



# ACCOUNTING STATEMENTS

**Banco do Nordeste and FNE**

**POSITION: 06.30.2001**

**Banco do  
Nordeste**



**Accounting Statements**

**Banco do Nordeste**

**POSITION: 06.30.2001**























































**Banco do  
Nordeste**



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

## **Accounting Statements**

**F N E**

**POSITION: 06.30.2001**











## 5. INDEPENDENT AUDITORS

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

## 6. ACCOUNTING POLICIES

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

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

Significant policies followed are described below:

### a) Recognition of Income and Expenses

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

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

	<u>2001</u> <u>R\$</u>	<u>2000</u> <u>R\$</u>
Income from lending operations	229,503	311,241
Negative monetary adjustment	(2,153)	(3,066)
Waiver of amounts – Land Program – Interministerial Legislation N° 218	(1,752)	(4,324)
Waiver of amounts – Maturity Extension – Law N° 9,126 and 9,138	(69)	(609)
Operating provision expenses	(6,774)	(766)
Other expenses	<u>(134)</u>	<u>(863)</u>
T O T A L	<u>218,621</u>	<u>301,613</u>

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

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

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

b) Current and long-term assets

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

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

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

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

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

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

- In operations contracted until November 30, 1998, the “Del Credere” paid to Banco do Nordeste is reduced to zero, and the financial charges agreed upon with the borrowers remain unchanged.
- In operations contracted with a credit risk of 50%, the Fund will pay to Banco do Nordeste “Del Credere” of 3% per annum.
- The Fund's resources can be transferred to Banco do Nordeste in order for the Bank, in its own name and at its own risk, to make lending operations subject to “Del Credere” of 6% per annum.

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

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

c) Liabilities

Are stated at original amounts plus financial charges.

7. STOCKHOLDERS' EQUITY

The stockholders' equity of FNE has the following sources:

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

8. PRIOR YEAR ADJUSTMENTS

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

9. DETERMINATION OF RESULTS

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

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

10. TAX EXEMPTION

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

FUNDO CONSTITUCIONAL DE FINANCIAMENTO DO NORDESTE - FNE

11. EFFECTS OF LAW N° 10,177

The Fund management is in the process of renegotiating, extending and arranging with creditors the financing contracts using FNE's resources as per Law N° 10,177 of January 12, 2001, which expired on July 14, 2001, and as per article 16 of Law N° 9,126 of November 10, 1995, which will expire on December 28, 2001. Considering the current stage of negotiations, it was not possible to determine the effects on the financial statements of the necessary adjustments to the contracts.

---

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

INDEPENDENT AUDITORS' OPINION

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

1. We have audited the accompanying balance sheet of Fundo Constitucional de Financiamento do Nordeste – FNE (managed by Banco do Nordeste do Brasil S.A.) as of June 30, 2001, and the related statements of income, changes in stockholders' equity and changes in financial position for the six-month period then ended (all expressed in Brazilian reais). These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with Brazilian generally accepted auditing standards which included: (a) planning of the engagement, considering the materiality of the balances, the volume of transactions and the accounting and internal control system of the Fund; (b) examination, on a test basis, of the evidence and records supporting the amounts and disclosures in the financial statements; (c) assessment of the accounting principles used and significant estimates made by management of the Fund, as well as the evaluation of the overall financial statement presentation.
3. In our opinion, the financial statements referred to in Paragraph 1 present fairly, in all material respects, the financial position of Fundo Constitucional de Financiamento do Nordeste - FNE as of June 30, 2001, the results of its operations, changes in its stockholders' equity and changes in its financial position for the six-month period then ended, in conformity with accounting practices established by Banco do Nordeste do Brasil S.A., the manager of the Fund, as set forth in the Accounting Chart of the Northeast Constitutional Financing Fund – COFIN.
4. As discussed in Note 11 to the financial statements, based on Law 10,177 of January 12, 2001 and subsequent legislation, the Fund's management is in the process of renegotiating, extending and restructuring the debt of financing contracts with resources from FNE. In view of the current stage of negotiations, it was not possible to determine the effects on the financial statements of the necessary adjustments to the contracts.
5. The financial statements for the six-month period ended June 30, 2000 were audited by other auditors, who issued an opinion, dated July 27, 2000, containing an emphasis paragraph concerning the matter mentioned in Paragraph 4.

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

Recife, August 10, 2001

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

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