

**Banco do  
Nordeste**

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# ACCOUNTING STATEMENTS

## Bank and FNE

POSITION: 06.30.2001

**Banco do  
Nordeste**

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## **Accounting Statements**

# Bank

**POSITION: 06.30.2001**

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

**BALANCE SHEETS AS OF JUNE 30, 2001 AND 2000**  
(Expressed in thousands of Brazilian reais - R\$)

	2001	2000		June 30, 2001	June 30, 2000
<b>ASSETS</b>			<b>LIABILITIES</b>		
CURRENT ASSETS	3,390,631	2,616,084	CURRENT LIABILITIES	2,965,412	2,336,806
CASH AND DUE FROM BANKS	30,245	28,419	DEPOSITS	626,444	750,922
SHORT-TERM INTERBANK INVESTMENTS	689,823	472,303	Demand deposits	141,183	98,872
Securities purchased under resale agreements	684,998	465,999	Savings deposits	300,878	334,309
Interbank deposits	4,825	6,304	Interbank deposits	20,247	28,184
MARKETABLE SECURITIES	490,416	232,757	Time deposits	164,136	289,557
Own portfolio	508,699	96,725	SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	40,157	24,148
Linked to Brazilian Central Bank		134,286	Third-party portfolio	40,157	24,148
Privatization certificates		9,329	RESOURCES FROM SECURITIES ISSUED	374,678	15,419
(Allowance for losses)	(18,283)	(7,583)	Eurobonds	374,678	15,419
INTERBANK ACCOUNTS	177,129	154,861	INTERBANK ACCOUNTS	16,982	29,076
Payments and receipts pending settlement	51,396	34,562	Receipts and payments pending settlement	16,982	29,076
Compulsory deposits			INTERDEPARTMENTAL ACCOUNTS	950	6,853
Brazilian Central Bank	62,209	58,726	Third-party funds in transit	1	24
National Treasury - rural credit	12,580	14,347	Internal transfers of funds	949	6,829
National Housing System -SFH	50,944	47,226	BORROWINGS	212,778	123,947
INTERDEPARTMENTAL ACCOUNTS	100		Borrowings in Brazil - governmental agencies	91,861	14,515
Internal transfers of funds	100		Foreign borrowings	120,917	109,432
LENDING OPERATIONS	1,707,479	1,314,031	ONLENDING IN BRAZIL - GOVERNMENTAL AGENCIES	962,794	847,467
Lending operations:			National Treasury	1,806	
Public sector	193,322	102,507	BNDES ( National Economic Development Bank)	255,384	182,651
Private sector	2,569,906	1,314,713	CEF (Federal Savings and Loans Bank)	6,742	17,131
(Allowance for lending losses)	(1,055,749)	(103,189)	FINAME (National Industrial Financing Authority)	165,693	199,483
OTHER CREDITS	289,407	407,557	Others	533,169	448,202
Receivables on guarantees honored		7	FOREIGN ONLENDINGS	24,710	20,783
Foreign exchange portfolio	78,132	34,325	Foreign onlendings	24,710	20,783
Income receivable	8,105	7,086	OTHER LIABILITIES	705,919	518,191
Negotiation and intermediation of securities	212	1,953	Collection of taxes and social contributions	9,920	10,289
Specific credits	23,331	32,964	Foreign exchange portfolio	44,215	8,266
Sundry	179,627	331,222	Social and statutory	2,859	7,257
OTHER ASSETS	6,032	6,156	Taxes and social security	42,732	212,670
Other assets	8,739	8,244	Negotiation and intermediation of securities	202	336
(Allowance for losses)	(2,954)	(2,736)	Financial and development funds	514,850	219,691
Prepaid expenses	247	648	Sundry	91,141	59,682
LONG-TERM ASSETS	5,138,869	5,508,523	LONG-TERM LIABILITIES	4,695,476	4,989,890
MARKETABLE SECURITIES	756,468	964,655	DEPOSITS	252,935	274,534
Own portfolio	761,273	949,927	Time deposits	252,935	274,534
Privatization certificates		18,588	RESOURCES FROM SECURITIES ISSUED	119,991	379,377
(Allowance for losses)	(4,805)	(3,860)	Eurobonds	119,991	379,377
INTERBANK ACCOUNTS	2,092	2,875	BORROWINGS		104,309
Compulsory deposits			Borrowings in Brazil - governmental agencies		73,427
National Treasury - rural credit	2,092	2,875	Foreign borrowings		30,882
LENDING OPERATIONS	3,918,162	3,839,438	ONLENDING IN BRAZIL - GOVERNMENTAL AGENCIES	3,499,291	3,571,877
Lending operations:			BNDES ( National Economic Development Bank)	1,354,112	1,240,289
Public sector	1,008,186	774,353	CEF (Federal Savings and Loans Bank)	24,440	12,874
Private sector	3,005,577	4,464,513	FINAME (National Industrial Financing Authority)	179,710	297,135
(Allowance for lending losses)	(95,601)	(1,399,428)	Others	1,941,029	2,021,579
OTHER CREDITS	462,147	701,555	FOREIGN ONLENDINGS	767,554	572,251
Receivables on guarantees honored		36,116	Foreign onlendings	767,554	572,251
Specific credits		263,618	OTHER LIABILITIES	55,705	87,542
Sundry	474,477	497,704	Taxes and social security	27,121	42,503
(Allowance for losses)	(12,330)	(95,883)	Financial and development funds	18,028	12,720
PERMANENT ASSETS	155,160	177,404	Sundry	10,556	32,319
INVESTMENTS	2,838	1,916	DEFERRED INCOME	86	233
Other investments	7,168	6,122	Deferred income	86	233
(Allowance for losses)	(4,330)	(4,206)	STOCKHOLDERS' EQUITY	1,023,686	975,082
FIXED ASSETS	138,475	142,693	Capital	936,000	891,000
Land and buildings in use	175,093	173,714	Local residents	936,000	891,000
Other fixed assets	48,833	45,230	Capital reserve	26,750	6,968
(Accumulated depreciation)	(85,451)	(76,251)	Revaluation reserve	52,558	55,289
DEFERRED CHARGES	13,847	32,795	Revenue reserve	6,271	1,453
Organization and expansion costs	110,261	109,349	Retained earnings	2,107	20,372
(Accumulated amortization)	(96,414)	(76,554)			
TOTAL	8,684,660	8,302,011	TOTAL	8,684,660	8,302,011

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, 2001 AND 2000

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

	<u>2001</u>	<u>2000</u>
REVENUE FROM FINANCIAL INTERMEDIATION	<u>597,600</u>	<u>635,016</u>
Lending operations	383,047	496,709
Marketable securities	133,367	113,269
Foreign exchange transactions	75,453	22,037
Compulsory deposits	5,733	3,001
EXPENSES ON FINANCIAL INTERMEDIATION	<u>(788,105)</u>	<u>(849,775)</u>
Deposits and securities sold under repurchase agreements	(162,975)	(107,231)
Borrowings and onlendings	(458,199)	(330,579)
Allowance for losses	(166,931)	(411,965)
INCOME (LOSS) FROM FINANCIAL INTERMEDIATION	<u>(190,505)</u>	<u>(214,759)</u>
OTHER OPERATING INCOME (EXPENSES)	<u>209,294</u>	<u>162,382</u>
Services rendered	72,223	76,944
Salaries, benefits, training and social security	(132,137)	(133,664)
Other administrative expenses	(95,745)	(86,388)
Tax expenses	(16,685)	(22,941)
Other operating income	463,936	675,141
Other operating expenses	(82,298)	(346,710)
OPERATING INCOME (LOSS)	<u>18,789</u>	<u>(52,377)</u>
NONOPERATING INCOME (LOSS)	1,410	(981)
INCOME (LOSS) BEFORE TAXES AND PROFIT SHARING	<u>20,199</u>	<u>(53,358)</u>
INCOME TAX AND SOCIAL CONTRIBUTION	<u>(11,525)</u>	<u>80,488</u>
NET INCOME	<u>8,674</u>	<u>27,130</u>
Number of shares (in millions)	<u>70,527</u>	<u>70,527</u>
Net income per 1,000 shares - R\$	<u>0.12</u>	<u>0.38</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, 2001 AND 2000  
(Expressed in thousands of Brazilian reais - R\$)

	<u>CAPITAL</u>		<u>CAPITAL RESERVE</u>	<u>REVALUATION RESERVE</u>	<u>REVENUE RESERVE</u>		<u>RETAINED EARNINGS</u>	<u>TOTAL</u>
	<u>CAPITAL</u>	<u>CAPITAL INCREASE</u>	<u>CAPITAL RESERVE</u>	<u>OWN ASSETS</u>	<u>LEGAL</u>	<u>STATUTORY</u>		
BALANCE AT DECEMBER 31, 1999	677,000	154,000	6,968	57,669	3,961	48	56,088	955,734
CAPITAL INCREASE								
Resources from reserves:								
Transfer for capital increase		60,000			(3,864)	(48)	(56,088)	-
OTHER:								
Revaluation reserve:								
Realization of reserve:								
Gross value				(9,841)			2,117	(7,724)
Taxes				4,715			(720)	3,995
(Provisional Ruling 1.991 - 16/2000 - Deferred income tax)				2,746				2,746
NET INCOME FOR THE PERIOD							27,130	27,130
Reserves					1,356		(1,356)	-
Dividends proposed							(6,799)	(6,799)
BALANCE AT JUNE 30, 2000	677,000	214,000	6,968	55,289	1,453	-	20,372	975,082
CHANGES FOR THE PERIOD	-	60,000	-	(2,380)	(2,508)	(48)	(35,716)	19,348
BALANCE AT DECEMBER 31, 2000	831,000	60,000	6,968	53,922	2,955	-	42,788	997,633
CAPITAL INCREASE								
Resources from reserves:								
Transfer for capital increase		45,000			(2,955)		(42,045)	-
OTHER:								
Revaluation reserve:								
Realization of reserve:								
Gross value				(2,067)			2,067	-
Taxes				703			(703)	-
Tax incentives deducted from income tax and FINOR (Northeast Investment I)			19,781					19,781
Donations received			1					1
NET INCOME FOR THE PERIOD							8,674	8,674
Reserves					433	5,838	(6,271)	-
Dividends proposed							(2,403)	(2,403)
BALANCE AT JUNE 30, 2001	831,000	105,000	26,750	52,558	433	5,838	2,107	1,023,686
CHANGES FOR THE PERIOD	-	45,000	19,782	(1,364)	(2,522)	5,838	(40,681)	26,053

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 SIX-MONTH PERIODS ENDED JUNE 30, 2001 AND 2000  
(Expressed in thousands of Brazilian reais - R\$)

	<u>2001</u>	<u>2000</u>
SOURCE OF FUNDS	<u>756,747</u>	<u>847,650</u>
NET INCOME FOR THE PERIOD - ADJUSTED	24,459	45,016
DEFERRED INCOME VARIATION	(17)	(328)
TAX INCENTIVES DEDUCTED FROM INCOME TAX AND NORTHEAST INVESTMENT FUND	19,781	
DONATIONS RECEIVED	1	
Reversal of taxes on revaluation reserve		(982)
FROM THIRD PARTIES:		
- INCREASE IN LIABILITIES:		
Securities sold under repurchase agreements	13,399	
Resources from securities issued	73,119	
Interbank and interdepartmental accounts	17,921	20,782
Borrowings and onlendings		239,691
Other liabilities		294,589
- DECREASE IN ASSETS:		
Short-term interbank investments	150,534	
Lending operations		226,285
Other credits	456,182	
Other assets	858	10
- SALE OF ASSETS AND INVESTMENTS:		
Other assets - Repossessed fixed assets	331	7,742
Fixed assets	160	14,706
Investments	19	129
APPLICATION OF FUNDS	<u>749,392</u>	<u>848,814</u>
DIVIDENDS AND BONUS PROPOSED	2,403	6,799
INVESTMENT IN:		
Other assets - Repossessed fixed assets	600	7,802
Fixed assets	4,997	2,263
Investments	151	
DEFERRED CHARGES	814	900
INCREASE IN ASSETS		
Short-term investments		110,304
Marketable securities	178,404	229,956
Interbank and interdepartmental accounts	15,297	26,193
Lending operations	294,395	
Other credits		434,123
DECREASE IN LIABILITIES		
Deposits	158,633	13,998
Securities sold under repurchase agreements		3,156
Resources from securities issued		13,320
Borrowings and onlendings	53,756	
Other liabilities	39,942	
INCREASE (DECREASE) CASH AND DUE FROM BANKS	<u>7,355</u>	<u>(1,164)</u>
CHANGES IN FINANCIAL POSITION (increase/decrease in cash and due from banks)	<u>7,355</u>	<u>(1,164)</u>
At beginning of period	22,890	29,583
At end of period	30,245	28,419
(1) STATEMENT OF ADJUSTED NET INCOME:		
NET INCOME	8,674	27,130
ADJUSTMENTS TO NET INCOME:		
Depreciation and amortization	15,315	17,325
Allowance for losses	470	561
ADJUSTED NET INCOME	<u>24,459</u>	<u>45,016</u>

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

NOTES TO THE FINANCIAL STATEMENTS  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2001 AND 2000  
(Amounts expressed in thousands 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 No. 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 clients follows up businesses implemented with technical and managerial visits and provision of funds if necessary.

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

Banco do Nordeste as a development agency manages, among other programs, the Northeast Investment Fund (FINOR) established by Decree-Law No. 1376 of December 12, 1974 and the Northeast Constitutional Financing Fund (FNE), in accordance with Brazilian Constitution and Law No. 7827 of September 27, 1989, with alterations introduced by Laws No. 9126 of November 10, 1995 and No. 10.177 of January 12, 2001 and Provisional Ruling No. 2196-1 of June 28, 2001.

2. PRESENTATION OF FINANCIAL STATEMENTS

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

Through Circular No. 2899 of March 1, 2000, the Brazilian Central Bank resolved to exclude the accounts representing past-due debts and maintain through August 31, 2000 the accounts representing doubtful debts. As a result of this resolution of the Central Bank, Banco do Nordeste made adjustments to its balance sheet as of June 30, 2000, transferring the amounts of doubtful debts to the captions "Lending operations" and "Other credits".

3. ACCOUNTING POLICIES

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> month salary, are recognized on a monthly basis;
- 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 realization value, which includes accrued interest and monetary and exchange variations, less deferred income.

The lending operations of Banco do Nordeste are contracted at normal market rates. An allowance for losses was recorded until February 29, 2000, in accordance with Resolution No. 1.748 of August 30, 1990 of the National Monetary Council and, beginning March 1, 2000, based on Resolution No. 2.682 of December 21, 1999, except for the operations described in item "c" below and in Note 4.c.ii.

c) Exception – Vote No. 142/94 of the National Monetary Council

On September 20, 1994, the National Monetary Council approved Vote No. 142/94, conferring a special accounting treatment to the lending operations contracted by Banco do Nordeste with the Mendes Júnior Group. These lending operations, made using funds provided by Banco do Brasil S.A., in accordance with Central Bank Circular No. 708/82, and internal resources from Banco do Nordeste, originated from decisions made since 1988, relating to the commercial relations between Brazil and Iraq and the implementation of United Nations Resolution No. 881 confirmed in Brazil by Decree No. 99.441/90.

Until all legal and administrative measures necessary to settle these pending matters are implemented, Banco do Nordeste is not required to:

- beginning July 1, 1994, establish allowances for losses;
- include these operations in the borrowing limit set forth in Resolution No. 1.559/88 of the National Monetary Council.

Banco do Nordeste will recognize the income from these operations only when effectively received.

Receivables from the Mendes Júnior Group as of June 30, 2001, classified as long-term assets are as follows:

BALANCE	INCOME NOT	NET	ALLOWANCES	ALLOWANCES
<u>DUE</u>	<u>APPROPRIATED</u>	<u>BALANCE</u>	<u>RECORDED</u>	<u>NOT RECORDED</u>

Past-due	2,463,363	2,376,656	86,707	9,581	77,126
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These credits are collateralized by mortgage, equipment, guarantees from directors of the Mendes Junior Group and pledge of receivables.

Banco do Nordeste, through its legal counsel, has defended its rights in any court to which the pending matters are referred.

The additional allowance, as stated above, is included in the adjustments to be made as presented in Note 4.c.ii to the financial statements.

#### d) 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;
- Fixed assets in use are stated at revaluation value;
- 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 assets are comprised mainly of expenses incurred for the acquisition and development of software and deferred charges authorized by Circulars N° 2582/95 and No. 2707/96 of the Brazilian Central Bank, plus amortization calculated using the straight-line method at a fixed annual rate of 20%.

#### e) 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.

#### f) Fund for Compensation of Salary Variations - FCVS

Recorded in assets are credits from Fund for Compensation of Salary Variations (FCVS), in the amount of R\$ 53,558 thousand (R\$ 49,492 thousand as of June 30, 2000). Of this total, there is an allowance for losses related to the VAF3 in the amount of R\$ 2,614 thousand (R\$ 2,266 thousand as of June 30, 2000).

On June 30, 1998, the Bank opted to renew the debt under the responsibility of the FCVS, as allowed by Provisional Ruling No. 1.520 of September 24, 1996 and its reissues, converted into Law No. 10.150 of December 21, 2000, under the following conditions: maturity in 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. PROGRAM FOR STRENGTHENING OF FEDERAL FINANCIAL INSTITUTIONS

On June 22, 2001, the Federal Government, through the Ministry of Finance, announced a program to adjust the equity of four federal banks – Caixa Econômica Federal, Banco do Brasil, Banco do Nordeste and Banco da Amazônia – to the legislation which determines the minimum capital requirements of financial institutions. With the adjustments, these four federal banks will become stronger and more competitive institutions.

The equity adjustment of the public institutions is necessary to comply with the bank rules established by the National Monetary Council (CMN) during the last years. This legislation reflects international standards established by the Basel Agreement and aims to assure the solidity of the financial system, essential to the social and economic development of the country. In this context, it should be noted that:

- a) Beginning 1995, Banco do Nordeste, anticipating the measures issued by the Federal Government, has been adopting measures with the objective of enhancing profitability. Among these measures, the significant ones are as follows:
  - i. modernization and redesign of processes, creating new instruments, such as Development Program, Development Agents, Guarantee Funds, Itinerant Agencies, Agro-Industrial Complex, Tourist Complex, Training, Study and Research Programs;
  - ii. implementation of a program of cutting administrative costs, which decreased from R\$ 557,402 thousand at June 30, 1994 to R\$ 231,990 thousand on June 30, 2001 (amounts monetarily adjusted by IGP-DI); and
  - iii. significant increase in the client portfolio from 46,000 clients in 1995 to 1,243 thousand productive agents in July 2001, with an increase in the average amount of lending operations from over R\$ 100 thousand in 1994 to R\$ 10.3 thousand in the period from 1995 to June 2001.
- b) In recognition of the efforts that have been made, the Program for Strengthening of the Federal Financial Institutions, in Banco do Nordeste's case, contemplates:
  - i. a capital increase of R\$ 2,100 million;
  - ii. exclusion of agricultural financing operations, as per Law 9.138/95, from the determination of credit risks, eliminating the need for capital and allowances, with the Federal Government assuming the risk of these operations, in the amount of R\$ 49,202 thousand, in accordance with Provisional Ruling 2.196-1 of June 28, 2001.
  - iii. transfer to the Bank of part of the resources from the FNE, to be applied in the Bank's own name, which can constitute stockholders' equity Reference Level II, in the proportion of up to 50% of stockholders' equity Reference Level I,

subject to authorization from the Brazilian Central Bank. In this manner, the Bank can continue operating with resources from the FNE, in its own name, in the Fund's name and supporting the financial funding from other sources which permit the inflow of additional resources in the region and the continuity of social and development policies; and

- iv. the Bank is free from the credit risks associated with the FNE operations contracted until November 30, 1998, in the amount of R\$ 6,776,671 thousand, which are totally assumed by the Fund, in accordance with Provisional Ruling 2.196-1 of June 28, 2001.
- c) The adjustments stipulated by the strengthening program will permit Banco do Nordeste to:
- i. adjust its equity structure to the levels required by the monetary authorities, in accordance with the definitions set forth in the Basel Agreement;
  - ii. reclassify the credits of own portfolio, including almost all the operations contracted before 1995 and receivables from the Mendes Junior Group, for which in accordance with the criteria established by Resolution No. 2.682/99 of the National Monetary Council a complement to the allowance in the amount of R\$ 1,372,178 thousand is necessary. It should be noted that the said operations are not generating income since September 2000 and therefore had no influence on the net income for the period;
  - iii. adjustments and revaluation of the allowance levels, in the amount of R\$ 425,000 thousand, relating to offset amounts of income and social contribution taxes paid due to the inflation adjustment (Summer Plan); recognition of tax contingencies; accrual for civil and labor suits and amortization of deferred expenses for organizational restructuring programs and treasury risks. In anticipation of the adjustment measures announced, Banco do Nordeste has already provisioned the amount of R\$ 14,807 thousand for treasury risks; and
  - iv. The FNE operations, contracted beginning December 1, 1998, which, due to their peculiarity, used different rules for recognition of risks, will have to follow the rules established by Resolution No. 2.682 of the National Monetary Council, with the credit risks being shared between the Fund (50%) and the Bank (50%). The new rules will result in an additional allowance estimated at R\$ 300,000 thousand for the Bank.

These measures, which are at the technical detailing stage, will permit the standardization of the accounting procedures, recognition of risks and compliance with the new prudence rules, without affecting the capital structure, and are in accordance with the adjustments already made by the Bank during the last years.

## 5. MARKETABLE SECURITIES

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Own Portfolio	<u>1,269,972</u>	<u>1,046,652</u>
Securities Issued by the National Treasury	1,073,261	868,828
Investments in Stocks	143,364	143,364
Other Assets	53,347	34,460
Linked to Brazilian Central Bank		<u>134,286</u>
Securities Issued by the National Treasury		134,286
Privatization Certificades		<u>27,917</u>
Allowance for Losses	<u>(23,088)</u>	<u>(11,443)</u>
TOTAL	<u>1,246,884</u>	<u>1,197,412</u>
CURRENT	490,416	232,757
LONG-TERM	756,468	964,655

## 6. LENDING OPERATIONS

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Loans and Discounted Drafts	937,552	1,087,604
Financings	2,260,952	2,026,466
Agricultural and Agro-industrial Financing	2,679,197	2,649,556
National Housing System	8,556	9,424
Infrastructure and Development Financing	890,734	883,036
Allowance for Operations Losses	(1,151,350)	(1,502,617)
TOTAL	<u>5,625,641</u>	<u>5,153,469</u>
CURRENT	1,707,479	1,314,031
LONG-TERM	3,918,162	3,839,438

## 7. CREDIT PORTFOLIO

### a) 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>
AGRICULTURE	119	-	151	1,982,191
INDUSTRY	281	190,184	248,627	1,505,834
GOVERNMENT	588,799	166,130	125,446	181,179
OTHER SERVICES	302,763	64,502	66,832	265,145
COMMERCE	331,143	52,117	59,685	17,452
FINANCIAL INTERMEDIARIES	10,695	7,920	4,540	25,239
HOUSING SYSTEM	-	10	12	18
CONSUMER CREDITS	<u>152,074</u>	<u>179,427</u>	<u>334,623</u>	-
TOTAL	<u>1,385,874</u>	<u>660,290</u>	<u>839,916</u>	<u>3,977,058</u>

### b) Detail by credit risk level:

<u>LEVEL RISK</u>	<u>CURRENT (1)</u>	<u>PAST-DUE</u>	<u>TOTAL</u>	<u>ALLOWANCE FOR LOSSES</u>
AA	2,943,695	-	2,943,695	-
A	1,309,711	-	1,309,711	6,548
B	63,364	106,931	170,295	1,703
C	74,757	179,913	254,670	7,640
D	141,001	792,039	933,040	93,304
E	54,748	88,053	142,801	42,840
F	12,435	137,331	149,766	74,883
G	4,455	70,206	74,661	52,263
H	<u>45,473</u>	<u>839,026</u>	<u>884,499</u>	<u>884,499</u>
TOTAL	<u>4,649,639</u>	<u>2,213,499</u>	<u>6,863,138</u>	<u>1,163,680</u>

(1) Include 14 days past-due credits.

After the reclassification set forth in Note 4.c.ii, the balance of lending operations by risk level is as follows:

<u>LEVEL RISK</u>	<u>CURRENT (1)</u>	<u>PAST DUE</u>	<u>TOTAL</u>	<u>ALLOWANCE FOR LOSSES</u>
AA	2,577,768	-	2,577,768	-
A	1,236,815	-	1,236,815	6,184
B	34,951	62,609	97,560	976
C	25,196	113,534	138,730	4,162
D	15,837	77,847	93,684	9,368
E	84,909	70,252	155,161	46,548
F	86,587	75,734	162,321	81,161
G	6,797	38,670	45,467	31,827
H	<u>580,779</u>	<u>1,774,853</u>	<u>2,355,632</u>	<u>2,355,632</u>
TOTAL	<u>4,649,639</u>	<u>2,213,499</u>	<u>6,863,138</u>	<u>2,535,858</u>

(1) Include 14 days past-due credits.

c) Allowance for the period

Opening balance at December 31, 2000	1,003,103
(+) Allowance	170,050
(-) Reversal of Allowances	3,119
(-) Credits classified as losses	<u>6,354</u>
(=) Closing balance at June 30, 2001	<u>1,163,680</u>

d) Allowance expenses

(+) Expenses on Allowances for Lending Operation Losses	164,450
(+) Expense on Allowance for Other Credits	5,600
(-) Reversal of Operating Allowances	<u>3,119</u>
(=) Balance at June 30, 2001	<u>166,931</u>

e) Credits written off as losses have been recovered in the period in the amount of R\$ 24,765 thousand (R\$ 2,271 thousand at June 30, 2000), and the renegotiations of operations totaled R\$ 3,223,805 thousand (R\$ 2,350,519 thousand at June 30, 2000).

## 8. OTHER CREDITS

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Receivables on Guarantees Honored	-	<u>36,123</u>
Foreign Exchange Portfolio	<u>78,132</u>	<u>34,325</u>
Exchange Credits	66,518	30,768
Other	11,614	3,557
Income Receivable	<u>8,105</u>	<u>7,086</u>
Negotiation and Intermediation of Securities	<u>212</u>	<u>1,953</u>
Specific Receivables	<u>23,331</u>	<u>296,582</u>
Operations Refinanced by the Federal Government	-	277,050
National Treasury - Rural Loans	23,331	19,532
Sundry	<u>654,104</u>	<u>828,926</u>
Tax Credits	474,477	475,846
Taxes and Contributions to be offset	20,102	244,723
Securities and Credits Receivable	56,399	36,724
Debtors for Guarantee Deposits	40,307	15,220
Options for Tax Incentives	26,748	6,968
Other	36,071	49,445
Allowances for other credit losses	<u>(12,330)</u>	<u>(95,883)</u>
TOTAL	<u>751,554</u>	<u>1,109,112</u>
CURRENT	289,407	407,557
LONG-TERM	462,147	701,555

## 9. LIABILITIES FOR BORROWINGS AND ONLENDING

The borrowings and onlending contracted within the country are subject to interest rates which vary from 0 to 11% per annum, with maturities of 4 to 20 years averaging at 9 years. The monetary adjustment, where applicable as per legal and contractual clauses, is calculated based on the official rates issued by the Brazilian Central Bank.

The borrowings from the BNDES are subject to interest based on the TJLP (long-term interest rate) plus average spread of 1% per annum, with an average maturity of 5 years.

The borrowings from the Fund for Workers Assistance (FAT), in the amount of R\$ 2,340,848 thousand, are subject to interest based on the SELIC rate, when not used in lending operations, and based on the TJLP after being released to the borrowers. The average maturity is 7 years with final payment in 2012. The free resources, monetarily adjusted at the SELIC rate, totaled R\$ 342,645 thousand. The net balance of contracted operations is R\$ 2,164,485 thousand and is comprised of: Industrial Loans – R\$ 750,770 thousand; Rural Loans – R\$ 1,409,248 thousand; Agro-Industrial Loans – R\$ 4,467 thousand.

The foreign liabilities are subject to interest rates which vary from 6.20% to 13.3682% per annum (including Income Tax), with an average maturity of 12 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 the official rates issued by the Brazilian Central Bank. The resources from Eurobonds issued are subject to interest rates which vary from 9.625% to 11.375% per annum, with maturity of the last “tranche” on March 7, 2005.

Loan assets are subject to the same conditions as loan liabilities, and are secured by guarantees and other collateral.

## 10. ONLENDING IN BRAZIL – GOVERNMENTAL AGENCIES

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
National Treasury	<u>1,806</u>	-
BNDES (National Economic Development Bank)	<u>1,609,496</u>	<u>1,422,940</u>
Poc	732,342	728,989
Credit Line for Investments in Rural Sector	524,040	429,762
Other Programs	353,114	264,189
CEF (Federal Savings and Loan Bank)	<u>31,182</u>	<u>30,005</u>
National Housing System	28,218	25,734
Other Programs	2,964	4,271
FINAME (Government Agency for Machinery and Equipment Financing)	<u>345,403</u>	<u>496,618</u>
Special Program	159,544	311,114
Automatic Programs	86,888	95,485
Other Programs	98,971	90,019
Other Institutions	<u>2,474,198</u>	<u>2,469,781</u>
FAT (Fund for Workers Assistance)	2,340,848	2,364,171
MEPF (Fund for Land and Land Reform – Land Bank)	60,677	16,425
Pilot Project to Support the Land Reform	52,959	48,610
Other Programs	<u>19,714</u>	<u>40,575</u>
TOTAL	<u>4,462,085</u>	<u>4,419,344</u>
CURRENT	962,794	847,467
LONG-TERM	3,499,291	3,571,877

## 11. OTHER OPERATING INCOME

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Management Fee/“Del Credere” from Funds Administered	352,079	307,835
Reversal of Operating Allowances/Risks of FNE Operations	45,734	-
Negative Exchange Rate Variations on Lendings	41,640	55,956
Income from Specific Credits	2,463	29,411
Reversal of Operating Allowances /Social Contribution	1,128	71,472
Operations Refinanced with the Federal Government	-	24,190
Reversal of Operating Allowances/Income Tax	-	153,641
Other	<u>20,892</u>	<u>32,636</u>
TOTAL	<u>463,936</u>	<u>675,141</u>

## 12. OTHER OPERATING EXPENSES

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Exchange Rate Variation on Exchange Portfolio	53,977	19,530
Negative Exchange Rate Variation on Lending	9,111	126,527
Waiver of Charges	3,149	39,878
Credit Risks on Operations of Administered Funds	-	75,336
Other	<u>16,061</u>	<u>85,439</u>
TOTAL	<u>82,298</u>	<u>346,710</u>

## 13. 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 No. 9.249/95, No. 9.430/96, and No. 9.532/97 and Provisional Ruling No. 2.113-32 of June 21, 2001.

The Income Tax Provision is calculated at the rate of 15% plus an additional 10% on net income adjusted as per law.

According to Provisional Ruling No. 2.113-32 of June 21, 2001, the Social Contribution tax rate is 9%, with regard to the taxable events occurred from February 1, 2000 to December 31, 2002.

Banco do Nordeste has been utilizing the credits derived from Income and Social Contribution Taxes overpaid due to the inflation adjustments derived from the Brazilian Economic Plan ("Summer Plan") in January 1989. The amount offset in the first half of 2001 relates only to the Social Contribution and is recorded as "OTHER CREDITS – Sundry", as shown below in thousands of reais, with an entry in liabilities as "OTHER LIABILITIES – Taxes and Social Security".

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Income Tax	-	153,641
Social Contribution	1,128	71,472

### b) Tax Credits

The tax legislation limits the deductibility of expenses for allowances for possible loan losses (recorded in accordance with Resolution No. 2.682/99 of the National Monetary Council), which will be deductible in future years when reversed.

Article 13, I of Law No. 9.249/95 does not allow the deduction, from the calculation of income tax and social contribution, of any provisions, except accruals for vacation pay and 13<sup>th</sup> month salary.

As the provisions have been added on a temporary basis and in accordance with Circular No. 2.746 of the Brazilian Central Bank, dated March 20, 1997, Resolution No. 273 of the Brazilian Securities and Exchange Commission, dated August 20, 1998, and Article 8 of Provisional Ruling No. 2.113-32, dated June 21, 2001, the Bank recorded a tax credit relating to income tax and social contribution on temporary differences, derived from nondeductible provisions for the first half of 2001.

On June 30, 2001, the Bank recorded an income and social contribution tax expense of R\$ 6,212 thousand, arising from the reversal of tax credits on temporary differences in the calculation basis of the said taxes, in accordance with Circular No. 2.746 of the Brazilian Central Bank, dated March 20, 1997, relating to the credit recorded on December 31, 2000.

The balance of the Income Tax (25%) and Social Contribution (9%) credits, recorded in "OTHER CREDITS - Sundry", is comprised of the following:

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Income Tax Credits	312,838	313,844
Social Contribution Credits	161,639	162,002

The adjustments stated in Note 4.c.iii will give rise to new tax credits that, according to the Brazilian Central Bank, cannot be accounted for.

c) PASEP

This contribution is calculated at the rate of 0.65% as per Article 1 of Provisional Ruling No. 2.113-32, dated June 21, 2001, observing the tax basis defined by Laws No. 9.701/98, 9.715/98 and 9.718/98.

d) COFINS

Law No. 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.

## 14. STOCKHOLDERS' EQUITY

### a) Capital

Capital amounts to R\$ 936,000 thousand, consisting of 70,526,564,308 book entry shares without par value, as follows:

<u>Stockholders</u>	<u>Common</u>	<u>Preferred</u>	<u>% Voting</u>	<u>% on total shares</u>
National Development Fund-FND	14,737,043,790	23,732,649,036	37.70	54.55
Federal government	20,201,938,198		51.68	28.64
Banco do Nordeste Employee Savings Fund	2,367,105,922	1,303,050,966	6.05	5.20
Social Participation Fund – FPS		619,224,173		0.88
Mutual Inv. Fund Shares	387,024,219		0.99	0.55
Investment Fund Foreign Capital Rally	14,585,400	152,022,100	0.04	0.24
Prin S.A.	32,855,630	97,364,341	0.08	0.18
Fundação Torrey	1,587,800	97,000,000		0.14
Ferdinando Gatti	38,880,600	52,402,200	0.10	0.13
Avelino de Almeida Neto	73,009,619		0.19	0.10
Others (37,464 stockholders)	<u>1,239,934,898</u>	<u>5,378,885,416</u>	<u>3.17</u>	<u>9.39</u>
TOTAL	<u>39,093,966,076</u>	<u>31,432,598,232</u>	<u>100.00</u>	<u>100.00</u>

### b) Revaluation Reserve

Relates to the revaluation of land, buildings and assets in use as of February 26, 1993. The realization for this period, in the amount of R\$ 1,364 thousand (R\$ 1,397 thousand as of June 30, 2000), was transferred to “Retained Earnings” and included in the calculation basis for dividend distribution.

### c) Dividends

The bylaws of Banco do Nordeste stipulate a minimum dividend of 25% of net income for the first half of the year to the stockholders, as an advance payment for dividends for the year.

Management has approved the Board of Directors' proposal for advance payment of dividends calculated as follows:

1. Net income for the period	8,674
2. Legal reserve	(433)
3. Revaluation reserve transferred to retained earnings	<u>1,364</u>
4. Calculation basis of dividends	<u>9,605</u>
5. Dividends proposed and provided - 25.0174%	<u>2,403</u>
- Dividends per lot of 1,000 common shares (0.0326 x 30,093,966.076)	1,274
- Dividends per lot of 1,000 preferred shares (0.0359 x 31,432,598.232)	1,129

Preferred shares are entitled to dividends 10% greater than the dividends on common shares, as determined by Law No. 6.404/76, article 17, clause “I”, amended by Law No. 9.457/97 and paragraph 1 of article 5 of the bylaws.

The dividends will be monetarily adjusted based on the SELIC rate, incurred from the balance sheet date to the date that they are effectively paid to the stockholders, in accordance with § 5 of article 1 of Decree No. 2.673 of July 16, 1998.

## 15. CONTINGENCIES

### a) Social Security Contributions

On July 25, 1996, Banco do Nordeste initiated a suit in the Federal Court in the state of Ceará seeking to annul the tax assessment issued by the National Institute of Social Security (INSS) in the amount of 19,862,855.29 UFIR (fiscal reference index).

As the Bank expected to obtain a favorable judgment in the case and based on the opinion of its legal advisors and the favorable precedent, no provision has been made. On February 22, 2000 the suit was judged favorably to the Bank. On June 19, 2001, the Federal Court of Appeals for the 5<sup>th</sup> Region denied INSS's petition for review and confirmed the dismissal of the tax assessment.

### b) Tax, Civil and Labor Contingencies

According to the evaluation by the Brazilian Central Bank, part of the offset Income Tax and Social Contribution, related to the Brazilian Economic Plan (“Summer Plan”) mentioned in Note 13<sup>a</sup>, may result in a tax contingency in the amount of R\$ 306,000 thousand. Additionally, according to Central Bank, the accruals for civil and labor contingencies need to be increased by R\$ 19,000 thousand.

The above amounts are included in the R\$ 425,000 thousand adjustments to be made, as stated in Note 4,c,iii.

## 16. 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>Net salary</u>	<u>Employees (1)</u>	<u>Directors (2)</u>
Maximum	8,198.60	8,410.50
Minimum	217.20	-
Average	2,621.64	-

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

(2) Includes R\$ 1,401.81 relating to the additional 20% for the position, as determined by the Ministry of Finance.

On June 30, 2001, Banco do Nordeste employed 3,714 people, against 3,945 as of June 30, 2000, showing a reduction of 5.86% in the number of employees.

## 17. 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 is the information regarding CAPEF:

### a) Cost

1<sup>st</sup> half of 2001: R\$ 11,429 thousand (R\$ 14,298 thousand in the first half of 2000).

### 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.

### d) Past-due obligations

None.

### e) Statutory obligations relating to equity deficiency

According to our legal advisors, Banco do Nordeste as sponsor is not directly liable for potential actuarial deficiencies in CAPEF, as set forth in Complementary Law No. 108/01.

f) Surplus and reasons

As of June 30, 2001, an actuarial surplus of R\$ 101,899 thousand (R\$ 136,280 thousand as of June 30, 2000) was recorded. Compared with the previous period, the decrease in the result was primarily due to, besides the market and participant biometrical variations, the adjustments for purposes of parity in contributions, which was achieved in December 2000, as required by Constitutional Amendment No. 20/98.

g) Contribution rates

To achieve parity in contributions made by the participants and the sponsors, as required by Constitutional Amendment No. 20/98, CAPEF made a gradual adjustment to the employer's contributions, achieving at the end of 2000 a ratio of 1:1.

Listed below are the average contribution rates in July 2000, after adjustments:

<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 No. 6.059 of November 3, 1999, 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, the Bank is no longer making contributions under this system. In the second system which cover pensioners with benefits effective 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.

The contributions paid by the participants and the sponsors, based on the salaries and benefits in effect in August 1997, will be monetarily adjusted using the variation of the IGP-DI (General Price Index - Internal Availability) at the time and basis established by the bylaws and general regulation.

h) List of Contributions (Participants/Sponsors)

As of June 30, 2001: 1:1 (1:1.12 as of June 30, 2000).

i) Actuarial Revaluation

The Ministry of Social Security, through Rulings No. 5.547 of July 30, 1999 and No. 6.059 of November 3, 1999, published in the Official Gazette of August 2, 1999 and November 5, 1999, respectively, approved the actuarial recovery plan of the CAPEF and the respective actuarial and financial statements for the period in which the entity was under its intervention.

At the end of the first half of 2001, the CAPEF complied with the provisions of Constitutional Amendment No. 20/98, with regard to the actuarial matching of the benefit plan and equal contributions.

## 18. FINANCIAL INSTRUMENTS

The Bank participates in operations involving financial instruments recorded in assets, liabilities or memorandum accounts.

The financial instrument assets and liabilities, with market values different from those recognized in the financial statements as of June 30, 2001, can be summarized as follows:

<u>Accounting Adjustments</u>	<u>Market Value</u>	<u>Book Value</u>
MARKETABLE SECURITIES		
Free		
Fixed income security		
Agrarian debt securities - TDA (a)	29	55
Nuclebras, Portobras and PROAGRO (a)	23,171	29,697
Variable income security		
Tax incentives – FINOR quotas (b)	1,955	6,377

- a) Market value calculated based on the average level of negative goodwill negotiated in the market.

- b) Market value calculated based on the BOVESPA (São Paulo Stock Exchange) average quotation.

The nominal values of the financial instruments (swap contracts) recorded in the memorandum account (global value) and the corresponding amounts of the asset and liability accounts (receivables/payables) as of June 30, 2001, are summarized as follows:

<u>ASSETS</u>	<u>GLOBAL VALUE</u>	<u>AMOUNT RECEIVABLE</u>
Post-fixed	106	34
Pre-fixed	<u>193</u>	<u>18</u>
T O T A L	<u>299</u>	<u>52</u>
<u>LIABILITIES</u>	<u>GLOBAL VALUE</u>	<u>AMOUNT RECEIVABLE</u>
Interfinancial market	<u>299</u>	<u>56</u>
T O T A L	<u>299</u>	<u>56</u>

The maturities of the swap contracts are:

From 181 to 360 days	138
Over 360 days	<u>161</u>
T O T A L	<u>299</u>

## 19. DEFERMENT OF EXPENSES

To adapt to the new financial system, using modern management techniques, with the objective of boosting the development of the region, Banco do Nordeste implemented, beginning 1995, a strategic restructuring program to serve the production sector, maintain self-supporting status and political and institutional relations.

The decision considered, among other factors, the authorization from the Brazilian Central Bank, through Circulars No. 2.582 and No. 2.707 of June 21, 1995 and July 31, 1996, respectively, for the Bank to defer expenses incurred for various projects, in the total of R\$ 108,529 thousand, all of them implemented until December 31, 1997.

The expenses are amortized using the straight-line method at a rate of 20% per annum (corresponding to 1.667% per month). Of the total spent on projects, the amount of R\$ 100,041 thousand has already been amortized, and the remainder is expected to be amortized by the first half of 2002 or upon the implementation of the measures stated in Note 4.c.iii.

## 20. NORTHEAST CONSTITUTIONAL FINANCING FUND – FNE

In accordance with Central Bank Circular 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”.

The allowance for possible losses on operations made with resources from FNE, contracted after December 1, 1998, is recorded by the Bank as accrual for contingent liabilities (R\$ 10,556 thousand as of June 30, 2001 and R\$ 32,319 thousand as of June 30, 2000), without reflecting the provisions of Resolution No. 2.682 regarding the Bank's risks, as described in Note 4.c.iv. This allowance was calculated as follows:

- a) for credits with maturities of up to 3 years, an allowance was provided for accounts that have been overdue for 180 days and, for credits with maturities of more than three years, for accounts which became delinquent for 360 days;
- b) the allowance is calculated based on the percentage of past-due amounts and adjusted at the rates applicable to receivables:

Credits with maturities of up to 3 years	Credits with maturities of more than 3 years
25% on the 180th day	20% on the 360th day
25% on the 240th day	20% on the 450th day
25% on the 300th day	20% on the 540th day
25% on the 360th day	20% on the 630th day
	20% on the 720 th day

- c) losses are recognized by credit, with different treatment for credits with maturities of up to three years and credits with maturities of more than three years;

Due to the new rules established by Provisional Ruling No. 2.196-1 of June 28, 2001, the criteria 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%.

In operations contracted until November 30, 1998, the “Del Credere” was reduced to zero, and in operations contracted after that date the “Del Credere” is 3% per annum, when the credit risk is 50%.

A management fee of 3% per annum 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.

To operate the FNE, the Bank uses its logistic structure, composed of installations, labor and computerized systems, and for this reason the consolidation of the Bank's and the Fund's accounts are shown below:

<u>A S S E T</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>	<u>L I A B I L I T I E S</u>	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Current and Long-term Assets	<u>1,794,160</u>	<u>15,198,068</u>	Current and Long-term Liabilities	<u>15,925,548</u>	<u>14,400,157</u>
Cash and due from Banks	30,245	28,419	Deposits	879,379	1,025,456
Short-term Interbank Investments	689,823	472,303	Securities sold under Repurchase Agreements	40,157	24,148
Marketable Securities	1,246,884	1,197,412	Resources from Securities Issued	494,668	394,796
Interbank Accounts	294,960	281,997	Interbank Accounts	16,982	29,076
Interdepartmental Accounts	100		Interdepartmental Accounts	950	6,853
Lending Operations	<u>13,772,840</u>	<u>12,100,849</u>	Borrowings	212,778	228,256
Lending Operations			Onlending in Brazil – Governmental Agencies	4,462,085	4,419,344
Public Sector	1,201,508	876,860	Foreign Onlending	792,264	593,034
Private Sector	13,733,238	12,758,924	Other Liabilities	<u>9,026,285</u>	<u>7,679,194</u>
(Allowance for Lending Operations Losses)	(1,161,906)	(1,534,935)	FNE	8,792,998	7,323,505
Other Credits	751,554	1,109,112	Other	233,287	355,689
Other Assets	7,754	7,976	Deferred Income	86	233
Permanent Assets	<u>155,160</u>	<u>177,404</u>	Stockholders' Equity	<u>1,023,686</u>	<u>975,082</u>
TOTAL	<u>16,949,320</u>	<u>15,375,472</u>	TOTAL	<u>16,949,320</u>	<u>15,375,472</u>

## 21. BASEL AGREEMENT

Until 1999 Banco do Nordeste presented capital adjustment rates above the minimum limits defined by the Basel Agreement and standards of the Brazilian Central Bank, with a credit operations-adjusted net equity ratio of more than 15%.

After the changes in the rules for calculating the capital adjustment rate, especially the resolution of the Central Bank of Brazil that the amounts of the operations of the Northeast Constitutional Financing Fund - FNE, corresponding to the risk assumed by the Bank, should observe the weighted risk method, the ratio decreased, closing at 7.44% at the end of 2000.

On June 22, 2001, through Provisional Ruling No. 2.155, reissued on June 28, 2001 under No. 2.196-1, the Federal Government determined, apart from those matters already described in Note 4, that no risk is to be assumed on the FNE operations contracted until November 30, 1998, thus eliminating the mandatory consideration of these credits for purposes of the Basel ratio, resulting in a substantial improvement in such ratio.

In this manner, considering the data presented in the balance sheet as of June 30, 2001, excluding the balance of the FNE operations contracted until November 30, 1998, the ratio is 14.02%, without including, however, the adjustments to provisions to be made in accordance with Note 4.

## 22. 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, 2001 and 2000. Transactions with companies controlled by the federal government – majority stockholder of the Bank – totaled R\$ 153,986 thousand (R\$ 311,436 thousand at June 30, 2000). These lending operations were contracted under the same conditions as those applied to the non-related parties.

### b) Guarantees

The guarantees given to third parties amounted to R\$ 6,018 thousand (R\$ 5,891 thousand at June 30, 2000) 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\$ 477,085 thousand as of June 30, 2001 (R\$ 5,841,831 thousand as of June 30, 2000). The reduction during the period was due to the application of Provisional Ruling No. 2.196-1 of June 28, 2001.

### c) Insurance

The chattels and the real estate of the Bank are protected by insurance in the amount of R\$ 199,201 thousand (R\$ 198,191 thousand at June 30, 2000), as follows:

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Chattels	23,779	23,090
Properties	175,422	175,101

Fortaleza, July 30, 2001.

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**BYRON COSTA DE QUEIROZ**

**PRESIDENT**

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**ERNANI JOSÉ VARELA DE MELO**

**DIRECTOR**

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**RAIMUNDO NONATO CARNEIRO SOBRINHO**

**DIRECTOR**

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**OSMUNDO EVANGELISTA REBOUÇAS**

**DIRECTOR**

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**MARCELO PELÁGIO DA COSTA BOMFIM**

**DIRECTOR**

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**FRANCISCO EDUARDO DE HOLANDA  
BESSA**

**BUSINESS SUPERINTENDENT AND FINANCIAL**

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**EVERALDO NUNES MAIA**

**LEGAL SUPERINTENDENT**

**CONTROLLER**

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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 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 June 30, 2001, and the related statements of income, changes in stockholders' equity, and changes in financial position for the six-month period then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conduct our audit 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. The allowance for lending losses recorded by the Bank as of June 30, 2001 amounts to R\$ 1,163,680 thousand. As discussed in Note 4 to the financial statements, there is a need for an additional allowance of R\$ 1,372,178 thousand, which includes the amount of R\$ 77,126 thousand as stated in Paragraph 8, with a consequent reduction in stockholders' equity. Such additional allowance will be made upon the implementation of the said Program for Strengthening of the Federal Financial Institutions that stipulates, among other measures, a capital increase in the amount of R\$ 2,100,000 thousand.
4. The allowance for losses on operations of Fundo Constitucional de Financiamento do Nordeste - FNE, recorded by the Bank amounts to R\$ 10,556 thousand. As discussed in Note 4 to the financial statements, the FNE operations contracted beginning December 1, 1998 that, due to their peculiarity, previously followed different rules for risk recognition, will follow the rules established by Resolution No. 2.682 of the Brazilian Central Bank, with the credit risk being shared between the Fund (50%) and the Bank (50%) and an additional allowance of R\$ 300,000 thousand being needed, with a consequent reduction in stockholders' equity. This additional allowance will be made upon the implementation of the said Program for Strengthening of the Federal Financial Institutions that stipulates, among other measures, a capital increase in the amount of R\$ 2,100,000 thousand.
5. As discussed in Note 4 to the financial statements, there is a need for an additional accrual for tax, civil and labor contingencies in the amount of R\$ 425,000 thousand, with a consequent reduction

in stockholders' equity. This additional accrual will be made upon the implementation of the said Program for Strengthening of the Federal Financial Institutions that stipulates, among other measures, a capital increase in the amount of R\$ 2,100,000 thousand.

6. As discussed in Note 19 to the financial statements, beginning 1995 the Bank implemented a strategic restructuring program, recording expenses incurred in deferred assets, based on Circulars 2.582/95 and 2.707/96 of the Brazilian Central Bank, which is in disagreement with the accounting principles established by Brazilian Corporate Law. As a result, net income for the period is understated by R\$ 8,766 thousand and deferred assets and stockholders' equity are overstated by R\$ 8,488 thousand and R\$ 5,602 thousand, respectively.
7. In our opinion, except for the effects of the matters stated in Paragraphs 3 to 6, the financial statements referred in Paragraph 1 present fairly, in all material respects, the financial position of Banco do Nordeste do Brasil S.A as of June 30, 2001, and the results of its operations, changes in stockholders' equity and changes in its financial position for the six-month period then ended, in conformity with the accounting practices established by Brazilian Corporate Law and the Brazilian Central Bank.
8. As explained in Note 3, item "c", to the financial statements, the Bank has receivables that have been overdue for many years and are not provided in the amount of R\$ 77,126 thousand. These amounts are given a special accounting treatment supported by Vote No. 142/94 of the National Monetary Council (CMN), which releases the Bank from establishing an allowance for credit losses.
9. The financial statements for the six-month period ended June 30, 2000 were audited by other independent auditors, who issued an opinion, dated July 27, 2000, containing exceptions regarding the matter discussed in Paragraph 6 and emphasis paragraphs regarding the renegotiation of financing contracts using resources of Fundo Constitucional de Financiamento do Nordeste – FNE, made until December 31, 1998, and the matter stated in Paragraph 8.
10. These financial statements have been translated into English solely for the convenience of the readers.

Recife, August 10, 2001

DELOITTE TOUCHE TOHMATSU  
Independent Auditors  
CRC-SP No. 11.609 – S PE

Claudio Lino Lippi  
Accountant  
CRC-SP No. 97.866 – TPE

**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: 06.30.2001**

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

BALANCE SHEETS AS OF JUNE 30, 2001 AND 2000

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

	<u>2001</u>	<u>2000</u>		<u>2001</u>	<u>2000</u>
	<u>R\$</u>	<u>R\$</u>		<u>R\$</u>	<u>R\$</u>
<u>ASSETS</u>			<u>LIABILITIES</u>		
CURRENT ASSETS	<u>3,372,915</u>	<u>1,644,313</u>	CURRENT LIABILITIES	<u>692</u>	<u>765</u>
AVAILABLE FUNDS	<u>507,684</u>	<u>213,140</u>	Other liabilities	<u>692</u>	<u>765</u>
Funds to be classified	<u>507,684</u>	<u>213,140</u>			
INTERBANK ACCOUNTS	<u>114,666</u>	<u>117,407</u>	STOCKHOLDERS' EQUITY	<u>8,792,998</u>	<u>7,323,505</u>
Rural resources - receivables from Proagro	<u>5,673</u>	<u>4,177</u>	Transfers from the federal government		
Receivables from onlending debtors	<u>108,993</u>	<u>113,230</u>	Current period	<u>681,258</u>	<u>596,617</u>
LENDING OPERATIONS	<u>2,750,565</u>	<u>1,313,766</u>	Prior years	<u>5,653,462</u>	<u>4,453,547</u>
Financings	<u>925,996</u>	<u>370,219</u>	Retained earnings	<u>2,336,820</u>	<u>2,074,697</u>
Ago-industrial financing	<u>212,279</u>	<u>136,828</u>	Net income for the period	<u>121,458</u>	<u>198,644</u>
Rural financing	<u>1,622,846</u>	<u>806,719</u>			
(Allowance for lending losses)	<u>(10,556)</u>				
LONG-TERM ASSETS	<u>5,420,775</u>	<u>5,679,957</u>			
INTERBANK ACCOUNTS	<u>1,073</u>	<u>6,855</u>			
Rural resources - receivables from Proagro	<u>1,073</u>	<u>6,855</u>			
LENDING OPERATIONS	<u>5,407,882</u>	<u>5,666,697</u>			
Financings	<u>917,076</u>	<u>1,251,661</u>			
Ago-industrial financing	<u>186,309</u>	<u>214,641</u>			
Rural financing	<u>4,304,497</u>	<u>4,200,395</u>			
OTHER ASSETS	<u>11,820</u>	<u>6,405</u>			
Proagro securities	<u>10,098</u>	<u>4,585</u>			
Agrarian debt securities - TDA	<u>1,722</u>	<u>1,820</u>			
TOTAL	<u><u>8,793,690</u></u>	<u><u>7,324,270</u></u>	TOTAL	<u><u>8,793,690</u></u>	<u><u>7,324,270</u></u>

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

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

STATEMENTS OF INCOME

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2001 AND 2000

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

	<u>2001</u>	<u>2000</u>
	<u>R\$</u>	<u>R\$</u>
INCOME		
From lending operations	218,621	301,613
From monetary adjustments on funds not used by the Bank	34,745	6,911
EXPENSES		
Administrative	(131,905)	(109,864)
Audit services	(3)	(16)
NET INCOME FOR THE PERIOD	<u>121,458</u>	<u>198,644</u>

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

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2001 AND 2000  
(Expressed in thousands of Brazilian reais - R\$)

	TRANSFERS FROM THE FEDERAL GOVERNMENT	CONTINGENCY RESERVE	RETAINED EARNINGS	TOTAL
	<u>R\$</u>	<u>R\$</u>	<u>R\$</u>	<u>R\$</u>
BALANCE AT DECEMBER 31, 1999	4,404,209	49,339	2,120,237	6,573,785
Transfers from the federal government	596,617			596,617
Contingency reserve	49,339	(49,339)		
Prior year adjustments			(45,541)	(45,541)
Net income for the period			198,644	198,644
BALANCE AT JUNE 30, 2000	<u>5,050,165</u>	<u></u>	<u>2,273,340</u>	<u>7,323,505</u>
CHANGES FOR THE PERIOD	<u>645,956</u>	<u>(49,339)</u>	<u>153,103</u>	<u>749,720</u>
BALANCE AT DECEMBER 31, 2000	5,653,462		2,365,410	8,018,872
Transfers from the federal government	681,258			681,258
Prior year adjustments			(28,590)	(28,590)
Net income for the period			121,458	121,458
BALANCE AT JUNE 30, 2001	<u>6,334,720</u>	<u></u>	<u>2,458,278</u>	<u>8,792,998</u>
CHANGES FOR THE PERIOD	<u>681,258</u>	<u></u>	<u>92,868</u>	<u>774,126</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 SIX-MONTH PERIODS ENDED JUNE 30, 2001 AND 2000  
(Expressed in thousands of Brazilian reais - R\$)

	<u>2001</u>	<u>2000</u>
	<u>R\$</u>	<u>R\$</u>
SOURCE OF FUNDS	<u>775,491</u>	<u>750,277</u>
DECREASE IN ASSETS:		
Interbank accounts	1,365	532
INCREASE IN LIABILITIES:		
Other liabilities		25
Transfers from the federal government		
Available funds	681,258	645,956
Contingency reserve		(49,339)
(Prior year adjustments)	(28,590)	(45,541)
Net income for the period	121,458	198,644
APPLICATION OF FUNDS	<u>628,515</u>	<u>546,912</u>
INCREASE IN ASSETS:		
Interbank accounts		4,859
Lending operations	622,880	542,053
Other assets	4,537	
DECREASE IN LIABILITIES:		
Other liabilities	1,098	
INCREASE IN AVAILABLE FUNDS	<u>146,976</u>	<u>203,365</u>
CHANGES IN FINANCIAL POSITION	<u>146,976</u>	<u>203,365</u>
At beginning of the six-month period	360,708	9,775
At end of the six-month period	507,684	213,140

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

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

## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2001 AND 2000

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

#### 1. HISTORY

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 Ruling N° 2,196-1 of June 28, 2001. The objective is to promote the social and economic development in the northeast region by means of financing programs for the production sectors, combined with regional development programs, giving special attention to mini and small rural producers, micro and small companies, basic food producers and irrigation projects, not authorizing the application of resource by lost funds regime.

#### 2. MANAGEMENT

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

#### 3. FNE INSPECTION

Banco do Nordeste permanently has statements of funds, applications and results of the Fund with month-end balances at the disposal of competent authorities.

#### 4. OPERATIONAL RISK

FNE is responsible for 100% of the credit risk associated with operations contracted until November 30, 1998. In operations contracted beginning December 1, 1998 the operational risk is 50% for FNE and 50% for Banco do Nordeste.

FNE is operational risk-free on funds transferred to the Bank, for the Bank to make in its own name lending operations.

## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

### 5. INDEPENDENT AUDITORS

FNE engages at its own expense independent auditors to certify its compliance with legal and constitutional provisions, 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 Accounting Chart 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>2001</u> <u>R\$</u>	<u>2000</u> <u>R\$</u>
Income from lending operations	229,503	311,241
Negative monetary adjustment	(2,153)	(3,066)
Waiver of amounts – Land Program – Interministerial Legislation N° 218	(1,752)	(4,324)
Waiver of amounts – Maturity Extension – Law N° 9,126 and 9,138	(69)	(609)
Operating provision expenses	(6,774)	(766)
Other expenses	(134)	(863)
T O T A L	<u>218,621</u>	<u>301,613</u>

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

Income and expenses are recognized on an accrual basis. Income from lending operations contracted until November 30, 1998 is also recorded in the FNE's income accounts, with the amount of default rate accounts being classified as deferred 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 contracts with the Bank, limited to 20% of the total transfers made by the National Treasury each year.

## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

### b) Current and long-term assets

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

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

Beginning January 14, 2000, the financial charges on financings 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 contracts 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 Ruling N° 2,196-1 of June 28, 2001, 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, to make lending operations subject to “Del Credere” of 6% per annum.

## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

- FNE shall not pay to the Bank management fee on onlending operation funds.

### c) Liabilities

Are stated at original amounts plus financial charges.

## 7. STOCKHOLDERS' EQUITY

The stockholders' equity of FNE has the following sources:

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

## 8. PRIOR YEAR ADJUSTMENTS

The negative adjustment of R\$ 28,590 thousand relates to recalculation of charges on lending operations, based on Law N° 10,177 of January 12, 2001.

## 9. DETERMINATION OF RESULTS

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

The income (loss) for the period is calculated based on the income and expenses for the period, and is automatically adjusted to the stockholders' equity of the Fund.

## 10. TAX EXEMPTION

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

## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

### 11. EFFECTS OF LAW Nº 10,177

The Fund management is in the process of renegotiating, extending and arranging with creditors the financing contracts using FNE's resources as per Law Nº 10,177 of January 12, 2001, which expired on July 14, 2001, and as per article 16 of Law Nº 9,126 of November 10, 1995, which will expire on December 28, 2001. Considering the current stage of negotiations, it was not possible to determine the effects on the financial statements of the necessary adjustments to the contracts.

Fortaleza, July 30, 2001.

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**BYRON COSTA DE QUEIROZ**  
**PRESIDENT**

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**ERNANI JOSÉ VARELA DE MELO**  
**DIRECTOR**

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**RAIMUNDO NONATO CARNEIRO SOBRINHO**  
**DIRECTOR**

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**OSMUNDO EVANGELISTA REBOUÇAS**  
**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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**EVERALDO NUNES MAIA**  
**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.**

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

INDEPENDENT AUDITORS' OPINION

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 June 30, 2001, and the related statements of income, changes in stockholders' equity and changes in financial position for the six-month period then ended (all expressed in Brazilian reais). 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 audit.
2. We conducted our audit 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 Fund; (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 Fund, 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 Fundo Constitucional de Financiamento do Nordeste - FNE as of June 30, 2001, the results of its operations, changes in its stockholders' equity and changes in its financial position for the six-month period then ended, in conformity with accounting practices established by Banco do Nordeste do Brasil S.A., the manager of the Fund, as set forth in the Accounting Chart of the Northeast Constitutional Financing Fund – COFIN.
4. As discussed in Note 11 to the financial statements, based on Law 10,177 of January 12, 2001 and subsequent legislation, the Fund's management is in the process of renegotiating, extending and restructuring the debt of financing contracts with resources from FNE. In view of the current stage of negotiations, it was not possible to determine the effects on the financial statements of the necessary adjustments to the contracts.
5. The financial statements for the six-month period ended June 30, 2000 were audited by other auditors, who issued an opinion, dated July 27, 2000, containing an emphasis paragraph concerning the matter mentioned in Paragraph 4.

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

Recife, August 10, 2001

DELOITTE TOUCHE TOHMATSU  
Auditores Independentes  
CRC-SP N° 11,609 – S PE

Claudio Lino Lippi  
Accountant  
CRC-SP N° 97,866 – TPE