

*Banco do  
Nordeste*

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# ACCOUNTING STATEMENTS

## Banco do Nordeste and FNE

POSITION: 12.31.2001



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### 3. ACCOUNTING POLICIES

#### a) Determination of Profit and Loss

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

- Interest, monetary or exchange variations on current and long-term assets and liabilities are recorded on a "pro rata die" basis;
- Accruals, including taxes on vacation pay and the 13<sup>th</sup> month salary, are recognized on a monthly basis, according to the incurred period;
- The effects of adjustments of assets to the market or realizable value are considered when applicable.

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

Current and long-term assets are stated at realization value which includes accrued interest and monetary and exchange variations, less deferred income.

The lending operations of the Bank are contracted at normal market rates. An allowance for lending losses was recorded until February 29, 2000, in accordance with Resolution N° 1,748 of August 30, 1990 of the National Monetary Council and since March 1, 2000, based on Resolution N° 2,682/99.

#### c) Exception – Vote N° 142/94 of the National Monetary Council

On September 20, 1994, the National Monetary Council approved Vote N° 142/94, conferring a special accounting treatment to the lending operations contracted by the Bank with the Mendes Júnior Group. These lending operations, made using funds provided by the Banco do Brasil S.A., in accordance with Brazilian Central Bank Circular N° 708/82, and internal resources from the Bank, originated from decisions made since 1988, relating to the commercial relations between Brazil and Iraq and the implementation of the United Nations Resolution N° 881 confirmed in Brazil by Decree N° 99,441/90.

The receivables of the Bank from the Mendes Júnior Group on December 31, 2001, classified as long-term assets are as follows:

	<u>BALANCE DUE</u>	<u>INCOME NOT APPROPRIATED</u>	<u>NET BALANCE</u>	<u>ALLOWANCE FOR LOSS RECORDED Until June30, 2001</u>	<u>ALLOWANCE FOR LOSS COMPLEMENTED On December 31, 2001</u>
Past-due	3,177,752	3,091,045	86,707	9,581	77,126

The complemented allowance for loss in the amount of R\$ 77,126 thousand was recorded after the implementation of the adjustments of the Strengthening Program of the Federal Financial Institutions, on December 31, 2001, according to the Explanatory Note 4,d,i.

These credits are collateralized by mortgage, equipment collateral, guarantees from directors of the Mendes Junior Group and pledge of receivables.

d) Permanent Assets

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

- Investments are adjusted by allowance for losses;
- Land and buildings in use are stated at revaluation value;
- Depreciation is provided by the straight-line method based on the following annual rates:

- Buildings	4 %
- Transportation and data processing systems	20 %
- Others	10 %
- Deferred charges are comprised mainly of expenses incurred for the acquisition and development of software and deferred charges authorized by Circulars N° 2,582/95 and N° 2,707/96 of the Brazilian Central Bank, plus amortization calculated using the straight-line method at a fixed annual rate of 20%.

e) Current and Long-Term Liabilities

Current and long-term liabilities are stated at original amounts plus accrued interest and monetary and exchange rate variations, less deferred expenses.

f) Fund for Compensation of Salary Variations - FCVS

Recorded in long-term assets are credits from Fund for Compensation of Salary Variations (FCVS), in the amount of R\$ 41,404 thousand (R\$ 51,425 thousand as of December 31, 2000). Included in this total, there is an allowance for losses related to the VAF3 in the amount of R\$ 2,702 thousand (R\$ 2,438 thousand on December 31, 2000).

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

#### 4. PROGRAM FOR THE STRENGTHENING OF FEDERAL FINANCIAL INSTITUTIONS

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

The equity adjustment of the Federal Financial Institutions was necessary to comply with the bank rules established by the National Monetary Council (CMN) during the past years. This legislation reflects international standards established by the Basel Agreement that established the maximum leverage levels to the financial institutions in general. To adequate Brazil to the new world reality and accompanying the evolution of the financial market, the rules and treatment of the existent risks were altered by the National Monetary Council.

Due to the new order established, the National Financial Institutions, in general, were subjected to severe adjustments of equity. With the introduction of the new criterions by the Monetary Authority, it was recorded that the Financial Federal Institutions, among them the Bank, presented an inadequate capital structure compared to international standards. In this context, the followings stand out:

- a) Since 1995, the Bank, anticipating the measures issued by the Federal Government, has adopted measures with the objective of enhancing profitability. Among these measures, the significant ones are as follows:
  - i. modernization and redesign of processes, creating new instruments, such as Development Light Program, Development Agents, Guarantee Funds, Itinerant Agencies, Agro-Industrial Complex, Tourist Complex, Training, Study and Research Programs;
  - ii. implementation of a program of cutting administrative costs, which decreased from R\$ 937,833 thousand in 1994 to R\$ 478,294 thousand in 2001 (amounts monetarily adjusted by IGP-DI);
  - iii. significant increase in the client portfolio from 46,000 clients in 1995 to 1,333 thousand productive agents in December 2001; and
  - iv. increase in the average amount of lending operations from over R\$ 100 thousand in 1994 to R\$ 6.9 thousand in the period from 1995 to 2001.
- b) Recognizing the efforts that the Bank has been making, and taking into consideration the necessity of adjustments and adaptations, due to the new prudential fundaments established by National Monetary Council, particularly those established by the Resolution N° 2,682/99, the Strengthening Program of the Federal Financial Institutions, in the case of the Bank, contemplated:

- i. a capital increase of R\$ 2,100 million;
  - ii. exclusion of agricultural financing operations, as per Law 9,138/95, from the determination of credit risks, eliminating the need for capital and allowances, with the Federal Government assuming the risk of these operations, in the amount of R\$ 49,202 thousand, in accordance with Provisional Ruling 2,196-1 of June 28, 2001 and its reissues;
  - iii. transfer to the Bank of part of the resources from the FNE, to be applied in the Bank's own name, which can constitute stockholders' equity Reference Level II, in the proportion of up to 50% of stockholders' equity Reference Level I, subject to authorization from the Brazilian Central Bank. In this manner, the Bank can continue operating with resources from the FNE, in its own name, in the Fund's name and supporting the financial funding from other sources which permit the inflow of additional resources in the region and the continuity of social and development policies; and
  - iv. the Bank is free from the credit risks associated with the FNE operations contracted until November 30, 1998, which are totally assumed by the Fund, in accordance with Provisional Ruling 2,196-1 of June 28, 2001 and its reissues.
- c) Among the measures which are part of the Strengthening Program of the Federal Financial Institutions, the Bank, in the balance sheet of June 30, 2001, recorded the implementation of the followings:
- i. the exclusion of the operations from the agricultural credit, based on the Law N° 9,138/95, from the weighting of the asset risk, extinguishing the necessity of funds and allowances, assuming the Federal Government the risk of these operations, in the amount of R\$ 49,202 thousand, in accordance with the Provisional Ruling N° 2,196-1, of June 28, 2001 and its reissues;
  - ii. the Bank is free from the credit risks operations from the FNE, contracted until November 30, 1998, in the amount of R\$ 6,776,671 thousand, due to the risks of these operations be assumed by the Fund, based on the Provisional Ruling N° 2,196-1, of June 28, 2001 and its reissues;
- d) As part of the measures, which are conditioned to the increase of capital, and related to the Strengthening Program of the Federal Financial Institutions, published in June 2001, the Federal Government forwarded to the National Congress the Bill N° 18, opening to the Bank, supplemental credit to make the capital increase; following the procedural steps, characteristic of the pending matters related to the National Congress, the Federal Government, through the Decree of December 27, 2001, authorized the Bank to increase its Capital Stock, through subscription of new shares in the value of until R\$ 2,660,000 thousand. The Federal Government, major stockholder of the Bank, subscribed and paid on December 28, 2001 the amount of R\$ 2,556,218 thousand, making the implementation of the other measures from the program possible, as demonstrated below:

- i. reclassify of the credits of own portfolio, including almost all the operations undertaken before 1995 and receivables from the Mendes Junior Group, in accordance with the criteria established by Resolution N° 2,682/99 of the National Monetary Council. The adaptation of the Bank to the new parameters demanded the allowance complementation of R\$ 1,597,229 thousand, which corresponds to the values raised in September/2000, in the amount of R\$ 1,372,178 thousand, updated based on the contractual charge agreed upon and the adjustments required.
- ii. adjustments and revaluation of the allowance levels, following the consolidated understanding of the Brazilian Central Bank, in the light of prudential rules, in the amount of R\$ 654,442 thousand, relating to offset amounts of income and social contribution taxes paid due to the inflation adjustment (Summer Plan), recognition of tax contingencies; accrual for civil and labor suits and amortization of deferred expenses from the organizational restructuring programs; such values in the amount of R\$ 425,000 thousand, in September/2000, were adjusted according to the charges of the pertinent legislation (UFIR, SELIC and arrears interest), according to each case.
- iii. the FNE operations, undertaken from December 1, 1998 have to follow the rules established by Resolution N° 2,682/99 of the National Monetary Council, to allowance the Bank' risks, with the credit risks being shared between the Fund (50%) and the Bank (50%), resulting in classification in the various risks levels and in an additional allowance of R\$ 302,074 thousand for the Bank.

Thereby, the complementary measures of the Strengthening Program of the Federal Financial Institutions, as specified above, which were conditioned to the increase of the Bank's capital, and in accordance with the agreement involving the Bank, the Brazilian Central Bank, as the governmental entity responsible for the regulation of the National Financial System and the Ministry of National Treasury, as a controller of this Institution, were all implemented, assuring the readaptation of the structure of the equity to the levels demanded by the Monetary Authority; in accordance with the Basel Agreement, and in accordance with the criterions of risk recognition which were altered by Resolution N° 2,682/99, obeying all the recommendations of the Brazilian Central Bank.

Even if the adjustments made do not stem from the operational results of the Bank in the second semester of 2001, their effects were taken directly to the income accounts of the year, in accordance with the recommendations stated by the Brazilian Central Bank. This procedure is similar to the one adopted by the other banks which have been benefited by the Strengthening Program of the Federal Financial Institutions.

## 5. SHORT-TERM INTERBANK INVESTMENTS

	<u>December 31, 2001</u>	<u>December 31, 2000</u>
<b>Securities purchased under resale agreements</b>	<b>2,531,433</b>	<b>830,193</b>
Resale to be liquidated – Own position	2,380,824	809,430
Resale to be liquidated – Financed position	150,609	20,763
<b>Foreign currency application</b>	<b>8,124</b>	<b>10,164</b>
<b>Total</b>	<b>2,539,557</b>	<b>840,357</b>

## 6. MARKETABLE SECURITIES

	<u>December 31, 2001</u>	<u>December 31, 2000</u>
<b>Own Portfolio</b>	<b>2,178,203</b>	<b>1,073,743</b>
Treasury Finance Bills	1,367,418	878,256
Bills of the Brazilian Central Bank	542,558	-
Investments in shares of publicly companies	143,364	143,364
Bills of the National Treasury	79,166	189
Bonds of the rural credit operations	7,674	15,862
Other values	38,023	36,072
<b>Subject to repurchase commitments</b>	<b>605,174</b>	<b>6,000</b>
Treasury Finance Bills	605,174	6,000
<b>Linked to Brazilian Central Bank</b>	<b>32,985</b>	-
Brazilian Central Bank – Compulsory reserve in securities	32,985	-
<b>Subject to guarantee rendered</b>	<b>850</b>	-
Federal Government Security – National Treasury	850	-
<b>Allowance for losses</b>	<b>(22,837)</b>	<b>(11,263)</b>
Allowance for losses of free securities	(21,987)	(11,263)
Allowance for losses of securities subject to guarantee	(850)	-
<b>TOTAL</b>	<b>2,794,375</b>	<b>1,068,480</b>
CURRENT BALANCE	1,173,740	254,869
LONG-TERM BALANCE	1,620,635	813,611

## 7. CREDIT PORTFOLIO AND ALLOWANCE FOR LENDING LOSSES

### a) Composition of the Credit Portfolio

	<u>December 31, 2001</u>	<u>December 31, 2000</u>
Discounted loans and notes	789,059	938,569
Financing	2,124,823	1,900,690
Rural and agribusiness financing	2,506,875	2,599,002
Real estate loans	7,757	8,801
Infra-structure and development financing	828,102	876,026
<b>Subtotal of lending operations</b>	<b>6,256,616</b>	<b>6,323,088</b>
Guarantees honored	61	13
Receivables from advances granted	7,335	5,007
Receivables from financed import	23	1
Debtors of security and assets purchases	5,657	6,982
Receivables from credits and securities	22,045	13,929
Financed import-contracted exchange (*)	1,500	-
Advances upon exchange contracts (*)	31,461	56,260
<b>Subtotal from other rubrics with credit characteristics</b>	<b>68,082</b>	<b>82,192</b>
<b>TOTAL OF CREDIT PORTFOLIO</b>	<b>6,324,698</b>	<b>6,405,280</b>

(\*) Accounts classified as Other Liabilities/Foreing Exchange Portfolio

### b) Detail by maturity

<u>TYPE</u>	<u>UP TO 90 DAYS</u>	<u>FROM 91 TO 360 DAYS</u>	<u>FROM 1 TO 3 YEARS</u>	<u>ABOVE 3 YEARS</u>
RURAL	375,963	205,540	431,824	823,636
INDUSTRY	653,335	214,812	280,118	329,939
GOVERNMENT	58,330	64,230	185,870	865,390
OTHER SERVICES	214,705	39,825	215,986	270,140
COMMERCE	189,203	36,089	123,286	81,997
FINANCIAL INTERMEDIARIES	4	9,566	29,219	6,503
HOUSING SYSTEM	1,538	1,772	2,955	1,374
CONSUMER CREDITS	226,706	161,925	210,721	12,197
<b>TOTAL</b>	<b>1,719,784</b>	<b>733,759</b>	<b>1,479,979</b>	<b>2,391,176</b>

### c) Detail by credit risk level:

<u>RISK LEVEL</u>	<u>NORMAL CREDITS (1)</u>	<u>PAST-DUE</u>	<u>TOTAL</u>	<u>ALLOWANCE FOR LOSSES</u>
AA	2,524,460	-	2,524,460	-
A	1,064,036	-	1,064,036	5,320
B	895	76,504	77,399	774
C	1,151	230,169	231,320	6,940
D	287	102,509	102,796	10,279
E	85,244	70,865	156,109	46,833
F	63,454	71,288	134,742	67,371
G	15,810	45,132	60,942	42,659
H	456,741	1,516,153	1,972,894	1,972,894
<b>TOTAL</b>	<b>4,212,078</b>	<b>2,112,620</b>	<b>6,324,698</b>	<b>2,153,070</b>

(1) Include 14 days past-due credits.

d) Allowance for the year

Opening balance on December 31, 2000	1,003,102
(+) Allowance in the year	225,361
(+) Allowance accounted for from Strengthening Program of the Federal Financial Institutions	1,597,229
(-) Reversal of operating allowances	(82,300)
(-) Credits classified as losses	<u>(590,322)</u>
(=) Closing balance on December 31, 2001	<u>2,153,070</u>

e) Allowance expenses

(+) Expense on allowance for lending losses	1,754,410
(+) Expense on allowance for other credits losses	68,180
(-) Reversal of operating allowances	<u>(82,300)</u>
(=) Balance on December 31, 2001	<u>1,740,290</u>

f) Credits written-off as losses have been recovered in the year in the amount of R\$ 52,785 thousand (R\$ 14,866 thousand at December 31, 2000), and the renegotiations of operations totaled R\$ 1,466,095 thousand (R\$ 1,148,708 thousand at December 31, 2000).

8. OTHER CREDITS

	<u>December 31, 2001</u>	<u>December 31, 2000</u>
<b>Receivables on guarantees honored</b>	<b>61</b>	<b>13</b>
<b>Foreign exchange portfolio</b>	<b>127,169</b>	<b>69,937</b>
Unsettled exchange purchases	77,993	64,929
Rights on foreign exchange sold	43,363	1,668
Other values	5,813	3,340
<b>Income receivable</b>	<b>2,918</b>	<b>7,521</b>
<b>Negotiation and intermediation of securities</b>	<b>41</b>	<b>38</b>
<b>Specific credits</b>	<b>24,846</b>	<b>321,214</b>
National Treasury - Rural loans	24,846	21,547
Operations refinanced by the Federal Government	-	299,667
<b>Sundry</b>	<b>589,445</b>	<b>820,273</b>
Tax credits of income and contributions	447,108	480,689
Debtors for guarantee deposits	43,318	37,532
Option for fiscal incentives	26,748	6,968
Securities receivables	22,045	13,929
Tax and contributions to be offset	20,765	230,189
Other values	29,461	50,966
<b>Allowance for other credit losses</b>	<b>(37,592)</b>	<b>(11,260)</b>
<b>TOTAL</b>	<b>706,888</b>	<b>1,207,736</b>
CURRENT BALANCE	297,312	502,744
LONG-TERM BALANCE	409,576	704,992



## 9. LIABILITIES FOR BORROWINGS AND ONLENDINGS

The borrowings and onlending contracted within the country are subject to interest rates which vary from 0 to 10% per annum, with maturities of 4 to 20 years averaging at 8 years. The monetary adjustment, when applicable as per legal and contractual clauses, is calculated based on the official rates issued by the Brazilian Central Bank.

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

The borrowings from the Fund for Workers Assistance (FAT), in the amount of R\$ 2,342,587 thousand, are subject to interest based on the SELIC rate, when not used in lending operations, and based on the TJLP after being released to the borrowers. The average maturity is 6 years with final payment in 2012. The free resources, monetarily adjusted at the SELIC rate, totaled R\$ 382,924 thousand.

The foreign liabilities are subject to interest rates which vary from 6.00% to 11.4286% per annum (including Income Tax), with an average maturity of 12 years and final payment to the Interamerican Development Bank (IDB) in 2019. The exchange rate adjustment, if stipulated by contractual clauses, is calculated based on the official rates issued by the Brazilian Central Bank. The resources from Eurobonds issued are subject to interest rates which vary from 9.625% to 11.375% per annum, with maturity of the last “tranche” on March 7, 2005.

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

## 10. ONLENDINGS IN BRAZIL – GOVERNMENTAL AGENCIES

	<u>December 31, 2001</u>	<u>December 31, 2000</u>
<b>National Treasury</b>	<b>1,941</b>	<b>1,296</b>
<b>BNDES (National Economic Development Bank)</b>	<b>1,592,564</b>	<b>1,532,707</b>
Poc	668,922	746,378
Credit line for investments in rural sector	486,193	468,278
Other programs	437,449	318,051
<b>CEF (Federal Savings and Loans Bank)</b>	<b>15,571</b>	<b>30,451</b>
National housing system	13,268	26,827
Other programs	2,303	3,624
<b>FINAME (Government Agency for Machinery and Equipment Financing)</b>	<b>265,475</b>	<b>421,995</b>
Special program	81,891	236,373
Automatic program	85,094	91,203
Agricultural program	22,837	20,593
Other programs	75,653	73,826
<b>Other institutions (*)</b>	<b>168,282</b>	<b>121,611</b>
Pilot project to support the land reform	54,617	50,854
MEPF (Fund for land and land reform – Land bank)	95,534	49,240
Embratur / Fungetur	11,016	13,252
Other programs	7,115	8,265
<b>TOTAL</b>	<b>2,043,833</b>	<b>2,108,060</b>
CURRENT BALANCE	395,667	453,759
LONG-TERM BALANCE	1,648,166	1,654,301

(\*) Since December 2001, the resources from the Fund for Workers Assistance (FAT) have been transferred from “Onlending Liabilities – Other Official Institutions” account to the “Special Deposits with Compensation” account, as mentioned in explanatory note 11, in order to standardize the accounting records with other financial institutions which operate with these resources.

## 11. DEPOSITS

	<u>December 31, 2001</u>	<u>December 31, 2000</u>
<b>Demand deposits</b>	<b>100,918</b>	<b>150,367</b>
Investment deposits	42,598	83,441
Foreign exchange deposits	19,218	9,610
Government deposits	14,780	20,427
Linked deposits	12,900	19,238
Other deposits	11,422	17,651
<b>Savings deposits</b>	<b>306,099</b>	<b>350,117</b>
Free savings deposits- Natural clients	234,138	262,560
Free savings deposits- Legal entity	71,927	86,899
Other deposits	34	658
<b>Interbank deposits</b>	<b>18,721</b>	<b>36,681</b>
Interbank deposits	18,721	36,681
<b>Time deposits</b>	<b>318,739</b>	<b>500,847</b>
Time deposits	310,893	494,467
Judicial deposits with compensation	7,846	6,380
<b>Obligations for special deposits, for Fund and program</b>	<b>2,342,587</b>	<b>2,485,438</b>
Special deposits with compensation (*)	2,342,587	2,485,438
<b>TOTAL</b>	<b>3,087,064</b>	<b>3,523,450</b>
CURRENT BALANCE	994,239	1,536,099
LONG-TERM BALANCE	2,142,825	1,987,351

(\*) Since December 2001, the resources from the Fund for Workers Assistance (FAT) have been transferred from “Onlending Liabilities – Other Official Institutions” account to the “Special Deposits with Compensation” account, in order to standardize the accounting records with other financial institutions which operate with these resources. In order to interface, it was recorded on the statements above, the balance of December 31,2000, in the “Onlending Liabilities – Other Financial Institutions” account, regarding the resources from the FAT.

## 12. OTHER LIABILITIES

	<u>December 31, 2001</u>	<u>December 31, 2000</u>
<b>Collections of taxes and social contributions</b>	<b>7,819</b>	<b>6,870</b>
Resources from PROAGRO program	7,290	6,565
Other values	529	305
<b>Foreign exchange portfolio</b>	<b>79,930</b>	<b>4,091</b>
Unsettled exchange sales	43,356	1,810
(Financed import – Contracted exchange)	(1,500)	-
Exchange purchase liabilities	69,473	54,489
(Advances on exchange contracts)	(31,462)	56,260
Debits in foreign currencies payable	63	52
<b>Social and statutory</b>	<b>357</b>	<b>7,450</b>
Dividend and bonus payable	357	7,450
<b>Taxes and social security</b>	<b>627,118</b>	<b>284,343</b>
Provision for taxes and contributions on profits	-	224,315
Taxes and collectable contributions	8,476	9,702
Provision for deferred income tax	25,899	27,779
Provision for fiscal risks	592,743	22,547
<b>Negotiation and intermediation of securities</b>	<b>3</b>	<b>4</b>
Swap operations – Payable differential	3	4
<b>Resources for specific destination</b>	<b>1,061,865</b>	<b>381,155</b>
Financial and development funds	1,061,865	381,155
<b>Sundry</b>	<b>463,820</b>	<b>117,653</b>
Provisions for contingent liability	411,119	68,300
Other values	52,701	49,353
<b>TOTAL</b>	<b>2,240,912</b>	<b>801,566</b>
CURRENT BALANCE	1,309,933	694,740
LONG-TERM BALANCE	930,979	106,826

## 13. OTHER OPERATING INCOME

	<u>Six-month period ended</u> <u>December 31, 2001</u>	<u>Year ended December 31,</u>	
		<u>2001</u>	<u>2000</u>
Management fee/"Del Credere" from funds administered	170,104	522,183	659,225
Negative exchange rate variations on lendings	276,513	318,153	86,365
Reversal of operating allowances/Risks of FNE operations	-	45,734	153,641
Recovery of interest and expense	13,165	17,876	12,425
Income from specific credits	1,941	4,404	31,415
Reversal of operating allowances/Social contribution	1,293	2,420	71,472
Operations refinanced with the Federal Government	-	-	57,446
Other values	43,270	59,452	55,233
<b>TOTAL</b>	<b>506,286</b>	<b>970,222</b>	<b>1,127,222</b>

## 14. OTHER OPERATING EXPENSES

	Six-month period ended	<u>Year ended December 31,</u>	
	<u>December 31, 2001</u>	<u>2001</u>	<u>2000</u>
Exchange rate variation on exchange portfolio	35,065	89,042	27,132
Negative exchange rate variation on lending	13,251	22,362	159,412
Discount granted on renegotiation/Credit operations	14,459	14,459	-
Credit risks on operations of administered funds	302,074	302,074	102,435
Waiver of charges	-	3,149	45,497
Fiscal risks	581,042	581,044	-
Contingent liabilities	38,973	40,138	7,991
Other	87,618	102,511	112,034
<b>TOTAL</b>	<b>1,072,482</b>	<b>1,154,779</b>	<b>454,501</b>

## 15. TAXES AND CONTRIBUTIONS

### a) Income Tax and Social Contribution

The Bank is subject to the taxable profit taxation regime and pays monthly income and social contribution taxes on an estimated basis. The taxes were calculated based on the provisions of Laws N° 9,249/95, N° 9,430/96, and N° 9,532/97 and Provisional Ruling N° 2,158-35 of August 24, 2001.

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

According to Provisional Ruling N° 2,158-35 of August 24, 2001, the social contribution tax rate is 9%, with regard to the taxable events occurred from February 1, 2000 (12% in January 2000).

The Bank has been utilizing the credits derived from income and social contribution taxes overpaid due to the inflation adjustments derived from the Brazilian Economic Plan ("Summer Plan") in January 1989 which are accrued on December 31, 2001, facing the implementation of the adjustments in the Strengthening Program of the Federal Financial Institutions, according to explanatory note 4, d, ii. The amount offset in the year of 2001 relates only to the Social Contribution and is recorded as "Other credits- Sundry", as shown below, with an entry in liabilities as "Other liabilities - Taxes and Social Security".

	<u>December 31, 2001</u>	<u>December 31, 2000</u>
Income tax		163,053
Social contribution	2,420	55,963

b) Tax Credits

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

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

As the provisions have been added on a temporary basis and in accordance with Circular N° 2,746 of the Brazilian Central Bank, dated March 20, 1997, Resolution N° 273 of the Brazilian Securities and Exchange Commission, dated August 20, 1998, and Article 8 of Provisional Ruling N° 2,113-32, dated June 21, 2001, the Bank recorded until April 2001, a tax credit relating to income tax and social contribution on temporary differences, derived from nondeductible provisions of expenses for the year of 2001.

During the year of 2001, the Bank recorded an income and social contribution tax expense of R\$ 33,581 thousand, arising from the reversal of tax credits on temporary differences in the calculation basis of said taxes, in accordance with Circular N° 2,746 of the Brazilian Central Bank, dated March 20, 1997, relating to the credit recorded on December 31, 2000.

The balance of the income tax (25%) and social contribution tax (9%) credits, recorded in "Other credits - Sundry", is comprised of the following:

	<u>December 31, 2001</u>	<u>December 31, 2000</u>
Income tax credits	292,713	317,405
Social contribution credits		
Temporary differences	105,377	114,266
Article 8° MP 2,113-32/2001	49,018	49,018

The assets deferred from income tax and social contribution will be accomplished as the temporary differences upon which it is calculated, are reverted or made in accordance with the fiscal deductibility parameters, as shown below:

<u>Period</u>	<u>Profit taking from income tax credit</u>	<u>Profit taking from social contribution</u>	<u>Total</u>
2002	35,009	12,603	47,612
2003	31,927	11,494	43,421
2004	31,284	11,262	42,546
2005	31,597	11,375	42,972
2006	31,912	11,489	43,401
2007	32,232	11,603	43,835
2008	32,554	11,719	44,273
2009	32,880	11,837	44,717
2010	33,318	11,995	45,313
	<b>292,713</b>	<b>105,377</b>	<b>398,090</b>

The implementation of the adjustments according to Explanatory Note 4, d, as determined by the Brazilian Central Bank, does not justify the accounting recognition of new tax credits, although they will be management monitored.

c) PASEP

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

d) COFINS

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

## 16. STOCKHOLDERS' EQUITY

a) Capital

Capital amounts to R\$ 3,596,000 thousand (2000: R\$ 891,000 thousand), consisting of 902,283,261,327 (2000: 70,526,564,308) book entry shares without par value, being already paid R\$ 2,556,218 thousand and unpaid capital of R\$ 103,782 thousand, as follows:

<u>Shareholders</u>	<u>Common shares</u>	<u>Preferred shares</u>	<u>% Voting capital</u>	<u>% on total shares</u>
Federal Government	465,952,800,540	353,731,907,693	93.1627	90.8456
National Development Fund-FND	14,737,043,790	23,732,649,036	2.9465	4.2636
National Economic Development Bank	490,153,432	4,899,854,822	0.0980	0.5974
Private Retirement Fund of Banco do Nordeste- CAPEF	2,367,105,922	1,303,050,966	0.4733	0.4068
Social Participation Fund – FPS		619,124,173		0.0686
Mutual Inv. Fund Shares – Luce	387,024,219		0.0774	0.0429
Investment Fund Foreign Capital Rally	14,585,400	152,022,100	0.0029	0.0185
Prin S.A.	32,855,630	97,364,341	0.0066	0.0144
Torrey Foundation	1,587,800	97,000,000	0.0003	0.0109
Ferdinando Gatti	38,880,600	52,402,200	0.0078	0.0101
Avelino de Almeida Neto	74,000,000		0.0148	0.0082
Others (37,460 stockholders)	<u>16,053,538,296</u>	<u>17,448,310,367</u>	<u>3.2097</u>	<u>3.7130</u>
TOTAL	<u>500,149,575,629</u>	<u>402,133,685,698</u>	<u>100.0000</u>	<u>100.0000</u>

Priority has been given to the distributions of dividends to preferred shares added of, at least, 10% upon the values of the dividends allocated to common shares, with the exceptions of the law;

The present shareholder composition is a result of the Extraordinary General Meeting of the shareholders, held on December 28, 2001, which in accordance with the authorization of the Presidential Decree of December 27, 2001, deliberated the raise of the social capital of the Bank from R\$ 936,000 thousand to R\$ 3,596,000 thousand. The period to right of preference started on December 28, 2001, and will continue until January 28, 2002. The Federal Government subscribed and integralized the stocks issued by the Bank in the amount of R\$ 2,556,218 thousand. The process will be forwarded to the Brazilian Central Bank to be approved.

b) Revaluation reserve

Relates to the revaluation of land, buildings and assets in use as of February 26, 1993. The realization for this year, in the amount of R\$ 2,936 thousand (R\$ 2,761 thousand as of December 31, 2000), was transferred to “Retained Earnings”.

c) Dividends

According to the By-laws of the Bank, in the first semester of 2001, the Board of Directors suggested and the Administration Council approved, “ad referendum” of the General Meeting, the advance payment of dividends, in the amount of R\$ 2,403 thousand, being R\$ 1,274 thousand to common shares and R\$ 1,129 thousand to preferred shares.

It was calculated dividends of 10% upon preferred shares which was superior to the ones applied to common shares, according to item “I” of article 17, of Law N° 6,404/76; with the new editorship in accordance with Law N° 9,457/97 and the one disposed in paragraph 1° of article 5° of the By-laws of the Bank.

Due to the accrued losses of this accounting year, because of the adjustments described in the Explanatory Note 4, and considering the partnership rules in the Law 6,404/76 (Partnership Law by Shares); Chapter I, Section 20, of COSIF – Accounting Plan for Institutions of the National Financial System and the article 50 of the By-laws of the Bank, and in accordance with the Capital Integrity Principle, there has been no distribution of complementary dividends to the shareholders.

d) Absorption of accumulated loss by reserves

The income reserves (Legal and Statutory Reserves) and the capital reserves (Donations Received and Fiscal Incentives –FINOR), in the amount of R\$ 33,088 thousand, have been used to absorb part of the accumulated loss of the year, according to the article 189, unique paragraph, and the article 200 of the Law 6,404/76, which will be submitted to the approval of the Ordinary General Meeting. Remaining still accumulated loss of R\$ 2,513,500.

## 17. CONTINGENCIES

### a) Social Security Contributions

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

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

### b) Tax, Civil and Labor Contingencies

Due to the Strengthening Program of the Federal Financial Institutions, as stated in Note 4,d, the Bank recorded the provision, in the amount of R\$ 580,066 thousand, which refers to Income Tax and Social Contribution compensations paid due to the currency inflation (Summer Plan) and for the recognition of other fiscal contingencies. The amount of R\$ 69,992 thousand has also been recorded, and it refers to the accruals from civil acts and labor claims.

## 18. COMPENSATION TO EMPLOYEES AND DIRECTORS

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

<u>Net salary</u>	<u>Employees (1)</u>	<u>Directors (2)</u>
Maximum	8,052.50	8,410.50
Minimum	286.20	-
Average	2,580.23	-

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

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

On December 31, 2001, the Bank employed 3,619 people against 3,880 as of December 31, 2000, showing a reduction of 6.73% in the headcount.



## 19. SUPPLEMENTARY RETIREMENT AND HEALTH CARE BENEFITS

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

Shown below is the information regarding CAPEF:

a) Cost in the year 2001: R\$ 24,687 thousand (R\$ 28,318 thousand in December 31, 2000).

b) Actuarial method

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

c) Benefit plans

The plan adopted is a defined benefit plan which provides:

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

The federal intervention in CAPEF in the period from August 1997 to October 1999 has established several measures which resulted in the change of the entity's benefits and funding plan. Such measures led to the immediate review of the amounts already granted and the rules governing benefits which became effective after the intervention process. As a result, the entity achieved the actuarial matching of its accounts. In this context, the CAPEF sponsors' obligations, such as the Bank, have now to conform to the benefits standard established and legitimized by the federal intervention.

d) Past-due liabilities

None.

e) Surplus and reasons

A surplus of R\$ 71,163 thousand (R\$ 118,036 thousand on December 31, 2000) was recorded on December 31, 2001. Compared to the previous year, we can observe that the result was a consequence of, not only, the financial facts of the equity, as well as the biometrics of the population, but also from the alterations in the tax policy of the Pension Funds and the review of the calculus of the mathematical reserves; considering the adjustment of the biometrics table, the expectation of statutory adjustment of the benefits, the contributions for the period of 2002 and the inclusion of inflationary hypothesis.

f) Contribution rates

Listed below are the average contribution rates of the actives and attended based upon the position of December/2001:

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

It should be noted that the CAPEF regulations, approved by the Ministry of Social Security through Ruling N° 6,059 of November 3, 1999, permit two contribution systems for the beneficiaries of supplemental pension. In the first system which covers pensioners with benefits granted until August 2, 1998, there were no payments by the beneficiaries and the Bank contributed with 20% of the respective supplemental benefit; after equal percentages of contributions were implemented, the Bank is no longer making contributions under this system. In the second system which cover pensioners with benefits effective August 3, 1998, the beneficiaries' contributions are 20% of the supplemental pension that they receive monthly, with the sponsor contributing at the same rate, totaling 40% of the benefit paid.

g) Parity of Contributions (Participants/Sponsors)

The parity between the contributions made by the participants and sponsors have been carried out, in accordance with the Constitutional Amendment N°20, recorded at the end of the year of 2001, the contributive relation of 1:1 (On December 31,2000: 1:1).

h) Actuarial Revaluation

The Ministry of Social Security, through Rulings N° 5,547 of July 30,1999 and N° 6,059 of November 3, 1999, published in the Official Gazette of August 2, 1999 and November 5, 1999, respectively, approved the actuarial recovery plan of the CAPEF and the respective actuarial and financial statements for the period in which the entity was under its intervention.

Nowadays CAPEF complied with the foreseen dispositions of Constitutional Amendment N° 20, with regard to the actuarial matching of the benefit plan and equal contributions.

## 20. CVM DELIBERATION 371 OF DECEMBER 13, 2000

The CVM Deliberation 371 of December 13, 2000, approved for publicly companies the Pronouncement NPC 26, elaborated by IBRACON – Brazilian Institute of Independent Auditors in partnership with the Federal Accounting Council – CFC, which regulate the accounting benefits for employees, with applications in the period that started on January 01, 2002. It can be observed in these statements that prudential orientations, particularly the ones related to the record of benefits for employees, and in accordance with Deliberation N°371, resulted in the disclosure of the following information on December 31,2001.

- a) Accounting policy adopted by the Bank in recognition to profit and actuarial loss

Not applicable in the accounting year of 2001.

- b) General description of the characteristics of the plans

i) Retirement and Pension Plan: according to Explanatory Note 19;

ii) Health Plan.

The Bank contributes to the Health Plan which is administered by CAMED - Assistance Fund for the employees of Banco do Nordeste do Brasil, which main goal is to render medical aids to its members and dependents, registered through concessions of support, which aim is to protect or reimburse the expenses related to promotion, protection and recovery of health.

The percentage of contribution of the Bank to the Health Aid Plan, is limited to the same percentage of contribution of the employees, the retired and the pensioners of the Bank, and corresponds to 1.5% (one-point-five percent) upon the total remuneration or proceeds, including bonus and the 13<sup>th</sup> salary, and also upon the value of the proceeds which is used as a basis for the calculation of retirement and pension complement.

The model of resource foundation of the Health Aid Plan is the simple allocation of assistance costs, being eventual surplus and deficits covered by CAMED and its participants.

- c) The conciliation of the assets and liabilities is shown in the chart below:

	<b>Specification</b>	<b>Retirement and Pension Plan – CAPEF</b>	<b>Contributions to Health Plan – CAMED</b>
1)	Present value of the actuarial liabilities uncovered	-	26,526
2)	Present value of the actuarial liabilities covered	1,010,543	-
3)	Present value of the actuarial liabilities before the deduction of the fair value of the assets	1,010,543	26.526
4)	Fair value of the assets of the plan	1,081,203	-
5)	Present value of the actuarial liabilities after the deduction of the fair value of the assets	(70,659)	26,526

d) Actuarial premises used

- i) Real interest rate used for the discount of the present value of the actuarial liabilities: 6% p.a.;
- ii) Real profit rate expected upon the assets of the retirement plan, pension plan, and the liabilities of the Bank with CAMED Health Plan : 6% p.a.;
- iii) Estimated salary increase index: The policy of the human resources of the Bank does not influence, directly, the Benefit Plan of CAPEF. In the calculus of the contributions of the Bank to CAMED Health Plan, it has been considered the same salary levels of the active workers for the next twelve months;
- iv) The present actuarial value of the liabilities of the Bank with CAMED Health Plan, for the retired and the pensioners, considered the same hypothesis and premises established by the Retirement Complementation and Pension Plan, pointing out the adjustment of the benefits by the General Price Index – Internal Cash Funds – IGP-DI;
- v) Other relevant premises: The value of the laborious and patronal contributions, as well as the benefits paid by CAPEF, were fixed based upon the salaries paid in August, 1997 and will be monetarily adjusted, every twelve months, by the annual variation of the General Price Index – Internal Cash Funds – IGP-DI, considering the condition “sine qua non” of the balance of the plan.

e) Recognition of the effects of CVM Deliberation 371

The effects of this Deliberation will be recognized from January 01, 2002, as stated by paragraph 83 of NPC 26, of IBRACON.

## 21. FINANCIAL INSTRUMENTS

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

The financial instrument assets and liabilities recorded in real assets accounts that presented market values different from those recognized in the financial statements as of December 31, 2001, can be summarized as follows:

<u>Accounting adjustments</u>	<u>Market value</u>	<u>Book value</u>
MARKETABLE SECURITIES		
Free		
Fixed income security		
Agrarian debt securities – TDA (a)	221	295
Nuclebras, Portobras and PROAGRO (a)	17,582	30,857
Variable income security		
Tax incentives – FINOR quotas (b)	1,649	6,377
Shares of publicly companies (b)		
Eletrobrás	141,851	139,948
Gerasul	9,684	3,417
Subject to guarantee		
Securities given as guarantee – other (a)	437	850

- a) Market value calculated based on the average level of negative goodwill negotiated in the market.
- b) Market value calculated based on the average rate of the assets in Bovespa (São Paulo Stock Exchange).

The provision for adjustment of the market value of the items, which book value were superior, was constituted.

The nominal values of the financial instruments (swap contracts) recorded in the memorandum-account (global value) and the corresponding amounts of the asset and liability accounts (receivables/payables), as of December 31, 2001, are summarized as follows:

<u>ASSET</u>	<u>GLOBAL VALUE</u>	<u>AMOUNT RECEIVABLE</u>
Post-fixed	300	(7)
Pre-fixed	405	16
<b>TOTAL</b>	<b>705</b>	<b>9</b>
<u>LIABILITY</u>	<u>GLOBAL VALUE</u>	<u>AMOUNT PAYABLE</u>
Foreing currency	300	(7)
Interfinancial market	405	19
<b>TOTAL</b>	<b>705</b>	<b>12</b>

The maturities of the swap contracts are:

From 181 to 360 days	650
Over 360 days	55
<b>TOTAL</b>	<b>705</b>

## 22. DEFERMENT OF EXPENSES

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

The decision considered, among other factors, the authorization from the Brazilian Central Bank, through Circulars N° 2,582 and N° 2,707 of June 21, 1995 and July 31, 1996, respectively, for the Bank to defer expenses incurred for various projects, in the total of R\$ 108,529 thousand, all of them implemented until December 31, 1997.

The expenses were amortized by using the straight-line method at the annual rate of 20% per annum (corresponding to 1.677% per month) until November/2001, in the amount of R\$ 104,639 thousand. With the implementation of the measures mentioned in Note 4,d,ii, on December 31, 2001, the remainder balance, in the amount of R\$ 3,890 thousand, was completely amortized.

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

In accordance with Brazilian Central Bank Circular N° 2,217, of September 9, 1991, the resources from FNE are recorded in the Bank's memorandum-accounts, and the free resources, which have not yet been used in lending operations, are recorded in “Other liabilities/Financial and development funds” accounts.

The law N° 10,177 was published on January 15, 2001, conversion of the Provisional Ruling N° 2,133, of December 28, 2000, which regulated the new conditions regarding the risk obligations, for the operations undertaken to give support to the Fundo Constitucional de Financiamento do Nordeste – FNE, being established the following criterions:

- a) The Bank is exempt from operational risk for operation undertaken until November 30, 1998;
- b) For the operations undertaken after December 1, 1998, the loan risk of the Bank is limited to 50%;
- c) For the operations undertaken by the Bank, regarding onlendings of the Fund, the risk is 100%.

Due to the loan risk of 50%, undertaken by the Bank, for the operations with the resources from the FNE since December 1, 1998, and although the Brazilian Central Bank recognizes that is not of its competence the ruling and inspection of Funds similar to the Constitutional Fund for the Financing of the Northeast Region – FNE, the Bank's board of directors, in accordance with the determination of the Monetary Authority, authorized the risk rating according to the one established by Resolution N° 2,682/99, of the National Monetary Council, recording the calculated allowance, proportionally to the co-obligation percentage, undertaken by the Bank, an accrued provision for contingencies in the accounts of the Bank.

The composition of the operations undertaken since December 1, 1998, per risk levels, on December 31, 2001, is the following:

<u>RISK LEVEL</u>	<u>CREDITS</u>	<u>ALLOWANCE</u>
AA	581,445	-
A	296,313	1,101
B	7,595	29
C	13,266	164
D	9,816	307
E	17,902	2,166
F	27,909	6,307
G	6,083	1,358
H	612,226	290,642
<b>TOTAL</b>	<b>1,572,555</b>	<b>302,074</b>

For the operations undertaken until November 30, 1998, the “Del Credere” of the Bank was reduced to zero. For the contracting accomplished after this date, when the credit risk is 50%, the “Del Credere” is 3% per annum.

A management fee of 3% per annum is calculated on the net equity of the Fund, less the amounts corresponding to onlending contracts with the Bank, and is limited to 20% of the transfers made by the National Treasury for each year.

To operate the FNE, the Bank uses its logistic and operational structure, composed of installations, labor force and computerized systems, and indistinct application of the differentiated instruments of support to the development, such as the qualification of Productive Agents and the Lighthouse development Program (Farol do Desenvolvimento), which is a forum for discussion and leading of the projects that fomented the regional development.

For this reason the consolidation of the Bank and the FNE accounts are shown bellow:

<u>ASSETS</u>	<u>December 31, 2001</u>	<u>December 31, 2000</u>	<u>LIABILITIES</u>	<u>December 31, 2001</u>	<u>December 31, 2000</u>
<b>Current and Long-term assets</b>	<b>18,812,581</b>	<b>16,235,203</b>	<b>Current and Long-term liabilities</b>	<b>17,929,021</b>	<b>15,402,190</b>
Cash and due from banks	18,301	22,890	Deposits	3,087,064	1,038,012
Short-Term interbank investments	2,539,557	840,357	Securities sold under repurchase agreements	755,855	26,758
Marketable securities	2,794,375	1,068,481	Resources from securities issued	301,025	421,550
Interbank accounts	220,599	250,627	Interbank accounts	3	
Interdepartmental accounts	1	30,501	Interdepartmental accounts	1	11
Lending operations	12,523,493	12,805,640	Borrowings	173,674	242,932
Lending operations			Onlendings in Brazil – Governmental agencies	2,043,833	4,593,498
Public sector	1,163,548	870,297	Foreign onlendings	832,115	684,453
Private sector	13,777,497	12,990,364	Other liabilities	10,735,451	8,394,945
(Allowance for lending losses)	(2,417,552)	(1,055,021)	FNE	9,844,541	8,018,871
Other credits	706,888	1,207,736	Other	890,910	376,074
Other assets	9,367	8,971	<b>Deferred income</b>	<b>21</b>	<b>103</b>
<b>Permanent assets</b>	<b>145,454</b>	<b>164,692</b>	<b>Stockholders' equity</b>	<b>1,028,993</b>	<b>997,633</b>
<b>TOTAL</b>	<b>18,958,035</b>	<b>16,399,895</b>	<b>TOTAL</b>	<b>18,958,035</b>	<b>16,399,895</b>

## 24. BASEL AGREEMENT

According to the Basel Agreement, the Resolution N° 2,099/94 of the National Monetary Council and the complementary standards established by the Brazilian Central Bank, financial institutions have to keep a stockholders' equity compatible to the risk level of their assets. Due to the execution of the remainder adjustments on December 31, 2001, since the capital apportion to the Bank on December 28, 2001, concluding the Strengthening Program of the Federal Financial Institutions to Banco do Nordeste, the referential stockholders' equity displayed was superior in R\$ 329,193 thousand, based on the minimum demanded by these standards, and the adaptation index was 16.17%, higher than the minimum limit demanded (11.00%).

## 25. OTHER INFORMATION

### a) Related-party transactions

The Bank had no transactions with affiliated or subsidiary companies in the years ended December 31, 2001 and 2000. Transactions with companies controlled by the Federal Government – majority stockholder of the Bank – totaled R\$ 75,957 thousand (R\$ 227,900 thousand at December 31, 2000). These lending operations were contracted under the same conditions as those applied to the non-related parties.

b) Guarantees

The guarantees given to third parties amounted to R\$ 6,058 thousand (R\$ 5,105 thousand at December 31, 2000) and are subject to financial charges and counter guarantees by the beneficiaries.

The co-obligations of the Bank related to lending operations with resources from the FNE totaled R\$ 690,226 thousand as of December 31, 2001.

c) Insurance

The chattels and the real estate of the Bank are protected by insurance in the amount of R\$ 222,334 thousand (R\$ 193,687 thousand at December 31, 2000), as follows:

	<u>December 31, 2001</u>	<u>December 31, 2000</u>
Chattels	46,307	22,792
Real estate	176,027	170,895

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- c) Emphasis paragraph about insufficiency of allowance for lending losses in amount of R\$ 77,126 thousand, not accrued because was supported by Vote nº 142/94 of the National Monetary Council.
- d) Emphasis paragraph about the impossibility to determine the effects regarding renegotiation of financing contracts using resources of Fundo Constitucional de Financiamento do Nordeste – FNE, in that time in course, as well as eventual insufficiency of allowance for lending losses.
- e) Emphasis paragraph about the lack of adequacy to the ratios of the Basel Agreement.

As explained in Note 4d to the financial statements, during the year of 2001, the Bank's management made all the adjustments above mentioned, accounting them for directly in income account of the six-month period and the year ended December 31, 2001.

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

Fortaleza, January 31, 2002

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CRC-SP Nº 11,609 – S CE

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**Banco do  
Nordeste**



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

## **Accounting Statements**

**F N E**

**POSITION: 12.31.2001**













## FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

### 5. INDEPENDENT AUDITORS

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

### 6. ACCOUNTING POLICIES

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

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

Significant policies followed are described below:

#### a) Recognition of Income and Expense

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

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

	<u>2001</u>	<u>2000</u>
Income from lending operations	665,708	535,276
Negative monetary adjustment	(3,051)	(6,800)
Waiver of amounts – Land Program – Interministerial Legislation N° 218	(3,074)	(10,835)
Waiver of amounts – Maturity Extension – Law N° 9,126 and 9,138	(83)	(687)
Operating provision expenses		(4,605)
Law N° 10,193 – Discount of original value	(13,475)	
Other expenses	(134)	(1,356)
T O T A L	<u>645,891</u>	<u>510,993</u>

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

Income and expenses are recognized on an accrual basis. Income from lending operations contracted until November 30, 1998 is also recorded in the FNE's income accounts, with the amount of default rate accounts being classified as deferred income.

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

b) Current and long-term assets

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

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

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

- The "Del Credere" to be received by Banco do Nordeste is included in the financial charges contracted with the borrowers, and is reduced by a percentage equal to that secured by surety funds.
- The financing contracts will have a clause stipulating an yearly review of the financial charges or a review whenever the accumulated variation of TJLP (long-term interest rate) increases or decreases by more than 30% (thirty percent).
- A discount of 25% on financial charges will be given to borrowers operating in the northeast semiarid region and of 15% to borrowers from other regions, provided that the debt payments are made by the due date.
- In case the funds are not used for the intended purpose, the borrower will lose all benefits, especially discount benefits, and will be liable to legal proceedings.

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

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

- In operations contracted until November 30, 1998, the "Del Credere" paid to Banco do Nordeste is reduced to zero, and the financial charges agreed upon with the borrowers remain unchanged.
- In operations contracted with a credit risk of 50%, the Fund will pay to Banco do Nordeste "Del Credere" of 3% per annum.

- The Fund's resources can be transferred to Banco do Nordeste in order for the Bank, in its own name and at its own risk, to make lending operations subject to “Del Credere” of 6% per annum.
- FNE shall not pay to the Bank management fee on onlending operation funds.

c) Liabilities

Are stated at original amounts plus financial charges.

7. STOCKHOLDERS' EQUITY

The stockholders' equity of FNE has the following sources:

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

8. PRIOR YEAR ADJUSTMENTS

The negative adjustment of R\$ 43,843 thousand relates to recalculation of charges on lending operations, based on Law N° 10,177 of January 12, 2001.

9. DETERMINATION OF RESULTS

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

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

10. TAX EXEMPTION

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

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11. EFFECTS OF LAW N° 10,177

The time to complete the process of renegotiating, extending and arranging with creditors of the financing contracts using FNE's resources as per Law N° 10,177 of January 12, 2001, expired on December 28, 2001. As preliminary survey were renegotiated 115,862 operations, in an amount of R\$ 2,795,400 thousand.



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

Fortaleza, January 31, 2002

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