

*Banco do  
Nordeste*

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# ACCOUNTING STATEMENTS

## Banco do Nordeste and FNE

Position: 06.30.2003

**Banco do  
Nordeste**

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## **Accounting Statements**

# **Banco do Nordeste**

**Position: 06.30.2003**

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

**BALANCE SHEETS AS OF JUNE 30, 2003 AND 2002**

(Expressed in thousands of Brazilian reais - R\$)

	June 30, 2003	June 30, 2002		June 30, 2003	June 30, 2002
<b>ASSETS</b>			<b>LIABILITIES</b>		
CURRENT ASSETS	3,678,408	2,309,101	CURRENT LIABILITIES	3,325,347	3,084,494
CASH AND DUE FROM BANKS	27,027	27,026	DEPOSITS	777,556	979,796
SHORT-TERM INTERBANK INVESTMENTS	343,607	272,759	Demand deposits	96,529	97,185
Securities purchased under resale agreements	330,399	258,499	Savings deposits	293,443	305,758
Interbank deposits	13,208	14,260	Interbank deposits	7,560	3,541
MARKETABLE AND DERIVATIVE SECURITIES	2,197,692	1,159,928	Time deposits	380,024	573,312
Own portfolio	2,150,229	999,955	SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	15,192	64,651
Linked to Central Bank of Brazil	47,345	159,918	Third-party portfolio	15,192	64,651
Linked to guarantees	118	55	RESOURCES FROM SECURITIES ISSUED	19,716	158,392
INTERBANK ACCOUNTS	79,509	73,333	Eurobonds	19,716	158,392
Payments and receipts pending settlement	11,454	12,069	INTERBANK ACCOUNTS	9,766	20,720
Compulsory deposits			Receipts and Payments pending settlement	9,766	20,720
Central Bank of Brazil	61,330	55,146	INTERDEPARTMENTAL ACCOUNTS	68	837
National Treasury - rural credit	6,712	6,118	Internal transfers of funds	68	837
Third-party funds in transit	13		BORROWINGS	33,564	89,730
LENDING OPERATIONS	289,907	375,632	Domestic Borrowings - government agencies	7,193	10,027
Lending operations:			Foreign borrowings	26,371	79,703
Public sector	56,222	68,193	DOMESTIC ONLENDINGS - GOVERNMENT AGENCIES	370,452	398,060
Private sector	703,142	2,212,151	National Treasury	73	49
(Assurance for lending losses)	(469,457)	(1,904,712)	BNDES (National Economic and Social Development Bank)	288,003	291,137
OTHER CREDITS	732,352	392,600	CEF (Federal Savings and Loans Bank)	274	451
Receivables on guarantees honored		39	FINAME (Government Agency for Machinery and Equipment Financing)	45,655	74,794
Foreign exchange portfolio	7,801	302,817	Other	36,447	31,629
Income receivable	4,529	10,104	FOREIGN ONLENDINGS	66,322	30,428
Negotiation and intermediation of securities	16	46	Foreign onlendings	66,322	30,428
Specific credits	517,240	26,541	OTHER LIABILITIES	2,032,711	1,341,880
Sundry	213,703	110,688	Collection of taxes and social contributions	10,164	29,960
(Assurance for losses)	(10,937)	(57,635)	Foreign exchange portfolio	77	241,574
OTHER ASSETS	8,314	7,823	Social and statutory	6,384	292
Other assets	11,085	10,747	Taxes and social security	34,496	8,670
(Assurance for losses)	(3,158)	(3,282)	Financial and development funds	1,725,841	925,325
Prepaid expenses	387	358	Sundry	255,749	136,059
LONG-TERM ASSETS	7,032,285	8,388,153	LONG-TERM LIABILITIES	6,346,842	6,701,174
MARKETABLE SECURITIES	3,875,023	4,130,241	DEPOSITS	1,947,742	2,094,480
Own portfolio	3,862,226	1,456,843	Demand deposits	48,478	36,211
Linked to Central Bank of Brazil	7,793	2,671,819	Time deposits	1,899,264	2,058,269
Linked to guarantees	5,004	1,579	RESOURCES FROM SECURITIES ISSUED	95,867	113,008
INTERBANK ACCOUNTS	17,783	21,841	Eurobonds	95,867	113,008
Compulsory deposits			BORROWINGS	101,833	85,709
National Treasury - rural credit	736	431	Domestic Borrowings - government agencies	89,246	85,709
National Housing System - SFH	17,047	21,410	Foreign borrowings	12,587	
LENDING OPERATIONS	2,917,043	3,731,772	DOMESTIC ONLENDINGS - GOVERNMENT AGENCIES	1,369,259	1,607,546
Lending operations:			National Treasury	1,813	1,925
Public sector	1,320,195	1,180,111	BNDES	1,032,027	1,292,546
Private sector	1,814,879	2,782,312	CEF	1,258	1,467
(Assurance for lending losses)	(218,031)	(230,651)	FINAME	121,846	139,111
OTHER CREDITS	222,436	504,299	Other	212,315	172,497
Sundry	232,464	505,211	DERIVATIVE FINANCIAL INSTRUMENTS		7
(Assurance for losses)	(10,028)	(912)	Derivative financial instruments		7
PERMANENT ASSETS	146,383	146,333	FOREIGN ONLENDINGS	981,588	997,440
INVESTMENTS	4,438	3,072	Foreign onlendings	981,588	997,440
Other investments	8,767	7,401	OTHER LIABILITIES	1,850,553	1,802,984
(Assurance for losses)	(4,329)	(4,329)	Taxes and social security	771,419	653,276
PROPERTY AND EQUIPMENT IN USE	137,020	138,252	Financial and development funds	516,730	954,938
Land and buildings	181,267	177,282	Sundry	562,404	214,770
Other	58,265	54,399	STOCKHOLDERS' EQUITY	1,184,887	1,057,919
(Accumulated depreciation)	(102,512)	(93,429)	Capital	1,162,000	3,429,249
DEFERRED CHARGES	4,925	5,009	Local residents	1,162,000	3,492,249
Organization and expansion costs	11,283	12,569	Revaluation reserve	46,262	48,938
(Accumulated amortization)	(6,358)	(7,560)	Revenue reserve	1,236	
			Market value adjustment - Marketable securities and derivative instruments	(42,851)	(16,761)
			Retained earnings (Accumulated loss)	18,240	(2,466,507)
TOTAL	<u>10,857,076</u>	<u>10,843,587</u>	TOTAL	<u>10,857,076</u>	<u>10,843,587</u>

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

BANCO DO NORDESTE DO BRASIL S.A.

STATEMENTS OF INCOME

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2003 AND 2002

(Expressed in thousands of Brazilian reais - R\$)

	Six-month period ended <u>June 30, 2003</u>	Six-month period ended <u>June 30, 2002</u>
REVENUE FROM FINANCIAL INTERMEDIATION	<u>1,078,032</u>	<u>1,008,495</u>
Lending operations	386,410	469,991
Marketable securities	612,274	475,378
Derivative financial instruments	(5)	(1)
Foreign exchange transactions	77,661	58,085
Compulsory deposits	1,692	5,042
EXPENSES ON FINANCIAL INTERMEDIATION	<u>(724,050)</u>	<u>(1,010,644)</u>
Deposits and securities sold under repurchase agreements	(215,184)	(252,492)
Borrowings and onlendings	(374,955)	(533,495)
Allowance for losses	(133,911)	(224,657)
FINANCIAL INTERMEDIATION INCOME (LOSS)	<u>353,982</u>	<u>(2,149)</u>
OTHER OPERATING INCOME (EXPENSES)	<u>(174,525)</u>	<u>45,059</u>
Services rendered	243,732	216,793
Salaries, benefits, training and social security	(132,900)	(133,307)
Other administrative expenses	(116,991)	(119,779)
Tax expenses	(30,941)	(24,716)
Other operating income	428,948	220,629
Other operating expenses	(566,373)	(114,561)
OPERATING INCOME (LOSS)	<u>179,457</u>	<u>42,910</u>
NONOPERATING INCOME	3,105	3,863
INCOME (LOSS) BEFORE TAXES AND PROFIT SHARING	<u>182,562</u>	<u>46,773</u>
INCOME TAX AND SOCIAL CONTRIBUTION	<u>(157,849)</u>	<u>(21,225)</u>
Income tax	(18,461)	
Social contribution tax	(6,146)	
Deferred taxes	(133,241)	(21,225)
NET INCOME FOR THE PERIOD	<u><u>24,713</u></u>	<u><u>25,548</u></u>
Number of shares (in million)	<u><u>870,019</u></u>	<u><u>870,019</u></u>
Net income per 1,000 shares - R\$	<u><u>0.03</u></u>	<u><u>0.03</u></u>

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

BANCO DO NORDESTE DO BRASIL S.A.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2003 AND 2002  
(Expressed in thousands of Brazilian reais - R\$)

	CAPITAL			REVALUATION	REVENUE	MARKET VALUE	RETAINED	TOTAL
	CAPITAL	CAPITAL INCREASE	UNPAID CAPITAL	RESERVE	RESERVE	ADJUSTMENT - MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENTS	EARNINGS (ACCUMULATED LOSS)	
BALANCE AT DECEMBER 31, 2001	936,000	2,660,000	(103,782)	50,275			(2,513,500)	1,028,993
PRIOR YEAR ADJUSTMENTS						(19,418)	19,418	
MARKET VALUE ADJUSTMENT - MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENTS						2,657		2,657
CAPITAL INCREASE								
Shares subscribed		(103,751)	103,782					31
OTHER:								
Revaluation reserve:								
Realization of reserve:								
Gross value				(2,027)			2,027	
Taxes				690				690
INCOME FOR THE PERIOD							25,548	25,548
BALANCE AT JUNE 30, 2002	936,000	2,556,249		48,938		(16,761)	(2,466,507)	1,057,919
CHANGES FOR THE PERIOD		(103,751)	103,782	(1,337)		(16,761)	46,993	28,926
BALANCE AT DECEMBER 31, 2002	3,492,249			47,600		(39,032)	(2,330,552)	1,170,265
MARKET VALUE ADJUSTMENT - MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENTS						(3,819)		(3,819)
CAPITAL DECREASE								
Accumulated loss absorption	(2,330,249)						2,330,249	
OTHER:								
Revaluation reserve:								
Realization of reserve:								
Gross value				(2,027)			2,027	
Taxes				689			(689)	
NET INCOME FOR THE PERIOD							24,713	24,713
Destinations:								
Reserves					1,236		(1,236)	
Dividends							(6,272)	(6,272)
BALANCE AT JUNE 30, 2003	1,162,000			46,262	1,236	(42,851)	18,240	1,184,887
CHANGES FOR THE PERIOD	(2,330,249)			(1,338)	1,236	(3,819)	2,348,792	14,622

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





## BANCO DO NORDESTE DO BRASIL S.A.

a.3) The effects of adjustments of assets to market or realizable value are considered where applicable.

### b) Current and Long-Term Assets

Current and long-term assets are stated at realizable values, including accrued interest, monetary and exchange rate variations, less deferred income or allowance, when necessary, there must be emphasized that:

b.1) Lending operations of Banco do Nordeste are contracted at normal market rates.

b.2) An allowance for losses was recorded in accordance with Resolution N° 2,682 of December 21, 1999 of the National Monetary Council.

b.3) Marketable securities are registered by acquisition cost, including brokerage, being classified and evaluated as follow:

- Trade securities - securities acquired for active and constant negotiations, adjusted to market value and its balancing item is income account;
- Available-for-sale securities - securities that are not classified as trade nor as held-to-maturity category. They are recorded at market value, net from tax effects, and its balancing item is classified in the Bank's stockholders' equity;
- Held-to-maturity securities - securities intended to be maintained until its maturity, recorded by acquisition cost plus interest having as balancing item income account.

Securities had their records regarding short and long-term determined according to their maturity dates. However the accounting record in those categories does not characterize the non-availability of those papers, which continue being highly liquid.

### c) Permanent Assets

Permanent assets are carried at acquisition cost plus monetary adjustment through December 31, 1995, observing the following:

c.1) Investments are adjusted by an allowance for losses;

c.2) Land and building in use are stated at revaluation value;

c.3) Property and equipment in use are stated less depreciation which is provided by the straight-line method based on the following annual rates: Buildings - 4%; Transportation and data processing systems and vehicles - 20% and other - 10%;

c.4) Deferred charges are comprised mainly of expenses incurred with software acquisition and development, installations and leasehold improvements less amortization which is calculated using the straight-line method at a fixed annual rate of 20%.



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### d) Current and Long-Term Liabilities

Current and long-term liabilities are stated at original amounts plus accrued interest, monetary and exchange rate variations, less deferred expenses. Available funds from the Northeast Constitutional Financing Fund (FNE) are record in current and long-term liabilities according to its maturity date, considering cash disbursement.

Post-employment benefits provisions are recognized in conformity to Deliberation n° 371, of December 13, 2000, issued by Brazilian Securities and Exchange Commission (CVM).

### e) Income Tax, Social Contribution, PIS and COFINS

Accruals are stated using the following rates over each tax basis demanded in Law:

Income tax	15.00%
Additional income tax	10.00%
Social contribution	9.00%
PASEP	0.65%
COFINS	3.00%

## 4. MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENTS

For obtainment of market value, the following criteria was adopted:

- Fixed-Income securities: average negative goodwill level in the secondary market, published by National Association of Open Market Institutions (ANDIMA);
- Variable-Income securities: average quotation of assets at São Paulo Stock Exchange (BOVESPA);

### a) Marketable securities

According to Circular N° 3,068 of November 8, 2001 of Central Bank of Brazil, Banco do Nordeste do Brasil S.A. classified its own portfolio, as of June 30, 2003, as follow:

#### TRADING SECURITIES

<u>TYPE</u>	<u>Cost value</u>	<u>Market value</u>	<u>Maturity</u>
FIXED-INCOME SECURITIES			
National treasury notes	110,498	113,496	2003 to 2004
Central Bank notes	<u>51,009</u>	<u>52,903</u>	2003
TOTAL	<u>161,507</u>	<u>166,399</u>	

In the first semester of 2003, for securities classified as Trading securities it was record a positive adjustment of R\$ 4,892 thousand, as a result of an increase in the market value of those assets in that period.

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AVAILABLE-FOR-SALE SECURITIES

<u>TYPE</u>	<u>Cost value</u>	<u>Market value</u>	<u>Maturity</u>
FIXED-INCOME SECURITIES	<u>139,425</u>	<u>119,358</u>	
Financial treasury bill	86,943	86,363	2004 to 2008
Agricultural debt securities	271	210	2003 to 2011
Government securities – other	30,271	14,457	2003 to 2005
Fixed-income securities – other	21,940	18,328	2003 to 2027
INVESTMENT FUND QUOTES	<u>629</u>		
Social development fund (FDS)	629		No maturity
VARIABLE-INCOME SECURITIES	<u>146,325</u>	<u>104,449</u>	
Other fiscal incentives (FINOR)	6,377	1,508	No maturity
Investments in stocks	139,948	102,941	No maturity
PLEGGED SECURITIES	<u>2,354</u>		2003 to 2005
TOTAL	<u>288,733</u>	<u>223,807</u>	

Due to the classification of securities in Available-for-Sale category there is recorded an amount of R\$ 64,926 thousand (R\$ 25,395 thousand, at June 30, 2002) in “Market Value Adjustment - Marketable Securities and Derivative Instruments” account, classified in the Bank’s stockholders’ equity. This adjustment, net from taxes effects, correspond to R\$ 42,851 thousand (R\$ 16,761 thousand, at June 30, 2002).

HELD-TO-MATURITY SECURITIES

<u>TYPE</u>	<u>Cost value</u>	<u>Market value</u>	<u>Maturity</u>
FIXED-INCOME SECURITIES			
Financial treasury bill	5,497,604	5,463,369	2003 to 2008
National treasury bill	114,740	119,114	2003 to 2004
National treasury notes NTN-P	237	237	2012 to 2014
National treasury notes NTN	69,688	70,658	2003 to 2004
Investment Fund Quotes - Enterprising Northeast	<u>240</u>	<u>240</u>	2011
TOTAL	<u>5,682,509</u>	<u>5,653,618</u>	

To classify securities in “Held-to-Maturity” category, the Bank proved its financial capacity, in conformity with the specific rules of the Central Bank of Brazil, through a discounted cash flow stating the availability of sufficient funds, from the balance sheet date, until the final maturity of its securities, to comply with all its obligations without the need for selling those securities.

In preparing the discounted cash flow, the Bank adopted a conservative approach towards cash inflow and outflow, presenting fairly its capacity to hold those securities until its maturity.

b) Derivative instruments

Banco do Nordeste do not have any derivative instruments, at June 30, 2003.

BANCO DO NORDESTE DO BRASIL S.A.

5. CREDIT PORTFOLIO AND ALLOWANCE FOR LENDING LOSSES

a) Detail by type:

	<u>June 30, 2003</u>	<u>December 31, 2002</u>	<u>June 30, 2002</u>
Depositors advances	266	222	207
Loans	184,610	198,785	759,720
Discounted drafts	562	2,194	6,462
Financing	1,060,390	1,190,957	1,640,563
Export financing	4,793	7,596	18,577
Foreign currency financing	1,077	3,078	8,108
Government refinancing	454,291	429,770	347,662
Rural and agribusiness financing	1,252,441	1,387,519	2,541,613
Real estate investments	341	7,165	7,355
Infrastructure and development financing	<u>935,667</u>	<u>1,149,366</u>	<u>912,500</u>
LENDING OPERATIONS	<u>3,894,438</u>	<u>4,376,652</u>	<u>6,242,767</u>
Guarantees honored		1	39
Income receivable on advances	1,214	1,752	6,545
Income receivable on import financing			29
Debtors for purchasing of goods and values	3,373	5,784	6,453
Securities and credits receivable	6,005	43,759	41,350
Import financing (*)		597	
Advance on export contracts (*)	<u>5,285</u>	<u>22,110</u>	<u>28,722</u>
OPERATIONS SIMILAR TO LENDING OPERATIONS	<u>15,877</u>	<u>74,003</u>	<u>83,138</u>
TOTAL	<u>3,910,315</u>	<u>4,450,655</u>	<u>6,325,905</u>

(\*) Accounts classified as OTHER LIABILITIES/Foreign exchange portfolio.

The credit portfolio decreased mainly because of credits written off in the period (Note 5.d) and transfers of operations to the Federal Government (Note 5.g) and FNE (Note 5.h).

b) Detail by maturity:

Type	<u>Normal credits</u>				Total June 30, 2003	Total June 30, 2002
	Up to 90 days	From 91 to 180 days	From 181 to 360 days	Above 360 days		
RURAL	22,400	96,020	144,030	722,203	984,653	1,648,019
INDUSTRY	16,954	24,734	30,234	401,363	473,285	650,554
GOVERNMENT	3,687	4,241	7,065	1,357,209	1,372,202	1,006,895
OTHER SERVICES	15,790	30,103	39,096	111,998	196,987	275,900
COMMERCE	54,115	9,932	18,444	90,611	173,102	222,416
FINANCIAL INTERMEDIARIES	2	3,169	4,561	26,680	34,412	37,438
HOUSING SYSTEM	10	14	14	180	218	4,742
CONSUMER CREDITS	<u>79</u>	<u>68</u>	<u>142</u>	<u>2,101</u>	<u>2,390</u>	<u>1,520</u>
TOTAL	<u>113,037</u>	<u>168,281</u>	<u>243,586</u>	<u>2,712,345</u>	<u>3,237,249</u>	<u>3,847,484</u>

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Type	Past-due credits					Total June 30, 2003	Total June 30, 2002
	Current installments				Above 360 days		
	Up to 90 days	From 91 to 180 days	From 181 to 360 days	Above 360 days			
RURAL	4,977	3,697	6,091	216,832	231,597	601,616	
INDUSTRY	5,268	4,596	6,219	100,848	116,931	274,669	
GOVERNMENT	52	19	28	946	1,045	246,000	
OTHER SERVICES	2,165	2,851	3,628	63,816	72,460	83,504	
COMMERCE	20,690	7,082	14,379	42,390	84,541	165,373	
FINANCIAL INTERMEDIARIES	5,176	2	1	2	5,181	7,713	
HOUSING SYSTEM	39	22	29	16	106	2,418	
CONSUMER CREDITS	69	37	69	52	227	312	
TOTAL	<u>38,436</u>	<u>18,306</u>	<u>30,444</u>	<u>424,902</u>	<u>512,088</u>	<u>1,381,605</u>	

Type	Past due installments					Total June 30, 2003	Total June 30, 2002
	Current installments				Above 360 days		
	Up to 90 days	From 91 to 180 days	From 181 to 360 days	Above 360 days			
RURAL	816	1,317	2,002	47,002	51,137	319,907	
INDUSTRY	1,481	1,757	4,811	37,344	45,393	545,329	
GOVERNMENT	2				2		
OTHER SERVICES	1,086	331	3,747	23,452	28,616	100,122	
COMMERCE	143	4,018	5,638	24,758	34,557	129,876	
FINANCIAL INTERMEDIARIES	1,190			2	1,192	1	
HOUSING SYSTEM				27	27		
CONSUMER CREDITS	3	10	14	27	54	1,581	
TOTAL	<u>4,721</u>	<u>7,433</u>	<u>16,586</u>	<u>132,612</u>	<u>160,978</u>	<u>1,096,816</u>	

c) Detail by credit risk rating:

Risk rating	June 30, 2003				June 30, 2002			
	Current (1)	Past-due	Total	Allowance	Current (1)	Past-due	Total	Allowance
AA	1,214,499		1,214,499		2,303,481		2,303,481	
A	1,106,543		1,106,543	5,533	1,159,508		1,159,508	5,895
B	351,277	15,237	366,514	3,665	27,923	72,822	100,745	1,311
C	167,885	39,872	207,757	6,233	21,919	88,745	110,664	4,016
D	84,840	43,404	128,244	12,824	13,316	182,911	196,227	23,256
E	84,722	58,075	142,797	42,839	90,947	126,934	217,881	67,241
F	85,612	68,537	154,149	77,074	69,994	165,686	235,680	120,190
G	45,819	83,099	128,918	90,242	6,580	153,937	160,517	130,799
H	96,052	364,842	460,894	460,894	153,816	1,687,386	1,841,202	1,841,202
TOTAL	<u>3,237,249</u>	<u>673,066</u>	<u>3,910,315</u>	<u>699,304</u>	<u>3,847,484</u>	<u>2,478,421</u>	<u>6,325,905</u>	<u>2,193,910</u>

(1) Include 14 days past-due credits.

d) Allowance for the period

	Six month period ended		
	June 30, 2003	December 31, 2002	June 30, 2002
Opening balance	851,650	2,193,910	2,153,070
(+) Allowance for the period	124,762	234,251	224,657
(-) Credits classified as losses	(277,108)	(1,576,511)	(183,817)
(=) Allowance for losses on lending operations	<u>699,304</u>	<u>851,650</u>	<u>2,193,910</u>
(+) Allowance for losses on other credits	9,149		
(=) Closing balance	<u>708,453</u>	<u>851,650</u>	<u>2,193,910</u>

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e) Allowance expenses

	<u>Six month period ended June 30, 2003</u>	<u>Six month period ended June 30, 2002</u>
(+) Expenses on allowances for lending losses	116,704	200,721
(+) Expense on allowance for other credits	9,501	24,280
(-) Reversal of operating allowances	<u>(1,443)</u>	<u>(344)</u>
(=) Allowance for losses on lending operations	124,762	224,657
(+) Allowance for losses on other credits	<u>9,129</u>	
(=) Closing balance	<u>133,911</u>	<u>224,657</u>

f) Credits written off as losses have been recovered in the period in amount of R\$ 81,362 thousand (R\$ 50,050 thousand at June 30, 2002), and renegotiations of operations totaled R\$ 193,324 thousand (R\$ 476,599 thousand at June 30, 2002).

g) According to Provisional Measure N° 2,196-3, of August 24, 2001, which established the Federal Financial Institutions Strengthening Program, there were followed other actions related to accomplishment of that Program complying to items II and IV of article 2 of the mentioned Provisional Measure, which authorizes the Federal Government to acquire the corresponding credits of rural financing operations renegotiated, based in Law N° 9,138, of November 29, 1995, and as established in Resolution N° 2,471, of February 26, 1998, of the National Monetary Council, celebrated by Federal Banks, with their own resources or National Economic and Social Development Bank - BNDES resources. The credits assignment contract which secures the transfer for the Federal Government of all rights, advantages and corresponding collateral of the operations referred in the Provisional Measure N° 2,196-3, of August 24, 2001 from the Bank to the Federal Government is filed in the Finance Ministry. The assignment, recorded in Other Credits/Specifics Credits/National Treasury- Rural Credit Lengthening, totaled R\$ 517,221 thousand, at June 30, 2003, as follow:

- Operations transferred until December 31, 2002 – R\$ 396,007 thousand;
- Operations transferred in 2003 – R\$ 51,783 thousand;
- Monetary adjustment of credits based on SELIC rate – R\$ 69,431 thousand.

h) Due to the application of article 9 of Law N° 10,464, of May 24, 2002 and article 8 of Provisional Measure 114, of March 31, 2003, which concerns about operations conversion from rural and agribusiness credit for the Northeast Constitutional Financing Fund - FNE, there were converted for the Constitutional Fund scope, maintaining PRONAF financial conditions, 146,089 operations originally conceded with other funds resources to family farmers, in a total value of R\$ 888,144 thousand, as follow:

- 137,050 operations converted in 2002 – R\$ 810,542 thousand;
- 9,039 operations converted in 2003 – R\$ 77,602 thousand.

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As established in the Resolution N° 3,018, of August 29, 2002, the financing credit risk transfer is 50% (fifty percent) for the financial agent and 50% (fifty percent) for the operation Constitutional Fund beneficiary, as orderly by article 6 of Law N° 10,177, of January 12, 2001.

### 6. LONG-TERM LIABILITIES

Domestic borrowings and onlending are subject to interest rates that vary from 0 to 11% per annum, with maturity from 4 to 20 years averaging at 7 years. The monetary adjustment, where applicable as per legal and contractual clauses, is calculated based on official rates issued by the Central Bank of Brazil.

The borrowings from the BNDES are subject to interest based on the TJLP (long-term interest rate) plus average spread of 2% per annum, with an average maturity of 6 years.

The borrowings from the Fund for Workers Assistance (FAT), recorded in Special Deposits, amounting of R\$ 1,371,073 thousand, are subject to interest based on SELIC rate, when not used in lending operations, and based on TJLP after being released to the borrowers. The average maturity is 6 years with final payment in 2012. The free resources, monetarily adjusted at SELIC rate, totaled R\$ 559,610 thousand. (Note7.b)

Foreign borrowings are subject to interest rates which vary from 4.00% to 11.4286% per annum (including Income Tax), with an average maturity of 8 years and final payment to the Interamerican Development Bank (IDB) in 2019. The exchange rate adjustment, if stipulated by contractual clauses, is calculated based on official rates issued by the Central Bank of Brazil.

The resources from Eurobonds issued are subject to interest rates which vary from 9.625% to 11.375% per annum, with the maturity of the last “tranche” due on March 7, 2005.

Loan assets are subject to the same conditions as loan liabilities, in terms of interest and maturity, and are secured by guarantees and other collateral.

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7. FINANCIAL STATEMENTS MAINLY ACCOUNTS DETAIL

a) Other Credits

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
RECEIVABLES FOR GUARANTEES HONORED		39
FOREIGN EXCHANGE PORTFOLIO	<u>7,801</u>	<u>302,817</u>
Unsettled exchange purchases	6,587	187,358
Rights on foreign exchange sales		108,886
Other	1,214	6,573
INCOME RECEIVABLE	<u>4,529</u>	<u>10,104</u>
NEGOTIATION AND INTERMEDIATION OF SECURITIES	<u>16</u>	<u>46</u>
SPECIFIC CREDITS	<u>517,240</u>	<u>26,541</u>
National treasury - rural Credit Lengthening/Resolution N°2471 (Note 5.g)	517,221	
National treasury - rural Credit Lengthening/Resolution N°2238	19	26,541
SUNDRY	<u>446,167</u>	<u>615,899</u>
Tax credits – temporary differences	245,357	425,882
Tax credits – marketable securities and derivative instruments	51,578	12,671
Debtors for guarantee deposits	49,109	51,657
Taxes and contributions to be offset	30,776	19,165
Options for fiscal incentives	26,748	26,748
Security and credits receivable	6,005	41,350
Other	36,594	38,426
ALLOWANCES FOR OTHER LOSSES	<u>(20,965)</u>	<u>(58,547)</u>
Similar to lending operation	(11,816)	(58,547)
Not similar to lending operation	(9,149)	
TOTAL	<u>954,788</u>	<u>896,899</u>
CURRENT	732,352	392,600
LONG-TERM	222,436	504,299

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b) Deposits

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
DEMAND DEPOSITS	<u>145,007</u>	<u>133,396</u>
Investments deposits	53,613	62,190
Foreign currencies deposits	48,857	36,510
Governments deposits	21,615	17,604
Linked deposits	13,301	6,733
Other	7,621	10,359
SAVINGS DEPOSITS	<u>293,443</u>	<u>305,758</u>
Free savings deposits – Individual	235,678	231,277
Free savings deposits – Corporate	57,749	74,379
Other	16	102
INTERBANKS DEPOSITS	<u>7,560</u>	<u>3,541</u>
TIME DEPOSITS	<u>2,279,288</u>	<u>2,631,581</u>
Time deposits	336,266	328,695
Interest-bearing judicial deposits	12,339	10,520
Interest-bearing judicial deposits/Fund for workers assistance (FAT) - available resources	<u>559,610</u>	<u>401,809</u>
Urban Proger	117,957	129,029
Rural Proger	110,867	63,133
Pronaf	225,406	101,968
Protrabalho	64,038	97,444
Dryness	41,342	10,235
Interest-bearing judicial deposits/Fund for workers assistance (FAT) - applied resources	<u>1,371,073</u>	<u>1,890,557</u>
Urban Proger	449,368	755,356
Rural Proger	74,847	170,219
Pronaf	106,413	221,183
Protrabalho	686,021	658,753
Dryness	54,424	85,046
TOTAL	<u>2,725,298</u>	<u>3,074,276</u>
CURRENT	777,556	979,796
LONG-TERM	1,947,742	2,094,480



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### c) Domestic Onlending Liabilities

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
NATIONAL TREASURY	<u>1,886</u>	<u>1,974</u>
BNDES (National Economic and Social Development Bank)	<u>1,320,030</u>	<u>1,583,683</u>
Poc	511,532	637,638
Credit line for investments in rural sector	378,774	506,866
Other programs	429,724	439,179
CEF (Federal Savings and Loan Bank)	<u>1,532</u>	<u>1,918</u>
FINAME (Government Agency for Machinery and Equipment Financing)	<u>167,501</u>	<u>213,905</u>
Special program	6,400	38,930
Automatic programs	73,337	82,732
Agricultural programs	23,781	21,863
Other programs	63,983	70,380
OTHER INSTITUTIONS	<u>248,762</u>	<u>204,126</u>
Pilot project to support the land reform	62,644	56,945
MEPF (Fund for land and land reform – Land bank)	126,545	108,171
EMBRATUR/FUNGETUR	7,611	9,867
Land bank – Rural poverty combat	45,957	22,216
Other programs	<u>6,005</u>	<u>6,927</u>
TOTAL	<u>1,739,711</u>	<u>2,005,606</u>
CURRENT	370,452	398,060
LONG-TERM	1,369,259	1,607,546

### d) Foreign Onlending Liabilities

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
BID-prodetur	1,044,839	996,119
BID-other programs		28,418
Linked to interbank onlending	<u>3,071</u>	<u>3,331</u>
TOTAL	<u>1,047,910</u>	<u>1,027,868</u>
CURRENT	66,322	30,428
LONG-TERM	981,588	997,440

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e) Other Liabilities

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
COLLECTED TAXES AND OTHER	<u>10,164</u>	<u>29,960</u>
FOREIGN EXCHANGE PORTFOLIO	<u>77</u>	<u>241,574</u>
Exchange purchase liabilities	5,285	139,854
Exchange sales payable		130,366
(Advance on exchange contracts)	(5,285)	(28,722)
Other	77	76
SOCIAL AND STATUTORY	<u>6,384</u>	<u>292</u>
TAXES AND SOCIAL SECURITY	<u>805,915</u>	<u>641,946</u>
Allowance for tax risks	718,084	604,030
Allowance for deferred income tax	53,335	29,246
Allowance for income tax	23,820	
Other	10,676	8,670
FINANCIAL AND DEVELOPMENT FUNDS	<u>2,242,571</u>	<u>1,880,263</u>
Northeast Constitutional Financing Fund (FNE)	2,214,100	1,857,388
Other	28,471	22,875
SUNDRY	<u>818,153</u>	<u>350,829</u>
Allowance for contingencies	765,189	305,662
Labor actions	48,787	20,195
Civil actions	29,049	36,707
Fiscal actions	15,770	14,294
Post-employment benefits – Deliberation CVM 371	109,178	19,696
Supplementary retirement plan	99,505	17,669
Health care plan	9,673	2,027
FNE	562,404	214,770
Allowance for future payments	33,686	27,855
Other	<u>19,279</u>	<u>17,312</u>
TOTAL	<u>3,883,264</u>	<u>3,144,864</u>
CURRENT	2,032,711	1,341,880
LONG-TERM	1,850,553	1,802,984

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f) Other Operating Income / Expenses

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
SERVICE INCOME (*)	<u>243,732</u>	<u>216,793</u>
Management fee from investment funds	1,756	1,772
Management fee from programs and funds	226,278	198,221
Other	15,698	16,800
PERSONNEL EXPENSES	<u>(132,900)</u>	<u>(133,307)</u>
Salary	(84,439)	(88,226)
Social contributions	(33,633)	(33,326)
Other	(14,828)	(11,755)
OTHER ADMINISTRATIVE EXPENSES	<u>(116,991)</u>	<u>(119,779)</u>
Data processing	(24,097)	(18,972)
Advertising and publicity	(1,406)	(15,724)
Third-party services	(12,396)	(13,052)
Rent, material, water, electricity and gas	(12,637)	(9,677)
Travel	(7,895)	(7,035)
Communication	(7,736)	(6,914)
Depreciation and amortization	(6,168)	(6,305)
Maintenance and conservation of assets	(5,776)	(5,453)
Vigilance, security and transport	(6,730)	(5,422)
Promotion, public relation and publication	(2,932)	(2,764)
Financial system services	(2,930)	(1,827)
Specialized services	(1,715)	(1,380)
Other	(24,573)	(25,234)
TAX EXPENSES	<u>(30,941)</u>	<u>(24,716)</u>
Tax for social security financing (COFINS)	(23,367)	(18,484)
Social integration program (PIS/PASEP)	(5,063)	(4,089)
Other	(2,511)	(2,143)
OTHER OPERATING INCOME	<u>428,948</u>	<u>220,629</u>
Management fee /“del credere” from funds administered	38,270	20,696
Negative exchange rate variations on lending operations	270,009	47,965
Reversal of operating allowances/risks of FNE operations		87,305
Expense and contribution recovery	1,605	2,023
Specific credits income	69,431	1,694
Reversal of operating allowances / social contribution	25,881	2,456
Other	23,752	58,490
OTHER OPERATING EXPENSES	<u>(566,373)</u>	<u>(114,561)</u>
Exchange rate variations on foreign exchange portfolio	(77,297)	(37,993)
Negative exchange rate variations on lending operations	(181,572)	(16,101)
Renegotiations on lending discounts	(5,459)	(7,202)
Tax risks	(81,014)	(27,156)
Retirement benefits obligations (CVM N° 371)	(65,989)	(17,669)
Medical assistance obligations (CVM N° 371)	(5,877)	(2,027)
FNE operations credit risk	(109,416)	
Other	<u>(39,749)</u>	<u>(6,413)</u>
TOTAL	<u>(174,525)</u>	<u>(45,059)</u>

(\*) Since June 2003, income of management fee from investment funds were transferred from “Other Operating Income” and “SERVICE INCOME / management fee from investment funds” to “SERVICE INCOME / management fee from programs and funds”. For comparison purposes the balance as of June 30, 2002 is adjusted.

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### 8. TAXES AND CONTRIBUTIONS

#### a) Income Tax and Social Contribution

Banco do Nordeste is subject to the taxable profit taxation regime and pays monthly income and social contribution taxes on an estimated basis.

The Income Tax expense recorded in the six month period ended June 30, 2003 was R\$ 114,957 thousand and the Social Contribution expense was R\$ 41,416 thousand, and its conciliation is demonstrated below:

	<u>Income Tax</u>		<u>Social Contribution</u>	
	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Income before taxes	115,266	38,699	156,681	44,317
Permanent differences	36,547	34,732	(5,719)	29,014
Temporary differences	(50,514)	(147,006)	(50,514)	(147,006)
Taxable income before compensations	101,299	(73,575)	100,448	(73,674)
Tax loss compensation	(30,390)		(30,134)	
Taxable income after compensations	70,909	(73,575)	70,314	(73,674)
Taxes payable	17,715		6,328	
Deductions (fiscal incentives and compensations)	(730)		(182)	
Temporary differences tax credits	97,972	15,607	35,270	5,618
Income tax – 2002 complement	1,476			
Tax expense recorded	116,433	15,607	41,416	5,618
% of tax expense over income before taxes				
2002's social contribution compensation according to article 8 of MP 2,158-35/01	101.01%	40.33%	26.43%	12.68%

#### b) Tax Credits - Temporary Differences

Article 9 of Law N° 9,430, determines deductibility rules applied in the registration of allowance for lending losses expenses for taxable income. The allowance for lending losses are recorded in accordance with Resolution N° 2,682/99 of December 21, 1999 of the National Monetary Council. Therefore, the part recorded according to corporate standards that exceed the limit established by tax legislation is added to the taxable income. The allowance not deductible will be deductible in future years, when meet the tax law requirements of deductibility or when reversed.

As the provisions have been added on a temporary basis and in accordance with Central Bank Circular N° 3,171, dated December 30, 2002, Resolution N° 273 of the Brazilian Securities and Exchange Commission, dated August 20, 1998, and Article 8 of Provisional Measure N° 2,158-35 of August 24, 2001, the Bank recorded a tax credit relating to income tax and social contribution on temporary differences.

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The Bank proceeded the realization of the tax credit existing on April 30, 2001, without new constitution of tax credits on temporary differences. The balance, which on April 30, 2001 was R\$ 322,160 thousand, related to Income Tax, and R\$ 115,978 thousand related to social contribution has being properly accompanied and in the six month period ended June 30, 2003 expenses relating to income tax and social contribution of R\$ 133,241 thousand were recorded due to the realization of tax credits on temporary differences.

According to the Central Bank Circular Letter N° 3,023 of June 11, 2002, there were constituted tax credits about Market Value adjustments of Securities of R\$ 14,554 thousand related to available-for-sale securities. The movement of these credits is demonstrated as follow:

	<u>INCOME TAX</u>		<u>SOCIAL CONTRIBUTION</u>		
	<u>Temporary differences</u>	<u>Marketable securities</u>	<u>Temporary differences</u>	<u>Marketable securities</u>	<u>Art. 8 MP 2,158/01</u>
Opening balance as of June 30, 2002	277,106	9,316	99,758	3,354	49,018
(+)Tax credits record		17,908		6,446	
(-) Tax credits realization	<u>(26,601)</u>		<u>(9,576)</u>		
Balance as of December 31, 2002	<u>250,505</u>	<u>27,224</u>	<u>90,182</u>	<u>9,800</u>	<u>49,018</u>
(+)Tax credits record		10,701		3,853	
(-) Tax credits realization	<u>(97,972)</u>		<u>(35,270)</u>		<u>(11,106)</u>
(=) Closing balance as of June 30, 2003	<u>152,533</u>	<u>37,925</u>	<u>54,912</u>	<u>13,653</u>	<u>37,912</u>

The asset provision balance of Income tax and Social Contribution , registered in “OTHER CREDITS-Sundry”, long term, is comprised as follow:

	<u>Income Tax</u>		<u>Social Contribution</u>	
	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
1 Temporary differences total	3,042,275	2,741,793	3,042,275	2,741,793
2 Tax loss carry-forward	612,056	965,432	614,337	966,310
3 Total basis (1) + (2)	3,654,331	3,707,225	3,656,612	3,708,103
4 Total tax credits	913,583	926,806	329,095	333,729
5 2002's social contribution compensation according to article 8 of MP 2,158-35/01			37,912	49,018
6 Marketable securities - market value adjustments tax credit	37,925	9,316	13,653	3,354
7 Total tax credits	951,507	936,123	380,660	386,101
8 Tax credits recorded	190,458	286,422	106,477	152,130
9 Tax credits not recorded (8)-(9)	761,049	649,701	274,183	233,971

The Income Tax and Social Contribution deferred charges will be realized as the temporary differences, on which they are calculated, be reverted or become deductible. The realization schedule, presented as follow, of those deferred charges, properly based in a technical study in which there is a expectation of future positive results and consequently expectation of Income Tax and Social Contribution obligations, considering the information disposed in article 6, sole paragraph, Law N° 9,249/95. The following exhibit demonstrates estimated realization value comparatively with its present value, calculated based in the projected Interbank Deposit Certificate - CDI for its corresponding period:

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Period	Income tax		Social contribution		Total	
	Estimated value	Present value	Estimated value	Present value	Estimated value	Present value
2003	23,922	23,471	8,612	8,060	32,534	31,531
2004	31,913	25,202	11,489	9,073	43,402	34,275
2005	31,913	20,049	11,489	7,218	43,402	27,267
2006	32,231	16,109	11,603	5,799	43,834	21,908
2007	<u>32,554</u>	<u>12,944</u>	<u>11,719</u>	<u>4,660</u>	<u>44,273</u>	<u>17,604</u>
TOTAL	<u>152,533</u>	<u>97,775</u>	<u>54,912</u>	<u>34,810</u>	<u>207,445</u>	<u>132,585</u>

Tax credits related to Market Value Adjustments of Securities, recorded as foreseen in Circular N° 3,068/01, will be realized according to the securities maturities, as follow:

Period	Income tax		Social contribution		Total	
	Estimated value	Present value	Estimated value	Present value	Estimated value	Present value
2003	36,557	12,912	13,160	12,318	49,717	25,230
2004	142	112	51	40	193	152
2005	271	170	98	61	369	231
2008 to 2012	37	8	12	3	49	11
2013 to 2017	7	1	3		10	1
2023 to 2027	364	2	131	1	495	3
2028 to 2030	<u>547</u>	<u>1</u>	<u>198</u>	<u>1</u>	<u>745</u>	<u>2</u>
TOTAL	<u>37,925</u>	<u>13,206</u>	<u>13,653</u>	<u>12,424</u>	<u>51,578</u>	<u>25,630</u>

## 9. STOCKHOLDERS' EQUITY

### a) Capital

On the Stockholders' Meeting, held on April 29, 2003, the Federal Government, majority stockholder, recommended the capital decrease by accumulated loss absorption. The matter was submitted to supervisory and fiscal councils that issued a favorable opinion. On the Stockholders' Meeting of June 30, 2003, the stockholders' unanimously decided for the capital decrease, without changing in the quantity of shares.

After this accounting procedure, capital amounts changed from R\$ 3,492,249 thousand to R\$ 1,162,000 thousand, represented by 870,019,022,574 book entry shares without par value, as follows:

Stockholders	Common shares	Preferred shares	% Voting capital	% Total capital
Federal government	465,952,800,540	353,731,907,693	96.10	94.22
National Development Fund-FND	14,737,043,790	23,732,649,036	3.04	4.42
National Bank for Economic and Social Development-BNDES	490,153,432	4,899,854,822	0.10	0.62
Others (37,467 stockholders)	<u>3,667,757,582</u>	<u>2,806,855,679</u>	<u>0.76</u>	<u>0.74</u>
TOTAL	<u>484,847,755,344</u>	<u>385,171,267,230</u>	<u>100.00</u>	<u>100.00</u>

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### b) Revaluation Reserve

Relates to the revaluation of land, buildings and assets in use as of February 26, 1993. The realization for this year, in amount of R\$ 1,338 thousand (R\$ 1,337 thousand at June 30, 2002), was transferred to “Retained earnings”.

### c) Dividends

The Bank’s by-laws secure to stockholders’ minimum dividend of 25% over the six month period ended June 30, 2003 result, paid as advance for the annual dividend.

The board of directors propose and the administrative council approved, “*ad referendum*” of Stockholders' Meeting, the payment of advance dividends, being calculated as follow:

1. Net income for the period	24,713
2. Revenue reserve constitution	(1,236)
3. Revaluation reserve transferred to retained earnings	<u>1,338</u>
4. Dividend calculation base	24,815
5. Proposed and registered dividend 25.275%	<u>6,272</u>
– Dividend for 1,000 common shares (0.0069 x 484,847,755,344)	3,345
– Dividend for 1,000 preferred shares (0.0076 x 385,171,267,230)	2,927

Dividends calculated for the preferred shares were 10% higher than the common shares dividends, as foreseen in subparagraph “I” of article 17 of Law N° 6,404/76, amended by Law N° 9,457/97 and disposition in article 5 of Banco do Nordeste by-laws.

Dividends will be paid after monetary adjustment based on SELIC rate, calculated from the balance sheet date until the date of the yield availability for stockholders’, according to Decree N° 2,673 of July 16, 1998, amended by Decree N° 3,381 of March 13, 2000.

## 10. CONTINGENCIES LIABILITIES

Banco do Nordeste participate in several lawsuits, involving mainly civil and labor actions, on individuals and class actions. Over this actions stock, and based in individual analysis of each action, the legal superintendence, based on pre-established accruals criteria, indicates values to be registered in each situation. For accrual criteria definition, it was made a survey by all legal areas of the Bank, involving demands classification and adjustments being considered all the lawsuit’s demand. In that manner, civil and labor actions were classified, considering the risk of loss for the Bank, in probable, possible and remote, and recorded in sufficient amounts established by the legal advisors of the Bank.

Tax actions were classified as probable risk and recorded 100% of amounts related to Income Tax and Social Contribution compensation, paid due to inflation effects (Plano Verão) recorded in “OTHER LIABILITIES-Taxes and social security”.

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Post-employment benefits provisions are recognized in conformity to Deliberation n° 371, of December 13, 2000, issued by Brazilian Securities and Exchange Commission (CVM), and the credit's risk assumed by the Bank on FNE operations, contracted since December 01, 1998 is calculated in the same way of Resolution N° 2,682/99.

### 11. COMPENSATION TO EMPLOYEES AND DIRECTORS

The maximum, average and minimum amounts of monthly salaries paid by the Bank to its employees and directors are as follows:

<u>Gross salary</u>	<u>Employees (1)</u>	<u>Directors (2)</u>
Maximum	8,506.91	9,040.10
Minimum	370.00	
Average	2,930.78	

- (1) Includes overtime (including night shift premium) when effectively worked.
- (2) Includes R\$ 1,506.68 relating to the additional 20% for the position, as determined by the Ministry of Finance.

On June 30, 2003, Banco do Nordeste employed 3,723 people, against 3,546 as of June 30, 2002, showing a increase of 4.99% in the number of employees.

### 12. EMPLOYEE BENEFITS

As provided by CVM Resolution N° 371 of December 13, 2000, we provide below the information regarding the employee benefit policy and the accounting procedures adopted by Banco do Nordeste for the recognition of its liabilities:

a) Banco do Nordeste does not maintain:

- Termination benefits;
- Long-term incentive programs;
- Remuneration in shares and securities equivalent to equity interest.

b) Accounting policy adopted by the Bank for recognizing actuarial gains and losses

The policy adopted for recognizing actuarial gains and losses follows the provisions of itens 52 to 55 of the attachment of CVM Resolution N° 371, that is, the Bank recognizes the portion of actuarial gains and losses exceeding the higher of:

- 10% of the present value of the actuarial liability of the defined benefit; and
- 10% of the fair value of the plan assets.



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The portion cited above will be amortized every semester. The value is obtained dividing its amount by the average remaining work period (20 semesters, as of June 30,2003) estimated for the participants.

### c) Supplementary retirement benefits

The Bank sponsors the Private Retirement Fund for the Employees of Banco do Nordeste do Brasil – CAPEF, a closed private retirement entity that provides eligible employees and their dependents with supplemental retirement and pension benefits. It also sponsors the Assistance Fund for the Employees of Banco do Nordeste do Brasil – CAMED that provides the Bank's employees and their dependents with health care benefits.

Shown below the information about CAPEF:

#### c.1) Cost

Six month period ended June 30, 2003: R\$ 12,941 thousand (R\$ 12,399 thousand in June 30, 2002).

#### c.2) Actuarial method

CAPEF adopts the capitalization method for the actuarial calculation of the reserves for supplemental retirement, pension and annuity benefits.

#### c.3) Benefit plans

The plan adopted is a defined benefit plan, which provides:

- participants with supplemental retirement benefits for years of contribution, for disability and for retirement age.
- participants' dependents with supplemental pension and annuity benefits.

#### c.4) Past-due obligations

None.

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### c.5) Deficit and reasons

As of June 30, 2003, an actuarial deficit of R\$ 300,865 thousand (surplus of R\$ 59,037 thousand at June 30, 2002) was recorded. The main factors that contributed to the result variation in relation the previous period were:

- Benefit result (payment of benefits superiors to contributions received in the period): R\$ 63,205 thousand;
- Investment result: R\$ 191,704 thousand;
- Mathematical reserve variation (Related to biometrics tables variations and recognition of benefits adjustment perspectives): R\$ 96,500 thousand;
- Judicial liability accrual: R\$ 383,909 thousand.

The judicial liability accrual relates to 537 judicial demands promoted by 3,054 beneficiaries that claims, among others: i) 15% extra contribution paid on January, February, May, June and July, 1997; ii) return of the benefit gross value earned as of July, 1997, which were reduced during the Entity's intervention period. The total amount of this accrual is result of the following: financial liability of R\$ 125,861 thousand and actuarial liability of R\$ 258,048 thousand.

The first judicial demand occurred on December 9, 1996 and as of December, 2002 there were still 526 actions. Part of those demands were judged during 2002, in favor of claimants.

There is a negotiation in course between CAPEF's Board of directors and worker's and beneficiaries representative entities, started on June 9, 2003. This negotiation objective is to find out a solution for those demands.

Despite its actuarial deficit, CAPEF has to present its financial statements to the Supplementary Security Secretary of the Ministry of Social Security only in the end of the year, occasion that will be calculated its actuarial result subject to security legislation treatment.

### c.6) Contribution rates

Listed below are the average contribution rates in June 2003:

<u>Participants</u>	<u>Average contribution (%)</u>		<u>Total</u>
	<u>Participant</u>	<u>Sponsor</u>	
Active	8	8	16
Retired	20	20	40
Pensioners	20	20	40

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It should be noted that there are permitted two contribution systems for the beneficiaries of supplemental pension. In the first system which covers pensioners with benefits granted until August 2, 1998, there were no payments by the beneficiaries and Banco do Nordeste for the plan. In the second system which cover pensioners with benefits effective from August 3, 1998, the beneficiaries' contributions are 20% of the supplemental pension that they receive monthly, with the sponsor contributing at the same rate, totaling 40% of the benefit paid.

### c.7) List of Contributions (Participants/Sponsors)

The correlation between participants' and sponsors' contributions has been accomplished in conformity with the Constitutional Amendment N° 20, recording as of June 30, 2003 a ratio of 1:1 (1:1 as of June 30, 2002).

### d) Health care benefit plan characteristics

Banco do Nordeste contributes to the Health Care Plan administered by Caixa de Assistência dos Funcionários do Banco do Nordeste do Brasil - CAMED, whose purpose is providing health care to its participants and enrolled dependents, by providing aid for covering or reimbursing their expenses for promoting, protecting and recovering their health.

The Bank's contribution to the Health Care Plan is limited to the corporate contribution of 1.5% calculated on the total payroll, including bonuses and 13th month salary, as well as on the compensation serving as a basis for the calculation of retirement and pension supplementation, including the social security contribution tax, as the case may be. Therefore, no past service costs relating to health care benefits.

The funding model of the Health Care Plan is the simple coverage of assistance costs, and possible surpluses or deficits are settled between CAMED and its participants. Because of being a simple coverage of assistance costs funding model, there is no record of actuarial surplus or deficits in the financial assets of the natural plan.

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### e) Reconciliation of assets and liabilities recognized in the balance sheets

The reconciliation of assets and liabilities is shown below, in thousands of Brazilian Reais, in accordance with detailed data provided by Caixa de Previdência dos Funcionários do Banco do Nordeste do Brasil – CAPEF and Caixa de Assistência dos Funcionários do Banco do Nordeste do Brasil - CAMED, based on technical information generated together with their respective actuaries, in accordance with item 49 of CVM Resolution N° 371:

<u>Specification</u>	<u>CAPEF</u>	<u>CAMED</u>
1. Present value of partially or totally covered actuarial liabilities	1,445,921	31,640
2. Fair value of plan assets	<u>818,289</u>	<u>          </u>
3. Present value of uncovered actuarial liabilities (1 - 2)	627,632	31,640
4. Net value of recognized liabilities (Note 7-e)	99,505	9,673
a. Contingencies expense (PUC method less Aggregated method) - prior year	<u>10,131</u>	<u>259</u>
a.1. Expense recognized in income statement (PUC)	36,915	8,815
a.2. Total of contribution paid (Aggregated method)	(26,784)	(8,556)
b. Contingencies expense (PUC method less Aggregated method) - current year	<u>7,706</u>	<u>          </u>
b.1. Expense recognized in income statement (PUC)	20,647	5,280
b.2. Total of contribution paid (Aggregated method)	(12,941)	(5,280)
c. Value of actuarial liability recognized - prior year	23,385	3,537
d. Value of actuarial liability recognized - current year	46,705	5,877
e. Net value of actuarial loss recognized – current year	11,578	<u>          </u>
5. Cost of past service not yet recognized	<u>          </u>	<u>          </u>
6. Net value of actuarial liabilities in the end of the period (3 - 4)	<u>528,126</u>	<u>21,967</u>
a. Net value of actuarial loss not recognized accumulated	<u>364,584</u>	<u>          </u>
a.1. Value not recognized – “Corredor” limit 10% item 1	144,592	<u>          </u>
a.2. Value to be recognized as foreseen in item 54 of Deliberation N°371 attachment	219,992	<u>          </u>
b. Present value of actuarial liabilities at risk to be recognized until December 31, 2006	163,542	21,967

### f) Changes in net actuarial liabilities in the period are shown below, in thousands of Brazilian reais:

<u>Specification</u>	<u>CAPEF</u>	<u>CAMED</u>
1. Net actuarial liabilities at December 31, 2001 to be recognized until December 31, 2006	233,632	31,381
2. Prior year unrecognized actuarial losses	13,559	<u>          </u>
3. Prior year value of net actuarial liabilities (18%) recognized	(23,385)	(3,537)
4. Current year unrecognized actuarial losses	351,025	<u>          </u>
5. Current year value of net actuarial liabilities (12%) recognized	<u>(46,705)</u>	<u>(5,877)</u>
6. Net actuarial liabilities at the end of the period	528,126	21,967

- g) The expense recognized in the Statement of Income is shown below, in thousands of Brazilian reais:

<u>Specification</u>	<u>CAPEF</u>	<u>CAMED</u>
1. Current service cost, less employees' contributions	5,207	5,280
2. Interest cost	82,859	
3. Expected return on plan assets	(67,419)	
4. Cost of amortized past service		
5. Actuarial gains and losses recognized in the year	11,578	
6. Actuarial liabilities recognized in the year	46,705	5,877
7. Effects of plan increases, reductions or advanced settlements		
8. Expense recognized in the statement of income	<u>78,930</u>	<u>11,157</u>
8.a. Contingent liabilities accruals expense	65,989	5,877
8.b. Administrative expense	12,941	5,280

h) Actuarial assumptions used

- h.1) Biometrical Assumptions: Nondisabled General Mortality Table – AT83; Disability Mortality Table – IAPC experience; Invalidity Entrance Table – CAPEF Experience; and Turnover Table – None.
- h.2) Economic Assumptions: Expected rate of return on plan assets – 6% p.a.; Future inflation rate – 6% p.a.; Estimated real salary increase – 0% p.a.; Benefit real growth rate – 0% p.a. and Actuarial liability real discount rate – 6% p.a..
- h.3) The inflation rate used in the calculation of the Present Value of Actuarial Liability, aiming the measurement of the inflationary float arising from freezing, in annual cycles, of future contributions and benefits; this calculation includes the occurrence of identical inflation rates for all salary, social security and economic variables of the plan. Prior inflation within the current cycle is calculated using the General Price Index (IGP-DI) published by Getúlio Vargas Foundation.
- h.4) The actuarial present value of the Bank's liabilities to the CAMED Healthcare plan considered, in its calculation, the same hypotheses and assumptions established for the Retirement and Pension Supplementation Plan, except for the savings, applying actuarial interest of 12% p.a. for discount the Bank's futures liabilities cash flows.

i) Additional comments

- i.1) The net actuarial liabilities of R\$ 233,632 thousand and R\$ 31,381 thousand estimated for CAPEF and CAMED, respectively, were calculated considering a nominal return rate of 12% p.a. corresponding to the nominal return of the assets of retirement and pension plans assumed by actuaries. In the prior year, CAPEF's liabilities calculated by actuaries were recalculated, changing the following assumptions: i) related to future benefits, a reduction of 1/3 over the total amount, equivalent to the relation between the average work period remaining and the total period; ii) nominal return rate of 18% p.a., applied over the discounted actuarial cash flow of contributions on benefits. Regarding CAMED's liabilities, were considered, in that year, the second assumption. For liabilities calculated based on that rule, in amount of R\$ 116,926 thousand to CAPEF and R\$ 17,687 thousand to CAMED, it was assumed a five years term for provision and it was recognized in 2002 the correspondent part equal to 1/5 of those amounts - R\$ 23,385 thousand and R\$ 3,537 thousand, respectively.
- i.2) In this year it was recognized and recorded the opening net actuarial liabilities balance, calculated in December 31, 2001, amounting R\$ 233,632 thousand and R\$ 31,381 thousand, for the five years term from that date, starting to use the assumptions established by actuaries. So, it was recognized for the six month period ended June 30, 2003 R\$ 46,705 thousand and R\$ 5,877 thousand, for CAPEF and CAMED, respectively, corresponding to the necessary supplement provision for fulfillment of 3/10 of the liability (six month periods ended June 30, 2002, December 31, 2002 and June 30, 2003 from a total of 10 periods).
- i.3) The current year's actuarial loss, of R\$ 362,603 thousand were mainly due to CAPEF's actuarial deficit presented as of June 30, 2003, as mentioned in item c.5 of this Note. The recognition of actuarial accumulated loss of R\$ 376,162 thousand comply with actuarial gains and losses recognition rule described in item "b" of this Note. For the six month period ended June 30, 2003 it was recognized the portion of R\$ 11,578 thousand.

13. BALANCES LINKED TO FOREIGN CURRENCY

Operations contracted with exchange variation clauses presented as of June 30, 2003, debtor net balance of R\$ 15,910 thousand (foreign currency assets R\$ 1,319,632 thousand - foreign currency liabilities R\$ 1,303,722 thousand).

14. FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

- a) FNE's free resources, recorded in "Other liabilities/financial and development funds", are monetary adjusted based on the extra-market rate.
- b) The allowance for lending losses on FNE's operations is constituted based on the following criteria:
- b.1) in operations contracted until November 30, 1998 the Bank is free from any operational risk.
- b.2) in operations contracted since December 1, 1998, the credit risk is limited to 50% of the amount calculated based on criteria of Resolution N° 2,682/99.

<u>Risk rating</u>	<u>Balance</u> (A)	<u>Risk %</u> (B)	<u>Risk value</u> C=(AxB)	<u>Allowance</u> D=(Cx50%)
AA	278,096	0.00%		
A	97,840	0.50%	488	244
B	496,976	1.00%	4,970	2,485
C	431,265	3.00%	12,938	6,469
D	168,157	10.0%	16,816	8,408
E	174,438	30.0%	52,332	26,166
F	132,678	50.0%	66,340	33,170
G	106,706	70.0%	74,694	37,347
H	<u>896,231</u>	100%	<u>896,231</u>	<u>448,115</u>
TOTAL	<u>2,782,387</u>		<u>1,124,809</u>	<u>562,404</u>

- c) For operations contracted until November 30, 1998, the "Del Credere" was reduced to zero, and for operations contracted after that date the "Del Credere" is 3% per year, when the credit risk is 50% and 6% per year when contracted in the Bank's name.
- d) A management fee of 3% per year is calculated on the net equity of the Fund, less the amounts corresponding to onlending contracts with the Bank, and is limited to 20% of the transfers made by the National Treasury for each year.
- e) To operate the FNE, the Bank uses its logistic and operational structure, comprised of installations, labor, computerized systems and development support instruments, as The Productive Agents Training Program and "Farol do Desenvolvimento" which is a Forum for discussion and leading of the projects that fomented the regional development.
- f) In accordance with Central Bank Circular Letter N° 2,217 of September 9, 1991, the resources from FNE are recorded in the Bank's memorandum accounts.

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### 15. BASEL ACCORD

On June 30, 2003, Banco do Nordeste presented capital adjustments ratio (Basel's ratio) of 23.77% (16.82% at June 30, 2002), while its Reference Equity (PR) amounted R\$ 1,184,887 thousand (R\$ 1,057,919 thousand at June 30, 2002). The Resolution N° 2,099/94 of National Monetary Council and standards of the Central Bank of Brazil establishes a minimum limit of 11% for capital adequacy ratio and, in the Bank's case, a minimum PR of R\$ 548,362 thousand.

Assets weighted by risk have the following detailing:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
<b>ASSETS SUBJECT TO 0% RISK</b>		
Cash and due from banks	18,846	14,073
Securities issued by Brazilian Federal Government	6,212,440	5,288,802
Deposits in Central Bank of Brazil	61,330	55,146
Specifics credits - rural credit lengthening	517,240	26,541
Refinancing of operations with Brazilian Federal Government	454,291	347,663
Foreign exchange portfolio		238,185
Other	<u>45,968</u>	<u>83,815</u>
Total Assets subject to 0% risk	7,310,115	6,054,225
<b>ASSETS SUBJECT TO 20% RISK</b>		
Cash and due from banks – foreign currency	13,208	14,260
Payments and receipts pending settlement	45,101	36,389
Foreign exchange portfolio		5,972
Deposits in other banks	<u>8,181</u>	<u>12,953</u>
Total Assets subject to 20% risk	66,490	69,574
Weighted amount	13,298	13,915
<b>ASSETS SUBJECT TO 50% RISK</b>		
Interbank deposits, securities and investment funds	240	
Foreign exchange portfolio	6,587	52,087
Memorandum accounts	95,326	57,746
Other	<u>287</u>	<u>5,720</u>
Total Assets subject to 50% risk	102,440	115,553
Weighted amount	51,220	57,777
<b>ASSETS SUBJECT TO 100% RISK</b>		
Lending operations	2,743,219	3,757,701
Property and equipment in use	137,020	138,252
Investments	4,438	3,072
Foreign exchange portfolio	1,214	6,573
Memorandum accounts	699,530	305,057
Other	<u>285,408</u>	<u>310,008</u>
Total Assets subject to 100% risk	3,870,829	4,528,486
Weighted amount	3,870,829	4,528,486
<b>ASSETS SUBJECT TO 300% RISK</b>		
Tax credits - income tax and social contribution	<u>296,934</u>	<u>438,553</u>
Total Assets subject to 300% risk	296,934	438,553
Weighted amount	890,802	1,315,659
Total assets weighted by risk	11,646,808	11,206,391
Total weighted amount	4,826,149	5,915,837



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Below it is presented the minimum reference equity (PR) and the capital adjustments ratio:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
a) Assets subjected to weighted by risk	11,646,808	11,206,391
b) Assets weighted by risk (APR)	4,826,149	5,915,837
c) Swap credit risk		1
d) Exigency of equity on APR (11% of "B")	530,876	650,742
e) Exigency of equity on swap (20% of "C")		
f) Exigency of equity on interest exposure	17,486	41,251
g) Minimum equity (PLE): "D"+"E"+"F"	548,362	691,993
h) Reference equity (PR):	<u>1,184,887</u>	<u>1,057,919</u>
Level I	1,138,625	1,008,982
Level II	46,262	48,937
. Revaluation reserve	46,262	48,937
i) Relation between reference and minimum equity: ("G/H"):	0.46	0.65
j) Excess/(deficiency) of equity: PR – PLE ("H"-“G”)	636,525	365,926
k) Excess/(deficiency) of leverage: ("J"x100)/11	5,786,591	3,326,600
l) Capital adjustments ratio	23.77%	16.82%

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16. CASHFLOW STATEMENT

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>		
Net income for the period	24,713	25,548
Expenses (Income) that not affect cash:		
– Depreciation and amortization expenses	6,168	6,305
– Allowance for losses on other assets	83	369
Deferred income variation		(21)
Lending operations	364,204	33,734
Interbank and interdepartmental accounts	3,633	36,593
Other credits	37,748	(190,012)
Capital increase		31
Revaluation reserve		<u>690</u>
Cash provided/(used) by operating activities	436,549	<u>(86,763)</u>
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>		
Deposits	(350,684)	(12,789)
Borrowings and onlendings	(312,623)	159,290
Securities sold under repurchase agreements	(63,774)	(691,204)
Other liabilities	570,552	903,952
Resources from securities issued	(26,635)	(29,624)
Dividends and bonus proposed	<u>(6,272)</u>	
Total resources used in financing activities	(189,436)	<u>329,625</u>
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</b>		
Investment in other assets - repossessed fixed assets	(860)	(1,882)
Investment in property and equipment in use	(4,335)	(5,845)
Investment in investments		(211)
Sales of other assets - repossessed fixed assets	556	1,552
Sales in property and equipment in use	(185)	(377)
Sales in investments	(6)	(23)
Deferred charges	(906)	(728)
Interbank investments	44,625	2,266,798
Other	(409)	(293)
Marketable securities	(282,157)	(2,495,793)
Derivative financial instruments	(5)	7
Market value adjustment – marketable securities and derivative instruments	<u>(3,819)</u>	<u>2,657</u>
Total resources used in investing activities	(247,501)	<u>(234,138)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT</b>	<b>(388)</b>	<b>8,724</b>
Cash variation statement:		
At beginning of the year	27,415	18,302
At end of the year	<u>27,027</u>	<u>27,026</u>
Increase/(decrease) in cash and cash equivalent	<u>(388)</u>	<u>8,724</u>

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17. COMMENTS ON THE STATEMENT OF INCOME FOR THE PERIOD

Although the net income for the six month period ended June 30, 2003 have been kept on a similar amount of the net income for the six month period ended June 30, 2002, there were registered important variations in revenues and expenses items.

The negative exchange variations of lending operations indexes and borrowings and onlendings indexes (Dollar, UC-BID and UC-BNDES), implied, for the six month period ended June 30, 2003 and 2002, records in Other Operating Income (liabilities operations) and in Other Operating Expenses (assets operations), reason by is presented a adjusted statement of lending operations revenues, expenses on financial intermediation, other operating income and expenses accounts, as follow.

<u>ITEM</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Lending operations revenues	386,410	469,991
Negative exchange variation recorded in other operating expenses (note 7.f)	<u>(180,072)</u>	<u>(7,395)</u>
Lending operations revenues adjusted	206,338	462,596
Borrowings and onlendings expenses	(374,955)	(533,495)
Negative exchange variation recorded in other operating revenues (note 7.f)	<u>265,953</u>	<u>47,965</u>
Expenses on financial intermediation adjusted	(109,002)	(485,530)
Other operating income	428,948	220,629
Negative exchange variation included in borrowings and onlendings expenses (above)	<u>(265,953)</u>	<u>(47,965)</u>
Other operating income adjusted	162,995	172,664
Other operating expenses	(566,373)	(114,561)
Negative exchange variation subject to the adjustment in lending operations revenues (above)	<u>180,072</u>	<u>7,395</u>
Other operating expenses adjusted	(386,301)	(107,166)

The Statement of Income, adjusted by the alterations above, has the following detailing:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Revenues from financial intermediation	897,960	1,001,100
Expenses on financial intermediation	<u>(458,097)</u>	<u>(962,679)</u>
Financial intermediation income	439,863	38,421
Other operating income (expenses)	<u>(260,406)</u>	<u>4,489</u>
Operating income	179,457	42,910
Nonoperating income	<u>3,105</u>	<u>3,863</u>
Income (loss) before taxes and profit sharing	182,562	46,773
Income tax and social contribution	<u>(157,849)</u>	<u>(21,225)</u>
Net income for the period	24,713	25,548

Considering these adjustments, the Financial Intermediation Income consigned an increase of R\$ 401,442 thousand regarding the same period of 2002. The detailing for main variations is demonstrated, as follow:

- a) Revenues from Financial Intermediation decreased R\$ 103,140 thousand, due to the following facts occurred in the first semester of 2003:

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- a.1) decrease of R\$ 256,258 thousand in the Credit Operations Revenues, due to the following variations:
- decrease of exchange variation in amount of R\$ 335,834 thousand, as a result of negative exchange variation of R\$ 171,953 thousand and of positive exchange variation of R\$ 163,881 thousand in the first semestre of 2002 over financing indexed to dollar, to UC-BNDES and to UC-BID;
  - increase of interest revenues of R\$ 7,464 thousand, being R\$ 6,016 thousand related to CREDIAMIGO's operations;
  - Elevation of monetary adjustment revenues totaling R\$ 40,800 thousand, being R\$ 20,157 thousand from Federal Government refinancing of operations and R\$ 16,514 thousand of renegotiations based on the Resolution N° 2,471, both indexed to IGPM, besides R\$ 4,129 thousand related to others operations;
  - Increase in income of credits written off as losses recovering of R\$ 31,312 thousand (R\$ 81,362 thousand in the second semestre of 2003 less R\$ 50,050 thousand in the first semestre of 2002), due to: i) operations transfers for FNE based on Law N° 10,464, of May 24, 2002, of R\$ 18,999 thousand; ii) operations renegotiations of rural credit based on Resolution N° 2,471, of February 26, 1998, of the National Monetary Council, amounting R\$ 22,069 thousand; and iii) decrease in recovery of other operations (R\$ 9,756 thousand);
- a.2) decrease of R\$ 3,354 thousand in derivative financial instruments result (R\$ 4 thousand) and in compulsory securities result (R\$ 3,350 thousand);
- a.3) elevation of R\$ 136,896 thousand in marketable securities result, motivated by an increase of the financial treasury bill portfolio balance as result of FNE resources and by the higher variation of SELIC rate in the first semestre of 2003, although it have been registered losses on exchange indexed securities (NTN and NBC);
- a.4) increase of R\$ 19,576 thousand on the foreign exchange portfolio result, due to rates' variations and differences.
- b) Expenses on financial intermediation had a decrease of R\$ 504,582 thousand, due to decreases in the following items:
- b.1) expenses on deposits and securities sold under repurchase agreements (R\$ 37,308 thousand), motivated by Eurobonds settlement in the six month period ended June 30, 2002, nevertheless the increase in deposits expenses, mostly by remuneration of the FAT free resources;
  - b.2) expenses on borrowings and onlendings (R\$ 376,528 thousand), due to negative exchange variations of dollar, UC-BNDES and UC-BID, although it have been an increase of financial and development funds liabilities expenses for Financial Funds and of Development (remuneration of the FNE free resources); and

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- b.3) allowance for lending losses (R\$ 90,746 thousand), basically due to FNE's operations' transfers based in Law N° 10,464, of May 24, 2002.
- c) Other operating income/expenses recorded a negative net variation of R\$ 264,895 thousand, as result of:
  - c.1) elevation in service income of R\$ 26,939 thousand essentially because of FNE administration fee income;
  - c.2) decrease of R\$ 3,195 thousand in personnel expenses (R\$ 407 thousand) and other administrative expenses (R\$ 2,788 thousand);
  - c.3) increase of R\$ 6,225 thousand in tax expenses, resultant of the increase of PASEP/COFINS calculation base;
  - c.4) decrease of other operating income in R\$ 9,669 thousand, due to a decrease of operating accruals reversions incomes (Note 5.f), nevertheless the income increase generated by the monetary adjustment, based on SELIC rate, of credits transfered to the Federal Government, correspondents to the operations referred to in Provisional Measure N° 2,196-3, of August 24, 2001 (Note 5.g), and by "Del credere" collecting over FNE's financing with Bank's risk (Note 5.f);
  - c.5) increase of other operating expenses totaling of R\$ 279,135 thousand, due to the following increases in the allowance expenses: i) Bank's risk with FNE's operations (R\$ 109,416 thousand), including the conversion based in Law N° 10,464, of May 24 2002; ii) fiscal risks (R\$ 53,858 thousand); iii) actuarial liabilities from CAMED (R\$ 3,850 thousand) and CAPEF (R\$ 48,320 thousand), as Note 12; iv) labor actions (R\$ 14,848 thousand); and v) civil and other actions (R\$ 7,471 thousand). Moreover, the elevation of foreign exchange portfolio expenses (R\$ 40,806 thousand) and other expenses (R\$ 566 thousand) contributed to expenses arising.

### d) Income tax and Social Contribution

The calculation of income tax and of the social contribution for the six month period ended June 30, 2003 recorded expenses of R\$ 157,849 thousand, 644% above the expenses recorded for the six month period ended June 30, 2002, which totaled R\$ 21,225 thousand.

This performance is due to the raising of the accounting result before income taxes, differently to the fact that for the six month period ended June 30, 2002, the Bank recorded tax loss carry-forward for income tax and social contribution, not recording taxes accruals.

Furthermore, taxes expenses by income tax and social contribution deferred taxes related to temporary differences increased 528% regarding the first semester of 2002, by the accomplishment of the fiscal law deductibility requisitions and by its reversion.

BANCO DO NORDESTE DO BRASIL S.A.

18. OTHER INFORMATION

a) Related-party transactions

Banco do Nordeste had no transactions with affiliated or subsidiary companies in the six month periods ended June 30, 2003 and 2002. Transactions with companies controlled by the federal government - majority stockholder of the Bank – totaled R\$ 3,164 thousand (R\$ 33,642 thousand at June 30, 2002). These lending operations were undertaken under the same conditions as those applied to the non-related parties.

b) Guarantees

Guarantees given to third parties amounted to R\$ 6,950 thousand (R\$ 7,427 thousand at June 30, 2002) and are subject to financial charges and counterguarantees by the beneficiaries.

The co-obligations of the Bank related to lending operations with resources from the FNE totaled R\$ 1,267,738 thousand as of June 30, 2003 (R\$ 687,612 thousand as of June 30, 2002).

c) Insurance

The chattels and the real estate of the Bank are protected by insurance in the amount of R\$ 227,178 thousand (R\$ 215,731 thousand at June 30, 2002), as follows:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Chattels	3,794	47,798
Properties	223,384	167,933

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## BANCO DO NORDESTE DO BRASIL S.A.

a.3) The effects of adjustments of assets to market or realizable value are considered where applicable.

### b) Current and Long-Term Assets

Current and long-term assets are stated at realizable values, including accrued interest, monetary and exchange rate variations, less deferred income or allowance, when necessary, there must be emphasized that:

b.1) Lending operations of Banco do Nordeste are contracted at normal market rates.

b.2) An allowance for losses was recorded in accordance with Resolution N° 2,682 of December 21, 1999 of the National Monetary Council.

b.3) Marketable securities are registered by acquisition cost, including brokerage, being classified and evaluated as follow:

- Trade securities - securities acquired for active and constant negotiations, adjusted to market value and its balancing item is income account;
- Available-for-sale securities - securities that are not classified as trade nor as held-to-maturity category. They are recorded at market value, net from tax effects, and its balancing item is classified in the Bank's stockholders' equity;
- Held-to-maturity securities - securities intended to be maintained until its maturity, recorded by acquisition cost plus interest having as balancing item income account.

Securities had their records regarding short and long-term determined according to their maturity dates. However the accounting record in those categories does not characterize the non-availability of those papers, which continue being highly liquid.

### c) Permanent Assets

Permanent assets are carried at acquisition cost plus monetary adjustment through December 31, 1995, observing the following:

c.1) Investments are adjusted by an allowance for losses;

c.2) Land and building in use are stated at revaluation value;

c.3) Property and equipment in use are stated less depreciation which is provided by the straight-line method based on the following annual rates: Buildings - 4%; Transportation and data processing systems and vehicles - 20% and other - 10%;

c.4) Deferred charges are comprised mainly of expenses incurred with software acquisition and development, installations and leasehold improvements less amortization which is calculated using the straight-line method at a fixed annual rate of 20%.



## BANCO DO NORDESTE DO BRASIL S.A.

### d) Current and Long-Term Liabilities

Current and long-term liabilities are stated at original amounts plus accrued interest, monetary and exchange rate variations, less deferred expenses. Available funds from the Northeast Constitutional Financing Fund (FNE) are recorded in current and long-term liabilities according to its maturity date, considering cash disbursement.

Post-employment benefits provisions are recognized in conformity to Deliberation n° 371, of December 13, 2000, issued by Brazilian Securities and Exchange Commission (CVM).

### e) Income Tax, Social Contribution, PIS and COFINS

Accruals are stated using the following rates over each tax basis demanded in Law:

Income tax	15.00%
Additional income tax	10.00%
Social contribution	9.00%
PASEP	0.65%
COFINS	3.00%

## 4. MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENTS

For obtainment of market value, the following criteria was adopted:

- Fixed-Income securities: average negative goodwill level in the secondary market, published by National Association of Open Market Institutions (ANDIMA);
- Variable-Income securities: average quotation of assets at São Paulo Stock Exchange (BOVESPA);

### a) Marketable securities

According to Circular N° 3,068 of November 8, 2001 of Central Bank of Brazil, Banco do Nordeste do Brasil S.A. classified its own portfolio, as of June 30, 2003, as follow:

#### TRADING SECURITIES

<u>TYPE</u>	<u>Cost value</u>	<u>Market value</u>	<u>Maturity</u>
FIXED-INCOME SECURITIES			
National treasury notes	110,498	113,496	2003 to 2004
Central Bank notes	<u>51,009</u>	<u>52,903</u>	2003
TOTAL	<u>161,507</u>	<u>166,399</u>	

In the first semester of 2003, for securities classified as Trading securities it was recorded a positive adjustment of R\$ 4,892 thousand, as a result of an increase in the market value of those assets in that period.

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AVAILABLE-FOR-SALE SECURITIES

<u>TYPE</u>	<u>Cost value</u>	<u>Market value</u>	<u>Maturity</u>
FIXED-INCOME SECURITIES	<u>139,425</u>	<u>119,358</u>	
Financial treasury bill	86,943	86,363	2004 to 2008
Agricultural debt securities	271	210	2003 to 2011
Government securities – other	30,271	14,457	2003 to 2005
Fixed-income securities – other	21,940	18,328	2003 to 2027
INVESTMENT FUND QUOTES	<u>629</u>		
Social development fund (FDS)	629		No maturity
VARIABLE-INCOME SECURITIES	<u>146,325</u>	<u>104,449</u>	
Other fiscal incentives (FINOR)	6,377	1,508	No maturity
Investments in stocks	139,948	102,941	No maturity
PLEGGED SECURITIES	<u>2,354</u>		2003 to 2005
TOTAL	<u>288,733</u>	<u>223,807</u>	

Due to the classification of securities in Available-for-Sale category there is recorded an amount of R\$ 64,926 thousand (R\$ 25,395 thousand, at June 30, 2002) in “Market Value Adjustment - Marketable Securities and Derivative Instruments” account, classified in the Bank’s stockholders’ equity. This adjustment, net from taxes effects, correspond to R\$ 42,851 thousand (R\$ 16,761 thousand, at June 30, 2002).

HELD-TO-MATURITY SECURITIES

<u>TYPE</u>	<u>Cost value</u>	<u>Market value</u>	<u>Maturity</u>
FIXED-INCOME SECURITIES			
Financial treasury bill	5,497,604	5,463,369	2003 to 2008
National treasury bill	114,740	119,114	2003 to 2004
National treasury notes NTN-P	237	237	2012 to 2014
National treasury notes NTN	69,688	70,658	2003 to 2004
Investment Fund Quotes - Enterprising Northeast	<u>240</u>	<u>240</u>	2011
TOTAL	<u>5,682,509</u>	<u>5,653,618</u>	

To classify securities in “Held-to-Maturity” category, the Bank proved its financial capacity, in conformity with the specific rules of the Central Bank of Brazil, through a discounted cash flow stating the availability of sufficient funds, from the balance sheet date, until the final maturity of its securities, to comply with all its obligations without the need for selling those securities.

In preparing the discounted cash flow, the Bank adopted a conservative approach towards cash inflow and outflow, presenting fairly its capacity to hold those securities until its maturity.

b) Derivative instruments

Banco do Nordeste do not have any derivative instruments, at June 30, 2003.

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5. CREDIT PORTFOLIO AND ALLOWANCE FOR LENDING LOSSES

a) Detail by type:

	<u>June 30, 2003</u>	<u>December 31, 2002</u>	<u>June 30, 2002</u>
Depositors advances	266	222	207
Loans	184,610	198,785	759,720
Discounted drafts	562	2,194	6,462
Financing	1,060,390	1,190,957	1,640,563
Export financing	4,793	7,596	18,577
Foreign currency financing	1,077	3,078	8,108
Government refinancing	454,291	429,770	347,662
Rural and agribusiness financing	1,252,441	1,387,519	2,541,613
Real estate investments	341	7,165	7,355
Infrastructure and development financing	<u>935,667</u>	<u>1,149,366</u>	<u>912,500</u>
LENDING OPERATIONS	<u>3,894,438</u>	<u>4,376,652</u>	<u>6,242,767</u>
Guarantees honored		1	39
Income receivable on advances	1,214	1,752	6,545
Income receivable on import financing			29
Debtors for purchasing of goods and values	3,373	5,784	6,453
Securities and credits receivable	6,005	43,759	41,350
Import financing (*)		597	
Advance on export contracts (*)	<u>5,285</u>	<u>22,110</u>	<u>28,722</u>
OPERATIONS SIMILAR TO LENDING OPERATIONS	<u>15,877</u>	<u>74,003</u>	<u>83,138</u>
TOTAL	<u>3,910,315</u>	<u>4,450,655</u>	<u>6,325,905</u>

(\*) Accounts classified as OTHER LIABILITIES/Foreign exchange portfolio.

The credit portfolio decreased mainly because of credits written off in the period (Note 5.d) and transfers of operations to the Federal Government (Note 5.g) and FNE (Note 5.h).

b) Detail by maturity:

Type	<u>Normal credits</u>				Total June 30, 2003	Total June 30, 2002
	Up to 90 days	From 91 to 180 days	From 181 to 360 days	Above 360 days		
RURAL	22,400	96,020	144,030	722,203	984,653	1,648,019
INDUSTRY	16,954	24,734	30,234	401,363	473,285	650,554
GOVERNMENT	3,687	4,241	7,065	1,357,209	1,372,202	1,006,895
OTHER SERVICES	15,790	30,103	39,096	111,998	196,987	275,900
COMMERCE	54,115	9,932	18,444	90,611	173,102	222,416
FINANCIAL INTERMEDIARIES	2	3,169	4,561	26,680	34,412	37,438
HOUSING SYSTEM	10	14	14	180	218	4,742
CONSUMER CREDITS	<u>79</u>	<u>68</u>	<u>142</u>	<u>2,101</u>	<u>2,390</u>	<u>1,520</u>
TOTAL	<u>113,037</u>	<u>168,281</u>	<u>243,586</u>	<u>2,712,345</u>	<u>3,237,249</u>	<u>3,847,484</u>

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Type	Past-due credits					Total June 30, 2003	Total June 30, 2002
	Current installments				Above 360 days		
	Up to 90 days	From 91 to 180 days	From 181 to 360 days	Above 360 days			
RURAL	4,977	3,697	6,091	216,832	231,597	601,616	
INDUSTRY	5,268	4,596	6,219	100,848	116,931	274,669	
GOVERNMENT	52	19	28	946	1,045	246,000	
OTHER SERVICES	2,165	2,851	3,628	63,816	72,460	83,504	
COMMERCE	20,690	7,082	14,379	42,390	84,541	165,373	
FINANCIAL INTERMEDIARIES	5,176	2	1	2	5,181	7,713	
HOUSING SYSTEM	39	22	29	16	106	2,418	
CONSUMER CREDITS	69	37	69	52	227	312	
TOTAL	<u>38,436</u>	<u>18,306</u>	<u>30,444</u>	<u>424,902</u>	<u>512,088</u>	<u>1,381,605</u>	

Type	Past due installments					Total June 30, 2003	Total June 30, 2002
	Current installments				Above 360 days		
	Up to 90 days	From 91 to 180 days	From 181 to 360 days	Above 360 days			
RURAL	816	1,317	2,002	47,002	51,137	319,907	
INDUSTRY	1,481	1,757	4,811	37,344	45,393	545,329	
GOVERNMENT	2				2		
OTHER SERVICES	1,086	331	3,747	23,452	28,616	100,122	
COMMERCE	143	4,018	5,638	24,758	34,557	129,876	
FINANCIAL INTERMEDIARIES	1,190			2	1,192	1	
HOUSING SYSTEM				27	27		
CONSUMER CREDITS	3	10	14	27	54	1,581	
TOTAL	<u>4,721</u>	<u>7,433</u>	<u>16,586</u>	<u>132,612</u>	<u>160,978</u>	<u>1,096,816</u>	

c) Detail by credit risk rating:

Risk rating	June 30, 2003				June 30, 2002			
	Current (1)	Past-due	Total	Allowance	Current (1)	Past-due	Total	Allowance
AA	1,214,499		1,214,499		2,303,481		2,303,481	
A	1,106,543		1,106,543	5,533	1,159,508		1,159,508	5,895
B	351,277	15,237	366,514	3,665	27,923	72,822	100,745	1,311
C	167,885	39,872	207,757	6,233	21,919	88,745	110,664	4,016
D	84,840	43,404	128,244	12,824	13,316	182,911	196,227	23,256
E	84,722	58,075	142,797	42,839	90,947	126,934	217,881	67,241
F	85,612	68,537	154,149	77,074	69,994	165,686	235,680	120,190
G	45,819	83,099	128,918	90,242	6,580	153,937	160,517	130,799
H	96,052	364,842	460,894	460,894	153,816	1,687,386	1,841,202	1,841,202
TOTAL	<u>3,237,249</u>	<u>673,066</u>	<u>3,910,315</u>	<u>699,304</u>	<u>3,847,484</u>	<u>2,478,421</u>	<u>6,325,905</u>	<u>2,193,910</u>

(1) Include 14 days past-due credits.

d) Allowance for the period

	Six month period ended		
	June 30, 2003	December 31, 2002	June 30, 2002
Opening balance	851,650	2,193,910	2,153,070
(+) Allowance for the period	124,762	234,251	224,657
(-) Credits classified as losses	(277,108)	(1,576,511)	(183,817)
(=) Allowance for losses on lending operations	<u>699,304</u>	<u>851,650</u>	<u>2,193,910</u>
(+) Allowance for losses on other credits	9,149		
(=) Closing balance	<u>708,453</u>	<u>851,650</u>	<u>2,193,910</u>

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e) Allowance expenses

	<u>Six month period ended June 30, 2003</u>	<u>Six month period ended June 30, 2002</u>
(+) Expenses on allowances for lending losses	116,704	200,721
(+) Expense on allowance for other credits	9,501	24,280
(-) Reversal of operating allowances	<u>(1,443)</u>	<u>(344)</u>
(=) Allowance for losses on lending operations	124,762	224,657
(+) Allowance for losses on other credits	<u>9,129</u>	
(=) Closing balance	<u>133,911</u>	<u>224,657</u>

f) Credits written off as losses have been recovered in the period in amount of R\$ 81,362 thousand (R\$ 50,050 thousand at June 30, 2002), and renegotiations of operations totaled R\$ 193,324 thousand (R\$ 476,599 thousand at June 30, 2002).

g) According to Provisional Measure N° 2,196-3, of August 24, 2001, which established the Federal Financial Institutions Strengthening Program, there were followed other actions related to accomplishment of that Program complying to items II and IV of article 2 of the mentioned Provisional Measure, which authorizes the Federal Government to acquire the corresponding credits of rural financing operations renegotiated, based in Law N° 9,138, of November 29, 1995, and as established in Resolution N° 2,471, of February 26, 1998, of the National Monetary Council, celebrated by Federal Banks, with their own resources or National Economic and Social Development Bank - BNDES resources. The credits assignment contract which secures the transfer for the Federal Government of all rights, advantages and corresponding collateral of the operations referred in the Provisional Measure N° 2,196-3, of August 24, 2001 from the Bank to the Federal Government is filed in the Finance Ministry. The assignment, recorded in Other Credits/Specifics Credits/National Treasury- Rural Credit Lengthening, totaled R\$ 517,221 thousand, at June 30, 2003, as follow:

- Operations transferred until December 31, 2002 – R\$ 396,007 thousand;
- Operations transferred in 2003 – R\$ 51,783 thousand;
- Monetary adjustment of credits based on SELIC rate – R\$ 69,431 thousand.

h) Due to the application of article 9 of Law N° 10,464, of May 24, 2002 and article 8 of Provisional Measure 114, of March 31, 2003, which concerns about operations conversion from rural and agribusiness credit for the Northeast Constitutional Financing Fund - FNE, there were converted for the Constitutional Fund scope, maintaining PRONAF financial conditions, 146,089 operations originally conceded with other funds resources to family farmers, in a total value of R\$ 888,144 thousand, as follow:

- 137,050 operations converted in 2002 – R\$ 810,542 thousand;
- 9,039 operations converted in 2003 – R\$ 77,602 thousand.

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As established in the Resolution N° 3,018, of August 29, 2002, the financing credit risk transfer is 50% (fifty percent) for the financial agent and 50% (fifty percent) for the operation Constitutional Fund beneficiary, as orderly by article 6 of Law N° 10,177, of January 12, 2001.

### 6. LONG-TERM LIABILITIES

Domestic borrowings and onlending are subject to interest rates that vary from 0 to 11% per annum, with maturity from 4 to 20 years averaging at 7 years. The monetary adjustment, where applicable as per legal and contractual clauses, is calculated based on official rates issued by the Central Bank of Brazil.

The borrowings from the BNDES are subject to interest based on the TJLP (long-term interest rate) plus average spread of 2% per annum, with an average maturity of 6 years.

The borrowings from the Fund for Workers Assistance (FAT), recorded in Special Deposits, amounting of R\$ 1,371,073 thousand, are subject to interest based on SELIC rate, when not used in lending operations, and based on TJLP after being released to the borrowers. The average maturity is 6 years with final payment in 2012. The free resources, monetarily adjusted at SELIC rate, totaled R\$ 559,610 thousand. (Note7.b)

Foreign borrowings are subject to interest rates which vary from 4.00% to 11.4286% per annum (including Income Tax), with an average maturity of 8 years and final payment to the Interamerican Development Bank (IDB) in 2019. The exchange rate adjustment, if stipulated by contractual clauses, is calculated based on official rates issued by the Central Bank of Brazil.

The resources from Eurobonds issued are subject to interest rates which vary from 9.625% to 11.375% per annum, with the maturity of the last “tranche” due on March 7, 2005.

Loan assets are subject to the same conditions as loan liabilities, in terms of interest and maturity, and are secured by guarantees and other collateral.

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7. FINANCIAL STATEMENTS MAINLY ACCOUNTS DETAIL

a) Other Credits

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
RECEIVABLES FOR GUARANTEES HONORED		39
FOREIGN EXCHANGE PORTFOLIO	<u>7,801</u>	<u>302,817</u>
Unsettled exchange purchases	6,587	187,358
Rights on foreign exchange sales		108,886
Other	1,214	6,573
INCOME RECEIVABLE	<u>4,529</u>	<u>10,104</u>
NEGOTIATION AND INTERMEDIATION OF SECURITIES	<u>16</u>	<u>46</u>
SPECIFIC CREDITS	<u>517,240</u>	<u>26,541</u>
National treasury - rural Credit Lengthening/Resolution N°2471 (Note 5.g)	517,221	
National treasury - rural Credit Lengthening/Resolution N°2238	19	26,541
SUNDRY	<u>446,167</u>	<u>615,899</u>
Tax credits – temporary differences	245,357	425,882
Tax credits – marketable securities and derivative instruments	51,578	12,671
Debtors for guarantee deposits	49,109	51,657
Taxes and contributions to be offset	30,776	19,165
Options for fiscal incentives	26,748	26,748
Security and credits receivable	6,005	41,350
Other	36,594	38,426
ALLOWANCES FOR OTHER LOSSES	<u>(20,965)</u>	<u>(58,547)</u>
Similar to lending operation	(11,816)	(58,547)
Not similar to lending operation	(9,149)	
TOTAL	<u>954,788</u>	<u>896,899</u>
CURRENT	732,352	392,600
LONG-TERM	222,436	504,299

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b) Deposits

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
DEMAND DEPOSITS	<u>145,007</u>	<u>133,396</u>
Investments deposits	53,613	62,190
Foreign currencies deposits	48,857	36,510
Governments deposits	21,615	17,604
Linked deposits	13,301	6,733
Other	7,621	10,359
SAVINGS DEPOSITS	<u>293,443</u>	<u>305,758</u>
Free savings deposits – Individual	235,678	231,277
Free savings deposits – Corporate	57,749	74,379
Other	16	102
INTERBANKS DEPOSITS	<u>7,560</u>	<u>3,541</u>
TIME DEPOSITS	<u>2,279,288</u>	<u>2,631,581</u>
Time deposits	336,266	328,695
Interest-bearing judicial deposits	12,339	10,520
Interest-bearing judicial deposits/Fund for workers assistance (FAT) - available resources	<u>559,610</u>	<u>401,809</u>
Urban Proger	117,957	129,029
Rural Proger	110,867	63,133
Pronaf	225,406	101,968
Protrabalho	64,038	97,444
Dryness	41,342	10,235
Interest-bearing judicial deposits/Fund for workers assistance (FAT) - applied resources	<u>1,371,073</u>	<u>1,890,557</u>
Urban Proger	449,368	755,356
Rural Proger	74,847	170,219
Pronaf	106,413	221,183
Protrabalho	686,021	658,753
Dryness	54,424	85,046
TOTAL	<u>2,725,298</u>	<u>3,074,276</u>
CURRENT	777,556	979,796
LONG-TERM	1,947,742	2,094,480



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### c) Domestic Onlending Liabilities

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
NATIONAL TREASURY	<u>1,886</u>	<u>1,974</u>
BNDES (National Economic and Social Development Bank)	<u>1,320,030</u>	<u>1,583,683</u>
Poc	511,532	637,638
Credit line for investments in rural sector	378,774	506,866
Other programs	429,724	439,179
CEF (Federal Savings and Loan Bank)	<u>1,532</u>	<u>1,918</u>
FINAME (Government Agency for Machinery and Equipment Financing)	<u>167,501</u>	<u>213,905</u>
Special program	6,400	38,930
Automatic programs	73,337	82,732
Agricultural programs	23,781	21,863
Other programs	63,983	70,380
OTHER INSTITUTIONS	<u>248,762</u>	<u>204,126</u>
Pilot project to support the land reform	62,644	56,945
MEPF (Fund for land and land reform – Land bank)	126,545	108,171
EMBRATUR/FUNGETUR	7,611	9,867
Land bank – Rural poverty combat	45,957	22,216
Other programs	<u>6,005</u>	<u>6,927</u>
TOTAL	<u>1,739,711</u>	<u>2,005,606</u>
CURRENT	370,452	398,060
LONG-TERM	1,369,259	1,607,546

### d) Foreign Onlending Liabilities

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
BID-prodetur	1,044,839	996,119
BID-other programs		28,418
Linked to interbank onlending	<u>3,071</u>	<u>3,331</u>
TOTAL	<u>1,047,910</u>	<u>1,027,868</u>
CURRENT	66,322	30,428
LONG-TERM	981,588	997,440

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e) Other Liabilities

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
COLLECTED TAXES AND OTHER	<u>10,164</u>	<u>29,960</u>
FOREIGN EXCHANGE PORTFOLIO	<u>77</u>	<u>241,574</u>
Exchange purchase liabilities	5,285	139,854
Exchange sales payable		130,366
(Advance on exchange contracts)	(5,285)	(28,722)
Other	77	76
SOCIAL AND STATUTORY	<u>6,384</u>	<u>292</u>
TAXES AND SOCIAL SECURITY	<u>805,915</u>	<u>641,946</u>
Allowance for tax risks	718,084	604,030
Allowance for deferred income tax	53,335	29,246
Allowance for income tax	23,820	
Other	10,676	8,670
FINANCIAL AND DEVELOPMENT FUNDS	<u>2,242,571</u>	<u>1,880,263</u>
Northeast Constitutional Financing Fund (FNE)	2,214,100	1,857,388
Other	28,471	22,875
SUNDRY	<u>818,153</u>	<u>350,829</u>
Allowance for contingencies	765,189	305,662
Labor actions	48,787	20,195
Civil actions	29,049	36,707
Fiscal actions	15,770	14,294
Post-employment benefits – Deliberation CVM 371	109,178	19,696
Supplementary retirement plan	99,505	17,669
Health care plan	9,673	2,027
FNE	562,404	214,770
Allowance for future payments	33,686	27,855
Other	<u>19,279</u>	<u>17,312</u>
TOTAL	<u>3,883,264</u>	<u>3,144,864</u>
CURRENT	2,032,711	1,341,880
LONG-TERM	1,850,553	1,802,984

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f) Other Operating Income / Expenses

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
SERVICE INCOME (*)	<u>243,732</u>	<u>216,793</u>
Management fee from investment funds	1,756	1,772
Management fee from programs and funds	226,278	198,221
Other	15,698	16,800
PERSONNEL EXPENSES	<u>(132,900)</u>	<u>(133,307)</u>
Salary	(84,439)	(88,226)
Social contributions	(33,633)	(33,326)
Other	(14,828)	(11,755)
OTHER ADMINISTRATIVE EXPENSES	<u>(116,991)</u>	<u>(119,779)</u>
Data processing	(24,097)	(18,972)
Advertising and publicity	(1,406)	(15,724)
Third-party services	(12,396)	(13,052)
Rent, material, water, electricity and gas	(12,637)	(9,677)
Travel	(7,895)	(7,035)
Communication	(7,736)	(6,914)
Depreciation and amortization	(6,168)	(6,305)
Maintenance and conservation of assets	(5,776)	(5,453)
Vigilance, security and transport	(6,730)	(5,422)
Promotion, public relation and publication	(2,932)	(2,764)
Financial system services	(2,930)	(1,827)
Specialized services	(1,715)	(1,380)
Other	(24,573)	(25,234)
TAX EXPENSES	<u>(30,941)</u>	<u>(24,716)</u>
Tax for social security financing (COFINS)	(23,367)	(18,484)
Social integration program (PIS/PASEP)	(5,063)	(4,089)
Other	(2,511)	(2,143)
OTHER OPERATING INCOME	<u>428,948</u>	<u>220,629</u>
Management fee /“del credere” from funds administered	38,270	20,696
Negative exchange rate variations on lending operations	270,009	47,965
Reversal of operating allowances/risks of FNE operations		87,305
Expense and contribution recovery	1,605	2,023
Specific credits income	69,431	1,694
Reversal of operating allowances / social contribution	25,881	2,456
Other	23,752	58,490
OTHER OPERATING EXPENSES	<u>(566,373)</u>	<u>(114,561)</u>
Exchange rate variations on foreign exchange portfolio	(77,297)	(37,993)
Negative exchange rate variations on lending operations	(181,572)	(16,101)
Renegotiations on lending discounts	(5,459)	(7,202)
Tax risks	(81,014)	(27,156)
Retirement benefits obligations (CVM N° 371)	(65,989)	(17,669)
Medical assistance obligations (CVM N° 371)	(5,877)	(2,027)
FNE operations credit risk	(109,416)	
Other	<u>(39,749)</u>	<u>(6,413)</u>
TOTAL	<u>(174,525)</u>	<u>(45,059)</u>

(\*) Since June 2003, income of management fee from investment funds were transferred from “Other Operating Income” and “SERVICE INCOME / management fee from investment funds” to “SERVICE INCOME / management fee from programs and funds”. For comparison purposes the balance as of June 30, 2002 is adjusted.

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### 8. TAXES AND CONTRIBUTIONS

#### a) Income Tax and Social Contribution

Banco do Nordeste is subject to the taxable profit taxation regime and pays monthly income and social contribution taxes on an estimated basis.

The Income Tax expense recorded in the six month period ended June 30, 2003 was R\$ 114,957 thousand and the Social Contribution expense was R\$ 41,416 thousand, and its conciliation is demonstrated below:

	<u>Income Tax</u>		<u>Social Contribution</u>	
	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Income before taxes	115,266	38,699	156,681	44,317
Permanent differences	36,547	34,732	(5,719)	29,014
Temporary differences	(50,514)	(147,006)	(50,514)	(147,006)
Taxable income before compensations	101,299	(73,575)	100,448	(73,674)
Tax loss compensation	(30,390)		(30,134)	
Taxable income after compensations	70,909	(73,575)	70,314	(73,674)
Taxes payable	17,715		6,328	
Deductions (fiscal incentives and compensations)	(730)		(182)	
Temporary differences tax credits	97,972	15,607	35,270	5,618
Income tax – 2002 complement	1,476			
Tax expense recorded	116,433	15,607	41,416	5,618
% of tax expense over income before taxes				
2002's social contribution compensation according to article 8 of MP 2,158-35/01	101.01%	40.33%	26.43%	12.68%

#### b) Tax Credits - Temporary Differences

Article 9 of Law N° 9,430, determines deductibility rules applied in the registration of allowance for lending losses expenses for taxable income. The allowance for lending losses are recorded in accordance with Resolution N° 2,682/99 of December 21, 1999 of the National Monetary Council. Therefore, the part recorded according to corporate standards that exceed the limit established by tax legislation is added to the taxable income. The allowance not deductible will be deductible in future years, when meet the tax law requirements of deductibility or when reversed.

As the provisions have been added on a temporary basis and in accordance with Central Bank Circular N° 3,171, dated December 30, 2002, Resolution N° 273 of the Brazilian Securities and Exchange Commission, dated August 20, 1998, and Article 8 of Provisional Measure N° 2,158-35 of August 24, 2001, the Bank recorded a tax credit relating to income tax and social contribution on temporary differences.

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The Bank proceeded the realization of the tax credit existing on April 30, 2001, without new constitution of tax credits on temporary differences. The balance, which on April 30, 2001 was R\$ 322,160 thousand, related to Income Tax, and R\$ 115,978 thousand related to social contribution has being properly accompanied and in the six month period ended June 30, 2003 expenses relating to income tax and social contribution of R\$ 133,241 thousand were recorded due to the realization of tax credits on temporary differences.

According to the Central Bank Circular Letter N° 3,023 of June 11, 2002, there were constituted tax credits about Market Value adjustments of Securities of R\$ 14,554 thousand related to available-for-sale securities. The movement of these credits is demonstrated as follow:

	<u>INCOME TAX</u>		<u>SOCIAL CONTRIBUTION</u>		
	<u>Temporary differences</u>	<u>Marketable securities</u>	<u>Temporary differences</u>	<u>Marketable securities</u>	<u>Art. 8 MP 2,158/01</u>
Opening balance as of June 30, 2002	277,106	9,316	99,758	3,354	49,018
(+)Tax credits record		17,908		6,446	
(-) Tax credits realization	<u>(26,601)</u>		<u>(9,576)</u>		
Balance as of December 31, 2002	<u>250,505</u>	<u>27,224</u>	<u>90,182</u>	<u>9,800</u>	<u>49,018</u>
(+)Tax credits record		10,701		3,853	
(-) Tax credits realization	<u>(97,972)</u>		<u>(35,270)</u>		<u>(11,106)</u>
(=) Closing balance as of June 30, 2003	<u>152,533</u>	<u>37,925</u>	<u>54,912</u>	<u>13,653</u>	<u>37,912</u>

The asset provision balance of Income tax and Social Contribution , registered in “OTHER CREDITS-Sundry”, long term, is comprised as follow:

	<u>Income Tax</u>		<u>Social Contribution</u>	
	<u>June 30, 2003</u>	<u>June 30, 2002</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
1 Temporary differences total	3,042,275	2,741,793	3,042,275	2,741,793
2 Tax loss carry-forward	612,056	965,432	614,337	966,310
3 Total basis (1) + (2)	3,654,331	3,707,225	3,656,612	3,708,103
4 Total tax credits	913,583	926,806	329,095	333,729
5 2002's social contribution compensation according to article 8 of MP 2,158-35/01			37,912	49,018
6 Marketable securities - market value adjustments tax credit	37,925	9,316	13,653	3,354
7 Total tax credits	951,507	936,123	380,660	386,101
8 Tax credits recorded	190,458	286,422	106,477	152,130
9 Tax credits not recorded (8)-(9)	761,049	649,701	274,183	233,971

The Income Tax and Social Contribution deferred charges will be realized as the temporary differences, on which they are calculated, be reverted or become deductible. The realization schedule, presented as follow, of those deferred charges, properly based in a technical study in which there is a expectation of future positive results and consequently expectation of Income Tax and Social Contribution obligations, considering the information disposed in article 6, sole paragraph, Law N° 9,249/95. The following exhibit demonstrates estimated realization value comparatively with its present value, calculated based in the projected Interbank Deposit Certificate - CDI for its corresponding period:

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Period	Income tax		Social contribution		Total	
	Estimated value	Present value	Estimated value	Present value	Estimated value	Present value
2003	23,922	23,471	8,612	8,060	32,534	31,531
2004	31,913	25,202	11,489	9,073	43,402	34,275
2005	31,913	20,049	11,489	7,218	43,402	27,267
2006	32,231	16,109	11,603	5,799	43,834	21,908
2007	<u>32,554</u>	<u>12,944</u>	<u>11,719</u>	<u>4,660</u>	<u>44,273</u>	<u>17,604</u>
TOTAL	<u>152,533</u>	<u>97,775</u>	<u>54,912</u>	<u>34,810</u>	<u>207,445</u>	<u>132,585</u>

Tax credits related to Market Value Adjustments of Securities, recorded as foreseen in Circular N° 3,068/01, will be realized according to the securities maturities, as follow:

Period	Income tax		Social contribution		Total	
	Estimated value	Present value	Estimated value	Present value	Estimated value	Present value
2003	36,557	12,912	13,160	12,318	49,717	25,230
2004	142	112	51	40	193	152
2005	271	170	98	61	369	231
2008 to 2012	37	8	12	3	49	11
2013 to 2017	7	1	3		10	1
2023 to 2027	364	2	131	1	495	3
2028 to 2030	<u>547</u>	<u>1</u>	<u>198</u>	<u>1</u>	<u>745</u>	<u>2</u>
TOTAL	<u>37,925</u>	<u>13,206</u>	<u>13,653</u>	<u>12,424</u>	<u>51,578</u>	<u>25,630</u>

9. STOCKHOLDERS' EQUITY

a) Capital

On the Stockholders' Meeting, held on April 29, 2003, the Federal Government, majority stockholder, recommended the capital decrease by accumulated loss absorption. The matter was submitted to supervisory and fiscal councils that issued a favorable opinion. On the Stockholders' Meeting of June 30, 2003, the stockholders' unanimously decided for the capital decrease, without changing in the quantity of shares.

After this accounting procedure, capital amounts changed from R\$ 3,492,249 thousand to R\$ 1,162,000 thousand, represented by 870,019,022,574 book entry shares without par value, as follows:

Stockholders	Common shares	Preferred shares	% Voting capital	% Total capital
Federal government	465,952,800,540	353,731,907,693	96.10	94.22
National Development Fund-FND	14,737,043,790	23,732,649,036	3.04	4.42
National Bank for Economic and Social Development-BNDES	490,153,432	4,899,854,822	0.10	0.62
Others (37,467 stockholders)	<u>3,667,757,582</u>	<u>2,806,855,679</u>	<u>0.76</u>	<u>0.74</u>
TOTAL	<u>484,847,755,344</u>	<u>385,171,267,230</u>	<u>100.00</u>	<u>100.00</u>

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### b) Revaluation Reserve

Relates to the revaluation of land, buildings and assets in use as of February 26, 1993. The realization for this year, in amount of R\$ 1,338 thousand (R\$ 1,337 thousand at June 30, 2002), was transferred to “Retained earnings”.

### c) Dividends

The Bank’s by-laws secure to stockholders’ minimum dividend of 25% over the six month period ended June 30, 2003 result, paid as advance for the annual dividend.

The board of directors propose and the administrative council approved, “*ad referendum*” of Stockholders' Meeting, the payment of advance dividends, being calculated as follow:

1. Net income for the period	24,713
2. Revenue reserve constitution	(1,236)
3. Revaluation reserve transferred to retained earnings	<u>1,338</u>
4. Dividend calculation base	24,815
5. Proposed and registered dividend 25.275%	<u>6,272</u>
– Dividend for 1,000 common shares (0.0069 x 484,847,755,344)	3,345
– Dividend for 1,000 preferred shares (0.0076 x 385,171,267,230)	2,927

Dividends calculated for the preferred shares were 10% higher than the common shares dividends, as foreseen in subparagraph “I” of article 17 of Law N° 6,404/76, amended by Law N° 9,457/97 and disposition in article 5 of Banco do Nordeste by-laws.

Dividends will be paid after monetary adjustment based on SELIC rate, calculated from the balance sheet date until the date of the yield availability for stockholders’, according to Decree N° 2,673 of July 16, 1998, amended by Decree N° 3,381 of March 13, 2000.

## 10. CONTINGENCIES LIABILITIES

Banco do Nordeste participate in several lawsuits, involving mainly civil and labor actions, on individuals and class actions. Over this actions stock, and based in individual analysis of each action, the legal superintendence, based on pre-established accruals criteria, indicates values to be registered in each situation. For accrual criteria definition, it was made a survey by all legal areas of the Bank, involving demands classification and adjustments being considered all the lawsuit’s demand. In that manner, civil and labor actions were classified, considering the risk of loss for the Bank, in probable, possible and remote, and recorded in sufficient amounts established by the legal advisors of the Bank.

Tax actions were classified as probable risk and recorded 100% of amounts related to Income Tax and Social Contribution compensation, paid due to inflation effects (Plano Verão) recorded in “OTHER LIABILITIES-Taxes and social security”.

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Post-employment benefits provisions are recognized in conformity to Deliberation n° 371, of December 13, 2000, issued by Brazilian Securities and Exchange Commission (CVM), and the credit's risk assumed by the Bank on FNE operations, contracted since December 01, 1998 is calculated in the same way of Resolution N° 2,682/99.

### 11. COMPENSATION TO EMPLOYEES AND DIRECTORS

The maximum, average and minimum amounts of monthly salaries paid by the Bank to its employees and directors are as follows:

<u>Gross salary</u>	<u>Employees (1)</u>	<u>Directors (2)</u>
Maximum	8,506.91	9,040.10
Minimum	370.00	
Average	2,930.78	

- (1) Includes overtime (including night shift premium) when effectively worked.
- (2) Includes R\$ 1,506.68 relating to the additional 20% for the position, as determined by the Ministry of Finance.

On June 30, 2003, Banco do Nordeste employed 3,723 people, against 3,546 as of June 30, 2002, showing a increase of 4.99% in the number of employees.

### 12. EMPLOYEE BENEFITS

As provided by CVM Resolution N° 371 of December 13, 2000, we provide below the information regarding the employee benefit policy and the accounting procedures adopted by Banco do Nordeste for the recognition of its liabilities:

a) Banco do Nordeste does not maintain:

- Termination benefits;
- Long-term incentive programs;
- Remuneration in shares and securities equivalent to equity interest.

b) Accounting policy adopted by the Bank for recognizing actuarial gains and losses

The policy adopted for recognizing actuarial gains and losses follows the provisions of itens 52 to 55 of the attachment of CVM Resolution N° 371, that is, the Bank recognizes the portion of actuarial gains and losses exceeding the higher of:

- 10% of the present value of the actuarial liability of the defined benefit; and
- 10% of the fair value of the plan assets.



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The portion cited above will be amortized every semester. The value is obtained dividing its amount by the average remaining work period (20 semesters, as of June 30,2003) estimated for the participants.

### c) Supplementary retirement benefits

The Bank sponsors the Private Retirement Fund for the Employees of Banco do Nordeste do Brasil – CAPEF, a closed private retirement entity that provides eligible employees and their dependents with supplemental retirement and pension benefits. It also sponsors the Assistance Fund for the Employees of Banco do Nordeste do Brasil – CAMED that provides the Bank's employees and their dependents with health care benefits.

Shown below the information about CAPEF:

#### c.1) Cost

Six month period ended June 30, 2003: R\$ 12,941 thousand (R\$ 12,399 thousand in June 30, 2002).

#### c.2) Actuarial method

CAPEF adopts the capitalization method for the actuarial calculation of the reserves for supplemental retirement, pension and annuity benefits.

#### c.3) Benefit plans

The plan adopted is a defined benefit plan, which provides:

- participants with supplemental retirement benefits for years of contribution, for disability and for retirement age.
- participants' dependents with supplemental pension and annuity benefits.

#### c.4) Past-due obligations

None.

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### c.5) Deficit and reasons

As of June 30, 2003, an actuarial deficit of R\$ 300,865 thousand (surplus of R\$ 59,037 thousand at June 30, 2002) was recorded. The main factors that contributed to the result variation in relation the previous period were:

- Benefit result (payment of benefits superiors to contributions received in the period): R\$ 63,205 thousand;
- Investment result: R\$ 191,704 thousand;
- Mathematical reserve variation (Related to biometrics tables variations and recognition of benefits adjustment perspectives): R\$ 96,500 thousand;
- Judicial liability accrual: R\$ 383,909 thousand.

The judicial liability accrual relates to 537 judicial demands promoted by 3,054 beneficiaries that claims, among others: i) 15% extra contribution paid on January, February, May, June and July, 1997; ii) return of the benefit gross value earned as of July, 1997, which were reduced during the Entity's intervention period. The total amount of this accrual is result of the following: financial liability of R\$ 125,861 thousand and actuarial liability of R\$ 258,048 thousand.

The first judicial demand occurred on December 9, 1996 and as of December, 2002 there were still 526 actions. Part of those demands were judged during 2002, in favor of claimants.

There is a negotiation in course between CAPEF's Board of directors and worker's and beneficiaries representative entities, started on June 9, 2003. This negotiation objective is to find out a solution for those demands.

Despite its actuarial deficit, CAPEF has to present its financial statements to the Supplementary Security Secretary of the Ministry of Social Security only in the end of the year, occasion that will be calculated its actuarial result subject to security legislation treatment.

### c.6) Contribution rates

Listed below are the average contribution rates in June 2003:

<u>Participants</u>	<u>Average contribution (%)</u>		<u>Total</u>
	<u>Participant</u>	<u>Sponsor</u>	
Active	8	8	16
Retired	20	20	40
Pensioners	20	20	40

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It should be noted that there are permitted two contribution systems for the beneficiaries of supplemental pension. In the first system which covers pensioners with benefits granted until August 2, 1998, there were no payments by the beneficiaries and Banco do Nordeste for the plan. In the second system which cover pensioners with benefits effective from August 3, 1998, the beneficiaries' contributions are 20% of the supplemental pension that they receive monthly, with the sponsor contributing at the same rate, totaling 40% of the benefit paid.

### c.7) List of Contributions (Participants/Sponsors)

The correlation between participants' and sponsors' contributions has been accomplished in conformity with the Constitutional Amendment N° 20, recording as of June 30, 2003 a ratio of 1:1 (1:1 as of June 30, 2002).

### d) Health care benefit plan characteristics

Banco do Nordeste contributes to the Health Care Plan administered by Caixa de Assistência dos Funcionários do Banco do Nordeste do Brasil - CAMED, whose purpose is providing health care to its participants and enrolled dependents, by providing aid for covering or reimbursing their expenses for promoting, protecting and recovering their health.

The Bank's contribution to the Health Care Plan is limited to the corporate contribution of 1.5% calculated on the total payroll, including bonuses and 13th month salary, as well as on the compensation serving as a basis for the calculation of retirement and pension supplementation, including the social security contribution tax, as the case may be. Therefore, no past service costs relating to health care benefits.

The funding model of the Health Care Plan is the simple coverage of assistance costs, and possible surpluses or deficits are settled between CAMED and its participants. Because of being a simple coverage of assistance costs funding model, there is no record of actuarial surplus or deficits in the financial assets of the natural plan.

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e) Reconciliation of assets and liabilities recognized in the balance sheets

The reconciliation of assets and liabilities is shown below, in thousands of Brazilian Reais, in accordance with detailed data provided by Caixa de Previdência dos Funcionários do Banco do Nordeste do Brasil – CAPEF and Caixa de Assistência dos Funcionários do Banco do Nordeste do Brasil - CAMED, based on technical information generated together with their respective actuaries, in accordance with item 49 of CVM Resolution N° 371:

<u>Specification</u>	<u>CAPEF</u>	<u>CAMED</u>
1. Present value of partially or totally covered actuarial liabilities	1,445,921	31,640
2. Fair value of plan assets	<u>818,289</u>	<u>          </u>
3. Present value of uncovered actuarial liabilities (1 - 2)	627,632	31,640
4. Net value of recognized liabilities (Note 7-e)	99,505	9,673
a. Contingencies expense (PUC method less Aggregated method) - prior year	<u>10,131</u>	<u>259</u>
a.1. Expense recognized in income statement (PUC)	36,915	8,815
a.2. Total of contribution paid (Aggregated method)	(26,784)	(8,556)
b. Contingencies expense (PUC method less Aggregated method) - current year	<u>7,706</u>	<u>          </u>
b.1. Expense recognized in income statement (PUC)	20,647	5,280
b.2. Total of contribution paid (Aggregated method)	(12,941)	(5,280)
c. Value of actuarial liability recognized - prior year	23,385	3,537
d. Value of actuarial liability recognized - current year	46,705	5,877
e. Net value of actuarial loss recognized – current year	11,578	<u>          </u>
5. Cost of past service not yet recognized	<u>          </u>	<u>          </u>
6. Net value of actuarial liabilities in the end of the period (3 - 4)	<u>528,126</u>	<u>21,967</u>
a. Net value of actuarial loss not recognized accumulated	<u>364,584</u>	<u>          </u>
a.1. Value not recognized – “Corredor” limit 10% item 1	144,592	<u>          </u>
a.2. Value to be recognized as foreseen in item 54 of Deliberation N°371 attachment	219,992	<u>          </u>
b. Present value of actuarial liabilities at risk to be recognized until December 31, 2006	163,542	21,967

f) Changes in net actuarial liabilities in the period are shown below, in thousands of Brazilian reais:

<u>Specification</u>	<u>CAPEF</u>	<u>CAMED</u>
1. Net actuarial liabilities at December 31, 2001 to be recognized until December 31, 2006	233,632	31,381
2. Prior year unrecognized actuarial losses	13,559	<u>          </u>
3. Prior year value of net actuarial liabilities (18%) recognized	(23,385)	(3,537)
4. Current year unrecognized actuarial losses	351,025	<u>          </u>
5. Current year value of net actuarial liabilities (12%) recognized	<u>(46,705)</u>	<u>(5,877)</u>
6. Net actuarial liabilities at the end of the period	528,126	21,967

g) The expense recognized in the Statement of Income is shown below, in thousands of Brazilian reais:

<u>Specification</u>	<u>CAPEF</u>	<u>CAMED</u>
1. Current service cost, less employees' contributions	5,207	5,280
2. Interest cost	82,859	
3. Expected return on plan assets	(67,419)	
4. Cost of amortized past service		
5. Actuarial gains and losses recognized in the year	11,578	
6. Actuarial liabilities recognized in the year	46,705	5,877
7. Effects of plan increases, reductions or advanced settlements		
8. Expense recognized in the statement of income	<u>78,930</u>	<u>11,157</u>
8.a. Contingent liabilities accruals expense	65,989	5,877
8.b. Administrative expense	12,941	5,280

h) Actuarial assumptions used

h.1) Biometrical Assumptions: Nondisabled General Mortality Table – AT83; Disability Mortality Table – IAPC experience; Invalidity Entrance Table – CAPEF Experience; and Turnover Table – None.

h.2) Economic Assumptions: Expected rate of return on plan assets – 6% p.a.; Future inflation rate – 6% p.a.; Estimated real salary increase – 0% p.a.; Benefit real growth rate – 0% p.a. and Actuarial liability real discount rate – 6% p.a..

h.3) The inflation rate used in the calculation of the Present Value of Actuarial Liability, aiming the measurement of the inflationary float arising from freezing, in annual cycles, of future contributions and benefits; this calculation includes the occurrence of identical inflation rates for all salary, social security and economic variables of the plan. Prior inflation within the current cycle is calculated using the General Price Index (IGP-DI) published by Getúlio Vargas Foundation.

h.4) The actuarial present value of the Bank's liabilities to the CAMED Healthcare plan considered, in its calculation, the same hypotheses and assumptions established for the Retirement and Pension Supplementation Plan, except for the savings, applying actuarial interest of 12% p.a. for discount the Bank's futures liabilities cash flows.

i) Additional comments

- i.1) The net actuarial liabilities of R\$ 233,632 thousand and R\$ 31,381 thousand estimated for CAPEF and CAMED, respectively, were calculated considering a nominal return rate of 12% p.a. corresponding to the nominal return of the assets of retirement and pension plans assumed by actuaries. In the prior year, CAPEF's liabilities calculated by actuaries were recalculated, changing the following assumptions: i) related to future benefits, a reduction of 1/3 over the total amount, equivalent to the relation between the average work period remaining and the total period; ii) nominal return rate of 18% p.a., applied over the discounted actuarial cash flow of contributions on benefits. Regarding CAMED's liabilities, were considered, in that year, the second assumption. For liabilities calculated based on that rule, in amount of R\$ 116,926 thousand to CAPEF and R\$ 17,687 thousand to CAMED, it was assumed a five years term for provision and it was recognized in 2002 the correspondent part equal to 1/5 of those amounts - R\$ 23,385 thousand and R\$ 3,537 thousand, respectively.
- i.2) In this year it was recognized and recorded the opening net actuarial liabilities balance, calculated in December 31, 2001, amounting R\$ 233,632 thousand and R\$ 31,381 thousand, for the five years term from that date, starting to use the assumptions established by actuaries. So, it was recognized for the six month period ended June 30, 2003 R\$ 46,705 thousand and R\$ 5,877 thousand, for CAPEF and CAMED, respectively, corresponding to the necessary supplement provision for fulfillment of 3/10 of the liability (six month periods ended June 30, 2002, December 31, 2002 and June 30, 2003 from a total of 10 periods).
- i.3) The current year's actuarial loss, of R\$ 362,603 thousand were mainly due to CAPEF's actuarial deficit presented as of June 30, 2003, as mentioned in item c.5 of this Note. The recognition of actuarial accumulated loss of R\$ 376,162 thousand comply with actuarial gains and losses recognition rule described in item "b" of this Note. For the six month period ended June 30, 2003 it was recognized the portion of R\$ 11,578 thousand.

13. BALANCES LINKED TO FOREIGN CURRENCY

Operations contracted with exchange variation clauses presented as of June 30, 2003, debtor net balance of R\$ 15,910 thousand (foreign currency assets R\$ 1,319,632 thousand - foreign currency liabilities R\$ 1,303,722 thousand).

14. FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

- a) FNE's free resources, recorded in "Other liabilities/financial and development funds", are monetary adjusted based on the extra-market rate.
- b) The allowance for lending losses on FNE's operations is constituted based on the following criteria:
- b.1) in operations contracted until November 30, 1998 the Bank is free from any operational risk.
- b.2) in operations contracted since December 1, 1998, the credit risk is limited to 50% of the amount calculated based on criteria of Resolution N° 2,682/99.

<u>Risk rating</u>	<u>Balance</u> (A)	<u>Risk %</u> (B)	<u>Risk value</u> C=(AxB)	<u>Allowance</u> D=(Cx50%)
AA	278,096	0.00%		
A	97,840	0.50%	488	244
B	496,976	1.00%	4,970	2,485
C	431,265	3.00%	12,938	6,469
D	168,157	10.0%	16,816	8,408
E	174,438	30.0%	52,332	26,166
F	132,678	50.0%	66,340	33,170
G	106,706	70.0%	74,694	37,347
H	<u>896,231</u>	100%	<u>896,231</u>	<u>448,115</u>
TOTAL	<u>2,782,387</u>		<u>1,124,809</u>	<u>562,404</u>

- c) For operations contracted until November 30, 1998, the "Del Credere" was reduced to zero, and for operations contracted after that date the "Del Credere" is 3% per year, when the credit risk is 50% and 6% per year when contracted in the Bank's name.
- d) A management fee of 3% per year is calculated on the net equity of the Fund, less the amounts corresponding to onlending contracts with the Bank, and is limited to 20% of the transfers made by the National Treasury for each year.
- e) To operate the FNE, the Bank uses its logistic and operational structure, comprised of installations, labor, computerized systems and development support instruments, as The Productive Agents Training Program and "Farol do Desenvolvimento" which is a Forum for discussion and leading of the projects that fomented the regional development.
- f) In accordance with Central Bank Circular Letter N° 2,217 of September 9, 1991, the resources from FNE are recorded in the Bank's memorandum accounts.

## BANCO DO NORDESTE DO BRASIL S.A.

### 15. BASEL ACCORD

On June 30, 2003, Banco do Nordeste presented capital adjustments ratio (Basel's ratio) of 23.77% (16.82% at June 30, 2002), while its Reference Equity (PR) amounted R\$ 1,184,887 thousand (R\$ 1,057,919 thousand at June 30, 2002). The Resolution N° 2,099/94 of National Monetary Council and standards of the Central Bank of Brazil establishes a minimum limit of 11% for capital adequacy ratio and, in the Bank's case, a minimum PR of R\$ 548,362 thousand.

Assets weighted by risk have the following detailing:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
<b>ASSETS SUBJECT TO 0% RISK</b>		
Cash and due from banks	18,846	14,073
Securities issued by Brazilian Federal Government	6,212,440	5,288,802
Deposits in Central Bank of Brazil	61,330	55,146
Specifics credits - rural credit lengthening	517,240	26,541
Refinancing of operations with Brazilian Federal Government	454,291	347,663
Foreign exchange portfolio		238,185
Other	<u>45,968</u>	<u>83,815</u>
Total Assets subject to 0% risk	7,310,115	6,054,225
<b>ASSETS SUBJECT TO 20% RISK</b>		
Cash and due from banks – foreign currency	13,208	14,260
Payments and receipts pending settlement	45,101	36,389
Foreign exchange portfolio		5,972
Deposits in other banks	<u>8,181</u>	<u>12,953</u>
Total Assets subject to 20% risk	66,490	69,574
Weighted amount	13,298	13,915
<b>ASSETS SUBJECT TO 50% RISK</b>		
Interbank deposits, securities and investment funds	240	
Foreign exchange portfolio	6,587	52,087
Memorandum accounts	95,326	57,746
Other	<u>287</u>	<u>5,720</u>
Total Assets subject to 50% risk	102,440	115,553
Weighted amount	51,220	57,777
<b>ASSETS SUBJECT TO 100% RISK</b>		
Lending operations	2,743,219	3,757,701
Property and equipment in use	137,020	138,252
Investments	4,438	3,072
Foreign exchange portfolio	1,214	6,573
Memorandum accounts	699,530	305,057
Other	<u>285,408</u>	<u>310,008</u>
Total Assets subject to 100% risk	3,870,829	4,528,486
Weighted amount	3,870,829	4,528,486
<b>ASSETS SUBJECT TO 300% RISK</b>		
Tax credits - income tax and social contribution	<u>296,934</u>	<u>438,553</u>
Total Assets subject to 300% risk	296,934	438,553
Weighted amount	890,802	1,315,659
Total assets weighted by risk	11,646,808	11,206,391
Total weighted amount	4,826,149	5,915,837



BANCO DO NORDESTE DO BRASIL S.A.

Below it is presented the minimum reference equity (PR) and the capital adjustments ratio:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
a) Assets subjected to weighted by risk	11,646,808	11,206,391
b) Assets weighted by risk (APR)	4,826,149	5,915,837
c) Swap credit risk		1
d) Exigency of equity on APR (11% of "B")	530,876	650,742
e) Exigency of equity on swap (20% of "C")		
f) Exigency of equity on interest exposure	17,486	41,251
g) Minimum equity (PLE): "D"+"E"+"F"	548,362	691,993
h) Reference equity (PR):	<u>1,184,887</u>	<u>1,057,919</u>
Level I	1,138,625	1,008,982
Level II	46,262	48,937
. Revaluation reserve	46,262	48,937
i) Relation between reference and minimum equity: ("G/H"):	0.46	0.65
j) Excess/(deficiency) of equity: PR – PLE ("H"-“G”)	636,525	365,926
k) Excess/(deficiency) of leverage: ("J"x100)/11	5,786,591	3,326,600
l) Capital adjustments ratio	23.77%	16.82%

BANCO DO NORDESTE DO BRASIL S.A.

16. CASHFLOW STATEMENT

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
<b>CASH FLOWS PROVIDED BY OPERATING ACTIVITIES</b>		
Net income for the period	24,713	25,548
Expenses (Income) that not affect cash:		
– Depreciation and amortization expenses	6,168	6,305
– Allowance for losses on other assets	83	369
Deferred income variation		(21)
Lending operations	364,204	33,734
Interbank and interdepartmental accounts	3,633	36,593
Other credits	37,748	(190,012)
Capital increase		31
Revaluation reserve		<u>690</u>
Cash provided/(used) by operating activities	<u>436,549</u>	<u>(86,763)</u>
<b>CASH FLOWS PROVIDED BY FINANCING ACTIVITIES</b>		
Deposits	(350,684)	(12,789)
Borrowings and onlendings	(312,623)	159,290
Securities sold under repurchase agreements	(63,774)	(691,204)
Other liabilities	570,552	903,952
Resources from securities issued	(26,635)	(29,624)
Dividends and bonus proposed	<u>(6,272)</u>	
Total resources used in financing activities	<u>(189,436)</u>	<u>329,625</u>
<b>CASH FLOWS PROVIDED BY INVESTING ACTIVITIES</b>		
Investment in other assets - repossessed fixed assets	(860)	(1,882)
Investment in property and equipment in use	(4,335)	(5,845)
Investment in investments		(211)
Sales of other assets - repossessed fixed assets	556	1,552
Sales in property and equipment in use	(185)	(377)
Sales in investments	(6)	(23)
Deferred charges	(906)	(728)
Interbank investments	44,625	2,266,798
Other	(409)	(293)
Marketable securities	(282,157)	(2,495,793)
Derivative financial instruments	(5)	7
Market value adjustment – marketable securities and derivative instruments	<u>(3,819)</u>	<u>2,657</u>
Total resources used in investing activities	<u>(247,501)</u>	<u>(234,138)</u>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT</b>	<b>(388)</b>	<b>8,724</b>
Cash variation statement:		
At beginning of the year	27,415	18,302
At end of the year	<u>27,027</u>	<u>27,026</u>
Increase/(decrease) in cash and cash equivalent	<u>(388)</u>	<u>8,724</u>

BANCO DO NORDESTE DO BRASIL S.A.

17. COMMENTS ON THE STATEMENT OF INCOME FOR THE PERIOD

Although the net income for the six month period ended June 30, 2003 have been kept on a similar amount of the net income for the six month period ended June 30, 2002, there were registered important variations in revenues and expenses items.

The negative exchange variations of lending operations indexes and borrowings and onlendings indexes (Dollar, UC-BID and UC-BNDES), implied, for the six month period ended June 30, 2003 and 2002, records in Other Operating Income (liabilities operations) and in Other Operating Expenses (assets operations), reason by is presented a adjusted statement of lending operations revenues, expenses on financial intermediation, other operating income and expenses accounts, as follow.

<u>ITEM</u>	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Lending operations revenues	386,410	469,991
Negative exchange variation recorded in other operating expenses (note 7.f)	<u>(180,072)</u>	<u>(7,395)</u>
Lending operations revenues adjusted	206,338	462,596
Borrowings and onlendings expenses	(374,955)	(533,495)
Negative exchange variation recorded in other operating revenues (note 7.f)	<u>265,953</u>	<u>47,965</u>
Expenses on financial intermediation adjusted	(109,002)	(485,530)
Other operating income	428,948	220,629
Negative exchange variation included in borrowings and onlendings expenses (above)	<u>(265,953)</u>	<u>(47,965)</u>
Other operating income adjusted	162,995	172,664
Other operating expenses	(566,373)	(114,561)
Negative exchange variation subject to the adjustment in lending operations revenues (above)	<u>180,072</u>	<u>7,395</u>
Other operating expenses adjusted	(386,301)	(107,166)

The Statement of Income, adjusted by the alterations above, has the following detailing:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Revenues from financial intermediation	897,960	1,001,100
Expenses on financial intermediation	<u>(458,097)</u>	<u>(962,679)</u>
Financial intermediation income	439,863	38,421
Other operating income (expenses)	<u>(260,406)</u>	<u>4,489</u>
Operating income	179,457	42,910
Nonoperating income	<u>3,105</u>	<u>3,863</u>
Income (loss) before taxes and profit sharing	182,562	46,773
Income tax and social contribution	<u>(157,849)</u>	<u>(21,225)</u>
Net income for the period	24,713	25,548

Considering these adjustments, the Financial Intermediation Income consigned an increase of R\$ 401,442 thousand regarding the same period of 2002. The detailing for main variations is demonstrated, as follow:

- a) Revenues from Financial Intermediation decreased R\$ 103,140 thousand, due to the following facts occurred in the first semester of 2003:

BANCO DO NORDESTE DO BRASIL S.A.

- a.1) decrease of R\$ 256,258 thousand in the Credit Operations Revenues, due to the following variations:
- decrease of exchange variation in amount of R\$ 335,834 thousand, as a result of negative exchange variation of R\$ 171,953 thousand and of positive exchange variation of R\$ 163,881 thousand in the first semestre of 2002 over financing indexed to dollar, to UC-BNDES and to UC-BID;
  - increase of interest revenues of R\$ 7,464 thousand, being R\$ 6,016 thousand related to CREDIAMIGO's operations;
  - Elevation of monetary adjustment revenues totaling R\$ 40,800 thousand, being R\$ 20,157 thousand from Federal Government refinancing of operations and R\$ 16,514 thousand of renegotiations based on the Resolution N° 2,471, both indexed to IGPM, besides R\$ 4,129 thousand related to others operations;
  - Increase in income of credits written off as losses recovering of R\$ 31,312 thousand (R\$ 81,362 thousand in the second semestre of 2003 less R\$ 50,050 thousand in the first semestre of 2002), due to: i) operations transfers for FNE based on Law N° 10,464, of May 24, 2002, of R\$ 18,999 thousand; ii) operations renegotiations of rural credit based on Resolution N° 2,471, of February 26, 1998, of the National Monetary Council, amounting R\$ 22,069 thousand; and iii) decrease in recovery of other operations (R\$ 9,756 thousand);
- a.2) decrease of R\$ 3,354 thousand in derivative financial instruments result (R\$ 4 thousand) and in compulsory securities result (R\$ 3,350 thousand);
- a.3) elevation of R\$ 136,896 thousand in marketable securities result, motivated by an increase of the financial treasury bill portfolio balance as result of FNE resources and by the higher variation of SELIC rate in the first semestre of 2003, although it have been registered losses on exchange indexed securities (NTN and NBC);
- a.4) increase of R\$ 19,576 thousand on the foreign exchange portfolio result, due to rates' variations and differences.
- b) Expenses on financial intermediation had a decrease of R\$ 504,582 thousand, due to decreases in the following items:
- b.1) expenses on deposits and securities sold under repurchase agreements (R\$ 37,308 thousand), motivated by Eurobonds settlement in the six month period ended June 30, 2002, nevertheless the increase in deposits expenses, mostly by remuneration of the FAT free resources;
  - b.2) expenses on borrowings and onlendings (R\$ 376,528 thousand), due to negative exchange variations of dollar, UC-BNDES and UC-BID, although it have been an increase of financial and development funds liabilities expenses for Financial Funds and of Development (remuneration of the FNE free resources); and

## BANCO DO NORDESTE DO BRASIL S.A.

- b.3) allowance for lending losses (R\$ 90,746 thousand), basically due to FNE's operations' transfers based in Law N° 10,464, of May 24, 2002.
- c) Other operating income/expenses recorded a negative net variation of R\$ 264,895 thousand, as result of:
  - c.1) elevation in service income of R\$ 26,939 thousand essentially because of FNE administration fee income;
  - c.2) decrease of R\$ 3,195 thousand in personnel expenses (R\$ 407 thousand) and other administrative expenses (R\$ 2,788 thousand);
  - c.3) increase of R\$ 6,225 thousand in tax expenses, resultant of the increase of PASEP/COFINS calculation base;
  - c.4) decrease of other operating income in R\$ 9,669 thousand, due to a decrease of operating accruals reversions incomes (Note 5.f), nevertheless the income increase generated by the monetary adjustment, based on SELIC rate, of credits transfered to the Federal Government, correspondents to the operations referred to in Provisional Measure N° 2,196-3, of August 24, 2001 (Note 5.g), and by "Del credere" collecting over FNE's financing with Bank's risk (Note 5.f);
  - c.5) increase of other operating expenses totaling of R\$ 279,135 thousand, due to the following increases in the allowance expenses: i) Bank's risk with FNE's operations (R\$ 109,416 thousand), including the conversion based in Law N° 10,464, of May 24 2002; ii) fiscal risks (R\$ 53,858 thousand); iii) actuarial liabilities from CAMED (R\$ 3,850 thousand) and CAPEF (R\$ 48,320 thousand), as Note 12; iv) labor actions (R\$ 14,848 thousand); and v) civil and other actions (R\$ 7,471 thousand). Moreover, the elevation of foreign exchange portfolio expenses (R\$ 40,806 thousand) and other expenses (R\$ 566 thousand) contributed to expenses arising.

### d) Income tax and Social Contribution

The calculation of income tax and of the social contribution for the six month period ended June 30, 2003 recorded expenses of R\$ 157,849 thousand, 644% above the expenses recorded for the six month period ended June 30, 2002, which totaled R\$ 21,225 thousand.

This performance is due to the raising of the accounting result before income taxes, differently to the fact that for the six month period ended June 30, 2002, the Bank recorded tax loss carry-forward for income tax and social contribution, not recording taxes accruals.

Furthermore, taxes expenses by income tax and social contribution deferred taxes related to temporary differences increased 528% regarding the first semester of 2002, by the accomplishment of the fiscal law deductibility requisitions and by its reversion.

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18. OTHER INFORMATION

a) Related-party transactions

Banco do Nordeste had no transactions with affiliated or subsidiary companies in the six month periods ended June 30, 2003 and 2002. Transactions with companies controlled by the federal government - majority stockholder of the Bank – totaled R\$ 3,164 thousand (R\$ 33,642 thousand at June 30, 2002). These lending operations were undertaken under the same conditions as those applied to the non-related parties.

b) Guarantees

Guarantees given to third parties amounted to R\$ 6,950 thousand (R\$ 7,427 thousand at June 30, 2002) and are subject to financial charges and counterguarantees by the beneficiaries.

The co-obligations of the Bank related to lending operations with resources from the FNE totaled R\$ 1,267,738 thousand as of June 30, 2003 (R\$ 687,612 thousand as of June 30, 2002).

c) Insurance

The chattels and the real estate of the Bank are protected by insurance in the amount of R\$ 227,178 thousand (R\$ 215,731 thousand at June 30, 2002), as follows:

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Chattels	3,794	47,798
Properties	223,384	167,933

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5. Additionally, we reviewed the cashflow statements as of June 30, 2003 and 2002, presented as Note 16 to the financial statements, applying the same procedures described in paragraph 2. Those financial statements are not demanded by Brazilian Corporate Law and were elaborated for giving additional information. In our opinion, those financial statements present fairly, in all material respects, the cashflow of Banco do Nordeste do Brasil S.A for the six-month periods then ended, in conformity with Brazilian accounting practices.
6. These financial statements have been translated into English solely for the convenience of the readers.

Fortaleza, August 1<sup>st</sup>, 2003

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**Banco do  
Nordeste**



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

## **Accounting Statements**

**F N E**

**Position: 06.30.2003**









## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2003 AND 2002

(Currency amounts expressed in thousands of Brazilian reais - R\$, unless otherwise stated)

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#### 1. FUND'S OPERATIONS

Fundo Constitucional de Financiamento do Nordeste – FNE (Northeast Constitutional Financing Fund) was established in accordance with the Brazilian Constitution (article 159, I “c”), and regulated by Law N° 7,827 of September 27, 1989 amended by Laws N° 9,126 of November 10, 1995, N° 10,177 of January 12, 2001, and Provisional Measure N° 2,196-1 of June 28, 2001 and subsequent amendments, as well as article 13 of Provisional Measure N° 2,199-14 of August 24, 2001. Its objective is to promote the social and economic development in the northeast region through financing programs for the productive sectors, combined with regional development programs, giving special attention to mini and small farmers, micro and small companies, staple food producers and irrigation projects, and it is not allowed to use resources by lost funds regime.

#### 2. MANAGEMENT

Banco do Nordeste is responsible for applying funds and implementing a credit policy; defining operating rules, procedures and conditions; making financing agreements in conformance with the rate range; extending credit; formalizing onlending agreements with other institutions authorized by Central Bank of Brazil to operate in the market; accounting for the results obtained; and performing other activities related to the application of funds and recovery of credits.

#### 3. INSPECTION

Banco do Nordeste maintains at the permanent disposal of competent authorities statements of funds, applications and results of the Fund with month-end positions.

#### 4. CREDIT RISK

FNE is responsible for 100% of the credit risk associated with operations contracted until November 30, 1998, corresponding to R\$ 8,606,355 thousand, as of June 30, 2003 (R\$ 7,706,455 thousand, as of June 30, 2002). In operations contracted from December 1, 1998, the credit risk is 50% for FNE and 50% for Banco do Nordeste.

## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

According to article 9 of Law N° 10,464 of May 24, 2002 and article 8 of Provisional Measure N° 114 of March 31, 2003, which concerns about conversion of rural and agribusiness financing to Constitutional Fund financing, it was converted for Fundo Constitucional de Financiamento do Nordeste – FNE (Northeast Constitutional Financing Fund), maintaining PRONAF financing conditions, 146,089 lending operations originally contracted by other resources to family farmers of R\$ 888,144 thousand, as follow:

- 137,050 lending operations converted in 2002 – R\$ 810,542 thousand;
- 9,039 lending operations converted in the first half of 2003 – R\$ 77,602 thousand.

As demanded by Resolution N° 3,018 of August 29, 2002, 50% of the financing credit risk is transferred to its finance agent and 50% to the Constitutional Fund, as orderly by article 6 of Law N° 10,177 of January 12, 2001.

FNE is credit risk-free on funds transferred to the Banco do Nordeste, for the latter to perform lending operations in its own name.

As established in article 8 of Law N° 10,177 of January 12, 2001, the Ministry of Finance and the Ministry of National Integration, in charge of standardize Constitutional Funds information, are performing studies for the definition of an allowance for possible losses criteria on these Fund's net equity.

### 5. INDEPENDENT AUDITORS

FNE engages at its own expense independent auditors to certify its compliance with legal and constitutional requirements, audit its accounts and perform other usual audit procedures.

### 6. ACCOUNTING POLICIES

FNE has its own accounting control and uses the Banco do Nordeste's accounting system to record its transactions in specific accounts, with income being determined separately.

The accounting policies adopted by Banco do Nordeste for recording the accounts and transactions of FNE are set forth in the Chart of Accounts of the Northeast Constitutional Financing Fund – COFIN, established by the board of directors of the Bank in accordance with Law 7,827/89.

Significant policies followed are described below:

#### a) Recognition of Income and Expenses

Income is derived from financial charges on lending operations and interest paid by Banco do Nordeste on funds temporarily not used.

## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

In the statement of income , “income from lending operations” - net is comprised of:

	<u>2003</u> <u>R\$</u>	<u>2002</u> <u>R\$</u>
Income from lending operations	626,511	497,050
Principal Rebates - Law N° 10,193/2001		(10,785)
Waiver of amounts-Land Program-Interministerial Ordinance N°218		(4,555)
Negative monetary adjustment	(7,682)	(3,217)
Discount on financial charges on PRONAF's Operations		(158)
Operating provision expenses	(30)	(37)
Other expenses		(75)
Discount on financial charges on Bank's Operations principal	(24,177)	
Principal Rebates -FAT/BNDES resources operations- Law N° 10,193/2001	<u>(2,282)</u>	
T O T A L	<u>592,340</u>	<u>478,223</u>

Expenses are composed of amounts paid to independent auditors and management fees paid to Banco do Nordeste for the management of the Fund.

Income and expenses are recognized on an accrual basis. During the period that lending operations installments are past-due, financial charges foreseen in Law are recorded in income accounts and late payment charges are classified as unearned income.

The management fee of 3% per annum, paid by FNE to Banco do Nordeste, is recorded monthly and calculated on the net equity of the Fund, less the amounts related to onlending agreements with the Bank, limited to 20% of the total transfers made by the National Treasury each year.

### b) Current and long-term assets

Current and long-term assets are stated at realizable values, including accrued interest and monetary adjustment.

The funds maintained with Banco do Nordeste earn interest at rates published by the Central Bank of Brazil, which is recorded in a specific income account of the Fund on an accrual basis.

From January 14, 2000 on, financial charges on financing provided with FNE's funds vary from 5% to 16% per annum, according to the borrowers' business segment and size, based on the following criteria:

- The “Del Credere” to be received by Banco do Nordeste is included in the financial charges contracted with the borrowers, and is reduced by a percentage equal to that secured by surety funds.
- The financing agreements will have a clause stipulating the yearly review of the financial charges or a review whenever the accumulated variation of TJLP (long-term interest rate) increases or decreases by more than 30% (thirty percent).



## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

- A discount of 25% on financial charges will be given to borrowers operating in the northeast semiarid region and of 15% to borrowers from other regions, provided that the debt payments are made by the due date.
- In case the funds are not used for the intended purpose, the borrower will lose all benefits, especially discount benefits, and will be liable to legal proceedings.

The marketable securities recorded as Other assets are stated at face value plus accrued interest and, where applicable, less allowance for devaluation.

Provisional Measure N° 2,196-1 of June 28, 2001 and subsequent amendments, which created the Strengthening Program of Federal Financial Institutions, determines the following:

- In operations contracted until November 30, 1998, the “Del Credere” paid to Banco do Nordeste is reduced to zero, and the financial charges agreed upon with the borrowers remain unchanged.
- In operations contracted with a credit risk of 50%, the Fund will pay to Banco do Nordeste “Del Credere” of 3% per annum.
- The Fund's resources can be transferred to Banco do Nordeste in order for the Bank, in its own name and at its own risk, perform lending operations subject to “Del Credere” of 6% per annum.
- FNE shall not pay management fee to the Bank on onlending operation funds.

### c) Liabilities

Are stated at original amounts plus financial charges.

## 7. NET EQUITY

The net equity of FNE has the following sources:

- Transfers from the Federal government at the proportion of 1.8% (one point eight percent) of the revenue from income tax and all types of earnings and excise tax;
- Returns and operating incomes;
- Income from interest paid by Banco do Nordeste on funds temporarily not used.

## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

### 8. PRIOR-YEAR ADJUSTMENTS

The negative adjustment-net of R\$ 13,172 thousand relates to recalculation of charges over lending operations.

### 9. DETERMINATION OF RESULTS

The fiscal year of FNE coincides with the calendar year for purposes of determination of results.

The income for the period is calculated based on the income and expenses for the period, and is recorded in the net equity of the Fund.

### 10. TAX EXEMPTION

FNE is exempt from payment of any tax or contribution on its income, earnings and financing operations.

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4. In our opinion, except for possible effects resulted by the allowance for possible loss criteria on Constitutional Fund's net equity, which can be significant, depending on the criteria to be defined by the competent government instances, as mentioned in paragraph 3, the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Fundo Constitucional de Financiamento do Nordeste - FNE as of June 30, 2003 and 2002, and the results of its operations, the changes in its net equity and the changes in its financial position for the six-month periods then ended, in conformity with accounting practices in Brazil, except for the no constitution of an allowance for losses on lending operations.
5. These financial statements have been translated into English solely for the convenience of the readers.

Fortaleza, August 1, 2003

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