

*Banco do  
Nordeste*

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# ACCOUNTING STATEMENTS

## Bank and FNE

POSITION: 06.30.2004

## **Accounting Statements**

# **Bank**

**POSITION: 06.30.2004**

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

HEADQUARTERS: AV. PARANJANA, 5700 - FORTALEZA - CEARÁ

PUBLICLY HELD COMPANY – BANKING LICENSE NO 3465 – Registered with the General Registry of Corporate Taxpayers (CNPJ) under no 07.237.373/0001-20

**BALANCE SHEET**

JUNE 30, 2004 AND JUNE 30, 2003

Headquarters and Branches in Brazil

(In thousands of BRL)

|   | ASSETS            |                   | LIABILITIES  |                   |                   |
|---|-------------------|-------------------|--|-------------------|-------------------|
|   | 30.06.2004        | 30.06.2003        | 30.06.2004   | 30.06.2003        |                   |
| <b>CURRENT ASSETS</b> .....                           | <b>3.351.172</b>  | <b>3.678.408</b>  | <b>CURRENT LIABILITIES</b> .....                           | <b>5.521.292</b>  | <b>3.325.347</b>  |
| CASH .....  | 30.955            | 27.027            | DEPOSITS .....   | 989.719           | 777.556           |
| MONEY MARKET INVESTMENTS .....                        | 599.787           | 343.607           | Demand deposits .....                                      | 189.604           | 96.529            |
| Open Market Investments .....                         | 245.000           | 330.399           | Savings deposits.....                                      | 374.650           | 293.443           |
| Investments in interbank deposits .....               | 354.787           | 13.208            | Interbank deposits .....                                   | 36.920            | 7.560             |
| SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS ..... | 1.402.059         | 2.197.692         | Term deposits .....  | 388.545           | 380.024           |
| Trading portfolio .....                               | 1.349.844         | 2.150.229         | FUNDING OBTAINED IN THE OPEN MARKET .....                  | 173.505           | 15.192            |
| Subject to repurchase commitment .....                | 52.047            | 0                 | Trading portfolio .....                                    | 52.001            | 0                 |
| Deposits with the Brazilian Central Bank .....        | 0                 | 47.345            | Third-party portfolio .....                                | 121.504           | 15.192            |
| Subject to collateral .....                           | 168               | 118               | FUNDS FROM THE ACCEPTANCE AND ISSUE OF SECURITIES .....    | 105.035           | 19.716            |
| INTERBANK OPERATIONS .....                            | 95.075            | 79.509            | Obligations in connection with foreign securities .....    | 105.035           | 19.716            |
| Payments and receipts pending settlement.....         | 9.563             | 11.454            | Interbank operations .....                                 | 9.533             | 9.766             |
| Term deposits .....                                   |                   |                   | Payments and receipts pending settlement .....             | 9.533             | 9.766             |
| Deposited with the Brazilian Central Bank .....       | 79.378            | 61.330            | INTERBANK RELATIONSHIPS.....                               | 304               | 68                |
| Treasury Department – funds from Rural Credit .....   | 6.062             | 6.712             | Third-party funds in transit .....                         | 245               | 0                 |
| Correspondent banks.....                              | 72                | 13                | Internal transfers of funds .....                          | 59                | 68                |
| CREDIT FACILITIES .....                               | 329.536           | 289.907           | BORROWINGS .....   | 71.442            | 33.564            |
| Governmental sector .....                             | 16.025            | 56.222            | Domestic borrowings – governmental-owned entities .....    | 7.414             | 7.193             |
| Private sector .....                                  | 559.289           | 703.142           | Foreign borrowings .....                                   | 64.028            | 26.371            |
| (Provision for doubtful accounts).....                | (245.778)         | (469.457)         | DOMESTIC ONLENDINGS - GOVERNMENT-OWNED ENTITIES.....       | 440.680           | 370.452           |
| OTHER CREDITS.....                                    | 889.790           | 732.352           | Treasury Department .....                                  | 211               | 73                |
| Credits - collateral and guarantees paid.....         | 6                 | 0                 | BNDES .....  | 305.318           | 288.003           |
| Foreign exchange portfolio .....                      | 30.587            | 7.801             | CEF .....  | 292               | 274               |
| Income receivable.....                                | 6.680             | 4.529             | FINAME .....   | 64.840            | 45.655            |
| Negotiation and Intermediation of Securities .....    | 81                | 16                | Other Entities .....                                       | 70.019            | 36.447            |
| Special credits .....                                 | 287.221           | 517.240           | FOREIGN ONLENDINGS .....                                   | 77.298            | 66.322            |
| Other.....  | 565.366           | 213.703           | Foreign onlendings .....                                   | 77.298            | 66.322            |
| (Provision for other doubtful accounts).....          | (151)             | (10.937)          | OTHER OBLIGATIONS .....                                    | 3.653.776         | 2.032.711         |
| OTHER ASSETS .....                                    | 3.970             | 8.314             | Collection of taxes and other contribution taxes .....     | 7.847             | 10.164            |
| Other assets .....                                    | 10.209            | 11.085            | Foreign exchange portfolio .....                           | 156               | 77                |
| (Provision for losses).....                           | (6.349)           | (3.158)           | Statutory obligations .....                                | 14.749            | 6.384             |
| Prepaid Expenses.....                                 | 110               | 387               | Tax and Social Security .....                              | 14.595            | 34.496            |
|   |                   |                   | Financial and development funds .....                      | 3.024.667         | 1.725.841         |
| <b>LONG TERM RECEIVABLES</b> .....                    | <b>9.747.411</b>  | <b>7.032.285</b>  | Other obligations .....                                    | 591.762           | 255.749           |
| SECURITIES AND DERIVATIVE FINANCIAL INSTRUMENTS.....  | 6.638.165         | 3.875.023         | <b>LONG TERM LIABILITIES</b> .....                         | <b>6.412.226</b>  | <b>6.346.842</b>  |
| Trading portfolio.....                                | 6.583.776         | 3.862.226         | DEPOSITS.....  | 1.662.838         | 1.947.742         |
| Deposited with the Brazilian Central Bank.....        | 48.428            | 7.793             | Demand deposits .....                                      | 61.693            | 48.478            |
| Subject to collateral .....                           | 5.961             | 5.004             | Term deposits .....  | 1.601.145         | 1.899.264         |
| INTERBANK OPERATIONS.....                             | 24.941            | 17.783            | FUNDS FROM ACCEPTANCE AND ISSUE OF SECURITIES .....        | 0                 | 95.867            |
| Term deposits:  |                   |                   | Liabilities in connection with foreign securities .....    | 0                 | 95.867            |
| Treasury Department – funds from Rural Credits.....   | 1.165             | 736               | BORROWINGS .....   | 88.974            | 101.833           |
| SFH – National Housing System .....                   | 23.776            | 17.047            | Domestic borrowings – governmental-owned entities .....    | 88.974            | 89.246            |
| CREDIT FACILITIES.....                                | 3.014.845         | 2.917.043         | Foreign borrowings .....                                   | 0                 | 12.587            |
| Governmental sector .....                             | 1.445.345         | 1.320.195         | DOMESTIC ONLENDINGS - GOVERNMENT-OWNED ENTITIES .....      | 1.194.223         | 1.369.259         |
| Private sector .....                                  | 1.717.297         | 1.814.879         | Treasury Department .....                                  | 1.622             | 1.813             |
| (Provision for doubtful accounts).....                | (147.797)         | (218.031)         | BNDES .....  | 856.764           | 1.032.027         |
| OTHER CREDITS.....                                    | 69.460            | 222.436           | CEF .....  | 1.005             | 1.258             |
| Other.....  | 95.095            | 232.464           | FINAME .....   | 83.501            | 121.846           |
| (Provision for other doubtful accounts).....          | (25.635)          | (10.028)          | Other Entities .....                                       | 251.331           | 212.315           |
| <b>* PERMANENT* ASSETS</b> .....                      | <b>150.933</b>    | <b>146.383</b>    | FOREIGN ONLENDINGS .....                                   | 1.047.042         | 981.588           |
| INVESTMENTS.....                                      | 766               | 4.438             | Foreign onlendings .....                                   | 1.047.042         | 981.588           |
| Other investments.....                                | 8.905             | 8.767             | OTHER OBLIGATIONS .....                                    | 2.419.149         | 1.850.553         |
| (Provision for losses).....                           | (8.139)           | (4.329)           | Taxes and Social Security .....                            | 805.460           | 771.419           |
| PROPERTY AND EQUIPMENT IN USE.....                    | 146.413           | 137.020           | Financial and development funds .....                      | 1.013.764         | 516.730           |
| Real state in use.....                                | 186.181           | 181.267           | Other obligations .....                                    | 599.925           | 562.404           |
| Other property/ equipment in use.....                 | 70.532            | 58.265            | <b>DEFERRED INCOME</b> .....                               | <b>1.099</b>      | <b>0</b>          |
| (Accumulated depreciation).....                       | (110.300)         | (102.512)         | DEFERRED INCOME .....                                      | 1.099             | 0                 |
| DEFERRED ASSETS.....                                  | 3.754             | 4.925             | <b>NET EQUITY</b> .....                                    | <b>1.314.899</b>  | <b>1.184.887</b>  |
| Organization and expansion expenses .....             | 11.427            | 11.283            | CAPITAL STOCK .....  | 1.228.000         | 1.162.000         |
| (Accumulated amortization) .....                      | (7.673)           | (6.358)           | From shareholders domiciled in Brazil .....                | 1.228.000         | 1.162.000         |
|   |                   |                   | REVALUATION RESERVES .....                                 | 43.432            | 46.262            |
|   |                   |                   | PROFIT RESERVES .....                                      | 5.111             | 1.236             |
|   |                   |                   | MARK TO MARKET – SECURITIES AND DERIVATIVE INSTRUMENTS.... | (4.722)           | (42.851)          |
|   |                   |                   | RETAINED EARNINGS (LOSSES) .....                           | 43.078            | 18.240            |
| <b>TOTAL ASSETS</b> .....                             | <b>13.249.516</b> | <b>10.857.076</b> | <b>TOTAL LIABILITIES</b> .....                             | <b>13.249.516</b> | <b>10.857.076</b> |

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

HEADQUARTERS: AV. PARANJANA, 5700 - FORTALEZA - CEARÁ

A PUBLICLY HELD COMPANY – BANKING LICENSE NO 3465 – REGISTERED WITH THE GENERAL REGISTER OF CORPORATE TAXPAYERS (CNPJ) UNDER NO 07.237.373/0001-20

**STATEMENT OF INCOME****30 DE JUNHO DE 2004 E 2003**

Headquarters and Branches in Brazil

(In thousands of BRL)

|  | 1st semester/2004 | 1st semester/2003 |
|--|-------------------|-------------------|
| <b>INCOME - FINANCIAL INTERMEDIATION .....</b>                     | <b>987.108</b>    | <b>1.078.032</b>  |
| Credit facilities .....  | 384.719           | 386.410           |
| Profit (loss) operations with Securities .....                     | 594.289           | 612.274           |
| Profit (loss) with derivatives financial instruments .....         | 0                 | (5)               |
| Income (loss) from exchange contracts .....                        | 9.593             | 77.661            |
| Income (loss) from compulsory deposits .....                       | (1.493)           | 1.692             |
| <b>EXPENSES - FINANCIAL INTERMEDIATION .....</b>                   | <b>(708.271)</b>  | <b>(724.050)</b>  |
| Funding obtained in the open market .....                          | (157.546)         | (215.184)         |
| Borrowings and onlendings operations .....                         | (453.865)         | (374.955)         |
| Provision for doubtful accounts .....                              | (96.860)          | (133.911)         |
| <b>GROSS INCOME (LOSS) - FINANCIAL INTERMEDIATION .....</b>        | <b>278.837</b>    | <b>353.982</b>    |
| <b>OTHER OPERATING INCOME/ EXPENSES .....</b>                      | <b>(58.967)</b>   | <b>(174.525)</b>  |
| Income from services rendered .....                                | 274.978           | 243.732           |
| Payroll expenses.....  | (148.789)         | (132.900)         |
| Other administrative expenses .....                                | (161.074)         | (116.991)         |
| Tax expenses.....  | (33.525)          | (30.941)          |
| Other operating income.....  | 143.112           | 428.948           |
| Other operating expenses .....                                     | (133.669)         | (566.373)         |
| <b>NET OPERATING INCOME .....</b>                                  | <b>219.870</b>    | <b>179.457</b>    |
| NON OPERATING INCOME .....   | (5.804)           | 3.105             |
| <b>INCOME BEFORE TAXES AND PROFIT SHARING .....</b>                | <b>214.066</b>    | <b>182.562</b>    |
| <b>INCOME TAX AND SOCIAL CONTRIBUTION TAX .....</b>                | <b>(125.894)</b>  | <b>(157.849)</b>  |
| Provision for Income Tax .....                                     | (142)             | (18.462)          |
| Provision for Social Contribution Tax .....                        | (61)              | (6.146)           |
| Deferred fiscal assets .....                                       | (125.691)         | (133.241)         |
| <b>NET INCOME.....</b>   | <b>88.172</b>     | <b>24.713</b>     |
| Number of shares (in millions) .....                               | 870.019           | 870.019           |
| Income (loss) per 1,000 shares of stock – in Brazilian Reals ..... | 0,10              | 0,03              |

**STATEMENT OF CHANGES IN NET EQUITY**

**30 DE JUNHO DE 2004 E 2003**

Headquarters and Branches in Brazil

(In thousands of BRL)

| ITEMS  | PAID-UP CAPITAL |                  | REVALUATION RESERVES | PROFIT RESERVES |           | MARK TO MARKET – SECURITIES AND DERIVATIVE INSTRUMENTS | RETAINED EARNINGS (LOSSES) | TOTAL     |
|--|-----------------|------------------|----------------------|-----------------|-----------|--|----------------------------|-----------|
|  | CAPITAL         | CAPITAL INCREASE | COMPANY ASSETS       | LEGAL           | STATUTORY |  |                            |           |
| BALANCES ON DECEMBER 31, 2002  | 3.492.249       | 0                | 47.600               | 0               | 0         | (39.032)   | (2.330.552)                | 1.170.265 |
| MARK TO MARKET – SECURITIES AND DERIVATIVE INSTRUMENTS CAPITAL DECREASE: |                 |                  |                      |                 |           | (3.819)  |                            | (3.819)   |
| Offset – subscribed shares   | (2.330.249)     | 0                |                      |                 |           |  | 2.330.249                  | 0         |
| OTHER EVENTS   |                 |                  |                      |                 |           |  |                            |           |
| Asset Revaluation:   |                 |                  |                      |                 |           |  |                            |           |
| Realization of revaluation reserves:                                     |                 |                  |                      |                 |           |  |                            |           |
| Gross value  |                 |                  | (2.027)              |                 |           |  | 2.027                      | 0         |
| Tax burden   |                 |                  | 689                  |                 |           |  | (689)                      | 0         |
| NET INCOME FOR THE SEMESTER  |                 |                  |                      |                 |           |  | 24.713                     | 24.713    |
| Appropriations:  |                 |                  |                      |                 |           |  |                            |           |
| Reserves   |                 |                  |                      | 1.236           |           |  | (1.236)                    | 0         |
| Dividends  |                 |                  |                      |                 |           |  | (6.272)                    | (6.272)   |
| BALANCES ON JUNE 30, 2003  | 1.162.000       | 0                | 46.262               | 1.236           | 0         | (42.851)   | 18.240                     | 1.184.887 |
| CHANGES IN THE SEMESTER  | (2.330.249)     | 0                | (1.338)              | 1.236           | 0         | (3.819)  | 2.348.792                  | 14.622    |
| BALANCES ON DECEMBER 31, 2003  | 1.162.000       | 0                | 44.925               | 4.236           | 62.466    | 41.554   | 0                          | 1.315.181 |
| ADJUSTMENTS FROM PREVIOUS PERIODS  |                 |                  |                      |                 |           |  |                            |           |
| Creditors  |                 |                  |                      |                 |           |  | 57.217                     | 57.217    |
| Debtors  |                 |                  |                      |                 |           |  | (84.771)                   | (84.771)  |
| MARK TO MARKET – SECURITIES AND DERIVATIVE INSTRUMENTS CAPITAL INCREASE: |                 |                  |                      |                 |           | (46.276)   |                            | (46.276)  |
| from legal reserves  |                 | 66.000           |                      | (3.534)         | (62.466)  |  | 0                          | 0         |
| OTHER EVENTS:  |                 |                  |                      |                 |           |  |                            |           |
| Asset Revaluation:   |                 |                  |                      |                 |           |  |                            |           |
| Realization of revaluation reserves:                                     |                 |                  |                      |                 |           |  |                            |           |
| Gross value  |                 |                  | (2.262)              |                 |           |  | 2.262                      | 0         |
| Tax charges  |                 |                  | 769                  |                 |           |  | (769)                      | 0         |
| NET INCOME FOR THE SEMESTER  |                 |                  |                      |                 |           |  | 88.172                     | 88.172    |
| Appropriations:  |                 |                  |                      |                 |           |  |                            |           |
| Reserves   |                 |                  |                      | 4.409           |           |  | (4.409)                    | 0         |
| Dividends  |                 |                  |                      |                 |           |  | (14.624)                   | (14.624)  |
| BALANCES ON JUNE 30, 2004  | 1.162.000       | 66.000           | 43.432               | 5.111           | 0         | (4.722)  | 43.078                     | 1.314.899 |
| CHANGES IN THE SEMESTER  | 0               | 66.000           | (1.493)              | 875             | (62.466)  | (46.276)   | 43.078                     | (282)     |

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

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A PUBLICLY HELD COMPANY – BANKING LICENSE NO 3465 – REGISTERED WITH THE GENERAL REGISTER OF CORPORATE TAXPAYERS (CNPJ) UNDER NO 07.237.373/0001-20

**STATEMENT OF CHANGES IN THE FINANCIAL POSITION**

**30 DE JUNHO DE 2004 E 2003**

Headquarters and Branches in Brazil

(In thousands of BRL)

|  | 1º sem/2004      | 1º sem/2003      |
|--|------------------|------------------|
| <b>SOURCES OF FUNDS</b> .....  | <b>1.037.710</b> | <b>1.048.272</b> |
| ADJUSTED NET INCOME (1) .....  | 101.913          | 30.964           |
| CHANGE IN DEFERRED INCOME.....   | 738              |                  |
| MARK TO MARKET – SECURITIES AND DERIVATIVE INSTRUMENTS .....               | (46.276)         | (3.819)          |
| ADJUSTMENTS FROM PREVIOUS YEARS.....                                       | (27.554)         |                  |
| FUNDING OBTAINED WITH THIRD PARTIES IN CONNECTION WITH:                    |                  |                  |
| INCREASE IN LIABILITIES:   |                  |                  |
| Purchase and sale commitments (funding obtained in the open market) .....  | 110.003          |                  |
| Interbank and interdependence relationships.....                           | 9.745            | 1.943            |
| Other obligations .....  | 521.496          | 570.552          |
| DECREASE IN ASSETS:  |                  |                  |
| Money market investments .....   | 43.014           | 44.625           |
| Interbank and interdependence relationships .....                          |                  | 1.690            |
| Credit facilities.....   |                  | 364.204          |
| Other credits .....  | 323.670          | 37.748           |
| Other assets .....   | 62               |                  |
| DIVESTMENT OF ASSETS AND INVESTMENTS:                                      |                  |                  |
| Assets not used in banking operations .....                                | 1.094            | 556              |
| Property and equipment in use .....  | (186)            | (185)            |
| Investments .....  | (9)              | (6)              |
| <b>USE OF FUNDS</b> .....  | <b>1.027.713</b> | <b>1.048.660</b> |
| DIVIDEND AND ALLOWANCE PAYOUT - PROPOSAL .....                             | 14.624           | 6.272            |
| INVESTMENTS IN:  |                  |                  |
| Assets not used in banking operations .....                                | 654              | 860              |
| Property and equipment in use .....  | 15.871           | 4.335            |
| IN DEFERRED ASSETS.....  | 535              | 906              |
| INCREASE IN ASSETS:  |                  |                  |
| Securities .....   | 621.913          | 282.157          |
| Interbank and interdependence relationships .....                          | 4.959            |                  |
| Credit facilities .....  | 221.029          |                  |
| Other assets .....   |                  | 409              |
| DECREASE IN LIABILITIES:   |                  |                  |
| Deposits .....   | 114.243          | 350.684          |
| Funding obtained in the open market (purchase and sale commitments) .....  |                  | 63.774           |
| Funds from acceptances and issue of securities .....                       | 11.257           | 26.635           |
| Borrowings and onlendings .....  | 22.628           | 312.623          |
| Derivative financial instruments .....                                     |                  | 5                |
| <b>INCREASE/ DECREASE IN CASH</b> .....                                    | <b>9.997</b>     | <b>(388)</b>     |
| <b>CHANGES IN THE FINANCIAL POSITION: Increase/ decrease in cash</b> ..... | <b>9.997</b>     | <b>(388)</b>     |
| At the beginning of the period .....                                       | 20.958           | 27.415           |
| At the end of the period .....   | 30.955           | 27.027           |
| <b>(1) ADJUSTED INCOME STATEMENT:</b>                                      |                  |                  |
| NET INCOME .....   | 88.172           | 24.713           |
| ADJUSTMENTS TO NET INCOME:   |                  |                  |
| Depreciation and amortization .....  | 6.878            | 6.168            |
| Provisions for losses in investments .....                                 | 3.809            | 0                |
| Provision for the depreciation of other assets .....                       | 3.054            | 83               |
| <b>ADJUSTED NET INCOME</b> .....   | <b>101.913</b>   | <b>30.964</b>    |

# NOTES TO THE FINANCIAL STATEMENTS

Years ended as of June 30, 2004 and 2003

## NOTE 1 - The Bank and its Features

Banco do Nordeste do Brasil S.A. (**The Bank**) is a private entity, governed by private law and a government-controlled regional financial institution, created by the Federal Law Number 1.649, of July 19, 1952. Its mission is promoting the sustainable development of Brazilian Northeastern Region, by providing financial resources and technical qualification support for businesses in the Region.

In order to carry out its mission, apart from extending credits for businesses implementation, Banco do Nordeste prioritizes, in a partnership with its clients, the continuity and success of businesses realized by the technical and managerial visitation process, by contributing with additional funds, when so required.

Banco do Nordeste, once classified as a multiple bank, is authorized to operate with all portfolios allowed to the financial institutions so classified, except for the real estate credit portfolio.

As a development entity, Banco do Nordeste operates, among other furtherance programs, Fundo de Investimentos do Nordeste [The Brazilian Northeastern Region Investment Fund] (“**FINOR**”) and Fundo Constitucional de Financiamento do Nordeste [The Brazilian Northeastern Region Constitutional Financing Fund] (“**FNE**”).

## NOTE 2 - Financial Statements Presentation

The financial statements have been prepared in compliance with the Brazilian corporation law, and in accordance with the accounting practices established by Banco Central do Brasil [The Brazilian Central Bank] (“**BACEN**”) and Comissão de Valores Mobiliários [The Brazilian entity corresponding to United States Securities’ Commission] (“**CVM**”).

## NOTE 3 – Main Accounting Policies

### a) Income Determination

The revenues and expenses are recorded on an accrual basis, standing out the following procedures:

- a.1) Yields, charges, and monetary or foreign exchange variances charged on assets and liabilities are appropriated on a “*pro rata diem*” basis;
- a.2) Provisions, including charges on vacations and Christmas’ bonus, are recognized on a monthly basis, pursuant to the period incurred;
- a.3) Effects of assets’ adjustments to market value or realization, when applicable, are considered.

### b) Current and Long-Term Assets

They are provided by the realization values, including, when applicable, the revenues and monetary and foreign exchange variances earned, rectified by income to be appropriated or provision, when required, with the following to be pointed out:

- b.1) The credit operations are covenanted at regular market rates;
- b.2) The provision for credit operations is set aside in accordance with the Resolution Number 2.682, of 12.21.1999, of Conselho Monetário Nacional [The Brazilian National Monetary Council];
- b.3) Bonds and securities were recorded by the value actually paid, including brokerage and other fees, being classified and evaluated as follows:
  - Marketable securities – are those acquired with the purpose of being actively and frequently negotiated, adjusted by the market value in consideration of year result;
  - Securities available for sale – are those that are neither suitable for negotiation nor can be maintained until maturity, and are evaluated by the market value, free of tax effects, in consideration of the rubric detached from the net equity;
  - Securities maintained until maturity – are those for which there is intention and financial capacity for its maintenance in the portfolio until maturity, recorded by the acquisition cost, plus yields earned in consideration of year result;

The classification as Current and Long Term for Securities Available for Sale and Securities Maintained until Maturity was determined in accordance with its expiration terms, not featuring, however, the non-availability of papers, which maintain their quality and high liquidity feature.

### c) Permanent Assets

They are stated by the acquisition cost, monetarily corrected until 12.31.1995, provided that the following is complied with:

- c.1) The Investments are rectified by the Allowance for Losses;
- c.2) The Real Estates for Use include the revaluation value;
- c.3) The Property, Plant, and Equipment is rectified by the depreciation calculated by the straight-line method, at the following annual rates: buildings - 4%; data processing systems and vehicles - 20%, and other items - 10%;
- c.4) The Deferred asset is formed by expenses with logistic acquisition and development, installation and facilities’ adaptation, further to expenditures with third parties’ real estates, and it is rectified by amortizations calculated by the straight-line method, upon the use of a 20% fixed annual rate.

**d) Current and Long-Term Liabilities**

They are set out by their original values, plus, when applicable, the monetary and foreign exchange charges and variances incurred, rectified by expenses to be appropriated, and it should be emphasized that the available funds from The Brazilian Northeastern Region Constitutional Financing Fund [The Brazilian Northeastern Region Constitutional Financing Fund] (“FNE”) are classified as Current and Long-Term Liabilities, provided that the disbursement flows forecast are complied with.

Allowances for the grant of after-employment benefits are recognized pursuant to the directions of “CVM Resolution Number 371, of 12.13.2000.

**e) Income Tax, Social Contribution, Public Service Employee Savings Program (“PASEP”), and Social Contribution on Billings (“COFINS”)**

Provisions are constituted at the rates set out below, and take into account, for each tax, the tax basis provided for in the current laws:

|                       |        |
|-----------------------|--------|
| Income Tax            | 15.00% |
| Income Tax Additional | 10.00% |
| Social Contribution   | 9.00%  |
| PASEP                 | 0.65%  |
| COFINS                | 4.00%  |

**NOTE 4 - Marketable Securities and Derivative Instruments**

For obtaining the market value, the following criteria were adopted:

- Fixed-Income Securities: average level of discount negotiated at secondary market, pursuant to “ANDIMA” [The Brazilian National Association of Open Market Institutions] disclosure;
- Variable-Income Securities: assets’ average rating at “BOVESPA” [The São Paulo Stock Exchange];

**a) Marketable Securities**

Banco do Nordeste, in accordance with the Circular Letter “BACEN” Number 3.068, of 11.08.2001, classified its portfolio, as of 06.30.2004, as follows:

| CLASS                            | 06.30.2004     |                |                | 06.30.2003     |                |                |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                  | COST VALUE     | MARKET VALUE   | MATURITY RANGE | COST VALUE     | MARKET VALUE   | MATURITY RANGE |
| <b>FIXED INCOME SECURITIES</b>   | <b>666,390</b> | <b>679,112</b> |                | <b>161,507</b> | <b>166,399</b> |                |
| Treasury Financial Bills         | 572,959        | 573,963        | 2004 to 2008   | -              | -              |                |
| Central Bank Notes               | 75,530         | 85,141         | 2004 to 2006   | 51,009         | 52,903         | 2004           |
| Brazilian Federal Treasury Bills | 17,901         | 20,008         | 2004 to 2006   | 110,498        | 113,496        | 2003 to 2004   |
| <b>TOTAL FOR THIS CLASS</b>      | <b>666,390</b> | <b>679,112</b> |                | <b>161,507</b> | <b>166,399</b> |                |

For securities classified in the category above, a negative adjustment (market to market) in the amount of R\$ 15,515 thousand took place in the first semester of 2004 (a positive adjustment of R\$ 4,892 thousand on June 30, 2003)

| CLASS                                      | 06.30.2004       |                  |                   | 06.30.2003     |                |                   |
|--|------------------|------------------|-------------------|----------------|----------------|-------------------|
|  | COST VALUE       | MARKET VALUE     | MATURITY RANGE    | COST VALUE     | MARKET VALUE   | MATURITY RANGE    |
| <b>FIXED-INCOME SECURITIES</b>             | <b>3,322,153</b> | <b>3,303,374</b> |                   | <b>139,425</b> | <b>119,358</b> |                   |
| Financial Treasury Bills                   | 3,009,482        | 2,992,523        | 2004 to 2009      | 86,943         | 86,363         | 2004 to 2008      |
| Central Bank Notes                         | 140,027          | 151,724          | 2004 to 2006      | -              | -              |                   |
| National Treasury Notes                    | 82,040           | 85,730           | 2004 to 2005      | -              | -              |                   |
| National Treasury Bills                    | 55,213           | 55,422           | 2004 to 2005      | -              | -              |                   |
| Fixed-Income Securities – Others           | 18,314           | 15,844           | 2004 to 2027      | 21,940         | 18,328         | 2003 to 2027      |
| Federal Government Bonds – Others          | 16,990           | 2,072            | 2004 to 2005      | 30,271         | 14,457         | 2003 to 2005      |
| Agricultural Debt Securities               | 87               | 59               | 2005 to 2011      | 271            | 210            | 2003 to 2011      |
| <b>QUOTAS FROM INVESTMENT FUNDS</b>        | <b>727</b>       | <b>-</b>         |                   | <b>629</b>     | <b>-</b>       |                   |
| Social Development Fund                    | 727              | -                | No expiry date    | 629            | -              | No expiry date    |
| <b>VARIABLE-INCOME SECURITIES</b>          | <b>144,159</b>   | <b>158,810</b>   |                   | <b>146,325</b> | <b>104,449</b> |                   |
| Open Corporation Stocks                    | 139,948          | 157,394          | No expiry date    | 139,948        | 102,941        | No expiry date    |
| Other tax Incentives (FINOR <sup>1</sup> ) | 4,211            | 1,416            | No expiry date    | 6,377          | 1,508          | No expiry date    |
| <b>GUARANTEE BONDS</b>                     | <b>2,299</b>     | <b>-</b>         |                   | <b>2,354</b>   | <b>-</b>       |                   |
|  |                  |                  | 2004 through 2005 |                |                | 2003 through 2005 |
| <b>CATEGORY TOTAL</b>                      | <b>3,469,338</b> | <b>3,462,184</b> |                   | <b>288,733</b> | <b>223,807</b> |                   |

<sup>1</sup> The Brazilian Northeastern Region Investment Fund (“FINOR”)



Because of the assets inclusion in “Available-for-Sale Securities” category, the amount of R\$ 7,154 thousand (R\$ 64,926 thousand, on 06.30.2003) is registered in the “Value Adjustment - Marketable Securities and Derivative Instruments” rubric, at the Bank Net Equity. Such adjustment, free from tax effects, corresponds to R\$ 4,722 thousand (R\$ 42,851 thousand, on 06.30.2003).

#### HELD-TO-MATURITY SECURITIES in R\$ Thousands

| CLASS  | 06.30.2004       |                  |                | 06.30.2003       |                  |                |
|--|------------------|------------------|----------------|------------------|------------------|----------------|
|  | COST VALUE       | MARKET VALUE     | MATURITY RANGE | COST VALUE       | MARKET VALUE     | MATURITY RANGE |
| <b>FIXED INCOME SECURITIES</b>                         | <b>3,898,928</b> | <b>3,902,817</b> |                | <b>5,682,509</b> | <b>5,653,618</b> |                |
| Treasury Financial Bills                               | 3,897,462        | 3,901,351        | 2005 to 2008   | 5,497,604        | 5,463,369        | 2003 to 2008   |
| Quotas – Investment Fund- <i>Nordeste Empreendedor</i> | 1,207            | 1,207            | 2011           | 240              | 240              | 2011           |
| Brazilian Federal Treasury Notes NTNP                  | 259              | 259              | 2012 to 2014   | 237              | 237              | 2012 to 2014   |
| Brazilian Federal Treasury Notes NTN                   | -                | -                |                | 69,688           | 70,658           | 2003 to 2004   |
| Central Bank Notes -NBC                                | -                | -                |                | 114,740          | 119,114          | 2003 to 2004   |
| <b>TOTAL FOR THIS CLASS</b>                            | <b>3,898,928</b> | <b>3,902,817</b> |                | <b>5,682,509</b> | <b>5,653,618</b> |                |

#### b) Derivative Instruments

As of 06.30.2004, Banco do Nordeste had no operations with Derivatives.

#### NOTE 5 - Credit Portfolio and Allowance for Lending Losses

##### a) Details by type in R\$ Thousands

|   | 06.30.2004       | 06.30.2003       |
|---|------------------|------------------|
| Depositors advances                             | 179              | 266              |
| Loans   | 190,486          | 184,610          |
| Discounted drafts                               | 3,684            | 562              |
| Financing                                       | 703,860          | 1,060,390        |
| Export Financings                               | 2,968            | 4,793            |
| Foreign Currency financing                      | 28,618           | 1,077            |
| Government Refinancings                         | 465,242          | 454,291          |
| Agricultural and Agroindustrial Financing       | 1,335,124        | 1,252,441        |
| Real Estate financing                           | 239              | 341              |
| Infrastructure and Development Financing        | 1,007,556        | 935,667          |
| <b>LENDING OPERATIONS</b>                       | <b>3,737,956</b> | <b>3,894,438</b> |
| Guarantees honored                              | 6                | -                |
| Income receivables on Advances                  | 161              | 1,214            |
| Debtors for Purchasing of goods and Values      | 1,457            | 3,373            |
| Securities and Receivables                      | 10,181           | 6,005            |
| Advances on export Contracts (*)                | 30,119           | 5,285            |
| <b>OPERATIONS SIMILAR TO LENDING OPERATIONS</b> | <b>41,924</b>    | <b>15,877</b>    |
| <b>TOTAL</b>                                    | <b>3,779,880</b> | <b>3,910,315</b> |

(\*) Rubrics classified as OTHER LIABILITIES /Foreign Currency Portfolio.

##### b) Detail by Maturity in R\$ Thousands

#### Regular Credit Facilities

| Type Client/Business     | 0-90 days      | 91-180 days   | 181-360 days   | In excess of 360 days | Total in June 2004 | Total in June 2003 |
|--------------------------|----------------|---------------|----------------|-----------------------|--------------------|--------------------|
| Agriculture              | 17,971         | 14,023        | 15,604         | 1,121,025             | 1,168,623          | 984,653            |
| Industry                 | 111,056        | 22,859        | 62,116         | 236,679               | 432,710            | 473,285            |
| Government               | 19,845         | 12,309        | 23,666         | 1,404,930             | 1,460,750          | 1,372,202          |
| Other Services           | 26,725         | 14,380        | 30,589         | 137,125               | 208,819            | 196,987            |
| Commerce                 | 72,328         | 12,284        | 6,559          | 49,399                | 140,570            | 173,102            |
| Financial Intermediaries | 4              | 7,217         | 11,387         | 49                    | 18,657             | 34,412             |
| Housing System           | 28             | 17            | 41             | 153                   | 239                | 218                |
| Consumer Credits         | 6,521          | 1,976         | 2,457          | 4,919                 | 15,873             | 2,390              |
| <b>TOTAL</b>             | <b>254,478</b> | <b>85,065</b> | <b>152,419</b> | <b>2,954,279</b>      | <b>3,446,241</b>   | <b>3,237,249</b>   |

| Type Client/Business     | Past-due Credits     |              |               |                       |                | Total in June 2004 | Total in June 2003 |
|--------------------------|----------------------|--------------|---------------|-----------------------|----------------|--------------------|--------------------|
|                          | Current Installments |              |               |                       |                |                    |                    |
|                          | 0-90 days            | 91-180 days  | 181-360 days  | In excess of 360 days |                |                    |                    |
| Agriculture              | 2,426                | 2,431        | 2,389         | 136,331               | 143,577        | 231,597            |                    |
| Industry                 | 2,068                | 1,274        | 3,764         | 32,161                | 39,267         | 116,931            |                    |
| Government               | -                    | -            | -             | 352                   | 352            | 1,045              |                    |
| Other Services           | 2,719                | 1,676        | 3,123         | 30,561                | 38,079         | 72,460             |                    |
| Commerce                 | 2,820                | 1,655        | 3,044         | 19,224                | 26,743         | 84,541             |                    |
| Financial Intermediaries | -                    | -            | 2             | -                     | 2              | 5,181              |                    |
| Housing System           | -                    | -            | -             | -                     | -              | 106                |                    |
| Consumer Credits         | 296                  | 179          | 103           | 234                   | 812            | 227                |                    |
| <b>T O T A L</b>         | <b>10,329</b>        | <b>7,215</b> | <b>12,425</b> | <b>218,863</b>        | <b>248,832</b> | <b>512,088</b>     |                    |

| Type Client/Business     | Past due Installments |              |               |                       |               | Total in June 2004 | Total in June 2003 |
|--------------------------|-----------------------|--------------|---------------|-----------------------|---------------|--------------------|--------------------|
|                          | 0-90 days             | 91-180 days  | 181-360 days  | In excess of 360 days |               |                    |                    |
| Agriculture              | 3,367                 | 2,628        | 14,241        | 17,415                | 37,651        | 51,137             |                    |
| Industry                 | 2,103                 | 1,426        | 2,946         | 18,735                | 25,210        | 45,393             |                    |
| Government               | 19                    | -            | -             | -                     | 19            | 2                  |                    |
| Other Services           | 2,457                 | 1,759        | 2,915         | 3,029                 | 10,160        | 28,616             |                    |
| Commerce                 | 2,760                 | 1,877        | 3,207         | 3,463                 | 11,307        | 34,557             |                    |
| Financial Intermediaries | 1                     | -            | -             | -                     | 1             | 1,192              |                    |
| Housing System           | -                     | -            | -             | -                     | -             | 27                 |                    |
| Consumer Credits         | 176                   | 81           | 132           | 70                    | 459           | 54                 |                    |
| <b>T O T A L</b>         | <b>10,883</b>         | <b>7,771</b> | <b>23,441</b> | <b>42,712</b>         | <b>84,807</b> | <b>160,978</b>     |                    |

**c) Detail by credit risk rating in R\$ Thousands**

| Risk Level   | 06.30.2004         |                      |                  |                 | 06.30.2003         |                      |                  |                 |
|--------------|--------------------|----------------------|------------------|-----------------|--------------------|----------------------|------------------|-----------------|
|              | Regular Credit (1) | Repayment in Arrears | Total Portfolio  | Total Provision | Regular Credit (1) | Repayment in Arrears | Total Portfolio  | Total Provision |
| AA           | 1,482,282          | -                    | 1,482,282        | -               | 1,214,499          | -                    | 1,214,499        | -               |
| A            | 1,199,797          | -                    | 1,199,797        | 5,999           | 1,106,543          | -                    | 1,106,543        | 5,533           |
| B            | 320,165            | 8,599                | 328,764          | 3,288           | 351,277            | 15,237               | 366,514          | 3,665           |
| C            | 102,980            | 11,546               | 114,526          | 3,436           | 167,885            | 39,872               | 207,757          | 6,233           |
| D            | 130,873            | 23,687               | 154,560          | 15,456          | 84,840             | 43,404               | 128,244          | 12,824          |
| E            | 51,877             | 27,102               | 78,979           | 23,694          | 84,722             | 58,075               | 142,797          | 42,839          |
| F            | 79,096             | 36,751               | 115,847          | 57,923          | 85,612             | 68,537               | 154,149          | 77,074          |
| G            | 22,311             | 31,262               | 53,573           | 37,501          | 45,819             | 83,099               | 128,918          | 90,242          |
| H            | 56,860             | 194,692              | 251,552          | 251,552         | 96,052             | 364,842              | 460,894          | 460,894         |
| <b>TOTAL</b> | <b>3,446,241</b>   | <b>333,639</b>       | <b>3,779,880</b> | <b>398,849</b>  | <b>3,237,249</b>   | <b>673,066</b>       | <b>3,910,315</b> | <b>699,304</b>  |

(1) Include 14 days past-due credits.

**d) Allowance for the period in R\$ Thousands**

|  | 06.30.2004     | 06.30.2003     |
|--|----------------|----------------|
| Opening Balance  | 598,813        | 851,650        |
| (+) Allowance for the period                           | 98,756         | 124,762        |
| (-) Credits classified as Losses                       | (298,720)      | (277,108)      |
| <b>(=) Allowance for losses and lending operations</b> | <b>398,849</b> | <b>699,304</b> |
| (+) Allowance for losses on Others Credits             | 20,512         | 9,149          |
| <b>(=) Closing Balance</b>                             | <b>419,361</b> | <b>708,453</b> |

**e) Allowance Expenses in R\$ Thousands**

|   | 06.30.2004    | 06.30.2003     |
|---|---------------|----------------|
| (+) Doubtful account provision expenses           | 98,893        | 116,704        |
| (+) Other settlement provision expenses           | 156           | 9,501          |
| (+) Reversals in credit/ loan provisions          | (293)         | (1,443)        |
| <b>(=) Loan Provision Expenses Balance</b>        | <b>98,756</b> | <b>124,762</b> |
|   |               | 9,149          |
| (+) Non-loan credit provision expenses            | 676           |                |
| (-) Reversals in other non-loan credit provisions | (2,572)       | -              |
| <b>(=) Final Balance</b>                          | <b>96,860</b> | <b>133,911</b> |

f) Throughout the semester an amount of R\$ 87,365 thousand (R\$ 81,362 thousand on 06.30.2003) in loans written-off as losses was recovered; loan re-negotiations amounted to R\$ 663,258 thousand (R\$ 193,324 thousand on 06.30.2003).

- g) According to Provisional Measure Number 2.196-3, of 08.24.2001, which established The Federal Financial Institutions Strengthening Brazilian Program, the grant of agricultural credit operations renegotiated based on Law Number 9.138, of 11.29.1995, and under CMN Resolution Number 2.471, of 02.26.1998, are being renegotiated with the Brazilian National Treasury. The amounts that were registered under Other Credits/Special Credits were totally converted into Credit Operations, in connection with credits granted under the PROCEDER III funds, as opposed to the credits granted from mixed sources such as GAT, BNDES and FNE and the credits obtained solely from BNDES. This procedure caused a negative impact on equity of R\$ 45,025 thousand. i.e., R\$38,664 on the Profit per Thousand Shares and R\$ 6,361 thousand on the Net Equity. Other transactions are stated in Other Credits/ Special Credits, for a total of R\$ 286,930 thousand.

#### NOTE 6 – Long-Term Liabilities

As respects obligations in connection with loans and onlending assignments executed in Brazil, interest rates range from 0-10% per annum, with maturity dates that range from 4-20 years, average maturity 7 years. Restatement, as applicable, is calculated according to legal and contractual provisions, subject to the rates published by the Brazilian Central Bank.

Borrowing agreements with BNDES were executed under the Long Term Interest Rate ("TJLP"), plus an average rate of 2% per year, average maturity date of 6 years.

Borrowing agreements with the Worker's Support Fund ("FAT"), stated in Special Interest Bearing Deposits, total BRL 1,617,390 thousand (BRL 1,939,683 thousand in June 30, 2003); funds are subject to the SELIC benchmark rate whilst deposited with the bank and subject to the TJLP rates after credit agreements are granted to borrowers. Average maturity period for these transactions is 6 years, with final maturity in 2023.

Free funding, restated according to the SELIC benchmark rates, total BRL 517,033 thousand (BRL 559,610 thousand on June 30, 2003). As respects foreign borrowings, interest rates range from 1.62%-11.375% per annum (including Income Tax); average maturity period is 8 years and the final maturity date with the IADB is 2019. Restatement for exchange rate variations, as applicable, is calculated according to legal and contractual provisions, subject to the rates published by the Brazilian Central Bank.

As respects funding obtained with the issue of Eurobonds, interest rates range from 9.625%-11.375%; the maturity date for the last tranche is March 7, 2005. Lending transfers are effected at least under the same conditions of borrowing transfers, as for charges and maturity dates and are backed up by collateral, pledges and other guarantees.

#### NOTE 7 –Financial Statements Mainly Accounts Details in R\$ Thousands

##### a) Other Credits

|  | <u>06.30.2004</u> | <u>06.30.2003</u> |
|--|-------------------|-------------------|
| <b>Receivables for Guarantees honored</b>  | <b>6</b>          | <b>-</b>          |
| <b>Foreign Currency Portfolio</b>  | <b>30,587</b>     | <b>7,801</b>      |
| Unsettled Currency Purchases   | 30,427            | 6,587             |
| Rights on Foreign Currency Sales   | 72                | -                 |
| Other  | 88                | 1,214             |
| <b>Income Receivable</b>   | <b>6,680</b>      | <b>4,529</b>      |
| <b>Moneys Negotiation and Dealing</b>  | <b>81</b>         | <b>16</b>         |
| <b>Specific Credits</b>  | <b>287,221</b>    | <b>517,240</b>    |
| National Treasury Department – Agriculture Credit Lengthening/Resolution Nr. 2471 (Note 5.g) | 286,930           | 517,221           |
| National Treasury Department - Agriculture Credit Lengthening/Resolution Nr. 2238            | 291               | 19                |
| <b>Sundry</b>  | <b>660,461</b>    | <b>446,167</b>    |
| Tax Credits - Temporary Differences  | 356,864           | 245,357           |
| Tax Credits – marketable securities and Derivative instruments                               | 98,765            | 51,578            |
| Debtors for Guarantee Deposits   | 56,623            | 49,109            |
| Tax and Payable Contributions  | 34,100            | 30,776            |
| Tax Incentive Options  | 26,748            | 26,748            |
| Security and Credits Receivable  | 10,181            | 6,005             |
| Other  | 77,180            | 36,594            |
| <b>Allowance for Other Doubtful Debts</b>  | <b>(25,786)</b>   | <b>(20,965)</b>   |
| Having a Credit Granting Nature  | (5,274)           | (11,816)          |
| Having not a Credit Granting Nature  | (20,512)          | (9,149)           |
| <b>TOTAL</b>   | <b>959,250</b>    | <b>954,788</b>    |
| SHORT TERM BALANCE   | 889,790           | 732,352           |
| LONG TERM BALANCE  | 69,460            | 222,436           |

##### b) Deposits

|                                  | <u>06.30.2004</u> | <u>06.30.2003</u> |
|----------------------------------|-------------------|-------------------|
| <b>Demand deposits</b>           | <b>251,297</b>    | <b>145,007</b>    |
| Deposits for investment purposes | 113,637           | 53,613            |

|  |                  |                  |
|--|------------------|------------------|
| Deposits in foreign currencies (in domestic accounts)      | 62,123           | 48,857           |
| Governmental deposits                                      | 33,113           | 21,615           |
| Restricted deposits  | 21,808           | 13,301           |
| Other  | 20,616           | 7,621            |
| <b>Savings accounts</b>                                    | <b>374,650</b>   | <b>293,443</b>   |
| Free savings accounts - individuals                        | 285,503          | 235,678          |
| Free savings accounts – legal entities                     | 88,921           | 57,749           |
| Other  | 226              | 16               |
| <b>Interbank deposits</b>                                  | <b>36,920</b>    | <b>7,560</b>     |
| <b>Term deposits</b>                                       | <b>1,989,690</b> | <b>2,279,288</b> |
| Term deposits  | 354,649          | 336,266          |
| Judicial Deposits (interest bearing)                       | 17,651           | 12,339           |
| Special interest bearing deposits/ FAT – Available funding | <b>517,033</b>   | <b>559,610</b>   |
| Urban Proger   | 90,598           | 117,957          |
| Rural Proger   | 109,529          | 110,867          |
| Pronaf   | 221,868          | 225,406          |
| Protrabalho  | 69,697           | 64,038           |
| Draught period   | 25,341           | 41,342           |
| Special interest bearing deposits/ FAT – Invested funds    | <b>1,100,357</b> | <b>1,371,073</b> |
| Urban Proger   | 259,597          | 449,368          |
| Rural Proger   | 74,289           | 74,847           |
| Pronaf   | 106,041          | 106,413          |
| Protrabalho  | 623,160          | 686,021          |
| Draught period   | 37,270           | 54,424           |
| <b>TOTAL</b>   | <b>2,652,557</b> | <b>2,725,298</b> |
| <b>SHORT-TERM BALANCE</b>                                  | 989,719          | 777,556          |
| <b>LONG-TERM BALANCE</b>                                   | 1,662,838        | 1,947,742        |

### c) Domestic Onlending Liabilities

|   | <u>06.30.2004</u> | <u>06.30.2003</u> |
|---|-------------------|-------------------|
| <b>The Treasury Department</b>                        | <b>1,833</b>      | <b>1,886</b>      |
| <b>BNDES</b>  | <b>1,162,082</b>  | <b>1,320,030</b>  |
| POC   | 406,326           | 511,532           |
| Credit facilities for the farming sector              | 402,984           | 378,774           |
| Other programs  | 352,772           | 429,724           |
| <b>CEF</b>  | <b>1,297</b>      | <b>1,532</b>      |
| <b>FINAME</b>   | <b>148,341</b>    | <b>167,501</b>    |
| Special program                                       | 2,007             | 6,400             |
| Regular Programs                                      | 72,900            | 73,337            |
| Farming Program                                       | 23,438            | 23,781            |
| Other programs  | 49,996            | 63,983            |
| <b>Others institutions</b>                            | <b>321,350</b>    | <b>248,762</b>    |
| Agrarian reform support - pilot project               | 62,618            | 62,644            |
| MEPF - Fund for Lands and Agrarian Reform – Land Bank | 179,063           | 126,545           |
| EMBRATUR <sup>4</sup> /FUNGETUR <sup>5</sup>          | 5,384             | 7,611             |
| Land Bank – Rural Poverty Combat                      | 69,392            | 45,957            |
| Other Programs  | 4,893             | 6,005             |
| <b>TOTAL</b>  | <b>1,634,903</b>  | <b>1,739,711</b>  |
| <b>SHORT-TERM BALANCE</b>                             | 440,680           | 370,452           |
| <b>LONG-TERM BALANCE</b>                              | 1,194,223         | 1,369,259         |

### d) Foreign Onlending Liabilities

|                               | <u>06.30.2004</u> | <u>06.30.2003</u> |
|-------------------------------|-------------------|-------------------|
| IADB-Prodetur                 | 1,120,012         | 1,044,839         |
| IADB - Other programs         | 1,321             | -                 |
| Linked to interbank onlending | 3,007             | 3,071             |
| <b>TOTAL</b>                  | <b>1,124,340</b>  | <b>1,047,910</b>  |
| <b>SHORT-TERM BALANCE</b>     | 77,298            | 66,322            |
| <b>LONG-TERM BALANCE</b>      | 1,047,042         | 981,588           |

### e) Other Obligations

|   | <u>06.30.2004</u> | <u>06.30.2003</u> |
|---|-------------------|-------------------|
| <b>Collection of taxes and others</b>                         | <b>7,847</b>      | <b>10,164</b>     |
| <b>Foreign Exchange portfolio</b>                             | <b>156</b>        | <b>77</b>         |
| Obligations for foreign currency purchased                    | 30,119            | 5,285             |
| Foreign currency sold pending settlement                      | 72                | -                 |
| (Advances on exchange contracts)                              | (30,119)          | (5,285)           |
| Other   | 84                | 77                |
| <b>Statutory obligations</b>                                  | <b>14,749</b>     | <b>6,384</b>      |
| <b>Tax and social security obligations</b>                    | <b>820,055</b>    | <b>805,915</b>    |
| Provisions for tax contingencies                              | 686,754           | 718,084           |
| Provision for deferred income tax and social contribution tax | 118,706           | 53,335            |
| Securities and derivative financial instruments               | 96,332            | 29,503            |

|  |                  |                  |
|--|------------------|------------------|
| Building and land revaluation  | 22,374           | 23,832           |
| Provision for income tax and social contribution tax                           | 972              | 23,820           |
| Other  | 13,623           | 10,676           |
| <b>Financial/ development funds</b>  | <b>4,038,431</b> | <b>2,242,571</b> |
| The Constitutional Fund for the Development of the Northeastern Region ("FNE") | 4,003,011        | 2,214,100        |
| Other  | 35,420           | 28,471           |
| <b>Miscellaneous</b>   | <b>1,191,687</b> | <b>818,153</b>   |
| <b>Provision for contingent liabilities</b>                                    | <b>1,028,061</b> | <b>765,188</b>   |
| Labor grievances   | 43,558           | 48,787           |
| Civil disputes   | 58,686           | 29,049           |
| Tax-related disputes   | 17,254           | 15,770           |
| Benefits to employees – CVM Instruction 371                                    | 308,638          | 109,178          |
| Retirement and pension plan  | 287,174          | 99,505           |
| Health plan  | 21,464           | 9,673            |
| FNE (Note 14.c)  | 599,925          | 562,404          |
| <b>Provision for payments falling due</b>                                      | <b>139,984</b>   | <b>33,686</b>    |
| CVM Instruction 371 – Retirement and pension plan                              | 106,231          | -                |
| Other  | 33,753           | 33,686           |
| <b>Other</b>   | <b>23,642</b>    | <b>19,279</b>    |
| <b>TOTAL</b>   | <b>6,072,925</b> | <b>3,883,264</b> |
| <b>SHORT-TERM BALANCE</b>  | <b>3,653,776</b> | <b>2,032,711</b> |
| <b>LONG-TERM BALANCE</b>   | <b>2,419,149</b> | <b>1,850,553</b> |

#### f) Financial Intermediation Income

|   | <u>06.30.2004</u> | <u>06.30.2003</u> |
|---|-------------------|-------------------|
| <b>Credit facilities</b>                    | <b>384,719</b>    | <b>386,410</b>    |
| Interest and commissions                    | 170,657           | 225,568           |
| Monetary restatement                        | 57,245            | 71,361            |
| Exchange rate variation                     | 69,452            | 8,119             |
| Recovery of credits written off from assets | 87,365            | 81,362            |
| <b>Transactions with securities</b>         | <b>594,289</b>    | <b>612,274</b>    |
| Fixed income securities                     | 574,722           | 616,162           |
| Others investments                          | 19,567            | (3,888)           |
| <b>Derivative financial instruments</b>     | <b>-</b>          | <b>(5)</b>        |
| <b>Foreign Exchange transactions</b>        | <b>9,593</b>      | <b>77,661</b>     |
| <b>Income from compulsory investments</b>   | <b>(1,493)</b>    | <b>1,692</b>      |
| <b>TOTAL</b>                                | <b>987,108</b>    | <b>1,078,032</b>  |

#### g) Financial intermediation expenses

|   | <u>06.30.2004</u> | <u>06.30.2003</u> |
|---|-------------------|-------------------|
| <b>Funding obtained in the open market</b>      | <b>(157,546)</b>  | <b>(215,184)</b>  |
| FAT   | (94,097)          | (148,664)         |
| Term deposits                                   | (27,761)          | (37,712)          |
| Funding obtained with the issue of Eurobonds    | (14,608)          | (5,782)           |
| Other funding                                   | (21,080)          | (23,026)          |
| <b>Borrowing and Onlending</b>                  | <b>(453,865)</b>  | <b>(374,955)</b>  |
| Interest and commissions                        | (71,955)          | (90,252)          |
| Monetary restatement                            | (26,483)          | (49,836)          |
| Exchange rate variation                         | (80,001)          | (9,460)           |
| FNE   | (263,788)         | (217,157)         |
| Other funding                                   | (11,638)          | (8,250)           |
| <b>Provision for doubtful accounts (Note 5)</b> | <b>(96,860)</b>   | <b>(133,911)</b>  |
| <b>TOTAL</b>                                    | <b>(708,271)</b>  | <b>(724,050)</b>  |

#### h) Other Operating Income and Expenses

|  | <u>06.30.2004</u> | <u>06.30.2003</u> |
|--|-------------------|-------------------|
| <b>Income from services rendered</b>                       | <b>274,978</b>    | <b>243,732</b>    |
| Investment funds managed by the Bank                       | 2,100             | 1,756             |
| Fund and program management                                | 243,335           | 226,278           |
| Other  | 29,543            | 15,698            |
| <b>Personnel expenses</b>                                  | <b>(148,789)</b>  | <b>(132,900)</b>  |
| Salaries   | (97,435)          | (84,439)          |
| Compulsory social charges                                  | (37,205)          | (33,633)          |
| Other  | (14,149)          | (14,828)          |
| <b>Other administrative expenses</b>                       | <b>(161,074)</b>  | <b>(116,991)</b>  |
| Data processing  | (31,375)          | (24,097)          |
| Advertising  | (13,045)          | (1,406)           |
| Outsourced services  | (13,917)          | (12,396)          |
| Rent, consumption materials, utilities (water, power, gas) | (14,618)          | (12,637)          |
| Travel   | (7,354)           | (7,895)           |
| Communications   | (9,322)           | (7,736)           |
| Depreciation & amortization                                | (6,877)           | (6,168)           |
| Property maintenance                                       | (5,919)           | (5,776)           |
| Surveillance, security and transportation                  | (6,445)           | (6,730)           |
| Promotions, public relations and publications              | (5,427)           | (2,932)           |

|   |                  |                  |
|---|------------------|------------------|
| Services – financial system                             | (3,109)          | (2,930)          |
| Technical expert services                               | (7,656)          | (1,715)          |
| Other   | (36,010)         | (24,573)         |
| <b>Tax expenses</b>                                     | <b>(33,525)</b>  | <b>(30,941)</b>  |
| Cofins tax  | (25,949)         | (23,367)         |
| PIS/PASEP taxes   | (4,217)          | (5,063)          |
| Other   | (3,359)          | (2,511)          |
| <b>Other Operational Income</b>                         | <b>143,112</b>   | <b>428,948</b>   |
| <i>Del credere</i> commission, managed funds            | 48,591           | 38,270           |
| Negative Exchange rate variations - loans               | 921              | 270,009          |
| Reversal – credit/risk provisions with FNE transactions | 5,031            | -                |
| Charges and expenses recovered                          | 5,979            | 1,605            |
| Income from special credits                             | 4,533            | 69,431           |
| Reversal – credit provisions/ social contribution tax   | -                | 25,881           |
| Other   | 78,057           | 23,752           |
| <b>Other Operating Expenses</b>                         | <b>(133,669)</b> | <b>(566,373)</b> |
| Exchange rate variation – exchange area                 | (5,357)          | (77,297)         |
| Negative Exchange rate variations - loans               | (2,475)          | (181,572)        |
| Discounts granted in re-negotiations with debtors       | (3,851)          | (5,459)          |
| Tax risks   | (16,812)         | (81,014)         |
| Retirement and pension plan (CVM n° 371)                | (73,155)         | (65,989)         |
| Health plan (CVM n° 371)                                | (8,653)          | (5,877)          |
| FNE credit risk   | -                | (109,416)        |
| Other   | (23,366)         | (39,749)         |
| <b>TOTAL</b>  | <b>(58,967)</b>  | <b>(174,525)</b> |

## NOTE 8 – Income tax and contribution tax

### a) Income Tax and Social Contribution Tax

Banco do Nordeste is under the taxable income system and estimated income tax and social contribution tax are paid over to the tax authority on a monthly basis. Income tax expenses for the first semester of 2004 were BRL 92,562 thousand; social contribution tax was BRL 33,332 thousand, according to the conciliation provided below (in BRL thousand):

|  | <u>Income tax</u> |                   | <u>Social Contribution</u> |                   |
|--|-------------------|-------------------|----------------------------|-------------------|
|  | <u>06.30.2004</u> | <u>06.30.2003</u> | <u>06.30.2004</u>          | <u>06.30.2003</u> |
| Income before taxes                              | 180,674           | 115,266           | 214,066                    | 156,681           |
| "Permanent" asset additions/ retirals            | 50,309            | 36,547            | 16,832                     | (5,719)           |
| Period-related additions/ retirals               | (226,706)         | (50,514)          | (226,706)                  | (50,514)          |
| Taxable income before offsets                    | 4,277             | 101,299           | 4,192                      | 100,448           |
| Tax loss carryforward and negative tax base      | (1,283)           | (30,390)          | (1,258)                    | (30,134)          |
| Taxable income after offsets                     | 2,994             | 70,909            | 2,934                      | 70,314            |
| Taxes payable                                    | 736               | 17,715            | 264                        | 6,328             |
| Deductions (fiscal incentives and other offsets) | (594)             | (730)             | (203)                      | (182)             |
| Tax credits on timing differences                | 92,420            | 97,972            | 33,271                     | 35,270            |
| Additional income tax – taxable year 2002        | -                 | 1,476             | -                          | -                 |
| Amounts recorded as expenses                     | 92,562            | 116,433           | 33,332                     | 41,416            |
| Expense/ income ration before taxes              | 51.23%            | 101.01%           | 15.57%                     | 26.43%            |

### b) Tax credits on timing differences

Article 9 of Law Number 9.430, sets deductibility rules applied in the registration of allowance for bad debtors in the tax basis for the Income Tax and Social Contribution, which differ from the provisions of the National Monetary Council Resolution Number 2.682, of 12.21.1999. The portion of the provision constituted by the rules of the National Monetary Council exceeding the limit ascertained in accordance with the tax laws is temporarily added in the tax basis for the aforementioned taxes. The provisioning, temporarily non-deductible, shall reduce the tax results from subsequent periods, when it shall be included in concepts of loss for taxable purposes, or upon the reversion thereof.

Because of the temporary nature of the addition of allowances bad debtors, and pursuant to provision of the Circular Letter BACEN Nr. 3.171, of 12.30.2002, CVM Resolution Nr. 273, of 08.20.1998, and Article 8, of Provisional Measure Nr. 2.158-35, of 08.24.2001, the Bank registers the tax credit corresponding to the Income Tax and Social Contribution on said Temporary Differences.

In accordance with the Circular Letter BACEN Nr. 3.023, of 06.11.2002, Tax Credits have been constituted on adjustments to the market value of Bonds and Securities, as regards the securities available for sale. Credits' movement is shown below, in R\$ Thousands:

|  | INCOME TAX         |               | SOCIAL CONTRIBUTION TAX |               |                           |
|--|--------------------|---------------|-------------------------|---------------|---------------------------|
|  | Timing differences | Securities    | Timing differences      | Securities    | Art. 8 Prov. Act 2,158/01 |
| Initial Balance on December 31, 2003   | 326,943            | 39,938        | 117,700                 | 14,378        | 37,912                    |
| (+) Set up of credits                  | -                  | 32,683        | -                       | 11,766        | -                         |
| (-) Realization of credits             | (92,420)           | -             | (33,271)                | -             | -                         |
| <b>(=) Final Balance June 30, 2004</b> | <b>234,523</b>     | <b>72,621</b> | <b>84,429</b>           | <b>26,144</b> | <b>37,912</b>             |

The breakdown for the balance for the provision for Income Tax and Social Contribution Tax, recorded in "Other Sundry Credits" is as follows:

|   | <u>Income Tax</u> |                   | <u>Social Contribution Tax</u> |                   |
|---|-------------------|-------------------|--------------------------------|-------------------|
|   | <b>06.30.2004</b> | <b>06.30.2003</b> | <b>06.30.2004</b>              | <b>06.30.2003</b> |
| 1. Total timing differences                                 | 2,801,108         | 3,042,275         | 2,801,108                      | 3,042,275         |
| 2. Tax loss carryforward and negative tax base              | 869,844           | 612,056           | 893,681                        | 614,337           |
| 3. Base for calculation (1) + (2)                           | 3,670,952         | 3,654,331         | 3,694,789                      | 3,656,612         |
| 4. Total Tax Credits  | 917,738           | 913,583           | 332,531                        | 329,095           |
| 5. CSLL to be offset – Prov. Act 2,158-35/01, Article 8     | -                 | -                 | 37,912                         | 37,912            |
| 6. Tax credits in connection with Securities mark to market | 72,621            | 37,925            | 26,144                         | 13,653            |
| 7. Total tax credits  | 990,359           | 951,508           | 396,587                        | 380,660           |
| 8. Tax credits - recognized                                 | 307,144           | 190,459           | 148,485                        | 106,477           |
| 9. Tax credits – non-recognized (7)-(8)                     | 683,215           | 761,049           | 248,102                        | 274,183           |

Deferred Income Tax and Social Contribution Tax will be realized as timing differences that serve as the base for tax payable calculations are reversed or comply with the tax deductibility standards, which realization Schedule is provided below, duly based on a technical report in which net income is foreseeable in the future thereby generating income tax and social contribution tax payable, subject to the provisions of Law 9,249/95, Article 6, Sole Paragraph. The table provided below shows the expected realization values, as compared to the present value of the credit, calculated according to the Interbank Deposit rate ("CDI"), as projected to the applicable periods:

| Period       | <u>Realization of the Income Tax Credit</u> |                      | <u>Realization of the Social Contribution Tax Credit</u> |                      | <u>Total</u>           |                      |
|--------------|---|----------------------|--|----------------------|------------------------|----------------------|
|              | <u>Estimated value</u>                      | <u>Present value</u> | <u>Estimated value</u>                                   | <u>Present value</u> | <u>Estimated value</u> | <u>Present value</u> |
| 2004         | 21,438                                      |                      | 7,717  | -                    | 29,154                 | -                    |
| 2005         | 82,724                                      | 67,069               | 29,781   | 24,145               | 112,505                | 91,214               |
| 2006         | 28,416                                      | 20,323               | 10,230   | 7,316                | 38,646                 | 27,639               |
| 2007         | 42,110                                      | 26,790               | 15,160   | 9,644                | 57,270                 | 36,434               |
| 2008         | 59,836                                      | 34,002               | 21,541   | 12,241               | 81,377                 | 46,243               |
| <b>TOTAL</b> | <b>234,523</b>                              | <b>148,184</b>       | <b>84,429</b>  | <b>53,346</b>        | <b>318,952</b>         | <b>201,530</b>       |

Tax credits on the mark to market adjustments for Securities registered under the BACEN Circular Letter nº 3,068/01 will be realized according to their respective maturities, as provided below, in BRL Thousand:

| Period            | <u>Realization of the Income Tax Credit</u> |                      | <u>Realization of the Social Contribution Tax credit</u> |                      | <u>Total</u>           |                      |
|-------------------|---|----------------------|--|----------------------|------------------------|----------------------|
|                   | <u>Estimated value</u>                      | <u>Present value</u> | <u>Estimated value</u>                                   | <u>Present value</u> | <u>Estimated value</u> | <u>Present value</u> |
| 2004              | 63,425                                      | 58,909               | 22,834   | 21,208               | 86,259                 | 80,117               |
| 2005              | 941   | 763                  | 339  | 275                  | 1,280                  | 1,038                |
| 2006              | 284   | 203                  | 102  | 73                   | 386                    | 276                  |
| 2007              | 2,325                                       | 1,479                | 806  | 513                  | 3,131                  | 1,992                |
| 2008              | 801   | 455                  | 288  | 164                  | 1,089                  | 619                  |
| 2009 through 2011 | 2,809                                       | 1,284                | 1,040  | 475                  | 3,849                  | 1,759                |
| 2025 through 2027 | 2,036                                       | 147                  | 734  | 14                   | 2,770                  | 161                  |
| <b>TOTAL</b>      | <b>72,621</b>                               | <b>63,240</b>        | <b>26,143</b>  | <b>22,722</b>        | <b>98,764</b>          | <b>85,962</b>        |

Pursuant to the Provisional Act 2,158/01, Article 8, the Social Contribution Tax credit will be realized as an offset with the Social Contribution Tax payable, as provided below, in BRL Thousand:

| <u>Realization of Social Contribution Tax Credits, Provisional Act 2,158/01</u> |                        |                      |
|---|------------------------|----------------------|
| <u>Period</u>   | <u>Estimated value</u> | <u>Present value</u> |
| 2004  | 6,150                  | 5,534                |
| 2005  | 3,170                  | 2,521                |
| 2006  | 12,419                 | 8,791                |
| 2007  | 8,368                  | 5,304                |
| 2008  | 7,805                  | 4,437                |
| <b>TOTAL</b>  | <b>37,912</b>          | <b>26,587</b>        |

## NOTE 9 – Net Equity

### a) Capital Stock

Capital stock is worth BRL 1,228,000 thousand (BRL 1,162,000 thousand on June 6, 2003) and is represented by 870,019,022,574 shares of no par value, duly paid-up, as provided below:

| Shareholders                                       | Common Shares          | Preferred Shares       | % of Voting Stock | % of Total Stock |
|--|------------------------|------------------------|-------------------|------------------|
| The Federal Government                             | 465,952,800,540        | 353,731,907,693        | 96.10             | 94.22            |
| The <i>Fundo Nacional de Desenvolvimento</i> – FND | 14,737,043,790         | 23,732,649,036         | 3.04              | 4.42             |
| BNDES  | 490,153,432            | 4,899,854,822          | 0.10              | 0.62             |
| Other shareholders (35,637 persons)                | 3,667,757,582          | 2,806,855,679          | 0.76              | 0.74             |
| <b>TOTAL</b>                                       | <b>484,847,755,344</b> | <b>385,171,267,230</b> | <b>100.00</b>     | <b>100.00</b>    |

#### b) Revaluation reserve

This refers to the revaluation of property in use, set up on February 26, 1993. The realization that took place in this semester, for the amount of BRL 1,493 thousand (BRL 1,338 thousand on June 30, 2003) was transferred to "Retained Earnings (Loss)".

#### c) Dividend Payout

The Banco do Nordeste Bylaws provides a minimum dividend payout of 25% on the 1st semester net income, as advance against the dividend payout for the year.

The Board of Directors proposed, ad referendum, in the Annual Meeting, an advanced dividend payout, as provided below, in BRL Thousand:

|   |               |
|---|---------------|
| <b>1. Net Income for the Semester</b>                               | <b>88,172</b> |
| 2. Legal reserve set up   | (4,409)       |
| 3. Adjustments (debit) in Profit per Thousand Shares ("LPA")        | (84,771)      |
| 4. Revaluation Reserves transferred to LPA                          | 1,493         |
| 5. Adjustments (credit) in LPA                                      | 57,217        |
| <b>6. Base for the Calculation of Dividend Payout</b>               | <b>57,702</b> |
| 7. Dividend payout (as proposed and provisioned) of 25.344%         | 14,624        |
| - Dividend per 1,000 common shares (BRL .0161) X 484,847,755,344    | 7,806         |
| - Dividend per 1,000 preferred shares (BRL .0177) X 385,171,267,230 | 6,818         |

Dividend payout to preferred shares were calculated considering an amount that is 10% over the dividends due to common shares, as provided in Law 6,404/76, paragraph "I" of Article 17, as amended by Law 9,457/97, subject to Paragraph 2, Article 6 of the Bank Bylaws.

#### d) Prior Year Adjustments

|   | Debit adjustment | Credit Adjustment | Net Adjustment  |
|---|------------------|-------------------|-----------------|
| Cross entry of transactions executed with BNDES, Mix and <i>Proceder</i> , assigned to the Federal Government (Note 5.g)                | (84,771)         | 46,107            | (38,664)        |
| Segregation of the amounts in connection with bonuses and/ or waiver of charges in re-negotiated transactions, subject to Law 10,696/03 |                  | 11,110            | 11,110          |
| <b>TOTAL</b>  | <b>(84,771)</b>  | <b>57,217</b>     | <b>(27,554)</b> |

#### NOTE 10 – Liability Contingencies

Banco do Nordeste participate in several lawsuits involving mainly civil actions and labor disputes, both individual and collective. Before such a number of proceedings, and based on a case-by-case analysis, the Legal Superintendency, from provisioning criteria prior defined, indicates the values that should be provisioned in each situation. For criteria determination, all of the Bank legal units conducted a survey as regards demands capable of being included in the classification hereby provided, with the entire basis of proceedings being considered. To such an effect, the civil, tax, and labor actions were classified as to the involved risk, and provisions were set aside in amounts considered enough by the Bank lawyers, as it is shown below, in R\$ Thousands:

Tax-related suits were classified as "probable" and reserves were set-up for 100% of the amounts offset as Income Tax and Social Contribution tax paid over in connection with the understated inflation rates enforced upon financial investment existing at the time "*Plano Verão*" (the "Summer Economic Plan") was implemented, duly recorded in "Other Obligations – Tax and Social Security".

Provisions in connection with post-employment benefits are recognized in connection with directions in CVM Instruction 371 of December 13, 2000 and with the risk assumed by the Bank in connection with FNE credit facility



agreements, executed as from December 1, 1998; these are calculated according to the provisions of Resolution 2,682/99.

Provisions for contingent liabilities total BRL 1,028,061 thousand and BRL 765,188 thousand in the first semesters of 2004 and 2003, respectively. (Note 7.e).

**NOTE 11 – Employee and Officer Compensation**

The ceiling, average and floor range amounts for monthly compensation paid by the Bank to its employees and officers are (in Brazilian Reals):

| Monthly Compensation (Gross) | Employees (1) | Officers (2) |
|------------------------------|---------------|--------------|
| Ceiling                      | 8,886.55      | 10,541.57    |
| Floor                        | 428.05        | -            |
| Average                      | 3,286.46      | -            |

(1) Includes overtime (including night shift allowance).

(2) Includes BRL 1,756.93 in connection with a 20% allowance on pay, as determined by the Treasury Department.

On 06.30.2004, Banco do Nordeste employees number totaled 3,879, against 3,723, as of 06.30.2003, with a 4,19% increase, within the period, in Bank personnel.

**NOTE 12 - Employee Benefits**

As provided in the CVM Instruction 371 of December 13, 2000, the information on the employee benefit policy is provided below, including the accounting procedures adopted by Banco do Nordeste in order to recognize any such obligations:

**a) Banco do Nordeste does not provide**

- Termination benefits;
- Long-term benefits;
- Any type of compensation in connection with stock option.

**b) Accounting Procedures Adopted by the Bank when Recognizing Actuarial Income and Loss:**

The policy adopted in the recognition of actuarial earnings and losses complies with the provisions in items 52 to 55 of the attachment to CVM Resolution Nr. 371, recognizing the actuarial earnings or losses portion exceeding the higher of:

- 10% of the present amount of the actuarial obligation for individual benefits; and
- 10% of the fair value of the pension plan assets.

**c) Features of the Pension Plan for Employees of Banco do Nordeste do Brasil**

The Bank sponsors de Employee Pension Plan (the "CAPEF"), a private pension fund to supplement employee retirement and pensions paid to dependents. Below are the relevant information in connection with the CAPEF rules:

**c.1) Actuarial Method**

CAPEF adopted the accumulation method for the actuarial calculation of the reserves in connection with the benefits paid as supplemental retirement and pension and full withdrawal.

**c.2) Benefit plan**

The adopted type plan is that of determined benefit, assuring the supplementation of the retirement for service time, aging, and incapability of participants, as well as the supplementation of the ordinary pension and annuity for participants' dependents.

**c.3) Unpaid Obligations**

Nihil.

**c.4) Overdue Contributions**

In the second semester of 2003, CAPEF, participants and assisted people, further to sponsors, entered into an agreement for recomposing the benefits, including the payment for benefits differences for the period between January 1997 and December 2003, intending to extinguish legal demands then existing (537 actions comprehending 3,054 participants and assisted), which jeopardized Entity subsistence.

As a consequence of the negotiating procedures, Banco do Nordeste executed an agreement with CAPEF on December 30, 2003 in connection with the amount it would contribute as a sponsor, i.e., R\$ 183,695 thousand.

The agreement also recognized unpaid contributions for the July 1993-February 1994 period, for the amount of R\$ 54,975 thousand, totaling R\$ 238,670 thousand.

Throughout the semester the amount due was restated by R\$ 6,797 thousand and the Bank amortized an amount of R\$ 139,236 thousand.

The balance, for the amount of R\$ 106,231 million, will be paid in twenty-four (24) consecutive installments, restated at the CAPEF actuarial rate (INPC variation plus 6% per annum), with the first installment falling due on January 31, 2005.

**c.5) Actuarial Status**

CAPEF actuarial results as of June 2004 was a surplus of R\$ 76,681 thousand (a deficit of R\$ 300,865 thousand on June 30, 2003) as per an Actuarial Assessment Report by the firm PROBUS Suporte Empresarial S/C Ltda.

**c.6) List of Contributions (Members/Sponsor)**

The contribution ratio of participants and the Bank is in accordance with the parity rule established by Constitutional Amendment 20/98; at the end of the first semester of 2004 the ratio was 1:1 (1:1 as of December 31, 2003).

**d) Health Plan Features**

Banco do Nordeste sponsors the Health Plan managed by the Banco do Nordeste do Brasil Employee Credit Union ("CAMED"), with the key mission of providing health care to its employees and their dependents enrolled with the Regular Plan; the entity provides the funds to cover employee and dependent medical expenses.

**d.1) Unpaid Obligations**

Nihil.

**d.2) Contributions**

The Regular Plan is funded by the contribution paid by members, by the contribution made by the sponsor, for an equivalent amount, by the additional contributions made according to the enrollment of new dependents, by the financial protection charges and by the portion paid by the members according to the medical procedures individually undergone by them.

**e) Reconciliation of Assets and Liabilities as Recognized by the Bank**

Reconciliation of assets and liabilities is provided below in BRL thousand, as per actuarial assessments performed by the firm PROBUS Suporte Empresarial S/C Ltda., according to the information provided by CAPEF, by CAMED and by the Banco do Nordeste do Brasil S/A, as prescribed by the Attachment to CVM Instruction 371, Item 49.

| Item   | CAPEF     | CAMED   |
|--|-----------|---------|
| 1. Present value of actuarial obligations, with total or partial coverage  | 2,086,358 | 194,204 |
| 2. Fair Value of Plan Assets   | 1,266,149 | 11,268  |
| 3. Present negative value of actuarial obligations (1-2)                   | 820,209   | 182,936 |
| a. Present negative value of recognized actuarial obligations              | 393,405   | 21,464  |
| i. Current expenses  | 83,038    | 29      |
| ii. Net value of actuarial losses  | 11,579    | 5,744   |
| iii. Cost of past services   | 181,972   | -       |
| iv. Portion of the actuarial liabilities ascertained on December 31, 2001  | 116,816   | 15,691  |
| b. Present negative value of unrecognized actuarial obligations            | 426,804   | 161,472 |
| i. Net value of actuarial losses   | 137,767   | 145,781 |
| ii. Cost of past services  | 172,221   | -       |
| iii. Portion of the actuarial liabilities ascertained on December 31, 2001 | 116,816   | 15,691  |

**f) The Changes in the Net Actuarial Liabilities for the Period are Provided Below, in BRL Thousand:**

| Item   | CAPEF     | CAMED   |
|--|-----------|---------|
| 1. Net actuarial liabilities at the end of the previous year         | 850,323   | 31,640  |
| 2. Changes in the negative actuarial liabilities in the present year | (30,114)  | 151,296 |
| a. Current expenses  | 36,544    | (229)   |
| b. Net value of actuarial losses                                     | 72,578    | 151,525 |
| c. Cost of past services   | (139,236) | -       |
| 3. Net actuarial liabilities at the end of this year                 | 820,209   | 182,936 |

**g) Expenses Recognized in the Income Statement are Provided Below, in BRL Thousand:**

| Item  | CAPEF         | CAMED         |
|---|---------------|---------------|
| 1. Current expenses   | 58,557        | 6,310         |
| a. Cost of current services, deducted from member contributions                 | 7,538         | 4,411         |
| b. Interest expenses  | 118,975       | 1,899         |
| c. Estimated yield on plan assets   | (67,956)      | -             |
| 2. Actuarial income (loss) recognized in the year                               | -             | 5,744         |
| 3. Cost of past services  | 13,248        | -             |
| 4. Actuarial liability ascertained on December 31, 2001, recognized in the year | 23,363        | 3,138         |
| <b>5. Expenses that were recognized in the income statement</b>                 | <b>95,168</b> | <b>15,192</b> |

|  |        |       |
|--|--------|-------|
| a. Provision for contingent liabilities (Note 7-h) | 73,155 | 8,653 |
| b. Contribution expenses                           | 22,013 | 6,539 |

## h) Additional Comments

**h.1) Current Expenses** – obligations ascertained in the year in connection with the overtime worked by employees, equivalent to the amounts of R\$ 58,557 thousand and R\$ 6,310 thousand for CAPEF and CAMED, respectively. The differences between any such expenses and the contributions paid to CAPEF (R\$ 22,013 thousand) and CAMED (R\$ 6,539 thousand) are equivalent to the amounts of R\$ 36,544 thousand and R\$ 229 thousand and represent the variations in the net actuarial liabilities for the year (exhibit f.2.a) in this note. The above variations are recognized in the current year, plus accrued expenses from the prior year (BRL 46,495 thousand and R\$ 259 thousand) total R\$ 83,038 thousand and R\$ 29 thousand for CAPEF and CAMED, respectively (exhibit e.3.a.i);

**h.2) Net Actuarial (Gains)/Losses** – obligations ascertained in the year in connection with changes in the actuarial assumptions or any inconsistencies between the assumptions and the actual developments. The recognition of any such obligations takes place in accordance with the recognition of actuarial income and loss - item b in this note. Throughout this year the amount of R\$ 5,744 thousand was recognized in connection of the CAMED health plan, as respects the first half-yearly actuarial loss installment to be recognized throughout the remainder working years of CAMED members, estimated in 11.5 years. It should be noted that additions to actuarial losses for the amount of R\$ 72,578 thousand and R\$ 151,525 were ascertained for CAPEF and CAMED, respectively; this increased the net actuarial liabilities (exhibit f.2.b.). The losses in connection with CAPEF arise from the effects of the differences between the assumptions used to calculate the actuarial obligations and the actual developments. The losses in connection with CAMED arise from the effects of changes in the assumptions of the actuarial assessment, which now considers total uncovered costs as opposed to the obligation to pay statutory contributions. The accrued actuarial losses duly recognized total R\$ 11,579 thousand for CAPEF and R\$ 5,744 thousand for CAMED (exhibit e.3.a.11). The accrued actuarial losses non-recognized, total R\$ 137,767 thousand for CAPEF and R\$ 145,781 thousand for CAMED (exhibit e.3.b.1).

**h.3) Cost of Services Formerly Provided** - liabilities ascertained upon the increase of after-employment benefits, as regards services provided by employees in former time periods. The expenses recognition for the cost of services formerly provided complies with the provision in items 38, 56, and 57 of the Attachment to CVM Resolution Nr. 371. Expenses for the amount of R\$ 13,248 thousand (in connection with CAPEF) were recognized this year, arising from the first installment for the coverage of past service costs, equivalent to benefits to be provided; this is recorded in the balance sheet for the year ending on December 31, 2003 (R\$ 185,469 thousand), to be recognized throughout the remainder working years of CAPEF members, estimated in 7 years as from 2004. The balance (R\$ 172,221 thousand will be recognized in the next 13 semesters (exhibit e.3.b.ii). An amortization of R\$ 139,236 thousand took place this year in connection with past service costs (for CAPEF), equivalent to past benefits and recognized in the 2003 taxable year (R\$ 307,960). Said amortization reduced the net actuarial liabilities (exhibit f.2.c). The increased past service costs this year (BRL 13,248 thousand), plus the accrued expenses from the previous year (R\$ 307,960 thousand), duly recognized, minus the said amortization (R\$ 139,236 thousand) make up for a total in past services cost of R\$ 181,972 thousand (exhibit e.3.a.iii);

**h.4) Actuarial Liability Ascertained as of 12.31.2001** – the current value for non-covered actuarial liabilities, in amounts of R\$ 233,632 thousand (CAPEF) and R\$ 31,382 (CAMED); ascertained as of 12.31.2001, as provided in item 49 of the Attachment to the CVM Instruction 371. The expenses recognition for actuarial liabilities on 12.31.2001 is being conducted for a five-year period, from 2002 (item 84 of the aforementioned provision). This year expenses for the amount of R\$ 23,363 thousand for CAPEF and BRL 3,138 thousand for CAMED were recognized. The accrued expenses duly recognized this year total R\$ 116,816 thousand for CAPEF and R\$ 15,691 thousand for CAMED (exhibit e.3.a.iv). The remaining installments making up the entire obligation, for the amount of BRL 116,816 thousand and R\$ 15,691 thousand will be recognized in the next five semesters (exhibits e.3.b.iii).

## i) Assumptions

- i.1) Biometric Assumptions:** General Mortality Table - Non-Disabled Lives – AT83; Mortality Table – Disabled Lives, IAPC Experience; Disability Occurrence Table – the CAPEF Experience; and Turnover Table – None.
- i.2) Economic Assumptions:** Expected Net Yield from the plan assets – 6% per annum; Future Inflation Rate - 6% per annum; Estimated Salary Increase Rate – 1% per annum; Net Benefit Growth Rate – 0% per annum; Actuarial Obligation Net Discount Rate – 6% per annum; Net INSS Benefit Growth Rate – 0% per annum; Net Health Care Expense Growth Rate – 2.8% per annum.

- i.3) Future inflation rates are used to calculate the Present Value of the Actuarial Obligation to measure inflationary float in connection with the annual cycles of future contributions and benefits; this calculation assumes the same inflationary effect for all salary, social security and economic variables for the health plan.

#### NOTE 13 – Equity Balances Bound to Foreign Currencies

The transactions executed in foreign currencies recorded a net balance of R\$ 1,698 thousand (sold position) on June 30, 2004, as a result of the difference between assets in foreign currencies (R\$ 1,399,297 thousand) and liabilities in foreign currencies (R\$ 1,400,995 thousand).

#### NOTE 14 - The Brazilian Northeastern Region Constitutional Financing Fund (“FNE”)

- a) The loans funded by the FNE are recorded in offset accounts (Managed Governmental Funds)
- b) The balance in the Fund, recorded under Other Obligations/Financial and Development Funds, is invested at extra-market rates.
- c) The provision to meet the risks for the transactions under FNE is set up according to the following criteria:
- c.1) For agreements executed before November 30, 1998, the Bank does not run any credit risks.
- c.2) For agreements executed as from December 1, 1998, the risk for the Bank is limited to 50% of the amount calculated as provided in Resolution 2,682/99. The breakdown of loan balances and the provisions recorded in Contingent Liabilities is shown below, in R\$ Thousand:

| Risk Level   | Balances<br>(A)  | % Risk<br>(B) | Risk Amount<br>C = (A x B) | Provision in June<br>2004<br>D = (C x 50%) | Provision in June<br>2003 |
|--------------|------------------|---------------|----------------------------|--|---------------------------|
| AA           | 553,046          | 0 %           | -                          | -  | -                         |
| A            | 473,783          | 0.50 %        | 2,369                      | 1,184                                      | 244                       |
| B            | 692,261          | 1.00 %        | 6,922                      | 3,461                                      | 2,485                     |
| C            | 341,078          | 3.00 %        | 10,232                     | 5,116                                      | 6,469                     |
| D            | 481,980          | 10.0 %        | 48,198                     | 24,099                                     | 8,408                     |
| E            | 101,340          | 30.0 %        | 30,402                     | 15,201                                     | 26,166                    |
| F            | 59,720           | 50.0 %        | 29,860                     | 14,930                                     | 33,170                    |
| G            | 48,565           | 70.0 %        | 33,996                     | 16,998                                     | 37,347                    |
| H            | 1,037,871        | 100 %         | 1,037,871                  | 518,936                                    | 448,115                   |
| <b>TOTAL</b> | <b>3,789,644</b> |               | <b>1,199,850</b>           | <b>599,925</b>                             | <b>562,404</b>            |

- d) For agreements executed before November 30, 1998, the Bank's Del credere commissions were nil. For the agreements executed after that date, Del credere commission is 3% per annum when the risk level is 50% and 6% when the Bank is a party to the agreement.
- e) Agent's commission is 3% per annum, calculated on the Fund's net equity minus the contract amount, limited to 20% of the amounts transferred by the Treasury Department on a yearly basis.
- f) In order to operate the FNE, the Bank uses its logistical and credit structure such as facilities, employees, information systems and used the instruments to support development such as Production Agent training and the Development Lighthouse - a discussion forum and the development of projects that promote regional growth.

#### NOTE 15 – Operational Limits - Basel Pact

On June 6, 2004, the capital adequacy rate (the Basel Index) of Banco do Nordeste was 20.85% (23.77% on June 30, 2003), whilst the Reference Equity ("PR") was R\$ 1,314,655 thousand (R\$ 1,184,887 thousand on June 30, 2003). Resolution 2,099/94 issued by the Brazilian Currency Board and amendments thereof issued by the Brazilian Central Bank have determined that as of June 30, 2004 the capital stock adequateness rate should be at least 11% and, accordingly this would mean a minimum PR of R\$ 693,714 thousand (R\$ 548,363 thousand on June 30, 2003).

The risk-weighted assets are provided below (in R\$ Thousand):

|  | <b>06.30.2004</b> | <b>06.30.2003</b> |
|--|-------------------|-------------------|
| <b>Assets subject to 0% risk</b>                               |                   |                   |
| Cash   | 28,164            | 18,846            |
| Credits and bonds issued by the Brazilian government           | 7,939,430         | 6,212,440         |
| Deposits with the Brazilian Central Bank                       | 79,378            | 61,330            |
| Special credits - extended period of time to pay Rural Credits | 287,221           | 517,240           |
| Refinanced transactions with the Brazilian government          | 465,242           | 454,291           |
| Other  | 156,827           | 45,968            |
| Total subject to 0% risk                                       | 8,956,262         | 7,310,115         |

|   |                   |                   |
|---|-------------------|-------------------|
| <b>Assets subject to 20% risk</b>                                 |                   |                   |
| Cash in foreign currencies  | 3,728             | 13,208            |
| Cash and other notes settlement services                          | 46,079            | 45,101            |
| Deposits in other banks   | 2,791             | 8,181             |
| Total subject to 20% risk   | 52,598            | 66,490            |
| Weighted amount   | 10,520            | 13,298            |
| <b>Assets subject to 50% risk</b>                                 |                   |                   |
| Investment in interbank deposits, securities and investment funds | 352,266           | 240               |
| Foreign exchange portfolio  | 30,426            | 6,587             |
| Offset accounts   | 147,777           | 95,326            |
| Other   | 205               | 287               |
| Total subject to 50% risk   | 530,674           | 102,440           |
| Weighted amount   | 265,337           | 51,220            |
| <b>Assets subject to 100% risk</b>                                |                   |                   |
| Credit facilities   | 2,873,428         | 2,743,219         |
| Property and equipment in use                                     | 146,413           | 137,020           |
| Investments   | 766               | 4,438             |
| Foreign exchange portfolio  | 160               | 1,214             |
| Offset accounts   | 1,197,736         | 699,530           |
| Other   | 382,585           | 285,408           |
| Total subject to 100% risk  | 4,601,088         | 3,870,829         |
| Weighted amount   | 4,601,088         | 3,870,829         |
| <b>Assets subject to 300% risk</b>                                |                   |                   |
| Tax credits - income tax and social contribution tax              | 455,384           | 296,934           |
| Total subject to 300% risk  | 455,384           | 296,934           |
| Weighted amount   | 1,366,152         | 890,802           |
| <b>Total risk weighted assets</b>                                 | <b>14,596,006</b> | <b>11,646,808</b> |
| <b>Total weighted amount</b>                                      | <b>6,243,097</b>  | <b>4,826,149</b>  |

Below is the net equity and capital adequacy rate calculations, in BRL thousand.

|   | <b>06.30.2004</b> | <b>06.30.2003</b> |
|---|-------------------|-------------------|
| a) Assets subject to weighted risk                      | 14,596,006        | 11,646,808        |
| b) Risk weighted assets ("APR")                         | 6,243,097         | 4,826,149         |
| c) Swap credit risk                                     | -                 | -                 |
| d) Net equity/ APR ratio required (11% of "B")          | 686,741           | 530,876           |
| d) Net equity/ Swap ratio required (20% of "C")         | -                 | -                 |
| f) Net equity/ interest rate exposure required          | 6,973             | 17,486            |
| g) Net equity required ("PLE"): "D" + "E" + "F"         | 693,714           | 548,362           |
| h) Reference equity ("PR"):                             | 1,314,655         | 1,184,887         |
| Level I   | 1,271,223         | 1,138,625         |
| Level II  | 43,432            | 46,262            |
| Revaluation reserves                                    | 43,432            | 46,262            |
| i) Reference equity/net equity required ("G/H"):        | 0.53              | 0.46              |
| j) Net equity excess (deficiency): PR - PLE ("H" - "G") | 620,941           | 636,525           |
| l) Leverage excess (deficiency) ("J" x 100)/11          | 5,644,918         | 5,786,591         |
| <b>m) Net income adequacy ratio</b>                     | <b>20.85%</b>     | <b>23.77%</b>     |

#### NOTE 16 – Cash Flow

|  | <b>06.30.2004</b> | <b>06.30.2003</b> |
|--|-------------------|-------------------|
| <b>Operating Cash Flow</b>                       |                   |                   |
| Net income for the year                          | 88,172            | 24,713            |
| Non cash items                                   |                   |                   |
| Depreciation & amortization expenses             | 6,878             | 6,168             |
| - Provision for losses in investments            | 3,809             | -                 |
| - Provision for the depreciation of other assets | 3,054             | 83                |
| Interbank and interdependence relationships      | 4,786             | 3,633             |
| Credit facilities                                | (221,029)         | 364,204           |
| Other Credits                                    | 323,670           | 37,748            |
| Changes in the income of future years            | 738               | -                 |
| Previous year adjustments                        | (27,554)          | -                 |
| <b>Cash generated (used) in credit</b>           | <b>182,524</b>    | <b>436,549</b>    |
| <b>Cash flow from financing activities</b>       |                   |                   |
| Deposits   | (114,243)         | (350,684)         |
| Borrowings and onlendings                        | (22,628)          | (312,623)         |
| Funding obtained in the open market              | 110,003           | (63,774)          |

|   |                  |                  |
|---|------------------|------------------|
| Other obligations   | 521,496          | 570,552          |
| Funds from debt securities  | (11,257)         | (26,635)         |
| Dividends and bonuses - proposal                                  | (14,624)         | (6,272)          |
| <b>Total source of funds</b>                                      | <b>468,747</b>   | <b>(189,436)</b> |
| <b>Cash flow from financing activities</b>                        |                  |                  |
| Investment on assets not used in banking operations               | (654)            | (860)            |
| Investment in property and equipment in use                       | (15,871)         | (4,335)          |
| Divestment of assets not used in banking operations               | 1,094            | 556              |
| Divestment of property and equipment in use                       | (186)            | (185)            |
| Investment sold   | (9)              | (6)              |
| Increase in deferred assets                                       | (535)            | (906)            |
| Money market investments  | 43,014           | 44,625           |
| Other assets  | 62               | (409)            |
| Securities  | (621,913)        | (282,157)        |
| Derivatives financial instruments                                 | -                | (5)              |
| Mark-to-market of Securities and derivative financial instruments | (46,276)         | (3,819)          |
| <b>Total investments</b>  | <b>(641,274)</b> | <b>(247,501)</b> |
| <b>Net changes in cash</b>  | <b>9,997</b>     | <b>(388)</b>     |
| <b>Statement of cash changes</b>                                  |                  |                  |
| At the beginning of the period:                                   | 20,958           | 27,415           |
| At the end of the period:   | 30,955           | 27,027           |
| Increase (decrease) in cash                                       | 9,997            | (388)            |

## Note 17– Other Information

### a) Transactions with related parties

Banco do Nordeste did not perform any transactions with related parties in the 1st semesters of 2004 and 2003. Transactions with entities owned by the Federal Government (the Bank's majority shareholder) totaled R\$ 245 thousand (R\$ 3,164 thousand on 06.30.2003). Such credit facilities took place under identical conditions as with non-related parties.

### b) Collateral Provided

Co-obligations and risks in collateral provided by the Bank are shown below, in R\$ Thousand:

|                                       | <u>06.30.2004</u> | <u>06.30.2003</u> |
|---------------------------------------|-------------------|-------------------|
| Clean facilities for imports          | 5,726             | 1,622             |
| Beneficiaries of collateral provided: |                   |                   |
| - Non-banking individuals or entities | 3,236             | 2,390             |
| - FNE                                 | 1,723,415         | 1,267,738         |
| - Other entities                      | -                 | 6,950             |
| Co-obligations in credit assignments  | 147,868           | 95,536            |

### c) Insurance

The Bank chattels and real estates are sufficiently insured in the amount of R\$ 225,580 thousand (R\$ 227,178 thousand on 06.30.2003), as detailed below:

|                   | <u>06.30.2004</u> | <u>06.30.2003</u> |
|-------------------|-------------------|-------------------|
| Personal property | 52,463            | 3,794             |
| Real property     | 173,117           | 223,384           |

Fortaleza (Brazil), July 23, 2004.

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**ROBERTO SMITH**  
CHIEF EXECUTIVE OFFICER

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**FRANCISCO DE ASSIS GERMANO ARRUDA**  
BUSINESS AND PEOPLE MANAGEMENT OFFICER

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**PEDRO EUGÊNIO DE CASTRO TOLEDO CABRAL**  
DEVELOPMENT MANAGEMEN OFFICER

---

**VICTOR SAMUEL CAVALCANTE DA PONTE**  
INVESTMENT FURTHERANCE OFFICER

---

**ANTÔNIO ROBERTO DE SOUSA PAULINO**  
DIRECTOR OF STRATEGIC AFFAIRS

---

**LUIZ ETHEWALDO DE ALBUQUERQUE GUIMARÃES**  
FINANCE AND FOREIGN EXCHANGE OFFICER

---

**JOÃO FRANCISCO FREITAS PEIXOTO**  
FINANCIAL CONTROL SUPERINTENDENT

---

**LUIZ ALBERTO CRUZ DE OLIVEIRA**  
LEGAL SUPERINTENDENT

---

**AÍLA MARIA RIBEIRO DE ALMEIDA – CERTIFIED**  
ACCOUNTANT  
CRC-CE Nº 016318/O-7

**OBS.: Notes are an integral part of Financial Statements.**

\* The Regional Accounting Council - State of Ceará Section

## INDEPENDENT AUDITORS' OPINION

To Stockholders and Managers  
Banco do Nordeste do Brasil S.A.

1. We have conducted the Banco do Nordeste do Brasil S.A. balance sheet review, as of June 30, 2004, and the respective income statements, stockholders' equity changes, financial position changes for the half-year period ended on that date, prepared under their administration responsibility. Our responsibility is expressing an opinion of these financial statements opinion.
2. Our review was conducted in accordance with the Brazilian applicable audit rules, and it comprehended: (a) the planning of works, considering the balance importance, the transactions volume and the Bank accounting and internal control systems; (b) the ascertainment, based on tests, of evidences and records supporting accounting values and information disclosed; and (c) the evaluation of the most representative accounting practices and estimates adopted by the Bank management, and the submission of financial statements taken as a whole.
3. The Bank has registered, as current assets, the amount of R\$ 565,366 thousand under the rubric Other credits – Special credits – Extension of credit to agriculture, corresponding to operations of credit to agriculture renegotiated upon determination of Law number 9.138, of November 29, 1995, and Resolution number 2.471, of February 26, 1998, of the Brazilian National Monetary Council. Said credits are subject of negotiation for credit assignment by Banco do Nordeste to the Federal Government, the acceptance of which depends on the approval by the National Treasury Service for the Brazilian Treasury Department. As negotiations are in development, it was not possible to send the letter of confirmation to the National Treasury Service, and the additional audit tests required were not enough for us to estimate the effects that would arise out of the non-acceptance of said credits by the National Treasury Service.
4. In our opinion, except for possible effects that could result from the non-acceptance of the credit operations mentioned in Paragraph 3, the financial statements referred to in Paragraph 1, properly provide, in all outstanding respects, the equity and financial position of Banco do Nordeste do Brasil S.A. as of June 30, 2004, its operations result, the stockholders' equity changes, and the financial position changes for the half-year period ended on that date, pursuant to accounting practices adopted in Brazil.



## INDEPENDENT AUDITORS' OPINION

To Managers and Stockholders  
Banco do Nordeste do Brasil S.A.

5. The financial statements for the half-year period ended as of June 30, 2003, provided for comparison purposes, were audited by other auditors, who issued an opinion dated August 1, 2003, with qualifications as to the financial statements of Caixa de Previdência dos Funcionários do Banco do Nordeste do Brasil [Private Pension Association for Employees of Banco do Nordeste do Brasil] ("CAPEF"), for the half-year period ended as of June 30, 2003, on a non-audited basis.
6. The supplementary information concerning the statement of cash flows for the half-year period ended on June 30, 2004, provided as note number 16 to the financial statements, is provided with the purpose of allowing additional analyses, being not an integral part of basic financial statements. We reviewed such information in accordance with the audit procedures mentioned in paragraph 2, and, in our opinion, they are properly provided, in all outstanding respects, as regards the financial statements taken as a whole. The supplementary information for the half-year period ended on June 30, 2003, was reviewed by other independent auditors.

Recife, July 25, 2004

Orlando Octávio de Freitas Júnior  
Accountant-partner  
CRC\* 1SP178871/O-4 "S" CE  
Trevisan Auditores Independentes  
CRC\* 2SP013.349/O-5 "S" PE

\* The Regional Accounting Council ("CRC") - State of Ceará Section

**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: 06.30.2004**

**THE CONSTITUTIONAL FUND FOR THE DEVELOPMENT OF THE NORTHEASTERN REGION - FNE**

(Act 7.827 of September 27, 1989)

**BALANCE SHEET**

30 DE JUNHO DE 2004 E 2003

(In thousands of BRL)

| ASSETS   |                   |                   | LIABILITIES                                     |                   |                   |
|--|-------------------|-------------------|---|-------------------|-------------------|
|  | 30.06.2004        | 30.06.2003        |   | 30.06.2004        | 30.06.2003        |
| <b>CURRENT ASSETS</b> .....                              | <b>10.202.466</b> | <b>7.604.756</b>  | <b>SHAREHOLDERS' EQUITY</b> .....               | <b>17.104.329</b> | <b>13.712.396</b> |
| CASH AND BANKS .....                                     | 4.003.011         | 2.206.833         | TRANSFERS OF FUNDS FROM THE FEDERAL GOVERNMENT: |                   |                   |
| Funds to be allocated .....                              | 2.870.606         | 1.972.403         | During the semester .....                       | 1.088.468         | 465.497           |
| Allocated funds .....                                    | 1.132.405         | 234.430           | In previous years .....                         | 10.548.710        | 8.757.199         |
| INTERBANK OPERATIONS .....                               | 92.695            | 99.291            | INCOME FROM PREVIOUS YEARS .....                | 5.003.594         | 3.884.447         |
| Rural credit facility – Proagro receivable .....         | 4.690             | 4.213             | NET INCOME FOR THE SEMESTER .....               | 463.557           | 605.253           |
| Debtors by onlendings .....                              | 88.005            | 95.078            |   |                   |                   |
| CREDIT FACILITIES .....                                  | 6.106.760         | 5.298.632         |   |                   |                   |
| Financings .....   | 1.966.641         | 1.604.016         |   |                   |                   |
| Farming and manufacturer's credit facilities .....       | 441.876           | 357.169           |   |                   |                   |
| Rural credit facilities .....                            | 3.698.243         | 3.337.447         |   |                   |                   |
| <b>LONG TERM RECEIVABLES</b> .....                       | <b>6.901.863</b>  | <b>6.107.640</b>  |   |                   |                   |
| INTERBANK OPERATIONS .....                               | 4.377             | 3.157             |   |                   |                   |
| Rural credit facility – Proagro receivable .....         | 962               | 3.111             |   |                   |                   |
| Debtors by onlendings .....                              | 3.415             | 46                |   |                   |                   |
| CREDIT FACILITIES .....                                  | 6.893.239         | 6.096.351         |   |                   |                   |
| Financings .....   | 1.241.045         | 790.830           |   |                   |                   |
| Farming and manufacturer's credit facilities .....       | 164.830           | 157.007           |   |                   |                   |
| Rural credit facilities .....                            | 5.487.364         | 5.148.514         |   |                   |                   |
| OTHER ASSETS .....                                       | 4.247             | 8.132             |   |                   |                   |
| Proagro Coverage Notes .....                             | 2.890             | 6.643             |   |                   |                   |
| Agrarian debt bonds receivable .....                     | 2.467             | 2.567             |   |                   |                   |
| (Provision for devaluation of agrarian debt bonds) ..... | (1.110)           | (1.078)           |   |                   |                   |
| <b>TOTAL ASSETS</b> .....                                | <b>17.104.329</b> | <b>13.712.396</b> | <b>TOTAL LIABILITIES</b> .....                  | <b>17.104.329</b> | <b>13.712.396</b> |

**CONSTITUTIONAL FUND FOR THE NORTHEASTERN REGION - FNE**

(Law 7.827 of September 27, 1989)

**STATEMENT OF INCOME**

30 DE JUNHO DE 2004 E 2003

(In thousands of BRL)

|  | 1º sem/2004    | 1º sem/2003    |
|--|----------------|----------------|
| <b>REVENUES</b>                          |                |                |
| Credit facilities .....                  | 420.531        | 592.340        |
| Yield on cash .....                      | 263.727        | 216.784        |
| <b>EXPENSES</b>                          |                |                |
| Administrative expenses .....            | (220.687)      | (203.862)      |
| Auditing expenses .....                  | (14)           | (9)            |
| <b>NET INCOME FOR THE SEMESTER</b> ..... | <b>463.557</b> | <b>605.253</b> |

**CONSTITUTIONAL FUND FOR THE NORTHEASTERN REGION - FNE**

(Act 7.827 of September 27, 1989)

**STATEMENT OF CHANGES IN NET EQUITY**

**JUNE 30, 2004 AND JUNE 30, 2003**

(In thousands of BRL)

| ITEMS   | TRANSFERS OF FUNDS<br>FROM THE FEDERAL<br>GOVERNMENT | RETAINED PROFITS | TOTAL             |
|---|--|------------------|-------------------|
| <b>BALANCES ON DECEMBER 31, 2002</b> .....                          | <b>8.757.199</b>                                     | <b>3.897.619</b> | <b>12.654.818</b> |
| Transfers of funds from the federal government in the semester..... | 465.497  |                  | 465.497           |
| Adjustments from previous years.....                                |  | (13.172)         | (13.172)          |
| Net income for the semester.....                                    |  | 605.253          | 605.253           |
| <b>BALANCES ON JUNE 30, 2003</b> .....                              | <b>9.222.696</b>                                     | <b>4.489.700</b> | <b>13.712.396</b> |
| <b>CHANGES FOR THE SEMESTER</b> .....                               | <b>465.497</b>                                       | <b>592.081</b>   | <b>1.057.578</b>  |
| <b>BALANCES ON DECEMBER 31, 2003</b> .....                          | <b>10.548.710</b>                                    | <b>5.035.049</b> | <b>15.583.759</b> |
| Transfers of funds from the federal government in the semester..... | 1.088.468  |                  | 1.088.468         |
| Adjustments from previous years.....                                |  | (31.455)         | (31.455)          |
| Net income for the semester.....                                    |  | 463.557          | 463.557           |
| <b>BALANCES ON JUNE 30, 2004</b> .....                              | <b>11.637.178</b>                                    | <b>5.467.151</b> | <b>17.104.329</b> |
| <b>CHANGES IN THE SEMESTER</b>                                      | <b>1.088.468</b>                                     | <b>432.102</b>   | <b>1.520.570</b>  |



## **NOTES TO THE FINANCIAL STATEMENTS**

### **For the semesters ended on June 30 2004 and 2003**

#### **NOTE 1 – History**

Fundo Constitucional de Financiamento do Nordeste [The Brazilian Northeast Region Constitutional Financing Fund] (“FNE”) was created under the provision included in Brazilian Federal Constitution (Article 159 I “c”), and it was regulated by Law Number 7.827, of 09.27.1989, amended by Laws Numbers 9.126, of 11.10.1995, and 10.177, of 01.12.2001, by the Provisional Measure Number 2.196-1, of 06.28.2001, and its reissues, as well as by Article 13, Provisional Measure Number 2.199-14, of 08.24.2001. Its purpose is to further Brazilian Northeastern Region economic and social development by creating programs for financing productive segments, in compliance with the respective regional development plans, with a preferential attention to business related to mini and small rural producers, those developed by micro and small companies, and those producing basic food, further to irrigation projects, with the lost fund application to be prohibited herein.

#### **NOTE 2 – Administration**

Banco do Nordeste shall: apply funds and implementing credit grant policy; define rules, procedures, and operational conditions, adequate financing proposals within burden ranges; defer credits; execute agreements for transfer of funds to other institutions authorized to operate by Brazilian Central Bank; account for results achieved; exercise other business inherent to the application of funds and credit recovery.

#### **NOTE 3 – Inspection**

Banco do Nordeste, on a continued basis, keeps statements of funds, applications and income of the Fund available to relevant inspection bodies, as of the end of the month.

#### **NOTE 4– Credit Risk**

FNE is responsible for 100% of the credit risk for operations entered into up to 11.30.1998, in the amount of R\$ 9,209,132 thousand (R\$ 8,606,355 thousand on 06.30.2003). In operations entered into from 12.01.1998, within the PRONAF scope (A, B, A/C, Semi-Arid, and Forrest) and Programa da Terra [The Land Program], with The Fund resources, totaling R\$ 338,102 thousand (R\$ 246,911 thousand on 06.30.2003), FNE’s and PROCERA’s credit risk is a 100% one, respectively, while for other operations, in the amount of R\$ 3,446,830 thousand (R\$ 2,535,476 thousand on 06.30.2003), FNE credit risk is 50%, with an equal percentage to be charged to Banco do Nordeste.

The Fund is free from credit risk in funds transferred to Banco do Nordeste for it, in its own behalf, to conduct credit operations. In year 2004 there were no records of transfers from FNE to Banco do Nordeste for application in such a modality.

As set forth in Article 8, Law Number 10.177, of 01.12.2001, studies are being conducted by the Grupo de Trabalho Interministerial [The Interministerial Work Group] (“GTI”) instituted by the Treasury, National Integration, and Transparency Control Government Departments, through the Interministerial Administrative Ruling Nr. 388, of 12.31.2003, aiming at the Constitutional Funds accounting information structuring and standardization, also for defining the criteria for recognizing losses in the equity of such Funds.

In such a respect, Banco do Nordeste has forwarded a proposal to the Brazilian Treasury Department suggesting rules for recognizing losses for Fund operation assets by adopting, as a criterion, the eight-year term of delay in operations. As the discussions on the matter, under the Brazilian Treasury and Brazilian National Integration Government Departments were not yet extinguished, the criteria proposed were not implemented in FNE accounting. Notwithstanding the proposal for loss recognition, and as a part of legal assignments of Fund’s money administration, Banco do Nordeste has enhanced actions for recovering credits in arrears, by renegotiating debts capable of doing so, within the internal credit administration rules, or based on legal instruments issued with such purpose, and through the consideration of credits the amicable solution perspectives of which have been exhausted.

Installments in arrears, net as regards revenues to appropriate, total R\$ 5,082,328 thousand on 06.30.2004. From such amount, R\$ 4,526,285 thousand refer to operations with credit facilities the Fund bearing 100% of the risk and R\$ 556,043 thousand with risk shared with Banco do Nordeste. In the second case, the Bank has registered the respective provisions in its statements, pursuant to Note Nr. 14 to the Financial Statements for Banco do Nordeste as of 06.30.2004. Find below the distribution of installments due and to become due for agreements in arrears, which amount R\$ 8,251,065 thousand, as set out below, in R\$ thousands:

|                   | <b>Installments to<br/>Become Due</b> | <b>Installments Due</b> |
|-------------------|---------------------------------------|-------------------------|
| Up to 1 year      | 813,375                               | 116,025                 |
| From 1 to 2 years | 793,529                               | 444,191                 |
| From 2 to 3 years | 647,308                               | 605,832                 |
| From 3 to 4 years | 392,705                               | 739,311                 |
| From 4 to 5 years | 272,306                               | 938,731                 |
| From 5 to 6 years | 127,013                               | 978,864                 |
| From 6 to 7 years | 65,664                                | 460,600                 |
| From 7 to 8 years | 48,385                                | 474,352                 |
| Over 8 years      | 8,452                                 | 324,422                 |
| <b>TOTAL</b>      | <b>3,168,737</b>                      | <b>5,082,328</b>        |

#### **NOTE 5 - Independent Audit**

FNE maintains an independent audit revue, contracted at its expenses, for certifying the compliance with the constitutional and legal provisions set forth, further to the revue of accounts and other usual audit procedures.

#### **NOTE 6 – Main Accounting Policies**

FNE holds an own accounting, availing of Banco do Nordeste's accounting system for registering its acts and facts in special headings, with the ascertainment of results being conducted separately.

The Banco do Nordeste adopted main accounting policies for FNE control are consubstantiated in the Accounting Plan of the Brazilian Northeastern Region Constitutional Financing Fund (“COFIN”), instituted by the Bank board of directors under the powers granted to them by the Law Number 7.827/1989.

The main headlights for accounting procedures are as follows:

#### **a) Appropriation of Revenues and Expenses**

They are the financing charges incurred on credit operations and the remuneration paid by Banco do Nordeste on Fund moneys that are not applied by that time.

In the Income Statement, the “Income from Credit Operations” are registered by their net value, with the following composition in R\$ Thousands:

|  | <b>06.30.2004</b> | <b>06.30.2003</b> |
|--|-------------------|-------------------|
| Credit Operation Income  | 588,684           | 626,511           |
| Negative Restatement Update  | (1,240)           | (7,682)           |
| Expenses from Discounts Granted in Renegotiations - Law 10.696/2003    | (16,586)          | -                 |
| Operational Provision Expenses   | (444)             | (30)              |
| Rebate/Bonus for Compliance Without Princ.-Ops. Contracted by the Bank | (147,770)         | (24,177)          |
| Rebate Principal-Ops. w/Rec. FAT - BNDES - Law 10.193/2001             | (2,113)           | (2,282)           |
| <b>T O T A L</b>   | <b>420,531</b>    | <b>592,340</b>    |

The amounts for hiring independent audit and the administration fee Banco do Nordeste is entitled as manager of the Fund are FNE expenses.

Revenues and expenses are recognized on an accrual basis. During the period in which due credit operations installments, the financial charges calculated at rates provided for by Law are accounted for in proper Fund income accounts and the charges for default are entered as income to be appropriated.

The 3%-annum administration paid to Banco do Nordeste by FNE is monthly appropriated, it being calculated on Fund net equity, deducted from the amounts subject matter of the agreement of transfer entered into with the Bank, to be limited, in each year, to 20% of the amount for transfers made by Brazilian National Treasury.

#### **b) Current and Long-Term Assets**

They are shown by realization amounts, including revenues and monetary variances earned.

On the resources representing the Fund availabilities in Banco do Nordeste possession, there is a remuneration based on the extra-market rate disclosed by the Brazilian Central Bank, paid by the Bank, the recognition of which occurs in the proper Fund income account, on an accrual basis.

From January 14, 2000, the financial charges on financings granted with FNE funds started to vary from 5 to 16% per year, pursuant to the business area and service takers size, complying with the following:

- The *del credere* Banco do Nordeste is entitled to is included in the financial charges covenanted with borrowers, it being reduced in a percentage identical to the percentage guaranteed by guarantee funds.
- Financing agreements shall contain a clause setting forth that the financial charges shall be reviewed on a yearly basis, and whenever the TJLP [Long Term Interest Rate] has an accumulated variance, up or down, exceeding thirty percent (30%).
- A compliance bonus of up to twenty-five percent (25%) shall be granted for borrowers developing their business in the Northeastern semi-arid region, and fifteen percent (15%) for the other regions borrowers, on financial charges, provided that the debt installment is paid up to the respective maturity date.
- In the funds application deviation event, the borrower shall lose any and all benefit, especially those relevant to the compliance bonus, without prejudice to reasonable legal actions, including those having an enforceable nature.

Headings registered under the rubric “Other Moneys and Assets” are recognized by their face value, plus compensation provided for each paper, and the assets adjustment effects to the market value or realization, when applicable, shall be considered.

The Provisional Measure Number 2.196-1, of 06.28.2001, and its reissues, which established the Programa de Fortalecimento das Instituições Financeiras Federais [Program for the Strengthening of Federal Institutions], defines, as to FNE funds, that:

- In operations contracted up to 11.30.1998, Banco do Nordeste’s *del credere* was reduced to zero, keeping charges covenanted with borrowers unaltered.
- For operations contracted with a 50% Bank credit risk, the Fund shall pay to Banco do Nordeste a 3%-year *del credere*.
- Fund moneys may be transferred to the Bank for it, in its own behalf and at its sole risk, to make credit operations on which it shall be entitled to a 6%-year *del credere*.
- On funds applied as transfer, the FNE shall not pay administration fee to the Bank.
- The Law Number 10.186, of 02.12.2001, set forth that the FNE risk in the projects financing for the initial settlers structuring, farm laborers, or Banco da Terra beneficiaries still not benefited with the credit exclusively directed to that class of agriculturists, provided that the conditions set forth by the Brazilian National Monetary Council for such credit operations are complied with. Said operations are conducted within PRONAF A.

From 2003, BNB has changed the *del credere* calculation criteria on shared risk operations, starting to ascertain the amounts due upon the application of a rate of 0.25% per month on the accounting balances of such operations. In year 2003, the criterion change resulted in the return, to FNE, of the amount of R\$ 675 thousand, for amounts due in the first semester of 2003. Still in the same year, the Bank *del credere* recalculation on operations with guarantees from guarantee funds (Dec/2000), and on operations included in PRONAF A (Dec/1999 to Dec/2000), with the amounts of R\$ 37 thousand and R\$ 2,100 thousand, respectively, being returned to the Bank (amounts updated by the extra-market rate).

From the year 2004, BNB has changed the *del credere* calculation methodology on operations guaranteed by guarantee funds, starting to consider the balances from each fund deposits and financial applications in the amounts ascertainment actually guaranteed by funds source, in operations supported by guarantee funds. Because of such change, the amounts due within the period comprehended between year 2000 and August 2004 was recalculated, with the FNE being repaid in the amount of R\$ 1,059 thousand, it being R\$ 848 thousand for years 2000 to 2003, and R\$ 211 thousand for the period comprehended between January and August /2004, being accounted, respectively, under Creditors’ Adjustments from Precedent Years and Year Result.

Based on the provisions in Resolution Number 2.766, of 08.10.2000, which regulated the Article 3 of Provisional Measure Number 2.050-11, of 07.28.2000, converted into Law Number 10.186, of 02.12.2001, which fixed in 2% per year the managing agents remuneration as regards PRONAF A operations ballasted with Constitutional Funds’ moneys (Article 7 and Sole Paragraph), BNB started to monthly charge FNE said remuneration. The calculation for amounts due, on a retroactively basis, in the Resolution effectiveness beginning, resulting in the payment to BNB of the amount of R\$ 10,395 thousand, corresponding to the compensation due within the period comprehended between Aug/2000 and Dec/2003. Said amount was accounted for under the rubric Debtors’ Adjustments from Precedent Years.

#### **NOTE 7 - Net Equity**

FNE Net Equity arises out of:

- Transfers from the Brazilian Federal Government, at the ratio of one point eight tenths percent (1.8%), extracted from the income tax collection product, and any nature revenues, and the excise tax;
- Operational returns and results;
- Result from the remuneration paid by Banco do Nordeste from Fund moneys not applied by that time.



**NOTE 8 - Adjustments From Previous Years**

The negative net adjustment of R\$ 31,455 thousand ascertained in the January-June 2004 period is in connection with the review of the charges on financing operations.

**NOTE 9 - Results Ascertainment**

FNE financial year coincides with the calendar year, for purposes results ascertainment.

The positive year result, arising out of revenues and expenses balance, is evidenced in Fund net equity.

**NOTE 10 - Tax Exemption**

FNE is tax exempted, and its results, income and financing operations are free from any tax, contribution or other encumbrance.

Fortaleza (Brazil), July 23, 2004.

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**ROBERTO SMITH**  
PRESIDENT

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**FRANCISCO DE ASSIS GERMANO ARRUDA**  
BUSINESS/PEOPLE MANAGEMENT DIRECTOR

---

**PEDRO EUGÊNIO DE CASTRO TOLEDO CABRAL**  
DEVELOPMENT MANAGEMENT DIRECTOR

---

**VICTOR SAMUEL CAVALCANTE DA PONTE**  
INVESTMENT PROMOTION DIRECTOR

---

**ANTÔNIO ROBERTO DE SOUSA PAULINO**  
DIRECTOR OF STRATEGIC AFFAIRS

---

**LUIZ ETHEWALDO DE ALBUQUERQUE GUIMARÃES**  
FINANCE/ FOREIGN EXCHANGE DIRECTOR

---

**JOÃO FRANCISCO FREITAS PEIXOTO**  
FINANCIAL CONTROL SUPERINTENDENT

---

**LUIZ ALBERTO CRUZ DE OLIVEIRA**  
LEGAL SUPERINTENDENT

---

**ÁÍLA MARIA RIBEIRO DE ALMEIDA – CERTIFIED**  
ACCOUNTANT  
CRC-CE N.º 016318/O-7

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

## INDEPENDENT AUDITORS' OPINION

To Managers and Stockholders

Fundo Constitucional de Financiamento do Nordeste

[The Brazilian Northeastern Region Constitutional Financing Fund] ("FNE")

(Administered by Banco do Nordeste do Brasil S.A.)

1. We have conducted the Fundo Constitucional de Financiamento do Nordeste [The Brazilian Northeastern Region Constitutional Financing Fund] ("FNE") (administered by Banco do Nordeste do Brasil S.A.) balance sheet review, as of June 30, 2004, and the respective income statements, stockholders' equity changes, financial position changes for the half-year ended on that date, prepared under the responsibility of their administration. Our responsibility is expressing an opinion on such financial statements.
2. Except for the issue mentioned in paragraph 3, our review was conducted in accordance with the Brazilian applicable audit rules, and it comprehended: (a) the work planning, considering the balances importance, the transactions volume and the Fund accounting and internal control systems; (b) the ascertainment, based on tests, of evidences and records supporting accounting values and information disclosed; and (c) the most representative accounting practices and estimates evaluation adopted by the Fund management, and the financial statements submission taken as a whole.
3. As mentioned in note number 4 to the financial statements, the Fund Administrator has conducted studies, together with Grupo de Trabalho Interministerial [The Interministerial Labor Group] ("GTI"), for setting forth rules for recognizing losses in equity of Constitutional Funds, specially by setting aside allowances for doubtful credits, which practice was not adopted by the Fund. Consequently, we could not make analyses for measuring possible losses in Fund's equity for the half-year ended on June 30, 2004, once only from the definition of said rules it shall be possible to make such evaluations, notwithstanding losses arising out of the establishing of the rules to be determined may be significant ones.
4. In our opinion, except for possible effects resulting from the adoption of rules to be determined for the recognition of losses in Fund's equity mentioned in paragraph 3, the financial statements referred to in paragraph 1 properly provide, in all outstanding respects, the equity and financial position of Fundo Constitucional de Financiamento do Nordeste [The Brazilian Northeastern Region Constitutional Financing Fund] ("FNE") (administered by Banco do Nordeste do Brasil S.A.), as of June 30, 2004, the result of its operations, changes in the stockholders' equity, and changes in financial position for the year ended on that date, pursuant to accounting practices adopted in Brazil.

## INDEPENDENT AUDITORS' OPINION

To Managers and Stockholders  
Fundo Constitucional de Financiamento do Nordeste  
[The Brazilian Northeastern Region Constitutional Financing Fund] ("FNE")  
(Administered by Banco do Nordeste do Brasil S.A.)

5. The financial statements for the half-year period ended on June 30, 2003, provided for comparison purposes, were audited by other auditors, who issued an opinion dated August 1, 2003, with qualifications as to the same issue mentioned in paragraph 3.

Recife, July 25, 2004

Orlando Octávio de Freitas Júnior  
Accountant-Partner  
CRC\* 1SP178871/O-4 "S" CE  
Trevisan Auditores Independentes  
CRC\* 2SP013.349/O-5 "S" PE

\* The Regional Accounting Council ("CRC") - State of Ceará Section