,623.69</b>
SE	17.98	0.3	392.49	5.1	<b>410.47</b>
<b>Total</b>	<b>5,772.29</b>	<b>100</b>	<b>7,653.73</b>	<b>100</b>	<b>13,426.02</b>
<b>STUDENT FINANCING PROGRAM (FIES)</b>			<b>2.94</b>		
<b>Total Invested 13,428.96</b>					

Source: Banco do Nordeste – Planning Office

Table 2 below shows a total increase of 8.9% in the volume of funds taken out in the first half of 2019, as compared with the same period of 2018, when the financed amount was of R\$ 12.3 billion. Worth stressing, concerning these results, the increase of 20.0% in relation to FNE financing, except Infrastructure and Fies; however, FNE Infrastructure decreased as compared with the same period of the prior year (-3.0%) with investments mainly in Production and Distribution of Electric Power, Gas and Water. Such infrastructure funding, of a structural nature, is justified by the ability to generate employment and income, as well as the overflow, in the surrounding areas, of investment-related positive and development effects, and other actions there implemented as a result.

In view of the macroeconomic scenario, the increase in FNE contracting in the first half of 2019 was encouraged by the recovery of economic growth - although this recovery is considered moderate - especially by more favorable conditions in agribusiness, domestic retail and foreign trade, as well as low inflation rates.



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In addition, more favorable economic perspectives for the following years in terms of expansion and modernization of infrastructure and renewable energy were also key for the corporate decisions to invest in the Northeast region and other areas where the Bank operates. In this context, financing line FNE Verde Sol, with 682 operations, amounted to R\$ 21.1 million, considering centralized generation of solar, wind power and biomass energy.

**Table 2 - FNE: Transactions per Economic Sector  
(R\$ million)**

Sector	1H 2018		1H 2019		Variation - % 2019/2018 Amount
	Number	Amount	Number	Amount	
Rural <sup>(1)</sup>	273,615	2,897,050	230,949	3,204,288	10.6
Agroindustry	86	125,567	157	208,720	66.2
Trade and Services	11,325	2,425,770	16,024	2,972,999	22.6
Industry	1,353	688,415	1,881	1,051,516	52.7
Tourism	224	239,604	361	195,099	-18.6
Infrastructure	48	5,950,982	54	5,772,291	-3
Individuals <sup>(2)</sup>	-	-	1,002	24,055	-
<b>Total</b>	<b>286,651</b>	<b>12,327,388</b>	<b>250,428</b>	<b>13,428,968</b>	<b>8.9</b>

Source: Banco do Nordeste – Planning Office

Note: <sup>(1)</sup> Rural – comprises the Agriculture and Farming and Stock Breeding sectors. <sup>(2)</sup> This includes FNE P-Fies and FNE Sol.

In this regard, Banco do Nordeste stands out as an institution that fosters the federal government's policy of expanding the distributed generation of electric power, in consonance with the renewable power generation sector, substantially contributing to construction of a cleaner energy matrix and to making the installation and consolidation of the related equipment production chain in the Northeast region more agile, facilitating the expansion and change of the sector axis to the Region, of a stronger calling for the generation of renewable energy, especially wind and solar.

Another great incentive to entrepreneurs of all sizes were the more favorable conditions offered by FNE relating to finance charges, which was a determining factor for the increase in the loans taken out in the first half of the year.

FNE program execution is in compliance with the National Policy for Regional Development (PNDR), which establishes support to regional sub-areas and aims at reducing regional inequalities and promoting equality in access to development opportunities.

In this perspective, until June 2019, FNE carried out operations in 1,980 municipalities, which represents 99.5% of total municipalities in the area within the scope of the Fund and financing amounted to R\$ 7.4 billion for semiarid ventures, 55.5% of the total financed until then, R\$ 4.2 billion of which relating to infrastructure projects.

Financing to priority micro regions (low and medium income, any dynamic income), sub-areas also included in PNDR, amounted to R\$ 10.7 billion, approximately 80% of FNE financing until June 2019. This amount includes infrastructure financing, whereas the contracted amounts directed to Integrated Development Regions (RIDEs), which comprise the municipalities of Timon (MA) and Teresina (PI), in addition to Petrolina (PE) and Juazeiro (BA), amounted to R\$ 264.1 million (including infrastructure operations).

The macroeconomic environment plays an essential role for determining the offer and conditions of bank credit. Although expectations based on the scenario of recovery from the

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economic downturn have enabled trust to be regained, sufficiently to represent, in 1H 2019, an increase of approximately 9% as compared with the same period of 2018, this fact, taking into consideration what was programmed for the period in question, was still not sufficient to have a significant impact on the credit demand. Even though inflation is under control, with Extended Consumer Price Index (IPCA) below the target of 4.25% and the Central Bank Benchmark Rate (Selic) at its lowest historical rate, analysts believe that the economic activity will remain weak in 2019.

Several support actions are under implementation concerning the loan grant process, among which the registration of Individuals and Legal Entities directly on the Bank's website or improvement of services provided with the possibility of account access using mobile devices in internet banking using digital fingerprint for login, and increase in ATM coverage as a result of various arrangements for shared bank network, via systems such as cash-and-pay or "casas lotéricas" (lottery outlets).

The same applies to actions, at BNB State Superintendencies' level, especially for smaller ventures. The institution's focus for these ventures generated R\$ 4.5 billion taken out, distributed in 248,331 loan operations, which represents 59.5% of the amount taken out with FNE Except Infrastructure and FIES, in 1H 2019.

### 4. ECONOMIC AND FINANCIAL PERFORMANCE

#### 4.1 BNB Total Assets

Banco do Nordeste's total assets amounted to R\$ 59.7 billion, at the end of the first half of 2019, presenting a 3.2% growth as compared with R\$ 57.8 billion in June 2018. The Bank's assets also include FNE available funds and funds committed to FNE's loan transactions, i.e., relating to loans taken out, which are pending drawdown. Concerning breakdown of this balance, there was an increase of 3.8% in cash and cash equivalents, interbank investments and marketable securities. At the end of 1H 2019, the marketable securities portfolio balance amounts to R\$ 38.3 billion. In relation to the balances of loan transactions of BNB's own portfolio, net of allowances, there was a 1.8% increase (R\$ 8.98 billion in Jun/19; R\$ 8.82 billion in Jun/18).

#### 4.2 Net income

In 1H 2019, accumulated net income amounted to R\$ 744.8 million, which represented an increase of 223.0% as compared with R\$ 230.6 million computed in the same period of the prior year (restated net income). Operating income amounted to R\$ 1,167.3 million, which represented an increase of 161.1% as compared with R\$ 447.0 million (restated) obtained in 1H 2018. This good performance resulted mainly from decrease in expenses with accrued allowance for loan losses, including those deriving from co-obligation with FNE, increase in financing brokerage margin and especially renegotiations of loan transactions based on Article 29-A of Law No. 13606/18. Worth stressing, when not taking into consideration the extraordinary results for the period, deducting the amounts recovered due to negotiations based on the provisions of Laws No. 13340/16 and 13606/18 (R\$ 438.2 million) and the tax effect (Income Tax (IR) + Social Contribution on Net Profit (CSLL)) of R\$ 175.3 million, Adjusted Net Income (Recurring Profit) amounted to R\$ 481.9 million which, as compared with net income for the same period of 2018 (R\$ 150.9 million), also presents a significant difference, amounting to 219.3%, as demonstrated in the recurring profit calculation in Chart 1 below:

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Chart 1 – Statement of Recurring Net Profit

Statement of Recurring Net Profit	R\$ million			
	1H/18	1H/19	Variation - R\$	Variation - %
Net profit	230,6	744,8	514,2	223,0%
(-) Extraordinary net income for the period	-	-	-	-
Recovery of Loans – Law No. 13340/13606*	(144,9)	(438,2)	(293,3)	202,4%
Tax effect (IR + CSLL)	65,2	175,3	110,1	168,8%
Recurring Net Profit	150,9	481,9	331,0	219,3%

\*This includes article 29-A of Law No. 13606 - Ops Prodecer

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### 4.3 Operational Efficiency

In the first half of 2019, BNB presented an operational efficiency ratio of 52.9%, characterized by the management of administrative expenses in relation to the entire margin of financial intermediation and service revenues, which represents an 18.0 percentage-point improvement as compared with the same period of the prior year. Administrative expenses with personnel increased by 6.0% as compared with the first half of the prior year, representing an additional volume of R\$ 56.8 million. The factor that contributed most to this increase was the annual salary adjustment of 5.0%. Nevertheless, other administrative expenses in the period decreased 1.8% in relation to the first half of the prior year, thus contributing positively to the operational efficiency. Among the reductions in expenses, the following are highlighted: R\$11.1 million with Advertising, Publicity and Publications; R\$ 6.4 million with Data Processing and R\$ 4.8 million with court and registry office fees. Financial margins increased 77.2% and were positively influenced by the reduction in the level of expenses with allowances, by the recovery of credits written down as losses, as well as by a 5.0% increase in Service Revenues, which reached R\$1.3 billion in 1H 2019, also contributing to the improvement of efficiency.

### 4.4 Equity and Profitability

Banco do Nordeste recorded R\$ 4,727.8 million at the end of 1H 2019. The Special General Meeting held on 04/25/2019 approved the increase in capital by R\$ 969.0 million, derived from allocation of statutory reserves - Reserve for Operational Margin, with no issue of new shares. Accordingly, capital increased from R\$ 2.844 million to R\$ 3,813.0 million, represented by 86,371,464 paid-in-common book-entry shares, with no par value, duly approved by the Central Bank of Brazil. Return on average equity in the first half of 2019 was 35.7% p.a. Taking into consideration recurring income, return on average equity in the first half of 2019 was 22.5% p.a.

### 4.5 Capital adequacy ratio

In relation to compliance with the regulations determined by the Central Bank of Brazil, concerning the capital structure of financial institutions, known as a whole as Basel III, Banco do Nordeste has complied with the minimum capital requirements stipulated, which guarantees the Bank a margin to continue expanding its business. As at 06/30/2019, the Bank presented a Basel index of 16.13% (13.76% at 12/31/2018). Tier I Capital was 11.69% (9.00% at 12/31/2018) and Principal Capital was 10.13% (9.00% at 12/31/2018). Referential Equity (RE) totaled R\$ 8,296.0 million (R\$ 6,541.7 million at 12/31/2018), Tier I Capital amounted to R\$ 6,013.4 million and Principal Capital to R\$ 5,212.3 million (at 12/31/2018, Tier I and Principal Capital totaled the same amount of R\$ 4,279.9) whereas risk weighted assets (RWA amount) totaled R\$ 51,436.5 million (R\$ 47,553.2 million at 12/31/2018). This increase was influenced firstly by the historical mark of net income for the 1<sup>st</sup> half of 2019 and

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secondly, by the funds raised through issue of Financial Bills providing for Subordination Clauses (LFS), eligible for Tier I Capital, with characteristic of Supplementary Capital, amounting to R\$ 801.0 million, authorized by the Central Bank of Brazil, on July 19, 2019, to compute Referential Equity, effective as from base date June 2019.

## 5. Operational Performance

### 5.1 Volume of transactions taken out

In 1H 2019, BNB carried out 2.5 million loan transactions amounting to R\$ 18.8 billion. This result represents an 8.2% increase in the amount taken out and 2.8% in the number of operations, when compared with the same period of the prior year. Long-term financing, which encompasses rural, industrial, agroindustrial, infrastructure, trade and services investments, accounted for 72.7% of the funds taken out and amounted to R\$ 13.7 billion and 255.0 thousand transactions. Short-term loans intended for products Direct Credit to Consumer (CDC), Working Capital, Credit Card, Secured Account, Foreign Exchange, and Discount, in addition to Crediamigo program amounted to R\$ 5.15 billion, in 2.2 million transactions. These contracted amounts represent an increase of 9.7% in long-term loans and 4.5% in short-term loans as compared with 1H 2018.

**Table 3 – Loan transactions (R\$ million)**

Type	1st half of 2018		1st half of 2019		Variation Amount
	Number	Amount	Number	Amount	
Long-term	289,157	12,473.3	255,018	13,683.6	9.7%
Short-term	2,142,893	4,929.2	2,246,289	5,150.8	4.5%
<b>Total</b>	<b>2,432,050</b>	<b>17,402.5</b>	<b>2,501,307</b>	<b>18,834.4</b>	<b>8.2%</b>

Source: Control and Risk Office – Financial Control Supervisory Office

FNE accounted for 98.1% of the Bank's long-term loans taken out. At the end of 1H 2019, the Fund's balance amounted to R\$ 13.4 billion, up 8.9% as compared with the same period of the prior year.

**Table 4 – Long-term Financing Transactions (R\$ million)**

Type	1st half of 2018		1st half of 2019		Variation Amount
	Number	Amount	Number	Amount	
FNE	286,651	12,327.4	250,428	13,429.0	8.9%
Other	2,506	145.9	4,590	254.6	74.5%
<b>Total</b>	<b>289,157</b>	<b>12,473.3</b>	<b>255,018</b>	<b>13,683.6</b>	<b>9.7%</b>

Source: Control and Risk Office – Financial Control Supervisory Office

### 5.2 Fund Raising

**Time Deposits** - In 1H 2019, a balance of R\$ 5,848 billion was recorded, which represents an increase of 7.39% in relation to the first half year of 2018, whose balance was of R\$ 5.445 billion.

**Demand Deposits** – In this half period, demand deposits amounted to R\$ 427.8 million, representing an increase of 79.5% as compared with 1H 2018, whose balance was of R\$ 238.3 million.

**Savings Accounts** – These accounts increased by 10.4% in 1H 2019 - R\$ 2,491.4 million in relation to 1H 2018 - R\$ 2,255.6 million.

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### **5.3 Distribution and Management of Investments Funds**

In 1H 2019, net worth of investment funds amounted to R\$ 7,843.6 million, a 14.9% increase in relation to 1H 2018. In the same position, BNB managed 21 investment funds, with 82,154 members, a 14.3% increase in relation to the prior year. Revenue from investment fund administration feestotaled R\$ 25.9 million in 1H 2019, a 33.2% increase in relation to 2018.

#### **Northeast Investment Fund (FINOR)**

In 1H 2019, FINOR's Net Worth reached R\$ 860.2 million, presenting a 47.5% decrease in relation to 1H 2018, by reason of investment reserves set up based on Article 9, of Law No. 8167/91, whose controls, due to the insufficiency of funds from tax incentives, were carried out in an off-book manner. Revenue from administration fee on FINOR portfolio totaled R\$ 9.3 million in 1H 2019, a 45.9% decrease in relation to 1H 2018, due to the decrease in the Fund's net worth.

### **5.4 Performance by Segment**

#### **Family Farming**

The Family Farming Segment comprises the portfolio of family farmers served by the National Program for Strengthening Family Farming (Pronaf), except for the customers included in the Rural Microentrepreneur Segment (Agroamigo), currently with an active portfolio amounting to R\$ 4.79 billion and over 430 thousand transactions. In 1H 2019, 8,236 financing transactions were taken out by the Bank in this segment, amounting to approximately R\$ 225.09 million, 76.8% of which were allocated to financing in the semi-arid region.

#### **Rural Credit Program**

The Rural Poverty Combat Program is made up of two subprojects: the Land Acquisition Subproject (SAT), which finances the acquisition of rural property, and the Community Investment Subproject (SIC), which funds non-reimbursable community investments complementary to the association of farmers contemplated with the SAT. The Consolidating Family Agriculture Program (CAF) finances the acquisition of rural property including the existing improvements, as well as investments in basic and production infrastructure.

In 1H 2019, 122 transactions were carried out under SAT, which totaled R\$5.1 million and 16 SIC onlending agreements amounting to R\$4.97 million. CAF program contracted no transactions.

#### **Small and Mini Rural Producers**

In 1H 2019, BNB carried out 3,037 loan transactions with the segment of Small and Mini Rural Producers, Individuals, which comprises rural producers with annual gross revenue of up to R\$ 4.8 million.

The funds invested, arising from FNE, correspond to R\$ 662.7 million, which represents 104% of the target set for the period, up 7.25% as compared with the transactions performed in the 1st half of 2018.

Of the transactions taken out, 52% were intended for costing and 48% for investment. Worth highlighting, 51% of the funds invested were concentrated in the semi-arid region.

#### **Urban Microentrepreneurs – Crediamigo**

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Crediamigo is BNB's urban guided productive microcredit program, which facilitates access to credit for millions of entrepreneurs belonging to informal or formal sectors of the Brazilian economy.

Customized services, specific methodology used for urban microfinance, financial and environmental guidance, as well as agile credit that is appropriate for the business cycle are Program differentials and consolidate Crediamigo as the leading microfinance program in South America.

In 1H 2019, Crediamigo carried out 2.158 million transactions, a volume 4.88% up the performance for the same period of 2018. Loans exceeded R\$ 4.77 billion, up 11.11% as compared with the amount accumulated until June 2018.

### Rural Microentrepreneurs - Agoramigo

Agroamigo serves family farmers through two types: AgroamigoCrescer, focused on customers of Pronaf Group B and AgroamigoMais, to serve other Pronaf groups, in transactions of up to R\$ 15 thousand, except for Groups A and A/C.

In 1H 2019, Banco do Nordeste carried out, through Agroamigo, 219.3 thousand transactions, involving funds of approximately R\$ 1,104.8 million. Of this total, 77.2% was allocated to financing for the semi-arid region. The Program reached an active portfolio of R\$ 4.55 billion and more than 1.38 million transactions. Worth stressing, the Program's default rate decreased to 4.79% in June/19, which represents a decrease of 12.6% as compared with the same period of 2018.

### Micro and Small Enterprises (MSE)

In 1H 2019, BNB obtained record results in loan investments for the Micro and Small Enterprises (MPE) segment. Internal funds and FNE amounted to R\$ 1,743.7 million, serving 13,981 micro and small enterprises in 20,888 loan transactions. This figure represents a growth of approximately 51.0% in volume invested as compared with the same period of the prior year, with an increase by 27.8% in the number of customers assisted.

Among other actions developed in order to support micro and small companies, Banco do Nordeste has been increasing its partnerships with franchisors and class entities. In May/2019, BNB and the Brazilian Products, Services and Tourism Trade Association (CNC) entered into a partnership referring to actions to promote BNB loan facilities in all States where the Bank operates and increase the support to members of this partner entity. Another important action in the first half year was the qualification of business managers specialized in micro and small enterprises, by means face-to-face and distance training courses. The trade sector was the most favored, with loans intended for micro and small companies, of R\$ 929.5 million, corresponding to 55.9% of total FNE funds invested by Banco do Nordeste in this segment (Table 5).

In the Brazilian semiarid region, one of the priority sub-areas under the National Policy on Regional Development (PNDR), 7,395 loans were taken out with FNE funds, representing 78.3% of total loan transactions.

**Table 5 – MPE Transactions per Economic Segment**

Economic Sector	Volume of Transactions - %
Trade	55.9%
Services	25.8%
Industry	15.7%
Rural	2.6%
<b>Total</b>	<b>100%</b>

Source: Banco do Nordeste – Business Board

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### Corporate

The Corporate segment comprises large companies with gross revenue in excess of R\$ 400.0 million, in addition to customers within the scope of union-related and Infrastructure transactions, regardless of revenue. In the first half of 2019, the 14 Corporate portfolios had 816 customers, up 12.4% as compared with the existing customer base at the end of the first half of 2018.

Until June 2019, the Corporate segment portfolios presented the following results: i) transactions with funds from FNE amounting to FNE, including Infrastructure and NE Export operations, worth R\$ 5.7 million; and ii) short-term loans and foreign trade transactions taken out amounting to R\$ 90.8 million.

Noteworthy is the strong participation of the Corporate segment in applying FNE funds, which, at the end of the 1st half of 2019, represented approximately 42,6% of all transactions conducted by the Bank using this source of funds, substantially influenced by infrastructure-related transactions. Transactions in this period amounted to R\$ 5,711.6 million, a variation of 9.6% as compared with the 1st half of 2018.

### Agribusiness - Individuals

Banco do Nordeste's actions supporting Agribusiness are noteworthy. The Bank serves rural producers (individuals) with annual gross revenue over R\$ 4.8 million, making a major contribution to the segment's growth and consolidation.

In 1H 2019, 253 transactions with FNE funds were taken out, corresponding to R\$ 554.5 million invested, reaching 114% of the target established for the period. This volume represents an increase of 20.7% as compared with 1H 2018.

Of the transactions taken out, 74% were intended for costing, 7% for trade and 19% for investment.

### Individuals

This segment serves partners and employees of publicly or privately-held companies, self-employed professionals, employees and retired employees of associated companies, and students benefitting from student financing and Social Security Institute (INSS) retired professionals, essentially consumers of financial products and services such as loans for consumption goods or financial investments. In 1H 2019, the Individuals segment expanded its customer base by 4.6% and reached R\$ 210 million in Commercial Loan transactions. Regarding fund raising, until June 2019, referred to category reached 1.84 billion. Over R\$ 2.5 million student financing transactions were carried out using FNE funds. In addition, in 1H 2019, BNB offered distributed power micro and mini generation systems' financing, by means of FNE Sol line, whereby R\$ 21.1 million were taken out, representing 127.8% of the target for the period.

### Government

At the end of June 2019, the government portfolio reached 1,891 customers, representing a decrease in base by 8.43% in relation to the same period of 2018. Assets in the (services and specialized) government portfolios reached R\$ 511.55 million in debt balance and average balance of R\$ 530.96 million in short-term investments.

### Business

The Business segment consists of small, medium and large-sized companies, i.e. legal entities with annual revenues from R\$ 4.8 million to R\$ 400.0 million. At the end of the first half of 2019, concerning customers included in the 'Business and Customer Service'

## MANAGEMENT REPORT

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portfolios, the Bank reached a figure of 11,138 customers, which represents a 22.1% increase as compared with the existing customer base at the end of the first half of 2018.

In 1H 2019, the business segment carried out 5,078 transactions amounting to R\$ 3,723.1 million, which is 4.2% lower than 1H 2018. This fact is explained by the allocation of new infrastructure transactions to the Corporate segment. Until June 2019, the Business Segment portfolios presented the following results: short-term loans and foreign trade transactions in the amount of R\$ 304.7 million; specialized loan transactions, including operations with FNE funds and certain remaining operations involving FNE Infrastructure funds in the amount of R\$ 3.42 billion.

### **5.5 Credit Recovery**

In 1H 2019, R\$ 7.6 billion overdue amounts receivable, recorded as loss and/or overdue for over 60 days were regularized, among which R\$ 287.3 million were received in cash. This amount comprised 83,672 regularized FNE-sourced transactions and 5,781 regularized non-FNE-sourced transactions.

Regularization volume, due to the massive expansion of renegotiations, presented significant participation in light of the classification of operations under Law No. 13340/2016 and Article 29-A of Law No. 13606/2018, which, respectively, enable rural producers to settle or renegotiate transactions taken out until 2011 and operations belonging to the Japanese and Brazilian Cooperation Program for the Development of the Cerrado Region (PRODECER) - Stage III. Of the total amount recovered, over R\$ 5.8 billion were effectively performed under referred to law. Table 6 below presents the percentage variation as compared with the same period of 2018.

**Table 6 – Percentage Variation of Debt Regularization**  
(R\$ thousand)

1H 2018		1H 2019		Variation - % 2019/2018 Amount
Number	Amount	Number	Amount	
91,591	2,263,146	89,453	7,665,301	239.75%

Source: Banco do Nordeste – Financial and Loan Office

## **6. CORPORATE GOVERNANCE**

The Bank strengthened the top level of its corporate governance and sustainability upon review by the Risks, Internal Controls, Compliance and Security Management Supervisory Office, which adjusted the Institution to the legal and regulatory provisions issued by inspection, oversight, and internal and external control authorities, through creation of a unit that concentrates regulatory compliance activities and the integrity program, and that empowered the second line of defense in compliance, controls and risk management functions, improving the Institution's ambience and Internal Controls.

### **6.1 Audit**

BNB Auditing Supervisory Office aims at evaluating the processes of risk management, controls and governance, in order to add value to the organization and reports the effectiveness of the internal control system to senior management. This office uses the process audit methodology focused on risk, by means of which this office has obtained a better understanding of corporate processes, thus contributing to improvement of the control structures, in an independent and objective manner. In the first half of 2019, the following audit works in the period analyzed are to be highlighted: Internal Controls; Accounting,



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including Related Parties; Loan Transaction Financial Control; Rendering of Accounts of Worker Support Fund (FAT) accounts; Payroll; Operation of Bank Products and Services – Digital Account; Market Strategies; Tenders and Contracts; Operation of Capital Market Products and Services; in addition to IT items, such as Managing the Physical Environment and Ensuring Service Continuity.

### **6.2 Internal Controls**

BNB has a streamlined risk management structure, in which internal controls are present at all levels of the Institution, exercised by the three defense lines of the Internal Control System. Best governance practices are the pillars of this structure; the integrity of people and ethical values; commitment of its employees to act with the focus upon corporate objectives; transparency and the search for segregation of duties, enabling the appropriate delegation of authority and attributions; and risk management, internal control, compliance and information security policies.

BNB's Internal Control Structure is described in item 6 of the Annual Public Policies and Corporate Governance Letter, available at the Bank's Internet website, which may be accessed at the following link:

<https://www.bnb.gov.br/sobre-o-bnb/carta-anual-de-politicas-publicas-e-governanca-corporativa>.

In order to access whether the processes are performed in accordance with the policies, standards and procedures, the Bank uses compliance indicators, which have established as floor the percentage of 95%. The indicator for the period accumulated from January to June 2019 was of approximately 97%, similarly to the 2018 indicator, which presents an increase as compared with the floor established.

In view of the foregoing, BNB's set of policies and guidelines reinforces the Bank's direction to transparency, compliance with the laws, rules and regulations of the Brazilian financial system, and to management of the institution based on models aimed at compliance with the mission, organization continuity and generation of favorable and sustainable results.

### **6.3 Risk Management**

Banco do Nordeste's Corporate Risk Management Policy establishes, as an essential principle, maintenance of a structured risk management system that is integrated to the Bank's management activities. In integrated risk management, risk significance is defined based on the risk's potential impact on achievement of the Bank's strategic objectives. For risks considered significant, as follows: credit risk, market risk, liquidity risk, interest rate risk of the Bank's portfolio (IRRBB), concentration risk, operational and social and environmental risk, management models, strategies, processes, procedures and systems are defined. These risks are monitored and systematically and periodically reported to the Executive Board, the Risk Management Committee, the Capital and Risk Committee and Board of Directors.

In order to define the risk appetite limits, the Institution's strategic planning, historical indicators already used in risk management, expected business for the following years as well as the economic and financial scenario were taken into consideration, among other aspects. The Board of Directors is responsible for establishing and periodically reviewing the risk appetite of Banco do Nordeste, with the assistance of the Capital and Risk Committee, the Executive Board and the Control and Risk Officer (CRO).

Banco do Nordeste's risk management process is therefore premised on compliance with current legislation, the Risk Management Corporate Policy, the Risk Appetite Statement (TAS), the adoption of good market practices and the use of defined and documented methodological models, which can be tested for consistency, reliability and transparency of results.

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Other information on our Risk Management and Internal Control policy is available in section 5 of Reference Form 2019 base year 2018, at <https://www.bnb.gov.br/demonstrativos-contabeis-e-documentos-cvm>.

## 7. RELATIONSHIPS

### 7.1 Customer relationship

In 1H 2019, the Customer Relationship and Citizen Information Center held 2,167,500 calls, of which: 160,880 telephone calls (SAC and CAC); 69,958 through multimedia channels (SIC, email, social networks, consumidor.gov, complaint sites); 17,826 payment slips issued at customer request and 1,918,836 active services.

#### **Ombudsman**

In 1H 2019, 542 calls were recorded, including complaints, whistleblowing events, praises, suggestions and information, representing an increase of 24% as compared with the second half of 2018.

In accordance with the Brazilian Monetary Council/Central Bank of Brazil (CMN/Bacen) Resolution No. 4433/2015, the Ombudsman's Office must send a reply to the demands made by BNB's customers and users within ten business days. This deadline may be exceptionally extended, in up to 10% of the cases, for another 10 business days. We should mention that, in the first half of 2019, BNB's Ombudsman's Office replied to 100% of the complaints within the legal term.

In April 2017, Banco do Nordeste committed to reply to at least 50% of the complaints received within 5 business days, in consonance with the provisions of Regulation 001/2018, issued by the Banks' Auto-Regulation System (Sarb) of the Brazilian Federation of Bank Associations (Febraban). BNB's Ombudsman's Office has achieved rates above expected in 1H 2019, having replied to 94% of the complaints within this deadline.

### 7.2 Digital Experience, and Information and Communication Technology (ICT)

The bank industry is going through a digital transformation process. In this context, companies seek to use technology for improving performance and ensuring better outcomes in terms of operational efficiency. Banco do Nordeste has invested in new technology solutions as well as innovation and improvements in its technology infrastructure, in order to support this transformation movement.

Some of the key actions implemented in 1H 2019 are as follows:

- **Electronic SEDE System:** Project that implemented improvements in SEDE system to automate the volume of accounting transactions, increasing accounting information security.
- **Invitations to Bid Automation System:** Project that automated the production of invitations to bid and contractual instruments, expediting these documents' preparation process and approval control.
- **Integration between Contagion Notes Project and Credit Information System:** Action related to the new risk classification of operations and loan proposals, in accordance with the principles of Bacen Resolution No. 2682/99.
- **Software Developers Project:** Project relating to acquisition of IT specialized services to increase the number of production system deliveries, improve services and reduce system implementation terms.

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- **Specialized Loans' Platform System:** Project that develops improvements in the current loan grant process, automating several stages that will allow for faster loan grant processes.
- **Digital Renegotiation Project:** This Project enables Bank customers to renegotiate their debts through Mobile Banking.
- **Rural Micro Credit System:** This Project includes new functionalities and allows access to web and mobile platforms. Its main benefit is to reduce by 54% the average time of Agroamigo proposal processing.
- **Cash-and-Pay Network Sharing Project:** Project aimed at improving the service channels, which delivered new functionalities, such as: Cardless Deposits; Cardless Deposits for Retailers and Payment of Taxes in cash, with change transferred to account or through account debt.
- **SDWAN Project:** Project for implementing a new infrastructure for BNB's WAN Network. Banco do Nordeste is the first Brazilian bank to implement SDWAN technology in all its physical sites, in order to optimize application performance by means of hybrid links or the Internet with direct and safe access to corporate applications, which allows each branch to rely on three active links whose speed varies from 10 to 30 megabytes.
- **New Storage Project:** Project aimed at contracting an External Storage Solution for BNB's primary and secondary sites. This new project is aimed at supporting the storage of the Bank's current and future applications and services, and at promoting the technological update of storage infrastructure, in order to adjust this infrastructure to cloud computing.

## 8. ENTITIES OF PENSION PLAN AND HEALTH CARE FOR EMPLOYEES

### 8.1 Camed

The Assistance for Banco do Nordeste do Brasil Employees (CamedSaúde), established in 1979, is a member of Camed Group, together with CamedAdministradora e Corretora de Seguros Ltda. and Creche Paulo VI. CamedSaúde has a portfolio of a 37,480 beneficiaries and is present in the Northeast region, north of Minas Gerais and north of Espírito Santo, in addition to the Federal District. In 1H 2019, CamedSaúde had a surplus of R\$ 16.8 million. This result was 353% higher than that of the same period of 2018 mostly due to the adjustment in social contributions from 1.5% to 2.5% recorded in July/2018. CamedAdministradora e Corretora de Seguros Ltda (CamedCorretora) is present throughout Brazil, through the Bank branches, having ended 1H18 with positive P&L of R\$ 4.4 million, which represents a 49% increase as compared with the same period of the prior year. This result derives mainly from increase in revenue from insurance sale commissions from R\$ 21.3 million in the first six months of 2018 to R\$ 29.2 million in the same period of 2019, which represents an increase of 37%.

### 8.2 Capef

Banco do Nordeste Employees' Pension Fund (Capef) is a privately-held Entity of Supplementary Pension Plans (EFPC) created in 1967 that administers equity of R\$ 4.81 billion at June 30, 2019. Capef has 12,321 participants and beneficiaries assisted. These participants are grouped into two private pension plans; one Defined Benefit plan – DB plan, which is closed for new participants, and one Variable Contribution plan – CV Plan I, created in 2010. The DB Plan closed 1H 2019 with 1,306 active participants, 3,884 retirees and 1,296 pensioners and obtained a return of 5.59%, equivalent to 108.75% of its actuarial target of 5.14% (INPC + 5.50% per year). The VC I plan is in the accumulation phase. Until June 2019, this plan achieved a return of 6.52%, equivalent to 136.09% of its actuarial target

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of 4.79% (INPC + 5.25% per year). At the end of the first half of 2019, the plan had 5,541 active members, 256 retirees and 38 pensioners.

### **9. LEGAL INFORMATION**

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In relation to CVM Rule No. 381/03, dated January 14, 2003, Banco do Nordeste hereby informs that Ernst & Young Auditores Independentes S/S, engaged as Independent Auditor, did not provide any services, in the first half of 2019, other than independent audit services.



MINISTÉRIO DA  
ECONOMIA



## *Financial Statements*

# BANK

## In thousands of reais (R\$)

Position: 06.30.2019

**BALANCE SHEETS**  
**Six-month periods ended June 30, 2019 and 2018**  
 General Management and Branches in Brazil  
 (Amounts in R\$ thousand)

**ASSETS**

		06.30.2019	06.30.2018 Restated
<b>CURRENT ASSETS</b>		<b>13.928.564</b>	<b>21.672.134</b>
CASH AND CASH EQUIVALENTS	(Note 5)	106.326	101.607
INTERBANK INVESTMENTS	(Note 6.a)	7.040.377	13.160.630
Open market investments		6.830.926	12.948.148
Interbank deposit investments		209.451	212.482
SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS	(Note 7)	97.144	1.369.903
Own portfolio		92.699	789.454
Derivative financial instruments		-	580.449
Linked to guarantees given		4.445	-
INTERBANK ACCOUNTS		538.737	616.113
Payments and receipts pending settlement		51.331	47.997
Linked Credits:			
Central Bank Deposits	(Note 8.a)	487.153	566.374
Correspondents		253	1.742
LOANS		4.352.454	4.101.781
Loans	(Note 9.a)	4.642.593	4.627.354
Public sector		136.279	184.476
Private sector		4.506.314	4.442.878
(Allowance for loan losses)	(Note 9.a)	(290.139)	(525.573)
OTHER CREDITS		1.768.980	2.299.466
Exchange portfolio	(Note 10.a)	905.005	1.015.405
Income receivable	(Note 10.b)	21.172	21.699
Securities Trading	(Note 10.c)	20	12
Sundry	(Note 10.d)	893.423	1.270.701
(Allowance for other losses)	(Note 10.e)	(50.640)	(8.351)
OTHER ASSETS		24.546	22.634
Other assets		19.366	14.701
(Valuation allowance)		(3.276)	(617)
Prepaid expenses		8.456	8.550
<b>LONG-TERM RECEIVABLES</b>		<b>45.522.863</b>	<b>36.168.541</b>
SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS	(Note 7)	38.188.494	29.130.638
Own portfolio		35.907.457	27.750.077
Linked to repurchase agreements		1.566.392	941.493
Linked to guarantees given		708.863	439.068
Securities Subject to Repurchase Agreements with Free Movement		5.782	-
INTERBANK ACCOUNTS		72.637	68.582
Linked Credits:			
National Housing System (SFH)	(Note 8.a)	72.637	68.582
LOANS		4.631.205	4.718.930
Loans	(Note 9.a)	4.969.128	4.916.074
Public sector		381.253	519.767
Private sector		4.587.875	4.396.307
(Allowance for loan losses)	(Note 9.a)	(337.923)	(197.144)
OTHER CREDITS		2.630.527	2.250.391
Sundry	(Note 10.d)	2.658.319	2.278.088
(Allowance for other losses)	(Note 10.e)	(27.792)	(27.697)
<b>PERMANENT ASSETS</b>	(Note 12)	<b>227.984</b>	<b>211.726</b>
INVESTMENTS		1.592	1.591
Other investments		6.878	6.877
(Provision for losses)		(5.286)	(5.286)
PROPERTY AND EQUIPMENT IN USE		225.829	190.188
Property and equipment in use		173.011	169.752
Revaluation of property and equipment in use		107.132	107.132
Other property and equipment in use		308.213	277.551
(Accumulated depreciation)		(362.527)	(364.247)
INTANGIBLE ASSETS		563	19.947
Intangible assets		563	19.947
<b>TOTAL ASSETS</b>		<b>59.679.411</b>	<b>58.052.401</b>

## LIABILITIES AND EQUITY

		06.30.2019	06.30.2018 Restated
<b>CURRENT LIABILITIES</b>		<b>13.484.816</b>	<b>17.034.430</b>
DEPOSITS	(Note 13.b)	6.266.000	6.296.602
Demand deposits		427.855	238.300
Savings deposits		2.491.531	2.255.666
Interbank deposits		1.266.860	1.464.841
Time deposits		2.079.754	2.337.795
OPEN MARKET FUNDING	(Note 13.c)	1.561.111	1.045.419
Own portfolio		1.561.111	931.606
Third-party portfolio		-	113.813
FUNDS FROM ACCEPTANCE AND ISSUE OF SECURITIES	(Note 15)	141.564	1.333.153
Funds from real estate, mortgage, credit and similar notes		141.564	166.787
Liabilities for foreign securities		-	1.166.366
INTERBANK ACCOUNTS		47.399	37.619
Receipts and payments pending settlement		47.399	37.619
INTERBRANCH ACCOUNTS		5.319	21.854
Third-party funds in transit		3.660	4.648
Internal transfers of funds		1.659	17.206
BORROWINGS	(Note 14.c)	939.406	1.048.962
Foreign borrowings		939.406	1.048.962
DOMESTIC ONLENDING - OFFICIAL INSTITUTION	(Note 14.b)	115.333	133.429
National Treasury		166	193
National Bank for Economic and Social Development (BNDES)		98.276	114.604
FINAME		16.891	18.632
DERIVATIVE FINANCIAL INSTRUMENTS	(Note 7.c)	-	84
Derivative financial instruments		-	84
FOREIGN ONLENDING	(Note 14.d)	111.132	167.935
Foreign onlending		111.132	167.935
OTHER LIABILITIES		4.297.552	6.949.373
Collection of taxes and other contributions	(Note 16.a)	113.798	83.879
Exchange portfolio	(Note 16.b)	10.311	29.726
Social and statutory	(Note 16.c)	231.100	69.076
Tax and social security	(Note 16.d)	553.328	442.410
Securities Trading	(Note 16.e)	158	153
Financial and development funds	(Note 16.f)	995.486	3.952.054
Sundry	(Note 16.i)	2.393.371	2.372.075
<b>LONG-TERM PAYABLES</b>		<b>41.466.813</b>	<b>37.033.590</b>
DEPOSITS	(Note 13.b)	6.102.653	5.561.430
Interbank deposits		-	12.780
Time deposits		6.102.653	5.548.650
OPEN MARKET FUNDING	(Note 13.c)	9.086	8.554
Own portfolio		9.086	8.554
FUNDS FROM ACCEPTANCE AND ISSUE OF SECURITIES	(Note 15)	-	67
Liabilities for foreign securities		-	67
DOMESTIC ONLENDING - OFFICIAL INSTITUTION	(Note 14.b)	1.081.920	1.119.424
National Treasury		330	275
National Bank for Economic and Social Development (BNDES)		1.041.252	1.063.531
FINAME		40.338	55.618
FOREIGN ONLENDING	(Note 14.d)	381.669	491.625
Foreign onlending		381.669	491.625
OTHER LIABILITIES		33.891.485	29.852.490
Tax and social security	(Note 16.d)	288.561	19.296
Financial and development funds	(Note 16.f)	24.835.267	22.907.656
Subordinated debt eligible to capital	(Note 17.c)	2.458.014	2.282.604
Debt instruments eligible to capital	(Note 17.a and 17.b)	1.801.040	1.000.000
Sundry	(Note 16.i)	4.508.603	3.642.934
<b>EQUITY</b>	(Note 18)	<b>4.727.782</b>	<b>3.984.381</b>
CAPITAL		3.813.000	2.844.000
Domiciled in Brazil		3.813.000	2.844.000
REVALUATION RESERVES		13.949	14.008
INCOME RESERVES		1.896.401	1.856.561
EQUITY ADJUSTMENTS		(995.568)	(806.947)
RETAINED EARNINGS (ACCUMULATED LOSSES)		-	76.759
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>59.679.411</b>	<b>58.052.401</b>

## INCOME STATEMENTS

Six-month periods ended June 30, 2019 and 2018

General Management and Branches in Brazil  
(Amounts in R\$ thousand)

		1st Half of 2019	1st Half of 2018 Restated
<b>INCOME FROM FINANCIAL INTERMEDIATION</b>		<b>2.857.130</b>	<b>2.668.839</b>
Loans	(Note 9.a.2)	1.319.292	931.527
Gain (loss) on securities transactions	(Note 7.b)	1.408.204	1.348.547
Gain (loss) on Derivative Financial Instruments	(Note 7.d)	47.343	156.219
Foreign exchange gains (losses)	(Note 11.b)	69.486	220.038
Compulsory deposit gains (losses)	(Note 8.b)	12.805	12.508
<b>EXPENSES FROM FINANCIAL INTERMEDIATION</b>		<b>(1.610.486)</b>	<b>(1.960.395)</b>
Open Market Funding	(Note 13.d)	(489.654)	(564.181)
Borrowings and Onlending	(Note 14.e)	(904.333)	(1.172.069)
Allowance for loan losses	(Note 9.e)	(216.499)	(224.145)
<b>GROSS INCOME FROM FINANCIAL INTERMEDIATION</b>		<b>1.246.644</b>	<b>708.444</b>
<b>OTHER OPERATING INCOME/EXPENSES</b>	(Note 19)	<b>(79.323)</b>	<b>(261.472)</b>
Income for services provided		1.233.015	1.180.580
Income from bank fees		44.745	36.379
Personnel expenses		(999.790)	(942.990)
Personnel expense		(861.274)	(813.730)
Post-employment benefits		(138.516)	(129.260)
Other Administrative Expenses		(621.489)	(622.386)
Tax expenses	(Note 20.e)	(178.035)	(153.252)
Other operating income		1.040.276	947.577
Other operating expenses		(598.045)	(707.380)
<b>OPERATING INCOME (EXPENSE)</b>		<b>1.167.321</b>	<b>446.972</b>
<b>NON-OPERATING INCOME (EXPENSE)</b>		<b>(3.319)</b>	<b>2.223</b>
<b>INCOME BEFORE INCOME TAXES AND PROFIT SHARING</b>		<b>1.164.002</b>	<b>449.195</b>
<b>INCOME TAX AND SOCIAL CONTRIBUTION</b>	(Note 20)	<b>(372.895)</b>	<b>(204.500)</b>
Provision for income tax		(155.406)	(132.334)
Provision for social contribution		(96.200)	(108.731)
Deferred tax asset		(121.289)	36.565
<b>STATUTORY PROFIT SHARING</b>		<b>(46.330)</b>	<b>(14.060)</b>
<b>NET INCOME</b> .....		<b>744.777</b>	<b>230.635</b>
Number of shares (in thousands)		86.371	86.371
Basic/diluted earnings per share (in R\$)		8,62	2,67



**STATEMENTS OF CHANGES IN EQUITY**  
**Six-month periods ended June 30, 2019 and 2018**  
 General Management and Branches in Brazil  
 (Amounts in R\$ thousand)

EVENTS	PAID-IN CAPITAL	REVALUATION RESERVES	INCOME RESERVES		EQUITY ADJUSTMENTS	RETAINED EARNINGS (ACCUMULATED LOSSES)	TOTAL
	CAPITAL	OWN ASSETS	LEGAL RESERVA	STATUTORY RESERVES			
<b>BALANCES AT 12.31.2017 - RESTATED</b>	2.844.000	11.769	271.416	1.413.610	(850.954)	60.870	3.750.711
<b>ADJUSTMENTS FROM CMN RESOLUTION No. 4535, NET OF TAX EFFECTS:</b>							
DEPRECIATION	-	-	-	-	-	19.343	19.343
REVERSAL OF REVALUATION RESERVE REALIZED	-	2.254	-	-	-	(2.254)	-
<b>BALANCE AT 12.31.2017 ADJUSTED</b>	2.844.000	14.023	271.416	1.413.610	(850.954)	77.959	3.770.054
PRIOR YEARS' ADJUSTMENTS							
Creditors						5.768	5.768
Debtors						(12.691)	(12.691)
EQUITY ADJUSTMENTS							
Adjustments to Securities (Net of Tax Effects)					(67.881)		(67.881)
Actuarial Gains or Losses (Net of Tax Effects)					111.888		111.888
OTHER EVENTS:							
Revaluation of Assets:							
Realization of Reserves (Net of Tax Effects)		(177)				177	-
Reversal of Revaluation Reserve Realized (Net of Tax Effects) (CMN Resolution No. 4535)		162				(17)	145
NET INCOME FOR THE SIX-MONTH PERIOD						230.635	230.635
Allocations:							
Reserves			11.591	159.944		(171.535)	-
Provision for Dividends/IOE						(53.537)	(53.537)
<b>BALANCES AT 06.30.2018 - RESTATED</b>	2.844.000	14.008	283.007	1.573.554	(806.947)	76.759	3.984.381
<b>CHANGES FOR THE SIX-MONTH PERIOD</b>	-	(15)	11.591	159.944	44.007	(1.200)	214.327
<b>BALANCES AT 12.31.2018</b>	2.844.000	11.592	307.691	1.969.700	(950.962)	-	4.182.021
<b>ADJUSTMENTS FROM CMN RESOLUTION No. 4535, NET OF TAX EFFECTS:</b>							
DEPRECIATION	-	-	-	-	-	30.858	30.858
REVERSAL OF REVALUATION RESERVE REALIZED	-	2.387	-	-	-	(2.387)	-
<b>BALANCES AT 12.31.2018 - ADJUSTED</b>	2.844.000	13.979	307.691	1.969.700	(950.962)	28.471	4.212.879
PRIOR YEARS' ADJUSTMENTS							
Debtors						(919)	(919)
EQUITY ADJUSTMENTS							
Securities adjustments (Net of Tax Effects)					318.353		318.353
Actuarial Gains or Losses (Net of Tax Effects)					(362.959)		(362.959)
CAPITAL INCREASE:							
From reserves:							
Transfer for Capital Increase	969.000			(969.000)			-
OTHER EVENTS:							
Revaluation of Assets:							
Recognition of Reserves (Net of Tax Effects)		12				(12)	-
Realization of Revaluation Reserve of June 2019 – CMN Resolution No. 4535		(42)				42	-
NET INCOME FOR THE SIX-MONTH PERIOD						744.777	744.777
Allocations:							
Reserves			37.239	550.771		(588.010)	-
Return on Capital Payable:							
Dividends						(17.507)	(17.507)
Interest on Equity (IOE)						(166.842)	(166.842)
<b>BALANCES at 06.30.2019</b>	3.813.000	13.949	344.930	1.551.471	(995.568)	-	4.727.782
<b>CHANGES FOR THE SIX-MONTH PERIOD</b>	969.000	(30)	37.239	(418.229)	(44.606)	(28.471)	514.903

**STATEMENTS OF CASH FLOWS**  
**Six-month periods ended June 30, 2019 and 2018**  
**General Management and Branches in Brazil**  
**(Amounts in R\$ thousand)**

	<b>06.30.2019</b>	<b>06.30.2018 - Restated</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Net Income for the Period</b>	<b>744.777</b>	<b>230.635</b>
<b>Adjustments to Net Income:</b>		
Depreciation and Amortization Expenses	5.736	4.928
Net Provision for Impairment of Other Credits	2.644	(2)
Allowance for Loan Losses, Net	176.265	218.917
Allowance for Losses on Other Credits, net	40.234	5.228
Provision for Financial Guarantees provided, net (FNE Risks)	140.031	405.582
Provision for Financial Guarantees provided, net (FDNE Risks)	41	2.782
Provision for Contingencies, net	41.647	27.709
Provision for Other Contingencies, net	43.032	24.842
Actuarial Liabilities (Post-Employment Benefits)	137.863	128.824
Provision for Debt Instruments Eligible to Principal Capital	157.532	61.451
Monetary Restatement of Judicial Deposits	8.810	17.091
Deferred Tax Asset	121.289	(36.565)
Provision for Losses on Linked Credits-SFH, net	(49)	(47)
Restatement of Debt Instruments Eligible to Principal Capital	4.674	4.365
Monetary Restatement of Appeal Deposits	(6.264)	(6.306)
Provision for Charges on Issue of Financial Bills	2.072	-
<b>Adjusted Net Income</b>	<b>1.620.334</b>	<b>1.089.434</b>
Interbank investments	88.853	(75.660)
Interbank and Interdepartmental accounts	6.128	(46.998)
Loans	(117.106)	59.826
Other Credits	(48.018)	46.444
Other Assets	2.573	9.294
Deposits	(454.419)	32.759
Open Market Funding	188.717	67.525
Funds from Acceptance and Issue of Securities	38.686	143.952
Borrowings and Onlending	(73.596)	(145.903)
Derivative Financial Instruments	564.072	(153.853)
Other Liabilities	1.352.573	3.120.333
Reversal of Revaluation Reserve	-	145
Reversal of Revaluation Reserve Realized - CMN Resolution No. 4535	2.387	-
Realization of Revaluation Reserve of June 2019 - CMN Resolution No. 4535	(30)	-
Income Tax and Social Contribution Paid	(135.227)	(198.783)
Prior Years' Adjustments	27.582	(6.923)
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>3.063.509</b>	<b>3.941.592</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Investments	(1)	-
Investments in property and equipment in use	(60.496)	(3.229)
Investments in assets not for own use	(6.428)	(66)
Disposal of property and equipment in use	395	1.088
Write-off of Intangible Assets	19.385	43
Disposal of Assets not for own use	3.144	-
Securities Available for Sale	(2.179.606)	(3.554.947)
<b>CASH USED IN INVESTING ACTIVITIES</b>	<b>(2.223.607)</b>	<b>(3.557.111)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of dividends as interest on equity	(131.021)	(93.669)
Interest Paid on Debt Instruments Eligible to Principal Capital	(178.156)	(196.838)
Payment of Eurobonds	(1.208.582)	-
<b>CASH USED IN FINANCING ACTIVITIES</b>	<b>(1.517.759)</b>	<b>(290.507)</b>
<b>Increase/Decrease in Cash and Cash Equivalents</b>	<b>(677.857)</b>	<b>93.974</b>
<b>STATEMENT OF CHANGES IN CASH AND CASH EQUIVALENTS</b>		
At beginning of period	7.615.109	12.841.968
At end of period	6.937.252	12.935.942
<b>Increase/Decrease in Cash and Cash Equivalents</b>	<b>(677.857)</b>	<b>93.974</b>

## STATEMENTS OF VALUE ADDED

Six-month periods ended June 30, 2019 and 2018

General Management and Branches in Brazil

(Amounts in R\$ thousand)

	06.30.2019	%	06.30.2018 - Restated	%
<b>INCOME</b>	<b>4.357.303</b>		<b>3.904.073</b>	
Financial Intermediation	2.857.130		2.668.839	
Services rendered and bank fees	1.277.760		1.216.959	
Allowance for loan losses	(216.499)		(224.145)	
Other income/expenses	438.912		242.420	
<b>EXPENSES FROM FINANCIAL INTERMEDIATION</b>	<b>(1.393.987)</b>		<b>(1.736.250)</b>	
<b>INPUTS ACQUIRED FROM THIRD PARTIES</b>	<b>(598.164)</b>		<b>(599.464)</b>	
Materials, energy and other expenses	(46.302)		(41.044)	
Third-party services	(328.424)		(312.039)	
<b>Other</b>	<b>(223.438)</b>		<b>(246.381)</b>	
Data processing and telecommunications	(135.897)		(142.875)	
Advertising, promotions and publications	(8.146)		(19.036)	
Transportation	(13.616)		(15.764)	
Security	(31.525)		(30.114)	
Travel	(7.846)		(8.295)	
Other	(26.408)		(30.297)	
<b>GROSS VALUE ADDED</b>	<b>2.365.152</b>		<b>1.568.359</b>	
<b>RETENTIONS</b>	<b>(5.736)</b>		<b>(4.928)</b>	
Depreciation, amortization and depletion	(5.736)		(4.928)	
<b>NET VALUE ADDED PRODUCED BY THE ENTITY</b>	<b>2.359.416</b>		<b>1.563.431</b>	
<b>TOTAL VALUE ADDED TO BE DISTRIBUTED</b>	<b>2.359.416</b>		<b>1.563.431</b>	
<b>DISTRIBUTION OF VALUE ADDED</b>	<b>2.359.416</b>		<b>1.563.431</b>	
<b>PERSONNEL</b>	<b>911.337</b>	<b>38,60</b>	<b>827.639</b>	<b>52,90</b>
<b>WORK COMPENSATION</b>	<b>636.216</b>	<b>26,90</b>	<b>560.286</b>	<b>35,80</b>
Salaries	589.886		546.226	
Executive Board Fees	-		0	
Profit sharing	46.330		14.060	
<b>BENEFITS</b>	<b>231.182</b>	<b>9,80</b>	<b>225.108</b>	<b>14,40</b>
Provisions (post-employment benefits)	138.516		129.260	
Benefits – Other	92.666		95.848	
<b>Unemployment Compensation Fund (FGTS)</b>	<b>43.939</b>	<b>1,90</b>	<b>42.245</b>	<b>2,70</b>
<b>TAXES, RATES AND CONTRIBUTIONS</b>	<b>685.713</b>	<b>29,10</b>	<b>487.164</b>	<b>31,20</b>
Federal	665.519		469.641	
State	35		15	
Municipal	20.159		17.508	
<b>THIRD-PARTY CAPITAL REMUNERATION</b>	<b>17.589</b>	<b>0,70</b>	<b>17.993</b>	<b>1,20</b>
Interest	-		-	
Rent	17.589		17.993	
<b>EQUITY REMUNERATION</b>	<b>744.777</b>	<b>31,60</b>	<b>230.635</b>	<b>14,70</b>
<b>INTEREST ON EQUITY (IOE)</b>	<b>166.842</b>	<b>7,10</b>	<b>53.537</b>	<b>3,40</b>
Federal Government	92.521		27.304	
Other	74.321		26.233	
<b>DIVIDENDS</b>	<b>17.507</b>	<b>0,70</b>	<b>-</b>	<b>-</b>
Federal Government	9.709		-	
Other	7.798		-	
<b>RETAINED PROFITS FOR THE PERIOD</b>	<b>560.428</b>	<b>23,80</b>	<b>177.098</b>	<b>11,30</b>

**NOTES TO FINANCIAL STATEMENTS**  
**Six-month periods ended June 30, 2019 and 2018**  
**Amounts expressed in thousands of reais, unless otherwise stated**

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**NOTE 1 - The Bank and its Characteristics**

Banco do Nordeste do Brasil S.A. is a mixed economy publicly-held financial institution established by Federal Law No. 1649 of July 19, 1952, with head office at Avenida Dr. Silas Munguba, nº 5700, Passaré, Fortaleza, Ceará State, Brazil, and its mission is: "to operate as the Development Bank for the Brazilian Northeast Region". Banco do Nordeste is authorized to operate all the portfolios permitted for multiple service banks. As an institution devoted to regional development, the Bank operates as the executive agent of public policies and is responsible for managing Fundo Constitucional de Financiamento do Nordeste (FNE) - the main source of funds used by the Bank for long-term financing - and the operation of the National Family Farming Strengthening Program (Programa Nacional de Fortalecimento da Agricultura Familiar - Pronaf) in its jurisdiction. The Bank is also the operator of the Northeast Investment Fund (Fundo de Investimentos do Nordeste - FINOR) and the Northeast Development Fund (Fundo de Desenvolvimento do Nordeste - FDNE). It has the largest micro-financing program in Latin America, consolidated under Crediamigo and Agroamigo, which facilitate access to loans to small entrepreneurs who engage in production-related, product sale, and service activities in urban and rural areas. In addition to federal funds, the Bank has access to other sources of financing in the domestic and foreign markets through funds raised directly, as well as partnerships with domestic and foreign institutions, including multilateral institutions such as the World Bank and the InterAmerican Development Bank (IDB).

**NOTE 2 - Basis of Preparation and Presentation of Financial Statements**

The financial statements were prepared in accordance with the provisions of the Brazilian Corporation Law, as amended by Laws No. 11638 and No. 11941 of 12.28.2007 and 05.27.2009, respectively, and regulations of the National Monetary Council (Conselho Monetário Nacional - CMN), the Central Bank of Brazil (Banco Central do Brasil - BACEN), and the Brazilian Securities and Exchange Commission (Comissão de Valores Mobiliários - CVM), and are presented in accordance with the Standard Chart of Accounts for National Financial Institutions (Plano Contábil das Instituições do Sistema Financeiro Nacional - Cosif).

The pronouncements issued by Brazil's Financial Accounting Standards Board - FASB (Comitê de Pronunciamentos Contábeis - CPC) in the process of convergence between the Brazilian accounting standards and the International Financial Reporting Standards (IFRS), adopted by the CMN by way of rules amended as well as those approved by the CVM that do not clash with CMN rules, are included in the Bank's financial statements as follows:

- CPC 00 (R1) - The Conceptual Framework for Financial Reporting (CMN Resolution No. 4144 of 09.27.2012);
- CPC 01 - Impairment of Assets (CMN Resolution No. 3566 of 05.29.2008);
- CPC 02 (R2) - Effects of Changes in Foreign Exchange Rates and Translation of Financial Statements (CMN Resolution No. 640 of 10.07.2010);

- CPC 03 - Statement of Cash Flows (CMN Resolution No. 3604 of 08.29.2008);
- CPC 05 - Related-Party Disclosures (CMN Resolution No. 3750 of 06.30.2009);
- CPC 09 - Statement of Value Added (CVM Rule No. 557 of 11.12.2008);
- CPC 12 - Present Value Adjustment (CVM Rule No. 564 of 12.17.2008);
- CPC 21 (R1) - Interim Financial Reporting (CVM Rule No. 673 of 10.20.2011);
- CPC 22 - Segment Reporting (CVM Rule No. 582 of 07.31.2009);
- CPC 23 - Accounting Policies, Changes in Accounting Estimates and Errors (CMN Resolution No. 4007 of 08.25.2011);
- CPC 24 - Subsequent Events (CMN Resolution No. 3973 of 05.26.2011);
- CPC 25 - Provisions, Contingent Liabilities and Contingent Assets (CMN Resolution No. 3823 of 12.16.2009);
- CPC 26 (R1) - Presentation of Financial Statements (CVM Rule No. 760 of 12.22.2016);
- CPC 27 - Property, Plant and Equipment (CVM Rule No. 583 of 07.31.2009);
- CPC 32 - Income Taxes (CVM Rule No. 599 of 09.15.2009);
- CPC 33 (R1) - Employee Benefits (CMN Resolution No. 4424 of 06.25.2015); and
- CPC 41 - Earnings per Share (CVM Rule No. 636 of 08.06.2010).

### **NOTE 3 - Summary of Significant Accounting Practices**

#### **a) Functional Currency**

The Bank's functional and reporting currency is the Brazilian real.

Assets and liabilities denominated in foreign currency are recognized at the currency rate in force on the transaction date, while nonmonetary assets are stated at historical cost.

At the end of each period, monetary assets and liabilities denominated in foreign currency are restated by the average exchange rate, and variations are recorded in P&L.

#### **b) P&L recognition criteria**

Revenues and expenses are recognized on a monthly basis, following the accrual method and considering the *pro rata* temporis criterion.

#### **c) Current and noncurrent assets and liabilities**

Assets and receivables are stated at realizable values, plus income earned and currency variations and currency fluctuation, less unearned income or allowance, if applicable. Liabilities are stated at original amounts plus, if applicable, charges and monetary and currency variations incurred, less deferred expenses. Funds available from FNE are classified in Current liabilities and Long-term payables according to the expected outflow of funds.

Receivables and payables are recorded in Current assets and Long-term receivables and in Current liabilities and Long-term payables, respectively, according to maturity dates.

#### **d) Cash and cash equivalents**

These correspond to the balances of cash and cash equivalents, interbank investments and securities immediately convertible into cash or with original maturity equal to or less than ninety days from the investment date, with an insignificant risk of change in their market value.

#### **e) Interbank Investments**

Are recorded at acquisition cost or investment value, plus income earned and adjusted by the provision for losses, when applicable.

#### **f) Securities**

Are recorded at cost, plus brokerage and other fees, and are classified and evaluated as follows:

**Available-for-sale securities:** are those that are not classified as either trading securities or held-to-maturity securities and reported at marked value, net of taxes, with unrealized gains and losses matched against Equity; and

**Held-to-maturity securities:** those for which there the Bank has the positive intent and ability to hold to maturity, stated at acquisition cost, plus income earned, against P&L for the period.

The classification of Available-for-sale securities and Held-to-maturity securities in current assets and long-term receivables was determined according to their maturities, which does not mean unavailability of the securities, which are of the highest quality and highly liquid.

The methodology for adjusting the market value of securities was established in accordance with consistent and verifiable criteria, which take into consideration the following criteria, according to the following order of priority:

1<sup>st</sup> - Market Prices disclosed by the National Association of Financial Market Institutions (Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais - Anbima) and B3 S.A (Brasil Bolsa Balcão);

2<sup>nd</sup> - Goodwill/Negative Goodwill on transactions occurred over the past 3 months in B3 S.A.; and

3<sup>rd</sup> - calculation of probable realizable value based on own pricing model. In this case, the present value is determined by discounted cash flow by the market rate, net of the risk factor and of the discount for the low liquidity, such as the Financial Bills and Debentures.

Gains on securities, irrespective of the category into which they are classified, are appropriated on a *pro rata* day basis and on an accrual basis, through maturity date or definitive sale of the security, according to the compound interest method or the straight-line method, based on remuneration clauses and acquisition rate distributed in the passage of time and recorded directly in P&L for the period.

Losses on available-for-sale and held-to-maturity securities that are not characterized as temporary losses are recognized directly in P&L for the period and begin to compose the new base of the asset cost.

At the time of disposal, the difference between the sale price and the acquisition cost restated by income is considered as a result of the transaction and is recorded at the transaction date as gain or loss on securities.

#### **g) Derivative financial instruments**

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

Swap transactions are stated in balance sheet and memorandum accounts, according to their nature, based on prevailing accounting standards and legal provisions. They are measured at market value upon preparation of monthly trial balances and half-yearly balance sheet. Valuations or devaluations are stated in P&L accounts. The rates disclosed by B3 S.A. are used to calculate the market value of these transactions.

#### ***Hedge Accounting***

Considering the risk of foreign exchange exposure and conditions of the funding market abroad through long-term Senior Unsecured Notes - Eurobonds, the Bank designated derivative financial instruments (*swap* contracts) to fully hedge the loans raised and corresponding interest payable (market risk hedge). To equalize the effects of marked-to-market of derivative financial instruments designated as hedging instruments, the hedged item is also adjusted for changes in market value.

Changes in the market value of derivatives designated as hedging instruments and the market value adjustment of the hedged item (recorded as part of its book value) are recognized in P&L for the period. If the hedging instrument expires or is sold, cancelled or exercised, or when the hedging position does not fall under hedge accounting conditions, the hedging relationship ends.

The risk management objectives and the hedging strategy of such risks during the entire transaction are adequately documented, and so is the assessment of the transaction effectiveness. A hedge is expected to be highly effective if the changes in market value or cash flow attributed to the hedging instrument offsets the changes in market value of the hedged item, in an interval between 80% and 125%.

#### **h) Loans, Advances on Exchange Contracts, Other Credits with Loan Features and Allowance for Loan Losses**

These are classified in accordance with management's judgment on risk level, taking into consideration the economic scenario, past experience and specific risks related to the operation, debtors and guarantors, considering the standards established by CMN Resolution No. 2682 of 12.21.1999, which require the periodic analysis of the portfolio and its rating into nine risk levels, where "AA" is the minimum risk and "H" is the maximum risk, as well as the classification of operations in arrears for more than 15 days as past due operations.

Income from loans overdue for more than 59 days, regardless of the risk level, is only recognized as revenue when effectively received.

H-rated operations remain under this rating for 180 days, when they are then written off against the existing allowance and controlled for at least five years, no longer being included in the balance sheets.

Renegotiated operations remain, at least, at the same level as previously classified.

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

**i) Prepaid expenses**

These refer to funds used in prepayments, whose benefits or service rendering will occur in coming years. Prepaid expenses are recorded at cost and amortized as the services are rendered and benefits generated.

**j) Permanent**

**Investments:** these are stated at cost, net of Provision for Losses.

**Property and equipment in use:** stated at acquisition cost, less impairment losses and related depreciation, are calculated by the straight-line method, from the moment of availability of the Asset for use, considering the estimated useful lives of the assets, as follows: Buildings and Facilities - 40 to 60 years; Furniture and Fixtures - 10 to 45 years; Machinery and Equipment - 15 to 35 years; Aircraft - 20 years; and Vehicles (cars, tractors and bicycles) - 10 to 30 years. Land and works of art are not depreciated. The depreciation method, useful life and residual values of property and equipment are reviewed every year.

**Intangible assets:** correspond to identifiable non-monetary assets, without physical substances, internally acquired or developed and intended for the maintenance of the Bank's activities.

**k) Taxes**

Corporate Income Tax (IRPJ) is calculated at the rate of 15% plus a 10% surtax (on taxable profit exceeding R\$240 thousand for the year), and Social Contribution Tax on Net Profit (CSLL) is calculated at the rate of 15%, after adjustments in Corporate Profit defined in tax legislation. The federal contribution taxes on gross revenue for Public Service Employee Savings Program (Pasep) and for Social Security Financing (Cofins) are calculated at the rates of 0.65% and 4.00%, respectively (Note 21). The Service Tax (ISSQN) is calculated according to the legislation of each municipality, with rates ranging from 2% to 5%.

The total IRPJ and CSLL tax burden is comprised of the provision for these taxes (current expense + deferred tax liability) and of deferred tax asset. Current expense refers to the amount effectively paid to the federal treasury. Deferred tax assets and liabilities are deferred taxes arising from income tax and social contribution losses and temporary differences between accounting and tax base. Temporary differences arise, for example, from allowances for loan losses, provisions for post-employment benefits, other provisions for contingencies, market value adjustments, income from renegotiations - taxed on a cash basis (article 12, paragraph 2 of Law No. 9430/1996), depreciation, etc.

The recognition of IRPJ/CSLL deferred tax assets (tax credits) is based on their estimated realization, according to technical studies and analyses performed by management, considering the tax rates in force in the realization period of these assets. Under assets, these credits are recorded in "Other credits - Sundry", according to the expected generation of deferred income, in accordance with the criteria for recognition, maintenance and write-off established by CMN Resolution No. 3059/2002 and Bacen Circular Letter No. 3171/2002.

CMN Resolution No. 3059/2002 determines the essential criteria for recognition and maintenance of IRPJ/CSLL tax credits, among which the following is highlighted:

- Present a history of taxable income or taxable revenues for at least three of the last five fiscal years, period that must include the reporting year;
- There should be expected generation of future taxable income or revenues within 10 years;
- Reassess each half-yearly and annual balance sheet, writing off the credit when: a) the conditions mentioned above are not met; or b) the amounts effectively realized in two consecutive periods are less than 50% of the forecasted amounts; or c) existence of doubts as to the institution ability to continue as a going concern.

In the case of Deferred Tax Liabilities, the Brazilian Corporation Law has not established criteria for recognition and maintenance, since their realization does not require future profits.

Deferred Tax Assets and Liabilities are realizable according to their origin. Those arising from temporary differences are realized through the use or reversal of the provisions that served as the basis for their recognition, and the main realization criteria are as follows:

- Allowance for loan losses - a) credit reimbursement schedule; and b) classification under Losses

according to Law No. 9430/1996;

- Other Provisions - payment forecast (contribution flow, prediction outcome lawsuits, etc.);
- Market Value Adjustment - contractual term;
- Revenues from renegotiations, taxed on a cash basis (article 12, paragraph 2 of Law No. 9430/1996 - credit reimbursement schedule);
- Depreciation - forecast for appropriation of depreciation expenses.

In turn, the tax credits on income tax and social contribution losses are realized upon generation of taxable profits, through offsetting in the tax base of referred to taxes, respecting the limit of 30% of referred to base.

Current and deferred taxes are recognized in the income statement, except when they result from a transaction recognized directly in equity, case in which the tax effect is recognized in equity (in other comprehensive income).

The breakdown of income tax and social contribution amounts, disclosure of calculations, origin and expected realization of tax credits are presented in Note 20.

#### **l) Employee benefits**

The Bank grants its employees short-term and post-employment benefits. Short-term benefits are recognized and measured at their original amounts (excluding the effect of the discount to present value or actuarial calculation), on an accrual basis.

Post-employment benefits refer to “defined benefit” and “variable contribution” pension plans, as well as a defined benefit health care plan and defined benefit group life insurance.

For “defined benefit” plans and for the portion of unplanned benefits of the variable contribution plan, which has characteristics of defined benefit plan, the net current service cost and net interest on net actuarial liabilities, including interest on the defined benefit asset limit effect, as applicable, are recognized in P&L, whereas actuarial gains and losses and return on plan assets, less amounts considered in net interest, are recognized under “Equity adjustments”, in Equity.

Contributions referring to the portion of defined contribution of the variable contribution plan are recognized in P&L.

#### **m) Deposits and open market funding**

These are recognized at the amount of liabilities, and related charges, when applicable, are recorded on a *pro rata* day basis.

#### **n) Impairment of assets**

Impairment losses are recognized when the carrying amount of an asset exceeds its recoverable amount. Significant nonfinancial assets are reviewed at least at the end of each reporting period, to determine if there is any indication of impairment loss.

#### **o) Provisions, Contingent Assets, Contingent Liabilities and Legal Obligations**

Provisions, contingent assets, contingent liabilities and legal obligations are recognized, measured and disclosed according to the criteria defined in CPC 25 - Provisions, Contingent Liabilities and Contingent Assets, approved by CMN Resolution No. 3823 of 12.16.2009, and BACEN Circular Letter No. 3429 of 02.11.2010.

Provisions for civil, tax, labor and other claims are recognized in the financial statements when, based on the opinion of legal advisors and management, the likelihood of loss in a given legal or administrative proceeding is assessed as probable, the settlement of which is likely to result in an outflow of economic benefits, and the amounts involved can be reliably measured upon court reference/notification, reviewed as required by procedural changes, and monetarily restated on a monthly basis.

The assessment of the provision and contingent liability, risk level of new lawsuits, and reassessment of already existing claims are made case by case, and are classified according to the likelihood of loss, as probable, possible and remote.

Contingencies classified as probable losses are accounted for and represented by Civil proceedings (claiming compensation for pain and suffering and property damage, including, among others, protest of notes, return of checks, and provision of information to credit reporting agencies); Labor claims (claiming labor rights, in light of specific professional category legislation, such as overtime pay, salary equalization, job reinstatement, transfer allowance, severance pay, retirement supplementation, including enforcement notices issued by Regional Labor Offices and others); Tax and Social Security proceedings (represented by legal and administrative proceedings involving federal and municipal taxes); and Other proceedings (such as enforcement notices issued by Regional Councils that regulate the exercise of



professions). For lawsuits unfavorable outcome of which is possible or remote, provisions are not set up, as provided for in legal and regulatory requirements, except for legal obligations. Contingent assets are not recognized in the financial statements. Legal obligations derive from tax obligations and a provision in their full amount is recognized in the financial statements, regardless of the likelihood of success in ongoing lawsuits.

**p) Subordinated debts**

These are recorded at the cost of acquisition, restated by reference to the extra-market rate disclosed by Bacen when the funds are available and, when invested, by reference to the charges agreed upon by the borrowers.

**q) Interest on Equity (IOE) and Dividends**

The shareholders are entitled to receive, as mandatory minimum dividend for each year, 25% (twenty-five percent) of the net income for the year, pursuant to legislation, as established in the Bank's Charter. Interest on equity (IOE), net of income tax may be attributed to dividends.

**r) Use of estimates**

The preparation of the financial statements includes estimates and assumptions, such as in determining allowances for loan losses, market value measurement of financial instruments, provision for contingencies, impairment losses and other provisions, e.g. provision for actuarial liabilities for health care and complementary pension plans, and life insurance, as well as for set up and realization of Deferred tax Assets/Liabilities. Actual results could differ from such estimates and assumptions.

**s) Earnings per share**

The Bank's basic and diluted earnings per share were calculated by dividing net income attributable to shareholders by the weighted average number of total common shares. The Bank has no stock option, subscription bonus or any other right to acquire shares. Accordingly, basic and diluted earnings per share are the same.

**Restatement of corresponding figures**

The Bank changed its accounting policy in relation to the recognition of tax credits on contingent liabilities, which started to be recognized to the extent that projections indicate their realization within 10 years. Regarding tax credits on actuarial provisions, the Bank no longer considers the estimated contribution flow over the next 10 years as the basis for the realization of the portion related to actuarial losses, as well as adjusted the deferred tax base.

The Bank also made adjustments to the classification of tax credits recorded under accounts Equity Adjustment, Retained Earnings (Accumulated Losses) and P&L for 2017.

In addition, in 2019, the Bank recalculated the useful lives of property and equipment, in accordance with CMN Resolution No. 4535/2016, whose effects were recorded in "Retained earnings" and "Depreciation expenses" accounts.

According to CPC 23 - Accounting Policies, Change of Estimate and Errors, adopted by CMN Resolution No. 4007, these effects were recognized retrospectively and generated the following effects on the balances as of 06.30.2018, which are being restated:

BALANCE SHEETS	06.30.2018		
	Originally stated	Adjustment	Restated
<b>Long-Term Receivables</b>	<b>35,982,325</b>	<b>186,216</b>	<b>36,168,541</b>
Other Credits	2,064,175	186,216	2,250,391
Sundry	2,091,872	186,216	2,278,088
<b>Permanent Assets</b>	<b>171,685</b>	<b>40,041</b>	<b>211,726</b>
<b>Property and Equipment in Use</b>	<b>150,147</b>	<b>40,041</b>	<b>190,188</b>
(Accumulated Depreciation)	(404,288)	40,041	(364,247)
<b>Total Assets</b>	<b>57,826,144</b>	<b>226,257</b>	<b>58,052,401</b>
<b>Long-Term Payables</b>	<b>37,019,329</b>	<b>14,261</b>	<b>37,033,590</b>
<b>Other Liabilities</b>	<b>29,838,229</b>	<b>14,261</b>	<b>29,852,490</b>
Tax and Social Security	5,035	14,261	19,296
<b>Equity</b>	<b>3,772,385</b>	<b>211,996</b>	<b>3,984,381</b>
Revaluation Reserves	11,592	2,416	14,008
Equity Adjustments	(939,768)	132,821	(806,947)
Retained Earnings (Accumulated Losses)	-	76,759	76,759
<b>Total liabilities</b>	<b>57,826,144</b>	<b>226,257</b>	<b>58,052,401</b>

INCOME STATEMENTS	06.30.2018		
	Originally stated	Adjustment	Restated
Other Administrative Expenses	(632,692)	10,306	(622,386)
Income Tax and Social Contribution	(193,011)	(11,489)	(204,500)
Provision for Income Tax	(129,825)	(2,509)	(132,334)
Provision for Social Contribution	(107,226)	(1,505)	(108,731)
Deferred Tax Assets	44,040	(7,475)	36,565
<b>Net Income</b>	<b>231,818</b>	<b>(1,183)</b>	<b>230,635</b>
<b>Earnings per Share - (Basic/Diluted) - in R\$</b>	<b>2.68</b>	<b>(0.01)</b>	<b>2.67</b>

STATEMENTS OF CHANGES IN EQUITY	01.01.2018			06.30.2018		
	Originally stated	Adjustment	Adjusted	Opening balance <sup>(1)</sup>	Adjustment	Restated
Equity	3,750,711	19,343	3,770,054	3,772,385	211,996	3,984,381
Revaluation Reserve	11,769	2,254	14,023	11,592	2,416	14,008
Equity Adjustments	(850,954)	-	(850,954)	(939,768)	132,821	(806,947)
Retained Earnings (Accumulated Losses)	60,870	17,089	77,959	77,959	(1,200) <sup>(2)</sup>	76,759

<sup>(1)</sup> The opening balance is set up at the adjusted amount increased by changes for the 1<sup>st</sup> half of 2018.

<sup>(2)</sup> Adjustment according to CMN Resolution No. 4535, Net of Tax Effects.

STATEMENTS OF CASH FLOWS	01.01.2018			06.30.2018		
	Restated	Adjustment	Restated	Originally stated	Adjustment	Restated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
<b>Net Income for the Year</b>	<b>716,385</b>	-	<b>716,385</b>	<b>231,818</b>	<b>(1,183)</b>	<b>230,635</b>
Depreciation, Amortization and Depletion	39,835	-	39,835	15,234	(10,306)	4,928
Deferred Tax Assets	-	-	-	44,040	(80,605)	(36,565)
<b>Adjusted Net Income</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,187,834</b>	<b>(98,400)</b>	<b>1,089,434</b>
Other Credits <sup>(1)</sup>	157,857	208,674	366,531	(62,925)	109,369	46,444
Other Liabilities	5,416,384	158,196	5,574,580	3,131,447	(11,114)	3,120,333
Revaluation Reserve Reversal	407	-	407	-	145	145

<sup>(1)</sup> This includes restatement referring to monetary restatement of appeal deposits, amounting to R\$6,306.

STATEMENTS OF VALUE ADDED	06.30.2018		
	Originally stated	Adjustment	Restated
Retentions	(15,234)	10,306	(4,928)
Depreciation, Amortization and Depletion	(15,234)	10,306	(4,928)
<b>TAXES, RATES AND CONTRIBUTIONS</b>	<b>475,675</b>	<b>11,489</b>	<b>487,274</b>
Federal	458,152	11,489	469,641
<b>EQUITY REMUNERATION</b>	<b>231,818</b>	<b>(1,183)</b>	<b>230,635</b>
<b>RETAINED PROFITS IN THE PERIOD</b>	<b>178,281</b>	<b>(1,183)</b>	<b>177,098</b>

STATEMENT OF COMPREHENSIVE INCOME	06.30.2018		
	Originally stated	Adjustment	Restated
Net Income	231,818	(1,183)	230,635
<b>Other Comprehensive Income</b>	<b>59,167</b>	<b>(15,000)</b>	<b>44,167</b>
Revaluation Reserve	(145)	(17)	(162)
Tax Effect on Actuarial Gains or Losses	(59,609)	(14,983)	(74,592)
<b>Comprehensive Income</b>	<b>290,985</b>	<b>(16,183)</b>	<b>274,802</b>

#### NOTE 4 - Segment Reporting

For management purposes, the Bank is organized into two operating segments based on products and services:

- Own Portfolio - comprises own portfolio products and services such as: lending and market operations, fund management and provision of other banking services and collaterals; and
- FNE - comprises loans within the scope of FNE.

Bank management manages operating income separately in order to make decisions on the fund allocation and performance assessment. The performance of each segment is assessed based on the financial margin plus bank fees.

For the periods ended 06.30.2019 and 06.30.2018, no revenue from transactions with one single customer accounted for 10% or more of the Bank's total revenue.

The table below shows information on revenues, costs, expenses and financial margin of operating segments. Administrative expenses, as well as other expenses not directly allocated to each operating segment, are classified as corporate expenses and were included in column "Total":

Specification	01.01 to 06.30.2019			01.01 to 06.30.2018 Restated		
	Own portfolio	FNE	Total	Own portfolio	FNE	Total
<b>Revenues</b>	<b>2,303,954</b>	<b>1,590,133</b>	<b>3,894,087</b>	<b>2,136,469</b>	<b>1,482,170</b>	<b>3,618,639</b>
Income From Loans	1,319,292	-	1,319,292	931,527	-	931,527
Gain (Loss) on securities transactions	587,034	821,170	1,408,204	524,353	824,194	1,348,547
Gains (losses) on derivative financial instruments	47,343	-	47,343	156,219	-	156,219
Foreign exchange gain (loss)	69,486	-	69,486	220,038	-	220,038
Compulsory investment gain (loss)	12,805	-	12,805	12,508	-	12,508
Other revenues	267,994	768,963	1,036,957	291,824	657,976	949,800
<b>Expenses</b>	<b>(779,255)</b>	<b>(973,242)</b>	<b>(1,752,497)</b>	<b>(1,146,316)</b>	<b>(1,220,858)</b>	<b>(2,367,174)</b>
Open market expenses	(489,654)	-	(489,654)	(564,181)	-	(564,181)
Expenses on borrowings and onlending	(73,102)	(831,231)	(904,333)	(357,990)	(814,079)	(1,172,069)
Allowance for loan losses (Note 9.e and 19.g)	(216,499)	(142,011)	(358,510)	(224,145)	(406,772)	(630,917)
Proagro provision receivable	-	-	-	-	(7)	(7)
<b>Financial margin</b>	<b>1,524,699</b>	<b>616,891</b>	<b>2,141,590</b>	<b>990,153</b>	<b>261,312</b>	<b>1,251,465</b>
Service revenues	308,083	924,932	1,233,015	278,185	902,395	1,180,580
Income from fees, charges and commissions	44,745	-	44,745	36,379	-	36,379
<b>Pasep and Cofins</b>	<b>(45,816)</b>	<b>(111,479)</b>	<b>(157,295)</b>	<b>(28,842)</b>	<b>(106,509)</b>	<b>(135,351)</b>
<b>Income after fees and commissions</b>	<b>1,831,711</b>	<b>1,430,344</b>	<b>3,262,055</b>	<b>1,275,875</b>	<b>1,057,198</b>	<b>2,333,073</b>
<b>Administrative expenses</b>			<b>(1,621,279)</b>			<b>(1,565,376)</b>
Personnel expenses			(999,790)			(942,990)
Depreciation and amortization			(5,736)			(4,928)
Other administrative expenses			(615,753)			(617,452)
<b>Other expenses</b>			<b>(392,095)</b>			<b>(265,434)</b>
<b>Expenses with provisions, except allowance for loan losses</b>			<b>(84,679)</b>			<b>(53,068)</b>
<b>Income before taxation and profit sharing</b>			<b>1,164,002</b>			<b>449,195</b>
Income Tax and Social Contribution			(372,895)			(204,500)
Profit sharing			(46,330)			(14,060)
<b>Net Income</b>			<b>744,777</b>			<b>230,635</b>

## NOTE 5 - Cash and Cash Equivalents

Specification	06.30.2019	06.30.2018
Cash and cash equivalents in local currency	99,029	95,149
Cash and cash equivalents in foreign currency	7,297	6,458
<b>Total cash and cash equivalents</b>	<b>106,326</b>	<b>101,607</b>
Interbank investments <sup>(1)</sup>	6,830,926	12,834,335
<b>Total cash and cash equivalents</b>	<b>6,937,252</b>	<b>12,935,942</b>

<sup>(1)</sup> Transactions whose maturity on the effective investment date is within 90 days.

## NOTE 6 - Interbank investments

### a) Breakdown

Specification	06.30.2019	06.30.2018
<b>a) Open market investments</b>	<b>6,830,926</b>	<b>12,948,148</b>
Resale agreements pending settlement	6,830,926	12,834,335
Resale agreements pending settlement - Financed position	-	113,813
<b>b) Interbank deposit investments</b>	<b>209,451</b>	<b>212,482</b>
Investments in foreign currencies	43,477	47,838
Interbank deposit investments	165,974	164,644
<b>Total</b>	<b>7,040,377</b>	<b>13,160,630</b>
Short-term	7,040,377	13,160,630

### b) Income from interbank investments

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018
<b>a) Income from open market investments (Note 7.b)</b>	<b>226,668</b>	<b>406,951</b>
Self-funded position	222,816	403,555
Financed position	3,852	3,396
<b>b) Income from interbank deposit investments (Note 7.b)</b>	<b>3,624</b>	<b>4,090</b>
<b>Total</b>	<b>230,292</b>	<b>411,041</b>

**NOTE 7 - Securities and derivative financial instruments**

**a) Securities**

The restated cost (plus income earned) and the market value of securities are as follows:

**a.1) Securities portfolio**

Securities available for sale	06.30.2019									06.30.2018	
	Market value					Maturity	Cost value	Market/ book value	Market adjustment	Market/ book value	Market adjustment
	No maturity	0 to 30 days	31 to 180 days	181 to 360 days	Over 360 days						
<b>Fixed Income Securities</b>	<b>13,000</b>	-	2,574	-	<b>37,254,409</b>		<b>37,202,692</b>	<b>37,269,983</b>	<b>67,291</b>	<b>29,245,394</b>	<b>(659,086)</b>
Financial Treasury Bills (LFT)	-	-	-	-	33,267,223	From 2020 to 2025	33,264,508	33,267,223	2,715	27,119,516	2,009
National Treasury Notes (NTN)	-	-	-	-	3,004,345	From 2050 to 2055	2,293,751	3,004,345	710,594	1,277,255	(7,204)
Financial Bills	-	-	-	-	855,986	From 2020 to 2022	893,325	855,986	(37,339)	757,214	(7,312)
Debentures	13,000	-	2,549	-	123,607	From 2019 to 2041	709,789	139,156	(570,633)	87,561	(610,836)
Federal Government Securities - FCVS	-	-	-	-	3,177	2027	3,820	3,177	(643)	3,617	(733)
Federal Government Securities - Other	-	-	-	-	-	1993	37,382	-	(37,382)	-	(34,960)
Agrarian Debt Securities (TDAs)	-	-	25	-	71	From 2019 to 2022	117	96	(21)	231	(50)
<b>Investment Fund Shares</b>	<b>370</b>	-	-	-	<b>80</b>		<b>2,055</b>	<b>450</b>	<b>(1,605)</b>	<b>404</b>	<b>(1,605)</b>
Social Development Funds (FDS)	-	-	-	-	-	No maturity	1,605	-	(1,605)	-	(1,605)
Investment Guarantee Fund (FGI)	335	-	-	-	80	No maturity	415	415	-	377	-
Operation Guarantee Fund (FGO)	35	-	-	-	-	No maturity	35	35	-	27	-
<b>Variable Income Securities</b>	<b>50,039</b>	-	-	-	-		<b>23,241</b>	<b>50,039</b>	<b>26,798</b>	<b>17,721</b>	<b>(4,526)</b>
Other Tax Incentives (FINOR)	194	-	-	-	-	No maturity	109	194	85	187	78
Shares Issued by Publicly-Held Companies	49,845	-	-	-	-	No maturity	23,132	49,845	26,713	17,534	(4,604)
<b>Security Deposits<sup>(1)</sup></b>	-	-	<b>4,445</b>	-	<b>708,864</b>		<b>713,452</b>	<b>713,309</b>	<b>(143)</b>	<b>439,068</b>	<b>(332)</b>
Financial Treasury Bills (LFT)	-	-	-	-	708,864	From 2020 to 2025	708,050	708,864	814	426,749	493
Federal Government Securities - Other	-	-	-	-	-	1993	946	-	(946)	-	(885)
Debentures	-	-	4,445	-	-	2019	4,456	4,445	(11)	12,319	60
<b>Total of Category</b>	<b>63,409</b>	-	<b>7,019</b>	-	<b>37,963,353</b>		<b>37,941,440</b>	<b>38,033,781</b>	<b>92,341</b>	<b>29,702,587</b>	<b>(665,549)</b>
Tax Credit (Note 10.d and Note 20.c)									264,341		273,461
Provision for Deferred Taxes and Contributions (Note 20.d)									(299,280)		(5,070)
<b>Total Market Value Adjustment</b>									<b>57,402</b>		<b>(397,158)</b>

<sup>(1)</sup>Breakdown: Guarantees on Stock Exchange Transactions R\$521,191 (R\$262,482 at 06.30.2018); Guarantees on Clearing House Association Transactions R\$3,176 (R\$2,986 at 06.30.2018); Guarantees on Legal Proceedings R\$160,193 (R\$146,569 at 06.30.2018); and Other Guarantees R\$28,748 (R\$27,030 at 06.30.2018).

Account "Federal Government Securities - Other" under items Fixed Income Securities and Security Deposits records cash investments in government securities named by the National Treasury as NUCL910801, maturing on 08.31.1993, but not yet redeemed by the National Treasury. These securities record a full devaluation due to their maturity, without, however, falling under the concept of Permanent Loss, as provided by Bacen Circular Letter No. 3068 of 11.08.2001.

In view of the classification of assets under "Available-for-Sale Securities", the amount of R\$92,341 ((R\$665,549) at 06.30.2018) are recorded in the Bank's Equity under "Market Value Adjustments" account. Such adjustment, net of taxes, corresponds to R\$57,402 ((R\$397,158) at 06.30.2018).

Securities Held to Maturity	06.30.2019							06.30.2018	
	Cost value				Maturity	Cost (book) value	Market value <sup>(1)</sup>	Cost (book) value	Market value <sup>(1)</sup>
	0 to 30 days	31 to 180 days	181 to 360 days	Over 360 days					
<b>Fixed Income Securities</b>	-	<b>14,302</b>	<b>12,414</b>	<b>225,141</b>		<b>251,858</b>	<b>225,186</b>	<b>217,505</b>	<b>140,709</b>
National Treasury Notes (NTN) - P	-	-	-	182,247	2030	182,247	155,575	171,792	94,996
Investment Fund Shares - Criatec	-	14,302	-	-	2019	14,302	14,302	8,799	8,799
Investment Fund Shares - Criatec II	-	-	-	13,975	2023	13,975	13,975	12,926	12,926
Investment Fund Shares - Criatec III	-	-	-	2,965	2025	2,965	2,965	1,369	1,369
FIP Brasil Agronegócios	-	-	12,414	-	2020	12,414	12,414	13,404	13,404
Nordeste III FIP	-	-	-	25,954	2023	25,955	25,955	9,215	9,215
<b>Total of Category</b>	-	<b>14,302</b>	<b>12,414</b>	<b>225,141</b>		<b>251,858</b>	<b>225,186</b>	<b>217,505</b>	<b>140,709</b>

<sup>(1)</sup>The market values described above are for illustrative purposes only, and no accounting record has been made in this respect, as required by Bacen Circular Letter No. 3068 of 11.08.2001.

- a.2) In the period, there were no reclassifications of securities into the categories above, and no Held-to-Maturity Securities were sold.
- a.3) Bank Management states that the institution has the financial capacity and the intention to keep these securities held under this category until maturity.

#### b) Gain (loss) on Securities

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018
Open Market Investments (Note 6.b)	226,668	406,951
Interbank Deposit Investments (Note 6.b)	3,624	4,090
Fixed Income Securities	1,177,719	937,326
Variable Income Securities	193	180
<b>Total</b>	<b>1,408,204</b>	<b>1,348,547</b>

#### c) Derivative financial instruments

The Bank operates under a conservative investment policy focused on investing strictly in compliance with the maturity terms and rates established by the respective sources of funds in order to avoid any mismatching among assets and liabilities in terms of maturities, interest rates and applicable indexes. At 06.30.2019, the Bank has no swap transactions, since the contracts expired on 05.03.2019.

Specification	06.30.2018	
	Differential receivable	Differential payable
Within 3 months	-	-
From 3 to 12 months	580,449	84
1 to 3 years	-	-
<b>Total</b>	<b>580,449</b>	<b>84</b>

#### c.1) Derivative Financial Instruments classified as Market Risk Hedge (Hedge Accounting)

Specification	06.30.2018				
	Curve value		Market value		Market value adjustment
Hedging Instruments	Assets - dollar	Liabiliti es - CDI	Assets - dollar	Liabiliti es - CDI	
Swap - Foreign currency - Long position	1,164,753	584,851	1,165,216	584,851	463
Hedged Item	Curve value <sup>(1)</sup>		Market value <sup>(1)</sup>		Market value adjustment
Eurobonds - Senior Unsecured Notes	1,164,753		1,165,221		
Tax Credit (Note 10.d and Note 20.c)					187

<sup>(1)</sup> Net of tax effects at source in the amount of R\$1,145, at 06.30.2018, on the transaction interest.

The transactions with derivative financial instruments for hedging purposes were assessed as effective under Bacen Circular Letter No. 3082 of 01.30.2002, based on the financial flows (principal and interest) of the hedged item, Eurobonds - Senior Unsecured Notes, and of hedging instruments (swap contracts).

#### d) Gain (loss) on Derivative Financial Instruments

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018
Swap	47,343	156,219
<b>Total</b>	<b>47,343</b>	<b>156,219</b>

### NOTE 8 - Linked Credits

#### a) Linked Credits

Specification	06.30.2019			06.30.2018		
	Gross amount	Provision	Net amount	Gross amount	Provision	Net amount
Mandatory Payments - Savings Deposits	477,025	-	477,025	467,062	-	467,062
Compulsory Reserves - Cash Funds	10,128	-	10,128	99,312	-	99,312
National Housing System (SFH)	80,963	(8,326)	72,637	76,811	(8,229)	68,582
<b>Total</b>	<b>568,116</b>	<b>(8,326)</b>	<b>559,790</b>	<b>643,185</b>	<b>(8,229)</b>	<b>634,956</b>
Short-term	487,153	-	487,153	566,374	-	566,374
Long-term	80,963	(8,326)	72,637	76,811	(8,229)	68,582

## b) Compulsory investment gain/loss

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018
Income from Linked Credits - Central Bank of Brazil	10,750	10,565
Income from Linked Credits - SFH	2,104	1,990
Appreciation (Depreciation) of Linked Credits	(49)	(47)
<b>Total</b>	<b>12,805</b>	<b>12,508</b>

## NOTE 9 - Loan Portfolio and Allowance for Loan Losses

### a) Loan portfolio and Allowance for Loan Losses

Specification	06.30.2019		06.30.2018	
	Gross amount	Allowance	Gross amount	Allowance
<b>Loans</b>	<b>9,611,721</b>	<b>(628,062)</b>	<b>9,543,428</b>	<b>(722,717)</b>
Short-term	4,642,593	(290,139)	4,627,354	(525,573)
Long-term	4,969,128	(337,923)	4,916,074	(197,144)
<b>Other Accounts with Loan Features</b>	<b>938,080</b>	<b>(50,640)</b>	<b>902,668</b>	<b>(8,351)</b>
Short-term	920,889	(50,640)	902,492	(8,351)
Long-term	17,191	-	176	-
<b>Total</b>	<b>10,549,801</b>	<b>(678,702)</b>	<b>10,446,096</b>	<b>(731,068)</b>

### a.1) Breakdown of Loan Portfolio

Specification	06.30.2019	06.30.2018
Advances to Depositors	587	1,464
Loans	4,540,124	4,406,023
Discounted Credit Notes	7,174	17,689
Financing	1,538,023	1,710,245
Financing in Foreign Currency	24,726	53,946
Agribusiness Financing	5,517	6,364
Rural Financing	1,381,550	1,365,718
Infrastructure and Development Financing	2,114,020	1,981,979
<b>Loans subtotal</b>	<b>9,611,721</b>	<b>9,543,428</b>
Income Receivable from Advances Granted	33,750	32,990
Debtors for Purchase of Assets	16,056	496
Notes and credits receivable (Note 10.d)	45,854	46,655
Advances on Exchange Contracts (ACC) <sup>(1)</sup> (Note 11.a)	842,420	822,527
<b>Other Accounts with Loan Features Subtotal</b>	<b>938,080</b>	<b>902,668</b>
<b>Total</b>	<b>10,549,801</b>	<b>10,446,096</b>

<sup>(1)</sup>Accounts classified as "Other Obligations/ Foreign Exchange Portfolio".

### a.2) Income from Loans

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018
Loans and Discounted Credit Notes	538,921	421,463
Financing	210,851	315,195
Agribusiness Financing	508	704
Rural Financing	331,609	138,845
Recovery of Loans Written off as Losses	237,403	55,320
<b>Total</b>	<b>1,319,292</b>	<b>931,527</b>

## b) Breakdown by Maturity

### b.1) Current Loans <sup>(1)</sup>

Type of Customer/Activity	01 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Over 360 days	Total at 06.30.2019	Total at 06.30.2018
Rural	2,575	10,416	2,565	20,258	32,068	1,283,673	1,351,555	1,329,221
Manufacturing	51,375	69,666	75,792	554,857	142,410	1,428,160	2,322,260	2,470,859
Government	11,118	11,118	36,301	33,622	44,119	381,253	517,531	703,586
Other Services	117,087	104,155	82,744	259,841	163,552	1,530,388	2,257,767	1,903,972
Trade	804,080	728,393	550,610	964,888	283,438	187,117	3,518,526	3,208,077
Financial Brokers	63	63	64	187	389	11,771	12,537	811
Housing	-	-	-	-	-	-	-	240
Individuals	24,713	10,920	7,153	13,088	10,811	9,517	76,202	83,134
<b>Total at 06.30.2019</b>	<b>1,011,011</b>	<b>934,731</b>	<b>755,229</b>	<b>1,846,741</b>	<b>676,787</b>	<b>4,831,879</b>	<b>10,056,378</b>	
<b>Total at 06.30.2018</b>	<b>914,370</b>	<b>839,051</b>	<b>817,630</b>	<b>1,657,555</b>	<b>789,658</b>	<b>4,681,636</b>		<b>9,699,900</b>

<sup>(1)</sup>Include loans overdue up to 14 days.



## b.2) Past due loans

Falling due installments								
Type of Customer/Activity	01 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Over 360 days	Total at 06.30.2019	Total at 06.30.2018
Rural	18	22	25	381	238	89	773	2,789
Manufacturing	2,444	2,235	2,161	6,332	11,974	97,743	122,889	131,749
Government	-	-	-	-	-	-	-	634
Other Services	5,804	4,143	3,598	8,891	13,649	33,677	69,762	133,627
Trade	23,144	11,560	8,390	14,273	13,842	22,102	93,311	153,929
Financial Brokers	2	2	2	5	9	21	41	-
Individuals	305	263	212	588	681	1,398	3,447	3,957
<b>Total at 06.30.2019</b>	<b>31,717</b>	<b>18,225</b>	<b>14,388</b>	<b>30,470</b>	<b>40,393</b>	<b>155,030</b>	<b>290,223</b>	
<b>Total at 06.30.2018</b>	<b>27,781</b>	<b>21,471</b>	<b>18,553</b>	<b>47,830</b>	<b>75,642</b>	<b>235,408</b>		<b>426,685</b>

Past due installments									
Type of Customer/Activity	01 to 14 days	15 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Over 360 days <sup>(1)</sup>	Total at 06.30.2019	Total at 06.30.2018
Rural	-	264	14	37	249	406	33,767	34,737	40,071
Manufacturing	587	8,836	24,195	645	1,371	1,172	6	36,812	58,802
Government	-	-	-	-	-	-	-	-	24
Other Services	2,867	3,194	4,088	3,541	6,596	8,143	505	28,934	107,226
Trade	16,186	11,675	14,084	10,234	22,676	20,555	79	95,489	104,179
Financial Brokers	1	-	1	1	2	3	-	8	7
Individuals	48	755	841	855	1,935	2,752	34	7,220	9,202
<b>Total at 06.30.2019</b>	<b>19,689</b>	<b>24,724</b>	<b>43,223</b>	<b>15,313</b>	<b>32,829</b>	<b>33,031</b>	<b>34,391</b>	<b>203,200</b>	
<b>Total at 06.30.2018</b>	<b>12,303</b>	<b>28,987</b>	<b>50,277</b>	<b>20,949</b>	<b>109,370</b>	<b>57,474</b>	<b>40,151<sup>(1)</sup></b>		<b>319,511</b>

<sup>(1)</sup> These include amounts referring to loans taken out based on CMN Resolution No. 2471 of 02.26.1998 and classified under Current Assets in the Balance Sheet.

## c) Breakdown by Risk Level

Risk Level	06.30.2019				06.30.2018			
	Current loan <sup>(1)</sup>	Past due loan	Total portfolio	Allowance	Current loan <sup>(1)</sup>	Past due loan	Total portfolio	Allowance
AA	3,371,612	-	3,371,612	-	3,581,911	-	3,581,911	-
A	4,917,327	-	4,917,327	(24,587)	4,525,625	-	4,525,625	(22,628)
B	686,274	57,231	743,505	(7,435)	933,250	40,142	973,392	(9,734)
C	539,316	40,156	579,472	(17,384)	323,544	76,123	399,667	(11,990)
D	156,006	31,313	187,319	(18,732)	146,344	38,411	184,755	(18,476)
E	29,320	26,688	56,008	(16,803)	21,965	45,692	67,657	(20,297)
F	89,254	88,010	177,264	(88,632)	15,097	66,662	81,759	(40,879)
G	13,833	26,717	40,550	(28,385)	47,141	33,744	80,885	(56,620)
H	253,436	223,308	476,744	(476,744)	105,023	445,422	550,445	(550,445)
<b>Total</b>	<b>10,056,378</b>	<b>493,423</b>	<b>10,549,801</b>	<b>(678,702)</b>	<b>9,699,900</b>	<b>746,196</b>	<b>10,446,096</b>	<b>(731,068)</b>

<sup>(1)</sup> These include loans overdue up to 14 days.

## d) Changes in the Allowance for the period

Specification	06.30.2019	06.30.2018
Opening Balance of Allowance for Losses on Loan Portfolio	627,659	950,848
(+) Allowance Recognized/(Reversed) for the Period	216,555	223,686
(-) Loans Written off as Loss for the Period	(165,512)	(443,466)
<b>(=) Net Allowance for Losses on Loan Portfolio</b>	<b>678,702</b>	<b>731,068</b>
Opening Balance of Allowance for Losses on other Credits without Loan Features	27,848	27,238
(+) Allowance Recognized for the Period	18	609
(-) Reversal of Allowance for the Period	(74)	(150)
<b>(=) Net Allowance for Losses on Other Credits without Loan Features (Note 10.e)</b>	<b>27,792</b>	<b>27,697</b>
<b>(=) Balance of Allowance for Loan Losses</b>	<b>706,494</b>	<b>758,765</b>

## e) Breakdown of the Allowance Expense Balance

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018
(+) Expenses with Allowance for Loan Losses	176,265	218,917
(+) Expenses with Allowance for Losses on Other Credits	40,974	4,769
(-) Reversal of Operating Provisions	(684)	-
<b>(=) Balance of Expenses with Allowance for Losses on Other Credits with Loan Features</b>	<b>216,555</b>	<b>223,686</b>
(+) Allowance for Losses on Other Credits without Loan Features	-	609
(-) Reversals of Allowances for Other Credits without Loan Features	(56)	(150)
<b>(=) Balance of Expenses with Allowance for Loan Losses (Note 4)</b>	<b>216,499</b>	<b>224,145</b>

**f) Financial Guarantees Provided**

Specification	06.30.2019		06.30.2018	
	Balance	Provision	Balance	Provision
Other Bank Guarantees	-	-	450	-
<b>Public Sector</b>	<b>25,868,319</b>	<b>(2,830,110)</b>	<b>21,779,951</b>	<b>(3,196,136)</b>
FDNE (Note 16.i and Note 21.f.2)	135,274	(1,263)	129,252	(3,417)
FNE (Note 16.i and Note 21.f.2)	25,722,673	(2,828,840)	21,650,162	(3,192,712)
Proagro (Note 16.i and Note 21.f.2)	10,372	(7)	537	(7)

**g) Loan Concentration**

Specification	06.30.2019		06.30.2018	
	Balance	% of portfolio	Balance	% of portfolio
10 Major debtors	2,049,007	19.42	2,177,523	20.85
50 Major debtors	4,255,226	40.33	4,266,027	40.84
100 Major debtors	4,867,771	46.14	4,886,110	46.77

In the 1<sup>st</sup> half of 2019, credits that had been written off as loss were recovered in the amount of R\$237,403 (R\$55,320 at 06.30.2018) and renegotiations amounted to R\$217,583 (R\$141,580 at 06.30.2018).

**NOTE 10 - Other Credits**

Specification	06.30.2019	06.30.2018 Restated
<b>a) Foreign Exchange Portfolio (Note 11.a)</b>	<b>905,005</b>	<b>1,015,405</b>
<b>b) Income Receivable</b>	<b>21,172</b>	<b>21,699</b>
<b>c) Securities Trading</b>	<b>20</b>	<b>12</b>
<b>d) Sundry</b>	<b>3,551,742</b>	<b>3,548,789</b>
Tax Credits on ALL, RAP, Provisions for Contingencies and PID (Note 20.c)	1,198,191	1,484,027
Tax Credits on Actuarial Provisions (Note 20.c)	1,144,709	700,985
Tax Credits on Securities, Derivative Financial Instruments and Hedged Item (Notes 7.a.1, 7.c.1 and 20.c)	264,341	273,682
Debtors for Escrow Deposits	440,341	384,738
Taxes and Contributions to be Offset	186,003	179,095
Tax incentive options	26,748	26,748
Notes and Credits Receivable (Note 9.a.1)	45,854	46,655
Advances and Early Salary Payments	36,728	36,402
Payments to be Refunded	2,518	14,277
Amounts Receivable - Bonus/Rebates	92,561	299,509
Other amounts	113,748	102,671
<b>e) Allowance for Losses on Other Credits</b>	<b>(78,432)</b>	<b>(36,048)</b>
Credits with Loan Features	(50,640)	(8,351)
Credits without Loan Features (Note 9.d)	(27,792)	(27,697)
<b>Total</b>	<b>4,399,507</b>	<b>4,549,857</b>
Short-term	1,768,980	2,299,466
Long-term	2,630,527	2,250,391

**NOTE 11 - Foreign Exchange Portfolio**

**a) Breakdown**

Specification	06.30.2019	06.30.2018
<b>Assets - Other Credits (Note 10.a)</b>	<b>905,005</b>	<b>1,015,405</b>
Exchange Purchased to be Settled	867,397	964,183
Rights on Exchange Sales	6,548	21,866
Advances Received in Local Currency	(2,690)	(3,634)
Income Receivable from Advances Granted	33,750	32,990
<b>Current Assets (Note 10.a)</b>	<b>905,005</b>	<b>1,015,405</b>
<b>Liabilities - Other Obligations (Note 16.b)</b>	<b>10,311</b>	<b>29,726</b>
Exchange Purchase Obligations	846,213	830,365
Exchange Sold to be Settled	6,517	21,887
(Advances on Exchange Contracts - ACC) (Note 9.a.1)	(842,420)	(822,527)
Other Amounts	1	1
<b>Current Liabilities (Note 16.b)</b>	<b>10,311</b>	<b>29,726</b>

**b) Foreign Exchange Gains (Losses)**

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018
Exchange Income	69,789	220,483
Exchange Expenses	(303)	(445)
<b>Total</b>	<b>69,486</b>	<b>220,038</b>

## NOTE 12 - Permanent Assets

### a) Investments

Specification	12.31.2018	01.01.2019 to 06.30.2019		06.30.2019	
	Accounting balance	Changes		Cost Value	Accounting Balance
		Additions	Write-offs		
Shares and Units of Interest	331	-	-	331	331
Artworks and Valuables	1,260	1	-	1,261	1,261
<b>Total</b>	<b>1,591</b>	<b>1</b>	<b>-</b>	<b>1,592</b>	<b>1,592</b>

### b) Property and Equipment

Specification	12.31.2018	01.01.2019 to 06.30.2019			06.30.2019		
	Restated Accounting Balance	Changes			Cost Value	Accumulated Depreciation	Accounting Balance
		Additions	Write-offs	Depreciation			
Buildings	79,826	3,259	-	(828)	262,567	(180,310)	82,257
Data Processing System	76,477	5,677	(236)	(3,210)	175,721	(97,013)	78,708
Furniture and Equipment in use	33,378	2,237	(131)	(1,240)	80,348	(46,104)	34,244
Land	17,576	-	-	-	17,576	-	17,576
Facilities	5,350	401	(6)	(53)	19,277	(13,585)	5,692
Communication System	50	62	(3)	(4)	309	(204)	105
Security System	7,348	62	(18)	(166)	18,207	(10,981)	7,226
Transportation System	236	19	-	(234)	14,351	(14,330)	21
<b>Total</b>	<b>220,241</b>	<b>11,717</b>	<b>(394)</b>	<b>(5,735)</b>	<b>588,356</b>	<b>(362,527)</b>	<b>225,829</b>

### c) Intangible assets

Specification	12.31.2018	01.01.2019 to 06.30.2019			06.30.2019	
	Accounting Balance	Changes			Cost Value	Accounting Balance
		Additions	Write-offs	Amortization		
Spending on Intangible Assets under Development	19,948	-	(19,385)	-	563	563
<b>Total</b>	<b>19,948</b>	<b>-</b>	<b>(19,385)</b>	<b>-</b>	<b>563</b>	<b>563</b>

In the 1<sup>st</sup> half of 2019, there was the write-off, due to impairment, of the Asset that allocated the license acquisition costs for the use of ERP software, measured adopted by the Bank management in view of the result of a study conducted over the six-month period, through which the conclusion was that there is no expected generation of future economic benefits with its use or disposal.

**NOTE 13 - Deposits, Open Market Funding, Funds from Acceptance and Issue of Securities, Debt Instruments Eligible to Capital and Subordinated Debts**

**a) Breakdown of Deposits, Funds from Acceptance and Issue of Securities, Debt Instruments Eligible to Capital and Subordinated Debts by Maturity**

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 at 06.30.2019	Total at 06.30.2018
<b>Demand Deposits</b>	<b>427,855</b>	-	-	-	-	-	<b>427,855</b>	<b>238,300</b>
<b>Savings Deposits</b>	<b>2,491,531</b>	-	-	-	-	-	<b>2,491,531</b>	<b>2,255,666</b>
<b>Interbank Deposits</b>	<b>518,898</b>	<b>747,962</b>	-	-	-	-	<b>1,266,860</b>	<b>1,477,621</b>
<b>Time Deposits</b>	<b>603,985</b>	<b>1,475,774</b>	<b>3,431,058</b>	<b>1,580,097</b>	<b>1,061,183</b>	<b>30,310</b>	<b>8,182,407</b>	<b>7,886,445</b>
Time Deposits	234,369	1,459,496	1,699,084	1,488,973	936,158	30,310	5,848,390	5,445,722
Interest-Yielding Judicial Deposits	354,121	-	-	-	-	-	354,121	537,503
Finor/Cash and Cash Equivalents and Reinvestments - Law No. 8167	-	-	1,731,974	91,124	91,125	-	1,914,223	1,726,495
FAT - Funds Available	4,881	2,172	-	-	-	-	7,053	32,838
FAT -Funds Applied	10,614	9,525	-	-	-	-	20,139	101,279
Other	-	4,581	-	-	33,900	-	38,481	42,608
<b>Funds from Acceptance and Issue of Securities</b>	<b>34,854</b>	<b>106,710</b>	-	-	-	-	<b>141,564</b>	<b>1,333,220</b>
Eurobonds - Senior Unsecured Notes	-	-	-	-	-	-	-	1,166,366
Agribusiness Credit Bills (LCA)	34,854	104,638	-	-	-	-	139,492	166,854
Financial Bills	-	2,072	-	-	-	-	2,072	-
<b>Debt Instruments Eligible to Capital</b>	-	-	-	-	-	1,801,040	<b>1,801,040</b>	<b>1,000,000</b>
<b>Subordinated Debts</b>	-	-	-	-	-	2,458,014	<b>2,458,014</b>	<b>2,282,604</b>
<b>Total at 06.30.2019</b>	<b>4,077,123</b>	<b>2,330,446</b>	<b>3,431,058</b>	<b>1,580,097</b>	<b>1,061,183</b>	<b>4,289,364</b>	<b>16,769,271</b>	
<b>Total at 06.30.2018</b>	<b>3,702,365</b>	<b>3,927,510</b>	<b>3,871,940</b>	<b>675,852</b>	<b>996,038</b>	<b>3,300,151</b>		<b>16,473,856</b>

## b) Deposits

Specification	06.30.2019	06.30.2018
<b>Demand Deposits</b>	<b>427,855</b>	<b>238,300</b>
Government Deposits	7,121	11,703
Linked Deposits	186,332	67,465
Legal Entities	190,819	120,403
Individuals	42,715	37,811
Other Amounts	868	918
<b>Savings Deposits</b>	<b>2,491,531</b>	<b>2,255,666</b>
Free Savings Deposits - Individuals	1,620,140	1,526,279
Free Savings Deposits - Legal entities	870,577	728,662
From Related Parties and Financial System Institutions	814	725
<b>Interbank Deposits</b>	<b>1,266,860</b>	<b>1,477,621</b>
<b>Time Deposits</b>	<b>8,182,407</b>	<b>7,886,445</b>
Time Deposits	5,848,390	5,445,722
Interest-Yielding Judicial Deposits	354,121	537,503
<b>Other Time Deposits</b>	<b>1,979,896</b>	<b>1,903,220</b>
<b>Interest-Yielding Special Deposits/FAT (Note 26 and Note 28.a.1)</b>	<b>27,192</b>	<b>134,117</b>
<b>Funds Available (Note 26)</b>	<b>7,053</b>	<b>32,838</b>
Proger Urbano	23	391
Protrabalho	1,698	2,014
Infrastructure	-	22,624
PNMPO	5,332	7,809
<b>Funds Applied (Note 26)</b>	<b>20,139</b>	<b>101,279</b>
Proger Urbano	-	10,169
Protrabalho	18,155	24,218
Infrastructure	-	3,260
PNMPO	1,984	63,632
<b>Finor/Cash and Cash Equivalents and reinvestments (Law No. 8167/91)</b>	<b>1,914,223</b>	<b>1,726,495</b>
<b>Other Amounts</b>	<b>38,481</b>	<b>42,608</b>
<b>Total</b>	<b>12,368,653</b>	<b>11,858,032</b>
Short-term	6,266,000	6,296,602
Long-term	6,102,653	5,561,430

## c) Open Market Funding

Specification	06.30.2019	06.30.2018
<b>Own Portfolio</b>	<b>1,570,197</b>	<b>940,160</b>
Financial Treasury Bills (LFT)	1,570,197	940,160
<b>Third-party portfolio</b>	<b>-</b>	<b>113,813</b>
National Treasury Notes (NTN)	-	113,813
<b>Total</b>	<b>1,570,197</b>	<b>1,053,973</b>
Short-term	1,561,111	1,045,419
Long-term	9,086	8,554

## d) Expenses with Open Market Funding

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018
<b>Funding Expenses</b>	<b>(441,815)</b>	<b>(532,795)</b>
Time Deposits	(177,079)	(165,714)
Savings Deposits	(41,952)	(39,933)
Judicial Deposits	(8,810)	(17,091)
Interbank Deposits	(19,627)	(20,768)
Special Deposits	(54,199)	(55,255)
Funds from Acceptance and Issue of Securities	(134,875)	(228,161)
Other Deposits	(5,273)	(5,873)
<b>Expenses with Open Market Funding</b>	<b>(47,839)</b>	<b>(31,386)</b>
Third-Party Portfolio	(3,852)	(3,396)
Own Portfolio	(41,915)	(27,990)
Financial Bills	(2,072)	-
<b>Total</b>	<b>(489,654)</b>	<b>(564,181)</b>

## NOTE 14 - Borrowings and Onlending

### a) Borrowings and onlending by maturity

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 at 06.30.2019	Total at 06.30.2018
Foreign Borrowings	184,608	754,798	-	-	-	-	939,406	1,048,962
Domestic Onlending	25,597	89,736	289,395	312,603	438,568	41,354	1,197,253	1,252,853
Foreign Onlending	29,802	81,330	162,990	162,422	56,257	-	492,801	659,560
<b>Total at 06.30.2019</b>	<b>240,007</b>	<b>925,864</b>	<b>452,385</b>	<b>475,025</b>	<b>494,825</b>	<b>41,354</b>	<b>2,629,460</b>	
<b>Total at 06.30.2018</b>	<b>391,399</b>	<b>958,927</b>	<b>507,671</b>	<b>526,125</b>	<b>531,477</b>	<b>45,776</b>		<b>2,961,375</b>
Short-term							<b>1,165,871</b>	<b>1,350,326</b>
Long-term							<b>1,463,589</b>	<b>1,611,049</b>

### b) Domestic Onlending - Official Institutions

Specification	Annual restatement rate (%)	06.30.2019	06.30.2018
<b>National Treasury</b>	IGP - 7 + 2.00	<b>496</b>	<b>468</b>
<b>BNDES</b>		<b>1,139,528</b>	<b>1,178,135</b>
POC (credit facility granted by the BNDES agents to small and medium-sized companies to buy shares in capital increases)	Fixed rate 1.50 to 11.10/TJLP + 0.00 to 4.00/IPCA + 9.41/ Exc. var. + 2.00% to 4.00%	752,486	805,146
Credit Facility for Investment in Agriculture		387,042	372,989
<b>Finame</b>		<b>57,229</b>	<b>74,250</b>
"Programa Automático" (program for purchase of new machinery and equipment by companies based in Brazil)	Fixed rate 1.50 to 7.00/TJLP + 0.00 to 4.00/IPCA + 9.41/ Exc. var. + 2.00% to 4.00%	35,950	53,368
Agricultural Program		21,279	20,882
<b>Total (Note 28.a.1)</b>		<b>1,197,253</b>	<b>1,252,853</b>
Short-term		115,333	133,429
Long-term		1,081,920	1,119,424

### c) Borrowings

Specification	Annual restatement rate (%)	06.30.2019	06.30.2018
Foreign Borrowings/Foreign Currency Payables	USD	939,406	1,048,962
<b>Total</b>		<b>939,406</b>	<b>1,048,962</b>
Short-term		939,406	1,048,962

### d) Foreign onlending

Specification	Annual restatement rate (%)	06.30.2019	06.30.2018
BID-Prodetur I (Tourism Development Program with funds provided by the IDB)	USD + 4.51	55,582	167,763
BID-Prodetur II	USD + 3.52	432,032	485,434
BID - Other programs	USD + 3.52	5,187	6,363
<b>Total</b>		<b>492,801</b>	<b>659,560</b>
Short-term		111,132	167,935
Long-term		381,669	491,625

### e) Expenses with borrowings and onlending

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018
<b>Expenses with Onlending</b>	<b>(92,561)</b>	<b>(206,046)</b>
<b>Domestic onlending - Official Institutions in Brazil</b>	<b>(54,516)</b>	<b>(67,365)</b>
National Treasury	(15)	(19)
BNDES	(52,855)	(65,247)
Finame	(1,646)	(2,099)
<b>Foreign Onlending Expenses</b>	<b>(38,045)</b>	<b>(138,681)</b>
<b>Expenses on Onlending with Foreign Banks</b>	<b>(57,729)</b>	<b>(208,931)</b>
<b>Expenses with Financial and Development Funds</b>	<b>(754,043)</b>	<b>(757,092)</b>
<b>Total</b>	<b>(904,333)</b>	<b>(1,172,069)</b>

## NOTE 15 - Funds from Acceptance and Issue of Securities

### a) Liabilities for Foreign Securities

Specification	Funding date	Maturity	Annual interest (%)	Contractual amount in thousands of US dollars	Contractual amount at 06.30.2019	Market value at 06.30.2019	Market value at 06.30.2018 <sup>(2)</sup>
Eurobonds – Senior Unsecured Notes <sup>(1)</sup>	05.03.2012	05.03.2019	4.375	300,000	-	-	1,166,366
<b>Total</b>				-	-	-	<b>1,166,366</b>
Short-term						-	1,166,366
Long-term						-	-

<sup>(1)</sup> This obligation was settled on 05.03.2019.

<sup>(2)</sup> Considering tax effects.

According to Note 7.c.1, swap transactions conducted to hedge dollar-denominated liabilities against market fluctuations, arising from foreign funding, were classified as hedging accounting, and therefore the liabilities balances are adjusted to market value.

### b) Funds from Real Estate, Mortgage, Credit and Similar Notes

Specification	Annual interest (%)	Nominal value	06.30.2019	06.30.2018
Agribusiness Credit Bills (LCA) <sup>(1)</sup>	81.26	135,430	139,492	166,854
Financial Bills - contractual charges	-	-	2,072	-
<b>Total</b>			<b>141,564</b>	<b>166,854</b>
Short-term			141,564	166,787
Long-term			-	67

<sup>(1)</sup> Note with average maturity term of 148 days.

## NOTE 16 - Other Liabilities

Specification	06.30.2019	06.30.2018 Restated
<b>a) Collection and transfer of taxes and levies</b>	<b>113,798</b>	<b>83,879</b>
Funds from Proagro	53	996
Federal Taxes Received	111,434	80,448
Tax on Financial Transactions (IOF) payable	876	779
Other Taxes and Levies	1,435	1,656
<b>b) Foreign Exchange Portfolio (Note 11.a)</b>	<b>10,311</b>	<b>29,726</b>
<b>c) Social and Statutory</b>	<b>231,100</b>	<b>69,076</b>
Return on Capital Payable	184,229	53,705
Dividends	17,507	-
Interest on Equity (IOE)	166,722	53,705
Profit Sharing	46,871	15,371
<b>d) Tax and Social Security</b>	<b>841,889</b>	<b>461,706</b>
<b>Provision for Deferred Taxes and Contributions</b>	<b>514,560</b>	<b>148,146</b>
Securities and Derivative Financial Instruments (Note 20.d)	299,280	5,289
Revaluation of Buildings and Land	1,571	1,611
From recovered credits and hedged items - Deferred Depreciation (Note 20.d)	213,709	141,246
<b>Provision for Income Tax and Social Contribution (Note 20.a.2)</b>	<b>229,523</b>	<b>233,107</b>
Income Tax	141,604	126,870
Social Contribution	87,919	106,237
<b>Taxes and Contributions Payable</b>	<b>97,806</b>	<b>80,453</b>
<b>e) Securities Trading</b>	<b>158</b>	<b>153</b>
<b>f) Financial and Development Funds</b>	<b>25,830,753</b>	<b>26,859,710</b>
FNE (Note 28.a.1)	24,976,990	25,950,367
Other Amounts	853,763	909,343
<b>g) Debt Instruments Eligible to Capital</b>	<b>1,801,040</b>	<b>1,000,000</b>
<b>Authorized Principal Capital (Note 17 and Note 28.a.1)</b>	<b>1,000,000</b>	<b>1,000,000</b>
<b>Authorized Complementary Capital (Note 17)</b>	<b>801,040</b>	<b>-</b>
<b>h) Subordinated Debts Eligible to Capital (Note 17 and Note 28.a.1)</b>	<b>2,458,014</b>	<b>2,282,604</b>
<b>i) Other</b>	<b>6,901,974</b>	<b>6,015,009</b>
<b>Provision for Contingencies</b>	<b>468,452</b>	<b>374,446</b>
Labor claims (Note 21.f.1.ii)	240,956	190,700
Civil proceedings (Note 21.f.1.iii)	176,544	133,530
Tax proceedings	10,809	-
Other Tax Proceedings (Note 21.a.1.ii)	5,998	15,642
Other proceedings (Note 21.f.1.iv)	34,145	34,574
<b>Provision for Financial Guarantees Provided (Note 21.f.2)</b>	<b>2,830,110</b>	<b>3,196,136</b>
<b>FNE (Note 9.f and Note 21.f.2.i)</b>	<b>2,828,840</b>	<b>3,192,712</b>
Onlending	1,014	1,414
Full risk - BNB	32,204	67,974
Shared risk	2,795,622	3,123,324
FDNE (Note 9.f and Note 21.f.2.ii)	1,263	3,417
Proagro (Note 9.f and Note 21.f.2.iii)	7	7
<b>Actuarial Liabilities</b>	<b>2,861,771</b>	<b>1,752,464</b>
Retirement and DB Pension Plan (Note 24.k and Note 28.a.2)	689,136	423,954
Health Care Plan (Note 24.k and Note 28.a.2)	1,990,909	1,192,791
Life insurance - Post-Employment Benefit (Note 24.k and Note 28.a.2)	181,726	135,719
<b>Accrued Payments</b>	<b>493,400</b>	<b>381,307</b>
Personnel Expenses	235,889	225,737
Other Amounts	99,979	94,119
Interest and Charges on debt Instruments Eligible to Capital Principal	157,532	61,451
<b>Other Amounts</b>	<b>248,241</b>	<b>310,656</b>
<b>Total</b>	<b>38,189,037</b>	<b>36,801,863</b>
Short-term	4,297,552	6,949,373
Long-term	33,891,485	29,852,490

## NOTE 17 - Debt Instruments Eligible to Capital (Note 27.g.ii)

### a) Tier I Referential Equity - Principal Capital:

On 01.19.2016, the Bank and Federal Government entered into a loan agreement in the amount of R\$1,000,000 for purposes of classification as instrument eligible to principal capital, as provided for in article 16 of CMN Resolution No. 4192 of 03.01.2013, amended by CMN Resolution No. 4278 of 12.31.2013 and CMN Resolution No. 4311 of 02.20.2014.

Interest will be settled in an annual lump-sum payment, restated by the Selic rate up to the effective payment date, within 30 days from the payment of dividends referring to P&L determined in the closing balance sheet of the fiscal year.



In case the retained earnings balance, of income reserves, including legal reserve and capital reserves of the Bank, is not sufficient to absorb its losses calculated upon closing of the balance sheet of the fiscal year, the Bank will be relieved from the remuneration and will use the amounts due as interest overdue and the principal balance, in that order, up to the amount required to offset losses, the debt to which the agreement refers being duly settled for all purposes.

Any unpaid charges will not accrue. In the event the payment or dividend credit is not performed (including as interest on equity) until December 31 of the subsequent fiscal year, the financial charges unpaid will no longer be enforceable definitely.

The obligation has no maturity date and it may only be redeemed or repurchased by the issuer, subject to prior authorization by BACEN.

Specification	Amount issued	Remuneration	Funding date	06.30.2019	06.30.2018
Debt Instruments Eligible to Capital (Note 16.g and Note 28.a.1)	1,000,000	Profitability on Equity	01.19.2016	1,000,000	1,000,000
Long-term				1,000,000	1,000,000

#### b) Tier I Referential Equity - Complementary Capital:

In June 2019, the Bank issued 2,667 (two thousand six hundred sixty seven) Subordinated Financial Bills, without maturity date. Bacen authorized to compose the Tier I Referential Equity, as Complementary Capital, by the funding amount (R\$801,040).

Specification	Amount issued	Remuneration	Funding date	06.30.2019	06.30.2018
Financial Bills <sup>(1)</sup> (Note 16.g)	801,040	117% of Selic	June 2019	801,040	-
Long-term				801,040	-

<sup>(1)</sup> Interest paid on a half-yearly basis.

#### c) Tier II Referential Equity

Subordinated Debts comprise two funding operations with FNE in the original amounts of R\$600,000 and R\$400,000 of 07.20.2009 and 03.01.2010, respectively.

Specification	06.30.2019	06.30.2018
Fundo Constitucional de Financiamento do Nordeste (FNE)	2,458,014	2,282,604
Funds available	1,502,170	1,675,728
Funds applied	955,844	606,876
<b>Total (Note 16.h and Note 28.a.1)</b>	<b>2,458,014</b>	<b>2,282,604</b>

### NOTE 18 - Equity

#### a) Capital

The Bank's capital in the amount of R\$3,813,000 (R\$2,844,000 at 06.30.2018) is represented by 86,371,464 common, book-entry, paid-in shares with no par value, held as follows:

Specification	06.30.2019		06.30.2018	
	Number of shares	% of Capital	Number of shares	% of Capital
Federal Government	47,896,415	55.45	44,049,447	51.00
FI CAIXA FGEDUC MULTIMERCADO <sup>(1)</sup>	30,205,568	34.97	30,205,568	34.97
BB FGO Investment Fund Shares	6,208,200	7.19	6,217,900	7.20
National Development Fund (FND) <sup>(2)</sup>	-	-	3,846,968	4.45
Other	2,061,281	2.39	2,051,581	2.38
<b>Total</b>	<b>86,371,464</b>	<b>100.00</b>	<b>86,371,464</b>	<b>100.00</b>

<sup>(1)</sup> At 06.30.2018 - BB FGEDUC Multimarket Investment Fund.

<sup>(2)</sup> Balance of shares transferred to the Federal Government in the process of extinction of FND.

At the Extraordinary General Meeting held on 04.25.2019, shareholders approved the capital increase by R\$969,000, arising from the incorporation of Statutory Reserves - Reserve for Operational Margin, without issue of new shares. Capital was changed from R\$2,844,000 to R\$3,813,000, represented by 86,371,464 common, book-entry, paid-in shares with no par value, duly approved by the Central Bank.

**b) Revaluation Reserve**

The amount of R\$13,949 (R\$14,008 at 06.30.2018) refers to revaluation of property and equipment in use, recognized on 02.26.1993. This reserve will be maintained through its effective realization date either as a result of depreciation, write-off or disposal, pursuant to CMN Resolution No. 3565 of 05.29.2008.

**c) Dividends/Interest on Equity (IOE)**

The Bank's Chart ensures to shareholders minimum dividend of 25% on net income calculated in the six-month period, adjusted according to Law.

The Executive Board proposes to the Board of Directors the prepayment of Dividends in the gross amount of R\$184,349 (R\$53,537 at 06.30.2018, as IOE), the net amount of which was R\$183,832 (R\$53,372 at 06.30.2018, as IOE), corresponding to 25.007% (25.000% at 06.30.2018) on adjusted net income for the six-month period.

The proposal comprises R\$17,507 as Dividends and R\$166,325 as Interest on Equity (IOE), net of income tax, attributed to the amount of prepaid Dividends for the year, as shown below.

Total IOE for the six-month period reduced tax expenses amounting to R\$66,737 (R\$23,770 at 06.30.2018).

**d) Statement of calculation of Dividends/IOE:**

Specification	06.30.2019	06.30.2018
<b>1. Net Income for the Six-Month Period</b>	<b>744,777</b>	<b>231,818</b>
2. Legal reserve set up	(37,239)	(11,591)
3. Debt Adjustments to Retained Earnings (Accumulated Losses)	(18,839)	(12,691)
4. Revaluation Reserve Transferred to Retained Earnings (Accumulated Losses)	(2,357)	177
5. Credit Adjustments to Retained Earnings (Accumulated Losses)	48,778	5,768
<b>6. Dividend and IOE Calculation Basis</b>	<b>735,120</b>	<b>213,481</b>
7. Dividends and Gross IOE Proposed in the Six-Month Period	184,349	53,537
8. Dividends and Net IOE Proposed in the Six-Month Period	183,832	53,372
9. Dividends as IOE Proposed in the six-month period (1.9316796575 per share) (at 06.30.2018: 0.6198445865 per share)	166,842	53,537
10. Withholding Income Tax on IOE	(517)	(165)
11. Net IOE attributable to dividends (item 7 - item 8) (R\$1.9256940949 per share) (at 06.30.2018: IOE of R\$ 0.61793251463 per share)	166,325	53,372
12. Proposed dividends for the six-month period (R\$0.202689777 per share) (at 06.30.2018 R\$0.00)	17,507	-
13. Dividends + IOE Net of Income Tax (Imputed to Dividends) in relation to the Dividend Calculation Basis/IOE (item 8/item 6) (R\$2.128383873 per share) (R\$0.61793251463 per share at 06.30.2018)	25.007%	25.000%
14. Dividends + IOE Gross in relation to the Dividend Calculation Basis/IOE (item 7/item 6) (R\$2.134369435 per share) (R\$0.6198445865 per share at 06.30.2018)	25.077%	25.078%

**e) Legal Reserve**

The Legal Reserve corresponds to 5% on net income calculated in the six-month period and amounts to R\$37,239 (R\$11,591 at 06.30.2018).

**f) Statutory Reserve**

The Statutory Reserve in the amount of R\$550,771 (R\$159,944 at 06.30.2018) represents the remaining balance of net income calculated for the six-month period, after establishment of the legal Reserve and payment of IOE/Dividends.

**g) Equity Adjustment**

Specification	06.30.2019	06.30.2018 Restated
Securities Available for Sale <sup>(1)</sup>	318,583	(67,881)
Actuarial Gains and Losses (Post-Employment Benefits) <sup>(1)</sup>	(362,959)	111,888
<b>Equity adjustment<sup>(1)</sup></b>	<b>(44,606)</b>	<b>44,007</b>

<sup>(1)</sup>Net of tax effects.

## NOTE 19 - Other Operating Income/Expenses

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018 Restated
<b>a) Service Revenue</b>	<b>1,233,015</b>	<b>1,180,580</b>
Investment Fund Management	25,860	19,420
Fund and Program Management	936,609	923,151
Service Rendered	270,546	238,009
<b>b) Income from Bank Fees</b>	<b>44,745</b>	<b>36,379</b>
<b>c) Personnel Expenses</b>	<b>(999,790)</b>	<b>(942,990)</b>
Salaries	(582,659)	(538,466)
Social Charges	(198,128)	(197,367)
Retirement and Pension Plan - DB and VC I Capef Plans	(57,041)	(50,766)
Health Care Plan - Camed Natural Plan	(75,430)	(72,993)
Life Insurance - Post-Employment Benefit	(6,045)	(5,501)
Benefits, Training Sessions, Fees and Compensation of Interns	(80,487)	(77,897)
<b>d) Other administrative expenses</b>	<b>(621,489)</b>	<b>(622,386)</b>
Data Processing	(123,478)	(129,912)
Advertising and Publicity	(3,291)	(14,449)
Third-Party Services <sup>(1)</sup>	(291,118)	(280,143)
Rentals, Material and Public Utilities	(39,620)	(35,381)
Travel	(7,846)	(8,295)
Communications	(12,419)	(12,963)
Depreciation and Amortization	(5,736)	(4,928)
Asset Maintenance and Upkeep	(24,271)	(23,656)
Surveillance, Security and Transportation	(45,141)	(45,878)
Promotions, Public Relations and Publications	(4,855)	(4,587)
Financial System Services	(17,910)	(14,941)
Specialized Technical Services	(19,396)	(16,956)
Insurance	(2,308)	(910)
Court, Notary and Attorney Fees	(16,026)	(20,756)
Worker' Union Dues and Associations	(1,419)	(863)
Condominium Fees, Catering, Kitchen and Meals	(2,883)	(2,978)
Other Amounts	(3,772)	(4,790)
<b>e) Tax expenses (Note 20.e)</b>	<b>(178,035)</b>	<b>(153,252)</b>
COFINS and PIS/PASEP	(157,315)	(135,352)
ISS and IPTU/Improvement tax	(19,124)	(16,581)
Other Amounts	(1,596)	(1,319)
<b>f) Other operating income</b>	<b>1,040,276</b>	<b>947,577</b>
Del credere commission on Fund Management	771,157	660,907
Exchange Losses on Borrowings	85,240	69,563
Exchange Losses on Funding Expenses	66,870	43,680
Exchange Loss on Reclassification of Development Financial Fund Obligation Expenses	3,020	2,187
Reversal of Operating Provisions for Risks on FNE Transactions	1,980	1,197
Recovery of Charges and Expenses	2,587	2,889
Reversal of Operating Provisions	14,096	5,656
Interest and Commissions	1,637	839
Monetary Restatement	522	789
FNE - Recovery of Amounts Settled by the Bank	82,618	152,042
Other Amounts	10,549	7,828
<b>g) Other operating expenses</b>	<b>(598,045)</b>	<b>(707,380)</b>
Exchange Losses on Exchange Area	(442)	(1,667)
Exchange Loss on Loans Granted	(85,236)	(67,967)
Negative Monetary Restatement of Loans	(1,050)	(16)
Discounts Granted in Renegotiations	(14,600)	(21,640)
Loan Charges	(4,338)	(2,172)
Tax Contingencies	(1,046)	(2,313)
Risks on FNE Transactions	(142,011)	(406,772)
Risks on FDNE Transactions	(41)	(2,782)
Labor Claims	(40,601)	(25,913)
Civil Proceedings	(41,243)	(23,023)
Other Proceedings	(1,789)	(1,820)
Debt Instruments Eligible to Capital Principal (IECP)	(157,532)	(61,451)
FNE Remuneration - Funds Available - article 9-A of Law No. 7827	(41,544)	(50,162)
FNE Remuneration - Funds Applied - article 9-A, Law No. 7827	(47,025)	(26,975)
Monetary Restatement of IECP	(4,674)	(4,365)
Other Amounts	(14,873)	(8,342)
<b>Total</b>	<b>(79,323)</b>	<b>(261,472)</b>

<sup>(1)</sup> These comprise expenses for the 1<sup>st</sup> half of 2019 amounting to R\$ 248.208 (R\$239,189 at 06.30.2018) on behalf of Instituto Nordeste Cidadania (INEC); this refers to a Civil Society Organization of Public Interest ("Oscip") substantially to the Bank, through the Partnership Terms for the operation of the urban and rural production-oriented microloan programs, in accordance with the provisions of Law No. 9790 of 03.23.1999.

## NOTE 20 - Taxes and Contributions

### a) Income Tax and Social Contribution

The Bank is subject to the taxable profit regime whereby taxes are computed based on the Bank's accounting records, and income tax and social contribution are paid monthly on an estimated basis. Income tax and social contribution expenses are as follows:

a.1) Specification of the Provision for Income Tax and Social Contribution Expense	Income Tax		Social Contribution	
	01.01 to 06.30.2019	01.01 to 06.30.2018 (restated)	01.01 to 06.30.2019	01.01 to 06.30.2018 (restated)
Income Before Income Taxes and Profit Sharing	1,164,002	449,195	1,164,002	449,195
Statutory Profit Sharing	(46,330)	(14,060)	(46,330)	(14,060)
Interest on Equity (IOE)	-	(53,537)	-	(53,537)
<b>Income Before Taxes, Less Statutory Profit Sharing and Interest on Equity</b>	<b>1,117,672</b>	<b>381,598</b>	<b>1,117,672</b>	<b>381,598</b>
Permanent Additions/Exclusions	(247,443)	175,721	(247,781)	174,758
Temporary Additions/Exclusions	(283,765)	(22,147)	(283,765)	(22,147)
<b>Taxable income</b>	<b>586,464</b>	<b>535,172</b>	<b>586,126</b>	<b>534,209</b>
Expenses with provision for IRPJ and CSLL - Before Tax Incentives and Revaluation Reserve	(146,604)	(133,711)	(87,919)	(106,801)
Deductions (Tax Incentives)	5,000	5,902	-	-
Provision for IRPJ/CSLL on Revaluation Reserve Realized	(982)	(68)	(589)	(41)
Current IRPJ/CSLL Expenses - After Tax Incentives, revaluation Reserve and Adjustments of <b>RETAINED EARNINGS (ACCUMULATED LOSSES)</b>	(142,586)	(127,877)	(88,508)	(106,842)
Provision for Deferred Taxes and Contributions - Arising from Tax Recovered Credits, Depreciation, Derivative Financial Instruments and Hedged Items	(12,820)	(4,457)	(7,692)	(1,889)
<b>Provision for Income Tax and Social Contribution</b>	<b>(155,406)</b>	<b>(132,334)</b>	<b>(96,200)</b>	<b>(108,731)</b>
IRPJ/CSLL Tax Credits - Provisions, Derivative Financial Instruments and Hedged Item	(75,801)	33,343	(45,488)	3,222
<b>Total IRPJ/CSLL</b>	<b>(231,207)</b>	<b>(98,991)</b>	<b>(141,688)</b>	<b>(105,509)</b>
Effective Rate (%)	20.69	25.96	12.68	27.66
<b>a.2) Specification of the provision for IRPJ and CSLL</b>				
Provision for Income Tax and Social Contribution	142,586	127,877	88,508	106,842
Provision for Taxes on Revaluation Reserve Realized (2017)	-	(939)	-	(564)
Provision for Taxes on Revaluation Reserve Realized	(982)	(68)	(589)	(41)
<b>Provision for Income Tax and Social Contribution (Note 16.d)</b>	<b>141,604</b>	<b>126,870</b>	<b>87,919</b>	<b>106,237</b>
Taxes and Contributions Recoverable on Prepayments, Including Withholding Taxes	(81,452)	(95,328)	(44,052)	(60,093)
<b>Taxes Payable (Recoverable) for the Period</b>	<b>60,152</b>	<b>31,542</b>	<b>43,867</b>	<b>46,144</b>

### b) Reconciliation of IRPJ and CSLL Charges

Specification	06.30.2019	06.30.2018 (restated)
<b>Income Before Taxes and Profit Sharing</b>	<b>1,164,002</b>	<b>449,195</b>
<b>Total Charge of 40% - IRPJ (25%) and CSLL (15%)</b>	<b>(465,601)</b>	<b>(202,138)</b>
<b>Statement of Tax Levy:</b>		
<b>Income Tax and Social Contribution for the Period</b>	<b>(372,895)</b>	<b>(204,500)</b>
<b>Increase/Decrease in Income Tax and Social Contribution arising from:</b>	<b>(92,706)</b>	<b>2,362</b>
Profit sharing/IOE	(85,269)	(30,419)
Other Income/FNE/Del Credere/Onlending Operations - Article 9-A of Law No. 7827	(11,639)	(7,605)
Temporary Differences - Other Provisions (Labor, Civil, Tax and Other Proceedings)	1,091	3,441
Temporary Differences - Transactions with Reimbursement Longer than 10 Years	6,063	20,635
Difference of CSLL rate (from 20% to 15%) <sup>(1)</sup>	-	20,150
Other (Tax Incentives, Permanent Additions/Exclusions)	(2,952)	(3,840)
<b>Total Reconciled Tax Levy</b>	<b>(465,601)</b>	<b>(202,138)</b>

<sup>(1)</sup> In 2018 the CSLL rate was 20%, with a total charge of 45%.

### c) Deferred Tax Assets and Liabilities

The IRPJ and CSLL tax credits arising from temporary differences of Allowances for Loan Losses, Provisions for Post-Employment Benefits, Unearned Income ("RAP"), Provision for the Voluntary Dismissal Program ("PID") and Provisions for Contingencies (labor, civil tax and other) are recorded in conformity with the following major standards: CMN Resolution No. 3059 of 12.20.2002 and Bacen

Circular Letter No. 3171 of 12.30.2002 are based on technical studies conducted every six months on recognition of Deferred Tax Assets and Liabilities.

In accordance with Bacen Circular Letters No. 3068 of 11.08.2001, tax credits on market value adjustments of securities were accrued, regarding securities classified as Available-for-Sale, and on Derivative Financial Instruments.

Specification	06.30.2019		06.30.2018		06.30.2019	06.30.2018
	IRPJ	CSLL	IRPJ	CSLL		
<b>Effect on P&amp;L</b>						
<b>a) Allowances (ALL)</b>						
Opening Balance	711,030	426,632	802,220	526,293	1,137,662	1,328,513
Recognition	133,007	79,804	202,085	165,717	212,811	367,802
Realization/Reversal	(213,536)	(128,129)	(186,041)	(172,874)	(341,665)	(358,915)
Closing Balance (Note 10.d)	630,501	378,307	818,264	519,136	1,008,808	1,337,400
<b>b) Unearned Income - Operations not Related to Legal Proceedings</b>						
Opening Balance	2,101	1,260	-	-	3,361	-
Recognition	274	164	-	-	438	-
Realization/Reversal	(243)	(146)	-	-	(389)	-
Closing Balance (Note 10.d)	2,132	1,278	-	-	3,410	-
<b>c) Actuarial provisions</b>						
Opening Balance	269,396	161,638	257,640	154,584	431,034	412,224
Recognition	27,011	16,206	25,142	15,085	43,217	40,227
Realization/Reversal	(19,701)	(11,820)	(15,412)	(9,247)	(31,521)	(24,659)
Closing Balance (Note 3 and Note 10.d)	276,706	166,024	267,370	160,422	442,730	427,792
<b>d) Provision for the Voluntary Dismissal Program ("PID")</b>						
Opening Balance	14,667	8,800	-	-	23,467	-
Recognition	99	60	-	-	159	-
Realization/Reversal	(13,996)	(8,398)	-	-	(22,394)	-
Closing Balance (Note 10.d)	770	462	-	-	1,232	-
<b>e) Provision for Contingencies</b>						
Opening Balance	98,781	59,269	81,083	48,650	158,050	129,733
Recognition	27,772	16,663	17,993	10,796	44,435	28,789
Realization/Reversal	(11,090)	(6,654)	(7,434)	(4,461)	(17,744)	(11,895)
Closing Balance (Note 10.d)	115,463	69,278	91,642	54,985	184,741	146,627
<b>f) Derivative financial instruments</b>						
Opening Balance	5,398	3,239	-	-	8,637	-
Recognition	308	185	3,140	1,884	493	5,024
Realization/Reversal	(5,706)	(3,424)	(3,119)	(1,871)	(9,130)	(4,990)
Closing Balance (Note 7.c)	-	-	21	13	-	34
<b>g) Hedged Item</b>						
Opening Balance	-	-	3,128	1,876	-	5,004
Recognition	876	526	4,140	2,484	1,402	6,624
Realization/Reversal	(876)	(526)	(7,151)	(4,290)	(1,402)	(11,441)
Closing Balance (Note 7.c.1 and Note 10.d)	-	-	117	70	-	187
<b>Effect on Equity</b>						
<b>h) Securities</b>						
Opening Balance	173,455	106,009	164,744	105,550	279,464	270,294
Recognition	79,902	48,883	48,382	28,614	128,785	76,996
Realization/Reversal	(89,392)	(54,516)	(43,573)	(30,256)	(143,908)	(73,829)
Closing Balance (Note 7.a.1)	163,965	100,376	169,553	103,908	264,341	273,461
<b>i) Actuarial Valuation Adjustments</b>						
Opening Balance	287,504	172,502	217,366	130,419	460,006	347,785
Recognition	151,233	90,740	7,298	4,379	241,973	11,677
Realization/Reversal	-	-	(53,918)	(32,351)	-	(86,269)
Closing Balance (Note 10.d)	438,737	263,242	170,746	102,447	701,979	273,193

Income tax and social contribution tax credits recognized and not recognized in assets are broken down as follows:

Specification	Income Tax		Social Contribution	
	06.30.2019	06.30.2018	06.30.2019	06.30.2018
1. Total Temporary Differences	6,709,965	6,259,701	6,709,965	6,259,701
2. Tax Credits on Temporary Differences	1,677,491	1,564,925	1,008,491	1,220,177
3. Tax Credits Recognized in Assets on Provisions	1,464,308	1,348,022	878,592	836,990
4. Tax Credits Recognized in Assets to Mark-to-Market of Securities, Derivative Financial Instruments and Hedged Item	163,965	169,691	100,376	103,991
5. Total Tax Credits Recognized in Assets (item 3 + item 4) <sup>(1)</sup>	1,628,273	1,517,713	978,968	940,981
6. Tax credits not Recognized in Assets (item 2 - item 5) <sup>(2)</sup>	49,218	47,212	29,523	279,196

<sup>(1)</sup> Tax Credits are Recognized in Assets under "Other Credits - Sundry".

<sup>(2)</sup> Not recognized in assets as they do not meet the realization requirements provided for in CMN Resolution No. 3355 of 03.31.2006, and considering a technical study on recognition of deferred tax assets and liabilities prepared on a half-yearly basis.

Estimated realization of tax credits on temporary differences of Allowance for Loan Losses at 06.30.2019 is as follows:

Period	Goal for average over - SELIC rate - (%) <sup>(1)</sup>	Realization of IRPJ credit		Realization of CSLL credit		Total	
		Book value	Present value	Book value	Present value	Book value	Present value
2019	5.66	143,061	139,176	85,836	83,506	228,897	222,682
2020	6.18	117,991	108,107	70,795	64,864	188,786	172,971
2021	7.13	59,386	50,790	35,632	30,474	95,018	81,264
2022	7.16	48,541	38,740	29,124	23,244	77,665	61,984
2023	7.14	77,196	57,504	46,317	34,503	123,513	92,007
2024	7.14	93,787	65,208	56,272	39,125	150,059	104,333
2025	7.14	24,706	16,033	14,824	9,620	39,530	25,653
2026	7.14	22,684	13,740	13,610	8,244	36,294	21,984
2027	7.14	19,461	11,002	11,677	6,601	31,138	17,603
2028	7.14	16,300	8,601	9,780	5,161	26,080	13,762
Acima de 2028	7.14	7,388	3,638	-	2,187	11,828	5,825
<b>Total</b>		<b>630,501</b>	<b>512,539</b>	<b>378,307</b>	<b>307,529</b>	<b>1,008,808</b>	<b>820,068</b>

<sup>(1)</sup>For present value calculation purposes, the goal for average Over - Selic rates was considered, projected by Bacen at 06.30.2019.

Estimated realization of tax credits on temporary differences of Unearned Income at 06.30.2019 is as follows:

Period	Goal for average over - SELIC rate - (%) <sup>(1)</sup>	Realization of IRPJ credit		Realization of CSLL credit		Total	
		Book value	Present value	Book value	Present value	Book value	Present value
2019	5.66	509	495	305	297	813	792
2020	6.18	953	873	572	524	1,525	1,397
2021	7.13	352	301	211	180	563	481
2022	7.16	224	179	134	107	359	286
2023	7.14	94	70	56	42	150	112
<b>Total</b>		<b>2,132</b>	<b>1,918</b>	<b>1,278</b>	<b>1,150</b>	<b>3,410</b>	<b>3,068</b>

<sup>(1)</sup>For present value calculation purposes, the goal for average Over - Selic rates was considered, projected by Bacen at 06.30.2019.

Estimated realization of tax credits on temporary differences of Actuarial Provisions at 06.30.2019 is as follows:

Period	IRPJ		CSLL		Total	
	Book value	Present value	Book value	Present value	Book value	Present value
2019	14,722	14,722	8,833	8,833	23,555	23,555
2020	28,253	28,253	16,952	16,952	45,205	45,205
2021	28,440	28,440	17,064	17,064	45,504	45,504
2022	28,595	28,595	17,157	17,157	45,752	45,752
2023	28,550	28,550	17,130	17,130	45,680	45,680
2024	28,175	28,175	16,905	16,905	45,080	45,080
2025	27,681	27,681	16,609	16,609	44,290	44,290
2026	27,166	27,166	16,300	16,300	43,466	43,466
2027	26,642	26,642	15,985	15,985	42,627	42,627
2028	26,143	26,143	15,686	15,686	41,829	41,829
2028 onwards	451,076	451,076	270,645	270,645	721,721	721,721
<b>Total</b>	<b>715,443</b>	<b>715,443</b>	<b>429,266</b>	<b>429,266</b>	<b>1,144,709</b>	<b>1,144,709</b>

Estimated realization of tax credits on temporary differences of Provision for the Voluntary Dismissal Program ("PID") at 06.30.2019 is as follows:

Period	IRPJ		CSLL		Total	
	Book value	Present value	Book value	Present value	Book value	Present value
2019	770	749	462	449	1,232	1,198
<b>Total</b>	<b>770</b>	<b>749</b>	<b>462</b>	<b>449</b>	<b>1,232</b>	<b>1,198</b>

Estimated realization of tax credits on temporary differences of Provisions for Contingencies (labor, civil, tax and other) at 06.30.2019 is as follows:

Period	Realization of IRPJ credit		Realization of CSLL credit		Total	
	Book value	Present value	Book value	Present value	Book value	Present value
2019	2,098	2,098	1,259	1,259	3,357	3,357
2020	4,197	4,197	2,518	2,518	6,715	6,715
2021	21,259	21,259	12,755	12,755	34,014	34,014
2022	4,197	4,197	2,518	2,518	6,715	6,715
2023	15,728	15,728	9,437	9,437	25,165	25,165
2024	14,579	14,579	8,748	8,748	23,327	23,327
2025	7,176	7,176	4,306	4,306	11,482	11,482
2026	5,807	5,807	3,484	3,484	9,291	9,291
2027	12,748	12,748	7,649	7,649	20,397	20,397
2028	4,197	4,197	2,518	2,518	6,715	6,715
2028 onwards	23,477	23,477	14,086	14,086	37,563	37,563
<b>Total</b>	<b>115,463</b>	<b>115,463</b>	<b>69,278</b>	<b>69,278</b>	<b>184,741</b>	<b>184,741</b>

Any tax credit on market value adjustments of securities, derivative financial instruments and hedged item, determined at present realizable value, pursuant to Bacen Circular Letters No. 3068 of 11.08.2001 and No. 3082 of 01.30.2002, will be realized according to the maturities of the securities, as follows:

Period	IRPJ		CSLL		Total	
	Book value	Present value	Book value	Present value	Book value	Present value
2019	32,790	32,790	21,671	21,671	54,461	54,461
2020	349	349	209	209	558	558
2021	380	380	228	228	608	608
2022	9,478	9,478	5,687	5,687	15,165	15,165
2023	334	334	200	200	534	534
2024	590	590	354	354	944	944
2025	27	27	16	16	43	43
2026	3,693	3,693	2,216	2,216	5,909	5,909
2027	161	161	97	97	258	258
2028 onwards	116,163	116,163	69,698	69,698	185,861	185,861
<b>Total</b>	<b>163,965</b>	<b>163,965</b>	<b>100,376</b>	<b>100,376</b>	<b>264,341</b>	<b>264,341</b>

Total estimated realization of tax credits at 06.30.2019 is as follows:

Period	IRPJ		CSLL		Total	
	Book value	Present value <sup>(1)</sup>	Book value	Present value <sup>(1)</sup>	Book value	Present value <sup>(1)</sup>
2019	193,950	190,030	118,366	116,015	312,316	306,045
2020	151,743	141,779	91,046	85,067	242,789	226,846
2021	109,817	101,170	65,890	60,701	175,707	161,871
2022	91,035	81,189	54,620	48,713	145,655	129,902
2023	121,902	102,186	73,140	61,312	195,042	163,498
2024	137,131	108,552	82,279	65,132	219,410	173,684
2025	59,563	50,890	35,739	30,535	95,302	81,425
2026	55,656	46,712	33,394	28,028	89,050	74,740
2027	62,733	54,274	37,640	32,564	100,373	86,838
2028	46,640	38,941	27,984	23,365	74,624	62,306
2028 onwards	598,104	594,354	358,869	356,616	956,973	950,970
<b>Total</b>	<b>1,628,274</b>	<b>1,510,077</b>	<b>978,967</b>	<b>908,048</b>	<b>2,607,241</b>	<b>2,418,125</b>

<sup>(1)</sup>For present value calculation purposes, the goal for average Over - Selic rates was considered, projected by Bacen at 06.30.2019.

#### d) Provision for Deferred Taxes and Contributions

Specification	06.30.2019		06.30.2018		06.30.2019	06.30.2018
	IRPJ	CSLL	IRPJ	CSLL	Total	
<b>Effect on P&amp;L</b>						
<b>a) Derivative Financial Instruments</b>						
Opening Balance	-	-	3,155	1,893	-	5,048
Recognition	876	526	4,131	2,478	1,402	6,609
Realization/Reversal	(876)	(526)	(7,149)	(4,289)	(1,402)	(11,438)
Closing Balance (Note 7.c and Note 16.d)	-	-	137	82	-	219
<b>b) From Recovered Credits<sup>(1)</sup></b>						
Opening Balance	103,934	62,360	73,219	46,460	166,294	119,679
Recognition	15,834	9,500	4,966	2,282	25,334	7,248
Realization/Reversal	-	-	-	(87)	-	(87)
Closing Balance (Note 16.d)	119,768	71,860	78,185	48,655	191,628	126,840
<b>c) Hedged Item</b>						
Opening Balance	5,615	3,369	-	-	8,984	-
Recognition	308	185	3,142	1,885	493	5,027
Realization/Reversal	(5,923)	(3,554)	(3,142)	(1,885)	(9,477)	(5,027)
Closing Balance (Note 7.c.1 and Note 16.d)	-	-	-	-	-	-
<b>d) Deferred Depreciation</b>						
Opening Balance	11,200	6,720	6,495	3,897	17,920	10,392
Recognition	2,729	1,637	2,509	1,505	4,366	4,014
Realization/Reversal	(128)	(77)	-	-	(205)	-
Closing Balance (Note 16.d)	13,801	8,280	9,004	5,402	22,081	14,406
<b>Effect on Equity</b>						
<b>d) Revaluation Reserve</b>						
Opening Balance	994	597	939	563	1,591	1,502
Recognition	-	-	68	41	-	109
Realization/Reversal	(12)	(8)	-	-	(20)	-
Closing Balance (Note 16.d)	982	589	1,007	604	1,571	1,611
<b>e) Securities</b>						
Opening Balance	64,156	39,065	24,848	15,139	103,221	39,987
Recognition	359,865	216,883	78,471	47,510	576,748	125,981
Realization/Reversal	(236,971)	(143,718)	(100,153)	(60,745)	(380,689)	(160,898)
Closing Balance (Note 7.a.1 and Note 16.d)	187,050	112,230	3,166	1,904	299,280	5,070

<sup>(1)</sup>Pursuant to article 12 of Law No. 9430 of 12.27.1996.

The provisions on market value adjustments to Securities and Hedged Item at present value will be written off according to the following schedule:

Period	IRPJ		CSLL		Total	
	Book value	Present value	Book value	Present value	Book value	Present value
2019	6,700	6,700	4,020	4,020	10,720	10,720
2022	129	129	78	78	207	207
2023	2,478	2,478	1,486	1,486	3,964	3,964
2024	95	95	57	57	152	152
2028 onwards	177,648	177,648	106,589	106,589	284,237	284,237
<b>Total</b>	<b>187,050</b>	<b>187,050</b>	<b>112,230</b>	<b>112,230</b>	<b>299,280</b>	<b>299,280</b>

The schedule for the realization of the provisions calculated by the present value on Recovered Credits, pursuant to article 12 of Law No. 9430/96, will be carried out in accordance with the reimbursement agreed in the renegotiations.



The schedule for realization at 12.31.2018 is as follows:

Period	Goal for average over - SELIC rate <sup>(1)</sup>	IRPJ		CSLL		Total	
		Book value	Present value	Book value	Present value	Book value	Present value
2019	5.66	11,146	10,843	6,687	6,506	17,833	17,349
2020	6.18	18,577	17,021	11,146	10,212	29,723	27,233
2021	7.13	17,603	15,055	10,562	9,033	28,165	24,088
2022	7.16	16,831	13,432	10,098	8,060	26,929	21,492
2023	7.14	15,130	11,270	9,078	6,762	24,208	18,032
2024	7.14	12,758	8,871	7,655	5,322	20,413	14,193
2025	7.14	9,458	6,138	5,675	3,683	15,133	9,821
2026	7.14	5,132	3,109	3,079	1,865	8,211	4,974
2027	7.14	2,647	1,496	1,588	898	4,235	2,394
2028	7.14	2,451	1,293	1,471	776	3,922	2,069
2028 onwards	7.14	8,035	3,957	4,821	2,374	12,856	6,331
<b>Total</b>		<b>119,768</b>	<b>92,485</b>	<b>71,860</b>	<b>55,491</b>	<b>191,628</b>	<b>147,976</b>

<sup>(1)</sup>For present value calculation purposes, the goal for average Over - Selic rates was considered, projected by Bacen at 06.30.2019.

The provisions on Revaluation Reserves determined at present value will be written off according to the following schedule:

Period	Goal for average over - SELIC rate - (%) <sup>(1)</sup>	Realization of IRPJ credit		Realization of CSLL credit		Total	
		Book value	Present value	Book value	Present value	Book value	Present value
2019	5.66	12	12	7	7	19	19
2020	6.18	25	23	15	14	40	37
2021	7.13	25	21	15	13	40	34
2022	7.16	25	20	15	12	40	32
2023	7.14	25	18	15	11	40	29
2024	7.14	25	17	15	10	40	27
2025	7.14	25	16	15	10	40	26
2026	7.14	25	15	15	9	40	24
2027	7.14	25	14	15	8	40	22
2028	7.14	25	13	15	8	40	21
2028 onwards	7.14	745	368	447	220	1,192	588
<b>Total</b>		<b>982</b>	<b>537</b>	<b>589</b>	<b>322</b>	<b>1,571</b>	<b>859</b>

<sup>(1)</sup>For present value calculation purposes, the goal for average Over - Selic rates was considered, projected by Bacen at 06.30.2019.

The provisions on Deferred Depreciation determined at present value will be written off according to the following schedule:

Period	Goal for average over - SELIC rate - (%) <sup>(1)</sup>	Realization of IRPJ credit		Realization of CSLL credit		Total	
		Book value	Present value	Book value	Present value	Book value	Present value
2019	5.66	194	188	116	113	310	301
2020	6.18	589	540	353	324	942	864
2021	7.13	801	685	481	411	1,282	1,096
2022	7.16	885	706	531	424	1,416	1,130
2023	7.14	937	698	563	419	1,500	1,117
2024	7.14	1,021	710	612	426	1,633	1,136
2025	7.14	1,027	667	616	400	1,643	1,067
2026	7.14	1,045	633	627	380	1,672	1,013
2027	7.14	1,040	588	624	353	1,664	941
2028	7.14	880	464	528	278	1,408	742
2028 onwards	7.14	5,382	2,651	3,229	1,590	8,611	4,241
<b>Total</b>		<b>13,801</b>	<b>8,530</b>	<b>8,280</b>	<b>5,118</b>	<b>22,081</b>	<b>13,648</b>

<sup>(1)</sup>For present value calculation purposes, the goal for average Over - Selic rates was considered, projected by Bacen at 06.30.2018.

Total amounts of provisions for Tax Liabilities, expected to be written off, at 06.30.2019, are as follows:

Period	Realization of IRPJ credit		Realization of CSLL credit		Total	
	Book value	Present value <sup>(1)</sup>	Book value	Present value <sup>(1)</sup>	Book value	Present value <sup>(1)</sup>
2019	18,052	17,743	10,830	10,646	28,882	28,389
2020	19,191	17,584	11,514	10,550	30,705	28,134
2021	18,429	15,761	11,058	9,457	29,487	25,218
2022	17,870	14,287	10,722	8,574	28,592	22,861
2023	18,570	14,464	11,142	8,678	29,712	23,142
2024	13,899	9,693	8,339	5,815	22,238	15,508
2025	10,510	6,821	6,306	4,093	16,816	10,914
2026	6,202	3,757	3,721	2,254	9,923	6,011
2027	3,712	2,098	2,227	1,259	5,939	3,357
2028	3,356	1,770	2,014	1,062	5,370	2,832
2028 onwards	191,810	184,624	115,086	110,773	306,896	295,397
<b>Total</b>	<b>321,601</b>	<b>288,602</b>	<b>192,959</b>	<b>173,161</b>	<b>514,560</b>	<b>461,763</b>

<sup>(1)</sup> For present value calculation purposes, the goal for average Over - Selic rates was considered, projected by BACEN at 06.30.2019.

#### e) Tax Expenses

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018
Cofins and Pis/Pasep	(157,315)	(135,352)
ISS and IPTU/Improvement tax	(19,124)	(16,581)
Other Amounts	(1,596)	(1,319)
<b>Total (Note 19.e)</b>	<b>(178,035)</b>	<b>(153,252)</b>

#### NOTE 21 - Provisions, Contingent Assets, Contingent Liabilities and Legal Obligations - Tax and Social Security

- a) The Bank is a party to various ongoing administrative and legal proceedings involving civil, tax, labor and other matters. Bank management understands that the provisions set up are sufficient to cover the likelihood of losses arising from the respective legal and administrative proceedings, as follows:

Specification	06.30.2019		06.30.2018	
	Base value	Provision	Base value	Provision
<b>a) Provision for Contingencies</b>				
<b>a.1) Tax Proceedings (Note 21 f.1.i)</b>	<b>3,465,706</b>	<b>16,807</b>	<b>2,944,471</b>	<b>15,642</b>
i) Legal Obligation	10,809	10,809	2,086	2,086
ii) Other Obligations - Sundry	3,454,897	5,998	2,942,385	13,556
Probable	5,998	5,998	13,556	13,556
Possible	3,287,834	-	2,773,968	-
Remote <sup>(1)</sup>	161,065	-	154,861	-
<b>a.2) Labor Claims</b>	<b>501,215</b>	<b>240,956</b>	<b>457,429</b>	<b>190,700</b>
Probable (Note 21 f.1.ii)	240,956	240,956	190,700	190,700
Possible	131,858	-	149,219	-
Remote	128,401	-	117,510	-
<b>a.3) Civil Proceedings</b>	<b>7,231,701</b>	<b>176,544</b>	<b>6,468,138</b>	<b>133,530</b>
Probable (Note 21 f.1.iii)	176,544	176,544	133,530	133,530
Possible	1,585,448	-	1,192,606	-
Remote <sup>(2)</sup>	5,469,709	-	5,142,002	-
<b>a.4) Other Contingencies (Note 21 f.1.iv)</b>	<b>1,000,608</b>	<b>34,145</b>	<b>892,490</b>	<b>34,574</b>
i) Securitized Transactions	<b>5,510</b>	<b>5,510</b>	<b>6,737</b>	<b>6,737</b>
ii) Other Proceedings	<b>995,098</b>	<b>28,635</b>	<b>885,753</b>	<b>27,837</b>
Probable	28,635	28,635	27,837	27,837
Possible	16,330	-	14,851	-
Remote	950,133	-	843,065	-

<sup>(1)</sup> Contingent liabilities relating to tax proceedings assessed as remote loss are concentrated in 1 (one) proceeding, whose contingent liability balance amounts to R\$127,050 at 06.30.2019 (R\$119,732 at 06.30.2018).

<sup>(2)</sup> Contingent liabilities relating to civil proceedings assessed as remote loss are concentrated in four (4) proceedings, with balance of R\$3,030,807 at 06.30.2019. These proceedings refer to the following matters: i) extraordinary contribution of post-employment benefit and payment of attorney fees - R\$2,186,494 at 06.30.2019 (R\$1,852,705 at 06.30.2018); ii) loss of profit and payment of administrative fee - R\$374,289 at 06.30.2019 (R\$317,150 at 06.30.2018, of which R\$264,291 classified as possible loss and R\$52,858 classified as remote loss); iii) reassessment (solutio indebiti), compensation for pain and suffering and loss of profits - R\$258,538 at 06.30.2019 (R\$219,070 at 06.30.2018); iv) compensation for pain and suffering and loss of profits - R\$211,486 at 06.30.2019 (R\$179,200 at 06.30.2018).

- b) The Bank is involved in lawsuits handled by outside attorneys, most of which relate to loan collection actions, whose assessment of the provision for contingent liabilities is performed by its Legal Department.
- c) Tax proceedings classified as Legal Obligation pursuant to the terms of Bacen Circular Letter No. 3429 of 02.11.2010, whose amounts were presented in the table above, challenge federal and municipal taxes.
- d) Below is a brief description of proceedings to which the Bank is party, involving significant contingent liabilities assessed as possible risk of loss:

#### Tax

Five tax proceedings challenging the tax deficiency notice. At 06.30.2019, estimated losses amount to R\$3,000,588 (R\$2,541,227 at 06.30.2018).

#### Civil Proceedings

Civil proceeding claiming compensation for pain and suffering. At 06.30.2019, estimated loss amounts to R\$472,377 (R\$400,264 at 06.30.2018).

Civil proceeding challenging compensation for pain and suffering and payment of fees. At 06.30.2019, estimated loss amounts to R\$154,671 (R\$131,059 at 06.30.2018).

Civil proceeding challenging property damage and consequential damages. At 06.30.2019, estimated loss amounts to R\$74,585 (R\$437,235 at 06.30.2018).

Civil proceeding challenging payment of attorney's fees. At 06.30.2019, estimated loss amounts to R\$73,797 (there was no contingency for this proceeding at 06.30.2018).

Civil proceeding challenging reassessment (solutio indebiti) and payment of fine. At 06.30.2019, estimated loss amounts to R\$51,608 (R\$79,584 at 06.30.2018).

Civil proceeding challenging compensation for pain and suffering and property damage. At 06.30.2019, estimated loss amounts to R\$48,612 (R\$41,191 at 06.30.2018).

Civil proceeding filed in 2014 related to Post-Employment Benefits. At 06.30.2019, estimated loss amounts to R\$53,643 (R\$56,869 at 06.30.2018).

- e) Legal and Appeal Deposits made to guarantee legal and administrative proceedings, recognized for probable possible and/or remote contingent liabilities, are set out as under:

Specification	06.30.2019	06.30.2018
Labor Claims	137,618	84,543
Tax Proceedings	142,505	134,163
Civil Proceedings	126,318	77,380
<b>Total<sup>(1)</sup></b>	<b>406,441</b>	<b>296,086</b>

<sup>(1)</sup> This increase is due to new deposits and monetary restatement of judicial deposit balances.

### Changes in Provisions

#### f.1) Tax, Labor, Civil and Other Contingencies

Specification	06.30.2019					06.30.2018				
	Opening Balance	Recognition	Reversal	Payment	Closing Balance	Opening Balance	Recognition	Reversal	Payment	Closing Balance
i) Tax Proceedings (Note 16.i and Note 21.a.1)	15,769	1,311	(272)	(1)	16,807	13,328	2,397	(83)	-	15,642
ii) Labor Claims (Note 16.i and Note 21.a.2)	206,531	50,691	(10,089)	(6,177)	240,956	169,253	33,980	(8,584)	(3,949)	190,700
iii) Civil Proceedings (Note 16.i and Note 21.a.3)	146,964	57,101	(15,856)	(11,665)	176,544	116,349	33,967	(10,944)	(5,842)	133,530
iv) Other Proceedings (Note 16.i and Note 21.a.4)	32,466	7,699	(6,020)	-	34,145	26,425	8,484	(335)	-	34,574

## f.2) Provisions for Financial Guarantees Provided

Specification	06.30.2019				06.30.2018			
	Opening Balance	Recognition	Reversal/ Use/ Write-off	Closing Balance	Opening Balance	Recognition	Reversal/ Use/ Write-off	Closing Balance
i) FNE (Note 9.f and Note 16.i)	2,989,707	590,637	(751,504)	2,828,840	3,083,952	959,818	(851,058)	3,192,712
ii) FDNE (Note 9.f and Note 16.i)	1,222	41	-	1,263	636	2,781	-	3,417
iii) Proagro (Note 9.f and Note 16.i)	7	-	-	7	-	7	-	7

## NOTE 22 - Employee and Officer Compensation (in Brazilian reais)

### a) Monthly Employee Compensation

Gross Compensation <sup>(1)</sup>	06.30.2019	06.30.2018
Maximum	42,517.09	40,743.64
Minimum	1,756.24	1,643.01
Average	11,194.60	10,681.09

<sup>(1)</sup> Includes overtime (including night shift premium), when actually incurred.

### b) Compensation paid to the Executive Board, Board of Directors and Supervisory Board for the period

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018	01.01 to 06.30.2019	01.01 to 06.30.2018	01.01 to 06.30.2019	01.01 to 06.30.2018
<b>Gross Compensation<sup>(1)</sup></b>	<b>Executive Board</b>		<b>Board of Directors</b>		<b>Supervisory Board</b>	
Highest individual compensation <sup>(2)</sup>	623,508.83	652,035.13	35,976.87	39,231.67	33,246.36	37,934.87
Lowest individual compensation <sup>(3)</sup>	432,382.53	319,552.16	27,139.92	30,062.62	27,139.92	30,004.63
Average individual compensation <sup>(4)</sup>	506,774.75	598,139.91	30,583.29	31,228.83	29,582.50	30,208.79
Number of members <sup>(5)</sup>	6.17	6.33	5.67	6.17	5.00	5.50

<sup>(1)</sup> Amounts approved at the General Meeting.

<sup>(2)</sup> Amount computed without any exclusion, considering all compensation amounts recognized for the period.

<sup>(3)</sup> Amount reached after excluding all those who have not served in their position over the entire period.

<sup>(4)</sup> This corresponds to the total compensation for the period paid by each board divided by the number of members.

<sup>(5)</sup> The number of members corresponds to the annual average number of members of each board calculated on a monthly basis.

At 06.30.2019, the Bank had 6,721 (6,989 at 06.30.2018) employees, a headcount decrease of 3.83%.

## NOTE 23 - Profit Sharing

The Employees' Profit Sharing provision for the six-month period corresponds to R\$46,087 (R\$13,384 at 06.30.2018), equivalent to 6.18% of net income for the six-month period (5.77% at 06.30.2018) and 25.00% (25.00% at 06.30.2018) on proposed dividends and IOE for distribution in the six-month period. The profit sharing expense at 06.30.2019 amounts to R\$46,330 (R\$14,060 at 06.30.2018), of which R\$46,087 is allocated to Employees and R\$243 to Officers.

Profit sharing amounts paid to Employees and Officers amounted to R\$33,148 (R\$ 23,945 at 06.30.2018) and R\$828 (R\$862 at 06.30.2018), respectively.

## NOTE 24 - Post-Employment Benefits

Pursuant to CMN Resolution No. 4424, which approved Accounting Pronouncement CPC 33 (R1) - Employee Benefits, the accounting practices and procedures adopted by the Bank regarding post-employment benefit are presented below.

## **a) Description of the Plan Benefits**

### **a.1) Private Pension Plans**

The Bank sponsors two complementary pension plans, a Defined Benefit (DB) plan and a Variable Contribution (DB + VC) plan both managed by Caixa de Previdência dos Funcionários do Banco do Nordeste do Brasil (Capef), a closed-ended private pension plan entity that provides complementary retirement benefits.

#### **a.1.1) Defined Benefit (DB) Plan**

The DB plan, which is closed to new participants since 11.26.1999, offers to its participants supplementary retirement benefits based on the contribution period, age and disability, as well as supplementary pension and savings plans to their dependents. In general terms, to the current participants, the DB plan benefits are calculated based on the difference between the employees' contribution salary and the INSS retirement benefit, weighted by the number of contributions paid to the plan, limited to 360, including any working hours extension, weighted by the number of contributions paid thereon, all effective since July 1997 and projected in accordance with the plan regulation up to the date of the participant's retirement.

#### **a.1.2) Variable Contribution (VC) I Plan**

The VC I plan, classified as a variable contribution, combines the characteristics of the Defined Contribution (DC) plan and of the Defined Benefit (DB) plan. This plan offers to its participants supplementary retirement benefits based on the contribution period, age and disability, as well as supplementary pension and savings plans to their dependents.

The scheduled retirement benefits of the VC I plan are calculated based on the balance of the individual account for each participant on the date of retirement and are paid in two phases, as follows: the first phase as annuity within the deadline established under the Defined Contribution (DC) plan and the second phase as life annuity under the Defined Benefit (DB) plan.

The VC I Plan may only present actuarial deficit or surplus after the beginning of the concession of unplanned benefits, disability and death, or planned benefits in the life annuity phase. The VC I plan is supported by the Actuarial Solvency Fund that will be used to cover any future actuarial insufficiency of mutual pension plan portfolios, as well as supported by the Mutual Fund for Risk Benefits, in order to supply the payment of complementary capital in case of disability or death of the participant, referring to the insurance coverage of the benefits resulting from these events.

### **a.2) Health Care Plan**

The Bank is the sponsor of a health care plan managed by Caixa de Assistência dos Funcionários do Banco do Nordeste do Brasil (Camed), whose primary purpose is to provide health care to its associate participants and their dependents, through granting of subsidies to cover or reimburse expenses incurred in connection with health promotion, protection and recovery.

The Natural Plan is funded primarily by contributions made by the associate participants, contributions related to the enrollment of natural dependents, financial protection and emergency service fees, financial co-payment made by each associate participant for services utilized and matched contributions from the Bank.

### **a.3) Group Life Insurance**

The Bank's benefits policy to its employees comprises collective policy agreement of group life insurance intended for its employees and retired former employees. Such policy provides basic coverage for death by natural and accidental causes and additional coverage for disability caused by accident and disease. Insurance premiums are determined by applying rates by age groups. The employees contribute with 50% of this premium amount and the Bank with the remaining 50%, in the form of the Collective Bargaining Agreement (2018/2020). Retirees are responsible for full payment of the premium. Every six-month period, the Bank actuarially assesses the benefit that consists of indirect subsidy to current retirees.

#### **a.4) Governance**

The following statutory boards are responsible for the management and oversight of Capef: Decision-Making Board, Executive Board and Supervisory Board. The Decision-Making Board is a board for top-tier decision and guidance and shall primarily define the Capef's management policy and benefit plans. The Executive Board is the Capef's management board responsible for the execution, by itself or other, of the general guidelines and standards set by the Decision-Making Board and other provisions contained in the relevant legislation, in Capef's charter, benefit plan regulations, covenants and adhesion terms. The Supervisory Board is the internal control board and shall mainly monitor and oversee CAPEF activities.

Camed statutory boards are: Social Board, Decision-Making Board, Executive Board and Supervisory Board. The Social Board composed of associate participants is the supreme decision-making board empowered to resolve all matters and business related to the full operation and development of Camed. The Camed's Decision-Making Board is a board for monitoring and top-tier administrative decision. The Executive Board is responsible for the execution, by itself or other, of the general guidelines and standards set by the Decision-Making Board and other provisions contained in the relevant legislation, in Camed's charter and internal regulations. The Supervisory Board is the supervisory board of Camed's management acts and shall essentially monitor and direct the company's activities.

The members of the statutory boards of the two Entities are chosen in order to confer representativeness to the Participants, Vested Beneficiaries and to the Sponsors, based on the criteria established in their Charters.

#### **a.5) Strategies for Crosschecking Assets and Liabilities**

Capef counts on specific areas for investment management in addition to management advisory services that strengthens the monitoring of investment risks. Investments are monitored in order to check issues focused on classification, returns on assets and follow-up of the evolution of the plan's actuarial goal. Studies are conducted aiming to assist the plan's administrators in choosing the most suitable portfolio to their goals, taking into consideration the characteristics and peculiarities of the assets and the plan's financial position, allowing long-term investments, without compromising the obligations or the achievement of the actuarial goal.

Camed has financial instruments to fund its activities or invest its funds available. The risks associated with these instruments are managed through conservative strategies, intended to ensure liquidity, profitability and safety. Risk management monitors the changes in exposure scenarios to which CAMED is subject.

#### **b) Past due Obligations and Contributions Due**

At 06.30.2019, the Bank has no past due obligations or contributions due referring to the pension plans, BD and VCI, health care plan, Natural plan, and the group life insurance, neither informal practices that originate constructive obligations that may give rise to constructive obligations to be included in the measurement of the defined benefit obligation.

#### **c) Contribution Ratio (Participants/Sponsor)**

At 06.30.2019, the ratio of participants' contributions to Bank contributions meets the parity set by Resolution No. 9 of 10.08.1996 of the Department for Coordination and Control of State-Owned Entities (CCE), with a contribution ratio of 1:1 (1:1 at 06.30.2018).

#### d) Risk exposure

The Bank's Actuarial Liability, which records the obligations on Defined Benefit, Variable Contribution I, Natural and Group Life Insurance plans is mainly exposed to the following risks:

Plan	Type of Risk	Risk Description
DB/VC I/Natural/Group Life Insurance	Actuarial Risk	This is the risk of the final cost of the benefits acquired to be greater than the expected benefits. The Bank has no alternative but to increase its contributions or persuade participants to accept a reduction in benefits.
DB/ VC I/ Natural	Investment risk	This is related to changes in interest rates and asset prices that impact the economic and financial performance of the benefit plan. If the plans' actual investment earnings are lower than the expected return, this may lead to an increase in the actuarial liability.
DB/VC I/Natural/Group Life Insurance	Actuarial assumptions risks	This is related to the adoption of actuarial assumptions inappropriate to the plans, upon calculating the present value of the defined benefit obligation, resulting in a material impact on the actuarial liability.
DB/VC I/Natural/Group Life Insurance	Discount rate	The actuarial liability is calculated by adopting a discount rate defined based on government securities earnings (NTN-B), according to item 83 of CVM Deliberation No. 695. Decrease in these securities earnings results in an increase in the actuarial liability.
DB/VC I/Natural/Group Life Insurance	Life expectation risks	Post-employment benefit plans offer life annuity benefits, therefore, an increase in life expectancy results in an increase in actuarial liabilities.

#### e) Number of Participants of the Post-Employment Benefit Plan

Specification	DB	VC I	CAMED	INSURANCE
Participants	1,307	5,227	6,339	4,737
Vested participants (able retirees)	3,674	246	3,964	3,668
Vested participants (disabled retirees)	165	3	-	-
Vested participants (pensioners)	1,217	38	1,220	-
<b>Total</b>	<b>6,363</b>	<b>5,514</b>	<b>11,523</b>	<b>8,405</b>

#### f) Assumptions used

##### f.1) Demographic Assumptions

Demographic assumptions used in the calculation of plan obligation are based on those adopted in actuarial valuations in the scope of Capef, based on statistical studies and adequacy of hypotheses, prepared by specialized advisory firms engaged by that entity. For the Natural plan, the demographic assumptions of the DB plan are used, while for the Group Life Insurance the demographic assumptions used are those of the VC I plan, considering the population characteristics.

Specification	DB (Capef) and Natural (Camed) Plans	
	06.30.2019	06.30.2018
<b>Mortality tables</b>		
Active/Retirees	RP2000 M&F Proj 2018 - downrated by 10%, segregated by gender	RP2000 M&F Proj 2018 - downrated by 10%
Disabled people	RP2000 Disable F	RP2000 Disable F
<b>Disability table</b>	Álvaro Vindas	Álvaro Vindas

Specification	VC I (Capef) plan and Life Insurance	
	06.30.2019	06.30.2018
<b>Mortality tables</b>		
Active/Retirees	RP 2000 Proj.2018, segregated by gender (downrated by 20%)	RP 2000 Proj.2018, segregated by gender (downrated by 20%)
Disabled people	IAPC experience (downrated by 50%)	IAPC experience (downrated by 50%)
<b>Disability table</b>	Muller (downrated by 85%)	Muller (downrated by 85%)

## f.2) Financial Assumptions

Specification	Capef (% p.a.)			
	DB Plan		VC I Plan	
	06.30.2019	06.30.2018	06.30.2019	06.30.2018
Statutory discount rate for the actuarial obligation	7.40	10.03	7.77	10.15
Effective discount rate for the actuarial obligation	3.42	5.85	3.77	5.98
Average annual inflation rate	3.85	3.94	3.85	3.94
Nominal rate of salary increase <sup>(1)(2)</sup>	4.89	4.98	-	-
Nominal rate of benefit increases	3.85	3.94	3.85	3.94

<sup>(1)</sup> DB Plan: the actual rate of salary increase of 1% is applied until the participant reaches the expected date for retirement (360 contributions).

<sup>(2)</sup> VC I Plan: the actual salary increase projection of each participant follows the rules of the Bank's positions and salary plan and in case of an increase in the additional amount due to position in a commission (AFC).

Specification	Camed (% p.a.)		Life insurance	
	Natural Plan		06.30.2019	06.30.2018
	06.30.2019	06.30.2018		
Statutory discount rate for the actuarial obligation	7.77	10.15	7.77	10.15
Effective discount rate for the actuarial obligation	3.77	5.98	3.77	5.98
Average annual inflation rate	3.85	3.94	3.85	3.94
Nominal rate of salary increase <sup>(1)</sup>	4.89	4.98	3.85	4.98
Nominal rate of benefit average increases <sup>(1)</sup>	2.39 <sup>(2)</sup>	2.11 <sup>(2)</sup>	3.85	4.98
Rate of increase in health care costs due to aging (aging factor)	3.53	3.66	Not applicable	Not applicable
Rates of increase in health costs (HCCTR)	2.39 <sup>(2)</sup>	2.11 <sup>(2)</sup>	Not applicable	Not applicable

<sup>(1)</sup> For the case of life insurance, this refers to a projection of increase in insured capital.

<sup>(2)</sup> At 06.30.2019, a health care inflation rate was calculated for the Natural plan, considering the plan experience in the last nine (10) years. The rate found was 2.39%, above the aging factor and price overall inflation, and decreases gradually in 5 (five) years, remaining at 1% p.a. from the 6<sup>th</sup> (sixth) year. At 06.30.2018, a health care inflation rate was calculated for the Natural plan, considering the plan experience in the last nine (9) years. The rate found was 2.11%, above the aging factor and price overall inflation.

**f.3)** The future inflation rate is used in the Present Value Calculation of the Actuarial Obligation, intended for measurement of the inflation floating arising from the freeze, in annual cycles, of future contributions and benefits. This calculation allows the occurrence of inflation process of equal charge for all salary, union, social security and economic variables of the plan.

**f.4)** The Projected Unit Credit Method is used as the actuarial valuation method in order to determine the obligation present value, the current service cost and, when necessary, the past service cost.

**f.5)** The discount rate is equivalent to the expected return of the National Treasury Notes (NTN-B), for the "duration" of the plans, in accordance with the methodology provided in item 83 of CPC 33 (R1) approved by CMN Resolution No. 4424. At 06.30.2019, the following "duration" of the plans was determined: for Capef DB plans: 9.61 years (9.24 years at 06.30.2018); for CAPEF VC I Plan: 24.99 years (26.49 years at 06.30.2018); for Natural Plan: 20.62 years (21.82 years at 06.30.2018); and for Life Insurance: 19.23 years (18.42 years at 06.30.2018).

## g) Actuarial Obligation Analysis

At 06.30.2019, the plans administered by Capef and Camed as well as the Group Life Insurance are recorded in the Bank's financial statements, as follows:

### g.1) Private Pension Plans

**g.1.1) Defined Benefit (DB) plan:** the present value of the actuarial obligation amounting to R\$5,181,230 (R\$4,103,802 at 06.30.2018) is partially based on plan assets amounting to R\$4,492,094 (R\$3,679,848 at 06.30.2018), resulting in a present value of the uncovered actuarial obligations of R\$689,136 (R\$423,954 at 06.30.2018). The obligation referring to vested participants amounts to R\$4,270,906 (R\$3,426,664 at 06.30.2018) and that referring to active participants amounts to R\$910,324 (R\$677,138 at 06.30.2018);



**g.1.2) Variable Contribution (VC) I Plan:** for unplanned benefits (DB portion) that have characteristics of the defined benefit plan, the present value of the actuarial obligation amounting to R\$24,578 (R\$14,000 at 06.30.2018) is lower than the fair value of plan assets amounting to R\$76,666 (R\$46,531 at 06.30.2018), resulting in a surplus of R\$52,088 (R\$32,531 at 06.30.2018), which has not been recognized as it is intended for building up a solvency fund and the plan mutual fund.

**g.2) Health care plan:** the present value of the actuarial obligation amounting to R\$2,142,085 (R\$1,312,221 at 06.30.2018) is partially based on plan assets amounting to R\$151,176 (R\$119,430 at 06.30.2018), resulting in a present value of the uncovered actuarial obligations of R\$1,990,909 (R\$1,192,791 at 06.30.2018). The obligation referring to vested participants amounts to R\$1,408,968 (R\$1,003,654 at 06.30.2018) and that referring to active participants amounts to R\$733,117 (R\$308,567 at 06.30.2018).

**g.3) Group life insurance:** the present value of the uncovered actuarial obligations amounts to R\$181,726 (R\$135,719 at 06.30.2018), and there are no assets for this plan.

#### h) Reconciliation of Opening and Closing Balances of the Present Value of Obligation

Specification	Capef			
	DB Plan		VC I Plan	
	06.30.2019	06.30.2018	06.30.2019	06.30.2018
1. Present value of actuarial obligation at the beginning of the period	(4,545,981)	(4,161,598)	(14,537)	(21,807)
2. Interest expense	(196,498)	(195,495)	(656)	(1,017)
3. Current service cost	(1,494)	(4,281)	(59)	(232)
4. Benefits paid by the plan	222,948	215,948	273	235
5. Vested participant contributions (retirees and pensioners)	(39,358)	(37,468)	-	-
6. Reversal of the contribution balance from DC portion to DB portion of the plan	-	-	(5,513)	(211)
<b>7. Remeasurements of actuarial gains (losses)</b>	<b>(620,847)</b>	<b>79,092</b>	<b>(4,086)</b>	<b>9,032</b>
7.1. From experience adjustments	191,606	(101,721)	2,160	8,548
7.2. From changes in financial assumptions	(743,397)	180,813	(6,246)	484
7.3 From the reduction in the contribution percentage on benefits (from 21.25% to 20.00%)	(69,056)	-	-	-
<b>8. Present value of actuarial obligation at the end of the period</b>	<b>(5,181,230)</b>	<b>(4,103,802)</b>	<b>(24,578)</b>	<b>(14,000)</b>

Specification	Camed		Life insurance	
	Natural Plan		06.30.2019	06.30.2018
	06.30.2019	06.30.2018		
1. Present value of actuarial obligation at the beginning of the period	(1,621,151)	(1,470,786)	(147,161)	(134,567)
2. Interest expense	(72,723)	(69,884)	(6,579)	(6,380)
3. Current service cost	(9,626)	(9,231)	(988)	(607)
4. Benefits paid by the plan <sup>(1)</sup>	47,587	41,040	5,122	5,210
5. Vested participant contributions (retirees and pensioners)	(13,021)	(9,532)	(1,519)	(1,585)
6. Administrative expenses paid by the plan	7,579	6,590	-	-
<b>7. Remeasurements of actuarial gains (losses)</b>	<b>(480,730)</b>	<b>199,582</b>	<b>(30,601)</b>	<b>2,210</b>
7.1. Experience adjustments	(69,364)	42,636	(12,067)	(10,490)
7.2. Changes in financial assumptions	(363,435)	156,946	(18,534)	12,700
7.3. Changes arising from the increase in healthcare costs	(117,796)	-	-	-
7.4. Changes resulting from the reduction of the administrative expense rate	48,563	-	-	-
7.5. Changes resulting from the reduction of the health care inflation rate (HCCTR)	21,302	-	-	-
<b>8. Present value of actuarial obligation at the end of the period</b>	<b>(2,142,085)</b>	<b>(1,312,221)</b>	<b>(181,726)</b>	<b>(135,719)</b>

<sup>(1)</sup> Camed: Natural Plan - net of co-payments made by associate participants.

**i) Reconciliation between opening and closing balances of the fair value of plan assets**

Specification	Capef			
	DB Plan		VC I Plan	
	06.30.2019	06.30.2018	06.30.2019	06.30.2018
1. Fair value of plan assets at the beginning of the period	3,939,911	3,750,382	54,740	44,629
2. Interest income	171,350	177,607	2,570	2,205
3. Employer contributions <sup>(1)</sup>	36,422	37,598	707	665
4. Active participants' contributions	118	119	713	668
5. Vested participants' contributions	39,358	37,468	-	-
6. Reversal of the contribution balance from DC portion to DB portion of the plan	-	-	5,513	211
7. Benefits paid by the plan	(222,948)	(215,948)	(273)	(235)
8. Gains/(losses) on assets <sup>(2)</sup>	527,883	(107,378)	12,696	(1,612)
<b>9. Fair value of plan assets at the end of the period</b>	<b>4,492,094</b>	<b>3,679,848</b>	<b>76,666</b>	<b>46,531</b>

<sup>(1)</sup> Capef - DB Plan: contributions related to active and vested participants;

<sup>(2)</sup> Return on plan assets, less amounts included in net interest on the net amount of liabilities (assets) of the defined benefit.

Specification	Camed		Life insurance	
	Natural Plan		06.30.2019	06.30.2018
	06.30.2019	06.30.2018		
1. Fair value of plan assets at the beginning of the period	146,781	116,548	-	-
2. Interest income	6,706	5,772	-	-
3. Employer contributions <sup>(1)</sup>	41,729	23,675	2,084	2,143
4. Return of Sponsor's contributions	(2,793)	(2,660)	-	-
5. Active participants' contributions	173	329	1,519	1,482
6. Vested participants' contributions	13,021	9,532	1,519	1,585
7. Administrative expenses paid by the plan	(7,579)	(6,590)	-	-
8. Benefits paid by the plan <sup>(2)</sup>	(47,587)	(41,040)	(5,122)	(5,210)
9. Gains/(losses) on assets <sup>(3)</sup>	725	13,864	-	-
<b>10. Fair value of plan assets at the end of the period</b>	<b>151,176</b>	<b>119,430</b>	<b>-</b>	<b>-</b>

<sup>(1)</sup> Camed - Natural Plan: contributions related to associate participants and retirees/pensioners;

<sup>(2)</sup> Camed - Natural Plan: net of co-participations paid by associate participants; and

<sup>(3)</sup> Return on plan assets, less amounts included in net interest on the net amount of liabilities (assets) of the defined benefit.

**j) Reconciliation Between Opening and Closing Balances of the Asset Ceiling Effect**

Specification	Capef	
	VC I Plan	
	06.30.2019	06.30.2018
1. Asset ceiling effect at the beginning of the period	(40,203)	(22,822)
2. Interest on asset ceiling effect	(1,914)	(1,188)
3. Remeasurement of asset ceiling effect	(9,971)	(8,521)
<b>4. Asset ceiling effect at the end of the period</b>	<b>(52,088)</b>	<b>(32,531)</b>

**k) Reconciliation of the Present Value of Obligation and of the Plan Assets Value with Assets and Liabilities Recognized in the Balance Sheet**

Specification	Capef			
	DB Plan		VC I Plan	
	06.30.2019	06.30.2018	06.30.2019	06.30.2018
1. Present value of actuarial obligation at the end of the period	(5,181,230)	(4,103,802)	(24,578)	(14,000)
2. Fair value of plan assets at the end of the period	4,492,094	3,679,848	76,666	46,531
3. Surplus (deficit) of the plan (item 1 - item 2)	(689,136)	(423,954)	52,088	32,531
4. Asset ceiling effect at the end of the period	-	-	(52,088)	(32,531)
<b>5. Liability recognized in the balance sheet at the end of the period (Note 16.i)</b>	<b>(689,136)</b>	<b>(423,954)</b>	<b>-</b>	<b>-</b>

Specification	Camed		Life insurance	
	Natural Plan		06.30.2019	06.30.2018
	06.30.2019	06.30.2018		
1. Present value of actuarial obligation at the end of the period	(2,142,085)	(1,312,221)	(181,726)	(135,719)
2. Fair value of plan assets at the end of the period	151,176	119,430	-	-
3. Surplus (deficit) of the plan (item 1 - item 2)	(1,990,909)	(1,192,791)	(181,726)	(135,719)
<b>4. Liability recognized in the balance sheet at the end of the period (Note 16.i)</b>	<b>(1,990,909)</b>	<b>(1,192,791)</b>	<b>(181,726)</b>	<b>(135,719)</b>

#### I) Amounts recognized in P&L for the year

Specification	Capex			
	DB Plan		VC I Plan	
	01.01 to 06.30.2019	01.01 to 06.30.2018	01.01 to 06.30.2019	01.01 to 06.30.2018
<b>1. Current service cost, net</b>	<b>(1,376)</b>	<b>(4,162)</b>	<b>654</b>	<b>436</b>
1.1. Service cost	(1,494)	(4,281)	(59)	(232)
1.2. Active participants' contributions	118	119	713	668
<b>2. Net interest</b>	<b>(25,148)</b>	<b>(17,888)</b>	<b>-</b>	<b>-</b>
2.1. Interest expense	(196,498)	(195,495)	(656)	(1,017)
2.2. Interest income	171,350	177,607	2,570	2,205
2.3. Interest on ceiling effect	-	-	(1,914)	(1,188)
<b>3. Amounts recognized in P&amp;L for the year (item 1 + item 2)</b>	<b>(26,524)</b>	<b>(22,050)</b>	<b>654 <sup>(1)</sup></b>	<b>436 <sup>(1)</sup></b>

<sup>(1)</sup> Amounts recorded under "Reversal of operating provisions".

Specification	Camed Natural Plan		Life insurance	
	01.01 to 06.30.2019	01.01 to 06.30.2018	01.01 to 06.30.2019	01.01 to 06.30.2018
<b>1. Current service cost, net</b>	<b>(9,453)</b>	<b>(8,902)</b>	<b>531</b>	<b>875</b>
1.1. Service cost	(9,626)	(9,231)	(988)	(607)
1.2. Active participants' contributions	173	329	1,519	1,482
<b>2. Net interest</b>	<b>(66,017)</b>	<b>(64,112)</b>	<b>(6,579)</b>	<b>(6,380)</b>
2.1. Interest expense	(72,723)	(69,884)	(6,579)	(6,380)
2.2. Interest income	6,706	5,772	-	-
<b>3. Amounts recognized in P&amp;L for the year (item 1 + item 2) <sup>(1)</sup></b>	<b>(75,470)</b>	<b>(73,014)</b>	<b>(6,048)</b>	<b>(5,505)</b>

<sup>(1)</sup> Including employees' contribution granted to be refunded to the Bank - Natural Plan: 01.01. to 06.30.2019: R\$40; 01.01 to 06.30.2018: R\$21; and Life Insurance: 01.01.to 06.30.2019: R\$3; 01.01 to 06.30.2018: R\$4.

The contributions referring to the DC portion of the VC I plan were accounted for under "Post-employment benefit expenses", as follows:

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018
1. Contributions (DC portion) <sup>(1)</sup>	(27,442)	(25,638)

<sup>(1)</sup> Including transferred employees' contribution: 01.01 to 06.30.2019 R\$93; and 01.01 to 06.30.2018 R\$127; and contribution projection: 01.01 to 06.30.2018: R\$42.

The administrative expenses of the Defined Benefit (DB) plan are accounted for under "Post-employment benefit expenses", as stated below:

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018
1. Administrative expenses	(3,167)	(3,247)

#### m) Amounts for the Period Recognized in Equity

The actuarial losses deriving from financial assumptions, at 06.30.2019, refer to the decreases in the actual discount rates in relation to 12.31.2018, which decreased from 4.80% (12.31.2018) to 3.42% (06.30.2019) in the BD plan; and from 4.98% (12.31.2018) to 3.77% (06.30.2019) in the VC I, Natural and Life Insurance plans.

In addition, losses were recorded resulting from the reduction of the contribution rate of vested participants in the DB plan and the increase in the average healthcare costs in the Natural plan. These losses were higher than gains generated, in the Natural plan, by the reduction of the percentage of administrative expenses and healthcare inflation (HCCTR), after the change in the basis of healthcare costs of the last 10 years.

Specification	Capef			
	DB Plan		VC I Plan	
	01.01 to 06.30.2019	01.01 to 06.30.2018	01.01 to 06.30.2019	01.01 to 06.30.2018
1. Gains/(losses) on assets <sup>(1)</sup>	527,883	(107,378)	12,696	(1,612)
<b>2. Actuarial gains (losses) on obligation</b>	<b>(620,847)</b>	<b>79,092</b>	<b>(4,086)</b>	<b>9,032</b>
2.1. Experience adjustments	191,606	(101,721)	2,160	8,548
2.2. Changes in financial assumptions	(743,397)	180,813	(6,246)	484
2.3 From the reduction in the contribution percentage on benefits (from 21.25% to 20.00%)	(69,056)	-	-	-
3. Asset ceiling effect	-	-	(9,971)	(8,521)
<b>4. Amounts recognized in equity at the end of the period (item 1 + item 2 + item 3)<sup>(2)</sup></b>	<b>(92,964)</b>	<b>(28,286)</b>	<b>(1,361)</b>	<b>(1,101)</b>

<sup>(1)</sup> Return on plan assets, less amounts included in net interest on the net amount of liabilities (assets) of the defined benefit.

<sup>(2)</sup> Including estimated contribution difference in the DB Plan actuarial calculation: 01.01 to 06.30.2019: R\$1; 01.01 to 06.30.2018: R\$257; and of the VC I plan: 01.01 to 06.30.2018: R\$61.

Specification	Camed		Life Insurance	
	Natural Plan		01.01 to 06.30.2019	01.01 to 06.30.2018
	01.01 to 06.30.2019	01.01 to 06.30.2018		
1. Gains/(losses) on assets <sup>(1)</sup>	725	13,864	-	-
<b>2. Actuarial gains (losses) on obligation</b>	<b>(480,730)</b>	<b>199,582</b>	<b>(30,601)</b>	<b>2,210</b>
2.1. Experience adjustments	(69,364)	42,636	(12,067)	(10,490)
2.2. Changes in financial assumptions	(363,435)	156,946	(18,534)	12,700
2.3. Changes arising from the increase in healthcare costs	(117,796)	-	-	-
2.4. Changes resulting from the reduction of the administrative expense rate	48,563	-	-	-
2.5. Changes resulting from the reduction of the health care inflation rate (HCCTR)	21,302	-	-	-
<b>3. Amounts recognized in equity at the end of the period (item 1 + item 2 + item 3)<sup>(2)</sup></b>	<b>(480,005)</b>	<b>213,446</b>	<b>(30,601)</b>	<b>2,210</b>

<sup>(1)</sup> Return on plan assets, less amounts included in net interest on the net amount of liabilities (assets) of the defined benefit;

<sup>(2)</sup> Including estimated contribution difference in the Natural Plan actuarial calculation: 01.01 to 06.30.2018: R\$15.

#### n) Reconciliation of changes in net (liabilities)/assets recognized in the period

Specification	Capef			
	DB Plan		VC I Plan	
	06.30.2019	06.30.2018	06.30.2019	06.30.2018
1. (Liabilities)/assets recognized at the beginning of the period	(606,070)	(411,216)	-	-
2. Employer contributions	36,422	37,598	707	665
3. Amounts recognized in P&L	(26,524)	(22,050)	654	436
4. Amounts recognized in equity for the period	(92,964)	(28,286)	(1,361)	(1,101)
<b>5. (Liabilities)/assets recognized at the end of the period (Note 16.i)</b>	<b>(689,136)</b>	<b>(423,954)</b>	<b>-</b>	<b>-</b>

Specification	Camed		Life insurance	
	Natural Plan		06.30.2019	06.30.2018
	06.30.2019	06.30.2018		
1. (Liabilities)/assets recognized at the beginning of the period	(1,474,370)	(1,354,238)	(147,161)	(134,567)
2. Employer contributions	41,729	23,675	2,084	2,143
3. Return of Sponsor's contributions	(2,793)	(2,660)	-	-
4. Amounts recognized in P&L	(75,470)	(73,014)	(6,048)	(5,505)
5. Amounts recognized in equity	(480,005)	213,446	(30,601)	2,210
<b>6. (Liabilities)/assets recognized at the end of the period (Note 16.i)</b>	<b>(1,990,909)</b>	<b>(1,192,791)</b>	<b>(181,726)</b>	<b>(135,719)</b>

### o) Investment policy and allocation of plan fair values

The investment policies for DB and VC I plans are annually prepared for a 5-year period, subject to approval from the Capped's Decision-Making Board and are mainly intended for defining guidance procedures for management of assets compared to benefit expenses, aiming at the actuarial balancing of each plan. The DB plan goal to be reached in its investments is represented by INPC + 5.50% p.a., and VC I plan represented by IPCA +5.25% p.a.

For allocation of funds and limits per segment of application, the guidelines of CMN Resolution No. 3792 dated 09.24.2009 and amendments are taken into consideration, in addition to safety, liquidity, profitability and maturity criteria of the plan. The proposal of fund allocation is reviewed at any time, due to any significant event that may substantially change the macroeconomic assumptions regarded.

Deliberations on natural plan investments are approved by the Executive Board and submitted to the Decision-Making Board of Camed. For investments associated with financial guarantees with the Brazilian Agency for Supplementary Health (ANS), the limits and conditions set forth by this agency are observed.

Specification	Capef				Camed	
	DB Plan (%)		VC I Plan (%)		Natural Plan (%)	
	06.30.2019	06.30.2018	06.30.2019	06.30.2018	06.30.2019	06.30.2018
Fixed income	90.56	89.41	87.37	85.97	96.25	94.94
Variable income	0.99	0.62	5.15	4.70	3.21	4.36
Real estate investments	5.78	7.05	-	-	0.54	0.70
Structured investments	0.66	0.48	3.06	3.78	-	-
Loans and financing to participants	2.01	2.44	4.42	5.55	-	-
Other	-	-	-	-	-	-
<b>Amounts included in the fair value of plan assets</b>						
In financial instruments at the Bank	0.29	0.29	-	-	96.24	94.94
In properties/other assets used by the Bank	0.75	0.91	-	-	0.54	0.70

### p) Sensitivity analysis of main assumptions

The sensitivity analysis considers the increase or decrease by 0.25% p.a. in the interest rate for DB, VC I, Natural and Life Insurance plans, and increase or decrease by 0.25% p.a. in health care inflation (HCCTR). The calculation was carried based on the Projected Unit Credit (PUC) method, estimating the present value of the obligation in the position of 06.30.2019:

Capef - DB Plan	Current parameters	Interest rate	
	06.30.2019	+ 0.25%	-0.25%
Present value of actuarial obligation	(5,181,230)	(5,017,836)	(5,319,897)
Fair value of assets	4,492,094	4,492,094	4,492,094
<b>Technical surplus (deficit)</b>	<b>(689,136)</b>	<b>(525,742)</b>	<b>(827,803)</b>
<b>Variations:</b>			
Increase/decrease in actuarial obligation (%)		(3.2%)	2.7%
Increase/decrease in technical surplus (deficit) – (%)		(23.7%)	20.1%

Capef - VC I Plan	Current parameters	Interest rate	
	06.30.2019	+0.25%	-0.25%
Present value of actuarial obligation	(24,578)	(23,110)	(26,297)
Fair value of assets	76,666	76,666	76,666
<b>Technical surplus (deficit) <sup>(1)</sup></b>	<b>52,088</b>	<b>53,556</b>	<b>50,369</b>
<b>Variations:</b>			
Increase/decrease in actuarial obligation (%)		(6.0%)	7.0%
Increase/decrease in technical surplus (deficit) – (%)		2.8%	(3.3%)

<sup>(1)</sup> Amount not recognized in view of the asset ceiling effect.

Camed - Natural Plan	Current parameters	Interest rate		HCCTR	
	06.30.2019	+ 0.25%	- 0.25%	+ 0.25%	- 0.25%
Present value of actuarial obligation	(2,142,085)	(2,053,951)	(2,236,356)	(2,241,953)	(2,048,393)
Fair value of assets	151,176	151,176	151,176	151,176	151,176
<b>Technical surplus (deficit)</b>	<b>(1,990,909)</b>	<b>(1,902,775)</b>	<b>(2,085,180)</b>	<b>(2,090,777)</b>	<b>(1,897,217)</b>
<b>Variations:</b>					
Increase/decrease in actuarial obligation (%)		(4.1%)	4.4%	4.7%	(4.4%)
Increase/decrease in technical surplus (deficit) – (%)		(4.4%)	4.7%	5.0%	(4.7%)

Life insurance	Current parameters	Interest rate	
	06.30.2019	+ 0.25%	-0.25%
Present value of actuarial obligation	(181,727)	(172,506)	(191,894)
<b>Technical surplus (deficit)</b>	<b>(181,727)</b>	<b>(172,506)</b>	<b>(191,894)</b>
<b>Variations:</b>			
Increase/decrease in actuarial obligation (%)		(5.1%)	5.6%
Increase/decrease in technical surplus (deficit) – (%)		(5.1%)	5.6%

## q) Impacts on Future Cash Flows

### q.1) Expected Contributions for the 2<sup>nd</sup> half of 2019

Specification	Capef		Camed	Life insurance
	DB Plan <sup>(1)</sup>	VC I Plan <sup>(2)</sup>	Natural Plan	
1. Employer contributions	49,788	832	36,012	1,860
2. Employees' contributions	73	829	-	1,286
3. Vested participants' contributions	49,715	-	14,942 <sup>(3)</sup>	1,995

<sup>(1)</sup> Except for contributions intended for administrative costing: 01.01 to 06.30.2019: Employer: R\$4,329 and Employees/Vested participants: R\$4,329;

<sup>(2)</sup> Except for contributions intended for part of the DC plan: 01.01 to 06.30.2019: Employer: R\$32,262 and Employees: R\$32,266;

<sup>(3)</sup> Except for co-payments.

### q.2) Expected Payments of Benefits

Specification	Capef <sup>(1)</sup>		Camed <sup>(1)(2)</sup>	Life insurance <sup>(1)</sup>
	DB Plan	VC I Plan	Natural Plan	
Within 1 year	411,191	1,621	57,772	9,473
From 1 to 2 years	394,574	1,618	68,995	10,044
From 2 to 3 years	378,069	1,678	75,585	10,663
From 3 to 4 years	361,338	1,676	80,436	11,287
Over 4 years	2,075,514	34,946	196,747	764,422
<b>Total</b>	<b>3,620,686</b>	<b>41,539</b>	<b>479,535</b>	<b>805,889</b>

<sup>(1)</sup> The amounts of expected benefits were calculated without present value discount.

<sup>(2)</sup> Net of co-payment of vested participants.

## r) Estimated Expenses for the 2<sup>nd</sup> Half of 2019

Specification	Capef		Camed	Life insurance
	DB Plan	VC I Plan	Natural Plan	
1. Current service cost, net	(1,421)	769	(9,626)	298
2. Net interest	(25,148)	-	(66,017)	(6,579)
<b>3. Total unrecognized (expenses)/revenues</b>	<b>(26,569)</b>	<b>769</b>	<b>(75,643)</b>	<b>(6,281)</b>

## NOTE 25 - Fundo Constitucional de Financiamento do Nordeste (FNE)

- a) The Equity of FNE, amounting to R\$86,095,353 (R\$78,681,595 at 06.30.2018) are recorded in the Bank's memorandum accounts "Assets of Managed Public Funds/FNE".
- b) Cash and cash equivalents and funds committed to loans, which represent cash and cash equivalents of FNE in the amount of R\$24,965,501 (R\$25,940,720 at 06.30.2018), recorded under "Other Obligations/Financial and Development Funds" bear interest at the extra-market rate. In period, the interest expense on cash and cash equivalents totaled R\$742,662 (R\$736,942 at 06.30.2018).

c) The provision to cover the risk on FNE transactions is recognized pursuant to the following criteria:

- c.1) Transactions contracted until 11.30.1998 are risk-free;
- c.2) For transactions contracted beginning 12.01.1998, excluding transactions under PRONAF (groups A, A/Microcredit, B, A/C, Forest, Semi-arid Region, Emergency, Flood, Drought/1998, Semi-arid Region-Drought 2012 and Drought-2012-Funding), the Bank's risk is 50% of the amount calculated pursuant to CMN Resolution No. 2682 of 12.21.1999; and
- c.3) The Bank assumes all the risks on renegotiated and reclassified FNE loans, as set forth by Law No. 11775 of 09.17.2008, and transactions recognized in "Onlending debtors", as prescribed by Ministry of Integration Administrative Ruling No. 147 of 04.05.2018. Loans funded by FNE, under Law No. 12716 of 09.21.2012 and Law No. 12844 of 07.19.2013, for the purpose of settling BNB transactions with other sources of funds, will maintain the same risk position of the transaction to be settled. The financing balances and provisions recorded under "Provision for financial guarantees provided" of the Bank are broken down as follows:

Risk level	Balances	Provision at 06.30.2019 <sup>(2)</sup>	Provision at 12.31.2018 <sup>(2)</sup>
AA	18,251,067	-	-
A	17,165,576	43,116	33,891
B	6,855,984	34,637	33,238
C	1,487,698	22,310	43,707
D	1,075,209	53,661	43,354
E	1,068,935	161,026	118,234
F	309,659	77,528	174,004
G	302,172	105,911	169,774
H	4,675,530	2,330,651	2,576,510 <sup>(1)</sup>
<b>Total</b>	<b>51,191,830</b>	<b>2,828,840</b>	<b>3,192,712</b>

<sup>(1)</sup> At 06.30.2019, this balance includes provision to cover the Bank risk on loans with indication of irregularities in the amount of R\$42,173 (R\$31,467 at 06.30.2018).

<sup>(2)</sup> Includes effects of renegotiations of loans, based on Law No. 13340 of 09.28. 2016, which authorized granting of rebates and renegotiation of debts from rural credit operations contracted up to 12.31.2011, with FNE funds and mixed funds from FNE and other sources.

- d) For transactions entered into after 11.30.1998, del credere commission is 3% p.a., when the risk is 50%, and 6% p.a. when the Bank is a direct party to the transaction backed by onlending based on article 9, item A of Law No. 7827 of 09.27.1989. In transactions reclassified for FNE based on Law No. 11775 of 09.17.2008, del credere commission is 3% p.a. or 6% p.a., as regulated by Interministerial Ruling No. 245 of 10.14.2008, of the Ministry of Finance and Ministry of National Integration. Income from del credere commission totaled R\$766,983 (R\$656,779 at 06.30.2018).
- e) In the period, the administration fee was R\$678,894 (R\$704,541 at 06.30.2018), calculated at 2.7% p.a. on Equity and appropriated on a monthly basis.
- f) The Provisional Executive Order No. 812, signed into Law No. 13682 of 06.19.2018, determined the following changes, from 2018 onwards:
  - i) annual reduction in administration fee at 0.3%, from 3% in 2018 to 1.5% from 2023 onwards;
  - ii) the calculation basis is the Equity of FNE, deducted from the balance of cash and cash equivalents referred to in article 4 of Law No. 9126 of 11.10.1995, of the amounts transferred to Banco do Nordeste based on article 9-A of Law No. 7827 of 09.27.1989 and of the balances of investments under Pronaf addressed by article 6 of Law No. 10177 of 01.12.2001, and the Program regulation (MCR-10) (groups A/Microcredit, Forest, Semi-arid region, Emergency, Flood, Drought/1998, Semi-arid Region-Drought 2012 and Drought-2012/Funding);
  - iii) the Bank will be entitled to the percentage of 0.35% (thirty-five hundredths percent) p.a. on the balances of cash and cash equivalents addressed by article 4 of Law No. 9126 of 11.10.1995;
  - iv) the amount to be received by the Bank as administration fee, after deducting the amount of the remuneration on cash and cash equivalents, may be increased up to 20% (twenty percent) based on the timely-payment factor for loans with operational risk fully assumed by FNE or with risk shared between the Bank and the Fund, calculated in accordance with the methodology for calculating the allowance for loan losses applicable to bank loan; and
  - v) the administration fee plus remuneration on cash and cash equivalents is limited, every month, to 20% (twenty percent) of the accumulated amount, up to the reference month, of transfers addressed by letter c of item I of the main section of article 159 of Federal Constitutions, carried out by Government.

## NOTE 26 - Workers' Assistance Fund (Fundo de Amparo ao Trabalhador - FAT)

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

Specification	Tade <sup>(1)</sup>	06.30.2019	06.30.2018
Proger-Urbano - Investment	017/2006	288	789
FAT - Infrastructure	018/2006	-	132,870
Protrabalho - Investment	004/2007	104,516	108,599
National Program for Production-Oriented Microcredit (PNMPO)	001/2010	1,816	72,598
<b>Total</b>		<b>106,620</b>	<b>314,856</b>

Obligations derived from the Workers' Assistance Fund (FAT), recorded under 'Interest-yielding special deposits', totaling R\$27,191 (R\$134,117 at 06.30.2018), are subject to average SELIC rate while they are not used in loan transactions. Regarding the funds released, their remuneration is calculated based on the Long-term Interest Rate (TJLP) for transactions taken out up to December 31, 2017 and Long-term Rate (TLP) for funds referring to transactions taken out from January 1, 2018 onwards, after they are released to final borrowers and over the period of financing. Available funds yielding interest at average SELIC rate totaled R\$7,052 (R\$32,837 at 06.30.2018).

Remuneration of funds allocated in the Bank shall be paid to FAT on a monthly basis, as established in Codefat Resolutions No. 439/2005, 489/2006 and 801/2017, with a minimum amount equivalent to 2% calculated on the total balance of each Special Deposit Allocation Statement (TADE), plus cash and cash equivalents that fall under the following conditions, in terms of remaining in the Bank's cash:

- after 2 months, with respect to the reimbursements of the final borrowers, not reused in new financing; and
- after 3 months, with respect to the new deposits made by FAT and not released to final borrowers.

Specification	Tade <sup>(1)</sup>	Return of FAT funds			06.30.2019		
		Form <sup>(2)</sup>	RA	SELIC remuneration	Available TMS <sup>(3)</sup>	TJLP or TLP <sup>(4)</sup> applied	Total
Proger - Urbano - Investment	17/2006	RA	10,876	173	23	-	23
FAT - Infrastructure <sup>(5)</sup>	18/2006	RA	26,305	520	-	-	-
Protrabalho-Investment	04/2007	RA	7,911	133	1,698	18,155	19,853
PNMPO	01/2010	RA	66,763	1,023	5,332	1,984	7,316
<b>Total (Note 13.b and Note 28.a.1)</b>			<b>111,855</b>	<b>1,849</b>	<b>7,053</b>	<b>20,139</b>	<b>27,192</b>

Specification	Tade <sup>(1)</sup>	Return of FAT funds			06.30.2018		
		Form <sup>(2)</sup>	RA	SELIC remuneration	Available TMS <sup>(3)</sup>	TJLP <sup>(4)</sup> applied	Total
Proger - Urbano - Investment	17/2006	RA	2,924	72	390	10,169	10,559
FAT - Infrastructure <sup>(5)</sup>	18/2006	RA	38,599	1,240	22,624	3,260	25,884
Protrabalho-Investment	04/2007	RA	35,879	738	2,014	24,218	26,232
PNMPO	01/2010	RA	19,447	465	7,810	63,632	71,442
<b>Total (Note 13.b and Note 28.a.1)</b>			<b>96,849</b>	<b>2,515</b>	<b>32,838</b>	<b>101,279</b>	<b>134,117</b>

<sup>(1)</sup> Tade: Special Deposit Allocation Statement;

<sup>(2)</sup> RA - Automatic Return (Monthly, 2% on total balance);

<sup>(3)</sup> Funds yielding by Average SELIC Rate (TMS);

<sup>(4)</sup> Funds yielding by: Long-term Interest Rate (TJLP) for transactions taken out up to 12.31.2017 and Long-term Rate (TLP) for transactions taken out from 01.01.2018 onwards.

<sup>(5)</sup> Regarding FAT - Infrastructure, RA is 1% on the balance and deductible reimbursements refer to the last 4 months.

## NOTE 27 - Risk Management and Basel Index

### a) Risk and Capital Management

The Bank's corporate governance instruments include an internal control structure so that the operational, credit, market, liquidity and social and environmental risks as well as Interest Rate Risk in the Banking Book (IRRBB) may be adequately monitored. The risk management methodology observes the guidance set forth by the Basel Committee, with priority to identification of possible risks existing in the different Bank processes, and implementation and monitoring of key indicators and of mechanisms to mitigate any risks.



## **Risk Management Structure**

The risk management structure is unified at the strategic level and specific at its business and support units' levels, observing the principle of segregation of activities. The units and their basic responsibilities regarding risk management are defined, formally standardized and disclosed in the institution's policies and standards website.

The performance of this structure takes into consideration the Bank's financial balance and is based on the institution's integrity and ethics policy and on the principles of social and environmental responsibility, in relationships with its customers, partners, employees, shareholders, service providers and with the society.

In this context, the Integrated Risk Management of Banco do Nordeste includes, as an essential principle, sustaining a structured risk management system that is integrated to the Bank's management activities. It provides information that supports the Bank's various decision-making levels in assessing the risks involved and is designed to guide the management of risks that threaten the achievement of business objectives, establishing rules based on principles and good corporate governance practices, implemented under the guidance of the Bank's senior management and supervisory boards.

## **Capital Management Structure**

The Executive Board is responsible for approving the capital management structure of the Bank, including the Capital Plan for the period from 2019 to 2023, which was also approved by the Board of Directors on 12.13.2018. The Control and Risk Executive Board is responsible for Capital Management, and a specific administrative unit has been structured for this purpose, as required by CMN Resolution No. 4557 of 02.23.2017. The Capital Management Structure information is available at [www.bnb.gov.br](http://www.bnb.gov.br), clicking on the link "Sobre o Banco".

## **Corporate Risk Management Policy**

The corporate risk management policy sets forth guidelines and standards that integrate the Bank's activities, for management of credit, operational, market and liquidity risks, Interest Rate Risk for instruments classified in the Banking Book (IRRBB), as well as concentration and social and environmental risks. The Risk Management Committee analyzes and forwards for approval by the Executive Board and Board of Directors proposals for creation of and adjustments in strategies, policies, models and procedures for risk management. The Control and Risk Executive Board coordinates the implementation thereof and the Bank's performance, through a specific unit that manages risks, in an integrated manner, at corporate level, defining management methodologies and models, as well as promoting the dissemination of the risk management culture.

Further information relating to risk management focused on matters related to Referential Equity (RE) and the amount of Risk-Weighted Assets (RWA), in accordance with BACEN Circular Letter No. 3678 of 10.31.2013, can be found at [www.bnb.gov.br](http://www.bnb.gov.br), clicking on the link "Sobre o Banco".

## **b) Credit Risk**

Credit risk is defined as the risk of incurring losses associated with default by the counterparty to its obligations under the terms agreed; depreciation and reduction of expected remunerations and gains on financial instruments deriving from deterioration of the creditworthiness of counterparty, intervening party or mitigating instrument; restructuring of financial instruments or costs of recovering exposures characterized as troubled assets.

Specification	Exposure	
	06.30.2019	06.30.2018
<b>Loans, co-payments and guarantees given</b>	<b>41,033,414</b>	<b>33,766,444</b>
<b>Public sector</b>	<b>1,183,581</b>	<b>1,207,700</b>
<b>Private sector</b>	<b>39,849,833</b>	<b>32,558,744</b>
Trade	3,951,480	3,728,873
Foreign trade	853,003	902,477
Manufacturing	7,062,969	7,396,029
Infrastructure	11,097,348	5,753,220
Urban micro-financing	3,481,914	3,039,502
Individuals	134,352	136,600
Rural	8,596,626	7,228,598
Other Services	4,672,141	4,373,445
<b>Market transactions</b>	<b>46,848,150</b>	<b>45,277,371</b>
<b>Federal Government securities</b>	<b>45,568,955</b>	<b>43,002,383</b>
Repurchase agreements	9,975,274	14,944,946
Other	35,593,681	28,057,437
<b>Interbank Deposits</b>	<b>165,974</b>	<b>164,644</b>
<b>Other securities</b>	<b>999,684</b>	<b>857,325</b>
<b>Other transactions</b>	<b>113,537</b>	<b>1,253,019</b>
<b>Other assets</b>	<b>5,376,787</b>	<b>5,293,663</b>
<b>Total</b>	<b>93,258,351</b>	<b>84,337,478</b>

The Bank uses the constant information flow to identify, measure, monitor, assess, report, control and mitigate risks, thus ensuring that credit risk exposure is in accordance with the parameters defined in the Risk Appetite Statement (RAS). Accordingly, various instruments are used, such as: credit policies, risk assessment models and methodologies, methodology for segregation of credit assets in troubled and non-troubled, managerial reports, and system for risk rating and for calculation of expenses related to allowance for loan losses.

Furthermore, any approval in terms of risk limits is based on the level of authority by board. In accordance with their characteristics and amount, the limits may be automatically calculated or analyzed and defined by the branches' credit assessment committees, or by the Operational Supporting Centers' risk limit approval committees, or also be decided by the customer risk limit approval committee of the General Executive Board or Executive Board.

All loans with risk exposure to the Bank are subject to risk rating, based on the customer's risk rating and loan grade, in accordance with their value, term, nature and purpose characteristics and conditions of collaterals as to their sufficiency and liquidity.

#### **Collaterals for loans above R\$5.000 with full risk for the Bank**

The collaterals for loans are determined based on their quality, capacity to be removed and sufficiency. Balances exposed to risk of loans above R\$5,000 amount to R\$3,547,808 (R\$3,526,882 at 06.30.2018). These transactions are backed by collaterals totaling R\$4,758,171 (R\$5,512,552 at 06.30.2018).

#### **c) Liquidity risk**

Liquidity risk is the possibility of mismatches between tradable assets and liabilities that could affect the Bank's ability to pay, as well as the possibility of the institution being unable to negotiate a position at market price due to its volume being greater than the volume normally traded in the market or due to any discontinuity thereof.

The Bank adopts projection models to estimate changes in cash and manage its capacity to honor future commitments, communicating the Company's liquidity position to management through daily reports.

The daily market and liquidity risk management report includes, among other, the Bank's liquidity ratio, represented by the ratio between available funds and commitments estimated for the next 90 days. Available funds comprising the liquidity ratio calculation base include banking reserves, highly liquid portion of interbank deposits, repurchase agreements and own securities portfolio.

Specification		06.30.2019(%)	06.30.2018(%)
Liquidity ratio	At reporting date	1,009.32	1,129.98
	Average for the last 12 months	887.80	856.85
	Maximum for the last 12 months	1,133.90	1,460.41
	Minimum for the last 12 months	493.14	609.03

#### d) Market risk

Market risk is the possibility of impairment of assets and/or increase in liability, as well as reduction in finance income and increase in finance costs arising from changes in interest rates, exchange rates, and stock and commodity prices.

In managing market risks, the Bank considers market-approved methodologies and instruments, such as:

- a) VaR (value at risk) of asset and liability transactions in trading portfolio;
- b) change in in the economic value of financial instruments ( $\Delta$ EVE) of the banking portfolio;
- c) change in gain (loss) from financial intermediation ( $\Delta$ NII) of the banking portfolio;
- d) mapping of Minimum Required Capital (MRC);
- e) foreign exchange exposure report;
- f) sensitivity analysis;
- g) stress testing;
- h) backtesting; and
- i) reports on monitoring of limits established for portions exposed to market risk.

The preparation of daily, monthly, quarterly and annual managerial reports for management and supervisory and control boards is critical to market risk management. Such reports include, among others, detailed information on and analysis of exposure levels of trading and banking portfolios, currency exposure levels and liquidity levels.

In addition to these reports, the monitoring of market and liquidity risk exposure limits includes a warning system implemented in order to expedite the preparation of managerial information necessary for the decision-making process by the proper levels of authority, based on the following procedures:

Risk exposure limits	Control procedure
<ul style="list-style-type: none"> <li>• 1% (one percent) of the Referential Equity (RE) as the possibility of maximum loss of the Trading Portfolio;</li> <li>• 15% (fifteen percent) of the amount of Referential Equity (RE), Tier I, as the maximum limit for the result of the change in the economic value of financial instruments (<math>\Delta</math>EVE) used to measure the interest rate risk in the book banking (IRRBB);</li> <li>• 15% (fifteen percent) of the amount of Referential Equity (RE), Tier I, as the maximum limit for the result of the change in the result of financial intermediation (<math>\Delta</math>NII) used to measure the interest rate risk in the book banking (IRRBB);</li> <li>• 8% (eight percent) of the amount of Referential Equity (RE), as the maximum limit of exposures in foreign currency.</li> </ul>	<p>If the exposure level exceeds 80% of the limit, the risk management area issues a warning to the finance area.</p>

#### Sensitivity analysis

As set forth in CVM Ruling No. 475 of 12.17.2008, the sensitivity analysis was conducted in order to identify significant risks capable of generating losses to the Bank, considering alternative scenarios for the behavior of various risk factors in Trading and Banking portfolio transactions, and its results are as follows:

Portfolio/risk factor	Type of Risk	Scenario 1 (probable)	Scenario 2 (variation of 25%)		Scenario 3 (variation of 50%)	
		Balance	Balance	Loss	Balance	Loss
<b>Trading portfolio</b>						
Fixed interest rate	Increase in interest rate	5,268,086	5,261,377	(6,709)	5,254,776	(13,310)
<b>Banking portfolio</b>						
Dollar coupon	Reduction in coupon	(82,801)	(84,349)	(1,548)	(85,963)	(3,162)
Euro coupon	Increase in coupon	(2,231)	(2,231)	-	(2,232)	(1)
IGP coupon	Increase in coupon	168,470	162,858	(5,612)	157,628	(10,842)
IPCA coupon	Reduction in coupon	(844,952)	(971,355)	(126,403)	(1,104,525)	(259,573)
TJLP coupon	Increase in coupon	296,978	295,222	(1,756)	293,512	(3,466)
TR coupon	Increase in coupon	(1,888,824)	(1,942,607)	(53,783)	(1,979,438)	(90,614)
Fixed interest rate	Increase in interest rate	3,406,959	3,342,900	(64,059)	3,287,881	(119,078)

For purposes of abovementioned calculations, scenario 1, which presents the most probable situation, considered the net balances of portfolios, at marked-to-market values - considering the rates used at B3 - Brasil, Bolsa, Balcão S.A.As regards scenarios 2 and 3, changes of 25% and 50% were applied, respectively, to the market risk factors considered, and new net balances were estimated for the portfolios.Losses correspond to the differences between the balances under scenario 1 and the balances under scenarios 2 and 3.

#### e) Operational risk

The operational risk is the possibility of losses arising from external events, or failures, deficiencies or inadequacies of internal processes, people or systems, including those related to legal issues.

Operational risk management requires continuous commitment and involvement of all managers, employees and collaborators, whose main purpose is to mitigate the possibility and impact of operating losses.

The corporate operating risk management system aims at ensuring compliance with the corporate policy in accordance with governance principles and the policies set by the National Monetary Council (CMN), based on the timetable defined by the banking supervisory board.

The Bank's corporate operational risk is managed through a process view and a specific organizational structure designed to support assessment activities in all supporting and business processes of the Institution, mainly based on the Resolutions issued by the Central Bank.The qualitative approach comprises process risk assessment methodologies, follow-up of mitigating measures and managerial reports.Another methodology used is the RCSA (Risk and Control Self-Assessment) that allows simulating risks inherent to activities and procedures, as well as defining their impact.RCSA further allows building a Risk Matrix and defining indicators, aiming at reaching an expanded vision of the processes and improved management.

#### f) Foreign Exchange Exposure

Transactions under agreements that provide for currency adjustment clause presented net balance of currency exposure sold, in the amount of R\$38,488 (R\$61,384 at 06.30.2018 - short position), as follows:

Specification	06.30.2019	06.30.2018	Specification	06.30.2019	06.30.2018
Cash and cash equivalents	7,297	6,458	Deposits	-	-
Interbank Investments	43,477	47,838	Interbranch accounts	3,660	4,648
Loans	488,650	641,003	Borrowings and onlending - domestic	61,400	71,593
Other Credits	925,873	1,051,119	Borrowings and onlending - foreign	492,801	1,825,926
			Other Liabilities	945,924	1,070,851
<b>Total assets in foreign currencies, excluding derivatives</b>	<b>1,465,297</b>	<b>1,746,418</b>	<b>Total liabilities in foreign currencies</b>	<b>1,503,785</b>	<b>2,973,018</b>
Swap transactions	-	1,165,216			
<b>Total long position in foreign currencies</b>	<b>1,465,297</b>	<b>2,911,634</b>	<b>Total short position in foreign currencies</b>	<b>1,503,785</b>	<b>2,973,018</b>

Foreign exchange exposure is maintained below the limits established in the Corporate Risk Management Policy (5% of the Referential Equity - RE).

#### g) Operational limits - Basel Accord

At 06.30.2019, the Bank had a wide Basel rate (including capital to cover RBAN) of 15.87% (14.78% at 06.30.2018) and Tier I rates and Principal Capital were both at 11.69% (10.27% at 06.30.2018). RE computed was R\$6,013,363 (R\$6,550,991 at 06.30.2018), Tier I and Principal Capital had the same amount of R\$5,212,323 (R\$4,289,280 at 06.30.2018), while risk weighted assets (RWA amount) totaled R\$51,436,529 (R\$41,766,401 at 06.30.2018).

## i. Minimum Required Capital - MRC (Basel III)

Specification	06.30.2019	06.30.2018
<b>Referential Equity (RE)</b>	<b>8,295,967</b>	<b>6,550,991</b>
<b>. Tier I</b>	<b>6,013,363</b>	<b>4,289,280</b>
. Principal Capital	5,212,323	4,289,280
. Complementary Capital	801,040	-
<b>. Tier II</b>	<b>2,282,604</b>	<b>2,261,711</b>
<b>Risk-Weighted Assets (RWA)</b>	<b>51,436,529</b>	<b>41,766,401</b>
. RWACPAD	40,957,229	32,157,644
. RWACAM	67,805	244,225
. RWAJUR	63,637	157,866
. RWACOM	4,137	5,217
. RWAOPAD	10,343,721	9,201,449
<b>Margin on Required Referential Equity</b>	<b>4,181,045</b>	<b>2,948,639</b>
<b>Capital to Interest Rate Risk for instruments classified in the Banking Book (IRRBB)</b>	<b>68,190</b>	<b>220,105</b>
<b>Margin on Required Referential Equity considering IRRBB</b>	<b>4,112,855</b>	<b>2,728,534</b>
<b>Margin on Tier I Required Referential Equity</b>	<b>2,927,171</b>	<b>1,783,296</b>
<b>Margin on Required Principal Capital</b>	<b>2,897,679</b>	<b>2,409,792</b>
<b>Required Additional Capital - ACP (2.5%)<sup>(1)</sup></b>	<b>1,285,913</b>	<b>783,120</b>
<b>Margin on Required Additional Capital</b>	<b>1,611,766</b>	<b>1,000,176</b>
<b>Basel Indexes:</b>		
. Principal capital index (minimum requirement of 4.5%)	<b>10.13%</b>	<b>10.27%</b>
. Tier I index (minimum requirement of 6.0%)	<b>11.69%</b>	<b>10.27%</b>
. Referential Equity index (minimum requirement of 8.0%) <sup>(2)</sup>	<b>16.13%</b>	<b>15.69%</b>
. Referential Equity index including IRRBB	<b>15.87%</b>	<b>14.78%</b>

<sup>(1)</sup>In June 2018 it was 1.875%.

<sup>(2)</sup>In June 2018 it was 8.625%.

Where:

- . RWACPAD: amount related to credit risk exposures.
- . RWACAM: amount related to exposure to gold, foreign currency and assets subject to foreign exchange variation.
- . RWAJUR: amount related to exposures subject to change in interest rates.
- . RWACOM: amount related to exposures subject to change in commodity prices.
- . RWAOPAD: amount related to operational risk.
- . RBAN: capital to cover risk in transactions subject to change in interest rates not classified in the trading portfolio.

## ii. Breakdown of Referential Equity (Basel III)

Specification	06.30.2019	06.30.2018
<b>REFERENTIAL EQUITY (RE)</b>	<b>8,295,967</b>	<b>6,550,991</b>
<b>TIER I REFERENTIAL EQUITY</b>	<b>6,013,363</b>	<b>4,289,280</b>
<b>Principal Capital</b>	<b>5,212,323</b>	<b>4,289,280</b>
Capital	3,813,000	2,844,000
Income reserves	1,896,401	1,856,561
Capital and revaluation reserve	13,949	11,592
Equity adjustments	(995,568)	(939,768)
Debt Instruments Eligible to Principal Capital (Note 16.g)	1,000,000	1,000,000
Prudential Adjustments	(515,459)	(483,105)
Prudential Adjustments - intangible assets	(563)	(19,947)
Prudential adjustment - Tax credits from temporary differences	(511,490)	(460,137)
Prudential adjustment - Difference to less - Adjustments of CMN Resolution No. 4277	(3,406)	(3,021)
<b>Complementary Capital</b>	<b>801,040</b>	<b>-</b>
Instruments Eligible to Complementary Capital (Note 16.g)	801,040	-
<b>TIER II REFERENTIAL EQUITY</b>	<b>2,282,604</b>	<b>2,261,711</b>
Instruments Eligible to Tier II	2,282,604	2,282,604
Investment in other entities deducted of Tier II	-	(20,893)

The Debt Instrument Eligible to Principal Capital entered into with the Federal Government comprises Tier I RE, as Principal Capital of the Bank, as authorized by BACEN.

The Subordinated Financial Bills, taken out in June 2019, were authorized by Bacen to compose the Tier I Referential Equity, as the Bank's Complementary Capital, amounting to R\$801,040.

The Subordinated Debt Instruments entered into with FNE, authorized to comprise RE Tier II before the entry into force of CMN Resolution No. 4192 of 03.01.2013, according to paragraph 2 of its article 23, shall remain eligible up to their amortization. With the publication of CMN Resolution No. 4679 of 07.31.2018, the balances of these contracts were frozen at 06.30.2018 and will be excluded from Tier II Referential Equity at a rate of 10% p.a. from 2020 onwards.

### iii.Leverage Ratio (LR)

The Leverage Ratio (LR), according to the methodology approved by Bacen Circular Letter No. 3748 of 02.27.2015, corresponds to the division of Tier I RE by Total Exposure. The Bank's Leverage Ratio is as follows:

Specification	06.30.2019	06.30.2018
Tier I Referential Equity	6,013,363	4,289,280
Total exposure	94,605,169	82,752,497
Leverage Ratio (%)	6.36	5.18

### iv.Fixed asset to equity ratio

The Bank's fixed asset to equity ratio, calculated in accordance with the provisions of CMN Resolution No. 2669 of 11.25.1999, is as follows:

Specification	06.30.2019	06.30.2018
Referential Equity - fixed asset to equity limit	8,295,967	6,550,991
Fixed asset to equity limit (50% of adjusted RE)	4,147,983	3,275,496
Situation	227,421	151,738
Margin	3,920,563	3,123,758
Fixed asset to equity ratio	2.74%	2.32%

## NOTE 28 - Related Parties

### a) Transactions with related parties

The Bank's policy on transactions with related parties was updated by the Board of Directors at a meeting held on 02.13.2019 and disclosed to the market. Among others, the policy provides that in carrying out transactions with related parties, the conditions and rates compatible with market practices are applied, in addition to establishing guidelines to be observed in potential conflicts of interest.

In the period, the Bank carried out banking transactions with related parties, such as current account deposits (non-interest bearing), financial investments and loans.

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

Specification	06.30.2019	06.30.2018
<b>Liabilities</b>		
<b>Time deposits - FAT (Note 13.b. and Note 26)</b>	<b>27,192</b>	<b>134,117</b>
<b>Domestic onlending - Official institutions (Note 14.b.)</b>	<b>1,197,253</b>	<b>1,252,853</b>
National Treasury	496	468
BNDES	1,139,528	1,178,135
Finame	57,229	74,250
<b>Other Liabilities</b>	<b>29,213,896</b>	<b>30,054,343</b>
FNE (Note 16.f)	24,976,990	25,950,367
FDNE	680,618	714,846
Merchant Marine Fund (FMM)	98,274	106,526
Debt Instruments Eligible to Capital (Note 16.g and Note 17)	1,000,000	1,000,000
Subordinated Debts Eligible to Capital (Note 16.h and Note 17)	2,458,014	2,282,604
<b>Total</b>	<b>30,438,341</b>	<b>31,441,313</b>

a.2) The balances of obligations with Post-employment Benefit Plans are as follows:

Specification	06.30.2019	06.30.2018
Post-employment benefits - Capef DB Plan (Note 16.i and Note 24.k)	689,136	423,954
Post-employment benefits - Camed Natural Plan (Note 16.i and Note 24.k)	1,990,909	1,192,791
Post-employment benefits - Life insurance (Note 16.i and Note 24.k)	181,726	135,719
<b>Total</b>	<b>2,861,771</b>	<b>1,752,464</b>

a.3) Significant revenues and expenses with related parties are as follows:

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018
Time deposits - FAT	(54,199)	(55,255)
National Treasury	(16)	(18)
BNDES	(52,855)	(65,247)
Finame	(1,646)	(2,099)
FMM	(4,122)	(11,875)
FNE	137,425	165,031
FDNE	13,172	12,545
Debt Instruments Eligible to Capital Principal	(157,531)	(61,451)
Subordinated Debts Eligible to Capital	(88,569)	(77,137)
Post-employment benefit - Capef DB Plan	(29,691)	(25,298)
Post-employment benefits - VC I Plan	(26,697)	(25,033)
Post-employment benefit - Camed Natural Plan	(75,429)	(72,993)
Post-employment benefits - life insurance	(6,044)	(5,501)

#### b) Management Compensation

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

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018
<b>Fees</b>	<b>1,892</b>	<b>2,337</b>
Executive Board	1,613	2,015
Board of Directors	143	170
Supervisory Board	136	152
<b>Other</b>	<b>603</b>	<b>806</b>
<b>Variable compensation (RVA)<sup>(1)</sup></b>	<b>828</b>	<b>862</b>
<b>Total short-term benefits</b>	<b>3,323</b>	<b>4,005</b>
<b>Post-employment benefits</b>	<b>125</b>	<b>139</b>
<b>Total</b>	<b>3,448</b>	<b>4,144</b>

<sup>(1)</sup> 50% of RVA corresponds to an equity-based instrument, and the parameter for provision and payment in cash is the quotation price of the Bank's shares on B3. The amounts in the table above correspond to the provision for payments in the six-month period, as well as deferred installments to be settled in the following three years, in accordance with CMN Resolution No. 3921 of 11.25.2010.

The Bank offers to its officers, as post-employment benefits, Pension and Health Care Plans under the same conditions offered to employees.

The Bank does not grant loans or advances to key management personnel, in accordance with current regulations.

#### NOTE 29 - Statement of Comprehensive Income

Specification	01.01 to 06.30.2019	01.01 to 06.30.2018 (restated)
<b>Net Income</b>	<b>744,777</b>	<b>230,635</b>
<b>Other Comprehensive Income</b>	<b>(46,963)</b>	<b>44,167</b>
Equity Adjustment to Available-for-Sale Securities	529,534	(105,968)
Tax Effect on Equity Adjustment to Available-for-Sale Securities	(211,181)	38,087
Realization of Revaluation Reserve	(3,928)	322
Tax Effect on Revaluation Reserve Realized	1,571	(162)
Actuarial gains (losses)	(604,931)	186,480
Tax Effect on Actuarial Gains or Losses	241,972	(74,592)
<b>Comprehensive Income</b>	<b>697,814</b>	<b>274,802</b>

#### NOTE 30 - Other Information

##### a) Statement of Compliance

We confirm that all significant information of the Financial Statements themselves, and only such information, is being disclosed and corresponds to that used in the management of the Bank.

**b) Approval of Financial Statements**

The Financial Statements were approved by the Board of Directors at a meeting held on August 9, 2019.

Fortaleza (CE), August 9, 2019.

**The Executive Board**

**Note: These notes are an integral part of the Financial Statements.**



## **Independent auditor's report on financial statements**

To the Board of Directors, Shareholders and Officers of Banco do Nordeste do Brasil S.A.

### **Opinion**

We have audited the accompanying financial statements of Banco do Nordeste do Brasil S.A. ("Bank"), which comprise the balance sheet as at June 30, 2019 and the related statements of income, of changes in equity and of cash flows for the six-month period then ended, and a summary of significant accounting practices and other explanatory information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Banco do Nordeste do Brasil S.A. as at June 30, 2019, its financial performance and its cash flows for the six-month period then ended, in accordance with the accounting practices adopted in Brazil applicable to institutions authorized to operate by the Central Bank of Brazil (BACEN).

### **Basis for opinion**

We conducted our audit in accordance with Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for audit of the financial statements" section of our report. We are independent of the Bank in accordance with the ethical requirements set forth in the Code of Professional Ethics for Accountants and the professional standards issued by Brazil's National Association of State Boards of Accountancy ("CFC"), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Emphasis of matter**

#### *Restatement of corresponding figures*

As mentioned in Note 3, the information relating to the balance sheet, statements of income, of changes in equity, of cash flows and of value added as well as explanatory information has been changed in relation to the previously disclosed financial statements for the year ended December 31, 2017 and six-month period ended June 30, 2018, for the reasons mentioned in the referred to Note and, therefore, is being restated as provided for in CPC 23 - Accounting Policies, Change in Estimates and Errors. Our opinion is not qualified in respect of this matter.

## **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

We have fulfilled the responsibilities described in the “Auditor’s responsibilities for the audit of the financial statements” section of our report, including in relation to these key audit matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatements of the financial statements. The results of our procedures, including those performed to address the matters stated below, provide the basis for our audit opinion on the Bank’s financial statements.

### 1. Contingencies

As described in Note 21, the Bank is party to various administrative and legal proceedings involving matters of labor, tax and civil nature arising from the ordinary course of its business. We considered this a key audit matter due to the fact that the expected loss and the amounts attributed involve judgments by management and its legal advisors on frequently complex issues.

#### *How our audit addressed this matter*

Among other procedures, we obtained confirmations regarding ongoing lawsuits directly from the Bank’s legal advisors and crosschecked the likelihood of loss and amounts attributed against the Bank’s operational controls and accounting records. For the most relevant lawsuits, we tested the calculation of amounts recorded and disclosed and analyzed the reasonableness of the estimates in relation to well-known case law and legal theses. We also analyzed communications received from regulators related to lawsuits and tax assessments to which the Bank is party, and the sufficiency of disclosures related to issues arising from contingencies and provisions recorded.

Based on the results of the audit procedures performed on the contingency balance, which is consistent with management’s assessment, we consider that the criteria and assumptions for assessment of loss estimates associated with contingencies adopted by management, as well as the respective disclosures in Note 21, are acceptable in the context of the financial statements taken as a whole.

## 2. Post-employment benefits

The Bank has significant liabilities related to post-employment benefit plans that, as described in Note 24, include retirement, health and life insurance benefits. We considered this a key audit matter due to the magnitude of amounts involved and the complexity of valuation models of actuarial liabilities, which comprise the use of long-term assumptions, such as general mortality, disability, health care costs, salary increases, household composition, and discount and inflation rates.

### *How our audit addressed this matter*

Among other procedures, we analyzed - supported by our subject matter experts - the methodology and significant assumptions used by management in assessing the actuarial obligations arising from the post-employment benefit plans, checking the mathematical accuracy of the calculation and analyzing the consistency of results against the assumptions used and prior assessments. The audit procedures also included tests of the integrity of the databases used in the actuarial projections and the sufficiency of the disclosures related to the post-employment benefit plans. As a result of these procedures, we identified an audit adjustment indicating an actuarial liability overstated and equity understated. This adjustment was corrected by the Bank and, due to its immateriality on the financial statements taken as a whole, did not result in a change in our audit strategy.

Based on the results of the audit procedures performed on the post-employment benefit plans, which is consistent with management's assessment, we consider that the criteria and assumptions for assessment of actuarial obligations adopted by management, as well as the respective disclosures in Note 24, are acceptable in the context of the financial statements taken as a whole.

## 3. Recoverability of tax credits

The Bank records deferred tax asset on temporary differences in determining the income and social contribution tax base, mainly arising from expenses related to the allowance for loan losses (credit losses); post-employment benefits; expenses related to other provisions for contingencies; market value adjustments and derivative financial instruments.

We considered this a key audit matter due to the expressive amount recorded and the fact that the study related to the realization of these assets involves a high degree of judgment in determining assumptions on the Bank's future performance, as described in Note 20.

*How our audit addressed this matter*

Among other procedures, we analyzed the methodology and assumptions used by management in the study of tax credit realization, including deferred income projections, as well as compliance with the Central Bank of Brazil's requirements. We checked the mathematical accuracy in the calculation and the consistency between the data used and the accounting balances, as well as the prior assessments and the reasonableness of assumptions used. We also analyzed the sensitivity of those assumptions to evaluate the behavior of projections with their oscillations and the sufficiency of disclosures in the notes to financial statements.

Based on the results of the audit procedures performed on tax credits, which is consistent with management's assessment, we consider that the criteria and assumptions regarding the study related to their realization, including deferred income projections, prepared by Bank management, as well as the respective disclosures in Note 20, are acceptable in the context of the financial statements taken as a whole.

4. Marketable securities and derivative financial instruments

As described in Note 7, the fair value calculation of fixed income government securities considered to be of low liquidity, classified as available-for-sale, such as the Financial Bills (LF) and Debentures currently in the portfolio, is based on the Bank's own pricing model, which takes into consideration the spread of the issuer's credit risk, determined in accordance with the policies of the Bank and of the estimated cash flows. We considered the fair value determination of financial assets not quoted in the market as one of the key audit matters, due to the relevance of the amounts and the underlying subjectivity in the assessments based on the Bank's own models.

*How our audit addressed this matter*

Our audit procedures included, among others, the assessment of the Bank's pricing methodology, the adequacy of the significant assumptions used and the mathematical accuracy in the application of models. We also reviewed the Bank's economic and financial assessment upon classifying the risk of issuers, expected cash flows, discount rates used in the pricing of securities and the sufficiency of the disclosures in the notes to financial statements.

Based on the results of the audit procedures performed on the fair value calculation of marketable securities and derivative financial instruments not quoted in an active market, which is consistent with management's assessment, we consider that the pricing criteria and assumptions adopted by management, as well as the respective disclosures in Note 7, are acceptable in the context of the financial statements taken as a whole.

5. Allowance for loan losses

As mentioned in Note 9, the Bank classifies the risk level of loan transactions considering the economic environment, past experience, related guarantees, delays and the history of rescheduling, according to the parameters established by CMN Resolution No. 2682. We considered this a key audit matter because of the significance of amounts and due to the fact that the classification of the customer's risk level and of the assessment of guarantees involve management's judgment.

*How our audit addressed this matter*

We performed, among other tests, an analysis of the economic and financial assessment carried out by the Bank upon classifying the customer's risk level, through a sample selected for test, and recalculated the allowance for loan losses based on the parameters established by CMN Resolution No. 2682. We also analyzed the sufficiency of disclosures in the notes to financial statements.

Based on the results of the audit procedures performed on the allowance for loan losses, which is consistent with management's assessment, we consider that the criteria and assumptions associated with the allowance adopted by management, as well as the respective disclosures in Note 9, are acceptable in the context of the financial statements taken as a whole.

6. Technology environment

The Bank's transactions are extremely dependent on the proper operation of the technology structure and its systems, reason why we consider the technology environment one of the key audit matters. Due to the Bank's nature of business and transaction volume, our audit strategy is based on the effectiveness of the technology environment.

*How our audit addressed this matter*

Our audit procedures included, among other, the assessment of the design and operational effectiveness of IT General Controls ("ITGC"), implemented by the Bank for those systems deemed relevant to the audit process. The ITGC assessment included the involvement of IT experts to assist us in performing audit procedures designed to assess controls over accesses, change management and other technology aspects. With regard to the audit of accesses, we analyzed, on a sample basis, the process for authorizing and granting new users access, timely removal of access to transferred or terminated employees, and review of users on a regular basis.

In addition, we evaluated password policies, security settings and access to technology resources. With regard to the change management process, we assessed whether changes to the systems were duly authorized and approved by the Bank at appropriate levels.

In the processes considered significant for the financial statements, we identified the main automated or IT-dependent controls, so that, on a sampling basis, we could perform tests focused on the design and operational effectiveness of such controls.

Our tests on the design and operation of ITGCs and automated controls, considered significant to the audit procedures performed, provided a basis for us to continue the planned nature, timing and extent of our audit procedures.

## **Other matters**

### **Statement of Value Added**

The individual and consolidated Statements of Value Added (SVA) for the six-month period ended June 30, 2019, prepared under the responsibility of the Bank management and presented as supplementary information for the purposes of accounting practices applicable to institutions authorized to operate by the Central Bank of Brazil, were submitted to the same audit procedures performed for audit of the Bank's financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria provided for in Accounting Pronouncement CPC 09 - Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria provided for in Accounting Pronouncement CPC 09 and are consistent with the individual and consolidated financial statements taken as a whole.

### **Other information accompanying the financial statements and the auditor's report**

Bank management is responsible for such other information that comprises the Management Report.

Our opinion on the financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

In connection with the audit of the financial statements, our responsibility is to read the Management Report and, in doing so, to consider whether this report is materially inconsistent with the financial statements or with our knowledge obtained in the audit or, otherwise, whether this report appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Management Report, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Central Bank of Brazil (BACEN), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect material misstatements when they exist. Misstatements can arise from fraud or error and are considered material if, either individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these financial statements.

As part of an audit in accordance with Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast substantial doubt as to the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the corresponding transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, of the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we are required to determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, August 9, 2019.

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC-2SP034519/O-6

Eduardo Wellichen  
Accountant CRC- 1SP184050/O-6



## **REPORT OF SUPERVISORY BOARD**

The Supervisory Board of Banco do Nordeste do Brasil S.A., exercising its legal and statutory prerogatives, examined the Management Report, the Balance Sheet, the Statements of Income, of Changes in Equity, of Cash Flows and of Value Added of Banco do Nordeste do Brasil S.A., for the six-month period ended June 30, 2019, which were approved, on the date hereof, by the Board of Directors.

Based on the examination made, the information and clarifications received during the six-month period and on the unqualified Independent Auditor's Report of ERNST & YOUNG AUDITORES INDEPENDENTES S.S., issued on the date hereof, the Supervisory Board's opinion is that the Management Report and the Financial Statements adequately reflect the financial and patrimonial situation of the Banco do Nordeste do Brasil S.A.

Fortaleza (Ceará State), August 9, 2019.

**SUPERVISORY BOARD**

## SUMMARY OF AND CONCLUSIONS ON THE AUDIT COMMITTEE REPORT

### 1 - Introduction

The Audit Committee of Banco do Nordeste do Brasil (“Coaud”) is a statutory collegiate of advisory to the Board of Directors (“Consad”), annually composed of four members appointed by Consad.

### 2 - Responsibilities

Coaud’s responsibilities are defined by Law No. 13303/2016 (State Law), Decree No. 8945/2016, CMN Resolution No. 3198/2004, as well as by Banco do Nordeste do Brasil’s Charters and Internal Regulation. The statutes and electronic address of BNB’s Audit Committee are made available on the Internet at [www.bnb.gov.br](http://www.bnb.gov.br), under “*Institucional / Sobre o Banco / Relação com os Acionistas / Comitês / Comitê de Auditoria*”.

The Audit Committee is responsible for evaluating the quality and integrity of the Financial Statements, the independence and quality of the external auditor’s work and of the Internal Audit, and the quality and effectiveness of the Internal Control System and risk management.

The administrators of Banco do Nordeste do Brasil are responsible for preparing and ensuring the integrity of the Financial Statements, managing risks, maintaining effective Internal Control System, and ensuring compliance of activities with legal and regulatory standards.

The Capital and Risk Committee (CRC) advises Consad on its risk and capital management duties. Coaud assesses and monitors risk exposures through interaction with the CRC.

The External Audit is responsible for the audit of the Financial Statements and, also, evaluates the quality and sufficiency of internal controls relevant to the preparation and appropriate presentation of the Financial Statements, issuing an opinion thereon, based on procedures and patterns set forth in standards governing the exercise of the profession.

The Internal Audit is responsible for performing periodic work, focusing on the main risks to which the Bank is exposed, monitoring, evaluating and assessing, independently, the risk management actions and the adequacy of governance and internal controls through checks as to the quality, sufficiency, compliance and effectiveness, in addition to certify compliance with applicable legal requirements.

### 3 - Activities of the period

The activities developed by Coaud, in accordance with its Work Plan approved by Consad, are recorded in the Minutes of meetings and covered the set of responsibilities assigned to the Committee.

In compliance with its duties and responsibilities, Coaud held monthly meetings with the Board of Directors, Supervisory Board, other statutory committees, CEO, Executive Board and managers of the Bank's key areas. On these occasions, the main issues related to each area were addressed, and recommendations for improvement were provided. Periodic meetings were also held with the Internal and External Auditors, when their respective planning and results of the main work carried out were evaluated. The Committee also held meetings with CAPEF - Caixa de Previdência dos Funcionários do Banco do Nordeste do Brasil and CAMED - Caixa de Assistência dos Funcionários do Banco do Nordeste do Brasil. In addition, the Audit Committee paid a visit to the CGU-CE, in Fortaleza, Ceará state. In total, Coaud held 33 meetings in the period.

Coaud was not aware of the existence and/or evidence of fraud or non-compliance with legal and regulatory standards that could jeopardize the continuity of the institution, perpetrated by management, employees or third parties.

### 4 - Conclusions

Based on the activities carried out within the scope of its competencies, and the limitations inherent in the scope of its activities, the Audit Committee concluded that:

#### Internal Control System

The Internal Control System of Banco do Nordeste do Brasil is appropriate to the size and complexity of the Bank's business. The referred to system continues to be subject to improvements, although there are measures that will require additional time and permanent monitoring by management to achieve the expected results.

Bank management continues to work on the improvement of the model for meeting the Information Technology demands, considering the potential impacts on the Bank's operations and results, as well as the need for timely compliance with the recommendations of internal audit and of external supervisory agencies.

The culture and integrity of control have been settled over time, including in relation to the policy of consequences. Regarding this matters, it is worth highlighting the improvement achieved in the Product Compliance Average Ratios (Índices Médios de Conformidade dos produtos - IMC).

Nevertheless, there is still room for development and strengthening of the scope of performance of the second line of defense, in relation to the internal control actions, including to take into consideration the improvement needs already identified internally and by supervisory and control agencies. It should be noticed, as appropriate, that this matter is being referred by the management.

With regard to the cycle “process inventory - identification of critical processes - identification of risks - establishment of control issues”, significant progress was made, with soundness in the relationship system between the areas involved, namely: Strategy and Organization Supervisory Office and Internal Controls, Security and Risk Management Supervisory Office, including regarding the compliance with laws, regulations and internal rules.

Transactions with related parties assessed and monitored in the period were in compliance with applicable standards and market conditions.

The main parameters on which the actuarial calculations of sponsored pension fund benefit plans are based are reasonable and in line with best market practices.

Major risk exposures have been adequately managed by management. The Committee has been discussing with management and CRC about the integrated risk management matter, which deserves the Bank’s coordinated attention.

Weaknesses in processes, dealt with the Executive Board, have been resolved or are in progress for resolution, and there are no cases of recommendations not complied with.

#### Internal Audit

Internal Audit performs its functions with independence, objectivity, quality and effectiveness. The Internal Audit performance and processes have been progressing, which may be evidenced by the quality of the work performed and other initiatives, such as the development of the Integrated Audit System and the Audit Center, as well as permanent attention to the qualification of its professionals.

Also, there is room for optimization and improvement in processes, methodologies, systems, communication of work results, as well as in relation to the capacity to detect irregularities at the operational level. In this regard, the investment being made in the Audit Center, which is based on the principles of Continuous Audit, is in line with this need for improvement.

## External Audit

No significant events have been detected that could impair effectiveness of the performance, objectivity and independence of Ernst & Young Auditores Independentes S/S.

## Financial Statements

The Financial Statements for the first half of 2019 were prepared in accordance with the legal standards and accounting practices adopted in Brazil, applicable to institutions authorized to operate by the Central Bank of Brazil, and reflect, in all material respects, the Bank's financial and patrimonial situation.

Fortaleza (Ceará State), August 9, 2019.

**Audit Committee**



MINISTÉRIO DA  
ECONOMIA



**FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE**  
*Managed by Banco do Nordeste do Brasil S.A.*

## *Financial Statements*

# F N E

## **In thousands of reais (R\$)**

**Position: 06.30.2019**

**FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE**

(Lei nº 7.827, de 27.09.1989)

**BALANCE SHEETS**

Six-month periods ended June 30, 2019 and 2018

(Amounts in R\$ thousand)

ASSETS				LIABILITIES AND EQUITY			
		06.30.2019	06.30.2018			06.30.2019	06.30.2018
<b>CURRENT ASSETS</b>		<b>38.277.210</b>	<b>38.171.545</b>	<b>CURRENT LIABILITIES</b>		<b>59</b>	<b>35</b>
CASH AND CASH EQUIVALENTS	(Note 4.b.1)	8.873.303	19.397.016	Other Liabilities		59	35
FUNDS COMMITTED WITH LOANS	(Note 4.b.1)	16.092.198	6.543.703	Accrued Liabilities Payable		59	35
Amounts Receivable - CEF - Equalization of Bonus For Timely Payment - PROAGRO		267	285				
LINKED CREDITS		107	83	<b>EQUITY</b>	(Note 4.c)	<b>86.095.353</b>	<b>78.681.595</b>
Rural Credit - Proagro receivable		107	83	TRANSFERS FROM FEDERAL GOVERNMENT			
ONLENDING DEBTORS		58.078	62.543	In the six-month period		4.363.712	4.074.698
Onlending Debtors - Other institutions		58.078	62.543	In prior years		82.964.173	75.483.627
LOANS	(Note 14.b.2 and Note 6)	13.241.685	12.158.130	INCOME FROM PRIOR YEARS		(929.634)	(982.236)
Financing		6.617.389	6.150.691	INCOME FOR THE SIX-MONTH PERIOD		(302.898)	105.506
Export financing		173.709	101.296				
Infrastructure and Development Financing		379.612	268.522				
Agribusiness Financing		250.889	220.981				
Rural Financing		6.347.888	5.993.562				
(Allowance for loan losses)		(527.802)	(576.922)				
OTHER CREDITS	(Note 4.b.4)	11.489	9.647				
Rights on assets received in loans		11.489	9.647				
OTHER ASSETS	(Note 4.b.5)	83	138				
PROAGRO Coverage Titles		4	4				
Agrarian Debt Bonds (TDAs)		79	134				
<b>LONG-TERM RECEIVABLES</b>		<b>47.818.202</b>	<b>40.510.085</b>				
LINKED CREDITS		10.265	454				
Rural Credit - PROAGRO receivable		10.265	454				
ONLENDING DEBTORS		2.570.052	2.399.191				
Onlending Debtors - Banco do Nordeste - Law No. 7827 - article 9-A	(Note 7)	2.458.014	2.282.605				
Onlending Debtors - Other institutions		112.038	116.586				
LOANS	(Note 14.b.2 and Note 6)	45.237.578	38.109.982				
Financing		17.731.870	18.010.108				
Export financing		-	400				
Infrastructure and Development Financing		10.555.454	4.834.449				
Agribusiness Financing		690.805	651.404				
Rural Financing		16.259.449	14.613.621				
OTHER ASSETS	(Note 4.b.5)	307	458				
Agrarian Debt Bonds (TDAs)		379	557				
(Provision for Devaluation of Securities)		(71)	(99)				
<b>TOTAL ASSETS</b>		<b>86.095.412</b>	<b>78.681.630</b>	<b>TOTAL LIABILITIES AND EQUITY</b>		<b>86.095.412</b>	<b>78.681.630</b>



## INCOME STATEMENTS

Six-month periods ended June 30, 2019 and 2018  
(Amounts in R\$ thousand)

	1st Half of 2019	1st half of 2018
<b>REVENUES</b>		
From Loans	326.667	733.181
From Remuneration of Cash and cash equivalents	742.662	736.942
From Reversal of Operating Provisions	15	112
<b>EXPENSES</b>		
From Management	(678.894)	(704.541)
From Remuneration of Cash and cash equivalents	(44.845)	-
From PRONAF – compensation of the financial agent / performance bonus	(201.193)	(197.431)
From Allowance for loan losses	(447.292)	(462.702)
From Audit	(18)	(55)
<b>INCOME FOR THE SIX-MONTH PERIOD</b>	<b>(302.898)</b>	<b>105.506</b>

## STATEMENTS OF CHANGES IN EQUITY

Six-month periods ended June 30, 2019 and 2018  
(Amounts in R\$ thousand)

EVENTS	TRANFERS FROM FEDERAL GOVERNMENT	RETAINED EARNINGS (ACCUMULATED LOSSES)	TOTAL
<b>BALANCES at 12.31.2017</b>	<b>75.483.627</b>	<b>(982.125)</b>	<b>74.501.502</b>
Transfers from Federal Government in the six-month period	4.074.698	-	4.074.698
Prior Years' Adjustments	-	(111)	(111)
Income for the six-month period	-	105.506	105.506
<b>BALANCES at 06.30.2018</b>	<b>79.558.325</b>	<b>(876.730)</b>	<b>78.681.595</b>
<b>CHANGES FOR THE SIX-MONTH PERIOD</b>	<b>4.074.698</b>	<b>105.395</b>	<b>4.180.093</b>
<b>BALANCES at 12.31.2018</b>	<b>82.964.173</b>	<b>(917.821)</b>	<b>82.046.352</b>
Transfers from Federal Government in the six-month period	4.363.712	-	4.363.712
Prior Years' Adjustments	-	(11.813)	(11.813)
Loss for the six-month period	-	(302.898)	(302.898)
<b>BALANCES at 06.30.2019</b>	<b>87.327.885</b>	<b>(1.232.532)</b>	<b>86.095.353</b>
<b>CHANGES FOR THE SIX-MONTH PERIOD</b>	<b>4.363.712</b>	<b>(314.711)</b>	<b>4.049.001</b>

## STATEMENTS OF CASH FLOWS

Six-month periods ended June 30, 2019 and 2018

(Amounts in R\$ thousand)

	06.30.2019	06.30.2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Income (Loss) for the Six-month Period</b> .....	<b>(302.898)</b>	<b>105.506</b>
<b>Non-Cash Expenses (Revenues):</b>		
Allowance for Loan Losses.....	447.292	462.702
Provision for Devaluation of Securities.....	11	13
Reversals of Operating Provisions.....	(15)	(112)
Accrued Liabilities Payable.....	(41)	(3)
<b>Adjusted Income/(Loss) for the Six-month period</b> .....	<b>144.349</b>	<b>568.106</b>
Linked Credits.....	116	266
Onlending Debtors.....	(88.778)	(67.808)
Loans.....	(4.016.084)	(1.224.783)
Amounts Receivable-CEF-Equalization of Bonus for Timely Payment - Profrota.....	(199)	(229)
Other Credits.....	(1.826)	(248)
Other Assets.....	95	252
Prior Years' Adjustments.....	(11.813)	(111)
<b>CASH USED IN OPERATING ACTIVITIES</b> .....	<b>(3.974.140)</b>	<b>(724.555)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Transfers from Federal Government.....	4.363.712	4.074.698
<b>CASH FROM FINANCING ACTIVITIES</b> .....	<b>4.363.712</b>	<b>4.074.698</b>
<b>Increase in Cash and Cash Equivalents</b> .....	<b>389.572</b>	<b>3.350.143</b>
<b>STATEMENT OF CHANGES IN CASH AND CASH EQUIVALENTS:</b>		
At beginning of Six-month Period.....	24.575.929	22.590.576
At end of Six-month Period.....	24.965.501	25.940.719
<b>Increase in Cash and Cash Equivalents</b> .....	<b>389.572</b>	<b>3.350.143</b>

**NOTES TO FINANCIAL STATEMENTS**  
**Six-month periods ended June 30, 2019 and 2018**  
**Amounts expressed in thousands of reais, unless otherwise stated**

**Contents - Notes to Financial Statements**

<b>Note 1</b> – History	<b>Note 6</b> – Financing transactions, onlending and allowance for loan losses
<b>Note 2</b> - Basis of Preparation and Presentation of Financial Statements	<b>Note 7</b> – Onlending to BNB under article 9-A of Law No. 7827 of 09.27.1989
<b>Note 3</b> - Management	<b>Note 8</b> - Equity
<b>Note 4</b> - Significant accounting practices	<b>Note 9</b> - Registration with the Federal Government Integrated Financial Management System (Siafi)
<b>Note 5</b> - Supervisory agencies	<b>Note 10</b> - Approval of financial statements

**NOTE 1 – History**

Fundo Constitucional de Financiamento do Nordeste - FNE was established by the Federal Constitution of 1988 (Article 159, item I, letter “c”), and is regulated by Law No. 7827 of 09.27.1989 and subsequent amendments, the most recent of which is Law No. 13682 of 06.19.2018. The purpose of the FNE is to foster the economic and social development of the Northeast region, through Banco do Nordeste do Brasil S.A., by offering financing to production sectors, in conformity with regional development plans, giving priority to activities developed by small farmers, small companies and staple food producers, and to irrigation projects. Non-refundable aid is prohibited. In view of the provisions in article 15-J, of Law No. 13530 of 12.07.2017, FNE may invest funds in the scope of the Student Funding Program established by article 15-D of that Law, intended for funding non-tuition-free higher education students, with positive evaluation in the processes conducted by the Ministry of Education, according to its own regulation, and that will also address the income bracket covered by this type of Fies.

**NOTE 2 - Basis of Preparation and Presentation of Financial Statements**

The Financial Statements were prepared in accordance with the provisions of the Brazilian Corporation Law, if applicable, and the regulation specifically for constitutional funds established by the Federal Government.

**NOTE 3 - Management**

Banco do Nordeste do Brasil S.A. is responsible for: applying funds and implementing the credit policy, defining operational standards, procedures and conditions, applying the ranges of financial charges to financing applications and granting credit, formalizing agreements for onlending to other institutions authorized to operate by the Central Bank of Brazil, observing the guidelines established by the Ministry of Regional Development, reporting on the results achieved, performing other activities related to the use of funds and recovery of credits, including renegotiating and settling debts, pursuant to Articles 15-B, 15-C, and 15-D of Law No. 7827 of 09.27.1989.

**NOTE 4 - Significant Accounting Practices**

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

For determining the results of operations, FNE’s fiscal year coincides with the calendar year.

Significant accounting practices are as follows:

**a) Recognition of Income and Expenses**

- a.1)** Income and expenses are recorded on an accrual basis. FNE’s income consists of financial charges on loans and yielding paid by Banco do Nordeste on FNE’s temporarily not applied cash.

- a.2)** Article 1-A of Law No. 10177 of 01.12.2011, introduced by Law No. 13682 of 06.19.2018, defined financial charges for non-rural financing with FNE funds to be calculated monthly, on a pro-rata day basis, considering the following components:
- I** - Monetary Restatement Factor (FAM), derived from the variation of the Extended Consumer Price Index (IPCA), calculated by the Brazilian Institute of Geography and Statistics (IBGE) or from another index superseding it;
  - II** - the fixed portion of the Long-Term Rate (TLP), determined and disclosed pursuant to article 3 and sole paragraph of Law No. 13483 of 09.21.2017;
  - III** - the Regional Development Coefficient (CDR), defined by the ratio between the per capita household income of the region under FNE and the Country's per capita household income, limited to the maximum of 1% (one integer); and
  - IV** - The Program Factor (FP), calculated according to the type of operation or purpose of the project.

CMN Resolution No. 4578 of 06.07.2017 established financial charges for rural financing granted with funds from FNE in the period from 07.01.2017 to 06.30.2018 at rates ranging from 6.65% to 11.35% p.a., in accordance with the purpose of the loan and the size of the borrower. On these financial charges, a 15% bonus for timely payment will be granted, provided the debt is paid by the due date. These financial charges and bonus for timely payment neither apply to borrowers based on article 8-A of Law No. 10177 of 2001 and articles 9 and 9-A of Law No. 12844 of 07.19.2013 nor to family farmers classified under the National Family Farming Strengthening Program (Programa Nacional de Fortalecimento da Agricultura Familiar - Pronaf), pursuant to the legislation and the Program regulation.

CMN Resolution No. 4673 of 06.26.2018, defined the methodology for calculating the interest rates applicable to rural financing with funds from the Constitutional Financing Funds, except for operations under the National Family Farming Strengthening Program (Pronaf), denominated Constitutional Funds Rural Interest Rates (TRFC), made up by the components described below. The borrower of the rural credit operation may opt for the floating or fixed interest rate at the moment of contracting:

- I)** FAM: Monetary Restatement Factor applicable to floating interest rate;
- II)** FII: Break-even inflation rate (BEIR) calculated pursuant to article 4 of CMN Resolution No. 4664 of 06.06.2018, applicable to fixed interest rate;
- III)** BA: Bonus for timely payment applicable to financial charges at 0.85% (eighty-five hundredths percent) or 1% (one integer).
- IV)** CDR: Regional Development Coefficient;
- V)** FP: Program Factor, defined by way of Resolution;
- VI)** FA: Adjustment Factor, defined by way of Resolution;
- VII)** Fixed interest rate ("JM") calculated and disclosed in accordance with CMN Resolution No. 4600 of 09.25.2017.

CMN Resolution No. 4674 of June 26, 2018, established the financial charges for rural financing with FNE funds, contracted in the period from July 1, 2018 to June 30, 2019, in accordance with the purpose of the loan and the size of the borrower, taking into consideration the Program Factors defined therein, the Monetary Restatement Factor and the Regional Development Coefficient applicable in the following terms:

- a)** Effective fixed interest rate ranging from 5.41% p.a. to 6.14% p.a.; or
- b)** Floating interest rate comprising a fixed portion ranging from -0.61% p.a. to 0.46% p.a., plus the Monetary Restatement Factor, calculated in accordance with article 3 of CMN Resolution No. 4673 of 06.26.2018.

The bonus for timely payment will be applied to the portion of the debt paid by the due date, in accordance with the methodology defined in article 2 of CMN Resolution No. 4673 of 06.26.2018. In the event of a deviation in the application of funds, the borrower will lose, without prejudice to any applicable legal measure, including those of enforceable nature, any and all benefit, especially those related to the bonus for timely payment.

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

The bonus expense is recognized as the borrower pays the related charges.

Pronaf-level financing is subject to financial charges established by the CMN, pursuant to the legislation and the Program regulation of the BACEN's Rural Credit Manual.

- a.3)** The Bank's *del credere* commission is established as follows:

- I)** 3% p.a. on financing taken out with FNE funds as from 12.01.1998, pursuant to Law No. 10177 of 01.12.2001;

- III) 6% p.a. for transactions resulting from onlending to Banco do Nordeste, in its name and at its own risk, to grant loans (MP No. 2196 of 06.28.2001);
- III) 2.5% p.a. for transactions of the Programa Nacional de Financiamento da Ampliação e Modernização da Frota Pesqueira Nacional (Profrota Pesqueira) with large companies, with shared risk, in accordance with Decree No. 5818 of 06.26.2006, combined with CMN Resolution No. 3293 of 06.28.2005.
- IV) percentage negotiated with the financial institutions that operate onlending from FNE, observing the limit established by legislation (Administrative Ruling No. 147 of 04.05.2018), of the Ministry of National Integration;
- V) the Bank is not entitled to any commission for financing under Pronaf A, A/Microcredit B, A/C, Semiarid, Forest, Emergency, Flooding, Drought, Semiarid-Drought-2012 and Drought-2012-Costing, according to the legislation and regulation of the Program; and
- VI) 3% p.a. in the cases defined in article 1, items I to IV, and 6% p.a. in the cases defined in article 1, sole paragraph, of Interministerial Administrative Ruling No. 245 of 10.14.2008, for loans reclassified under the terms of article 31 of Law 11775 of 09.17.2008.

**a.4)** FNE's expenses refer to administration fee payable to the Bank as the Fund manager; yielding payable to the Bank on the Fund's cash and cash equivalents; the additional administration fee; yielding payable to the Bank on financing under Pronaf A, A/Microcredit, B, A/C, Forest, Semiarid, Emergency, Flooding, Drought, Semiarid-Drought-2012 - Group B, Semiarid-Drought-2012 - Other Groups, Drought-2012-Costing - Group B, Drought-2012-Costing - Other Groups, and other Pronafs with shared risk; yielding payable to the Bank on disbursement under Pronaf A/Microcredit, B, Semiarid, Forest and other Pronafs with shared risk; performance Premium on reimbursement under PRONAF Groups A, A/Microcredit, B, A/C, Semiarid, Forest, Semiarid-Drought-2012 - Other Groups, Drought-2012-Costing - Other Groups and other PRONAFs with shared risk; allowance for loan losses recognized pursuant to Interministerial Administrative Ruling No. 11 of 12.28.2005, of the Ministry of Finance and Ministry of National Integration; and the engagement of independent audit services, in addition to bonuses and discounts established by legislation.

The administration fee paid to the Bank is appropriated on a monthly basis, according to the percentages below, as defined in article 17-A of Law 7827 of 12.09.1989 (introduced by Law No. 13682 of 06.19.2018), applied to the Equity of FNE deducted from the balance of cash and cash equivalents referred to in article 4 of Law No. 9126 of 11.10.1995, of the amounts transferred to Banco do Nordeste based on article 9-A of Law No. 7827 of 09.27.1989, of onlending balances to other institutions according to Administrative Ruling No. 147 of 04.05.2003 of the Ministry of National Integration, and of the balances of investments under Pronaf addressed by article 6 of Law No. 10177 of 01.12.2001, and the Program regulation (MCR-10) (groups A/Microcredit, Forest, Semi-arid region, Emergency, Flood, Drought/1998, Semi-arid Region-Drought 2012 and Drought-2012/Costing):

- I) 3.0% (three percent) per year in 2018;
- II) 2.7% (two and seven tenths percent) per year in 2019;
- III) 2.4% (two and four tenths percent) per year in 2020;
- IV) 2.1% (two and one tenths percent) per year in 2021;
- V) 1.8% (two and eight tenths percent) per year in 2022; and
- VI) 1.5% (one and five tenths percent) per year as from January 1, 2023.

The Bank is entitled to the percentage of 0.35% (thirty-five hundredths percent) p.a. on the balances of cash and cash equivalents addressed by article 4 of Law No. 9126 of 11.10.1995.

The amount to be received by the Bank as administration fee, after deducting the amount of the yielding on cash and cash equivalents, may be increased up to 20% (twenty percent) based on the timely-payment factor for loans with operational risk fully assumed by FNE or with risk shared between the Bank and the Fund, calculated in accordance with the methodology for calculating the allowance for loan losses applicable to bank loan. The timely-payment factor will be regulated by a joint act of the Ministry of Finance and Ministry of National Integration, disclosed by the Ministry of Finance.

The administration fee plus yielding on cash and cash equivalents is limited, every month, to 20% (twenty percent) of the accumulated amount, up to the reference month, of transfers addressed by letter c of item I of the main section of article 159 of Federal Constitutions, carried out by Government. The calculation and appropriation system of administration fee was regulated in Decree No. 9290 of 02.21.2018, as amended by Decree No. 9539 of 10.24.2018.

BNB's yielding on Pronaf financing, yielding on disbursement and performance bonus on reimbursements comply with percentages and criteria defined by legislation and by the Program Regulation.

## b) Current and noncurrent assets

These are stated at cost or realizable value, including earnings and monetary variations earned.

- b.1)** Cash and cash equivalents consist of cash assets, which represent funds available for use in loans, and Funds Committed for Loans, which represent restricted cash in connection with yet-unreleased installments of contracted operations corresponding to the amounts outstanding by the balance sheet date, plus the payments expected during the 12 (twelve) subsequent months and any mismatches between the amounts to be released after such 12 (twelve) months and the estimated inflow to the Fund during such period. The Fund's cash and cash equivalents held by Banco do Nordeste are paid based on extra-market rate, disclosed by Bacen.

Specification	06.30.2019	06.30.2018
Cash and cash equivalents	8,873,303	19,397,016
Funds committed to loans <sup>(1)</sup>	16,092,198	6,543,703
<b>Total cash and cash equivalents</b>	<b>24,965,501</b>	<b>25,940,719</b>

<sup>(1)</sup>Until 2018, the allocation to Funds Committed to Loan Transactions corresponded to the amount of expected and unrealized releases up to the calculation month, plus the payment forecast for the next ninety (90) days. From 2019, this practice was changed, starting considering a period of twelve (12) months of payment forecast with FNE funds rather than the subsequent 90 days.

- b.2)** Total loans are stated at the amount of principal plus financial charges, less unearned income and allowance for loan losses (Note 6).
- b.3)** Law No. 13340 of 09.28.2016, with amendments introduced by Laws No. 13465 of 07.11.2017, No. 13606 of 01.09.2018 and No. 13729 of 11.08.2018, authorizes the settlement and rescheduling of rural credit debts taken out until 12.31.2011 with FNE funds and mixed funds from other sources with FNE, establishing, for cases of settlement, rebates on the restated balance due, according to the criteria defined therein, authorizing FNE to assume the burden arising from the measure.
- b.4)** The account "Other credits" includes FNE's rights on chattels or properties received by BNB as repayment or settlement of debts. After assets are sold, the sale proceeds are apportioned between the Fund and BNB, proportionally to the risk assumed, pursuant to article 7 of Interministerial Administrative Ruling No. 11 of 12.28.2005.

Specification	06.30.2019	06.30.2018
Rights on assets received in loans	11,489	9,647
<b>Total other credits</b>	<b>11,489</b>	<b>9,647</b>

- b.5)** The proceeds from Agrarian Debt Bonds for repayment of loans granted using FNE funds and those received to cover credits granted under Proagro are recorded under account "Other Assets" and are stated at their face value, plus expected yield on each note, including, when applicable, the effects of adjustments of assets to market or realizable value.

Specification	06.30.2019	06.30.2018
PROAGRO Coverage Title	4	4
Agrarian Debt Bonds (TDAs)	458	691
(Provision for devaluation of securities)	(71)	(99)
<b>Total other assets</b>	<b>391</b>	<b>596</b>

## c) Equity (Note 8.a)

The Equity of FNE are originated as follows:

- transfers from the Federal Government at the proportion of 1.8% of the collection of Income Tax (IR) and Federal VAT (IPI) on a 10-day period basis;
- returns and yields from its applications; and
- yields from FNE's temporarily not applied cash, paid by the Bank.

## d) Tax exemption

FNE is entitled to tax exemption, and its results, income and financing operations are free of any tax, contribution or other lien, as provided for by Law No. 7827 of 09.27.1989 as amended.

## e) Functional Currency

FNE's functional and reporting currency is the Brazilian real.

## Note 5 - Supervisory agencies

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

## Note 6 – Financing transactions, onlending and allowance for loan losses

### a) Breakdown of loan portfolio

#### a.1) Total portfolio

Financing	06.30.2019			06.30.2018		
	Normal	Past due	Balance	Normal	Past due	Balance
Financing	23,535,186	814,073	24,349,259	23,356,765	804,034	24,160,799
Export financing	160,116	13,593	173,709	87,799	13,897	101,696
Infrastructure and development financing	10,935,022	44	10,935,066	5,102,914	57	5,102,971
Agribusiness financing	877,321	64,373	941,694	802,358	70,027	872,385
Rural financing	21,930,406	676,931	22,607,337	19,777,207	829,976	20,607,183
<b>Subtotal</b>	<b>57,438,051</b>	<b>1,569,014</b>	<b>59,007,065</b>	<b>49,127,043</b>	<b>1,717,991</b>	<b>50,845,034</b>
Onlending to BNB	2,458,014	-	2,458,014	2,282,604	-	2,282,604
Onlending to other institutions	131,675	38,441	170,116	140,034	39,095	179,129
<b>Total portfolio</b>	<b>60,027,740</b>	<b>1,607,455</b>	<b>61,635,195</b>	<b>51,549,681</b>	<b>1,757,086</b>	<b>53,306,767</b>
Allowance	(62,070)	(465,732)	(527,802)	(69,238)	(507,684)	(576,922)
<b>Total net <sup>(1)</sup></b>	<b>59,965,670</b>	<b>1,141,723</b>	<b>61,107,393</b>	<b>51,480,443</b>	<b>1,249,402</b>	<b>52,729,845</b>

#### a.2) Full risk portfolio for BNB

Financing	06.30.2019			06.30.2018		
	Normal	Past due	Balance	Normal	Past due	Balance
Financing	-	-	-	-	-	-
Agribusiness financing	1,881	-	1,881	1,765	-	1,765
Rural financing	114,217	7,046	121,263	173,897	9,582	183,479
<b>Subtotal</b>	<b>116,098</b>	<b>7,046</b>	<b>123,144</b>	<b>175,662</b>	<b>9,582</b>	<b>185,244</b>
Onlending to BNB	2,458,014	-	2,458,014	2,282,604	-	2,282,604
Onlending to other institutions	130,222	-	130,222	134,643	-	134,643
<b>Total portfolio</b>	<b>2,704,334</b>	<b>7,046</b>	<b>2,711,380</b>	<b>2,592,909</b>	<b>9,582</b>	<b>2,602,491</b>
<b>Total net <sup>(1)</sup></b>	<b>2,704,334</b>	<b>7,046</b>	<b>2,711,380</b>	<b>2,592,909</b>	<b>9,582</b>	<b>2,602,491</b>

#### a.3) Shared risk portfolio

Financing	06.30.2019			06.30.2018		
	Normal	Past due	Balance	Normal	Past due	Balance
Financing	23,442,343	806,415	24,248,758	23,254,115	796,634	24,050,749
Export financing	160,116	13,593	173,709	87,799	13,897	101,696
Infrastructure and development financing	10,935,022	44	10,935,066	5,102,914	57	5,102,971
Agribusiness financing	808,920	60,994	869,914	735,256	66,185	801,441
Rural financing	14,363,343	347,824	14,711,167	12,160,808	442,887	12,603,695
<b>Subtotal</b>	<b>49,709,744</b>	<b>1,228,870</b>	<b>50,938,614</b>	<b>41,340,892</b>	<b>1,319,660</b>	<b>42,660,552</b>
<b>Total portfolio</b>	<b>49,709,744</b>	<b>1,228,870</b>	<b>50,938,614</b>	<b>41,340,892</b>	<b>1,319,660</b>	<b>42,660,552</b>
Allowance	(36,387)	(292,074)	(328,461)	(31,462)	(293,006)	(324,468)
<b>Total net <sup>(1)</sup></b>	<b>49,673,357</b>	<b>936,796</b>	<b>50,610,153</b>	<b>41,309,430</b>	<b>1,026,654</b>	<b>42,336,084</b>

#### a.4) Full risk portfolio for FNE

Financing	06.30.2019			06.30.2018		
	Normal	Past due	Balance	Normal	Past due	Balance
Financing	92,843	7,658	100,501	102,650	7,400	110,050
Agribusiness financing	66,520	3,379	69,899	65,337	3,842	69,179
Rural financing	7,452,846	322,061	7,774,907	7,442,502	377,507	7,820,009
<b>Subtotal</b>	<b>7,612,209</b>	<b>333,098</b>	<b>7,945,307</b>	<b>7,610,489</b>	<b>388,749</b>	<b>7,999,238</b>
Onlending to other institutions	1,453	38,441	39,894	5,391	39,095	44,486
<b>Total portfolio</b>	<b>7,613,662</b>	<b>371,539</b>	<b>7,985,201</b>	<b>7,615,880</b>	<b>427,844</b>	<b>8,043,827</b>
Allowance	(25,683)	(173,658)	(199,341)	(37,776)	(214,678)	(252,454)
<b>Total net <sup>(1)</sup></b>	<b>7,587,979</b>	<b>197,881</b>	<b>7,785,860</b>	<b>7,578,104</b>	<b>213,166</b>	<b>7,791,270</b>

<sup>(1)</sup>The "Normal" status took into consideration allowances arising from renegotiations/acquisitions and the allowance set up on loan transactions with indication of irregularities, which are subject to inquiry by the Internal Audit Area. The "Past due" status took into consideration allowances set up exclusively due to delay.

## b) Breakdown by maturity

### b.1) Current loans <sup>(1)</sup>

Type of Customer/Activity	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Over 360 days	Total at 06.30.2019	Total at 06.30.2018
Rural	613,958	510,110	505,314	1,591,548	2,083,569	15,320,048	20,624,547	17,988,088
Manufacturing	175,456	151,306	172,482	494,160	975,860	12,111,938	14,081,202	12,223,842
Government	5,570	1,594	5,526	16,578	33,157	362,185	424,610	346,232
Other services	108,146	106,632	109,599	321,911	636,823	10,346,908	11,630,019	7,859,420
Trade	221,974	227,072	228,273	653,573	988,740	3,701,648	6,021,280	5,329,530
<b>Total</b>	<b>1,125,104</b>	<b>996,714</b>	<b>1,021,194</b>	<b>3,077,770</b>	<b>4,718,149</b>	<b>41,842,727</b>	<b>52,781,658</b>	<b>43,747,112</b>

<sup>(1)</sup> Include loans overdue up to 14 days.

### b.2) Falling due installments

Type of Customer/Activity	1 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Over 360 days	Total at 06.30.2019	Total at 06.30.2018
Rural	30,219	51,581	36,029	152,279	243,939	1,534,884	2,048,931	2,630,856
Manufacturing	27,956	26,696	26,276	80,932	150,835	985,520	1,298,215	1,349,657
Other services	17,351	15,824	15,298	43,595	73,983	477,616	643,667	777,695
Trade	32,583	31,772	30,678	84,957	124,025	396,660	700,675	685,125
Financial brokers	-	-	-	10	20	169	199	-
<b>Total</b>	<b>108,109</b>	<b>125,873</b>	<b>108,281</b>	<b>361,773</b>	<b>592,802</b>	<b>3,394,849</b>	<b>4,691,687</b>	<b>5,443,333</b>

### b.3) Past due installments

Type of Customer/Activity	1 to 14 days	15 to 30 days	31 to 60 days	61 to 90 days	91 to 180 days	181 to 360 days	Over 360 days	Total at 06.30.2019	Total at 06.30.2018
Rural	5,937	45,903	65,839	53,693	170,347	382,376	2,116	726,211	865,871
Manufacturing	10,822	16,798	29,403	28,708	96,495	165,059	5	347,290	340,909
Other services	4,047	11,783	15,797	14,720	44,250	91,168	1	181,766	212,600
Trade	7,984	22,089	27,691	25,253	68,985	126,432	14	278,448	235,209
Financial brokers	-	4	-	-	-	-	-	4	-
<b>Total</b>	<b>28,790</b>	<b>96,577</b>	<b>138,730</b>	<b>122,374</b>	<b>380,077</b>	<b>765,035</b>	<b>2,136</b>	<b>1,533,719</b>	<b>1,654,589</b>

c) Pursuant to the legislation that regulates Constitutional Financing Funds, the Pronaf and article 8 of Law No. 13001 of 06.20.2014, the risk of transactions with FNE's funds is as follows:

#### c.1) Transactions contracted until 11.30.1998:

- the risk is fully attributed to FNE; and
- in onlending to other institutions authorized to operate by Bacen, the risk is fully assumed by FNE. Under a specific clause of the onlending agreements, the risk on financing granted to final borrowers is fully assumed by the operator institution;

#### c.2) Transactions contracted from 12.01.1998:

- in financing under Programa da Terra, the risk lies with FNE;
- in transactions under Pronaf, Groups A, A/Microcredit, B and A/C, and Forest, Semiarid, Emergency, Flooding, Drought, Semiarid-Drought-2012 and Drought-2012-Costing, the risk lies totally with FNE;
- in onlending to Banco do Nordeste whose funds are used in BNB's own lending operations, the risk is fully assumed by Banco do Nordeste;
- in onlending to other institutions authorized to operate by Bacen, contracted after Administrative Ruling No. 616 of 05.26.2003 (current Administrative Ruling No. 147 of 04.05.2018) becomes effective, the risk lies totally with BNB. Under referred to Administrative Ruling and under a specific clause of the onlending agreements, the risk on financing granted to final borrowers is fully assumed by the operator institution;



- in the transactions addressed by article 31 of Law No. 11775 of 09.17.2008, the risk lies totally with Banco do Nordeste, if the risk of the original transaction is fully attributed to the Bank, or shared, when the rescheduled transaction involves this type of risk; and
  - in other transactions, the risk is 50% for FNE and 50% for BNB, pursuant to CMN Resolution No. 2682 of 12.21.1999.
- d) Pursuant to sole paragraph of article 3 of Interministerial Administrative Ruling No. 11 of 12.28.2005, the allowance for loan losses is recorded by FNE in accordance with the criteria set forth in item I, letters “a” and “b” of the same article, pursuant to which an allowance must be recorded for amounts past due for more than 180 days, according to the risk assumed by the Fund. Changes in the allowance for loan losses in the six-month period are as follows:

Specification	06.30.2019	06.30.2018
<b>Opening balance of the Allowance for loan losses</b>	<b>506,638</b>	<b>551,003</b>
. Full FNE risk	163,976	217,646
. Shared risk	342,662	333,357
<b>(+) Net allowance recognized for the six-month period</b>	<b>447,288</b>	<b>462,603</b>
<b>Allowance for loan losses - expenses</b>	<b>447,288</b>	<b>462,603</b>
. Full FNE risk	162,555	176,732
. Allowance for past due payment/renegotiations	162,686	180,655
. Allowance adjustments due to discounts	(131)	(3,923)
. Shared risk	284,733	285,871
. Allowance for past due payment/renegotiations	289,924	290,047
. Adjustments of provision for operations indicating irregularities	(5,191)	(4,176)
<b>(-) Loans written off as loss for the six-month period</b>	<b>426,124</b>	<b>436,684</b>
. Full FNE risk	127,191	141,924
. Shared risk	298,933	294,760
<b>(=) Closing balance of Allowance for loan losses</b>	<b>527,802</b>	<b>576,922</b>
. Full FNE risk	199,340	252,454
. Shared risk	328,462	324,468

- e) At 06.30.2019, the amount of R\$35,429 (R\$27,693 at 06.30.2018) is recorded as Allowance for Loan Losses, related to an extraordinary allowance to cover the Fund’s risk on loan transactions granted with evidence of irregularities, which are subject to inquiry by the Bank’s Internal Audit Area. In such case, transaction balances were considered, according to the risk attributed to FNE, by supplementing those that already recorded provision for past due payments under Interministerial Administrative Ruling No. 11 of 12.28.2005.

- f) “Income from loans” is recorded in the income statement at the net amount as follows:

Specification	06.30.2019	06.30.2018
Income from loans <sup>(1)</sup>	2,034,415	2,003,456
<i>Del credere</i> commission of Banco do Nordeste	(766,983)	(656,779)
<i>Del credere</i> commission of Other Institutions	(1,393)	(1,555)
Expenses on negative monetary restatement	(3,153)	(950)
Expenses on renegotiations discounts granted <sup>(1)</sup>	(87,058)	(87,594)
Expenses on rebates/bonuses for timely payment - contracted by Banco do Nordeste	(518,588)	(502,038)
Expenses on rebates/bonuses for timely payment-onlending - Law No. 7827, article 9-A	(7,906)	(4,553)
Expenses on rebates/bonuses for timely payment-onlending to other institutions	(716)	(778)
Expenses on other BNB transactions - rebate Laws No. 12249 and No. 12844 of 06.11.2010 and 07.19.2013 <sup>(1)</sup>	(317,562)	(11,421)
Expenses with FNE operations honored by the Bank - rebate Laws No. 12249 and No. 12844, of 06.11.2010 and 07.19.2013	(4,388)	(4,607)
Adjustment of amounts arising from disposal of assets	(1)	-
<b>Total</b>	<b>326,667</b>	<b>733,181</b>

<sup>(1)</sup> Includes effects of renegotiations of loans, based on Law No. 13340 of 09.28.2016, as amended by Laws No. 13465, of 07.11.2017, No. 13606, of 01.09.2018, and No. 13729, of 11.08.2018 (Note 4.b.3)

The amount of bonus for timely payment granted by FNE in the first half of 2019 reached R\$527,210, corresponding to 25.9% of income from loan transactions. In the first half of 2018, this expense reached R\$507,369, equivalent to 25.3% of income earned.

The ratio of bonus for timely payment/income from loan transactions is not correlated with the percentage of bonus for timely payment (15%) defined in current legislation, therefore various bonus

ranges are applied in FNE transactions, such as 25% on Semiarid and 15% for other than Semiarid, applied in older transactions, in addition to other rates defined in specific legal instruments.

The bonuses for timely payment were granted under Constitutional Financing Funds legislation, basically as a result of the payment by the borrowers of principal and interest charges on the contractually agreed dates, covering the FNE loan transactions, the operations resulting from onlending to the institutions based on Administrative Ruling No. 147 of 04.05.2018, and BNB's onlending operations based on article 9-A of Law No. 7827 of 09.12.1989, as follows:

Specification	06.30.2019	06.30.2018
Timely payment bonus - FNE loans	518,587	502,031
Timely payment bonus - Other Institutions	716	778
Timely payment bonus - BNB's Onlending Operations - article 9 of Law No. 7827	7,906	4,553
Timely payment bonus - Renegotiated transactions	1	7
<b>Total</b>	<b>527,210</b>	<b>507,369</b>

#### g) Recognition of losses and return of BNB's share of risk

- g.1)** Regardless of the provisions set forth in sole paragraph of article 3, Interministerial Administrative Ruling No. 11, based on which losses can be recorded in FNE's accounting books at the amounts of principal and interest charges past due for more than 360 days, according to the risk percentage assumed by the Fund, the Bank recognizes losses on these transactions, considering the amounts of principal and interest charges past due for more than 329 days.
- g.2)** Funds related to BNB's share of risk are returned to FNE on the second business day after losses are recognized by the Fund, according to the criterion set forth in item II, letter "a", article 5 of Interministerial Administrative Ruling No. 11 of 12.28.2005, in compliance with the provision in letter g.1 above.
- g.3)** Over the period, BNB returned to FNE the amount of R\$ 300,898 (R\$ 296,816 in the first half of 2018), related to BNB's share of risk in transactions that were written off as loss, as follows:

Specification	06.30.2019	06.30.2018
Interministerial Administrative Ruling No. 11 of 12.28.2005 - shared risk	298,939	294,761
Interministerial Administrative Ruling No. 11 of 12.28.2005 - Bank full risk	1,959	2,055
<b>Total</b>	<b>300,898</b>	<b>296,816</b>

#### NOTE 7 – Onlending to BNB under article 9-A of Law No. 7827 of 09.27.1989

The outstanding debt balance of onlending made to Banco do Nordeste, through a Subordinated Debt Instrument, is as under:

Specification	06.30.2019	06.30.2018
Funds available	1,502,170	1,675,728
Funds applied	955,844	606,876
<b>Total onlending to Banco do Nordeste</b>	<b>2,458,014</b>	<b>2,282,604</b>

The line Funds available records amounts temporarily not applied by the BNB in loans, and remunerated at extra-market interest rate disclosed by Bacen. This yielding is accounted for under Funds Available, matched against the specific account of income from Yielding from Funds Available-Onlending Law No. 7827 - article 9-A.

The line "Funds Applied" corresponds to the amounts released by Banco do Nordeste to the borrowers of the financing agreements, restated based on contractual indices, as set forth by legislation and the Subordinated Debt Instrument entered into. These charges are accounted for under Funds Applied, matched against interest income from Onlending to Banco do Nordeste-Law No. 7827 - article 9-A.

In the six-month period, yielding from funds temporarily not applied, based on the extra-market rate, reached R\$41,544 (R\$50,162 in the same period of 2018), while yielding from funds applied, based on the costs agreed with the borrowers, totaled R\$47,025 (R\$26,975 in the first half of 2018), as follows:

Specification	06.30.2019	06.30.2018
Funds Available Yielding	41,544	50,162
Funds Applied Yielding	47,025	26,975
<b>Total</b>	<b>88,569</b>	<b>77,137</b>

#### Note 8 - Equity

- a)** Transfers from the Federal Government in the six-month period totaled R\$4,363,712 (R\$4,074,698 in the first half of 2018);
- b)** In the six-month period, the net negative adjustment of R\$11,813 (R\$111 in the first half of 2018)

refers to recalculations of charges on loans.

<b>Specification</b>	<b>06.30.2019</b>	<b>06.30.2018</b>
Transfer From Federal Government in the six-month period	4,363,712	4,074,698
Transfer From Federal Government in prior years	82,964,173	75,483,627
Prior-Years' Income (Loss)	(929,634)	(982,236)
Income (loss) for the six-month period	(302,898)	105,506
<b>Total equity</b>	<b>86,095,353</b>	<b>78,681,595</b>

**Note 9 - Registration with the Federal Government Integrated Financial Management System (Siafi)**

In compliance with Interministerial Administrative Ruling No. 11 of 12.28.2005, the financial information related to FNE is available on Siafi, considering the Fund's specific characteristics.

**Note 10 - Approval of financial statements**

The Financial Statements were approved by Banco do Nordeste's Board of Directors at a meeting held on August 9, 2019.

Fortaleza (Ceará State), August 9, 2019.

**The Executive Board**

**Note: These notes are an integral part of the Financial Statements.**

## **Financial Statements**

### **Fundo Constitucional de Financiamento do Nordeste – FNE**

June 30, 2019  
with independent auditor's report on  
financial statements

## **Independent auditor's report on financial statements**

The Management of  
**Fundo Constitucional de Financiamento do Nordeste – FNE**  
(Administered by Banco do Nordeste do Brasil S.A.)

### **Opinion**

We have audited the accompanying financial statements of Fundo Constitucional de Financiamento do Nordeste ("Fund"), which comprise the balance sheet as at June 30, 2019, and the related statements of income, of changes in equity and of cash flows for the period then ended, and a summary of significant accounting practices and other explanatory information.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fundo Constitucional de Financiamento do Nordeste - FNE as at June 30, 2019, its financial performance and its cash flows for the period then ended, in accordance with accounting practices described in Notes 2 and 4.

### **Basis for opinion**

We conducted our audit in accordance with the Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We are independent of the Fund and comply with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by Brazil's National Association of State Boards of Accountancy ("CFC") and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Emphasis of matter**

#### *Basis of preparation of financial statements*

We draw attention to Notes 2 and 4 to the financial statements, which describe their basis of preparation. These financial statements were prepared by the Fund's management to comply with the standards and rules applicable to constitutional funds. Consequently, these financial statements may not be appropriate for other purposes. Our opinion is not qualified in respect of this matter.

## **Responsibilities of management and those charged with governance for the financial statements**

Management is responsible for the preparation and fair presentation of the accompanying financial statements in accordance with the accounting practices described in Notes 2 and 4, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting, unless management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements taken as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than one resulting from error, as fraud may involve override of internal controls, collusion, forgery, intentional omissions or misrepresentations.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the corresponding transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

São Paulo, August 9, 2019

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC-2SP034519/O-6

Eduardo Wellichen  
Accountant 1SP184050/O-6

**BOARD OF DIRECTOR:** Jeferson Luis Bittencourt (President) – Eudes de Gouveia Varela – José Lucenildo Parente Pimentel – Rheberny Oliveira Santos Pamponet – Ricardo Soriano de Alencar – Romildo Carneiro Rolim

**EXECUTIVE BOARD:** Romildo Carneiro Rolim (President and Director of Control and Risk) – Antônio Rosendo Neto Júnior (Director of Business) – Claudio Luiz Freire Lima (Director of Management and Director Financial and Credit) – Perpétuo Socorro Cajazeiras (Director of Planning)

**SUPERVISORY BOARD:** Frederico Schettini Batista (President) – André de Castro Silva – Carlos Henrique Soares Nuto – Fabiano de Figueiredo Araújo

**AUDIT'S COMMITTEE:** Carlos Donizeti Macedo Maia (Coordinator) – Cleber Santiago (Member) – Manoel das Neves (Member) – Rudinei dos Santos (Member)

**SUPERINTENDENT:** Aíla Maria Ribeiro de Almeida Medeiros (Financial Control)

**ACCOUNTANT:** José Graciano Dias – CRC-CE 007949/O-7