



# ACCOUNTING STATEMENTS

## Bank and FNE

**Position: 12.31.2002**

**Banco do  
Nordeste**

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## **Accounting Statements**

# Bank

**Position: 12.31.2002**

## BANCO DO NORDESTE DO BRASIL S.A.

## BALANCE SHEETS AS OF DECEMBER 31, 2002 AND 2001

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

	December 31, 2002	December 31, 2001		December 31, 2002	December 31, 2001
<b>ASSETS</b>			<b>LIABILITIES</b>		
CURRENT ASSETS	2,694,979	4,644,613	CURRENT LIABILITIES	2,886,751	3,755,030
CASH AND DUE FROM BANKS	27,415	18,301	DEPOSITS	1,102,908	944,239
SHORT-TERM INTERBANK INVESTMENTS	388,232	2,539,557	Demand deposits	128,366	82,288
Securities purchased under resale agreements	384,699	2,531,433	Savings deposits	310,491	306,099
Interbank deposits	3,533	8,124	Interbank deposits	22,269	18,721
MARKETABLE AND DERIVATIVE SECURITIES	1,239,438	1,173,740	Time deposits	641,782	537,131
Own portfolio	1,239,358	587,753	SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	78,965	755,855
Securities sold under repurchase agreements		605,174	Own portfolio		605,245
Linked to guarantees	80	280	Third-party portfolio	78,965	150,610
(Allowance for losses)		(19,467)	RESOURCES FROM SECURITIES ISSUED	1,840	236,030
INTERBANK ACCOUNTS	85,367	69,543	Eurobonds	1,840	236,030
Payments and receipts pending settlement	214	194	INTERBANK ACCOUNTS		3
Compulsory deposits			Third-party funds in transit		3
Central Bank of Brazil	78,734	61,018	INTERDEPARTMENTAL ACCOUNTS	7,892	1
National Treasury	6,203	8,225	Internal transfers of funds	7,892	1
Third-party funds in transit	216	106	BORROWINGS	69,449	88,359
INTERDEPARTMENTAL ACCOUNTS		1	Domestic Borrowings - government agencies	7,085	7,844
Internal transfers of funds			Foreign borrowings	62,364	80,515
LENDING OPERATIONS	371,628	538,589	DOMESTIC ONLENDINGS - GOVERNMENT AGENCIES	371,487	395,667
Lending operations:			National Treasury	139	19
Public sector	66,706	116,177	BNDES (National Economic and Social Development Bank)	276,616	273,492
Private sector	778,600	2,269,343	CEF (Federal Savings and Loans Bank)	337	5,353
(Allowance for lending losses)	(473,678)	(1,846,931)	FINAME (Government Agency for Machinery and Equipment Financing)	49,409	110,257
OTHER CREDITS	575,214	297,312	Other	44,986	6,546
Receivables on guarantees honored	1	61	FOREIGN ONLENDINGS	21,416	24,943
Foreign exchange portfolio	36,244	127,169	Foreign onlendings	21,416	24,943
Income receivable	2,995	2,918	OTHER LIABILITIES	1,232,794	1,309,933
Negotiation and intermediation of securities		41	Collection of taxes and social contributions	3,811	7,819
Specific credits	396,077	24,846	Foreign exchange portfolio	8,602	79,930
Sundry	184,707	142,277	Social and statutory	177	357
(Allowance for losses)	(44,810)		Taxes and social security	154,046	16,276
OTHER ASSETS	7,685	7,570	Negotiation and intermediation of securities		3
Other assets	10,976	10,541	Financial and development funds	915,132	1,043,802
(Allowance for losses)	(3,344)	(3,017)	Sundry	151,026	161,746
Prepaid expenses	53	46	LONG-TERM LIABILITIES	6,966,665	5,679,452
LONG-TERM ASSETS	8,181,584	5,673,429	DEPOSITS	1,973,074	2,142,825
MARKETABLE SECURITIES	4,551,120	1,620,635	Demand deposits	52,013	18,630
Own portfolio	4,491,794	1,590,450	Time deposits	1,921,061	2,124,195
Linked to Central Bank of Brazil	54,859	32,985	RESOURCES FROM SECURITIES ISSUED	140,378	64,995
Linked to guarantees	4,467	570	Eurobonds	140,378	64,995
(Allowance for losses)		(3,370)	BORROWINGS	86,679	85,315
INTERBANK ACCOUNTS	13,615	40,669	Domestic Borrowings - government agencies	86,679	85,315
Compulsory deposits			DOMESTIC ONLENDINGS - GOVERNMENT AGENCIES	1,410,978	1,648,166
National Treasury	615	1,966	National Treasury		1,922
National Housing System - SFH	13,000	38,703	BNDES	1,067,101	1,319,072
LENDING OPERATIONS	3,199,526	3,602,549	CEF	1,359	10,218
Lending operations:			FINAME	132,177	155,218
Public sector	1,498,959	1,047,371	Other	208,469	161,736
Private sector	2,032,387	2,823,725	DERIVATIVE FINANCIAL INSTRUMENTS	5	
(Allowance for lending losses)	(331,820)	(268,547)	Derivative financial instruments	5	
OTHER CREDITS	417,323	409,576	FOREIGN ONLENDINGS	1,275,633	807,172
Sundry	418,665	447,168	Foreign onlendings	1,275,633	807,172
(Allowance for losses)	(1,342)	(37,592)	OTHER LIABILITIES	2,079,918	930,979
PERMANENT ASSETS	147,118	145,454	Taxes and social security	679,377	610,842
INVESTMENTS	4,431	2,837	Financial and development funds	947,553	18,063
Other investments	8,761	7,167	Sundry	452,988	302,074
(Allowance for losses)	(4,330)	(4,330)	DEFERRED INCOME		21
PROPERTY AND EQUIPMENT IN USE	138,008	137,437	Deferred income		21
Land and buildings	179,532	175,179	STOCKHOLDERS' EQUITY	1,170,265	1,028,993
Other	55,263	49,865	Capital	3,492,249	3,596,000
(Accumulated depreciation)	(96,787)	(87,607)	Local residents	3,492,249	3,596,000
DEFERRED CHARGES	4,679	5,180	Unpaid capital		(103,782)
Organization and expansion costs	12,423	68,502	Revaluation reserve	47,600	50,275
(Accumulated amortization)	(7,744)	(63,322)	Market value adjustment - Marketable securities and derivative instruments	(39,032)	
			Retained earnings (Accumulated loss)	(2,330,552)	(2,513,500)
TOTAL	11,023,681	10,463,496	TOTAL	11,023,681	10,463,496

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

BANCO DO NORDESTE DO BRASIL S.A.STATEMENTS OF INCOME  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001  
(Expressed in thousands of Brazilian reais - R\$)

	Six-month period ended December 31, 2002	Year ended December 31,	
		2002	2001
REVENUE FROM FINANCIAL INTERMEDIATION	1,816,724	2,825,219	1,081,196
Lending operations	1,079,608	1,549,599	725,947
Marketable securities	625,006	1,100,384	222,905
Derivative financial instruments	1		
Foreign exchange transactions	117,764	175,849	121,963
Compulsory deposits	(5,655)	(613)	10,381
EXPENSES ON FINANCIAL INTERMEDIATION	(1,094,408)	(2,105,052)	(3,057,126)
Deposits and securities sold under repurchase agreements	(234,137)	(486,629)	(458,082)
Borrowings and onlendings	(626,020)	(1,159,515)	(858,754)
Allowance for losses	(234,251)	(458,908)	(1,740,290)
FINANCIAL INTERMEDIATION INCOME (LOSS)	722,316	720,167	(1,975,930)
OTHER OPERATING INCOME (EXPENSES)	(416,654)	(371,594)	(536,032)
Services rendered	46,773	93,847	135,698
Salaries, benefits, training and social security	(139,134)	(272,441)	(245,809)
Other administrative expenses	(127,879)	(247,658)	(213,012)
Tax expenses	(32,918)	(57,634)	(28,352)
Other operating income	296,464	686,813	970,222
Other operating expenses	(459,960)	(574,521)	(1,154,779)
OPERATING INCOME (LOSS)	305,662	348,573	(2,511,962)
NONOPERATING INCOME	735	4,598	2,854
INCOME (LOSS) BEFORE TAXES AND PROFIT SHARING	306,397	353,171	(2,509,108)
INCOME TAX AND SOCIAL CONTRIBUTION	(171,091)	(192,317)	(33,581)
Income tax	(98,257)	(98,258)	(24,692)
Social contribution tax	(36,656)	(36,656)	(8,889)
Deferred taxes	(36,178)	(57,403)	
NET INCOME (LOSS) FOR THE YEARS	135,306	160,854	(2,542,689)
Number of shares (in million)	870,019	870,019	902,283
Net income (loss) per 1,000 shares - R\$	0.16	0.18	(2.82)

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 YEARS ENDED DECEMBER 31, 2002 AND 2001**

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

	CAPITAL			CAPITAL RESERVE	REVALUATION RESERVE	REVENUE RESERVE		MARKET VALUE ADJUSTMENT - MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENTS	RETAINED EARNINGS (ACCUMULATED LOSS)	TOTAL
	CAPITAL	CAPITAL INCREASE	UNPAID CAPITAL	OTHER CAPITAL RESERVE	OWN ASSETS	LEGAL	STATUTORY			
BALANCE AT DECEMBER 31, 2000	831,000	60,000		6,968	53,922	2,955			42,788	997,633
RESERVES REVERSION										
Capital reserve				(26,750)					26,750	
Revenue reserve						(433)	(5,838)		6,271	
CAPITAL INCREASE										
Resources from reserves:										
Transfer for capital increase		45,000				(2,955)			(42,045)	
Capital increase approval	105,000	(105,000)								
Resources from subscriptions of shares:										
Shares subscription		2,660,000	(2,660,000)							
Payment of capital			2,556,218							2,556,218
OTHER:										
Revaluation reserve:										
Realization of reserve:										
Gross value					(5,526)				4,100	(1,426)
Taxes					1,879				(1,164)	715
Deferred asset reversion									1,164	1,164
Tax incentives				19,781					19,781	19,781
Donations received				1					1	1
LOSS FOR THE YEAR									(2,542,689)	(2,542,689)
1 <sup>st</sup> SEMESTER DESTINATIONS										
Reserves						433	5,838		(6,271)	
Dividends proposed									(2,404)	(2,404)
BALANCE AT DECEMBER 31, 2001	936,000	2,660,000	(103,782)	-	50,275	-	-		(2,513,500)	1,028,993
CHANGES FOR THE YEAR	105,000	2,600,000	(103,782)	(6,968)	(3,647)	(2,955)	-		(2,556,288)	31,360
BALANCE AT DECEMBER 31, 2001	936,000	2,660,000	(103,782)		50,275				(2,513,500)	1,028,993
PRIOR YEAR ADJUSTMENTS								(19,419)	19,419	
MARKET VALUE ADJUSTMENT - MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENTS								(19,613)		(19,613)
CAPITAL INCREASE										
From shares subscription										
Approval	2,556,249	(2,660,000)	103,751							
Payment of capital			31							31
OTHER:										
Revaluation reserve:										
Realization of reserve:										
Gross value					(4,053)				4,053	
Taxes					1,378				(1,378)	
NET INCOME FOR THE YEAR									160,854	160,854
BALANCE AT DECEMBER 31, 2002	3,492,249	-	-		47,600			(39,032)	(2,330,552)	1,170,265
CHANGES FOR THE YEAR	2,556,249	(2,660,000)	103,782		(2,675)			(39,032)	182,948	141,272
BALANCE AT JUNE 30, 2002	936,000	2,556,249			48,938			(16,761)	(2,466,507)	1,057,919
MARKET VALUE ADJUSTMENT - MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENTS								(22,271)		(22,271)
CAPITAL INCREASE										
From shares subscription										
Approval	2,556,249	(2,556,249)								
OTHER:										
Revaluation reserve:										
Realization of reserve:										
Gross value					(2,027)				2,027	
Taxes					689				(1,378)	(689)
NET INCOME FOR THE PERIOD									135,306	135,306
BALANCE AT DECEMBER 31, 2002	3,492,249	-			47,600			(39,032)	(2,330,552)	1,170,265
CHANGES FOR THE PERIOD	2,556,249	(2,556,249)			(1,338)			(22,271)	135,955	112,346

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

BANCO DO NORDESTE DO BRASIL S.A.

STATEMENTS OF CHANGES IN FINANCIAL POSITION  
FOR THE YEARS DECEMBER 31, 2002 AND 2001  
(Expressed in thousands of Brazilian reais - R\$)

	Six-month period ended December 31, 2002	Year ended December 31,	
		2002	2001
SOURCE OF FUNDS	866,675	4,154,560	6,030,265
NET INCOME (LOSS) FOR THE PERIOD - ADJUSTED (1)	141,683	173,906	(2,511,891)
DEFERRED INCOME VARIATION		(21)	(82)
TAX INCENTIVES DEDUCTED FROM INCOME TAX AND NORTHEAST INVESTMENT FUND (FINOR)			19,781
DONATIONS RECEIVED			1
MARKET VALUE ADJUSTMENT - MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENTS	(22,270)	(19,613)	
CAPITAL INCREASE (FEDERAL FINANCIAL INSTITUTIONS STRENGTHENING PROGRAM)		31	2,556,218
REVALUATION RESERVE	(689)		453
FROM THIRD PARTIES:			
- INCREASE IN LIABILITIES:			
Deposits	1,706		2,049,052
Securities sold under repurchase agreements	14,314		729,097
Interbank and interdepartmental accounts		7,888	
Borrowings and onlendings	26,729	186,020	
Derivative financial instruments		5	
Other liabilities	167,848	1,071,800	1,439,345
- DECREASE IN ASSETS:			
Interbank investments		2,151,325	53,811
Interbank and interdepartmental accounts		11,231	
Lending operations	536,250	569,984	1,190,107
Other credits			500,848
Other assets	254		1,053
- SALE OF ASSETS AND INVESTMENTS:			
Other assets - Repossessed fixed assets	614	2,167	541
Property and equipment in use	214	(162)	1,911
Investments	22	(1)	20
APPLICATION OF FUNDS	866,286	4,145,446	6,034,854
DIVIDENDS AND BONUS PROPOSED			2,404
INVESTMENT IN:			
Other assets - Repossessed fixed assets	913	2,794	2,665
Property and equipment in use	5,357	11,201	11,155
Investments	1,381	1,595	151
DEFERRED CHARGES	478	1,206	1,592
INCREASE IN ASSETS			
Short-term investments	115,473		1,699,200
Marketable securities	500,389	2,996,183	1,725,895
Interbank and interdepartmental accounts	3,808		
Other credits	95,638	285,649	
Other		39	
DECREASE IN LIABILITIES			
Deposits		11,082	
Securities sold under repurchase agreements		676,890	
Resources from securities issued	129,182	158,807	120,525
Interbank and interdepartmental accounts	13,665		7
Borrowings and onlendings			2,471,260
Derivative financial instruments	2		
INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	389	9,114	(4,589)
CHANGES IN FINANCIAL POSITION: increase (decrease) in cash and due from banks	389	9,114	(4,589)
At beginning of the year	27,026	18,301	22,890
At end of the year	27,415	27,415	18,301
(1) STATEMENT OF ADJUSTED NET INCOME (LOSS):			
NET INCOME (LOSS)	135,306	160,854	(2,542,689)
ADJUSTMENTS TO NET INCOME (LOSS):			
Depreciation and amortization	6,193	12,499	30,205
Allowance for losses	184	553	593
ADJUSTED NET INCOME (LOSS)	141,683	173,906	(2,511,891)

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

## BANCO DO NORDESTE DO BRASIL S.A.

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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

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#### 1. THE BANK AND ITS CHARACTERISTICS

Banco do Nordeste do Brasil S.A. (the "Bank") is a private legal entity operating as a public financial institution established by Federal Law N° 1,649 of July 19, 1952. The Bank was structured as a publicly held corporation of mixed capital and its mission is to promote the sustainable development of the Northeast Region of Brazil, providing financial resources and technical qualification support for enterprises operating in the region.

In order to fulfill its mission, apart from extending credits for the implementation of businesses, Banco do Nordeste along with its customers, follows up businesses implemented with technical and managerial visits and provides additional of funds if necessary.

Banco do Nordeste is authorized to operate as a multiple bank with all portfolios allowed to financial institutions of the same category, except the real estate credit portfolio. At the extraordinary stockholders' meeting held on October 17, 1997, the stockholders approved operations involving the real estate credit portfolio, and this process is following the required procedural steps.

Banco do Nordeste as a development organ manages, among other programs, the Northeast Investment Fund (FINOR) established by Decree-Law N° 1,376 of December 12, 1974, amended by Law N° 8,167 of January 16, 1991 and the Northeast Constitutional Financing Fund (FNE), in accordance with Brazilian Constitution and Law N° 7,827 of September 27, 1989, as amended by Laws N° 9,126 of November 10, 1995 and N° 10,177 of January 12, 2001 and Provisional Measure N° 2,196-3 of August 24, 2001 and article 13 of Provisional Measure N° 2,199-14 of August 24, 2001.

#### 2. PRESENTATION OF FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with the accounting practices established by Brazilian Corporate Law and specific rules of the Central Bank of Brazil (BACEN) and the Brazilian Securities and Exchange Commission (CVM).

## BANCO DO NORDESTE DO BRASIL S.A.

### 3. ACCOUNTING PRACTICES

#### a) Determination of Profit and Loss

Revenues and expenses are recognized on an accrual basis. Significant policies followed are described below:

- Interest, monetary or exchange variations on current and long-term assets and liabilities are recorded on a "pro rata die" basis;
- Accruals, including taxes on vacation pay and 13<sup>th</sup> salary, are recognized on a monthly basis. Allowances for civil and labor contingencies are recognized by its amounts and probability of loss for the Bank, based in an assessment reviewed and updated by the juridical area;
- Accruals for retirement benefits are recognized in conformity with Resolution N° 371 of December 13, 2000 of the Brazilian Securities and Exchange Commission (CVM);
- The effects of adjustments of assets to the 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 and monetary and exchange rate variations, less deferred income.

The lending operations of Banco do Nordeste are contracted at normal market rates. An allowance for losses was recorded in accordance with Resolution N° 2,682 of December 21, 1999 of the National Monetary Council.

Available-for-sale and Held-to-maturity 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 intention to keep 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:

- Investments are adjusted by allowance for losses;
- Land and building in use are stated at revaluation value;



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- Depreciation is provided by the straight-line method based on the following annual rates:
  - Buildings 4 %
  - Transportation and data processing systems 20 %
  - Other 10 %
- Deferred charges are comprised mainly of expenses incurred with software acquisition and development, installations and leasehold improvements. Amortization is calculated using the straight-line method at a fixed annual rate of 20%.

### d) Current and Long-Term Liabilities

Current and long-term liabilities are stated at original amounts plus accrued interest and 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 included in the next twelve-month period after the balance sheet date as current.

### e) Fund for Compensation of Salary Variations – FCVS

Recorded in long-term assets are credits from Fund for Compensation of Salary Variations (FCVS), in the amount of R\$ 25,831 thousand (R\$ 41,404 thousand as of December 31, 2001). Of this total, there is an allowance for losses related to VAF3 in the amount of R\$ 3,128 thousand (R\$ 2,702 thousand as of December 31, 2001) and market value adjustment, according to Circular Letter N° 2,704 of December 4, 1996, of R\$ 9,704 thousand.

On June 30, 1998, the Bank opted to renew the debt under the responsibility of the FCVS, as allowed by Provisional Measure N° 1,520 of September 24, 1996 and subsequent reissues, converted into Law N° 10,150 of December 21, 2000, under the following conditions: maturity of 30 years with grace period of 12 years for principal and 8 years for interest; interest equivalent to the variation of TR (Brazilian reference index of interest) plus interest of 3.12% per annum for operations using resources from FGTS (Government Severance Indemnity Fund for Employees) and 6.17% per annum for operations using resources from savings accounts.

## 4. MARKETABLE SECURITIES

According to Circular N° 3,068 of November 8, 2001 of Central Bank of Brazil, financial institutions classified all its marketable securities, into the following three categories: Trading, Available-for-Sale or Held-to-Maturity securities.

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Therefore, the Bank proceeded the classification for its own portfolio, as of December 31, 2002, as follow:

### TRADING SECURITIES

<u>TYPE</u>	<u>Cost value</u>	<u>Market value</u>	<u>Maturity</u>
FIXED-INCOME SECURITIES			
National treasury notes	19,983	19,159	2003
Central Bank notes	<u>369,879</u>	<u>355,700</u>	2003
TOTAL	<u>389,862</u>	<u>374,859</u>	

On December 31, 2002, for securities classified as Trading securities it was record a negative adjustment of R\$ 15,003 thousand, as a result of a negative goodwill in that year.

### AVAILABLE-FOR-SALE SECURITIES

<u>TYPE</u>	<u>Cost value</u>	<u>Market value</u>	<u>Maturity</u>
FIXED-INCOME SECURITIES	<u>166,704</u>	<u>146,501</u>	
Financial treasury bill	114,862	113,052	2003 to 2008
Agricultural debt securities	258	198	2003 to 2011
Government securities – other	31,327	16,417	2003 to 2005
Fixed-income securities – other	20,257	16,834	2027
INVESTMENT FUND QUOTES	<u>572</u>		
Social development fund (FDS)	572		No maturity
VARIABLE-INCOME SECURITIES	<u>146,324</u>	<u>110,169</u>	
Other fiscal incentives (FINOR)	6,377	1,472	No maturity
Investments in stocks	139,947	108,697	No maturity
PLEGDED SECURITIES	<u>2,209</u>		2003 to 2005
TOTAL	<u>315,809</u>	<u>256,670</u>	

The classification of securities in Available-for-Sale category result in an amount of R\$ 59,139 thousand being recorded as “Market Value Adjustment - Marketable Securities and Derivative Instruments” account, classified in the Bank’s stockholders’ equity. The adjustment, net from taxes effects, correspond to R\$ 39,032 thousand.

### HELD-TO-MATURITY SECURITIES

<u>TYPE</u>	<u>Cost value</u>	<u>Market value</u>	<u>Maturity</u>
FIXED-INCOME SECURITIES			
Financial treasury bill	5,055,872	4,879,107	2003 to 2008
National treasury bill	59,136	53,957	2003
National treasury notes NTN-P	225	225	2012 to 2014
National treasury notes NTN	<u>43,796</u>	<u>40,318</u>	2003
TOTAL	<u>5,159,029</u>	<u>4,973,607</u>	

## BANCO DO NORDESTE DO BRASIL S.A.

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 meet 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.

For the amounts stated above, the market value of the Fixed-Income securities was calculated considering the average negative goodwill level in the secondary market, published by National Association of Open Market Institutions (ANDIMA). For the Variable-Income securities average quotation of assets at São Paulo Stock Exchange (BOVESPA) was considered.

Because of the securities accountability classification rule change, the Bank’s current liquidity ratio changed from 1.24 as of December 31, 2001 to 0.93 as of December 31, 2002.

### 5. CREDIT PORTFOLIO AND ALLOWANCE FOR LENDING LOSSES

#### a) Detail by type:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Depositors advances	222	307
Loans	198,785	777,766
Discounted drafts	2,194	10,986
Financing	1,190,957	1,732,345
Export financing	7,596	25,802
Foreign currency financing	3,078	28,361
Government refinancing	429,770	338,315
Rural and agribusiness financing	1,387,519	2,506,875
Real estate investments	7,165	7,757
Infrastructure and development financing	<u>1,149,366</u>	<u>828,102</u>
LENDING OPERATIONS	<u>4,376,652</u>	<u>6,256,616</u>
Guarantees honored	1	61
Income receivable on advances	1,752	7,335
Income receivable on import financing		23
Debtors for purchasing of goods and values	5,784	5,657
Securities and credits receivable	43,759	22,045
Import financing (*)	597	1,500
Advance on export contracts (*)	<u>22,110</u>	<u>31,461</u>
OPERATIONS SIMILAR TO LENDING OPERATIONS	<u>74,003</u>	<u>68,082</u>
TOTAL	<u>4,450,655</u>	<u>6,324,698</u>

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

## BANCO DO NORDESTE DO BRASIL S.A.

### b) Detail by maturity:

<u>TYPE</u>	<u>UP TO 90 DAYS</u>	<u>FROM 91 TO 360 DAYS</u>	<u>FROM 1 TO 3 YEARS</u>	<u>ABOVE 3 YEARS</u>
RURAL	138,347	118,309	214,225	934,087
INDUSTRY	86,397	99,528	213,931	307,133
GOVERNMENT	31,005	111,887	165,766	1,260,952
OTHER SERVICES	48,427	64,049	102,695	151,544
COMMERCE	107,729	74,585	89,650	75,247
FINANCIAL INTERMEDIARIES	7	32,198	14,314	45
HOUSING SYSTEM	1,357	3,065	1,107	1,213
CONSUMER CREDITS	<u>1,062</u>	<u>487</u>	<u>261</u>	<u>46</u>
TOTAL	<u>414,331</u>	<u>504,108</u>	<u>801,949</u>	<u>2,730,267</u>

### c) Detail by credit risk rating:

<u>RISK RATING</u>	<u>CURRENT (1)</u>	<u>PAST-DUE</u>	<u>TOTAL</u>	<u>ALLOWANCE</u>
AA	1,052,502		1,052,502	222
A	1,389,969		1,389,969	7,088
B	379,225	32,134	411,359	4,581
C	235,496	65,236	300,732	9,815
D	114,628	86,024	200,652	24,681
E	87,418	88,626	176,044	54,650
F	95,539	112,831	208,370	108,872
G	140,552	163,189	303,741	234,455
H	<u>114,253</u>	<u>293,033</u>	<u>407,286</u>	<u>407,286</u>
TOTAL	<u>3,609,582</u>	<u>841,073</u>	<u>4,450,655</u>	<u>851,650</u>

(1) Include 14 days past-due credits.

### d) Allowance for the period

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Opening balance	2,153,070	1,003,102
(+) Allowance	458,908	1,740,290
(-) Credits classified as losses	<u>(1,760,328)</u>	<u>(590,322)</u>
(=) Closing balance	<u>851,650</u>	<u>2,153,070</u>

### e) Allowance expenses

	<u>Six month period ended June 30, 2002</u>	<u>December 31, 2002</u>	<u>December 31, 2001</u>
(+) Expenses on allowances for lending losses	222,812	423,533	1,754,410
(+) Expense on allowance for other credits	11,439	35,719	68,180
(-) Reversal of operating allowances		<u>(344)</u>	<u>(82,300)</u>
(=) Closing balance	<u>234,251</u>	<u>458,908</u>	<u>1,740,290</u>

f) Credits written off as losses have been recovered in the period in amount of R\$ 348,821 thousand (R\$ 77,551 thousand at December 31, 2001), and the renegotiations of operations totaled R\$ 950,773 thousand (R\$ 1,466,095 thousand at December 31, 2001).

## BANCO DO NORDESTE DO BRASIL S.A.

- g) The Bank's credit risk evaluation methodology, periodically liable to revisions and improvements, was adjusted, in the first semester of 2000, in conformity with the standards and criteria defined by the National Monetary Council, by means of the Resolution N° 2,682, of December 21, 1999. This modeling remained to be continuously verified and improved by Banco do Nordeste, to ensure your best possible adherence to the new prudential standards, confirming the importance of guaranteeing a qualified operational asset composition, sustainability requisite, especially from the terms established by the Federal Financial Institutions Strengthening Program. The latest revision, concluded in September 2002, and properly validated by the Central Bank of Brazil, determined a set of adjustments and improvements that resulted in a risk evaluation model even more accurate and consistent. The new model, in sequence to other previously revisions made and to current adjustments of the Federal Financial Institutions Strengthening Program, enables the constant actions of the criteria and necessary rigidity to operations concession in which there is credit risk for the Bank. As of December 31, 2002, the Bank's Operational Assets meets itself re-evaluated according to the improvements and additional rigidities of this model, adapting and sufficiency of the risk classification and correspondents allowances, always in conformity with the standards established in Resolution N° 2,682/99.
- h) 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 the 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 transfer from the Bank to the Federal Government responsibility, of R\$ 396,530 thousand, recorded in Other Credits/Specifics Credits/National Treasury- Rural Credit Lengthening Program, guarantees 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.
- i) Due to the application of article 9 of Law N° 10,464, of May 24, 2002, which concerns about operations conversion from rural credit for the Northeast Constitutional Financing Fund - FNE, there were converted for the Constitutional Fund scope, maintaining PRONAF financial conditions, 137,050 operations originally conceded with other funds resources to family farmers, in a total value of R\$ 806,308 thousand. 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.

## BANCO DO NORDESTE DO BRASIL S.A.

### 6. OTHER CREDITS

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Receivables for guarantees honored	<u>1</u>	<u>61</u>
Foreign exchange portfolio	<u>36,244</u>	<u>127,169</u>
Unsettled exchange purchases	34,492	77,993
Rights on foreign exchange sales	597	43,363
Other	1,155	5,813
Income receivable	<u>2,995</u>	<u>2,918</u>
Negotiation and intermediation of securities		<u>41</u>
Specific credits	<u>396,077</u>	<u>24,846</u>
National treasury – rural credits	396,077	24,846
Sundry	<u>603,372</u>	<u>589,445</u>
Tax credits – temporary differences	389,704	447,108
Tax credits – marketable securities and derivative instruments	37,024	
Debtors for guarantee deposits	41,913	43,318
Taxes and contributions to be offset	39,279	20,765
Options for fiscal incentives	26,748	26,748
Security and credits receivable	43,759	22,045
Other	24,945	29,461
Allowances for other losses	<u>(46,152)</u>	<u>(37,592)</u>
TOTAL	<u>992,537</u>	<u>706,888</u>
CURRENT	575,214	297,312
LONG-TERM	417,323	409,576

### 7. LIABILITIES FOR BORROWINGS AND ONLENDING

Domestic borrowings and onlending are subject to interest rates which vary from 0 to 11% per annum, with maturity from 4 to 20 years averaging at 8 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, in the amount of R\$ 2,227,588 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, so the average maturity is 6 years with final payment in 2012. The free resources, monetarily adjusted at SELIC rate, totaled R\$ 666,656 thousand.

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 11 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.

## BANCO DO NORDESTE DO BRASIL S.A.

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.

### 8. ONLENDING LIABILITIES

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
DOMESTIC ONLENDING LIABILITIES		
National treasury	<u>2,011</u>	<u>1,941</u>
BNDES (National Economic and Social Development Bank)	<u>1,343,717</u>	<u>1,592,564</u>
Poc	571,253	668,922
Credit line for investments in rural sector	291,917	486,193
Other programs	480,547	437,449
CEF (Federal Savings and Loan Bank)	<u>1,696</u>	<u>15,571</u>
Real state		13,268
Other program	1,696	2,303
FINAME (Government Agency for Machinery and Equipment Financing)	<u>181,586</u>	<u>265,475</u>
Special program	13,689	81,891
Automatic programs	73,191	85,094
Agricultural programs	20,911	22,837
Other programs	73,795	75,653
Other institutions	<u>253,455</u>	<u>168,282</u>
Pilot project to support the land reform	59,564	54,617
MEPF (Fund for land and land reform – Land bank)	145,469	95,534
EMBRATUR/FUNGETUR	8,725	11,016
Land bank – Rural poverty combat	33,262	
Other programs	<u>6,435</u>	<u>7,115</u>
TOTAL	<u>1,782,465</u>	<u>2,043,833</u>
CURRENT	371,487	395,667
LONG-TERM	1,410,978	1,648,166
FOREIGN ONLENDING LIABILITIES		
Foreign onlending	<u>1,297,049</u>	<u>832,115</u>
BID-prodetur	1,274,936	794,816
BID-other programs	18,155	34,463
Linked to interbank onlending	<u>3,958</u>	<u>2,836</u>
TOTAL	<u>1,297,049</u>	<u>832,115</u>
CURRENT	21,416	24,943
LONG-TERM	1,275,633	807,172

## BANCO DO NORDESTE DO BRASIL S.A.

### 9. DEPOSITS

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
DEMAND DEPOSITS	<u>180,379</u>	<u>100,918</u>
Investments deposits	74,514	42,598
Foreign currencies deposits	52,517	19,218
Governments deposits	23,595	14,780
Linked deposits	17,176	12,900
Other	12,577	11,422
SAVINGS DEPOSITS	<u>310,491</u>	<u>306,099</u>
Free savings deposits – Individual	242,607	234,138
Free savings deposits – Corporate	67,720	71,927
Other	164	34
INTERBANKS DEPOSITS	<u>22,269</u>	<u>18,721</u>
TIME DEPOSITS	<u>2,562,843</u>	<u>2,661,326</u>
Time deposits	321,992	310,893
Interest-bearing judicial deposits	13,263	7,846
Fund for workers assistance-FAT	<u>2,227,588</u>	<u>2,342,587</u>
TOTAL	<u>3,075,982</u>	<u>3,087,064</u>
CURRENT	1,104,464	944,239
LONG-TERM	1,971,518	2,142,825

### 10. OTHER LIABILITIES

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
COLLECTED TAXES AND OTHER	<u>3,811</u>	<u>7,819</u>
Proagro resources	3,648	7,290
Other	163	529
FOREIGN EXCHANGE PORTFOLIO	<u>8,602</u>	<u>79,930</u>
Exchange purchase liabilities	30,616	69,473
Exchange sales payable	598	43,356
(Advance on exchange contracts)	(22,110)	(31,462)
Other	(502)	(1,437)
SOCIAL AND STATUTORY	<u>177</u>	<u>357</u>
TAXES AND SOCIAL SECURITY	<u>833,423</u>	<u>627,118</u>
Allowance for tax risks	637,939	592,743
Allowance for deferred income tax	41,438	25,899
Allowance for income tax	136,291	
Other	17,755	8,476
NEGOTIATION AND INTERMEDIATION OF SECURITIES		<u>3</u>
FINANCIAL AND DEVELOPMENT FUNDS	<u>1,862,685</u>	<u>1,061,865</u>
Northeast Constitutional Financing Fund (FNE)	1,835,224	1,042,016
Other	27,461	19,849
SUNDRY	<u>604,014</u>	<u>463,820</u>
Allowance for contingencies	557,859	411,119
Allowance for future payments	22,519	17,916
Other	23,636	34,785
TOTAL	<u>3,312,712</u>	<u>2,240,912</u>
CURRENT	1,232,794	1,309,933
LONG-TERM	2,079,918	930,979



BANCO DO NORDESTE DO BRASIL S.A.

## 11. OTHER OPERATING INCOME / EXPENSES

	Six month period ended <u>June 30, 2002</u>	<u>December 31, 2002</u>	<u>December 31, 2001</u>
SERVICE INCOME	<u>46,773</u>	<u>93,847</u>	<u>135,698</u>
Management fee from investment funds	27,933	58,206	95,681
Other	18,840	35,641	40,017
PERSONNEL EXPENSES	<u>(139,134)</u>	<u>(272,441)</u>	<u>(245,809)</u>
Salary	(93,307)	(181,533)	(158,707)
Social contributions	(32,515)	(65,841)	(66,511)
Other	(13,312)	(25,067)	(20,591)
OTHER ADMINISTRATIVE EXPENSES	<u>(127,879)</u>	<u>(247,658)</u>	<u>(213,012)</u>
Data processing	(21,131)	(40,104)	(36,341)
Advertising and publicity	(6,796)	(22,521)	(17,497)
Third-party services	(15,267)	(28,318)	(22,477)
Rent, material, water, electricity and gas	(13,119)	(22,796)	(17,937)
Travel	(9,314)	(16,348)	(14,731)
Communication	(7,680)	(14,593)	(12,933)
Depreciation and amortization	(6,193)	(12,499)	(30,205)
Maintenance and conservation of assets	(5,804)	(11,257)	(10,099)
Vigilance, security and transport	(6,186)	(11,628)	(10,459)
Promotion, public relation and publication	(2,840)	(5,604)	(5,055)
Financial system services	(2,871)	(4,697)	(3,161)
Specialized services	(1,692)	(3,073)	(1,929)
Other	(28,986)	(54,220)	(30,188)
TAX EXPENSES	<u>(32,918)</u>	<u>(57,634)</u>	<u>(28,352)</u>
Tax for social security financing (COFINS)	(25,452)	(43,936)	(20,167)
Social integration program (PIS/PASEP)	(5,515)	(9,604)	(4,370)
Other	(1,951)	(4,094)	(3,815)
OTHER OPERATING INCOME	<u>296,464</u>	<u>686,813</u>	<u>970,222</u>
Management fee / "del credere" from funds administered	222,581	412,997	522,183
Negative exchange rate variations on lending operations	80	48,045	318,153
Reversal of operating allowances/risks of FNE operations	5,534	92,839	45,734
Expense and contribution recovery	1,893	3,915	17,876
Specific credits income	352	2,047	4,404
Reversal of operating allowances / social contribution	5,792	8,248	2,420
Other	60,232	118,722	59,452
OTHER OPERATING EXPENSES	<u>(459,960)</u>	<u>(574,521)</u>	<u>(1,154,779)</u>
Exchange rate variations on foreign exchange portfolio	(128,075)	(166,068)	(89,042)
Negative exchange rate variations on lending operations	(1,701)	(17,802)	(22,361)
Renegotiations on lending discounts	(2,095)	(9,297)	(14,459)
Waiver of charges			(3,149)
Tax risks	(35,837)	(62,993)	(581,044)
Retirement benefits obligations (CVM N° 371)	(15,846)	(33,516)	
Medical assistance on retirement obligations (CVM N° 371)	(1,769)	(3,796)	
FNE operations credit risk	(243,753)	(243,753)	(302,074)
Other	<u>(30,884)</u>	<u>(37,296)</u>	<u>(142,650)</u>
TOTAL	<u>(416,654)</u>	<u>(371,594)</u>	<u>(536,032)</u>

## BANCO DO NORDESTE DO BRASIL S.A.

### 12. 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 taxes were calculated based on the provisions of Laws N° 9,249/95, N° 9,430/96, N° 9,532/97 and N° 10,637/02.

The income tax provision is calculated at the rate of 15% plus an additional 10% on net income adjusted as per law. According to Law N° 10,637/02 of December 30, 2002, the Social Contribution tax rate is 9%.

The Income Tax expense recorded in 2002 was R\$ 140,466 thousand and the Social Contribution expense was R\$ 51,851 thousand, and its conciliation is demonstrated below:

	<u>Income Tax</u>		<u>Social Contribution</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Income before taxes	316,150	(2,509,108)	353,171	(2,509,108)
Permanent differences	32,512	4,220	(4,065)	3,342
Temporary differences	238,522	1,539,456	238,521	1,539,456
Taxable income before compensations	587,184	(965,432)	587,627	(966,310)
Tax loss compensation	(176,155)		(176,288)	
Taxable income after compensations	411,029	(965,432)	411,339	(966,310)
Aliquota	25%	25%	9%	9%
Taxes payable	102,733		37,021	
Deductions (fiscal incentives and compensations)	(4,475)		(365)	
Temporary differences tax credits	42,208	(24,692)	15,195	(8,889)
Tax expense recorded	140,466	(24,692)	51,851	(8,889)
% of tax expense over income before taxes	44.43%	0.98%	14.70%	0.35%
2002's social contribution compensation according to article 8 of MP 2,158-35/01			11,106	

#### b) Tax Credits - Temporary Differences

The tax legislation limits the deductibility of expenses for allowances for lending losses (recorded in accordance with Resolution N° 2,682/99 of the National Monetary Council), which will be deductible in future years when reversed.

Article 13, I of Law N° 9,249/95 does not allow the deduction, from the calculation of income and social contribution taxes, of any provisions, except accruals for vacation pay and 13<sup>th</sup> salary.

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.

## BANCO DO NORDESTE DO BRASIL S.A.

Since May 2001, the Bank decided for not record other tax credits on temporary differences, being as the maximum limit, the balance verified in April 2001, of R\$ 322,160 thousand, related to Income Tax, and R\$ 115,978 thousand related to Social Contribution. The balance has been properly accompanied, having been registered, in 2002, Income Tax and Social Contribution expenses of R\$ 57,403 thousand, due to the realization of tax credits on temporary differences in the calculation of those taxes. On the other hand, there were constituted tax credits about Market Value adjustments of Securities, in amount of R\$ 37,024 thousand, which, according to the Central Bank Circular Letter Nº 3,023 of June 11, 2002, were properly registered in an account classified in the Bank's stockholders equity. The movement of these credits is demonstrated as follow:

	<u>INCOME TAX</u>		<u>SOCIAL CONTRIBUTION</u>		<u>Art. 8 MP 2,158/01</u>
	<u>Temporary differences</u>	<u>Marketable securities</u>	<u>Temporary differences</u>	<u>Marketable securities</u>	
Opening balance as of December 31, 2001	292,713		105,377		49,018
(+)Tax credits record		27,224		9,800	
(-) Tax credits realization	<u>(42,208)</u>		<u>(15,195)</u>		
(=) Closing 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>

The asset provision balance of Income tax (25%) and Social Contribution (9%), registered in "OTHER CREDITS-Sundry", long term, is comprised as follow:

		<u>Income Tax</u>		<u>Social Contribution</u>	
		<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
1	Temporary differences total	3,045,309	2,808,227	3,045,309	2,808,227
2	Tax loss carry-forward	789,277		790,022	
3	Total basis (1) + (2)	3,834,586	2,808,227	3,835,331	2,808,227
4	Aliquota	25%	25%	9%	9%
5	Total tax credits (3) x (4)	958,646	702,057	345,180	252,740
6	2002's social contribution compensation according to article 8 of MP 2,158-35/01			49,018	49,018
7	Marketable securities - market value adjustments tax credit	27,224		9,800	
8	Total tax credits	985,870	702,057	403,998	301,758
9	Tax credits recorded	277,728	292,713	149,000	154,395
10	Tax credits not recorded (8)-(9)	708,142	409,344	254,998	147,363

## BANCO DO NORDESTE DO BRASIL S.A.

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:

<u>Period</u>	<u>Income tax</u>		<u>Social contribution</u>		<u>Total</u>	
	<u>Estimated value</u>	<u>Present value</u>	<u>Estimated value</u>	<u>Present value</u>	<u>Estimated value</u>	<u>Present value</u>
2003	24,728	22,191	8,902	7,989	33,630	30,180
2004	31,284	23,271	11,262	8,377	42,546	31,648
2005	31,597	19,928	11,375	7,174	42,972	27,102
2006	31,913	17,281	11,489	6,221	43,402	23,502
2007	32,232	15,116	11,603	5,442	43,835	20,557
2008 to 2010	<u>98,751</u>	<u>35,657</u>	<u>35,551</u>	<u>12,837</u>	<u>134,302</u>	<u>48,494</u>
TOTAL	<u>250,505</u>	<u>133,444</u>	<u>90,182</u>	<u>48,040</u>	<u>340,687</u>	<u>181,483</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:

<u>Period</u>	<u>Income tax</u>	<u>Social contribution</u>	<u>Total</u>
2003	25,988	9,356	35,344
2004	58	20	78
2005	271	98	369
2008 to 2010	43	15	58
2023 to 2027	<u>864</u>	<u>311</u>	<u>1,175</u>
TOTAL	<u>27,224</u>	<u>9,800</u>	<u>37,024</u>

### c) PASEP

This contribution is calculated at the rate of 0.65% as per Article 1 of Provisional Measure N° 2,158-35 of August 24, 2001, observing the tax basis defined by Laws N° 9,701/98, 9,715/98 and 9,718/98.

### d) COFINS

Law N° 9,718 of November 27, 1998 established the Tax for Social Security Financing for financial institutions, to be computed on taxable events occurred from February 1, 1999, at a rate of 3% on gross income adjusted in accordance with law.

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### 13. STOCKHOLDERS' EQUITY

#### a) Capital

Capital amounts to R\$ 3,492,249 thousand (December 31, 2001: R\$ 3,596,000 thousand), represented by 870,019,022,574 (December 31, 2001: 902,283,261,327) book entry shares without par value, as follows:

<u>Stockholders</u>	<u>Common shares</u>	<u>Preferred shares</u>	<u>% Voting capital</u>	<u>% Total capital</u>
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>

The preferred shares have priority over the holders of the common shares with respect to dividends, which have to be, at least, 10% higher than the common shares dividends, with exceptions provided by law.

The current stockholder composition resulted from a resolution of the Extraordinary Stockholders' Meeting, held on February 18, 2002, which ratified the resolutions approved at the Extraordinary Stockholders' Meeting of December 28, 2001 and approved a capital increase, whose process was approved by the Central Bank of Brazil on November 13, 2002.

#### 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\$ 2,675 thousand (R\$ 2,936 thousand as of December 31, 2001), was transferred to "Retained earnings".

#### c) Dividends and Revenue Reserve

Although the Bank has reported a profit of R\$ 160,854 thousand as of December 31, 2002, it was not constituted revenue reserves nor distributed dividends to stockholders, because of the negative balance in "Retained earnings (Accumulated loss)" account, due to adjustments made to comply to the Program for strengthening of Federal Financial Institutions, completed on December 31, 2001, as a consequence of the promoted capital increase on December 28, 2001. The strengthening of the Bank granted a patrimonial structure adaptation to levels demanded by the Monetary Authority, compliance to the definitions of Basel's agreement and compliance to the risk criteria changed by the Resolution N° 2,682/99, complying to all recommendations of the Central Bank of Brazil.

Such decision is supported by corporate rules established by Law N° 6,404/76 (Corporate Law), Chapter I, Section 20, of National Financial System Chart of Accounts (COSIF) and article 50 of the bylaws of Banco do Nordeste, as well as in obedience to the Principle of Integrity of the Capital.

## BANCO DO NORDESTE DO BRASIL S.A.

### d) Prior Year Adjustments

The Circulars N° 3,068, of November 8, 2001 and 3,082, of January 30, 2002, of the Central Bank of Brazil, modified the accounting practices that were adopted, in securities classification and evaluation method, aligning them to the international accounting procedures. Therefore, when applied those new accounting practices and according to the orientations of that Circulars, the Bank recorded R\$ 19,419 thousand in Retained Earnings account, corresponding to the existing, as of December 31, 2001, allowance reversion.

## 14. CONTINGENCIES

The Bank recorded, in 2002, accruals about R\$ 45,198 thousand, totaling R\$ 637,939 thousand, related to Income Tax and Social Contribution compensation, paid due to inflation effects (Plano Verão) recorded in “OTHER LIABILITIES-Taxes and social security”.

The recognition of other contingencies recorded in “OTHER LIABILITIES-Sundry”, R\$ 452,988 thousand refers to Fundo Constitucional de Financiamento do Nordeste – FNE (Northeast Constitutional Financing Fund) credit’s risk; R\$ 37,312 thousand, related to expenditures recognition according to Resolution N° 371 of December 13, 2000 of the Brazilian Securities and Exchange Commission (CVM); and R\$ 67,559 thousand, related to civil and labor accruals.

## 15. 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	8,678.18	8,746.94
Minimum	297.47	
Average	2,772.99	

(1) Includes overtime (including night shift premium) when effectively worked.

(2) Includes R\$ 1,441.80 relating to the additional 20% for the position, as determined by the Ministry of Finance.

On December 31, 2002, Banco do Nordeste employed 3,782 people, against 3,619 as of December 31, 2001, showing a increase of 4.5% in the number of employees.

## BANCO DO NORDESTE DO BRASIL S.A.

### 16. SUPPLEMENTARY RETIREMENT AND HEALTH CARE 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:

#### a) Cost

Year of 2002: R\$ 26,785 thousand (R\$ 24,687 thousand in 2001).

#### b) Actuarial method

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

#### c) 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.

The federal intervention in CAPEF, occurred from August, 1997 to October 1999, implemented several actions that resulted in changes in the benefits and costing plan of the Entity. These actions led to immediate revision of all benefits already conceded and in the applicable rules to benefits to come after the intervention process. As a result, the Entity reached the actuarial break-even of its accounts. In these terms, obligations of CAPEF's sponsors, among them the Banco do Nordeste, were adapted to the standard of benefits instituted and legitimated by the federal intervention.

#### d) Past-due obligations

None.

#### e) Surplus and reasons

As of December 31, 2002, an actuarial surplus of R\$ 51,424 thousand (R\$ 71,163 thousand as of December 31, 2001) was recorded. The main factors that contributed to the result variation in relation the previous period were:

- Patrimony for reserve's coverage variation: R\$ 38,356 thousand;

## BANCO DO NORDESTE DO BRASIL S.A.

- Mathematical reserve variation (Related to biometrics tables variations and recognition of benefits adjustment perspectives in January 2003): R\$ 58,095 thousand.

### f) Contribution rates

Listed below are the average contribution rates in December 2002:

<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

It should be noted that the CAPEF regulations, approved by the Ministry of Social Security through Ruling N° 1,024 of November 11, 2002, permit 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 contributed with 20% of the respective supplemental benefit; after equal percentages of contributions were implemented in conformity with the Constitutional Amendment N° 20, the Bank is no longer making contributions under this system. 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.

### g) 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 December 31, 2002 a ratio of 1:1 (1:1 as of December 31, 2001).

### h) Actuarial Revaluation

The Ministry of Social Security, through Ruling N° 1,024 of November 20, 2002, published in the Official Gazette of November 21, 2002, approved CAPEF's normative alterations aiming adaptation to the self-applicable items of Complementary Law N° 108, N° 109 and further orientations from Supplemental Retirement Benefits Secretary (Secretaria de Previdência Complementar).

Nowadays, CAPEF is in a surplus situation and complying with the provisions of Constitutional Amendment N° 20, with regard to the actuarial matching of the benefit plan and equal contributions.



## BANCO DO NORDESTE DO BRASIL S.A.

### 17. 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 item 49.j 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.

c) Plan characteristics

- i) Retirement and Pension Plan: See Note N° 16;
- ii) Health Care Plan:

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 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.

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.

BANCO DO NORDESTE DO BRASIL S.A.

d) 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 uncovered actuarial liabilities	257,322	31,640
2. Present value of partially or totally covered actuarial liabilities	1,380,979	
3. Fair value of Plan assets	1,123,657	
4. Net value of unrecognized actuarial losses	13,559	
5. Cost of past service not yet recognized		
6. Value not recognized as asset - § 49.g of CVM Resolution N° 371		
7. Value covered by the recognition of difference between items “e.2” and “e.3”	10,131	259
8. Value of actuarial liabilities discounted at the nominal rate of 12% p.a.	233,632	31,381
9. Value of actuarial liabilities discounted at the nominal rate of 18% p.a.	116,926	17,687

e) 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 beginning of period	233,632	31,381
2. Expense recognized in the statement of income	36,915	8,815
3. Total contributions paid by employer (aggregate method)	(26,784)	(8,556)
4. Unrecognized actuarial losses	13,559	
5. Net actuarial liabilities at end of period	257,322	31,640

f) 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	8,175	8,815
2. Interest cost	158,853	
3. Expected return on plan assets	(130,113)	
4. Cost of amortized past service		
5. Actuarial gains and losses recognized in the year		
6. Effects of plan increases, reductions or advanced settlements		
7. Expense recognized in the statement of income	36,915	8,815

## BANCO DO NORDESTE DO BRASIL S.A.

### g) Actuarial assumptions used

- i) Biometrical Assumptions: Nondisabled General Mortality Table – AT83; Disability Mortality Table – IAPC experience; Invalidity Entrance Table – CAPEF Experience; and Turnover Table – None.
- ii) 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, considering the return, on values reserved by sponsor, at the Central Bank rate (SELIC) – 12% p.a..
- iii) The inflation rate is used in the calculation of the Present Value of Actuarial Liability, aiming to measure the inflationary float arising from the freezing, in annual cycles, of the 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.
- iv) 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.
- v) The assets of retirement and pension plans have a nominal expected return of 12% p.a. Funding by the Bank to cover actuarial liabilities estimated for CAPEF and CAMED will occur throughout the existence of the plans. The funds should be reserved for up to five years for fulfilling these obligations, as provided for by CVM Resolution N° 371, and, while not yet transferred to CAPEF and CAMED, they will remain at the Bank's disposal and will be remunerated according to the Brazilian basic interest rate (SELIC rate) rather than according to the expected return on plan assets. Nevertheless, despite SELIC rate is, nowadays, fixed around 25% and as provided for by its item 49-e of CVM Resolution N° 371, it was maintained the assumption, more conservative, of the discount of the sponsor's actuarial liabilities calculated at the interest rate of 18% p.a..
- vi) The calculation of the present value of the Bank's actuarial liabilities as of December 31, 2002, by applying the nominal rate of 18% p.a., resulted to recognize the amounts of R\$ 116,926 thousand for CAPEF and R\$ 17,687 thousand for CAMED, to be recorded over a period of up to five years, as provided for by CVM Resolution N° 371. In the year ended December 31, 2002, the amounts of R\$ 23,385 thousand related to CAPEF and R\$ 3,538 thousand related to CAMED were recognized, and such liabilities will be completed and supplemented in each six-month period until December 31, 2006. In addition, reserves were recognized in the amounts of R\$ 10,131 thousand and R\$ 259 thousand, related to the differences between actuarial commitments for the year of 2002 and the amounts effectively paid to CAPEF and CAMED, respectively, in the same period. This ensures compliance with CVM Resolution N° 371, with the funds earmarked for the fulfillment of the Bank's future liabilities as a sponsor of CAPEF and CAMED, being duly recognized and recorded, as described, from January 1, 2002 to December 31, 2006.

## BANCO DO NORDESTE DO BRASIL S.A.

### 18. FINANCIAL INSTRUMENTS

Marketable securities with market values differing from those recognized in the financial statements as of December 31, 2002 are listed in Note 4.

The Bank conservatively follows the policy of investing its funds strictly under conditions of terms and rates established by the respective sources of such funds, in such a manner that assets and liabilities always have compatible terms, interest rates and indexes, thus avoiding any types of mismatching.

Considering its conservatism portfolio management, Banco do Nordeste limits its activities in derivatives market to swap operations solely to hedge its assets and liabilities, if needed, and to meet the needs of investing customers within the set limits and controls that allow doing business with appropriate securities levels.

Swap operations are recorded in the balance sheet and memorandum accounts, according to their nature prevailing legal provisions and accounting standards.

As of December 31, 2002 the Bank had only one swap operation entered into with a customer, registered with the Clearing House for the Custody and Financial Settlement of Securities (CETIP). The nominal value of this operation is recorded in memorandum accounts (overall basis), and the corresponding net book value, adjusted to market value, in the Differential Payable account, as follow:

<u>ASSET POSITION</u>	<u>GLOBAL AMOUNT</u>	<u>AMOUNT RECEIVABLE</u>
Pre-fixed	55	—
<u>LIABILITY POSITION</u>	<u>GLOBAL AMOUNT</u>	<u>AMOUNT PAYABLE</u>
CDI (Interbank deposit rate)	55	2

Risk of operations at fair value – R\$ (5 thousand).

Credit risk of swap – R\$ (1 thousand)

The swap contract mature before 360 days.

The market value of the swap operations is calculated at rates published by the National Association of Open Market Institutions – (ANDIMA). For credit risk, the Bank uses correlation indexes and risk factors adopted by the Central Bank of Brazil.

### 19. FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

In accordance with Central Bank Circular Letter Nº 2,217 of September 9, 1991, the resources from FNE are recorded in the Bank's memorandum accounts, and the free resources, which have not yet been used in lending operations, are recorded in “Other liabilities/financial and development funds”.

## BANCO DO NORDESTE DO BRASIL S.A.

The Law N° 10,177 of January 12, 2001 edition, and the Provisional Measure N° 2,196-3 of August 24, 2001, consolidates new conditions concerning the assumption of risks associated with FNE's resources are as follows:

- a) in operations contracted until November 30, 1998 the Bank is free from any operational risk.
- b) in operations contracted beginning December 1, 1998, the credit risk is limited to 50%.
- c) in operations contracted in the Bank's own name, with resources from the fund, the risk is 100%.

Considering the 50% credit risk assumed by Banco do Nordeste for the operations contracted with FNE's resources from December 1, 1998 on, and although the Central Bank of Brazil recognizes that it is not responsible for the regulation and inspection of funds similar to Constitutional Fund of Financing of the Northeast – FNE, the Bank's board of directors, following the Monetary Authority guidance, appointed that it was made a risk classification in the same way to that foreseen by the Resolution N° 2,682/99, of the National Monetary Council, being recorded the calculated allowance for losses, proportionally to the percentage of the co-obligation assumed by the Bank, by means of provision constitution to make a stand against credits for difficult accomplishment registered in the group “Other Liabilities-Sundry”.

The detail of FNE's operations, on which there is risk sharing with the Bank, include operations contracted from December 1, 1998, as provided for by Law N° 10,177/01, and those converted from other funds, contracted by “family farmers”, as provided for by Law N° 10,464/02. The detail of balances and allowance recorded in Contingent Liabilities of the Bank, by risk levels, as of December 31, 2002, is demonstrated as follow:

<u>Risk rating</u>	<u>Lending total</u>	<u>Allowance</u>
AA	376,819	375
A	492,707	2,464
B	487,512	7,304
C	218,875	10,919
D	306,135	64,219
E	107,451	41,083
F	<u>653,213</u>	<u>326,624</u>
TOTAL	<u>2,642,712</u>	<u>452,988</u>

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%.

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.

## BANCO DO NORDESTE DO BRASIL S.A.

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. For those reasons the consolidation of the Bank's and the Fund's accounts are shown below:

ASSETS	December 31, 2002	December 31, 2001	LIABILITIES	December 31, 2002	December 31, 2001
CURRENT AND LONG-TERM ASSETS	<u>21,243,797</u>	<u>18,812,581</u>	CURRENT AND LONG-TERM LIABILITIES	<u>20,220,650</u>	<u>17,929,021</u>
Cash and due from banks	27,415	18,301	Deposits	3,075,982	3,087,064
Short-term interbank investments	388,232	2,539,557	Securities sold under repurchase agreements	78,965	755,855
Marketable securities	5,790,558	2,794,375	Resources from securities issued	142,218	301,025
Interbank accounts	205,708	220,599	Interbank accounts		3
Interdepartmental accounts		1	Interdepartmental accounts	7,892	1
Lending operations	<u>13,830,001</u>	<u>12,523,493</u>	Borrowings	156,128	173,674
Public sector	1,565,665	1,163,548	Domestic onlending – Government agencies	1,782,465	2,043,833
Private sector	13,522,822	13,777,497	Financial derivative instruments	5	
(Allowance for lending operations losses)	(1,258,486)	(2,417,552)	Foreign onlending	1,297,049	832,115
Other credits	992,537	706,888	Other liabilities	<u>13,679,946</u>	<u>10,735,451</u>
Other assets	9,346	9,367	FNE	12,654,818	9,844,541
			Other	1,025,128	890,910
PERMANENT ASSETS	<u>147,118</u>	<u>145,454</u>	Deferred income		<u>21</u>
			STOCKHOLDERS' EQUITY	<u>1,170,265</u>	<u>1,028,993</u>
TOTAL	<u>21,390,915</u>	<u>18,958,035</u>	TOTAL	<u>21,390,915</u>	<u>18,958,035</u>

## 20. BASEL ACCORD

On December 31, 2002, Banco do Nordeste presented capital adjustments ratio (Basel's ratio) of 19.71% (16.17% at December 31, 2001), while its Reference Equity (PR) amounted R\$ 1,170,265 thousand (R\$ 1,028,993 thousand at December 31, 2001). 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\$ 653,067 thousand.

## 21. OTHER INFORMATION

### a) Related-party transactions

Banco do Nordeste had no transactions with affiliated or subsidiary companies in the years ended December 31, 2002 and 2001. Transactions with companies controlled by the federal government - majority stockholder of the Bank – totaled R\$ 8,811 thousand (R\$ 75,957 thousand at December 31, 2001). These lending operations were undertaken under the same conditions as those applied to the non-related parties.

### b) Guarantees

The guarantees given to third parties amounted to R\$ 9,226 thousand (R\$ 6,058 thousand at December 31, 2001) 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\$ 1,186,416 thousand as of December 31, 2002 (R\$ 690,226 thousand as of December 31, 2001).

c) Insurance

The chattels and the real estate of the Bank are protected by insurance in the amount of R\$ 216,313 thousand (R\$ 222,334 thousand at December 31, 2001), as follows:

	<u>December 31, 2002</u>	<u>December 31, 2001</u>
Chattels	48,379	46,307
Properties	167,934	176,027

Fortaleza, January 16, 2003

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**BYRON COSTA DE QUEIROZ**  
PRESIDENT

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**OSMUNDO EVANGELISTA REBOUÇAS**  
DIRECTOR

---

**RAIMUNDO NONATO CARNEIRO SOBRINHO**  
DIRECTOR

---

**MARCELO PELÁGIO DA COSTA BOMFIM**  
DIRECTOR

---

**FRANCISCO EDUARDO DE HOLANDA BESSA**  
BUSINESS SUPERINTENDENT AND FINANCIAL CONTROLLER

---

**JOSÉ DIOGENES ROCHA SILVA**  
LEGAL SUPERINTENDENT

---

**IVO ADEMAR LEMOS – ACCOUNTANT**  
CRC-CE [ACCOUNTANTS REGIONAL COUNCIL – STATE OF CEARÁ] No. 10.074  
CPF [INDIVIDUAL TAXPAYER REGISTRATION OF THE MINISTRY OF FINANCE] - 274.930.407-53

**COMMENTS.: These Explanatory Notes constitute part of the Accounting Statements**

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## INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of  
Banco do Nordeste do Brasil S.A.  
Fortaleza-CE

1. We have audited the accompanying balance sheet of Banco do Nordeste do Brasil S.A. as of December 31, 2002 and 2001, and the related statements of income, changes in stockholders' equity, and changes in financial position for the six-month period ended December 31, 2002 and for the years then ended (all expressed in Brazilian Reais currency). These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements.
2. We conduct our audits in accordance with Brazilian generally accepted auditing standards which included: (a) planning of the engagement, considering the materiality of the balances, the volume of transactions and the accounting and internal control system of the Bank; (b) examination, on a test basis, of the evidence and records supporting the amounts and disclosures in the financial statements; (c) assessment of the accounting principles used and significant estimates made by management of the Bank, as well as the evaluation of the overall financial statement presentation.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Banco do Nordeste do Brasil S.A as of December 31, 2002 and 2001, and the results of its operations, changes in stockholders' equity and changes in its financial position for the six-month period ended December 31, 2002 and for the years then ended, in conformity with accounting practices established by Brazilian Corporate Law and the Central Bank of Brazil.
4. As explained in Note 4 to the financial statements, the Bank adopted the new criteria established by the Central Bank of Brazil for the recognition and valuation of marketable securities and derivative instruments.



5. These financial statements have been translated into English solely for the convenience of the readers.

Fortaleza, January 16, 2003

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes  
CRC-SP N° 11,609 - S/CE

Claudio Lino Lippi  
Accountant  
CRC-SP N° 97,866 - TPE S/CE

**Banco do  
Nordeste**

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

## **Accounting Statements**

**F N E**

**Position: 12.31.2002**

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

BALANCE SHEETS AS OF DECEMBER 31, 2002 AND 2001

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

	2002 R\$	2001 R\$		2002 R\$	2001 R\$
<b>ASSETS</b>			<b>LIABILITIES</b>		
CURRENT ASSETS	6,623,739	4,260,561	CURRENT LIABILITIES		526
AVAILABLE FUNDS	1,826,170	1,036,056	Other liabilities:		526
Funds to be allocated	1,650,267	850,102			
Funds allocated	175,903	185,954	NET EQUITY	12,654,818	9,844,541
INTERBANK ACCOUNTS	103,615	109,339	Transfers from the federal government		
Rural credit - Proagro	3,561	3,393	Current period	1,695,300	1,408,437
Onlendings	100,054	105,946	Prior years	7,061,899	5,653,462
LENDING OPERATIONS	4,693,954	3,115,166	Retained earnings	2,854,872	2,321,567
Financings	1,413,237	1,063,950	Net income for the year	1,042,747	461,075
Agribusiness financing	313,244	243,756			
Rural financing	2,967,473	1,807,460			
LONG-TERM ASSETS	6,031,079	5,584,506			
INTERBANK ACCOUNTS	3,110	1,048			
Rural credit - Proagro	2,887	1,048			
Onlendings	223				
LENDING OPERATIONS	6,017,882	5,569,789			
Financings	826,695	887,614			
Agribusiness financing	159,331	167,665			
Rural financing	5,031,856	4,514,510			
OTHER ASSETS	10,087	13,669			
Proagro securities	8,426	11,872			
Agricultural debt securities - TDA	2,768	2,898			
(Allowance for devaluation of agricultural debt securities)	(1,107)	(1,101)			
TOTAL	12,654,818	9,845,067	TOTAL	12,654,818	9,845,067

The accompanying notes are an integral part of these financial statements

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

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

	<u>2002</u>	<u>2001</u>
	<u>R\$</u>	<u>R\$</u>
INCOME		
Lending operations	1,107,197	645,891
Monetary adjustments on available funds	274,633	96,886
EXPENSES		
Administrative	(339,060)	(281,687)
Audit services	(23)	(15)
NET INCOME FOR THE YEAR	<u>1,042,747</u>	<u>461,075</u>

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

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

STATEMENTS OF CHANGES IN NET EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001  
(Expressed in thousands of Brazilian reais - R\$)

	TRANSFERS FROM THE FEDERAL GOVERNMENT	RETAINED EARNINGS	TOTAL
	<u>R\$</u>	<u>R\$</u>	<u>R\$</u>
BALANCES AT DECEMBER 31, 2000	5,653,462	2,365,410	8,018,872
Transfers from the federal government	1,408,437		1,408,437
Prior-year adjustments		(43,843)	(43,843)
Net income for the year		461,075	461,075
BALANCES AT DECEMBER 31, 2001	<u>7,061,899</u>	<u>2,782,642</u>	<u>9,844,541</u>
CHANGES FOR THE YEAR	<u>1,408,437</u>	<u>417,232</u>	<u>1,825,669</u>
BALANCES AT DECEMBER 31, 2001	7,061,899	2,782,642	9,844,541
Transfers from the federal government	1,695,300		1,695,300
Prior-year adjustments		72,230	72,230
Net income for the year		1,042,747	1,042,747
BALANCES AT DECEMBER 31, 2002	<u>8,757,199</u>	<u>3,897,619</u>	<u>12,654,818</u>
CHANGES FOR THE YEAR	<u>1,695,300</u>	<u>1,114,977</u>	<u>2,810,277</u>

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

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

STATEMENTS OF CHANGES IN FINANCIAL POSITION  
FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001  
(Expressed in thousands of Brazilian reais - R\$)

	<u>2002</u>	<u>2001</u>
	<u>R\$</u>	<u>R\$</u>
SOURCE OF FUNDS	<u>2,817,521</u>	<u>1,832,386</u>
DECREASE IN ASSETS:		
Interbank accounts	3,662	6,717
Other assets	3,582	
INCREASE IN LIABILITIES:		
Transfers from the federal government:		
Available funds	1,695,300	1,408,437
Prior-year adjustments	72,230	(43,843)
Net income for the year	1,042,747	461,075
APPLICATION OF FUNDS	<u>2,027,407</u>	<u>1,157,038</u>
INCREASE IN ASSETS:		
Lending operations	2,026,881	1,149,388
Other assets		6,386
DECREASE IN LIABILITIES:		
Other liabilities	526	1,264
INCREASE IN AVAILABLE FUNDS	<u><u>790,114</u></u>	<u><u>675,348</u></u>
CHANGES IN FINANCIAL POSITION	<u>790,114</u>	<u>675,348</u>
At beginning of the year	1,036,056	360,708
At end of the year	1,826,170	1,036,056

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

## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(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. FNE 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\$ 8,105,079 thousand, as of December 31, 2002 (R\$ 7,098,897 thousand, as of December 31, 2001). In operations contracted from December 1, 1998, the credit risk is 50% for FNE and 50% for Banco do Nordeste. According to article 9 of Law N° 10,464 of May 24, 2002, which concerns about conversion of rural financing to Constitutional Fund financing, it was converted for Fundo Constitucional de Financiamento do Nordeste – FNE (Northeast Constitutional Financing Fund), maintaining PRONAF financing conditions, 137,050 lending operations originally contracted by other resources to family farmers of R\$ 806,308 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.

## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

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

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.

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

	<u>2002</u> <u>R\$</u>	<u>2001</u> <u>R\$</u>
Income from lending operations	1,141,042	665,708
Principal Rebates - Law N° 10,193/2001	(16,504)	(13,475)
Waiver of amounts-Land Program-Interministerial Ordinance 546/Law 10,464/Res 3032	(6,895)	
Negative monetary adjustment	(4,529)	(3,051)
Discount on principal-Bank's operations-Law 10,464/Res 3032	(4,092)	
Discount on financial charges on PRONAF's Operations	(1,691)	
Operating provision expenses	(62)	
Waiver of amounts - Land Program - Interministerial Ordinance N° 218		(3,074)
Other expenses	(72)	(217)
T O T A L	<u>1,107,197</u>	<u>645,891</u>

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



## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

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).
- 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:

## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

- 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.

## 8. PRIOR-YEAR ADJUSTMENTS

The positive adjustment of R\$ 72,230 thousand relates to recalculation of charges, because of the changing from SAC method (Constant Amortization System) to PRICE method (Constant Installment System), over extended / guaranteed lending operations as foreseen in Law N° 9,138/95.

## 9. DETERMINATION OF RESULTS

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

The income for the year is calculated based on the income and expenses for the year, and is automatically adjusted to the net equity of the Fund.

## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

### 10. TAX EXEMPTION

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

Fortaleza, January 16, 2003

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**BYRON COSTA DE QUEIROZ**

**PRESIDENT**

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**OSMUNDO EVANGELISTA REBOUÇAS**

**DIRECTOR**

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**RAIMUNDO NONATO CARNEIRO SOBRINHO**

**DIRECTOR**

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**MARCELO PELÁGIO DA COSTA BOMFIM**

**DIRECTOR**

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**FRANCISCO EDUARDO DE HOLANDA BESSA**

**BUSINESS SUPERINTENDENT AND FINANCIAL CONTROLLER**

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**JOSÉ DIOGENES ROCHA SILVA**

**LEGAL SUPERINTENDENT**

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**IVO ADEMAR LEMOS – ACCOUNTANT**

**CRC-CE [ACCOUNTANTS REGIONAL COUNCIL – STATE OF CEARÁ] No. 10.074**

**CPF [INDIVIDUAL TAXPAYER REGISTRATION OF THE MINISTRY OF FINANCE] - 274.930.407-53**

**COMMENTS.: These Explanatory Notes constitute part of the Accounting Statements**

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## INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying balance sheet of Fundo Constitucional de Financiamento do Nordeste – FNE (managed by Banco do Nordeste do Brasil S.A.) as of December 31, 2002 and 2001, and the related statements of income, changes in net equity and changes in financial position for the years then ended (all expressed in Brazilian reais currency). These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. Except for the subject mentioned in Paragraph 3, we conducted our audits in accordance with generally accepted auditing standards in Brazil, which included: (a) planning of the engagement, considering the materiality of the balances, the volume of transactions and the accounting and internal control systems of the Fund; (b) examination, on a test basis, of the evidence and records supporting the amounts and disclosures in the financial statements; (c) evaluation of the significant accounting principles used and estimates made by management of the Fund, as well as the overall financial statement presentation.
3. As explained in Note 4, there have been performed studies, coordinated by the competent government instances, to establish an allowance for possible loss criteria on Constitutional Fund's net equity. Consequently, we were not able to make analyses to measure possible losses in the Fund's net equity for the dates-base under audit, once that only after the rules definition will be possible to make these evaluations.
4. In our opinion, except for possible effects resulted by the allowance for possible loss criteria on the Fund's net equity, 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 December 31, 2002 and 2001, and the results of its operations, the changes in its net equity and the changes in its financial position for the years then ended, in conformity with accounting practices adopted by Banco do Nordeste do Brasil S.A., the manager of the Fund, as described in Note 6.

5. These financial statements have been translated into English solely for the convenience of the readers.

Fortaleza, January 16, 2003

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes  
CRC-SP Nº 11,609 - S CE

Claudio Lino Lippi  
Accountant  
CRC-SP Nº 97,866 - TPE S/CE