

*Banco do
Nordeste*



ACCOUNTING STATEMENTS

Banco do Nordeste and FNE

JUNE 30ST, 2003

**Banco do
Nordeste**



Accounting Statements

Banco do Nordeste

JUNE 30ST, 2003

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

BANCO DO NORDESTE DO BRASIL S.A.

BALANCE SHEETS AS OF JUNE 30, 2003 AND 2002

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

	June 30, 2003	June 30, 2002		June 30, 2003	June 30, 2002
ASSETS			LIABILITIES		
CURRENT ASSETS	3,678,408	2,309,101	CURRENT LIABILITIES	3,325,347	3,084,494
CASH AND DUE FROM BANKS	27,027	27,026	DEPOSITS	777,556	979,796
SHORT-TERM INTERBANK INVESTMENTS	343,607	272,759	Demand deposits	96,529	97,185
Securities purchased under resale agreements	330,399	258,499	Savings deposits	293,443	305,758
Interbank deposits	13,208	14,260	Interbank deposits	7,560	3,541
MARKETABLE AND DERIVATIVE SECURITIES	2,197,692	1,159,928	Time deposits	380,024	573,312
Own portfolio	2,150,229	999,955	SECURITIES SOLD UNDER REPURCHASE AGREEMENTS	15,192	64,651
Linked to Central Bank of Brazil	47,345	159,918	Third-party portfolio	15,192	64,651
Linked to guarantees	118	55	RESOURCES FROM SECURITIES ISSUED	19,716	158,392
INTERBANK ACCOUNTS	79,509	73,333	Eurobonds	19,716	158,392
Payments and receipts pending settlement	11,454	12,069	INTERBANK ACCOUNTS	9,766	20,720
Compulsory deposits			Receipts and Payments pending settlement	9,766	20,720
Central Bank of Brazil	61,330	55,146	INTERDEPARTMENTAL ACCOUNTS	68	837
National Treasury - rural credit	6,712	6,118	Internal transfers of funds	68	837
Third-party funds in transit	13		BORROWINGS	33,564	89,730
LENDING OPERATIONS	289,907	375,632	Domestic Borrowings - government agencies	7,193	10,027
Lending operations:			Foreign borrowings	26,371	79,703
Public sector	56,222	68,193	DOMESTIC ONLENDINGS - GOVERNMENT AGENCIES	370,452	398,060
Private sector	703,142	2,212,151	National Treasury	73	49
(Allowance for lending losses)	(469,457)	(1,904,712)	BNDES (National Economic and Social Development Bank)	288,003	291,137
OTHER CREDITS	732,352	392,600	CEF (Federal Savings and Loans Bank)	274	451
Receivables on guarantees honored		39	FINAME (Government Agency for Machinery and Equipment Financing)	45,655	74,794
Foreign exchange portfolio	7,801	302,817	Other	36,447	31,629
Income receivable	4,529	10,104	FOREIGN ONLENDINGS	66,322	30,428
Negotiation and intermediation of securities	16	46	Foreign onlendings	66,322	30,428
Specific credits	517,240	26,541	OTHER LIABILITIES	2,032,711	1,341,880
Sundry	213,703	110,688	Collection of taxes and social contributions	10,164	29,960
(Allowance for losses)	(10,937)	(57,635)	Foreign exchange portfolio	77	241,574
OTHER ASSETS	8,314	7,823	Social and statutory	6,384	292
Other assets	11,085	10,747	Taxes and social security	34,496	8,670
(Allowance for losses)	(3,158)	(3,282)	Financial and development funds	1,725,841	925,325
Prepaid expenses	387	358	Sundry	255,749	136,059
LONG-TERM ASSETS	7,032,285	8,388,153	LONG-TERM LIABILITIES	6,346,842	6,701,174
MARKETABLE SECURITIES	3,875,023	4,130,241	DEPOSITS	1,947,742	2,094,480
Own portfolio	3,862,226	1,456,843	Demand deposits	48,478	36,211
Linked to Central Bank of Brazil	7,793	2,671,819	Time deposits	1,899,264	2,058,269
Linked to guarantees	5,004	1,579	RESOURCES FROM SECURITIES ISSUED	95,867	113,008
INTERBANK ACCOUNTS	17,783	21,841	Eurobonds	95,867	113,008
Compulsory deposits			BORROWINGS	101,833	85,709
National Treasury - rural credit	736	431	Domestic Borrowings - government agencies	89,246	85,709
National Housing System - SFH	17,047	21,410	Foreign borrowings	12,587	
LENDING OPERATIONS	2,917,043	3,731,772	DOMESTIC ONLENDINGS - GOVERNMENT AGENCIES	1,369,259	1,607,546
Lending operations:			National Treasury	1,813	1,925
Public sector	1,320,195	1,180,111	BNDES	1,032,027	1,292,546
Private sector	1,814,879	2,782,312	CEF	1,258	1,467
(Allowance for lending losses)	(218,031)	(230,651)	FINAME	121,846	139,111
OTHER CREDITS	222,436	504,299	Other	212,315	172,497
Sundry	232,464	505,211	DERIVATIVE FINANCIAL INSTRUMENTS		7
(Allowance for losses)	(10,028)	(912)	Derivative financial instruments		7
PERMANENT ASSETS	146,383	146,333	FOREIGN ONLENDINGS	981,588	997,440
INVESTMENTS	4,438	3,072	Foreign onlendings	981,588	997,440
Other investments	8,767	7,401	OTHER LIABILITIES	1,850,553	1,802,984
(Allowance for losses)	(4,329)	(4,329)	Taxes and social security	771,419	633,276
PROPERTY AND EQUIPMENT IN USE	137,020	138,252	Financial and development funds	516,730	954,938
Land and buildings	181,267	177,282	Sundry	562,404	214,770
Other	58,265	54,399	STOCKHOLDERS' EQUITY	1,184,887	1,057,919
(Accumulated depreciation)	(102,512)	(93,429)	Capital	1,162,000	3,429,249
DEFERRED CHARGES	4,925	5,009	Local residents	1,162,000	3,492,249
Organization and expansion costs	11,283	12,569	Revaluation reserve	46,262	48,938
(Accumulated amortization)	(6,358)	(7,560)	Revenue reserve	1,236	
			Market value adjustment - Marketable securities and derivative instruments	(42,851)	(16,761)
			Retained earnings (Accumulated loss)	18,240	(2,466,507)
TOTAL	10,857,076	10,843,587	TOTAL	10,857,076	10,843,587

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

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

BANCO DO NORDESTE DO BRASIL S.A.

STATEMENTS OF INCOME

FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2003 AND 2002

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

	Six-month period ended <u>June 30, 2003</u>	Six-month period ended <u>June 30, 2002</u>
REVENUE FROM FINANCIAL INTERMEDIATION	<u>1,078,032</u>	<u>1,008,495</u>
Lending operations	386,410	469,991
Marketable securities	612,274	475,378
Derivative financial instruments	(5)	(1)
Foreign exchange transactions	77,661	58,085
Compulsory deposits	1,692	5,042
EXPENSES ON FINANCIAL INTERMEDIATION	<u>(724,050)</u>	<u>(1,010,644)</u>
Deposits and securities sold under repurchase agreements	(215,184)	(252,492)
Borrowings and onlendings	(374,955)	(533,495)
Allowance for losses	(133,911)	(224,657)
FINANCIAL INTERMEDIATION INCOME (LOSS)	<u>353,982</u>	<u>(2,149)</u>
OTHER OPERATING INCOME (EXPENSES)	<u>(174,525)</u>	<u>45,059</u>
Services rendered	243,732	216,793
Salaries, benefits, training and social security	(132,900)	(133,307)
Other administrative expenses	(116,991)	(119,779)
Tax expenses	(30,941)	(24,716)
Other operating income	428,948	220,629
Other operating expenses	(566,373)	(114,561)
OPERATING INCOME (LOSS)	<u>179,457</u>	<u>42,910</u>
NONOPERATING INCOME	3,105	3,863
INCOME (LOSS) BEFORE TAXES AND PROFIT SHARING	<u>182,562</u>	<u>46,773</u>
INCOME TAX AND SOCIAL CONTRIBUTION	<u>(157,849)</u>	<u>(21,225)</u>
Income tax	(18,461)	
Social contribution tax	(6,146)	
Deferred taxes	(133,241)	(21,225)
NET INCOME FOR THE PERIOD	<u><u>24,713</u></u>	<u><u>25,548</u></u>
Number of shares (in million)	<u><u>870,019</u></u>	<u><u>870,019</u></u>
Net income per 1,000 shares - R\$	<u><u>0.03</u></u>	<u><u>0.03</u></u>

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BANCO DO NORDESTE DO BRASIL S.A.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2003 AND 2002
(Expressed in thousands of Brazilian reais - R\$)

	CAPITAL			REVALUATION RESERVE	REVENUE RESERVE	MARKET VALUE ADJUSTMENT - MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENTS	RETAINED EARNINGS (ACCUMULATED LOSS)	TOTAL
	CAPITAL	CAPITAL INCREASE	UNPAID CAPITAL	OWN ASSETS	LEGAL			
BALANCE AT DECEMBER 31, 2001	936,000	2,660,000	(103,782)	50,275			(2,513,500)	1,028,993
PRIOR YEAR ADJUSTMENTS						(19,418)	19,418	
MARKET VALUE ADJUSTMENT - MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENTS						2,657		2,657
CAPITAL INCREASE								
Shares subscribed		(103,751)	103,782					31
OTHER:								
Revaluation reserve:								
Realization of reserve:								
Gross value				(2,027)			2,027	
Taxes				690				690
INCOME FOR THE PERIOD							25,548	25,548
BALANCE AT JUNE 30, 2002	936,000	2,556,249		48,938		(16,761)	(2,466,507)	1,057,919
CHANGES FOR THE PERIOD		(103,751)	103,782	(1,337)		(16,761)	46,993	28,926
BALANCE AT DECEMBER 31, 2002	3,492,249			47,600		(39,032)	(2,330,552)	1,170,265
MARKET VALUE ADJUSTMENT - MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENTS						(3,819)		(3,819)
CAPITAL DECREASE								
Accumulated loss absorption	(2,330,249)						2,330,249	
OTHER:								
Revaluation reserve:								
Realization of reserve:								
Gross value				(2,027)			2,027	
Taxes				689			(689)	
NET INCOME FOR THE PERIOD							24,713	24,713
Destinations:								
Reserves					1,236		(1,236)	
Dividends							(6,272)	(6,272)
BALANCE AT JUNE 30, 2003	1,162,000			46,262	1,236	(42,851)	18,240	1,184,887
CHANGES FOR THE PERIOD	(2,330,249)			(1,338)	1,236	(3,819)	2,348,792	14,622

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

BANCO DO NORDESTE DO BRASIL S.A.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE SIX-MONTH PERIODS ENDED JUNE 30, 2003 AND 2002
(Expressed in thousands of Brazilian reais - R\$)

	Six-month period ended <u>June 30, 2003</u>	Six-month period ended <u>June 30, 2002</u>
SOURCE OF FUNDS	1,048,272	3,437,105
NET INCOME FOR THE PERIOD - ADJUSTED (1)	30,964	32,222
DEFERRED INCOME VARIATION		(21)
MARKET VALUE ADJUSTMENT - MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENT	(3,819)	2,657
CAPITAL INCREASE (FEDERAL FINANCIAL INSTITUTIONS STRENGTHENING PROGRAM)		31
REVALUATION RESERVE		690
FROM THIRD PARTIES:		
- INCREASE IN LIABILITIES:		
Interbank and interdepartmental accounts	1,943	21,554
Borrowings and onlendings		159,290
Derivative financial instruments		7
Other liabilities	570,552	903,952
- DECREASE IN ASSETS:		
Interbank investments	44,625	2,266,798
Interbank and interdepartmental accounts	1,690	15,039
Lending operations	364,204	33,734
Other credits	37,748	
- SALE OF ASSETS AND INVESTMENTS:		
Other assets - Repossessed fixed assets	556	1,552
Property and equipment in use	(185)	(377)
Investments	(6)	(23)
APPLICATION OF FUNDS	1,048,660	3,428,381
DIVIDENDS AND BONUS PROPOSED	6,272	
INVESTMENT IN:		
Other assets - Repossessed fixed assets	860	1,882
Property and equipment in use	4,335	5,845
Investments		211
DEFERRED CHARGES	906	728
INCREASE IN ASSETS		
Short-term investments	282,157	2,495,793
Other credits		190,012
Other	409	293
DECREASE IN LIABILITIES		
Deposits	350,684	12,789
Securities sold under repurchase agreements	63,774	691,204
Resources from securities issued	26,635	29,624
Borrowings and onlendings	312,623	
Derivative financial instruments	5	
INCREASE (DECREASE) IN CASH AND DUE FROM BANKS	<u>(388)</u>	<u>8,724</u>
CHANGES IN FINANCIAL POSITION: increase (decrease) in cash and due from banks	(388)	8,724
At beginning of the year	27,415	18,302
At end of the year	27,027	27,026
(1) STATEMENT OF ADJUSTED NET INCOME:		
NET INCOME	24,713	25,548
ADJUSTMENTS TO NET INCOME:		
Depreciation and amortization	6,168	6,305
Allowance for losses	83	369
ADJUSTED NET INCOME	<u>30,964</u>	<u>32,222</u>

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

(Convenience Translation into English from the Original Previously Issued in Portuguese)
BANCO DO NORDESTE DO BRASIL S.A.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2003 AND 2002

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

1. THE BANK AND ITS CHARACTERISTICS

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

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

Banco do Nordeste is authorized to operate as a multiple bank with all portfolios allowed to financial institutions of the same category, except the real estate credit portfolio.

Banco do Nordeste as a development organ manages, among other development programs, the Northeast Investment Fund (FINOR) and the Northeast Constitutional Financing Fund (FNE).

2. PRESENTATION OF FINANCIAL STATEMENTS

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

3. ACCOUNTING PRACTICES

a) Determination of Profit and Loss

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

a.1) Interest, monetary or exchange variations on current and long-term assets and liabilities are recorded on a "pro rata die" basis;

a.2) Accruals, including taxes on vacation pay and 13th salary, are recognized on a monthly basis.

BANCO DO NORDESTE DO BRASIL S.A.

a.3) The effects of adjustments of assets to market or realizable value are considered where applicable.

b) Current and Long-Term Assets

Current and long-term assets are stated at realizable values, including accrued interest, monetary and exchange rate variations, less deferred income or allowance, when necessary, there must be emphasized that:

b.1) Lending operations of Banco do Nordeste are contracted at normal market rates.

b.2) An allowance for losses was recorded in accordance with Resolution N° 2,682 of December 21, 1999 of the National Monetary Council.

b.3) Marketable securities are registered by acquisition cost, including brokerage, being classified and evaluated as follow:

- Trade securities - securities acquired for active and constant negotiations, adjusted to market value and its balancing item is income account;
- Available-for-sale securities - securities that are not classified as trade nor as held-to-maturity category. They are recorded at market value, net from tax effects, and its balancing item is classified in the Bank's stockholders' equity;
- Held-to-maturity securities - securities intended to be maintained until its maturity, recorded by acquisition cost plus interest having as balancing item income account.

Securities had their records regarding short and long-term determined according to their maturity dates. However the accounting record in those categories does not characterize the non-availability of those papers, which continue being highly liquid.

c) Permanent Assets

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

c.1) Investments are adjusted by an allowance for losses;

c.2) Land and building in use are stated at revaluation value;

c.3) Property and equipment in use are stated less depreciation which is provided by the straight-line method based on the following annual rates: Buildings - 4%; Transportation and data processing systems and vehicles - 20% and other - 10%;

c.4) Deferred charges are comprised mainly of expenses incurred with software acquisition and development, installations and leasehold improvements less amortization which is calculated using the straight-line method at a fixed annual rate of 20%.

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d) Current and Long-Term Liabilities

Current and long-term liabilities are stated at original amounts plus accrued interest, monetary and exchange rate variations, less deferred expenses. Available funds from the Northeast Constitutional Financing Fund (FNE) are recorded in current and long-term liabilities according to its maturity date, considering cash disbursement.

Post-employment benefits provisions are recognized in conformity to Deliberation n° 371, of December 13, 2000, issued by Brazilian Securities and Exchange Commission (CVM).

e) Income Tax, Social Contribution, PIS and COFINS

Accruals are stated using the following rates over each tax basis demanded in Law:

Income tax	15.00%
Additional income tax	10.00%
Social contribution	9.00%
PASEP	0.65%
COFINS	3.00%

4. MARKETABLE SECURITIES AND DERIVATIVE INSTRUMENTS

For obtainment of market value, the following criteria was adopted:

- Fixed-Income securities: average negative goodwill level in the secondary market, published by National Association of Open Market Institutions (ANDIMA);
- Variable-Income securities: average quotation of assets at São Paulo Stock Exchange (BOVESPA);

a) Marketable securities

According to Circular N° 3,068 of November 8, 2001 of Central Bank of Brazil, Banco do Nordeste do Brasil S.A. classified its own portfolio, as of June 30, 2003, as follow:

TRADING SECURITIES

<u>TYPE</u>	<u>Cost value</u>	<u>Market value</u>	<u>Maturity</u>
FIXED-INCOME SECURITIES			
National treasury notes	110,498	113,496	2003 to 2004
Central Bank notes	<u>51,009</u>	<u>52,903</u>	2003
TOTAL	<u>161,507</u>	<u>166,399</u>	

In the first semester of 2003, for securities classified as Trading securities it was recorded a positive adjustment of R\$ 4,892 thousand, as a result of an increase in the market value of those assets in that period.

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AVAILABLE-FOR-SALE SECURITIES

<u>TYPE</u>	<u>Cost value</u>	<u>Market value</u>	<u>Maturity</u>
FIXED-INCOME SECURITIES	<u>139,425</u>	<u>119,358</u>	
Financial treasury bill	86,943	86,363	2004 to 2008
Agricultural debt securities	271	210	2003 to 2011
Government securities – other	30,271	14,457	2003 to 2005
Fixed-income securities – other	21,940	18,328	2003 to 2027
INVESTMENT FUND QUOTES	<u>629</u>		
Social development fund (FDS)	629		No maturity
VARIABLE-INCOME SECURITIES	<u>146,325</u>	<u>104,449</u>	
Other fiscal incentives (FINOR)	6,377	1,508	No maturity
Investments in stocks	139,948	102,941	No maturity
PLEGGED SECURITIES	<u>2,354</u>		2003 to 2005
TOTAL	<u>288,733</u>	<u>223,807</u>	

Due to the classification of securities in Available-for-Sale category there is recorded an amount of R\$ 64,926 thousand (R\$ 25,395 thousand, at June 30, 2002) in “Market Value Adjustment - Marketable Securities and Derivative Instruments” account, classified in the Bank’s stockholders’ equity. This adjustment, net from taxes effects, correspond to R\$ 42,851 thousand (R\$ 16,761 thousand, at June 30, 2002).

HELD-TO-MATURITY SECURITIES

<u>TYPE</u>	<u>Cost value</u>	<u>Market value</u>	<u>Maturity</u>
FIXED-INCOME SECURITIES			
Financial treasury bill	5,497,604	5,463,369	2003 to 2008
National treasury bill	114,740	119,114	2003 to 2004
National treasury notes NTN-P	237	237	2012 to 2014
National treasury notes NTN	69,688	70,658	2003 to 2004
Investment Fund Quotes - Enterprising Northeast	<u>240</u>	<u>240</u>	2011
TOTAL	<u>5,682,509</u>	<u>5,653,618</u>	

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

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

b) Derivative instruments

Banco do Nordeste do not have any derivative instruments, at June 30, 2003.

BANCO DO NORDESTE DO BRASIL S.A.

5. CREDIT PORTFOLIO AND ALLOWANCE FOR LENDING LOSSES

a) Detail by type:

	<u>June 30, 2003</u>	<u>December 31, 2002</u>	<u>June 30, 2002</u>
Depositors advances	266	222	207
Loans	184,610	198,785	759,720
Discounted drafts	562	2,194	6,462
Financing	1,060,390	1,190,957	1,640,563
Export financing	4,793	7,596	18,577
Foreign currency financing	1,077	3,078	8,108
Government refinancing	454,291	429,770	347,662
Rural and agribusiness financing	1,252,441	1,387,519	2,541,613
Real estate investments	341	7,165	7,355
Infrastructure and development financing	<u>935,667</u>	<u>1,149,366</u>	<u>912,500</u>
LENDING OPERATIONS	<u>3,894,438</u>	<u>4,376,652</u>	<u>6,242,767</u>
Guarantees honored		1	39
Income receivable on advances	1,214	1,752	6,545
Income receivable on import financing			29
Debtors for purchasing of goods and values	3,373	5,784	6,453
Securities and credits receivable	6,005	43,759	41,350
Import financing (*)		597	
Advance on export contracts (*)	<u>5,285</u>	<u>22,110</u>	<u>28,722</u>
OPERATIONS SIMILAR TO LENDING OPERATIONS	<u>15,877</u>	<u>74,003</u>	<u>83,138</u>
TOTAL	<u>3,910,315</u>	<u>4,450,655</u>	<u>6,325,905</u>

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

The credit portfolio decreased mainly because of credits written off in the period (Note 5.d) and transfers of operations to the Federal Government (Note 5.g) and FNE (Note 5.h).

b) Detail by maturity:

Type	<u>Normal credits</u>				Total June 30, 2003	Total June 30, 2002
	Up to 90 days	From 91 to 180 days	From 181 to 360 days	Above 360 days		
RURAL	22,400	96,020	144,030	722,203	984,653	1,648,019
INDUSTRY	16,954	24,734	30,234	401,363	473,285	650,554
GOVERNMENT	3,687	4,241	7,065	1,357,209	1,372,202	1,006,895
OTHER SERVICES	15,790	30,103	39,096	111,998	196,987	275,900
COMMERCE	54,115	9,932	18,444	90,611	173,102	222,416
FINANCIAL INTERMEDIARIES	2	3,169	4,561	26,680	34,412	37,438
HOUSING SYSTEM	10	14	14	180	218	4,742
CONSUMER CREDITS	<u>79</u>	<u>68</u>	<u>142</u>	<u>2,101</u>	<u>2,390</u>	<u>1,520</u>
TOTAL	<u>113,037</u>	<u>168,281</u>	<u>243,586</u>	<u>2,712,345</u>	<u>3,237,249</u>	<u>3,847,484</u>

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Type	Past-due credits					Total June 30, 2003	Total June 30, 2002
	Current installments				Above 360 days		
	Up to 90 days	From 91 to 180 days	From 181 to 360 days	Above 360 days			
RURAL	4,977	3,697	6,091	216,832	231,597	601,616	
INDUSTRY	5,268	4,596	6,219	100,848	116,931	274,669	
GOVERNMENT	52	19	28	946	1,045	246,000	
OTHER SERVICES	2,165	2,851	3,628	63,816	72,460	83,504	
COMMERCE	20,690	7,082	14,379	42,390	84,541	165,373	
FINANCIAL INTERMEDIARIES	5,176	2	1	2	5,181	7,713	
HOUSING SYSTEM	39	22	29	16	106	2,418	
CONSUMER CREDITS	69	37	69	52	227	312	
TOTAL	<u>38,436</u>	<u>18,306</u>	<u>30,444</u>	<u>424,902</u>	<u>512,088</u>	<u>1,381,605</u>	

Type	Past due installments					Total June 30, 2003	Total June 30, 2002
	Current installments				Above 360 days		
	Up to 90 days	From 91 to 180 days	From 181 to 360 days	Above 360 days			
RURAL	816	1,317	2,002	47,002	51,137	319,907	
INDUSTRY	1,481	1,757	4,811	37,344	45,393	545,329	
GOVERNMENT	2				2		
OTHER SERVICES	1,086	331	3,747	23,452	28,616	100,122	
COMMERCE	143	4,018	5,638	24,758	34,557	129,876	
FINANCIAL INTERMEDIARIES	1,190			2	1,192	1	
HOUSING SYSTEM				27	27		
CONSUMER CREDITS	3	10	14	27	54	1,581	
TOTAL	<u>4,721</u>	<u>7,433</u>	<u>16,586</u>	<u>132,612</u>	<u>160,978</u>	<u>1,096,816</u>	

c) Detail by credit risk rating:

Risk rating	June 30, 2003				June 30, 2002			
	Current (1)	Past-due	Total	Allowance	Current (1)	Past-due	Total	Allowance
AA	1,214,499		1,214,499		2,303,481		2,303,481	
A	1,106,543		1,106,543	5,533	1,159,508		1,159,508	5,895
B	351,277	15,237	366,514	3,665	27,923	72,822	100,745	1,311
C	167,885	39,872	207,757	6,233	21,919	88,745	110,664	4,016
D	84,840	43,404	128,244	12,824	13,316	182,911	196,227	23,256
E	84,722	58,075	142,797	42,839	90,947	126,934	217,881	67,241
F	85,612	68,537	154,149	77,074	69,994	165,686	235,680	120,190
G	45,819	83,099	128,918	90,242	6,580	153,937	160,517	130,799
H	96,052	364,842	460,894	460,894	153,816	1,687,386	1,841,202	1,841,202
TOTAL	<u>3,237,249</u>	<u>673,066</u>	<u>3,910,315</u>	<u>699,304</u>	<u>3,847,484</u>	<u>2,478,421</u>	<u>6,325,905</u>	<u>2,193,910</u>

(1) Include 14 days past-due credits.

d) Allowance for the period

	Six month period ended		
	June 30, 2003	December 31, 2002	June 30, 2002
Opening balance	851,650	2,193,910	2,153,070
(+) Allowance for the period	124,762	234,251	224,657
(-) Credits classified as losses	(277,108)	(1,576,511)	(183,817)
(=) Allowance for losses on lending operations	<u>699,304</u>	<u>851,650</u>	<u>2,193,910</u>
(+) Allowance for losses on other credits	9,149		
(=) Closing balance	<u>708,453</u>	<u>851,650</u>	<u>2,193,910</u>

BANCO DO NORDESTE DO BRASIL S.A.

e) Allowance expenses

	<u>Six month period ended June 30, 2003</u>	<u>Six month period ended June 30, 2002</u>
(+) Expenses on allowances for lending losses	116,704	200,721
(+) Expense on allowance for other credits	9,501	24,280
(-) Reversal of operating allowances	<u>(1,443)</u>	<u>(344)</u>
(=) Allowance for losses on lending operations	124,762	224,657
(+) Allowance for losses on other credits	<u>9,129</u>	
(=) Closing balance	<u>133,911</u>	<u>224,657</u>

f) Credits written off as losses have been recovered in the period in amount of R\$ 81,362 thousand (R\$ 50,050 thousand at June 30, 2002), and renegotiations of operations totaled R\$ 193,324 thousand (R\$ 476,599 thousand at June 30, 2002).

g) According to Provisional Measure N° 2,196-3, of August 24, 2001, which established the Federal Financial Institutions Strengthening Program, there were followed other actions related to accomplishment of that Program complying to items II and IV of article 2 of the mentioned Provisional Measure, which authorizes the Federal Government to acquire the corresponding credits of rural financing operations renegotiated, based in Law N° 9,138, of November 29, 1995, and as established in Resolution N° 2,471, of February 26, 1998, of the National Monetary Council, celebrated by Federal Banks, with their own resources or National Economic and Social Development Bank - BNDES resources. The credits assignment contract which secures the transfer for the Federal Government of all rights, advantages and corresponding collateral of the operations referred in the Provisional Measure N° 2,196-3, of August 24, 2001 from the Bank to the Federal Government is filed in the Finance Ministry. The assignment, recorded in Other Credits/Specifics Credits/National Treasury- Rural Credit Lengthening, totaled R\$ 517,221 thousand, at June 30, 2003, as follow:

- Operations transferred until December 31, 2002 – R\$ 396,007 thousand;
- Operations transferred in 2003 – R\$ 51,783 thousand;
- Monetary adjustment of credits based on SELIC rate – R\$ 69,431 thousand.

h) Due to the application of article 9 of Law N° 10,464, of May 24, 2002 and article 8 of Provisional Measure 114, of March 31, 2003, which concerns about operations conversion from rural and agribusiness credit for the Northeast Constitutional Financing Fund - FNE, there were converted for the Constitutional Fund scope, maintaining PRONAF financial conditions, 146,089 operations originally conceded with other funds resources to family farmers, in a total value of R\$ 888,144 thousand, as follow:

- 137,050 operations converted in 2002 – R\$ 810,542 thousand;
- 9,039 operations converted in 2003 – R\$ 77,602 thousand.

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As established in the Resolution N° 3,018, of August 29, 2002, the financing credit risk transfer is 50% (fifty percent) for the financial agent and 50% (fifty percent) for the operation Constitutional Fund beneficiary, as orderly by article 6 of Law N° 10,177, of January 12, 2001.

6. LONG-TERM LIABILITIES

Domestic borrowings and onlending are subject to interest rates that vary from 0 to 11% per annum, with maturity from 4 to 20 years averaging at 7 years. The monetary adjustment, where applicable as per legal and contractual clauses, is calculated based on official rates issued by the Central Bank of Brazil.

The borrowings from the BNDES are subject to interest based on the TJLP (long-term interest rate) plus average spread of 2% per annum, with an average maturity of 6 years.

The borrowings from the Fund for Workers Assistance (FAT), recorded in Special Deposits, amounting of R\$ 1,371,073 thousand, are subject to interest based on SELIC rate, when not used in lending operations, and based on TJLP after being released to the borrowers. The average maturity is 6 years with final payment in 2012. The free resources, monetarily adjusted at SELIC rate, totaled R\$ 559,610 thousand. (Note7.b)

Foreign borrowings are subject to interest rates which vary from 4.00% to 11.4286% per annum (including Income Tax), with an average maturity of 8 years and final payment to the Interamerican Development Bank (IDB) in 2019. The exchange rate adjustment, if stipulated by contractual clauses, is calculated based on official rates issued by the Central Bank of Brazil.

The resources from Eurobonds issued are subject to interest rates which vary from 9.625% to 11.375% per annum, with the maturity of the last “tranche” due on March 7, 2005.

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.

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7. FINANCIAL STATEMENTS MAINLY ACCOUNTS DETAIL

a) Other Credits

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
RECEIVABLES FOR GUARANTEES HONORED		39
FOREIGN EXCHANGE PORTFOLIO	<u>7,801</u>	<u>302,817</u>
Unsettled exchange purchases	6,587	187,358
Rights on foreign exchange sales		108,886
Other	1,214	6,573
INCOME RECEIVABLE	<u>4,529</u>	<u>10,104</u>
NEGOTIATION AND INTERMEDIATION OF SECURITIES	<u>16</u>	<u>46</u>
SPECIFIC CREDITS	<u>517,240</u>	<u>26,541</u>
National treasury - rural Credit Lengthening/Resolution N°2471 (Note 5.g)	517,221	
National treasury - rural Credit Lengthening/Resolution N°2238	19	26,541
SUNDRY	<u>446,167</u>	<u>615,899</u>
Tax credits – temporary differences	245,357	425,882
Tax credits – marketable securities and derivative instruments	51,578	12,671
Debtors for guarantee deposits	49,109	51,657
Taxes and contributions to be offset	30,776	19,165
Options for fiscal incentives	26,748	26,748
Security and credits receivable	6,005	41,350
Other	36,594	38,426
ALLOWANCES FOR OTHER LOSSES	<u>(20,965)</u>	<u>(58,547)</u>
Similar to lending operation	(11,816)	(58,547)
Not similar to lending operation	(9,149)	
TOTAL	<u>954,788</u>	<u>896,899</u>
CURRENT	732,352	392,600
LONG-TERM	222,436	504,299

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b) Deposits

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
DEMAND DEPOSITS	<u>145,007</u>	<u>133,396</u>
Investments deposits	53,613	62,190
Foreign currencies deposits	48,857	36,510
Governments deposits	21,615	17,604
Linked deposits	13,301	6,733
Other	7,621	10,359
SAVINGS DEPOSITS	<u>293,443</u>	<u>305,758</u>
Free savings deposits – Individual	235,678	231,277
Free savings deposits – Corporate	57,749	74,379
Other	16	102
INTERBANKS DEPOSITS	<u>7,560</u>	<u>3,541</u>
TIME DEPOSITS	<u>2,279,288</u>	<u>2,631,581</u>
Time deposits	336,266	328,695
Interest-bearing judicial deposits	12,339	10,520
Interest-bearing judicial deposits/Fund for workers assistance (FAT) - available resources	<u>559,610</u>	<u>401,809</u>
Urban Proger	117,957	129,029
Rural Proger	110,867	63,133
Pronaf	225,406	101,968
Protrabalho	64,038	97,444
Dryness	41,342	10,235
Interest-bearing judicial deposits/Fund for workers assistance (FAT) - applied resources	<u>1,371,073</u>	<u>1,890,557</u>
Urban Proger	449,368	755,356
Rural Proger	74,847	170,219
Pronaf	106,413	221,183
Protrabalho	686,021	658,753
Dryness	54,424	85,046
TOTAL	<u>2,725,298</u>	<u>3,074,276</u>
CURRENT	777,556	979,796
LONG-TERM	1,947,742	2,094,480

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

INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying balance sheet of Banco do Nordeste do Brasil S.A. as of June 30, 2003 and 2002, and the related statements of income, changes in stockholders' equity, and changes in financial position for the six-month periods then ended (all expressed in Brazilian Reais currency). These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements.
2. Except for the subject mentioned in paragraph 3, we conduct our audits in accordance with Brazilian generally accepted auditing standards which included: (a) planning of the engagement, considering the materiality of the balances, the volume of transactions and the accounting and internal control system of the Bank; (b) examination, on a test basis, of evidences and records supporting the amounts and disclosures in the financial statements; (c) assessment of the accounting principles used and significant estimates made by management of the Bank, as well as the evaluation of the overall financial statements presentation.
3. The financial statements of Caixa de Previdência dos Funcionários do Banco do Nordeste do Brasil – CAPEF, as of June 30, 2003, were not audited by us or by any independent auditor, because there is no legal demand of six-month period audits in such entities. Therefore, we cannot conclude about the CAPEF's presented deficit amount reasonability. This deficit result in a recognition of a provision, in Banco do Nordeste do Brasil S.A., determined by application of Deliberation n° 371, of December 31, 2000, of Brazilian Securities and Exchange Commission (CVM), as explained in Note 12 to the financial statements.
4. In our opinion, except for the possible effects that could result an examination of the financial statements mentioned in paragraph 3, the financial statements referred to in paragraph 1 present fairly, in all material respects, the financial position of Banco do Nordeste do Brasil S.A as of June 30, 2003 and 2002, the results of its operations, changes in stockholders' equity and changes in its financial position for the six-month periods then ended, in conformity with Brazilian accounting practices.

**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

JUNE 30ST, 2003

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

INDEPENDENT AUDITORS' REPORT

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

1. We have audited the accompanying balance sheet of Fundo Constitucional de Financiamento do Nordeste – FNE (managed by Banco do Nordeste do Brasil S.A.) as of June 30, 2003 and 2002, and the related statements of income, changes in net equity and changes in financial position for the six-month periods then ended (all expressed in Brazilian reais currency). These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.
2. Except for the subject mentioned in paragraph 3, we conducted our audits in accordance with generally accepted auditing standards in Brazil, which included: (a) planning of the engagement, considering the materiality of the balances, the volume of transactions and the accounting and internal control systems of the Fund; (b) examination, on a test basis, of the evidence and records supporting the amounts and disclosures in the financial statements; (c) evaluation of the significant accounting principles used and estimates made by management of the Fund, as well as the overall financial statement presentation.
3. As explained in Note 4, to the financial statements, the Fund's Manager and the Ministries mentioned in that Note, have been performed studies, to establish an allowance for possible loss criteria on Constitutional Fund's net equity, especially in constitution of an allowance for losses on lending operations, which practice is not adopted by the Fund. Consequently, we were not able to make analyses to measure possible losses in the Fund's net equity for the dates-base under audit, once that only after the rules definition will be possible to make these evaluations.

