

*Banco do
Nordeste*



ACCOUNTING STATEMENTS

Banco do Nordeste and FNE

Position: 06.30.2002

**Banco do
Nordeste**



Accounting Statements

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BANCO DO NORDESTE DO BRASIL S.A.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2002 AND 2001

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

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 organized as a mixed capital corporation and its mission is to promote the sustainable development of the Northeast Region of Brazil, providing financial resources and technical 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 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 agency 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 (Fundo Constitucional de Financiamento do Nordeste-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).

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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 13th salary, are recognized on a monthly basis. Allowances for civil and labor contingencies are recognized based on an estimate of the amount to be disbursed and on the probability of loss to the Bank;
- Accruals for retirement benefits are recognized in conformity with Resolution N° 371 of December 13, 2000 of the Brazilian Securities and Exchange Commission (CVM);
- Assets are market to market or recognized at realizable values 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 (CMN).

As a result of the change in accounting criterion for marketable securities, as introduced by Central Bank Circulars N° 3,068 and N° 3,129, the Bank's liquidity ratio changed from 1.14, as of June 30, 2001, to 0.75, as of June 30, 2002. Thus available-for-sale and held-to-maturity securities were recorded as current and noncurrent depending on when they are expected to be sold or mature. Despite this accounting classification, the securities 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 buildings 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 recorded in current and long-term liabilities depending on when they will be used, considering cash disbursement forecast for the twelve-months subsequent to 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\$ 24,322 thousand (R\$ 53,558 thousand as of June 30, 2001). Of this total, there is an allowance for losses related to the VAF3 in the amount of R\$ 2,912 thousand (R\$ 2,614 thousand as of June 30, 2001).

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 year for operations using resources from FGTS (Government Severance Indemnity Fund for Employees) and 6.17% per year for operations using resources from savings accounts.

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4. MARKETABLE SECURITIES

According to Central Bank Circular N° 3,068 of November 8, 2001, financial institutions classified, as of June 30, 2002, all its marketable securities, into the following three categories: Trading, Available-for-Sale or Held-to-Maturity securities.

The Bank classified securities, which were already recorded at market value as Trading and Available-for-Sale securities, as follow:

TYPE	<u>TRADING SECURITIES</u>		
	<u>Cost value</u>	<u>Market value</u>	<u>Maturity</u>
<u>FIXED-INCOME SECURITIES</u>			
National Treasury Notes	120,755	121,005	2002 to 2003
Central Bank Notes	<u>389,567</u>	<u>383,533</u>	2002 to 2003
TOTAL	<u>510,322</u>	<u>504,538</u>	

The classification in trading securities category did not impact the income for the period, because those securities were already recorded at market value, through an allowance for losses.

TYPE	<u>AVAILABLE-FOR-SALE SECURITIES</u>		
	<u>Cost value</u>	<u>Market value</u>	<u>Maturity</u>
<u>FIXED-INCOME SECURITIES</u>			
Financial Treasury Bill	<u>74,279</u>	<u>59,151</u>	
Agricultural Debt Securities	30,752	30,261	2003 to 2008
Government Securities – Other	304	228	2002 to 2011
Fixed-Income Securities – Other	37,164	23,753	2002 to 2005
INVESTMENT FUND QUOTES	6,059	4,909	2027
Social Development Fund (FDS)	<u>529</u>		No maturity
<u>VARIABLE-INCOME SECURITIES</u>			
Other Fiscal Incentives (FINOR)	529	137,515	
Equity Securities	146,325	1,849	No maturity
PLEDGED SECURITIES	139,948	135,666	No maturity
TOTAL	<u>930</u>	<u>196,666</u>	2002 to 2005

The classification of securities in the Available-for-Sale category resulted in an amount of R\$ 25,395 thousand being recorded as “Market value adjustment – marketable securities and derivative instruments” in stockholders’ equity. Of this amount, R\$ 19,418 thousand relates to the allowance for losses recorded in the December 31, 2001 financial statements, which was properly reversed against retained earnings or accumulated deficit, while R\$ 5,977 thousand relates to the devaluation recorded in the first half of 2002, which was reversed against the “allowance for losses expense”. The adjustment recorded, net of taxes (R\$ 8,634 thousand), amounts to R\$ 16,761 thousand.

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

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

Accordingly, the Bank classified securities in the “Held-to-maturity” category, as follows:

TYPE	<u>HELD-TO-MATURITY SECURITIES</u>		
	<u>Cost value</u>	<u>Market value</u>	<u>Maturity</u>
FIXED-INCOME SECURITIES			
Financial Treasury Bills	4,588,648	4,418,210	2003 to 2008
National Treasury Bills	102	100	2002
National Treasury Notes NTN-P	<u>215</u>	<u>215</u>	2012 to 2014
TOTAL	<u>4,588,965</u>	<u>4,418,525</u>	

The securities classified in the “Held-to-maturity” category did not impact the Bank’s income for the period or its stockholders’ equity because, according to Central Bank Circular N° 3,068, these securities are stated at cost.

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

5. CREDIT PORTFOLIO AND ALLOWANCE FOR LENDING LOSSES

a) Composition of the Credit Portfolio:

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Depositors advances	207	682
Loans	759,720	923,982
Discounted drafts	6,462	12,889
Financing	1,640,563	1,883,840
Export financing	18,577	26,222
Foreign currency financing	8,108	35,005
Government refinancing	347,662	315,885
Rural and agribusiness financing	2,541,613	2,679,197
Real estate investments	7,355	8,555
Infrastructure and development financing	<u>912,500</u>	<u>890,734</u>
LENDING OPERATIONS	6,242,767	6,776,991
Guarantees honored	39	
Income receivable on advances	6,545	6,773
Income receivable from financed import	29	13
Debtors of securities and assets purchases	6,453	5,344
Securities and credits receivable	41,350	56,399
Advance upon exchange contracts (*)	<u>28,722</u>	<u>17,618</u>
OTHER	<u>83,138</u>	<u>86,147</u>
TOTAL	<u>6.325,905</u>	<u>6,863,138</u>

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

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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>OVER 3 YEARS</u>
RURAL	582,109	245,061	553,841	1,188,531
INDUSTRY	686,014	228,832	249,391	306,315
GOVERNMENT	38,626	69,508	162,636	982,125
OTHER SERVICES	126,803	43,256	126,558	162,909
COMMERCE	249,441	76,422	110,417	81,385
FINANCIAL INTERMEDIARIES	3	11,502	33,602	45
HOUSING SYSTEM	1,441	1,401	3,030	1,288
CONSUMER CREDITS	<u>1,580</u>	<u>559</u>	<u>1,198</u>	<u>76</u>
TOTAL	<u>1,686,017</u>	<u>676,541</u>	<u>1,240,673</u>	<u>2,722,674</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	2,303,481		2,303,481	
A	1,159,508		1,159,508	5,895
B	27,923	72,822	100,745	1,311
C	21,919	88,745	110,664	4,016
D	13,316	182,911	196,227	23,256
E	90,947	126,934	217,881	67,241
F	69,994	165,686	235,680	120,190
G	6,580	153,937	160,517	130,799
H	<u>153,816</u>	<u>1,687,386</u>	<u>1,841,202</u>	<u>1,841,202</u>
TOTAL	<u>3,847,484</u>	<u>2,478,421</u>	<u>6,325,905</u>	<u>2,193,910</u>

(1) Include 14 days past-due credits.

d) Allowance for the period

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Opening balance	2,153,070	1,003,103
(+) Allowance	224,657	166,931
(-) Credits classified as losses	<u>(183,817)</u>	<u>(6,354)</u>
(=) Closing balance	<u>2,193,910</u>	<u>1,163,680</u>

e) Allowance expenses

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
(+) Allowances for loan losses	200,721	164,450
(+) Allowance for other credit losses	24,280	5,600
(-) Reversal of operating allowances	<u>(344)</u>	<u>(3,119)</u>
(=) Closing balance	<u>224,657</u>	<u>166,931</u>

f) Credits written off as losses have been recovered in the period in the amount of R\$ 50,050 thousand (R\$ 24,765 thousand at June 30, 2001), and renegotiated credits totaled R\$ 476,599 thousand (R\$ 3,233,805 thousand at June 30, 2001).

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6. OTHER CREDITS

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Receivables for guarantees honored	39	
Foreign exchange portfolio	<u>302,817</u>	<u>78,132</u>
Unsettled exchange purchases	187,358	66,518
Rights on foreign exchange sales	108,886	4,870
Other	6,573	6,744
Income receivable	<u>10,104</u>	<u>8,105</u>
Negotiation and intermediation of securities	<u>46</u>	<u>212</u>
Specific credits	<u>26,541</u>	<u>23,331</u>
National Treasury – rural credit	26,541	23,331
Sundry	<u>615,899</u>	<u>654,104</u>
Tax credits – temporary differences	425,882	474,477
Tax credits – marketable securities and derivative instruments	12,671	
Debtors for guarantee deposits	51,657	40,307
Taxes and contributions to be offset	19,165	20,102
Options for fiscal incentives	26,748	26,748
Security and credits receivable	41,350	56,399
Other	38,426	36,071
Allowances for other losses	<u>(58,547)</u>	<u>(12,330)</u>
TOTAL	<u>896,899</u>	<u>751,554</u>
CURRENT	392,600	289,407
LONG-TERM	504,299	462,147

7. LIABILITIES FOR BORROWINGS AND ONLENDING

Domestic borrowings and onlendings are subject to interest rates which vary from 0 to 10% per year, with maturities of 4 to 20 years averaging at 8 years. The monetary adjustment, where applicable as per legal and contractual provisions, is calculated based on the official rates published 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 year, with an average maturity of 5 years.

The borrowings from the Fund for Workers Assistance (FAT), in the amount of R\$ 2,292,366 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 6 years with final payment in 2012. The free resources, monetarily adjusted at the SELIC rate, totaled R\$ 401,809 thousand.

Foreign borrowings are subject to interest rates which vary from 6.00% to 11.4286% per year (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 provisions, is calculated based on the official rates issued by the Central Bank of Brazil. Resources from Eurobonds issued are subject to interest rates which vary from 9.625% to 11.375% per year, with the maturity of the last “tranche” due on March 7, 2005.

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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. DOMESTIC ONLENDING – GOVERNMENT INSTITUTIONS

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
National Treasury	<u>1,974</u>	<u>1,806</u>
BNDES (National Economic and Social Development Bank)	<u>1,583,683</u>	<u>1,609,496</u>
Poc	637,638	732,342
Credit Line for Investments in Rural Sector	506,866	524,040
Other Programs	439,179	353,114
CEF (Federal Savings and Loan Bank)	<u>1,918</u>	<u>31,182</u>
FINAME (Government Agency for Machinery and Equipment Financing)	<u>213,905</u>	<u>345,403</u>
Special Program	38,930	159,544
Automatic Program	82,732	86,888
Agricultural Programs	21,863	22,057
Other Programs	70,380	76,914
Other Institutions (*)	<u>204,126</u>	<u>133,350</u>
Pilot Project to Support the Land Reform	56,945	52,959
MEPF (Fund for Land and Land Reform – Land Bank)	108,171	60,677
EMBRATUR/FUNGETUR	9,867	12,136
Land Bank – Rural Poverty Combat	22,216	
Other Programs	<u>6,927</u>	<u>7,578</u>
TOTAL	<u>2,005,606</u>	<u>2,121,237</u>
CURRENT	398,060	435,574
LONG-TERM	1,607,546	1,685,663

(*) See Note 9.

9. DEPOSITS

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
DEMAND DEPOSITS	<u>133,396</u>	<u>141,183</u>
Investment deposits	62,190	74,648
Foreign currency deposits	36,510	19,215
Government deposits	17,604	29,995
Linked deposits	6,733	8,124
Other	10,359	9,201
SAVINGS DEPOSITS	<u>305,758</u>	<u>300,878</u>
Free savings deposits – Individual	231,277	237,413
Free savings deposits – Corporate	74,379	63,433
Other	102	32
INTERBANK DEPOSITS	<u>3,541</u>	<u>20,247</u>
TIME DEPOSITS	<u>2,631,581</u>	<u>2,757,919</u>
Time deposits	328,695	409,508
Interest-bearing judicial deposits	10,520	7,562
Special deposits obligations and Funds and Programs		
Interest-bearing special deposits programs (*)	<u>2,292,366</u>	<u>2,340,849</u>
TOTAL	<u>3,074,276</u>	<u>3,220,227</u>
CURRENT	979,796	1,153,664
LONG-TERM	2,094,480	2,066,563

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(*) Beginning December 2001, Fund for Workers Assistance (FAT) resources were reclassified from “Domestic Onlending - Other Government Institutions” account to “Interest-bearing special deposits” account, so as to conform the Bank’s accounting records to those of other financial institutions, having the same resources. For comparative purposes, balances at June 30, 2001 have been reclassified.

10. OTHER LIABILITIES

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
COLLECTED TAXES AND OTHER	<u>29,960</u>	<u>9,920</u>
Federal taxes received	22,990	2,150
Proagro resources	6,588	7,160
Other	382	610
FOREIGN EXCHANGE PORTFOLIO	<u>241,574</u>	<u>44,215</u>
Exchange purchases liabilities	139,854	56,884
Exchange sales payable	130,366	4,888
(Advance on exchange contracts)	(28,722)	(17,618)
Other	76	61
SOCIAL AND STATUTORY TAXES AND SOCIAL SECURITY	<u>292</u>	<u>2,859</u>
Allowance for tax contingencies	604,030	27,044
Allowance for deferred income tax	29,246	27,075
Other	8,670	15,734
NEGOTIATION AND INTERMEDIATION OF SECURITIES		<u>202</u>
FINANCIAL AND DEVELOPMENT FUNDS	<u>1,880,263</u>	<u>532,878</u>
Northeast Constitutional Financing Fund (FNE)	1,857,388	513,064
Other	22,875	19,814
SUNDRY	<u>350,829</u>	<u>101,697</u>
Allowance for contingent liability	305,662	22,948
Allowance for future payments	27,855	21,969
Other	17,312	56,780
TOTAL	<u>3,144,864</u>	<u>761,624</u>
CURRENT	1,341,880	705,919
LONG-TERM	1,802,984	55,705

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11. OTHER OPERATING INCOME / EXPENSES

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
SERVICE INCOME	<u>47,073</u>	<u>72,223</u>
Management fee – investment funds	30,273	51,298
Other	16,800	20,925
PERSONNEL EXPENSES	<u>(133,307)</u>	<u>(132,137)</u>
Salary	(88,226)	(84,426)
Social contributions	(33,326)	(38,459)
Other	(11,755)	(9,252)
OTHER ADMINISTRATIVE EXPENSES	<u>(119,779)</u>	<u>(95,745)</u>
Data processing	(18,972)	(16,997)
Advertising and publicity	(15,724)	(8,991)
Third-party services	(13,052)	(9,784)
Rent, material, water, electricity and gas	(9,677)	(8,899)
Travel	(7,035)	(7,001)
Communication	(6,914)	(5,660)
Depreciation and amortization	(6,305)	(15,315)
Maintenance and conservation of assets	(5,453)	(4,887)
Security and transportation	(5,442)	(5,383)
Promotion, Public Relation and Publication	(2,764)	(2,398)
Financial system services	(1,827)	(1,537)
Specialized services	(1,380)	(799)
Other	(25,234)	(8,094)
TAX EXPENSES	<u>(24,716)</u>	<u>(16,685)</u>
Tax for Social Security Financing (COFINS)	(18,484)	(11,961)
Service Tax (ISS)	(423)	(551)
Other	(5,809)	(4,173)
OTHER OPERATING INCOME	<u>390,349</u>	<u>463,936</u>
Management fee /“Del Credere” from funds administered	190,416	352,078
Negative exchange rate variations on lending operations	47,965	41,641
Reversal of operating allowances/risks of FNE operations	87,305	45,734
Expense and contribution recovery	2,023	4,711
Specific credits	1,694	2,463
Reversal of operating allowances / social contribution	2,456	1,128
Other	58,490	16,181
OTHER OPERATING EXPENSE	<u>(114,561)</u>	<u>(82,298)</u>
Exchange rate variations on foreign exchange portfolio	(37,993)	(53,977)
Negative exchange rate variations on lending operations	(16,101)	(9,111)
Discounts granted on renegotiation/lending operations	(7,202)	
Waiver of charges		(3,149)
Tax risks	(27,156)	(2)
Retirement benefits obligations (CVM N° 371)	(17,669)	
Post-retirement health care benefits (CVM N° 371)	(2,027)	
Other	<u>(6,413)</u>	<u>(16,059)</u>
TOTAL	<u>45,059</u>	<u>209,294</u>

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12. TAXES AND CONTRIBUTIONS

a) Income and Social Contribution Taxes

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°s 9,249/95, 9,430/96, and 9,532/97 and Provisional Measure N° 2,158-35 of August 24, 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 Measure N° 2,158-35 of August 24, 2001, the social contribution tax rate is 9%.

b) Tax Credits - Temporary Differences

Under prevailing tax legislation expenses for allowances for lending losses (recorded in accordance with CMN Resolution N° 2,682/99) are 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 13th salary.

As the provisions have been added on a temporary basis and in accordance with Central Bank Circular N° 2,746, dated March 20, 1997, CVM Resolution N° 273, dated August 20, 1998, and Article 8 of Provisional Measure N° 2,158-35 of August 24, 2001, the Bank recorded until April 2001, a tax credit relating to income and social contribution taxes on temporary differences.

In the first half of 2002, the Bank recorded an income and social contribution taxes of R\$ 21,225 thousand, arising from the reversal of tax credits on temporary differences in the calculation basis of the said taxes, in accordance with Central Bank Circular N° 2,746 of March 20, 1997, relating to the credit recorded as of December 31, 2001.

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

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Income tax credits	277,106	312,838
Social contribution credits		
Temporary differences	99,758	112,621
Article 8, Provisional Measure 2,113-32/2001	49,018	49,018

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Deferred income and social contribution taxes assets will be realized as temporary differences, on which they are calculated, are reversed or become deductible. Based on a technical study which contemplates the expectation of future positive results and consequent tax obligations, as per article 6, sole paragraph, Law N° 9,249/95, tax credits are expected to be realized as follows:

<u>Period</u>	<u>Income Tax</u>	<u>Social Contribution</u>	<u>Total</u>
2002	19,402	6,985	26,387
2003	31,927	11,494	43,421
2004	31,284	11,262	42,546
2005	31,597	11,375	42,972
2006	31,912	11,489	43,401
2007	32,232	11,603	43,835
2008	32,554	11,719	44,273
2009	32,880	11,837	44,717
2010	<u>33,318</u>	<u>11,995</u>	<u>45,313</u>
TOTAL	<u>277,106</u>	<u>99,759</u>	<u>376,865</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°s 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.

13. STOCKHOLDERS' EQUITY

a) Capital

Capital amounts to R\$ 3,492,249 thousand (June 30, 2001: R\$ 936,000 thousand), represented by 870,019,022,574 (June 30, 2001: 70,526,564,308) book entry shares without par value, as follows:

<u>Stockholders</u>	<u>Common shares</u>	<u>Preferred shares</u>	<u>% Voting capital</u>	<u>% on total shares</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
Other (37,468 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>

BANCO DO NORDESTE DO BRASIL S.A.

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 common share 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 has been submitted to the approval of the Central Bank of Brazil.

b) Revaluation Reserve

This reserve was recorded on February 26, 1993 for the revaluation of property and equipment in use. The realization for this period, in the amount of R\$ 1,337 thousand (R\$ 1,364 thousand as of June 30, 2001), was transferred to "Retained earnings".

c) Dividends and Revenue Reserve

Although the Bank has reported a profit of R\$ 25,548 thousand as of June 30, 2002, it neither recorded profit reserves nor distributed dividends to its stockholders, because of the negative balance in "Retained earnings (accumulated deficit)" arising from adjustments required by the Program for Strengthening of Federal Financial Institutions, effected on December 31, 2001, as a result of the capital increase on December 28, 2001. The Bank's strengthening assured the Bank to conform its equity structure to the levels required by the Monetary Authority, comply with the definitions of Basel accord and the changes of risk rating criteria introduced by Resolution N° 2,682/99, and all requirements of the Central Bank of Brazil as well.

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 the principle of capital integrity.

14. CONTINGENCIES

Tax, Civil and Labor Contingencies – In the first half of 2002, the Bank recorded allowances of R\$ 26,616 thousand, totaling R\$ 604,030 thousand, related to offset income tax and social contribution amounts, paid due to inflation effects (Plano Verão) and other tax contingencies recognized. The Bank recorded an allowance of R\$ 55,472 thousand, for civil and labor contingencies.

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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	2,909.31	

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

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

As of June 30, 2002, Banco do Nordeste employed 3,546 people against 3,714 as of June 30, 2001, with a reduction of 4.5% in the number of employees.

16. SUPPLEMENTAL 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 about CAPEF:

a) Cost

1st half of 2002: R\$ 12,399 thousand (R\$ 11,429 thousand in the first half of 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, disability and retirement age.
- participants' dependents with supplemental pension and annuity benefits.

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The federal intervention in CAPEF, 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 the immediate revision of all benefits already granted and applicable rules to the benefits granted after the intervention process. As a result, the Entity reached break-even of its actuarial accounts. Thus, obligations of CAPEF's sponsors, and Banco do Nordeste, had to conform to the benefits standard established by the federal intervention.

d) Past-due obligations

None.

e) Surplus and reasons

As of June 30, 2002, an actuarial surplus of R\$ 59,037 thousand (R\$ 101,899 thousand as of June 30, 2001) was recorded. The main factors that contributed to the result variation in relation the previous period were:

- Pension plan result (Benefit payments higher than contributions received in the period, because of the plan's maturity period): R\$ (55,565) thousand
- Investment result: R\$ 132,994 thousand
- Mathematical reserve variation (related to benefits adjustments, Biometrical tables updating and assumed inflation of 6% per year): R\$ (129,453) thousand
- Contingency result (reversal of income tax provisions recorded in the first half of 2001, related to the Federal Revenue Service tax amnesty – Provisional Measure N° 2,222): R\$ 13,913 thousand

f) Contribution rates

Listed below are the average contribution rates in June 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

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It should be noted that the CAPEF regulations, approved by the Ministry of Social Security through Ruling N° 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 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 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, with a ratio of 1:1 (1:1 as of June 30, 2001).

h) Actuarial Revaluation

The Ministry of Social Security, through Rulings N° 5,547 of July 30, 1999 and N° 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 CAPEF, which has been implemented with a surplus position.

CAPEF complied with the provisions of Constitutional Amendment N° 20, with regards to the actuarial equilibrium of the benefits plan and equal contributions.

17. EMPLOYEE BENEFITS

The following information about Banco do Nordeste's employee benefits policy and accounting practices for recognition of the employee benefit obligations is presented as set forth by CVM Resolution No. 371 of December 31, 2000.

a) Banco do Nordeste does not maintain:

- Termination benefits;
- Long-term incentive programs;
- Stock grants equivalent to the equity interest.

b) The accounting practice adopted by the Bank to recognize actuarial gains and losses is as follows:

In accordance with the provisions of CVM Resolution No. 371, item 49.j, the Bank recognizes the amount of actuarial gains and losses that exceed the higher of:

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

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c) Plan characteristics

- i) Retirement and pension plan: see Note 16;
- ii) Health care plan:

Banco do Nordeste contributes to a health care plan administered by the Assistance Fund for the Employees of Banco do Nordeste do Brasil - CAMED, whose purpose is to provide participants and their eligible dependants with coverage for health care costs and expenses or reimburse the expenses related to promotion, protection and recovery of health.

The Bank's contribution is equal to 1.5% of total employee's pay or compensation, including bonus and 13th salary, as well as the amount on which supplemental retirement benefits are computed, including social security (INSS), if applicable.

The health care plan uses a funding method whereby the plan costs, as well as any surpluses and deficits, are shared between CAMED and the plan participants.

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

The following table shows the reconciliation of assets and liabilities of the plans, in R\$ thousand, as detailed by CAPEF and CAMED based on technical information prepared together with respective actuaries, as set forth by item 49 of CVM Resolution N° 371:

<u>Specification</u>	<u>CAPEF</u>	<u>CAMED</u>
1. Actuarial present value of unfunded benefit obligations	245,361	31,640
2. Actuarial present value of totally or partially unfunded benefit obligations	1,328,051	-
3. Plan assets at fair value	1,082,690	-
4. Unrecognized net actuarial loss	5,752	-
5. Unrecognized prior service cost	-	-
6. Unrecognized asset - § 49.g of CVM Resolution No. 371	-	-
7. Amount covered through recognition of difference between items "e.2" and "e.3"	5,977	259
8. Actuarial obligations discounted at a nominal rate of 12% per year	233,632	31,381
9. Actuarial obligations discounted at a nominal rate of 18% per year	116,926	17,687

e) Net actuarial liability for the period is as follows:

<u>Specification</u>	<u>CAPEF</u>	<u>CAMED</u>
1. Net actuarial liability, beginning of period	233,632	31,381
2. Expense recognized in the income statement	18,376	4,559
3. Total employer contributions (Aggregate Method)	(12,399)	(4,301)
4. Unrecognized actuarial loss	5,752	-
5. Net actuarial liability, end of period	245,361	31,640

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f) Expense recognized in the income statement is as follows:

	<u>CAPEF</u>	<u>CAMED</u>
1. Current service cost, less employees' contributions	4,358	4,559
2. Interest cost	79,170	-
3. Expected return on plan assets	(65,152)	-
4. Amortized prior service cost	-	-
5. Recognized actuarial gains and losses on the period	-	-
6. Effects of increases, reductions or advance payments of the plan	-	-
7. Expense recognized in the income statement	18,376	4,559

g) Actuarial assumptions used

- i) Biometrical assumptions: General Mortality Table - AT83; Disabled Mortality Table - IAPC exper.; Disability Table - CAPEF exper.; and Turnover Table - None.
- ii) Economic assumptions: Actual rate of return on plan assets - 6% per year; Future inflation rate - 6% per year; Estimated salary increase - 0% per year; Actual rate of benefits increase - 0% per year; and Actual discount rate for actuarial obligations, considering the capitalization of amounts reserved by the sponsor at the SELIC rate - 12% per year.
- iii) The inflation rate is used in calculating the actuarial present value of the benefit obligations, so as to determine the inflation effects from the freezing of future contributions and benefits on an annual basis, considering the same inflation rate for all salary, social security and economic amounts of the plan. Prior inflation within the current cycle is calculated using the General Price Index (IGP-DI) published by Fundação Getúlio Vargas.
- iv) The same assumptions as those established for the supplemental retirement plan, except annuity, were used in the computation of the actuarial present value of the Bank's obligations to the CAMED health care plan.
- v) The expected nominal rate of return on the retirement plan assets is 12% per year. The Bank will provide funds for coverage of estimated actuarial obligations of CAPEF and CAMED over the life of the plans. Under CVM Resolution N° 371, the funds must be reserved for a period of up to five years for the coverage of CAPEF and CAMED obligations and, while not used by the Bank, earn interest based on the basic interest rate (SELIC) rather than on the expected return on the plan assets. Thus, in conformity with items 27 and 49-e of CVM Resolution N° 371, the discount rate adopted for the actuarial obligations as of December 31, 2001 was the interest rate of 18% per year, corresponding to the current basic interest rate for the federal government securities.

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- vi) Using a nominal rate of 18% per year, the actuarial present value of the Bank's benefit obligations as of December 31, 2001 is R\$ 116,926 thousand for CAPEF and R\$ 17,687 thousand for CAMED which, under CVM Resolution No. 371, must be accounted for within five years. As of June 30, 2002, the Bank recognized R\$ 11,692 thousand for CAPEF, and R\$ 1,769 thousand for CAMED, to be completed and complemented on a semiannual basis due to potential changes in basic interest rates yet to be determined by the CMN. Additionally, the Bank reserved R\$ 5,977 thousand and R\$ 259 thousand for the differences between the actuarial obligations in the first half of 2002 and the amounts effectively paid to CAPEF and CAMED, respectively, in the same period. The Bank therefore assures compliance with CVM Resolution No. 371 by recognizing and accounting for the amounts used to pay its future obligations to CAPEF and CAMED, within the five-year period beginning January 1, 2002.

18. FINANCIAL INSTRUMENTS

Marketable securities with market values differing from those recognized in the June 30, 2002 financial statements are listed in Note 4.

For the application of funds, the Bank adopts a conservative approach to strictly meet the terms and rates set by the respective sources of funds, so as to match terms, interest rates and indices of assets and liabilities.

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

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

As of June 30, 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 caption "Differential Payable", as follows:

<u>ASSET POSITION</u>	<u>GLOBAL AMOUNT</u>	<u>AMOUNT RECEIVABLE</u>
Prefixed	<u>55</u>	-
<u>LIABILITY POSITION</u>	<u>GLOBAL AMOUNT</u>	<u>AMOUNT PAYABLE</u>
CDI	<u>55</u>	<u>7</u>

Risk of operations at market value - R\$ 7 thousand

Credit risk of swaps - 0

BANCO DO NORDESTE DO BRASIL S.A.

Swap agreements have maturities of more than 360 days in the amount of R\$ 55 thousand.

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

19. FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

In accordance with Central Bank Circular N° 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”.

On January 15, 2001, Provisional Measure N° 2,133 of December 28, 2000, was converted into Law N° 10,177, establishing new criteria concerning the assumption of risks associated with FNE's resources:

- 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 Bank's 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 operations contracted with FNE's resources beginning December 1, 1998, and although the Central Bank of Brazil recognizes that it is not responsible for the regulation and inspection of funds similar to FNE, the Bank's board of directors, following the Monetary Authority guidance, authorized the risk classification in the same way as that established by Resolution N° 2.682/99, of the National Monetary Council, with an allowance for losses being recognized in Other Liabilities – Sundry, proportionally to the percentage of the obligation assumed by the Bank.

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Operations contracted beginning December 1, 1998, by risk levels, as of June 30, 2002, are as follow:

<u>Risk Rating</u>	<u>Total Credits</u>	<u>Allowance</u>
AA	578,788	
A	486,276	1,297
B	40,884	613
C	11,829	588
D	66,135	13,057
E	21,103	9,164
F	<u>380,102</u>	<u>190,051</u>
TOTAL	<u>1,585,117</u>	<u>214,770</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 agreements 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 and operational structure, comprised of installations, labor, computerized systems and development support instruments, as Productive Agents Training Programs, Development Programs as “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:

<u>ASSETS</u>	<u>June 30, 2002</u>	<u>June 30, 2001</u>	<u>LIABILITIES</u>	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Current and long-term assets	<u>19,868,326</u>	<u>16,794,160</u>	Current and long-term liabilities	<u>18,956,740</u>	<u>15,925,548</u>
Cash and due from banks	27,026	30,245	Deposits	3,074,276	3,220,227
Interbank investments	272,759	689,823	Securities sold under repurchase agreements	64,651	40,157
Marketable securities	5,290,168	1,246,884	Resources from securities issued	271,400	494,668
Interbank accounts	203,483	294,960	Interbank accounts	20,720	16,982
Interdepartmental accounts		100	Interdepartmental accounts	837	950
Lending operations	<u>13,168,541</u>	<u>13,772,840</u>	Borrowings	175,439	212,778
Public sector	1,248,304	1,201,508	Domestic onlendings- Governmental institutions	2,005,606	2,121,237
Private sector	14,270,369	13,733,238	Drivative Instruments	7	
(Allowance lending losses)	(2,350,132)	(1,161,906)	Foreign onlending	1,027,868	792,264
Other credits	896,899	751,554	Other liabilities	<u>12,315,936</u>	<u>9,026,285</u>
Other assets	9,450	7,754	FNE	11,242,597	8,792,998
Permanent assets	<u>146,333</u>	<u>155,160</u>	Other	1,073,339	233,287
TOTAL	<u>20,014,659</u>	<u>16,949,320</u>	Deferred income		86
			Stockholders' equity	<u>1,057,919</u>	<u>1,023,686</u>
			TOTAL	<u>20,014,659</u>	<u>16,949,320</u>

20. BASEL ACCORD

As of June 30, 2002, Banco do Nordeste presented a capital adequacy ratio (Basel's ratio) of 16.82%, while its Reference Equity (PR) amounted R\$ 1,058 thousand. The National Monetary Council-CMN Resolution N° 2,099/94 and standards of the Central Bank of Brazil establish a minimum limit of 11% for capital adequacy ratio and, in the Bank's case, a minimum PR of R\$ 692 thousand.

BANCO DO NORDESTE DO BRASIL S.A.

21. 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, 2002 and 2001. Transactions with companies controlled by the federal government – majority stockholder of the Bank – totaled R\$ 33,642 thousand (R\$ 153,986 thousand at June 30, 2001). These transactions were undertaken under the same terms and conditions as transactions with non-related parties.

b) Guarantees

Guarantees given to third parties amounted to R\$ 7,427 thousand (R\$ 6,018 thousand at June 30, 2001) and are subject to financial charges and counterguarantees by the beneficiaries.

Co-obligations of the Bank related to lending operations with resources from the FNE totaled R\$ 687,612 thousand as of June 30, 2002 (R\$ 477,085 thousand as of June 30, 2001).

c) Insurance

The Bank's chattels and real estate are covered by insurance in the amount of R\$ 215,731 thousand (R\$ 199,201 thousand at June 30, 2001), as follows:

	<u>June 30, 2002</u>	<u>June 30, 2001</u>
Chattels	47,798	23,779
Real estate	167,933	175,422

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

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, 2002, 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 conducted our audit 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 Bank; (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 Bank, as well as the overall financial statement presentation.
3. In our opinion, 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, 2002, and the results of its operations, the changes in its stockholders' equity and the changes in its financial position for the six-month period 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. The financial statements for the six-month period ended June 30, 2001, presented for comparative purposes, were audited by us and we issued an opinion, dated August 10, 2001, containing the following paragraphs:
 - a) Qualification as to the insufficient allowance for lending losses in the amount of R\$ 1,372,178 thousand.

- b) Qualification as to the insufficient allowance for credit risks on operations with resources from Fundo Constitucional de Financiamento do Nordeste – FNE (Northeast Constitutional Financing Fund) in the amount of R\$ 300,000 thousand.
 - c) Qualification as to the need for a complement to the allowance for tax, civil and labor contingencies in the amount of R\$ 425,000 thousand.
 - d) Qualification as to the deferment of restructuring charges in disagreement with the accounting principles established by Brazilian Corporate Law.
 - e) Emphasis paragraph regarding the insufficient allowance for lending losses in the amount of R\$ 77,126 thousand, relating to amounts subject to special accounting treatment, supported by Resolution N° 142/94 of the National Monetary Council.
6. These financial statements have been translated into English solely for the convenience of the readers.

Fortaleza, August 8, 2002

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**



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

Accounting Statements

F N E

Position: 06.30.2002

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 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	497,050	229,503
Principal Rebates – Law N° 10,193/2001	(10,785)	
Waiver of amounts – Land Program – Interministerial Ordinance N° 218	(4,555)	(1,752)
Negative monetary adjustment	(3,217)	(2,153)
Discount on financial charges on PRONAF's Operations	(158)	
Other expenses	(75)	(134)
Operating provision expenses	(37)	(6,774)
Waiver of amounts – Maturity Extension – Law N° 9,126 and 9,138		(69)
T O T A L	<u>478,223</u>	<u>218,621</u>

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

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 late payment charges 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.

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

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.

Beginning January 14, 2000, the 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:

- 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 perform lending operations subject to “Del Credere” of 6% per annum.
- FNE shall not pay to the Bank management fee on onlending operation funds.

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE – FNE

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;
- Return Operating income;
- Income from interest paid by Banco do Nordeste on funds temporarily not used.

8. PRIOR-YEAR ADJUSTMENTS

The positive adjustment of R\$ 98,945 thousand relates to recalculation of charges on lending operations.

9. DETERMINATION OF RESULTS

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

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

10. TAX EXEMPTION

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